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

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

(Stock code: 357)

**VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION
INVESTMENT AND CONSTRUCTION AGREEMENT**



Independent Financial Adviser

INVESTMENT AND CONSTRUCTION AGREEMENT

The Board is pleased to announce that, on 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement in respect of the Airport Project.

LISTING RULES IMPLICATIONS

As each of the assets ratio and consideration ratio (as defined in Rule 14.07 of the Listing Rules) for the transaction contemplated under the Investment and Construction Agreement is more than 100%, such transaction constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

* *For identification purposes only*

As the Parent Company, holding 50.19% shareholding interest of the Company, is the holding company of, and therefore a connected person of the Company under the Listing Rules, the transaction contemplated under the Investment and Construction Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, such transaction is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Such transaction will be subject to the approval of the Independent Shareholders taken on a poll at the EGM.

GENERAL

An independent board committee, comprising four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching Simon, Mr. George F. Meng and Mr. He Linji, who have no direct or indirect interest in the Investment and Construction Agreement and the transaction contemplated thereunder, has been established to advise the Independent Shareholders on the terms of such transaction. First Shanghai Capital Limited has been appointed as the independent financial adviser to advise the independent board committee and the Independent Shareholders on the terms of the Investment and Construction Agreement and the transaction contemplated thereunder.

It is currently expected that a circular containing, among other things, information relating to the Investment and Construction Agreement and the transaction contemplated thereunder, a letter of advice from First Shanghai Capital Limited to advise the independent board committee and the Independent Shareholders, the recommendation of the independent board committee to the Independent Shareholders, will be despatched to the Shareholders on or before 11 September 2015.

1. BACKGROUND OF THE PHASE II EXPANSION PROJECT OF MEILAN AIRPORT

On 2 June 2015, the NDRC approved the construction of the Phase II expansion project of Meilan Airport (NDRC Infrastructure [2015] No. 1215), which means the feasibility study report (the “**Feasibility Study Report**”) issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II expansion project of Meilan Airport which comprised three parts, i.e. an airport project (the “**Airport Project**”), an air traffic control project and a fuel supply project was approved. Pursuant to the approval from NDRC, the project representatives of the air traffic control project and the fuel supply project shall be CAAC Central and Southern Regional Administration (民航中南地區空管局), an independent third party of the Company and its connected persons, and Hainan Meiya Industrial Co., Ltd. (海南美亞實業有限公司), a company owned as to 50% by the Parent

Company, respectively, which shall be responsible for the implementation and management of such projects. The Company confirms that these two projects are independent from the Airport Project and will be carried out separately by the above-mentioned project representatives and the Company will not participate in these projects. Therefore, there will be no contractual relationship among the Company and the above-mentioned two project representatives in such projects.

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

The Airport Project comprises the new airport terminal buildings, parking lot, cargo handling service area, ground handling service area, airport fire-fighting and rescue project, airport emergency respond and rescue project, vehicles and equipment project and its relevant assets (collectively as the “**Company Construction Project**”); and other projects including, without limitation, a runway, two sets of parallel taxiway and contact roads system, parking apron, aviation food preparation area, water supply system, electricity supply system, gas supply system and communication facilities (collectively as the “**Parent Company Construction Project**”).

Other than the reasons for and benefits of the entering into of the Investment and Construction Agreement as disclosed in this announcement, the roles of the Company and the Parent Company in the construction of the Airport Project, the allocation of the Company Construction Project and the Parent Company Construction Project and the respective assets thereunder were mainly determined by taking into consideration of the following: (i) the financial challenges the Company may face for providing funds of approximately RMB13.838 billion for the construction of the whole Airport Project by itself; (ii) the current operation model of Meilan Airport between the Company and the Parent Company, details of which was set out in the paragraph headed “The Operation Plans of the Phase II Expansion Project of Meilan Airport” in this announcement; and (iii) the compliance with the existing non-competition agreement between the Company and the Parent Company by allocating the relevant assets in consistent with the current operation model of Meilan Airport.

