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 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.

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 TRANSACTIONS

INDEPENDENT FINANCIAL ADVISER

Guangdong Securities Limited

A letter from the Independent Board Committee is set out on page 25-26 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 page 27-43 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 4 November, 2005 in the conference room of the Company on 3rd Floor, Meilan Airport Complex at Haikou City, Hainan Province, the People's Republic of China (the "PRC") is set out on page 49-51 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, as soon as possible 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 wish.

16 September, 2005

* *for identification purposes only*

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DEFINITIONS

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

"Agreements"	the various agreements described in Paragraph 3 and of the letter from the Board in this Circular
"Asset Transfer Agreement"	the agreement entered into between the Company and the Hainan Airlines under which the Hainan Airlines shall transfer the assets and facilities in relation to the operation of the cargo handling services at Meilan Airport to the Company at the Asset Transfer Closing Date
"Asset Transfer Closing Date"	The 10th day after the Asset Transfer Agreement becomes effective
"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of directors of the Company
"Business Handover Agreement"	the agreement entered into between the Company and the Hainan Airlines which is set out in paragraph 3(a)(ii) of the letter from the Board in this Circular
"CAAC"	中國民用航空總局(General Administration of Civil Aviation of China), also known as Civil Aviation Administration of China
"Cargo Center"	the cargo center at the Meilan Airport
"Cargo Services Agreement"	the agreement entered into between the Company and the Hainan Airlines which is set out in Paragraph 3(a) (iii) of the letter from the Board in this Circular
"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
"Expired Terminal Lease"	has the meaning ascribed to it in Paragraph 2(c) of the letter from the Board in this Circular

"Expired Outsourcing Agreement"	has the meaning ascribed to it in Paragraph 2(c) of the letter from the Board in this Circular
"Expired Logistic Composite Services Agreement"	has the meaning ascribed to it in Paragraph 2(c) of the letter from the Board in this Circular
"Group"	the Company and its subsidiaries as of the date of this Circular
"GDS"	Guangdong Securities Limited, the independent financial adviser retained by the Company in respect of the Non-exempt Continuing Connected Transactions 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
"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
"Initial Waivers"	the waivers 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 waivers.

"IPO"	the initial public offering of the Company's Shares that was completed in 2002
"Latest Practicable Date"	15 September, 2005, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Logistic Composite Services Agreement"	the agreement entered into between the Company and the HNA group which is set out in Paragraph 3(b) of the letter from the Board in this Circular
"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 5 of the letter from the Board in this Circular
"Non-exempt Connected Transactions"	the non-exempt connected transactions which was entered into between the Company and the Hainan Airlines pursuant to the Asset Transfer Agreement
"Non-exempt Continuing Connected Transactions"	the non-exempt continuing connected transactions which are and will continually to be entered into between the Group and the relevant connected parties that set out in the Paragraph 3 of the letter from the Board in this Circular
"Outstanding Resolutions"	has the meaning ascribed to it in the Paragraph 2(c) of the letter from the Board in this Circular
"Parent Company"	海口美蘭機場有限責任公司(Haikou Meilan Airport Co. Ltd.), a limited liability company established in the PRC and is the controlling shareholder of the Company
"PRC"	the People's Republic of China. Except where the context requires, references in this Circular to the PRC or China do not apply to Hong Kong, Macau or Taiwan

"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, the Hainan Airlines, China Southern Airlines and HNA Group
"Proposed Cargo Centre Lease"	has the meaning ascribed to it in Paragraph 2(c) of the letter from the Board in this Circular
"Proposed Logistic Services Agreement"	has the meaning ascribed to it in Paragraph 2(c) of the letter from the Board in this Circular
"Proposed Terminal Lease"	has the meaning ascribed to it in Paragraph 2(c) of the letter from the Board in this Circular
"Renegotiated Outsourcing Agreement"	has the meaning ascribed to it in Paragraph 2(c)
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Cap. 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
"Terminal Lease"	the terminal lease entered into between the Company and the Hainan Airlines which is set out in Paragraph 3(a)(i) of the letter from the board in this Circular
"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

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 Bjorneboe

Non-executive Directors:
Chen Wenli
Kjeld Binger
Zhang Han'an

Independent Non-executive Directors:
Xu Boling
Fung Ching Simon
Xie Zhuang

Registered office:
Meilan airport complex
Haikou city
Hainan province, PRC

Principal place of business in Hong Kong:
Unit 3205A, Shun Tak Centre
200 Connaught Road Central
Sheung Wan, Hong Kong

16 September, 2005

To the Shareholders

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

1. INTRODUCTION

On 26 August, 2005, the Board announced that the Company has entered into the Agreements with the Hainan Airlines and the HNA Group, respectively, in respect of certain Non-exempt Connected Transaction and certain Non-exempt Continuing Connected Transactions for the period from 1 January, 2005 to 31 December, 2007. The Non-exempt Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

* *for identification purposes only*

The primary purposes of this Circular are (i) to provide you with information on the Non-exempt Continuing Connected Transactions and the New Annual Caps; (ii) to set out the letter of advice from GDS to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Non-exempt Continuing Connected Transactions and the New Annual Caps; (iii) to set out the recommendation and opinion of the Independent Board Committee after taking into consideration of the letter from GDS; and (iv) to give you notice of the extraordinary general meeting to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions and the New Annual Caps.

2. GENERAL BACKGROUND INFORMATION

(a) Connected Persons and Connected Transactions

The HNA Group is a promoter and substantial shareholder of the Company, beneficially holding 20.62% interest in the total issued share capital of the Company. The Hainan Airlines is a promoter of the Company. Pursuant to Chapter 14A of the Listing Rules, each of the HNA Group and the Hainan Airlines is a connected person of the Company, and transactions between the Group and these connected persons and their respective associates constitute connected transactions for the Company and are subject to reporting, announcement and independent shareholders' approval requirements.

The Company was engaged, and will continue to be engaged, in certain transactions with the connected persons and their respective associates in the Company's ordinary course of business, which constitute connected transactions for the Company under the Listing Rules. Immediately prior to the IPO, the Company was granted the Initial Waivers by the Stock Exchange exempting the Group from strict compliance with the relevant provisions governing connected transactions under the Listing Rules. The Initial Waivers expired on the 31 December, 2004.

