
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hainan Meilan International Airport Company Limited, you should at once hand this circular and the accompanying confirmation slip and form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

INDEPENDENT FINANCIAL ADVISER

GD Guangdong Securities Limited

A letter from the Independent Board Committee is set out on page 17 of this Circular.

A letter from GDS, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18-38 of this Circular.

A notice convening the extraordinary general meeting of Hainan Meilan International Airport Company Limited (the "Company") to be held at 9 a.m. on 17 May 2005 (Tuesday) in the meeting room of the Company on 3rd Floor, Meilan Airport Complex at No. 6 Haikou City, Hainan Province, the People's Republic of China (the "PRC") is set out on pages 44 to 46 of this Circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

31 March 2005

* For identification purpose only

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DEFINITIONS

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

“Agreements”	the agreements set out in paragraph 4 of the letter from the Board in this Circular
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CAAC”	中國民用航空總局 (General Administration of Civil Aviation of China), also know as Civil Aviation Administration of China
“China Southern Airlines”	中國南方航空股份有限公司 (China Southern Airlines Company Limited), a joint stock limited company incorporated in the PRC and listed on the Stock Exchange
“Company”	海南美蘭國際機場股份有限公司 (Hainan Meilan International Airport Company Limited), a joint stock limited company incorporated in the PRC on 28 December 2000
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Cap
“Existing Waivers”	the waiver granted by the Stock Exchange in November 2002 to the Company in respect of certain non-exempt continuing connected transactions between the Group and connected persons for a term ended on 31 December 2004, subject to the conditions set out in such waiver.
“Group”	the Company and its subsidiaries
“GDS”	Guangdong Securities Limited, the independent financial adviser retained in respect of the Non-exempt Continuing Connected Transaction that are subject to independent shareholders’ approval.
“Hainan Airlines”	海南航空股份有限公司 (Hainan Airlines Company Limited), a joint stock limited company incorporated in the PRC and one of the Promoters of the Company

DEFINITIONS

“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HNA Group”	海航集團有限公司(HNA Group Company Limited), a company established in the PRC and one of the Promoters of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board for the purpose of reviewing the Non-exempt Continuing Connected Transactions, which comprises Mr. Xu Boling, Mr. Xie Zhuang and Mr. Fung Ching Simon, all of whom are independent non-executive Directors
“Independent Shareholders”	Shareholders other than Parent Company, Hainan Airlines and HNA Group
“IPO”	the initial public offering of the Company’s Shares in the year 2002
“Latest Practicable Date”	29 March 2005, being the latest practicable date before the printing of this Circular for asserting certain information for the purpose of inclusion in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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, PRC
“New Annual Caps”	the proposed annual caps in respect of the Non-exempt Continuing Connected Transactions for the three years ending 31 December 2007 and set out in paragraph 7 of the letter from the Board in this Circular
“Non-exempt Continuing Connected Transactions”	the non-exempt continuing connected transactions which are and will continue to be entered into between the Group and the relevant connected parties that set out in paragraph 4 of the letter from the Board in this Circular

DEFINITIONS

“Parent Company”	海口美蘭國際機場有限責任公司(Haikou Meilan International Airport Company Limited), a company established in the PRC and the controlling shareholder of the Company
“Promoters”	the parties to a promoters agreement dated 20 December 2000 in relation to the promotion and incorporation of the Company including, inter alia, Parent Company, Hainan Airlines, China Southern Airlines and HNA Group
“Revised 2004 Transaction”	the transaction and the revised annual cap that proposed by the Board for the transaction referred to in paragraph 6 of the letter from the Board in this Circular for the year of 2004
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yangzi Express”	揚子江航空快運有限公司(Yangzijiang Air Express Company Limited), a limited liability company established in the PRC which is held as to 85% by HNA Group, 10% by Shanghai Airport (Group) Company Limited and 5% by Hainan Airlines

LETTER FROM THE BOARD



海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock code: 357)

Executive Directors:

Wang Zhen
Huang Qiu
Kristian Bjerneboe

Registered office:

Meilan airport complex
Haikou city
Hainan province, PRC

Non-executive Directors:

Chen Wenli
Kjeld Binger
Zhang Han'an

Principal place of business in

Hong Kong:
Unit 3205A, Shun Tak Centre
200 Connaught Road Central
Sheung Wan, Hong Kong

Independent Non-executive Directors:

Xu Boling
Fung Ching Simon
Xie Zhuang

31 March 2005

To the Shareholders

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

1. INTRODUCTION

The primary purposes of this Circular is to provide you with information regarding the resolutions to be proposed at the EGM and to give you notice of the EGM. Resolutions to be proposed at the EGM include ordinary resolutions relating to the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction.

* For identification purpose only

LETTER FROM THE BOARD

2. GENERAL BACKGROUND INFORMATION

The Company has been engaged in certain transactions with connected persons and their respective associates during the Company's ordinary course of business, which constitute connected transactions for the Company under the Listing Rules. In relation to the IPO, the Existing Waivers have been granted by the Stock Exchange from strict compliance with the relevant provisions governing connected transactions under the Listing Rules, subject to compliance with certain caps for annual transaction volumes and other conditions. The Existing Waivers expired on the 31 December 2004.

The Board has conducted a review of the Non-exempt Continuing Connected Transactions as to the surpassing of certain caps under the Existing Waivers, the new contracts and new annual caps to be proposed for those transactions. Announcement was made on 24 March 2005 for compliance with the relevant provisions under the Listing Rules in respect of non-exempt continuing connected transactions.

3. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Both of Parent Company and HNA Groups are promoters and substantial shareholders of the Company, beneficially holding 50.2% and 20.62% interest in the total issued share capital of the Company, respectively. Both of Hainan Airlines and China Southern Airlines are promoters of the Company. Accordingly, each of Parent Company, HNA Group, Hainan Airlines and China Southern Airlines is a connected person of the Company under the Listing Rules, and transactions between the Group and those connected persons and their associates constitute connected transactions for the Company under the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

4. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

(a) Transactions with Hainan Airlines

(i) *Premises lease by Hainan Airlines*

Terminal Lease

Date of
Agreement: 5 January 2005

Parties: the Company
Hainan Airlines

LETTER FROM THE BOARD

Subject: Hainan Airlines is a company engaged principally in airlines operation business. The Company has been leasing office and commercial premises to Hainan Airlines for the latter's conduction of business at Meilan Airport. According to the agreement, the premises leased at the date of the agreement comprise office spaces, airport counters and other premises at the airport terminal and apron.

Price: charges for the rentals are set at different rates depending on the function and usage of those premises, which are applicable to all other customers of the Company including independent third parties. Those charge rates have been fixed by the Company by reference to prevailing local market rates. The fixed monthly rental set out in the agreement is RMB558,300, which is equivalent to RMB6,699,600 per year.

Term: The lease agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

Cargo Centre Lease

Date of Agreement: 5 January 2005

Parties: the Company
Hainan Airlines

Subject: Commencing from 2005, the Company will take over the management and operation of the cargo centre at Meilan Airport which was previously delegated to Yangzi Express under a contractual management arrangement. Under the cargo center facilities and assets lease agreement, Hainan Airlines agreed to rent part of the premises, facilities and assets at the cargo centre from the Company for conduction of its own cargo handling and storage operation.

LETTER FROM THE BOARD

Price: charges for the rentals are set at different rates depending on the function and usage of those premises and the book value of the movable assets. Those charge rates have been fixed by the Company by reference to the costs of depreciation on a 6-year basis for movable assets and rates of investment return of 5%-7% for immovable assets. The total annual rental is approximately RMB2.3 million.

Term: The cargo centre facilities and assets lease agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

(ii) *Airport Ground Services with Hainan Airlines*

Date of
Agreement: 5 January 2005

Parties: the Company
Hainan Airlines

Subject: Pursuant to the agreement, the Company agreed to provide customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to Hainan Airlines and its subsidiaries.