The breakdown of the estimated aggregate investment amount of the Airport Project is set out below:

Items to be constructed	Estimated investment amount (RMB'000)
The Company Construction Project	
New airport terminal buildings	3,889,100
Parking lot	443,170
Cargo handling service area	120,800
Ground handling service area	142,220
Airport fire-fighting and rescue project	36,540
Airport emergency respond and rescue project	1,030
Vehicle and equipment project	157,530
Other incidental expenses ^(Note 1)	2,367,840
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Sub-total	7,158,230
The Parent Company Construction Project	
Airfield area project (including a runway, two sets of parallel taxiway and contact roads system, and parking apron)	1,775,170
Aviation food preparation area	178,070
Water supply system	53,360
Electricity supply system	357,700
Gas supply system	90,030
Communication facilities	30,000
Other ancillary facilities	1,778,410
Other incidental expenses ^(Note 2)	2,416,960
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Sub-total	6,679,700
Total	13,837,930
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Notes:

1. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,123 million, infrastructure preparation fee of approximately RMB327 million, loan interest of approximately RMB426 million, project design fee of approximately RMB172 million, etc.
2. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,313 million, infrastructure preparation fee of approximately RMB290 million, loan interest of approximately RMB378 million, project design fee of approximately RMB153 million, etc.

2. INVESTMENT AND CONSTRUCTION AGREEMENT

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement, details of which are set out below.

Date: 21 August 2015

Parties: The Company; and
The Parent Company

Subject Matter

Pursuant to the Investment and Construction Agreement, the Company has agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project. The Parent Company shall act as the project representative of the Airport Project, responsible for organizing and supervising the implementation of construction plan of the Airport Project and the fund raising for the Parent Company Construction Project until its completion and acceptance.

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

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

Details of the Company Construction Project

The estimated site area of new airport terminal buildings, parking lot and cargo handling service area are approximately 296,000 square meters, 93,900 square meters and 28,400 square meters, respectively. The site area of lands of the new airport terminal areas, working areas and cargo handling areas are approximately 113.4 hectares, 125.5 hectares and 14 hectares, respectively. The above figures of the area of buildings and lands of the Company Construction Project are subject to adjustment based on the final design of the Airport Project.

According to the Feasibility Study Report, it is estimated that the area of the land to be expropriated and used for the purposes of the construction of Phase II expansion project of Meilan Airport is approximately 549 hectares, of which the land of approximately 252.9 hectares will be used for the Company Construction Project under the Investment and Construction Agreement. The estimated value of the above-mentioned land of approximately 252.9 hectares to be used for Company Construction Project is approximately RMB1,507,300,000 based on a valuation report issued by a professional third party valuer engaged by the Company.

Consideration and Payment

Pursuant to the Investment and Construction Agreement, the Company will provide funds covering all the costs and expenses in the construction of the Company Construction Project of an estimated total amount of approximately RMB7.158 billion, comprising (i) construction costs of approximately RMB4.790 billion; (ii) other incidental expenditures of approximately RMB1.609 billion; (iii) contingency reserve of approximately RMB0.327 billion; (iv) loan interest of approximately RMB0.426 billion; and (v) working capital of approximately RMB5.3 million, according to the Feasibility Study Report. The Directors confirm that the estimated aggregate amount of approximately RMB7.158 billion is the estimated maximum investment amount in relation to the construction of the Company Construction Project based on the Feasibility Study Report and other currently available information. Subject to the project completion and settlement report of the Airport Project to be approved (if required) by relevant authorities and the assets invested by and registered under the name of the Company upon completion and acceptance of the Airport Project, such estimated maximum investment amount shall be further adjusted. The Directors further confirm that the Company shall seek approval from the Shareholders and make additional disclosure pursuant to the applicable compliance requirements under the Listing Rules if and when the aggregate investment amount for the construction of the Company Construction Project is expected to exceed RMB7.158 billion due to any unforeseeable reasons that may be beyond the control of the Company.