(b) Extraordinary General Meeting on 17-18 May, 2005

In order for the Company to continue with some of the prior non-exempt continuing connected transactions beyond 31 December, 2004, the Company sought to obtain the approval of the Independent Shareholders earlier this year. To that end, a shareholders circular dated 31 March, 2005 was distributed to the Shareholders of the Company to give details of the transactions and the resolutions that the Board had sought approval of the Independent Shareholders to pass. In the circular, the Company asked the Independent Shareholders to consider, and if appropriate, to pass a total of five resolutions relating to certain non-exempt continuing connected transactions. The recommendations from the Independent Board

Committee and GDS relating to the non-exempt continuing connected transactions were also provided to the Independent Shareholders. At the extraordinary general meeting of the Company held on 17-18 May, 2005 to consider those non-exempt continuing connected transactions, the Independent Shareholders approved three resolutions.

(c) Outstanding Resolutions Regarding Proposed Connected Transactions

The two resolutions that were not approved by the Independent Shareholders at the above-mentioned extraordinary general meeting (the "Outstanding Resolutions") relate to the following:

- a lease under which the Hainan Airlines was to lease from the Company certain office and commercial areas and premises at the terminal of the Meilan Airport (the "Proposed Terminal Lease"), together with a lease from the Company to the Hainan Airlines of certain facilities and assets of the Cargo Centre (the "Proposed Cargo Centre Lease"), in each case for a period of three years ending on 31 December, 2007; and

- the Logistic Composite Services Agreement under which the Group was to receive training support, staff shuttle bus services and other support from the HNA Group for a period of three years ending 31 December, 2007 (the "Proposed Logistic Services Agreement").

The Initial Waivers were in place in respect of a predecessor terminal lease (the "Expired Terminal Lease") and a predecessor outsourcing agreement relating to the Cargo Center operations (the "Expired Outsourcing Agreement") for a period from the IPO to 31 December, 2004.

Under the Expired Terminal Lease, the Company made available to the Hainan Airlines office and commercial areas and premises of approximately 925 square meters, 12 airport counters and an aircraft storage warehouse of approximately 200 square meters to the Hainan Airlines for an aggregate rental of approximately RMB 5,839,200 per year. The parties to the Expired Terminal Lease attempted to renew the leasing arrangement by entering into the Proposed Terminal Lease, which was the subject matter underlying one of the Outstanding Resolutions.

Under the Expired Outsourcing Agreement, the Company outsourced the operation and management of the Cargo Center to Yangzi Express, a connected person of the Company, for a fixed annual management fee of RMB 18,000,000 payable by Yangzi Express to the Company for a term from 1 June, 2002 to 31 December, 2003. The Initial Waivers in respect of this outsourcing arrangement lapsed upon the expiration of the Expired Outsourcing Agreement on 31 December, 2003. Thereafter the Company continued to outsource the Cargo Center operation and management to Yangzi Express as the parties continued to negotiate the annual management fee. The parties finally reached agreement on the annual management fee of RMB9,900,000 on 17 December, 2004 (the "Renegotiated Outsourcing Agreement"). Since the relevant percentage ratio was between 2.5% and 25% and the annual consideration was less than HK$10,000,000, no independent shareholder approval was required. On 24 March, 2005, the Company made an announcement on this continuing connected transaction that occurred during 2004.

From 1 January, 2005 onward, the Company proposed to resume the operations and management of the Cargo Center and to provide cargo services directly to its airline customers except the Hainan Airlines, who had chosen to conduct its own cargo handling and storage operations at the Cargo Center using certain premises, facilities and assets at the Cargo Center for a fee payable to the Company. The airline customers of the Company have the option of operating their own cargo services or engaging the Company to provide such services. This proposed transaction with the Hainan Airlines was documented by the Proposed Cargo Centre Lease, which was the subject matter of the same Outstanding Resolutions. The Outstanding Resolutions were not adopted at the previous Extraordinary General Meeting.

The Initial Waivers were also in place in respect of a predecessor logistic services agreement (the "Expired Logistic Composite Services Agreement") for a period from the IPO to 31 December, 2004. The transactions thereunder enabled the Company to receive services on an ongoing basis from the HNA Group and its associates with respect to staff training, staff shuttle bus services, staff cafeteria services, vehicle maintenance, and appliance procurement. In return, the Company was to remunerate the HNA Group for the services rendered according to certain pre-agreed formulae. The Proposed Logistic Composite Services Agreement was to replace the Expired Logistic Composite Services Agreement and was the subject matter underlying the other Outstanding Resolutions.

(d) Interim Operations

The Company believes that arrangements underlying the Outstanding Resolutions were, and remain, critical to the normal operations of the Group as well as its key business partners.

Without the right to use the terminal and cargo premises at the Meilan Airport, the Hainan Airlines would have been unable to conduct the business on its home ground base. The Hainan Airlines is the largest airline customer of the Company operating at the Meilan Airport. For the year ended 31 December, 2004, approximately 28.9% of the Company's total aeronautical revenues derived from the ground handling services provided by the Company to the Hainan Airlines and approximately 22.5% of the Company's total (aeronautical and non-aeronautical) revenues derived from the Hainan Airlines. Any interruption to its terminal and cargo arrangements will impact the normal passenger and cargo transportation operations at the Meilan Airport, which will in turn impact the aeronautical operations and revenues of the Company.

Without the composite services provided by the HNA Group, the Company would have to find a substitute service provider to provide such services in place of the HNA Group. Such service provider would not necessarily have the economies of scale or local and industry experience to maintain the same standard of services and pricing as offered by the HNA Group. There was also no assurance that the Company would be able to find such a service provider in time to continue with the services at a normal market commercial rate.

Given the circumstances, the Company had no practical alternative but to continue some of the arrangements underlying the Initial Waivers in breach of Rule 14A.35(4) of the Listing Rules pending further consideration and ratification by the Independent Shareholders at a further extraordinary general meeting of the Company to be convened. One of the purposes of this circular is to outline these arrangements carried out since 1 January, 2005 for the Independent Shareholders' further consideration in advance of the extraordinary general meeting of the Company to be convened.