Price: various charge rates that are primarily fixed by the CAAC and applicable to all the customers including independent third parties.

Term: The ground handling service agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

LETTER FROM THE BOARD

**(b) Airport Ground Services with China Southern Airlines and its subsidiary
Xiamen Airlines Company**

Agreement with China Southern Airlines

Date of Agreement: 1 February 2005

Parties: the Company
China Southern Airlines

Subject: Pursuant to the agreement, the Company agreed to provide customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to China Southern Airlines.

Price: various charge rates that are primarily fixed by the CAAC and applicable to all the customers including independent third parties.

Term: The ground handling service agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

Agreement with Xiamen Airlines Company

Date of Agreement: 1 February 2005

Parties: the Company
Xiamen Airlines Company

Subject: Xiamen Airlines Company is a 60% subsidiary of China Southern Airlines and engaged principally in airline operation business. Pursuant to the agreement, the Company agreed to provide customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to Xiamen Airlines.

Price: various charge rates that are primarily fixed by the CAAC and applicable to all the customers including independent third parties.

Term: The ground handling service agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

LETTER FROM THE BOARD

(c) **Airport Composite Services by Parent Company**

Date of

Agreement: 5 January 2005

Parties:

the Company
Parent Company

Subject:

Parent Company is a company engaged principally in ancillary airport service business. Pursuant to the agreement, Parent Company agreed to provide to the Group with the following services:

- (i) security guard service;
- (ii) cleaning and environment maintaining;
- (iii) sewage and refuse processing;
- (iv) power and energy supply and equipment maintenance; and
- (v) passengers and luggage security inspection,

Price:

The charge rates for the above various services are as follows:

- (i) the charges relating to the services of items (i)-(iv) above will be determined in accordance with the cost to Parent Company in providing such services plus a 5% mark-up as management fee, except for item (iv), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC.
- (ii) the charges relating to the service of item (v) will be determined in accordance with the rate prescribed by CAAC and charged to the airline customers directly. The Company will collect on behalf of Parent Company such fees receivable from airline customers.

Term:

The airport composite services agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

LETTER FROM THE BOARD

(d) Logistic Composite Service by HNA Group

Date of

Agreement: 5 February 2005

Parties:

the Company
HNA Group

Subject:

HNA Group is a company engaged principally in aeronautical business. Pursuant to the agreement, HNA Group agreed to provide and procure its subsidiaries (if necessary) to provide the Group with the following logistic services:

- (a) staff training;
- (b) staff shuttle bus services;
- (c) staff cafeteria services;
- (d) vehicle maintenance; and
- (e) commodities and appliance procurement.

Price:

Charges as to the service of item (a) will be at cost for providing such services as shared by HNA Group, the Company and other relevant companies on a pro rata basis with reference to the respective headcounts; and the charges as to items (b) and (c) will be at a fixed price with reference to relevant cost per headcount; and the charges as to items (d) will be the cost for providing such services plus a 5% mark-up as management fee; and item (e) will be 1% of total price of commodities and appliance procurement.

Term:

The logistic composite services agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007.

LETTER FROM THE BOARD

5. HISTORICAL FIGURES

The parties to the relevant agreements above have been engaged in the relevant transactions over the years before. The following table shows the total sums paid in respect of those transactions between the Group and the relevant contractual parties in the past three years ended on 31 December 2004:

	Year ended 31 December		
	2002	2003	2004
	(“RMB”)		
(a) (i) Premises lease by Hainan Airlines	5,863,000	5,831,000	5,839,000
(ii) Airport ground services with Hainan Airlines	57,700,000	65,540,000	75,037,000
(b) Airport ground services with China Southern Airlines and Xiamen Airlines Company	38,980,000	43,120,000	41,460,000
(c) Airport composite services by Parent Company	9,900,000	9,900,000	11,222,000
(d) Logistic composite services by HNA Group	5,310,000	6,500,000	9,500,000

The above historical figures are audited and contained in the relevant annual and interim reports of the Company.

6. REVISED 2004 TRANSACTION

The cap set for 2004 under the Existing Waivers in respect of item (a)(ii) of paragraph 4 above is RMB70,000,000. Due to the rapid growth of business in 2004, the relevant annual transaction volume for item (a)(ii) in 2004 has exceeded the said cap and is within the estimated range of RMB80,000,000. It was around the end of November 2004 that the aggregated amount of the transaction reached RMB70,000,000, and a Board meeting was thereafter held in mid December 2004 for review of the transaction and for proposal of an EGM approving, inter alia, the transaction which has exceeded the cap under the Existing Waivers in compliance with the relevant requirements under the Listing Rules. The Board is of the view that it is in the benefit of the Company to receive more than expected fees from the counter party and hence proposes a revised cap of RMB80,000,000 for the year of 2004 (the “**Revised 2004 Cap**”). The relevant Existing Waivers lapsed upon the increase of the relevant cap and compliance with the relevant reporting, disclosure

LETTER FROM THE BOARD

and approval requirement is necessary for the transaction conducted in 2004. Therefore, the transaction concerned and the revised 2004 cap thereof (together, the “**Revised 2004 Transaction**”) are proposed by the Board for the Independent Shareholders’ approval at the EGM pursuant to the Listing Rules. The Company noted that prior shareholders’ approval should have been obtained in a timely manner before the relevant cap under the Existing Waivers was exceeded and the Company has failed to comply with such requirement due to difficulties in practicality.

7. NEW ANNUAL CAPS

The Board has considered and proposed that the following caps be set for the annual volumes of the relevant transactions above for the period from 1 January 2005 to 31 December 2007:

	2005	2006	2007
	(“RMB”)		
(a) (i) Premises lease by Hainan Airlines	8,929,600	8,929,600	8,929,600
(ii) Airport ground services with Hainan Airlines	105,000,000	136,000,000	190,000,000
(b) Airport ground services with China Southern Airlines and Xiamen Airlines Company	54,100,000	71,100,000	92,400,000
(c) Airport composite services by Parent Company	15,000,000	16,000,000	16,500,000
(d) Logistic composite services by HNA Group	12,200,000	13,000,000	13,500,000

8. BASIS OF THE CAPS

The cap proposed for item (a)(i) above is determined with reference to the fixed rental in the agreement and based on the assumption that there will be no increase in the annual rental of the relevant transaction.

The cap proposed for item (a)(ii) is determined with reference to the historical figures and based on the estimation that there will be an increase in the volume of the airport ground services by 30% each year over the preceding year from 2005 to 2006 and by 40% in 2007.

LETTER FROM THE BOARD

The cap proposed for item (b) is determined with reference to the historical figures and based on the estimation that there will be an increase in the volume of the airport ground services by 30% each year over the preceding year in the period from 2005 to 2007.

The cap proposed for item (c) is determined with reference to the historical figures and based on the estimation that there will be an increase in the volume of the airport composite services by 27% in 2005 over that in 2004 due to the expected substantially enlarged demand of the relevant services after the completion and commencement of commercial operation of the Phase II expansion project of Meilan Airport, and thereafter by 5% each year over the preceding year in 2006 and 2007.

The cap proposed for item (d) is determined with reference to the historical figures (in particular, the proposed and revised cap of RMB80,000,000 for year 2004, which is subject to independent shareholders' approval, was taken for reference when considering the cap for 2005 and 2006, respectively) and based on the assumption that there will be an increase in the headcounts and volumes of procurement of materials by 30% and 40% in 2005 over that in 2004, respectively, due to the completion and commencement of commercial operation of the Phase II expansion project of Meilan Airport, and thereafter by 5% each year over the preceding year in terms of the aggregate amount under the relevant agreement in 2006 and 2007.

In determining the New Annual Caps, the Directors have taken into account the Company's projection and business plan for the coming three financial years. The Directors are of the view that the Group will have significant potential opportunities for further expansion and development of its business and operations. To adjust the New Annual Caps to a lower level based on the historical utilization of the Existing Waiver would limit the ability of the Group to seize future business opportunities in its ordinary and usual course, and may have adverse impact on the Group's potential growth.