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

The Company intends to fund the Company Construction Project by the followings:

(i) *Asset-backed securities*

The Company has completed the asset-backed securitization plan amounted to RMB1.2 billion on 2 July 2015, of which approximately RMB0.95 billion will be utilized in the construction of the Company Construction Project;

(ii) *The loan from the China Development Bank, Hainan Branch regarding the Company Construction Project*

The China Development Bank, Hainan Branch issued a letter of intention in relation to the long-term project loan of the Airport Project amounting to approximately RMB8 billion, pursuant to which a 20-30 years long-term project loan is to be provided to the Airport Project. It is currently expected that the Company may obtain a long-term project loan credit amounting to approximately RMB4.16 billion, which will be utilized in the construction of the Company Construction Project;

(iii) *Issuance of bonds*

The Company plans to issue public offering bonds or make private placement amounting to approximately RMB1 to 2 billion with a term of two to three years, proceeds from which will be utilized in the construction of the Company Construction Project; and

(iv) Working capital

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

The Operation Plans of the Phase II Expansion Project of Meilan Airport

Pursuant to the current operation model of Meilan Airport, Meilan Airport is operated by the Company and the Parent Company jointly. The Company is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of airfield services, terminal facilities, ground handling services, and passenger and cargo handling services. Its non-aeronautical business includes leasing of commercial and retail spaces at the Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods. The Parent Company is engaged in the maintenance of runways, provision of airfield area related services and logistical support services, which is in line with the disclosure made by the Company in its prospectus upon its listing.

As disclosed in the Company's prospectus, in respect of the aeronautical business, the Company shares the aircraft movement fees, the passenger charges and the basic ground handling services fees with the Parent Company on the basis of 75% to the Company and 25% to the Parent Company. The Parent Company also charges the Company for provision of the security guard service, cleaning and environment maintenance, sewage and refuse processing, power and energy supply and equipment maintenance, passengers and luggage security inspection, and other services required by the Company. Based on the current operation model of Meilan Airport, it is expected that the revenue arisen from the utilization of the assets of the Company Construction Project, including, without limitation to, the aircraft movement fees and the passenger charges (to be shared by the Parent Company on a certain percentage to be agreed between the Company and Parent Company with reference to the above 75% (Company) and 25% (Parent Company) basis as the Parent Company will operate assets such as the runways which contribute part of these revenues), ground handling services fees, cargo handling services fees, leasing income of commercial and retail spaces, advertising fees and car parking fees, will be attributable to the Company.

Pursuant to the Investment and Construction Agreement, the Company and the Parent Company have agreed to operate the assets of the Phase II expansion project of Meilan Airport by reference to the above-mentioned operation model of Meilan Airport and in accordance with any other agreement (in relation with the operation of Meilan Airport and distribution of revenue between the Company and the Parent Company) to be negotiated and entered into between the Company and the Parent Company before the Phase II expansion project of Meilan Airport is put into operation.

Expected Completion Date of the Construction of the Airport Project

The construction of the Airport Project is expected to be completed and to pass the acceptance by relevant authorities by the end of 2020.

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

The Directors consider that the Investment and Construction Agreement will benefit the Company for the following reasons:

Potential growth of aviation industry and tourism industry and existing capacity constraints

In the face of new development trend of the domestic economy, the civil aviation industry in China saw a number of favorable policies and maintained rapid growth in the past years. In 2014, China's civil aviation industry achieved total transport turnover of 74.85 billion tons/km, passenger transportation volume of 390 million as well as cargo and mail traffic volume of 5.933 million tons, representing a year-on-year growth of 11.4%, 10.4% and 5.7% respectively.