(e) Further Board Actions

To resolve the issues relating to the Outstanding Resolutions, the Board considered various options available and reconvened a meeting to review the Non-exempt Continuing Connected Transactions which had taken place since 1 January, 2005 (Paragraph 3 below). The Board has adopted a revised business model for the Cargo Center operations. The revised business model will take effect upon the approval by the Independent Shareholders of the agreements set out in Paragraph 8 below.

3. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(a) Transactions with the Hainan Airlines

(i) Terminal Lease

Date of Agreement:	26 August, 2005
Parties:	The Company, as lessor The Hainan Airlines, as lessee
Subject:	The Hainan Airlines is a company engaged principally in airline operation business. The Company has been leasing office and commercial areas and premises to the Hainan Airlines for the operations by the latter at the Meilan Airport. The areas and premises comprise office spaces and other premises at the terminal and apron at the Meilan Airport measuring a total floor area of approximately 2,161 square meters as well as 10 counters.
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 with 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. Such rental is payable by the Hainan Airlines in arrears before the tenth day of each calendar month.
Term:	The Terminal Lease is for a term of three years commencing from 1 January, 2005 and ending on 31 December, 2007.

The consideration payable under the Terminal Lease falls below each of the relevant percentage ratios prescribed in the Listing Rules. Pursuant to Rule 14A.34, the Terminal Lease would be only subject to the reporting and announcement requirements and no Independent Shareholders approval of the Terminal Lease itself would be required. However, should the consideration of the Terminal Lease be aggregated with that under the Business Handover Agreement, the aggregated amount will exceed the exemption threshold under Chapter 14A of the Listing Rules and will thus render the Terminal Lease subject to the reporting and announcement requirements and the approval of the Independent Shareholders pursuant to Rule 14A.35.

The underlying non-exempt continuing connected transaction, the subject of the Terminal Lease, is critical to the Hainan Airlines in operating its passenger transportation business at the Meilan Airport, which is Hainan Airlines home base airport. The Hainan Airlines is the largest airline customer of the Meilan Airport. Any interruption to the Hainan Airlines' terminal arrangements will have a consequential adverse impact on aeronautical operations and revenues of the Company as the operator of the Meilan Airport.

Given the circumstances, the Company had no practical alternatives but continued the terminal lease with the Hainan Airlines on the same terms and conditions as those contained in the Proposed Terminal Lease pending further consideration and (if thought fit) ratification by the Independent Shareholders at the extraordinary general meeting of the Company to be convened. The prior performance and actions taken by the Company pursuant to the Proposed Terminal Lease will be ratified following the approval of the Terminal Lease by the Independent Shareholders at the extraordinary general meeting of the Company.

The terms of the Terminal Lease are the same as those in the Proposed Terminal Lease.

(ii) Business Handover Agreement

Date of Agreement:	26 August, 2005
Parties:	The Company The Hainan Airlines
Subject:	The parties agree and acknowledge that the Company has outsourced the operation and management of the Cargo Center to the Hainan Airlines during the period from 1 January, 2005 to the date immediately before the Asset Transfer Closing Date. All the revenue, expenses, claims, debts incurred by the Hainan Airlines which have been incidental to its Cargo Center operations during the aforementioned period shall remain with the Hainan Airlines. Commencing from the Asset Transfer Closing Date, the cargo handling for the Hainan Airlines will be provided by the Company in accordance with the Cargo Services Agreement (See Paragraph 3(a)(iii) below).
Price:	RMB 3,500,000 will be payable by the Hainan Airlines to the Company for the period from 1 January, 2005 to 31 July, 2005. Pursuant to Business Handover Agreement, such amount shall be settled by way of set-off against the full consideration payable by the Company to the Hainan Airlines for the asset sale and purchase under the Asset Transfer Agreement. (The Asset Transfer Agreement was signed on 26 August 2005 to implement the revised business model at the Cargo Center. Under the Asset Transfer Agreement, the Hainan Airlines shall transfer the assets and facilities in relation to the operation of the cargo handling services at Meilan Airport to the Company at the Asset Transfer Closing Date.)

	A monthly rate of RMB 500,000 is due at the end of each month and payable by the Hainan Airlines to the Company for the period from 1 August, 2005 to the date immediately before the Asset Transfer Closing Date, with a downward adjustment of RMB 20,000 per day if the Asset Transfer Closing Date falls on a date before the 30th date of the month.
Term:	The Business Handover Agreement applies to the cargo operation by the Hainan Airlines at the Cargo Center for the period commencing from 1 January, 2005 and ending on the Asset Transfer Closing Date, which is 10 days after the effective date of the Asset Transfer Agreement. The effective date of the Asset Transfer Agreement shall be the day on which the Asset Transfer Agreement and the Business Handover Agreement are approved by the Independent Shareholders pursuant to the Listing Rules.

Despite its value, the Business Handover Agreement whose value when aggregated with the Terminal Lease is subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Outstanding Resolution regarding the Proposed Terminal Lease and the Proposed Cargo Centre Lease with the Hainan Airlines was not adopted at the extraordinary general meeting of the Company held on 17- 18 May, 2005. Without the right to use the cargo premises at the Meilan Airport, the Hainan Airlines would have been unable to conduct the cargo business on its home ground base. The Hainan Airlines is the largest airline customer of the Company operating at the Meilan Airport. Any interruption to its cargo business will impact the normal cargo transportation operations at the Meilan Airport and will have a consequential adverse impact on aeronautical operations and revenues of the Company as the operator of the Meilan Airport. Given the circumstances, the Company continued the outsourcing model underlying the Expired Outsourcing Agreement and outsourced the operation and management of the Cargo Center to the Hainan Airlines in place of Yangzi Express pending further consideration and ratification by the Independent Shareholders at the next extraordinary general meeting of the Company to be convened. The Proposed Terminal Lease and the Proposed Cargo Center Lease, which together are the subject matter of an Outstanding Resolution, have not come into effect. After further review and consideration of various options, the Board decided to adopt a revised business model for the Cargo Center operation whereby the Company will operate the Cargo Center by itself.

The Business Handover Agreement deals with interim cargo operations of the Hainan Airlines at the Cargo Center pending the Cargo Services Agreement (Paragraph 3(a)(iii) below) and the Asset Transfer Agreement to take effect to implement the revised business model for the Cargo Center.