9. REASONS FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The Non-exempt Continuing Connected Transactions are entered into for the necessity and benefits of the Company. As an airport management company, the Company's main business is to provide airport ground services and lease of office and commercial premises at the Meilan Airport to the airline companies, among which, each of China Southern Airlines and Hainan Airlines is one of the major customers of the Company. Further, to streamline its business operation and to procure cost reduction by bulk purchase, the Company has been outsourcing the ancillary airport services, employees' composite services and the procurement of office appliance and construction materials to Parent Company and HNA Group and their associates. There has been long term co-operation between the Company and those connected persons which have the expertise and experience required for provision of such services and are in a better position to meet the quality standard and efficiency of costs required by the Company in respect of the relevant services.

LETTER FROM THE BOARD

The Non-exempt Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Group. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Group. Due to the long-term relationship between the Group and each of Hainan Airlines, China Southern Airlines, Xiamen Airlines Company, Parent Company, HNA Group and Hainan Food, the Board considers it beneficial to the Group to continue to enter into the Non-Exempt Continuing Connected Transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Group's business.

10. INDEPENDENT SHAREHOLDERS' APPROVAL AND COMPLIANCE WITH LISTING RULES

The Company will seek the approval of the Independent Shareholders at the EGM of the Non-exempt Continuing Connected Transactions and the New Annual Caps that:

- (a) The aggregate annual volume of the Non-exempt Continuing Connected Transactions shall not exceed the applicable New Annual Caps:
- (b)
 - (i) The Non-exempt Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group and either (A) on normal commercial terms or (B) if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and
 - (ii) The Non-exempt Continuing Connected Transactions will be entered into in accordance with the Agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

The Company will comply with Rules 14A.36-14A.38 and Rule 14A.45 of the Listing Rules in respect of the Non-exempt Continuing Connected Transactions.

The Company will also seek the approval of the Independent Shareholders at the EGM of the Revised 2004 Transaction.

LETTER FROM THE BOARD

11. EXTRAORDINARY GENERAL MEETING

Set out on pages 44 to 46 of this Circular is a notice convening an EGM to be held at 9:00 a.m. on 17 May 2005 (Tuesday) in the meeting room of the Company on 3rd Floor, Meilan Airport Complex at No. 6 Haikou City, Hainan Province, the People's Republic of China (the "PRC"). At the EGM, ordinary resolutions will be proposed to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Caps. Each of Parent Company, Hainan Airlines and HNA Group who holds, directly and indirectly, 50.2%, 9.38% and 20.62% voting rights at a general meeting of the Company, respectively, and are interested in the Non-exempt Continuing Connected Transactions will abstain from voting at the EGM pursuant to the Listing Rules.

12. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 73 of the Company's Articles of Association, a resolution put to the vote of a general meeting of the Shareholders shall be decided on a show of hands unless a poll is (before or after any vote by a show of hands) demanded by:

- (i) the chairman of the meeting;
- (ii) at least two Shareholders with voting rights or their proxies; or
- (iii) one or several Shareholders (including proxies) holding totally or separately 10 percent or more of the shares carrying the right to vote at the meeting.

In accordance with Rule 13.39(4) of Listing Rules, the chairman of the EGM will demand a poll in relation to the ordinary resolution for approving the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction at the EGM.

13. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 of this Circular which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction.

Your attention is also drawn to the letter from GDS set out on pages 18 to 38 of this Circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction as well as the principal factors and reasons considered by it in concluding its advice.

LETTER FROM THE BOARD

Your attention is also drawn to the additional information set out in the appendices to this Circular. A form of proxy and a copy of reply slip for use at the EGM are enclosed with this Circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

14. COMPOSITION OF THE BOARD

As at the date of this Circular, there are 9 Directors on the Board. They are: Wang Zhen, Huang Qiu and Kristian Bjerneboe as Executive Directors; Chen Wenli, Zhang Han'an and Kjeld Binger as Non-executive Directors; and Xu Boling, Xie Zhuang and Fung Ching Simon as Independent Non-Executive Directors.

Yours faithfully,

By order of the Board

Hainan Meilan International Airport Company Limited

Chen Wenli

Chairman of the Board

Hainan PRC, 31 March 2005

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

31 March 2005

To the Shareholders of the Company

Dear Sirs or Madams,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of certain non-exempt continuing connected transactions, details of which are set out in the letter from the Board in this Circular to the Shareholders. Unless the context otherwise requires, terms defined in this Circulars shall have the meanings when used in this letter.

GDS has been appointed to advise us regarding the Non-exempt Continuing Connected Transactions. We wish to draw your attention to the letter from GDS which contains advice to us in relation to the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction, together with the principal factors and reasons taken into consideration in arriving at such advice. Your attention is also drawn to the letter from the Board and the additional information set out in the appendixes to this Circular.

Having taken into account the advice of, and the principal factors and reasons considered by GDS in relation thereto as stated in its letter, we consider the terms and conditions of the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction to be fair and reasonable so far as the interests of the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Revised 2004 Transaction.

Yours faithfully,

Independent Board Committee

Xu Boling

Independent non-executive director

Xie Zhuang

Independent non-executive director

Fung Ching Simon

Independent non-executive director

* For identification purpose only

LETTER FROM GDS

The following is the text of a letter from GDS for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions, the Revised 2004 Transaction and the New Annual Caps:

Guangdong Securities Limited

31 March 2005

*To the Independent Board Committee and the Independent Shareholders of
Hainan Meilan International Airport Company Limited*

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, namely, (1) Premises Lease Agreements and Airport Ground Services Agreement entered into between the Company and Hainan Airlines; (2) Airport Ground Services Agreement entered into between the Company with each of China Southern Airlines and its subsidiary Xiamen Airlines Company; (3) Airport Composite Services Agreement entered into between the Company and Parent Company and (4) Logistic Composite Service Agreement entered into between the Company and HNA Group (collectively as “New Agreements”), as to whether the terms of the transactions contemplated therein, the Revised 2004 Transaction, and the New Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, details of which are contained in the Letter from the Board in the circular issued to the Shareholders dated 31 March 2005 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

Both the Parent Company and HNA Groups are promoters and substantial shareholders of the Company, beneficially holding 50.2% and 20.62% interests in the total issued share capital of the Company, respectively. Both of Hainan Airlines and China Southern Airlines are also the Promoters. Accordingly, each of the Parent Company, HNA Group, Hainan Airlines and China Southern Airlines is a connected person of the Company under Chapter 14A of the Listing Rules.

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The transactions referred to as above constitute Non-exempt Continuing Connected Transactions for the Company under the Listing Rules which will be subject to, inter alia, the approval by the Independent Shareholders and the relevant reporting requirements. Each of the Promoters will abstain from voting at the EGM on the relevant resolution(s) to approve the Non-exempt Continuing Connected Transactions, the Revised 2004 Transaction and the New Annual Caps.

In formulating our opinion, we have relied on the statements, information, opinions, facts and representations contained in the Circular, which have been provided by the Directors and representatives of the Company and we have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise supplied to us by the Company are true, complete, accurate and relevant, and we have not independently verified the accuracy of such. We have also relied on the representations of the Directors that they have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular relating to the Company and they have made all reasonable inquiries, and that to the best of their knowledge and belief, there are no other material factors omitted from the information and representations supplied to us.

We are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements of beliefs, opinion and intention made by the Directors contained in and representations made or referred to in this Circular were true, accurate and complete at the time they were made and will continue to be so at the Latest Practicable Date and also assumed that all intentions of the Company and the Directors will be met or carried out as the case may be.