In 2014, despite the pressure and challenges caused by the domestic economic downturn and the serious natural disasters, the tourism of Hainan Province remained rapid growth benefited from certain favorable factors such as the overall stable development of the civil aviation industry and the construction of the Hainan International Tourism Island. Both the total number of tourists and the total tourism revenue outpaced the average rate of the national tourism. The number of domestic and foreign tourists staying overnight for the year amounted to 47.8908 million, representing a year-on-year growth of 10.6%, of which, 40.6018 million foreign tourists staying overnight were received and the tourism revenue amounted to RMB50.653 billion, representing a year-on-year growth of 10.56% and 13.2% respectively.

Driven by the accelerated transformation and upgrading of the tourism, the local government of Hainan Province will further standardize and integrate the resources of the tourism industry of the whole province, promote the attractive and differentiated development thereof and fully explore the development potential of this industry. Several key large-scaled tourism projects, such as an integrated project of leisure and entertainment named "Mission Hill • Lan Kwai Fong • Haikou", the Hainan Aerospace Theme Park and the Hainan Sino-Thai Cultural Resort, are under construction and development and are expected to be put into operation in the near future. Furthermore, the local government of Hainan Province will also further optimize transportation infrastructure, including the construction of the West Ring

High-Speed Railway, Dinghai Bridge and the Qionghai Boao Airport and the open to traffic of Tunchang – Qiongzong Highway. In addition, with a view to further capitalize on the duty free policy of Hainan Province and to facilitate the construction of Hainan International Tourism Island, after obtaining approvals from or reporting to relevant government authorities, the Ministry of Finance has decided, with effect from 20 March 2015, to adjust and fine-tune part of the duty free policy of Hainan Province to further easing the duty free policy of Hainan Province, which will in turn help driving the sustainable growth of the tourism and the consumption of Hainan Province and thereby, directly or indirectly, boosting the passenger traffic of Meilan Airport.

Based on the above, the Directors believe that the tourism in Hainan Province is expected to further grow, which will drive sharp increases of passenger and cargo flow and aircraft movements to and from Meilan Airport. In addition, being located in the capital of Hainan Province, Meilan Airport is situated at a strategic location and enjoys a distinguished geographical advantage and thus has bright prospects. However, Meilan Airport is currently operating above its design capacity with a passenger throughput of over 10 million for the last five consecutive years and an expected passenger throughput of over 15 million in 2015. By investing and constructing the Company Construction Project, the Company can seize development opportunities, further promote the throughput of Meilan Airport to hit a new high and resolve the existing limitation of passenger throughput of Meilan Airport.

Minimizing relevant financial cost and preventing potential adverse effect on revenue

If the Company is to acquire the Company Construction Project after its completion instead of entering into the Investment and Construction Agreement, it is estimated that the Company shall assume estimated tax expenses of approximately RMB218.33 million comprising approximately RMB3.58 million of stamp duty and approximately RMB214.75 million of deed tax in total computed in accordance with the estimated aggregate construction cost of the Company Construction Project and the requirements under relevant PRC laws and regulations.

In addition, the considerations payable under future acquisitions after the completion of the Company Construction Project instead of the contemplated investment and construction is expected to be higher because of the estimated increase in value of the assets of the Company Construction Project in the coming three-to-five-year period during which the Company Construction Project will be constructed.

Furthermore, pursuant to the current arrangement under the Investment and Construction Agreement, the Company has the right to early occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project before the registration of the ownership of such assets. The Company will be able to operate and realize revenue in accordance with the current operation model of Meilan Airport sooner and prevent potential adverse effect on revenue caused by the time consumed due to the procedures and facilities required for conducting acquisition of the Company Construction Project.

Ensuring high efficiency and quality of the Company Construction Project and enhance the economy of scale in the operation of the Company

By making investment directly into the construction of the Company Construction Project, the Company will be able to accelerate and oversee the process of the construction of the Company Construction Project to ensure its efficient completion and high quality. By appointing the Parent Company as the project representative, the Parent Company can play a positive role in facilitating the relevant governmental approval process and the Company can leverage the Parent Company's previous experience in airport construction, such as terminal expansion project of Meilan Airport.