The terms of the Business Handover Agreement including the price payable from the Hainan Airlines to the Company for the period from 1 January, 2005 to 31 July, 2005 were negotiated by the Company and the Hainan Airlines on an arm's length basis taking into account (1) the CAAC guidelines on cargo charge rates, (2) the actual cargo operation results of the Hainan Airlines during the first seven months of 2005 and (3) the Company's projected earnings from the cargo operation under the revised business model for the Cargo Center going forward.

The assets and facilities for the outsourcing arrangement underlying the Business Handover Agreement are the entire assets and facilities of the Cargo Center and thus not the same as those under the Proposed Cargo Center Lease which were "part of the premises, facilities and assets at the cargo centre" in the Company's announcement dated 24 March, 2005 (Paragraph V(a)(i) thereof).

(iii) Cargo Services Agreement

Date of Agreement:	26 August, 2005
Parties:	The Company The Hainan Airlines
Subject:	the Company agrees to provide customary airport cargo services including storage facilities, baggage service, goods and mail services, basic cargo handling service, and other related services to the Hainan Airlines and its subsidiaries.
Price:	various charge rates that are primarily fixed by the CAAC and applicable to all the customers of the Company including independent third parties. The Company shall issue an invoice for such charges before the fifteenth day of each calendar month and the Hainan Airlines shall settle such invoice within 45 days of receipt.

Term:	the Cargo Service Agreement is for a term of three years commencing from the Asset Transfer Closing Date and ending on 31 December, 2007.

The Cargo Services Agreement is subject to announcement, reporting and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Company's relationship with Yangzi Express with respect to the outsourcing of the Cargo Center operation and management concluded on 17 December, 2004. Thereafter the Proposed Cargo Center Lease was to be entered into with the Hainan Airlines under which the Hainan Airlines was to rent certain premises, facilities and assets at the Cargo Center from the Company for the Hainan Airlines' cargo handling and storage operations. In relation to all airline customers other than Hainan Airlines, the Company was to operate the cargo facilities on its own and provides cargo services to such airline customers.

As stated earlier, the Outstanding Resolution regarding the Proposed Cargo Center Lease was not adopted at the extraordinary general meeting of the Company held on 17-18 May, 2005. The actual Cargo Center operations carried out by the Hainan Airlines that occurred or are about to occur between 1 January and the Asset Transfer Closing Date have now been documented in the Business Handover Agreement (see Paragraph 3(a)(ii) above).

The Board has decided to modify its business model for the Cargo Center operation. Under the revised model, the Company is to provide cargo services to all of its airline customers including the Hainan Airlines. The Cargo Services Agreement is entered into by the parties as part of the implementation of the revised business model. The agreement follows the Company's standard arrangement with all of its Cargo Center customers.

For clarity, it is noted that the Company also entered into a separate Airport Ground Services Agreement with Hainan Airlines on 5 January, 2005. This agreement constitutes a continuing connected transaction and was approved by the Independent Shareholder at the extraordinary general meeting on 17-18 May, 2005.

The Cargo Services Agreement differs from the Airport Ground Services Agreement in that the former mainly covers the provision of cargo handling and storage facilities and the latter mainly covers the provision of landing facilities, basic ground handling services, passenger and baggage services and other related services. In the case of other airline customers of the Company, both passenger-related ground handling and cargo handling services may be covered in a single agreement. However, the respective fee schedules for passenger-related ground handling and cargo handling services are all set with reference to the CAAC guidelines, irrespective of the consolidation.

(b) Logistic Composite Services Agreement with the HNA Group

Date of Agreement: 26 August, 2005

Parties: The Company
The HNA Group

Subject: The HNA Group is a company engaged principally in aeronautical business. The HNA Group agrees 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 the 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. Such charges are prepaid on a quarterly basis and the invoices are issued on an annual basis, with such further terms to be determined in line with the usual business practice.
Term:	The Logistic Composite Services Agreement is for a term of three years commencing from 1 January, 2005 and ending on 31 December, 2007.

The Logistic Composite Services Agreement is subject to announcement, reporting and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Proposed Logistic Composite Services Agreement was entered into by the parties after the Initial Waivers expired on 31 December, 2004. As stated earlier, the Outstanding Resolution regarding the Proposed Logistic Composite Service Agreement was not adopted at the extraordinary general meeting of the Company held on 17-18 May, 2005. As a result, the Board subsequently decided to revise the annual cap on the value of the transaction.

Without the composite services provided by the HNA Group, the Company would have to find a substitute service provider to provide such services in place of the HNA Group. Such service provider would not necessarily have the economies of scale or local and industry experience to maintain the same standard of services and pricing as offered by the HNA Group. There was also no assurance that the Company would be able to find such a service provider in time to continue with the services at a normal market commercial rate. Given the circumstances, the HNA Group continued its services to the Company on the same terms and conditions as those contained in the Proposed Logistic Composite Services Agreement pending the Independent Shareholders' approval of the Logistic Composite Service Agreement.

The terms of the Logistic Composite Services Agreement are the same as those of the Proposed Logistic Composite Services Agreement except for the annual cap calculations. Upon the approval by the Independent Shareholders of the Logistic Composite Services Agreement, the terms of the services provided before the effective date of this agreement by HNA Company to the Group will be ratified.

4. HISTORICAL FIGURES

The following table shows the total sums paid in respect of the continuing connected transactions between the Company and the relevant contractual parties in the past three years ended 31 December, 2004 and for the period from 1 January, 2005 to 31 July, 2005. Please note that the historical figures for the Expired Outsourcing Agreement with Yangzi Express for 2002 and 2003 and for the Renegotiated Outsourcing Agreement with Yangzi Express for 2004 are set out below as references for the Business Handover Agreement. The terms of the Business Handover Agreement including the price payable from the Hainan Airlines to the Company for the period from 1 January to 31 July, 2005 were negotiated by the Company and the Hainan Airlines on an arm's length basis taking into account (1) the CAAC guidelines on cargo charge rates, (2) the actual cargo operation results of the Hainan Airlines during the first seven months of 2005 and (3) the Company's projected earnings from the cargo operation under the revised business model for the Cargo Center going forward.