We consider that we have reviewed sufficient information to reach an informed view concerning the Non-exempt Continuing Connected Transactions, the Revised 2004 Transaction and the New Annual Caps contained in the Circular in order to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information had been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate and misleading. We have not, however, carried out any independent verification of the information, nor have we conducted any form of investigation into the business, operational aspects, financial standing and affairs of the Company.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion relating to the Non-exempt Continuing Connected Transactions, the Revised 2004 Transaction and the New Annual Caps subject to Independent Shareholders' approval requirements, we have taken into consideration, inter alia, the following principal factors and reasons:

I. Background for the Non-exempt Continuing Connected Transactions

A. *Premises Lease and Airport Ground Services to Hainan Airlines*

The Company has been leasing office and commercial premises to Hainan Airlines for the latter's conduction of business at Meilan Airport. The Company has also been providing customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to Hainan Airlines and its subsidiaries. The old contractual arrangements and the Existing Waiver granted in respect of the premises lease and the airport ground services had expired on 31 December 2004. The execution of the new contractual arrangements is to secure continuity of the premises lease and the airport ground services respectively.

In addition, the Company had previously delegated the management and operation of the cargo centre at Meilan Airport to Yangzi Express. Commencing from 2005, the Company has taken over the management and operation of the cargo centre at Meilan Airport. Accordingly, Hainan Airlines agreed to rent part of the premises, facilities and assets at the cargo centre from the Company for conduction of its own cargo handling and storage operation.

B. *Airport Ground Services to China Southern Airlines and its subsidiary Xiamen Airlines Company*

The Company has been providing customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to China Southern Airlines and Xiamen Airlines Company, a 60% owned subsidiary of China Southern Airlines ("Xiamen Airlines"). The old contractual arrangements and the Existing Waiver granted in respect thereof had expired on 31 December 2004 and the execution of new contractual arrangements is to secure continuity of the services.

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C. *Airport Composite Services by Parent Company*

The Parent Company has been providing airport composite services (including (i) security guard services, (ii) cleaning and environment maintaining, (iii) sewage and refuse processing, (iv) power and energy supply and equipment maintenance and (v) passengers and luggage security inspection) to the Group. The old contractual arrangement and the Existing Waiver granted in respect thereof had expired on 31 December 2004. The Company intends to secure continuity of the services from the Parent Company by executing a new agreement.

D. *Logistic Composite Services by HNA Group*

HNA Group has been providing logistic services (including staff training, staff shuttle bus services, staff cafeteria services, and vehicle maintenance services etc.) to the Group. The old contractual arrangement and the Existing Waiver granted in respect thereof had expired on 31 December 2004. Accordingly, a new agreement had been signed for the continuity of services from HNA Group.

II. Nature and terms of the New Agreements

Details of the terms of the New Agreements are set out in the Letter from the Board. Set out below is the summary of the key terms of the New Agreements:

A. *Premises Lease Agreements and Airport Ground Services Agreement with Hainan Airlines*

(i) Premises Lease Agreements

The Premises Lease Agreements with Hainan Airlines involve two separate agreements, namely Terminal Lease Agreement and Cargo Centre Lease Agreement. Pursuant to the Terminal Lease Agreement, the Company agreed, for a period of three years commencing from 1 January 2005, to lease office and commercial premises including office spaces, airport counters and other premises at the airport terminal and apron (the "Terminal Lease") to Hainan Airlines. The rental charges are primarily set at different rates depending on the function and usage of those premises which are applicable to all customers including independent third parties. Those charge rates have been fixed by the Company by reference to prevailing local market rates.

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Pursuant to the Cargo Centre Lease Agreement, the Company agreed, for a period of three years, to lease part of the premises, facilities and assets at the cargo centre to Hainan Airlines for the latter's conduction of its own cargo handling and storage operation (the "Cargo Centre Lease"). The rental charges are primarily set at different rates depending on the function and usage of the premises and the book value of the movable assets. The charge rates have been fixed by the Company by reference to the costs of depreciation on a 6-year basis for movable assets and rates of investment return of 5%-7% for immovable assets.

(ii) Airport Ground Services Agreement

Under the Airport Ground Services Agreement with Hainan Airlines, the Company agreed, for a period of three years commencing from 1 January 2005, to provide customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services (collectively the "Airport Ground Services I") to Hainan Airlines and its subsidiaries. The various service charge rates are primarily fixed by the CAAC and applicable to all domestic airlines including independent third parties.

B. The Airport Ground Services Agreements with China Southern Airlines and its subsidiary, Xiamen Airlines

Under the Airport Ground Services Agreements with China Southern Airlines and its subsidiary, Xiamen Airlines, the Company agreed to provide customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to them (collectively the "Airport Ground Services II") for a period of three years commencing from 1 January 2005. The service charge rates are primarily fixed by the CAAC which are applicable to all domestic airlines including independent third parties.

C. The Airport Composite Services Agreement with Parent Company

Under the Airport Composite Services Agreement between the Company and Parent Company, the Parent Company agreed, to provide (i) security guard services; (ii) cleaning and environment maintenance services; (iii) sewage and refuse processing services; (iv) power and energy supply and equipment maintenance services and (v) passengers and luggage security inspection services (collectively the "Airport Composite Services") to the Group for a period of three years commencing from 1 January 2005. The charges relating to the services of above items (i) to (iv) will be determined in accordance with the cost to Parent Company in providing such services

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plus a 5% mark-up as management fee, except for item (iv), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to the provision of passengers and luggage security inspection services will be determined in accordance with the rate prescribed by CAAC and charged to the airline customers directly and the Company will collect on behalf of Parent Company such fees receivable from airline customers.

D. The Logistic Composite Services Agreement with HNA Group

Under the Logistic Composite Services Agreement, HNA Group has agreed, to provide and procure its subsidiaries (if necessary) to provide (a) staff training; (b) staff shuttle bus services; (c) staff cafeteria services; (d) vehicle maintenance services and (e) commodities and appliance procurement (collectively the “Logistic Composite Services”) to the Group for a period of three years commencing from 1 January 2005. The charges relating to the services of item (a) will be at cost for providing such services as shared by HNA Group, the Company and other relevant companies on a pro rata basis with reference to the respective headcounts; as to items (b) and (c) the charges will be at a fixed price with reference to relevant cost per headcount; the charges as to item (d) will be the cost for providing such services plus a 5% mark-up as management fee; and the charges relating to item (e) will be 1% of total price of commodities and appliance procurement.

III. Basis of our opinion

As aforesaid, we have been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, the Revised 2004 Transaction, and the New Annual Caps as to whether the terms of the transactions contemplated therein are fair and reasonable and are in the interests of Shareholders (including the Independent Shareholders) and the Company as a whole.

A. Premises Lease Agreements and Airport Ground Services Agreement with Hainan Airlines

(i) The Premises Lease Agreements

Terminal Lease Agreement

Under the Terminal Lease Agreement, the Company will charge Hainan Airlines at different rental rates depending on the function and usage of those premises, which are applicable to all other customers including the independent third parties. Those charge rates have been fixed by the Company with reference to prevailing local market rates.

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We have reviewed two contractual leasing agreements which we, together with the management of the Company, considered representative for the period from 2002 to 2003 between the Company and the independent third parties in respect of office and commercial and premises and noted that the major terms (e.g. rental, settlement terms, termination clause, etc.) in the leasing agreements are materially the same. Therefore, we concur with the Directors' view that the office and commercial premises leased to Hainan Airlines are on normal commercial terms and the charge rates are determined on an arm's length basis.

Cargo Centre Lease

Under the Cargo Centre Lease Agreement, Hainan Airlines agreed to rent part of the premises, facilities and assets at the cargo centre from the Company for conduction of its own cargo handling and storage operation. As discussed with the management of the Company, we noted that the premises, facilities and assets at the cargo centre leased by the Company are cargo handling and storage operation previously provided by Yangzi Express to Hainan Airlines. We have reviewed a list of the premises, facilities and assets at the cargo centre set out in the Cargo Centre Lease Agreement, including land, buildings and office equipment at Meilan Airport. The estimated total annual rental to be received by the Company from Hainan Airlines is approximately RMB2.3 million.