Upon completion of the Phase II expansion project of Meilan Airport, the Company will benefit from the economy of scale in conducting the existing airport facilities operation together with new facilities provided by the Phase II expansion project of Meilan Airport.

The Directors (excluding the independent non-executive Directors who reserve their view pending receipt of advice from First Shanghai Capital Limited) are satisfied that (i) the terms and conditions of the Investment and Construction Agreement have been negotiated on an arm's length basis and are on normal commercial terms; (ii) the transaction contemplated under the Investment and Construction Agreement will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of such transaction are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Each of Mr. Wang Zhen, Mr. Hu Wentai, Mr. Yang Xiaobin, Mr. Gao Jian, and Mr. Zhang Peihua is interested in the above transaction as they are delegates from the connected shareholder of the Company, and therefore had abstained from voting on the relevant resolution of the Board approving the same.

4. LISTING RULES IMPLICATIONS

As each of the assets ratio and consideration ratio (as defined in Rule 14.07 of the Listing Rules) for the transaction contemplated under the Investment and Construction Agreement is more than 100%, such transaction constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

As the Parent Company, holding 50.19% shareholding interest of the Company, is the holding company of, and therefore a connected person of the Company under the Listing Rules, the transaction contemplated under the Investment and Construction Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, such transaction is subject to reporting, announcement and independent shareholders' approval requirements. Such transaction will be subject to the approval of the Independent Shareholders taken on a poll at the EGM.

An independent board committee, comprising four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching Simon, Mr. George F. Meng and Mr. He Linji, who have no direct or indirect interest in the Investment and Construction Agreement and the transaction contemplated thereunder, has been established to advise the Independent Shareholders on the terms of such transaction. First Shanghai Capital Limited has been appointed as the independent financial adviser to advise the independent board committee and the Independent Shareholders on the terms of the Investment and Construction Agreement and the transaction contemplated thereunder.

It is currently expected that a circular containing, among other things, information relating to the Investment and Construction Agreement and the transaction contemplated thereunder, a letter of advice from First Shanghai Capital Limited to advise the independent board committee and the Independent Shareholders, the recommendation of the independent board committee to the Independent Shareholders will be despatched to the Shareholders on or before 11 September 2015.

The Parent Company and its associates will abstain from voting on the resolution to approve the Investment and Construction Agreement and the transaction contemplated thereunder at the EGM.

5. GENERAL INFORMATION

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

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

6. DEFINITIONS

For the purposes of this announcement, capitalized terms appearing herein shall, unless the context otherwise admits, have the meanings set out below:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	海航基礎股份有限公司 (HNA Infrastructure Company Limited), a joint stock limited company incorporated in the PRC on 28 December 2000
“connected person”	shall have the meaning as defined in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company for the purposes of considering and, if thought fit, among other things, approving the Investment and Construction Agreement and the transaction contemplated thereunder
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders who are not involved or interested in the transaction contemplated under the Investment and Construction Agreement
“Investment and Construction Agreement”	the investment and construction agreement dated 21 August 2015 entered into between the Company and the Parent Company in respect of the Airport Project

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meilan Airport”	the civil airport known as 海口美蘭國際機場 (Haikou Meilan International Airport) located in Haikou City, Hainan Province, the PRC
“NDRC”	National Development and Reform Commission of the People’s Republic of China (中華人民共和國國家發展和改革委員會)
“Parent Company”	海口美蘭國際機場有限責任公司 (Haikou Meilan International Airport Company Limited), a limited liability company established in the PRC and the controlling shareholder of the Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
HNA Infrastructure Company Limited*
Xing Zhoujin
Company Secretary

Haikou, the PRC, 21 August 2015

As at the date of this announcement, the Board comprises of (i) four executive Directors, namely Mr. Wang Zhen, Mr. Yang Xiaobin, Mr. Gao Jian and Mr. Zhang Peihua; (ii) three non-executive Directors, namely Mr. Hu Wentai, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang; and (iii) four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching Simon, Mr. George F. Meng and Mr. He Linji.

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