	Year ended 31 December,			1 January to 31 July
	2002	**2003**	**2004**	**2005**
	(RMB)	*(RMB)*	*(RMB)*	*(RMB)*
(a) (i) Terminal Lease	5,863,000	5,831,000	5,839,000	3,908,100
(ii) Business Handover Agreement	10,500,000 (June – December) (Under the Expired Outsourcing Agreement)	18,000,000 (Under the Expired Outsourcing Agreement)	9,900,000 (Under the Renegotiated Outsourcing Agreement)	3,500,000
(iii) Cargo Services Agreement	n/a	n/a	n/a	n/a
(b) Logistic Composite Services Agreement	5,310,000	6,500,000	9,500,000	6,479,734

The above historical figures up to 31 December, 2004 have been audited and contained in the relevant annual and interim reports of the Company.

5. NEW ANNUAL CAPS

The Board has 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 *(RMB)*	2006 *(RMB)*	2007 *(RMB)*
(a) (i) Terminal Lease	6,699,600 or 11,199,600 (when aggregated with the Business Handover Agreement)	6,699,600	6,699,600
(ii) Cargo Services Agreement	2,000,000 (October to December)	10,000,000	13,000,000
(b) Logistic Composite Services Agreement	11,000,000	11,550,000	12,100,000

6. 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 based on the estimation that there will be an increase in the volume of the airport cargo services by approximately 25% for the fourth quarter of 2005 over that of 2004, by approximately 30% each year over the preceding year in the period from 2006 to 2007. Such increase is based in part on the statistics relating to Yangzi Express' use of the Company's Cargo Center from 2002 to 2004 and the Chinese Major Airport Traffic Statistics of 2004 prepared by the CAAC , having taken into account the socio-economic factors that will likely affect the level of the Company's Cargo Center Services. The Directors expect that with the launch of the additional routes provided by the 14 international airline companies to and from Haikou as at 30 June 2005, the further opening up of the third, fourth and fifth categories of aviation rights, and the Olympic Games in Beijing 2008, there will be an increase in the demand and ultimately, the transaction level of the Company's Cargo Center Services.

The cap proposed for item (b) is determined with reference to the historical figures and based on the assumption that there will be an increase in the headcounts and volumes of procurement of materials by approximately 10% and approximately 40% in 2005 over that in 2004, respectively, due to the completion and commencement of commercial operation of the Phase II expansion of the Meilan Airport, and thereafter by approximately 5% each year over the preceding year in term of the aggregate amount under the relevant agreement in 2006 and 2007. However, in light of the lower-than-projected operating results for the period from 1 January, 2005 and 30 June, 2005, the Board has decided to take a relatively conservative approach to managing the increase of the Company's headcount following the completion of the Phase II expansion project. That explains why the New Annual Caps for the Logistic Composite Services Agreement presented here are lower than the figures for the Proposed Logistic Composite Services Agreement as announced by the Company on 24 March, 2005.

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 have been of the view that the Group will have 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 Initial Waivers would unduly 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.

7. REASONS FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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 cargo services and office and commercial premises at the Meilan Airport to airline companies such as the Hainan Airlines. The Hainan Airlines is the largest airline customer of the Company operating at the Meilan Airport. Further, to streamline its business operation and to procure cost reduction by bulk purchase, the Company has been outsourcing the procurement of office appliance and construction materials to the HNA Group and its associates. There has been a long term relationship between the Company and these connected persons who are better positioned to meet the quality and cost-effectiveness requirements of the Company in respect of the relevant services.

The Non-exempt Continuing Connected Transactions have been and will be conducted in the ordinary and usual course of business of the Company. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Due to the long-term relationship between the Company and each of the Hainan Airlines and the HNA Group, the Board considers it beneficial to the Company 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 Company's business.

Since the last Extraordinary General Meeting, the Board has carefully considered all the views presented to it with respect to the Outstanding Resolutions (including those of the Independent Shareholders who had voted against matters underlying the Outstanding Resolutions) and is satisfied that the modifications to business model for the Cargo Center (as implemented by the Business Handover Agreement, the Cargo Services Agreement and the Asset Transfer Agreement) and the New Annual Caps of the Logistic Composite Services Agreement would be in the interest of the Company. The Directors has further communications with the Independent Shareholders in that regard. The Directors believe that the steps they have taken would increase the likelihood of the Independent shareholders voting in favour of the Agreements.

8. INDEPENDENT SHAREHOLDERS' APPROVAL AND COMPLIANCE WITH LISTING RULES

The Company will seek the approval of the Independent Shareholders at the next extraordinary general meeting of the Agreements and the New Annual Caps in relation to the Non-exempt Continuing Connected Transactions set out in Paragraphs 3(a)(i), 3(a)(ii), 3(a)(iii) and 3(b) above:

(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 favorable 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 applicable 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.35(3) and 14A.35(4) to Rule 14A.41 and Rule 14A.46 of the Listing Rules in respect of the Non-exempt Continuing Connected Transactions as contemplated in the Terminal Lease, the Business Handover Agreement, Cargo Services Agreement and the Logistic Composite Services Agreement.

9. EXTRAORDINARY GENERAL MEETING

Set out on page 49-51 of this Circular is a notice convening an extraordinary general meeting to be held at 9:00 a.m. on 4 November 2005 in the conference room of the Company on 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the PRC. At the extraordinary general meeting, ordinary resolutions will be proposed to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions, the New Annual Caps as set out in the paragraphs 3(a)(i), 3(a)(ii), 3(a)(iii) and 3(b).

Each of Hainan Airlines and HNA Group and their respective associates who holds, directly and indirectly, 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 extraordinary general meeting pursuant to the Listing Rules.

A form of proxy and a copy of reply slip for use at the extraordinary general meeting are enclosed with this Circular. Whether or not Shareholders are able to attend the meeting, they are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, as soon as possible and 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 wish.

All the proposed resolutions set out in the Notice of Extraordinary General Meeting attached hereto as Appendix B will be decided by poll.

The Company will publish an announcement of the results of the proposed resolutions on the next business day following the extraordinary general meeting.

10. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

GDS has been appointed as the independent financial adviser to advise the Company's Independent Board Committee in respect of the terms of the Non-exempt Continuing Connected Transactions and the New Annual Caps.

The Independent Board Committee having taken into account the advice of GDS, considers the terms of the Non-exempt Continuing Connected Transactions, the New Annual Caps, and the Non-exempt Connected Transaction be fair and reasonable, from a financial perspective, in so far as the Independent Shareholders are concerned and the Independent Board Committee considers that these transactions are in interests of the Group. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Non-exempt Continuing Connected Transactions and the New Caps at the extraordinary general meeting. The letter from GDS containing its advice and recommendations and the principal factors and reasons taken into account in arriving at its recommendation is set out on pages 27-43 of this Circular.

11. 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:

(i) by 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 extraordinary general meeting will demand a poll in relation to the proposed ordinary resolutions for approving the Non-exempt Continuing Connected Transactions, the New Annual Caps at the extraordinary general meeting.

13. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 25-26 of this Circular which contains its recommendation to the Independent Shareholders as to the voting at the extraordinary general meeting regarding the Non-exempt Continuing Connected Transactions, and the New Annual Caps.

Your attention is also drawn to the letter from GDS set out on pages 27-43 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 Non-exempt Connected Transaction as well as the principal factors and reasons considered by it in concluding its advice.

14. COMPOSITION OF THE BOARD

As at the date of this circular, there are nine (9) Directors on the Board, consisting of three (3) Executive Directors, three (3) Non-executive Directors and three (3) Independent Non-Executive Directors. They are: Wang Zhen, Huang Qiu and Kristian Bjorneboe 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 16 September, 2005

MEILAN AIRPORT 美兰机场

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)

16 September, 2005

To the Shareholders of the Company

Dear Sirs or Madams,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to the Circular dated 16 September, 2005 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context other wise requires.

On 26 August, 2005, the Board announced that the Company has entered into the Agreements with the Hainan Airlines, the HNA Group and their relevant associates, respectively, in respect of certain Non-exempt Connected Transaction and certain Non-exempt Continuing Connected Transactions for the period from 1 January, 2005 to 31 December, 2007.

These connected transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In particular, before the date of the announcement the Company has entered into transactions with the Hainan Airlines, the HNA Group and their associates that constitute connected transactions and some of them remain subject to the approval of the Independent Shareholders. The Circular dated 16 September, 2005 describes such prior transactions as well as certain future connected transactions that the Company is proposing to enter into, in each case subject to the approval or ratification, as the case may be, by the Independent Shareholders to be sought at the extraordinary general meeting.

* *for identification purposes only*

The terms and the reasons for the Non-exempt Continuing Connected Transactions and the New Annual Caps are summarised in the Letter from the Board set out on page 5 to 24 of the Circular.

The Independent Board Committee was formed on 21 July, 2005 to make a recommendation to the Independent Shareholders as to whether , in its view, the terms, of the Non-exempt Continuing Connected Transactions and the New Annual Caps, from a financial perspective, are fair and reasonable so far as the Independent Shareholders are concerned.

GDS has been appointed as independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness of the Non-exempt Continuing Connected Transactions and the New Annual Caps from a financial perspective.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the connected transactions, the term of the Non-exempt Continuing Connected Transactions, the New Annual Caps and the bases upon which their terms have been determined. We have also considered the key factors taken into account by GDS in arriving at its opinion regarding the Non-exempt Continuing Connected Transactions and the New Annual Caps as set out in the letter from GDS on pages 27 to 43 of the Circular, which we urge you to read carefully.

The Independent Board Committee concurs with the views of GDS and considers that the terms of the Non-exempt Continuing Connected Transactions and the New Annual Caps are fair and reasonable, from a financial perspective, so far as the Independent Shareholders are concerned. Our view related to fairness and reasonableness are necessarily based on information, facts and circumstances currently prevailing. The Independent Board Committee considers that the Non-exempt Continuing Connected Transactions and the New Annual Caps are in the interests of the Company as well as the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of ordinary resolutions number 1, 2, 3 and 4 set out in the notice of the extraordinary general meeting at the end of the Circular.

Yours faithfully,
Independent Board Committee

Xu Boling
Independent non-executive director

Xie Zhuang
Independent non-executive director

Fung Ching Simon
Independent non-executive director

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 terms of the Agreements, the Non-exempt Continuing Connected Transactions and the New Annual Caps:

Guangdong Securities Limited

Units 2505-06 25/F Low Block
Grand Millennium Plaza
181 Queen's Road
Central
Hong Kong

16 September 2005

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions in accordance with, Terminal Lease Agreement, Business Handover Agreement and Cargo Services Agreement entered into between the Company and Hainan Airline, and Logistic Composite Service Agreement entered into between the Company and the HNA Group (collectively as "Agreements"), as to whether the terms of the transactions contemplated therein and the New Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders so far as the Shareholders are concerned, details of which are contained in the Letter from the Board in the circular issued to the Shareholders dated 16 September 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.

Amongst the parties to the Agreements, the HNA Group is a promoter and substantial shareholder of the Company, beneficially holding 20.62% interests in the total issued share capital of the Company, and Hainan Airlines is a Promoter. Accordingly, each of the HNA Group and Hainan Airlines is a connected person of the Company under Chapter 14A of the Listing Rules.

The transactions underlying the Agreements constitute Non-exempt Continuing Connected Transactions and the New Annual Caps 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 and its respective associates will abstain from voting at the EGM on the relevant resolution(s) to approve the Non-exempt Continuing Connected Transactions and the New Annual Caps. Accordingly, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as independent financial adviser with respect to the terms of the Agreements and the contemplated New Annual Caps.

The Independent Board Committee, comprising Mr. Xu Bailing, Mr. Xie Zhuang, and Mr. Fung Ching Simon, all of whom are independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the New Annual Caps are in the interests of the Company and the Shareholders as a whole.

In formulating our opinions, we have relied on the information and representations contained in the Circular, which have been provided by the Directors and the management of the Company and we have assumed that all information and representations contained or referred to in the Circular are true and accurate in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company and the Directors and have been advised by the management of the Company and the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We believe that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted an independent investigation into the business and affairs or the future prospects of the Group.