We have reviewed the Cargo Centre Lease Agreement and noted from the Directors that the rental period for the office equipment is three years which is consistent with the normal practice of the Company. The estimated rental yield will be approximately 33.33% per annum, which reflects the annual depreciation rate for the office equipment to be borne by the Company. For land and buildings, the estimated rental yield will be approximately 6.7% per annum. We have discussed with the Directors and noted that the estimated rental yield of commercial premises in Hainan is approximately 5% to 8%. The aforesaid estimated rental yield of about 6.7% falls within the range of the estimated rental yield of commercial premises in Hainan. In addition, we have noted that the benchmark saving deposit interest rate set by the People's Bank of China is approximately 2.25% per annum. Accordingly, we consider the estimated rental yield for land and buildings of approximately 6.7% is fair and reasonable. Based on the foregoing, we concur with the Directors' view that the estimated rental yields of approximately 33.33% for office equipment and approximately 6.7% for land and buildings under the Cargo Centre Lease are determined on an arm's length basis.

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(ii) *The Airport Ground Services Agreement*

As stated in the Letter from the Board, Hainan Airlines is a company principally engaged in airlines operation business. Under the existing contractual arrangements, the Airport Ground Services I provided by the Company to Hainan Airlines and its subsidiaries are charged at rates that are primarily fixed by CAAC. As discussed with the management of the Group, the customary airport ground services being and to be provided by the Company to Hainan Airlines and its subsidiaries pursuant to the Airport Ground Services Agreement with Hainan Airlines are of the same type of customary airport ground services as previously provided and the charge rates will continue to be fixed at the rates fixed by CAAC which are applicable to all domestic airlines including independent third parties. Accordingly, the Directors consider that the charge rates are determined on an arm's length basis.

Based on the above facts and representations by the management of the Group, we are of the opinion that the terms of Premises Lease Agreements and Airport Ground Services Agreement with Hainan Airlines are fair and reasonable and are in the interest of the Shareholders (including the Independent Shareholders) and the Company as a whole.

B. *The Airport Ground Services Agreement with China Southern Airlines and its subsidiary, Xiamen Airlines*

Same as the Airport Ground Services I, the Company has been providing Airport Ground Services II to China Southern Airlines and Xiamen Airlines charging at rates primarily fixed by CAAC. We have discussed with the management of the Group and noted that the Airport Ground Services II being and to be provided by the Company to China Southern Airlines and Xiamen Airlines are of the same type of the airport ground services as previously provided and the charge rates will continue to be fixed at the rates primarily fixed by CAAC which are applicable to all domestic airlines including independent third parties. The Directors consider that the charge rates are determined on an arm's length basis.

Based on the above facts and representations by the management of the Group, we are of the opinion that the terms of the Airport Ground Services Agreement with China Southern Airlines and Xiamen Airlines are fair and reasonable and are in the interest of the Shareholders (including the Independent Shareholders) and the Company as a whole.

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C. The Airport Composite Services Agreement with the Parent Company

As stated in the Letter from the Board, the Parent Company is a company principally engaged in ancillary airport service business. The charges relating to the provision of Airport Composite Services will be determined in accordance with the cost to the Parent Company in providing such services plus a 5% mark-up as management fee, except for power and energy supply and equipment maintenance services, the mark-up of which will be 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to the provision of passengers and luggage security inspection services will be determined in accordance with the rate prescribed by CAAC and charged to the airline customers directly and the Company will collect on behalf of the Parent Company such fees from the airline customers.

The Directors consider that the above terms of the Airport Composite Services Agreement have been negotiated on an arm's length basis and are determined by reference to the historical rates charged by the Parent Company and the pricing guideline prescribed by CAAC. We have discussed with the Directors about the 5% mark-up as management fee charged by the Parent Company and noted that such management fee corresponds with the business tax rate charged by the relevant PRC tax authorities. Accordingly, the Parent Company charges a 5% mark-up as management fee to cover the taxation cost and such rate will continue to apply for the future three years ending 31 December 2007. We have also discussed with the Directors on the 25% mark-up management fee for power and energy supply and equipment maintenance services and noted that the charge rate is based on the pricing guidelines set by CAAC (which is also a historical rate since the inception of such services). The Directors consider that the charges of 5% and 25% mark-up as management fee for providing the Airport Composite Services are determined on a fair and reasonable basis.

Based on the above facts and representations, we are of the opinion that the terms of the various services being and to be provided by the Parent Company under the Airport Composite Services Agreement are fair and reasonable and are in the interest of the Shareholders (including the Independent Shareholders) and the Company as a whole.

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D. The Logistic Composite Service Agreement with HNA Group

As referred to in the Letter from the Board, HNA Group is a company principally engaged in an aeronautical business. The charges relating to (a) the provision of staff training will be at cost for providing such services as shared by HNA Group, the Company and other relevant companies (i.e. subsidiaries or associates of HNA Group) on a pro rata basis with reference to the respective headcount; the charge rates (b) for the staff shuttle bus services and (c) staff cafeteria services will be at a fixed price with reference to the relevant cost per headcount (e.g. food material cost, rental cost, staff cost, etc.); (d) for the vehicle maintenance services, the charge rates will be determined in accordance with the cost for providing such services plus a 5% mark-up as management fee; and (e) for commodities and appliance procurement, the charges will be 1% of total price of commodities and appliance procurement.

We noted from the Directors that the above charge bases in essence have remain unchanged from those applicable to the parties during the three years ended 31 December 2004. We also noted that the reason for charging a 5% mark-up as management fee on the vehicle maintenance service is the same as stated in the paragraph C of section III of this letter. In addition, the Directors have confirmed to us that the basis of charging the 1% management fee on total price of commodities and appliance procurement is basically the same as the previous rate charged by the HNA Group.

We have reviewed the charges for the three years ended 31 December 2004 and noted that they are basically the same as the historical rate. In this regard, we consider that the above bases in relation to staff training, staff shuttle bus services, staff cafeteria services, vehicle maintenance services and commodities appliance procurement are essentially based on the costs to HNA Group in providing such services or costs plus management fee mark-up by HNA Group, which are fair and reasonable and are in the interests of the Shareholders (including the Independent Shareholders) and the Company as a whole.

IV. The Revised 2004 Transaction

As stated in the Letter from the Board, the cap set for 2004 under the Existing Waivers in respect of the Airport Ground Services I with Hainan Airlines and its subsidiaries is RMB70,000,000. Due to the rapid growth of business in 2004, the relevant annual transaction volume in 2004 with Hainan Airlines increased significantly and has exceeded the said cap and the Directors hence propose to revise the cap for the financial year ended 31 December 2004 to RMB80,000,000.

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To evaluate the basis of the Revised 2004 Transaction, we have obtained the management accounts of the Company and noted the aggregate value of the airport ground services provided to Hainan Airlines and its subsidiaries for the year ended 31 December 2004 was approximately RMB75,037,000. The Existing Waiver granted by the Stock Exchange with regard to the airport ground services is RMB70,000,000. Accordingly, the aggregate value of the airport ground services provided to Hainan Airlines and its subsidiaries for the year ended 31 December 2004 as extracted from the management accounts of the Company has already exceeded the Existing Waiver by approximately RMB5,037,000 and the exceeded amount accounted for approximately 7.20% of the Existing Waiver. In addition, the Directors have advised to add a further amount of approximately RMB4,963,000, representing approximately 6.61% of the aggregate value of the airport ground services provided to Hainan Airlines and its subsidiaries for the year ended 31 December 2004, to serve as a buffer in case of any further adjustments by the auditors of the Company during its annual audit. The Directors have confirmed that based on the past experience, no audit adjustments had ever exceeded 5% of the value of the services provided by the Company. We have reviewed the audited financial statements of the Company for the two years ended 31 December 2003 and noted that there was no material audit adjustments which exceeded 5% of the book value of the services provided. We have also obtained confirmation from the auditors of the Company that there are no material audit adjustments on the Revised 2004 Transaction. Therefore, we concur with the Directors' view that such buffer amount included in the Revised 2004 Transaction is fair and reasonable.