II. BACKGROUND INFORMATION

(a) Introduction

The Company has engaged, and will continue, to be engaged, in certain transactions with the connected persons and their respective associates in the Company's ordinary course of business, which constitute connected transactions for the Company under the Listing Rules. Immediately prior to the IPO, the Company was granted the Initial Waivers by the Stock Exchange exempting the Group from strict compliance with the relevant provisions governing connected transactions under the Listing Rules. The Initial Waivers expired on the 31 December 2004.

(b) Extraordinary General Meeting on 17-18 May, 2005

In order for the Company to continue with some of the prior non-exempt continuing connected transactions beyond 31 December 2004, the Company sought to obtain the approval of the Independent Shareholders earlier this year. To that end, a circular dated 31 March 2005 was distributed to the Shareholders of the Company to give details of the transactions and the resolutions that the Board had sought the Independent Shareholders to pass. In the circular, the Company asked the Independent Shareholders to consider, and if appropriate, to pass a total of five resolutions relating to certain non-exempt continuing connected transactions. The recommendations from the Independent Board Committee and GDS relating to the non-exempt continuing connected transactions were also provided to the Shareholders. At the extraordinary general meeting of the Company held on 17-18 May 2005 to consider those non-exempt continuing connected transactions, the Shareholders approved three resolutions.

(c) Outstanding Resolutions Regarding Proposed Connected Transactions

The two resolutions that were not approved by the Shareholders at the above-mentioned extraordinary general meeting (the "Outstanding Resolutions") relate to the following:

- a lease under which the Hainan Airlines was to lease certain office and commercial areas and premises at the terminal of the Meilan Airport (the "Proposed Terminal Lease"), together with a lease from the Company to Hainan Airlines of certain facilities and assets of the Cargo Centre (the "Proposed Cargo Centre Lease"), in each case for a period of three years ending on 31 December 2007; and

- the Logistic Composite Services Agreement under which the Group was to receive training support, staff shuttle bus services and other support from the HNA Group for a period of three years ending 31 December 2007 (the "Proposed Logistic Services Agreement").

Since the last Extraordinary General Meeting, the Board has carefully considered all the views presented to it with respect to the Outstanding Resolutions (including those of the Independent Shareholders who had voted against matters underlying the Outstanding Resolutions) and is satisfied that the modifications to business model for the Cargo Centre (as implemented by the Business Handover Agreement, the Cargo Services Agreement and the Asset Transfer Agreement) and the New Annual Caps of the Logistic Composite Services Agreement would be interest of the Company. The Directors have further communicated with the Independent Shareholders in that regard. The Directors believe that the steps taken would increase the likelihood of the Independent Shareholders voting in favour of the Agreements.

(d) Interim Operations

The Company believes that arrangements underlying the Outstanding Resolutions were, and remain, critical to the normal operations of the Group as well as its key business partners.

The Directors consider that without the right to use the terminal and cargo premises at the Meilan Airport, Hainan Airlines would have been unable to conduct the business on its home ground base. Hainan Airlines is the largest airline customer of the Company operating at the Meilan Airport. For the year ended at 31 December 2004, approximately 28.9% of the Company's total aeronautical revenues came from the ground handling services provided by the Company to Hainan Airlines and approximately 22.5% of the Company's total (aeronautical and non-aeronautical) revenues came from Hainan Airlines. Any interruption to its terminal and cargo arrangements will impact the normal passenger and cargo transportation operations at the Meilan Airport, which will in turn impact the aeronautical operations and revenues of the Company.

The Directors consider that without the composite services provided by the HNA Group, the Company would have to find a substitute service provider to provide such services in place of the HNA Group. Such service provider would not necessarily have the economies of scale or local and industry experience to maintain the same standard of services and pricing as offered by the HNA Group. There was also no assurance that the Company would be able to find such a service provider in time to continue with the services at a normal market commercial rate.

Given the circumstances, the Group had no practical alternative but to continue some of the arrangements underlying the Outstanding Resolutions pending further consideration and ratification by the Independent Shareholders at a further extraordinary general meeting of the Company to be convened.

III. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS UNDER THE AGREEMENTS

A. The Terminal Lease Agreement

(i) Background

Under the predecessor terminal lease ("Expired Terminal Lease") from the IPO to 31 December 2004, the Company made available to Hainan Airlines office and commercial areas and premises of approximately 925 square meters, 12 airport counters and an aircraft storage warehouse of approximately 200 square meters to the Airlines for an aggregate rental of approximately RMB5,839,200 per year. The parties to the Expired Terminal Lease attempted to renew the leasing arrangement by entering into the Proposed Terminal Lease Agreements, entered into between the Company and Hainan Airlines which was the subject matter underlying one of the Outstanding Resolutions not adopted at the extraordinary general meeting of the Company held on 17-18 May 2005.

The underlying non-exempt continuing connected transaction being the subject of the Terminal Lease is critical to Hainan Airlines in operating its passenger transportation business at the Meilan Airport, which is Hainan Airlines home base airport. Hainan Airlines is the largest airline customer of the Meilan Airport. Any interruption to Hainan Airlines' terminal arrangements will have a consequential adverse impact on aeronautical operations and revenues of the Company as the operator of the Meilan Airport.

Given the circumstances, the Company had no practical alternative but continued the terminal lease with Hainan Airlines on the same terms and conditions as those contained in the Proposed Terminal Lease pending further consideration and (if thought fit) ratification by the Independent Shareholders at the extraordinary general meeting of the Company to be convened. The prior performance and actions taken by the Company pursuant to the Proposed Terminal Lease will be ratified following the approval of the Proposed Terminal Lease by the Independent Shareholders at the extraordinary general meeting of the Company to be convened.

(ii) Principal terms of the Terminal Lease Agreement

Pursuant to the Terminal Lease Agreement, the Company has been leasing the office and commercial areas and premises to Hainan Airlines, a company engaged principally in airline operation business, for the operations by the latter at the Meilan Airport. The areas and premises comprise office spaces and other premises at the terminal and apron at the Meilan Airport with an aggregated floor area of approximately 2,161 square meters as well as 10 counters. 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 with 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. The Terminal Lease Agreement is for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. Such rental is payable by the Hainan Airlines in arrears before the tenth day of each calendar month.