Based on the above facts and representation, we are of the opinion that the proposed Revised 2004 Transaction of RMB80,000,000 for the financial year ended 31 December 2004 is fair and reasonable and is in the interest of the Shareholders (including the Independent Shareholders) and the Company as a whole.

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V. Basis of the New Annual Caps for 2005 to 2007

Details of the proposed annual caps are stated in the Letter from the Board. For our assessment on the reasonableness of the proposed annual caps, among others, we focus on (1) the fairness and reasonableness of the terms of the New Agreements which have been analyzed and concluded in section III of this letter; and (2) whether the bases of the proposed New Annual Caps are in line with the business expansions and operations of the Group. We elaborate as follows:

A. (i) Premises Lease and Airport Ground Services I to Hainan Airlines

As stated in the Letter from the Board and advised by the Company, the proposed annual caps for the Premises Lease (i.e. the Terminal Lease and Cargo Centre Lease) between the Company and Hainan Airlines are as follows:

Financial year ending	(1) Terminal	(2) Cargo	Total
	Lease	Centre Lease	
	RMB	RMB	RMB
31 December 2005	6,699,600	2,230,000	8,929,600
31 December 2006	6,699,600	2,230,000	8,929,600
31 December 2007	6,699,600	2,230,000	8,929,600

As also stated in the Letter from the Board, the above caps are determined with reference to the fixed rental charges in the agreement and based on the assumption that there will be no increase in the annual rental of the Premises Lease from 2005 to 2007.

(1) Terminal Lease

As stated in the Letter from the Board, the annual rental charges of the Premises Lease for the three years ended 31 December 2004 were approximately RMB5,863,000, RMB5,831,000 and RMB5,839,000 respectively. We noted from the Directors that, since the management and operation of the cargo centre at Meilan Airport was previously delegated to Yangzi Express, the historical rental charges of the Premises Lease represented only that of the Terminal Lease. In this regard, we have compared the historical annual rental charge of approximately RMB5,839,000 in 2004 with the annual caps for the Terminal Lease (i.e. RMB6,699,600), and noted that the proposed new annual caps for the Terminal Lease are set to an amount of approximately 15% as compared

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with the historical annual rental charge of the Terminal Lease. We noted that such an increase is mainly due to the increase of rental areas, which involved an additional freight carriage with gross floor area of approximately 688 square metres. The additional rental areas imply an increase in monthly rental charge, which thereby increase the annual rental. In this regard, we consider that the proposed annual cap relating to the Terminal Lease for each of the three years ending 31 December 2007 is fair and reasonable.

(2) *Cargo Centre Lease*

We noted from the management of the Company that the estimated aggregate annual rental of the Cargo Centre Lease to be received by the Company from Hainan Airlines will be approximately RMB2.3 million, which has been fixed and with reference to the costs of depreciation and the rates of investment return of the assets. The aggregate annual rental of Cargo Centre Lease comprises (i) an annual rental of approximately RMB1.5 million from the leasing of office and commercial premises with total gross floor area of approximately 14,320 square metres which is based on a rental yield of approximately 6.7% per square metre; and (ii) an annual rental of approximately RMB0.8 million from the leasing of the office equipment to Hainan Airlines which equals to the annual depreciation charge of such equipment. The Directors consider that the estimated aggregate annual rental of Cargo Centre Lease of approximately RMB2.3 million is determined on an arm's length basis.

In view of the above facts and representations of Terminal Lease and Cargo Centre Lease, we concur with the Directors' view that the proposed caps for the Premises Lease for each of the three financial years ending 31 December 2007 are fair and reasonable.

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A. (ii) *Airport Ground Services I to Hainan Airlines*

As stated in the Letter from the Board, the proposed annual caps for the Airport Ground Services I being and to be provided by the Company to Hainan Airlines and its subsidiaries are as follows:

Financial year ending	<i>RMB</i>
31 December 2005	105,000,000
31 December 2006	136,000,000
31 December 2007	190,000,000

As also stated in the Letter from the Board, the above caps are determined with reference to the historical figures and based on the estimation that there will be an increase in the transaction volume of the Airport Ground Services I by 30% each year over the preceding year in the period from 2005 to 2006 and by 40% in 2007.

To evaluate the basis of 30% rate of annual increase, we have obtained from the Directors the following statistics regarding the use of Meilan Airport by Hainan Airlines:

	Aircraft movements <i>(number of flights)</i>	Passenger throughput <i>('000)</i>	Cargo throughput <i>(tons)</i>	
2002	24,958	23,063	35,789	
2003	25,858	26,008	43,193	
2004	27,986	31,244	52,015	
				<i>Average</i>
<i>Year-on-year increase</i>				<i>increase</i>
2002 – 2003	3.6%	12.8%	20.7%	12.4%
2003 – 2004	8.2%	20.1%	20.4%	16.2%

Based on the above statistics, we noted that the average increase in the usage of Meilan Airport in terms of aircraft movements, passenger throughput and cargo throughput was approximately 12.4% from 2002 to 2003 and 16.2% from 2003 to 2004. We noted that such mild increase was mainly due to the gradual recovery of the tourism industry after the outbreak of the severe acute

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respiratory syndrome (“SARS”) in the PRC in 2003. Despite such moderate increase in the transaction volume of Airport Ground Services I during 2004, the aggregate value of the respective services provided during the year as extracted from the management accounts of the Company was approximately RMB75,037,000 which had exceeded the original cap of RMB70,000,000. The Directors therefore use the average rate of increase in terms of the aircraft movements, passenger throughput and cargo throughput of Airport Ground Services II with China Southern Airlines and Xiamen Airlines as a reference rate (which is approximately 30%) to calculate the proposed annual caps for the two years ending 31 December 2006. In this regard, we have reviewed the Chinese Major Airport Traffic Statistics of 2004 reported by CAAC and noted that the total of aircraft movements, passenger throughput and cargo throughput for the major airports in the PRC on average increased by approximately 25.8%, 38.8% and 22.3% respectively when compared with 2003. We consider that the respective average rates of increase in aircraft movements, passenger throughput and cargo throughput are relevant statistics for the Company since the statistics reported by CAAC had about 130 airports locating in different major cities of the PRC. In addition, the Directors expect the demand for airport ground services will increase further following the liberalisation of the third, fourth and fifth categories of aviation rights; and also the hosting of the Olympic Games in Beijing in 2008, all of which will increase the transaction volume of airport ground services and the Directors therefore expect the average rate of increase will be about 40% in 2007. In this regard, we have discussed with the Directors and reviewed the relevant articles on describing the future demand for airport ground services and consider that the 40% average rate of increase in the transaction volume of the airport ground services for the three financial years ending 31 December 2007 proposed by the Directors is acceptable.

Based on the above facts and representations of Airport Ground Services I, we concur with the Directors’ view that the use of 30% each year over the preceding year from 2006 to 2007 and by 40% in 2007 for Airport Ground Services I is fair and reasonable.

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B. Airport Ground Services II with China Southern Airlines and Xiamen Airlines

As stated in the Letter from the Board, the proposed annual caps for the Airport Ground Services II being and to be provided by the Company to China Southern Airlines and Xiamen Airlines are as follows:

Financial year ending	<i>RMB</i>
31 December 2005	54,100,000
31 December 2006	71,100,000
31 December 2007	92,400,000

Similar to the Airport Ground Services I to Hainan Airlines as referred to subsection A(ii) in section V of this letter, the above caps are determined with reference to the historical figures and based on the estimation that there will be an increase in the transaction volume of the Airport Ground Services II by 30% each year over the preceding year in the period from 2005 to 2007.

We have also obtained from the Directors the following statistics regarding the use of Meilan Airport by China Southern Airlines and Xiamen Airlines to assess the basis of 30% rate of annual increase:

	Aircraft movements <i>(number of flights)</i>	Passenger throughput <i>('000)</i>	Cargo throughput <i>(tons)</i>	
2002	14,668	54,470	25,359	
2003	14,867	80,288	26,027	
2004	18,917	127,991	29,602	
				<i>Average increase</i>
<i>Year-on-year increase</i>				
2002 – 2003	1.4%	47.4%	2.6%	17.1%
2003 – 2004	27.2%	59.4%	13.7%	33.4%

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Based on the above statistics, we noted that during the years from 2002 to 2004, the average increases in the usage of Meilan Airport by China Southern Airlines and Xiamen Airlines in terms of aircraft movements, passenger throughput and cargo throughput were approximately 17.1% and 33.4%, respectively. The relatively mild average increase during year 2002 to 2003 was mainly due to the outbreak of SARS in the PRC in 2003 which severely affected the tourism industry. After then, the average increase bounced back to 33.4% from 2003 to 2004. The Directors consider that the use of 30% as an annual rate of increase is fair and reasonable.

We noted that the proposed annual caps for both of the Airport Ground Services I and II are set to an amount substantially higher than the historical values, as the Directors believe that the PRC airline industry and hence the airport ground services will have significant growth opportunities and expansion. Also, the Directors believe that the use of 30% as the basis for the annual increase will serve as a buffer in case of any substantial growth in the tourism industry in Hainan, which may thereby generate a boost in the usage of Airport Ground Services I and II. We understand that (1) the continued improvement of the PRC economy will possibly generate a boost to the airline industry and (2) an improvement in the tourism industry and the local economy in Hainan will also possibly stimulate the use of Meilan Airport and hence a boost in the aggregate value of customary airport ground services to be provided by the Company to Hainan Airlines and its subsidiaries, China Southern Airlines and Xiamen Airlines. Based on the above facts and representations of Airport Ground Services I & II, we concur with the Directors' view that the proposed annual caps for the Airport Ground Services I & II for each of the three financial years ending 31 December 2007 are fair and reasonable.

C. Airport Composite Services by Parent Company

As stated in the Letter from the Board, the proposed annual caps for the Airport Composite Services being and to be provided by the Parent Company are as follows:

Financial year ending	RMB
31 December 2005	15,000,000
31 December 2006	16,000,000
31 December 2007	16,500,000

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As also stated in the Letter from the Board, the above caps are determined with reference to the historical figures and based on the estimation that there will be an increase in the transaction volume of the Airport Composite Services by 27% in 2005 over that in 2004 due to the expected substantially enlarged demand for the relevant services after the completion and commencement of commercial operation of the Phase II expansion project of Meilan Airport, and thereafter by 5% each year over the preceding year in 2006 and 2007.

We have reviewed the details of the Phase II expansion project of Meilan Airport plan prepared by the Company and discussed with the Directors the bases and assumptions used in setting the above annual caps. We noted from the Directors that the commercial operation of the Phase II expansion plan of Meilan Airport is expected to be completed in the first quarter of 2005 (after completion, it will commence operation on a trial basis) and the official operation will be commenced in mid-2005. By the time of completion, the Directors expect that the gross floor area of Meilan Airport will be increased substantially by approximately 63% and hence the demand for the Airport Composite Services will be increased accordingly. Moreover, the demand for cleaning and environment maintenance services, and sewage and refuse processing services will be increased after the completion of the Phase II expansion project. After then, the volume of services demanded will increase by approximately 5% each year over the preceding year since such services are considered as indirect costs of the Group which will not be increased significantly overtime. Based on the above facts and representations, we concur with the Directors' view and consider that the 27% increase of the relevant services in 2005 over that in 2004 and thereafter by 5% each year over the preceding year in 2006 and 2007 are fair and reasonable.

Based on the above facts and representation, we understand that the increase in service charges are directly related to the expansion of the Meilan Airport, and after then such services demand will not be increased significantly overtime, we therefore concur with the Directors' view and consider that the proposed caps for the Airport Composite Services are fair and reasonable.

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D. Logistic Composite Services by HNA Group

As stated in the Letter from the Board, the proposed annual caps of the airport composite services being and to be provided by the Parent Company are as follows:-

Financial year ending	RMB
31 December 2005	12,200,000
31 December 2006	13,000,000
31 December 2007	13,500,000

The above caps are determined with reference to the historical figures (in particular, the proposed Revised 2004 Transaction of RMB80,000,000, was taken for reference when considering the caps for 2005 and 2006 respectively) and based on the assumption that there will be an increase in the headcounts and volumes of the procurement of materials by 30% and 40% in 2005 over that in 2004, respectively, due to the completion in the first quarter of 2005 (after completion, it will commence operation on a trial basis) and the official commencement of commercial operation of the Phase II expansion project of Meilan Airport in mid-2005, and thereafter by 5% each year over the preceding year in terms of the aggregate amount under the Logistic Composite Services Agreement in 2006 and 2007.

We have noted from the Directors that the entire Phase II expansion plan is expected to be completed in the first quarter of 2005 (with the operation on a trial basis immediately following the completion) and the commercial operation will officially commence in mid-2005. In the expectation that the passenger throughput will be increased rapidly in the future, the Directors believe that the annual transaction volume will be higher than the existing cap (i.e. RMB6.5 million) ranging from RMB9 million to RMB9.9 million.

We have reviewed the internal headcount projection for the future three years ending 31 December 2007 and noted that the average staff headcount increased by approximately 38% from 2004 to 2005 following the completion and commencement of the commercial operation of the Phase II expansion plan of Meilan Airport. From 2006 onwards, the average staff number will increase by approximately 5% per year. In addition, we noted that the charges per headcount in respect of the staff cafeteria and shuttle bus services were RMB2 and RMB10 respectively during the three years ended 31 December 2004. As confirmed by the Directors, the charges per headcount will remain the same for the three years ending 31 December 2007. As such, the expected aggregate value of staff cafeteria and shuttle bus services will increase with

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the expected increase in number of headcounts. Therefore, we concur with the Directors' view that the expansion of Meilan Airport will bring about an increase in the number of staff headcounts by 30% in 2005 and thereafter by 5% in 2006 and 2007 of the aggregate amount of the transactions in respect of logistic composite services and consider that such increases are fair and reasonable.

With regard to the commodities and appliance procurement services, we have reviewed the budgeted purchase costs and noted that such costs will be increased by approximately RMB180,000 (approximately 43%), due to the growth in the airport ground services. We have also discussed with the Directors and noted that the demand for the commodities and appliances procurement services will correspond with the expected increase in the number of staff headcounts, and also more equipment and appliances will be purchased during the final completion stage of the Phase II expansion project of Meilan Airport. Therefore, we concur with the Directors' view that the expansion of Meilan Airport will bring about an increase in the volume of materials procurement by 40% in 2005 and thereafter by 5% in 2006 and 2007 of the aggregate amount of the logistic composite services and consider that such increases are fair and reasonable.

The above proposed annual caps are set at an amount substantially higher than the historical value, as the Directors believe that the Group will have significant business opportunities for further expansion and development of the business and operations. We understand that (1) the increase in staff headcounts will generally lead to an increase in staff training, use of the staff shuttle bus services and staff cafeteria services and also an increase in the vehicle maintenance services; and (2) the procurement fees will increase as more commodities and appliances will be purchased following the expected increase on staff headcounts and also during the final completion stage of the Phase II expansion project of Meilan Airport. On this basis, we concur with the Directors' view and consider that the proposed annual caps for the Logistic Composite Services are fair and reasonable.

VI. Conditions for the approval

As stated in the Letter from the Board, the Non-exempt Continuing Connected Transactions together with the Revised 2004 Transaction and the New Annual Caps are subject to the approval of the Independent Shareholders. Considering the conditions set out in the Letter from the Board, we are of the view that the interest of the Independent Shareholders would be properly safeguarded.

LETTER FROM GDS

RECOMMENDATIONS

Based on the information and representations provided, opinions given by the Directors, and having taking into consideration the above principal factors and reasons, we are of the view that the terms of the New Agreements, the Non-exempt Continuing Connected Transactions, the Revised 2004 Transaction and the New Annual Caps are fair and reasonable, and the terms of the New Agreements, the New Annual Caps and the Revised 2004 Transaction together with the conditions of the waiver are in the interests of the Shareholders (including the Independent Shareholders) and the Company as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions in relation to the New Agreements, the New Annual Caps and the Revised 2004 Transaction at the EGM.

Yours faithfully,

For and on behalf of

GUANGDONG SECURITIES LIMITED

C. K. Poon

Managing Director and

Head of Corporate Finance Department

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTEREST AND SHORT POSITION

As at the Latest Practicable Date, none of the Directors, chief executive or supervisors of the Company held any interest or short position in the shares, underlying shares and debentures (including options) of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, the following are details of the persons (other than a director, supervisors or chief executive of the Company) who has an interest or short position in the shares (including options) or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly,

interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Long Position in Shares

Name of Shareholders	Capacity	Nature of interest	Number of shares	Percentage of class share/ issued share capital
Haikou Meilan International Airport Company Limited <i>(Note 1)</i>	Beneficial owner	Corporate	237,500,000 domestic shares	96.43/50.20
Copenhagen Airport A/S <i>(Note 2)</i>	Beneficial owner	Corporate	94,643,000 H shares	41.71/20.00
Morgan Stanley	Beneficial owner	Corporate	19,362,000 H Shares	8.53/4.09
J.P. Morgan Chas & Co.	Beneficial owner	Corporate	27,531,000 H Shares	12.13/5.82
Allianz Aktiengesellschaft	Beneficial owner	Corporate	20,212,000 H Shares	8.91/4.27
Commonwealth Bank of Australia	Beneficial owner	Corporate	14,372,000 H Shares	6.33/3.04

Notes:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and the controlling shareholder of the Company. The Shares held by it in the Company are domestic shares.
2. Copenhagen Airport A/S is a public company owned by Danish government and other private and institutional investors in and outside Denmark, and the shares of which are listed on the Copenhagen Stock Exchange.

Short Position in Shares

Name of Shareholders	Capacity	Nature of interest	Number of shares	Percentage of class share/ issued share capital
Morgan Stanley	Beneficial owner	Corporate	1,675,000 H shares	0.74/0.35

Save as disclosed above, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, there was no other person who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company or in any options in respect of such capital.

4. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) None of the Directors is interested, directly, in any assets which have, since the date to which the latest published audited accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to the acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date as entered into by any member of the Group and which is significant in relation to the business of the Group.
- (c) None of the Directors had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules if he was a controlling shareholder.
- (d) As at the Latest Practicable Date, each of Directors including the independent non-executive directors and supervisors has entered into a service contract with the Company for a term of three years, renewable upon re-election. Each of the independent non-executive Directors receives a basic remuneration of RMB80,000 per year, each of the non-executive Directors (other the independent Directors) receives a basic remuneration of RMB50,000 per year, and each of the executive Directors receives a basic remuneration of RMB70,000 per year.

Save for the above, no service contract (excluding contract expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)) is entered into between the Directors, the supervisors, and the Company or any of its subsidiaries.

5. EXPERT

The following is the qualification of the expert who has given its opinion or advice which is contained in this Circular:

Name	Qualification
GDS	a licensed corporation under the SFO and engaged in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
(a)	GDS is not beneficially interested in the share capital of any member of the Group and has no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
(b)	GDS has given and has not withdrawn its written consent to the issue of this Circular with inclusion of its opinion and the reference to its name included herein in the form and context in which it appears.

6. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the Group's financial and trading position of the Company since 31 December 2004, the date to which the latest published audited consolidated accounts of the Group were made up.

7. GENERAL

- (a) The company secretary of the Company is Bai Yan. The chief financial controller of the Company is Huang Qiu, who is a PRC qualified accountant.
- (b) The registered address of the Company is at Meilan International Airport, Haikou, Hainan Province, PRC.
- (c) The H Share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Service Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (except public holidays) at the offices of Deacons at 5th Floor, Alexandra House, Central, Hong Kong up to and including 20 April 2005:

- (a) the articles of association of the Company;
- (b) the agreements of the Non-exempt Continuing Connected Transaction;
- (c) the letter from GDS to the Independent Board Committee, the text of which is set out on pages 18 to 38 of this Circular;
- (d) the written consent of GDS as referred to in the section headed “Expert” in this appendix;
- (e) the annual report of the Company for the three years ended 31 December 2004; and
- (f) the letter from the Independent Board Committee, the text of which is set out on page 17 of this Circular.



海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock code: 357)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Extraordinary General Meeting**”) of Hainan Meilan International Airport Company Limited (the “**Company**”) will be held on at 9 a.m. on 17 May 2005 (Tuesday) in the meeting room of the Company on 3rd Floor, Meilan Airport Complex at No. 6 Haikou City, Hainan Province, the People’s Republic of China (the “**PRC**”) for the following purpose:

By way of ordinary resolution:

1. To consider and approve the resolution regarding the non-exempt continuing connected transaction with Hainan Airlines in respect of premises lease and the applicable New Annual Caps.
2. To consider and approve the resolution regarding the non-exempt continuing connected transaction with Hainan Airlines in respect of airport ground service and the applicable New Annual Caps.
3. To consider and approve the resolution regarding the non-exempt continuing connected transactions with China Southern Airlines and Xiamen Airlines Company in respect of airport ground service and the applicable New Annual Caps.
4. To consider and approve the resolution regarding the non-exempt continuing connected transaction with Parent Company in respect of airport composite service and the applicable New Annual Caps.
5. To consider and approve the resolution regarding the non-exempt continuing connected transaction with HNA Group in respect of logistic composite service and the applicable New Annual Caps.

* *For identification purpose only*

6. To consider and approve the resolution regarding the Revised 2004 Transaction.

By order of the Board
Hainan Meilan International Airport Company Limited
Baiyan
Company Secretary

Hainan PRC, 31 March 2005

Notes:

- (A) Holders of the Company's International listed foreign invested shares (in the form of H Shares) whose names appear on the Company's Register of Members which is maintained by Computershare Hong Kong Investor Services Limited at the close of business on 8 April 2005 (Friday) are entitled to attend and vote at the Extraordinary General Meeting.
- (B) Holders of H Shares, who intend to attend the Extraordinary General Meeting, must complete and return the written replies for attending the Extraordinary General Meeting to the Office of the Secretary of the Board of Directors of the Company no later than 26 April 2005 (Tuesday).

Shareholders can deliver the written replies by hand, by post or by facsimile.

Details of the office of the secretary to the board of directors of the Company are as follows:

Meilan Airport Complex
Haikou City
Hainan Province
PRC
Tel: (86-898) 6575 1159
Fax: (86-898) 6575 1882

- (C) Each holder of H Shares who has the right to attend and vote at the Extraordinary General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the Extraordinary General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. Instrument appointing a proxy of any holder of H Shares (being a body corporate) must be affixed with the corporate seal of such holder of H Shares or duly signed by the chairman of its board of directors or by its authorised attorney. For holders of H Shares, the power of attorney or other documents of authorisation and proxy forms must be delivered to Computershare Hong Kong Investor Services Limited no less than 24 hours before the time appointed for the holding of the Extraordinary General Meeting in order for such documents to be valid.

APPENDIX B**NOTICE OF EXTRAORDINARY GENERAL MEETING**

- (D) The Company's Register of Members will be closed from 9 April 2005 (Saturday) to 17 May 2005 (Tuesday) (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the Extraordinary General Meeting referred to above must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited by no later than 4 p.m. on 8 April 2005 (Friday) for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company.

Computershare Hong Kong Investor Services Limited's address is as follows:

Shop 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

- (E) The Extraordinary General Meeting is expected to last not more than one day. Shareholders or proxies attending the Extraordinary General Meeting are responsible for their own transportation and accommodation expenses.