(iii) Amounts from 1 January 2005 to 31 July 2005

For the seven months ended 31 July 2005, the rental amounts paid by Hainan Airline to the Company was accumulated to RMB3,908,100 which is the total amount for the seven month rental in accordance with the terms of the Terminal Lease Agreement.

(iv) Our Opinions and Conclusion

We have reviewed the terminal leases between the Company and independent third parties, which we, together with the management of the Company, considered representative for the period from 2002 to July 2005 in respect of office and commercial premises and note that the major terms (e.g. rental, settlement terms, termination clause, etc.) in the leasing agreements are materially the same and note that Hainan Airlines received no more favourable terms under the Terminal Lease Agreement with the Company than what other independent third parties would receive under similar leasing arrangements with the Company. 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. We are of the opinion that those terms of the Terminal Lease Agreement with Hainan Airline are fair and reasonable and are in the interests of the Shareholders and the Company as a whole.

B. The Cargo Services Agreement and the Business Handover Agreement

(i) Background

The Company had previously delegated the management and operation of the Cargo Centre at Meilan Airport to Yangzijiang Air Express Company Limited (which is held as to 85% by HNA Group, 10% by Shanghai Airport Group Company Limited, and 5% by Hainan Airlines) ("Yangzi Express"). From 1 January 2005 onward, the Company proposed to resume the operations and management of the Cargo Center and started to provide cargo services directly to its airline customers except Hainan Airlines, who had chosen to conduct its own cargo handling and storage operations at the Cargo Center using certain premises, facilities and assets of the Company at the Cargo Center for a fixed monthly fee payable to the Company. The airline customers of the Company have the option of operating their own cargo services or engaging the Company to provide such services. This transaction with Hainan Airlines was documented in the Proposed Cargo Centre Lease, which was the subject matter of one of the Outstanding Resolutions.

The Outstanding Resolution regarding the Proposed Cargo Centre Lease with Hainan Airlines was not adopted at the extraordinary general meeting of the Company held on 17-18 May 2005. Without the right to use the cargo premises at the Meilan Airport, Hainan Airlines would have been unable to conduct the cargo business on its home ground base. Hainan Airlines is the largest airline customer of the Company operating at the Meilan Airport. Any interruption to its cargo business will impact the normal cargo transportation operations at the Meilan Airport and will have a consequential adverse impact on aeronautical operations and revenues of the Company as the operator of the Meilan Airport. Given the circumstances, the Company's Cargo Center lease arrangement with Hainan Airlines continued pending further consideration and ratification by the Independent Shareholders at the next extraordinary general meeting of the Company to be convened. As a result, the Board decided to adopt a revised business model for the Cargo Center operation whereby the Company will operate the Cargo Center by itself.

Given that the Proposed Cargo Center Lease did not receive the approval from the Independent Shareholders, the actual Cargo Center operations by Hainan Airlines that occurred or are about to occur between 1 January 2005 to the date immediately before Asset Transfer Closing Date have now been documented in the Business Handover Agreement (see Paragraph IIIB(ii) below), whereby Hainan Airlines is made available certain premises, facilities and assets at the Cargo Center for its own cargo handling and storage operations. The Business Handover Agreement deals with interim cargo operations of Hainan Airlines at the Cargo Center pending the Cargo Services Agreement (see Paragraph IIIB(ii) below) and Asset Transfer Agreement (see Paragraph IIIB(iii) below) to take effect to implement the revised business model for the Cargo Center.

(ii) Principal terms of the agreements

The Company and Hainan Airline entered into the Cargo Services Agreement with terms of three years commencing from the Asset Transfer Closing Date and ending on 31 December 2007. Pursuant to the agreement, the Company agrees to provide customary airport cargo services including storage facilities, baggage service, goods and mail services, basic cargo handling service, and other related services to Hainan Airlines and its subsidiaries at various charge rates that are primarily fixed by the CAAC guideline. The Company has also entered into the similar arrangements with respect to the cargo handling with other airlines companies at similar rate. The Company shall issue an invoice for such charges before the fifteenth day of each calendar month and Hainan Airlines shall settle such invoice within 45 days of receipt.

Pursuant to the Business Handover Agreement, the Company has outsourced the operation and management of the Cargo Centre to Hainan Airlines for the latter's operations during the period from 1 January 2005 to the date immediately before the Asset Transfer Closing Date. All the revenue, expenses, claims, debts incurred by Hainan Airlines which were incidental to its Cargo Center operations during the aforementioned period shall remain with Hainan Airlines. Commencing from the Asset Transfer Closing Date, the cargo handling for Hainan Airlines will be provided by the Company in accordance with the Cargo Services Agreement.

Hainan Airlines will pay RMB3,500,000 to the Company for the period from 1 January 2005 to 31 July 2005, which sum shall be settled by way of set-off against entirely by the receivable by Hainan Airlines from the Company as the consideration for the asset sale and purchase under the Asset Transfer Agreement signed on 26 August 2005. A monthly rate of RMB500,000 is due at the end of each month and payable by Hainan Airlines to the Company for the period from 1 August 2005 to the date immediately before the Asset Transfer Closing Date, with a downward adjustment of RMB20,000 per day if the Asset Transfer Closing Date falls on a date before the 30th date of the month.

(iii) Amounts from 1 January 2005 to 31 July 2005

For the seven months ended 31 July 2005, the fee generated from Cargo Center operations outsourced to Hainan Airline was accumulated to RMB3,500,000 to be received by the Company which will be treated as the consideration for acquiring the equipment and facilities including loading carts, loading machines, container carriers, computers and related equipments and communication equipments, owned by Hainan Airline under the Asset Transfer Agreement. According to the valuation report made by Hainan Zhong Li Xin Asset Appraisal Company, an independent professional valuer in the PRC, the value of the said equipment and facilities as at 30 June 2005 was RMB8,970,557.90 while the book value of the same is RMB11,427,743.41. The objective of the Asset Transfer Agreement is to facilitate the implementation of the revised business model at the Cargo Center. In order for the Company to operate the Cargo Center by itself, it has to acquire the equipment and facilities at the Cargo Center currently owned by Hainan Airlines. We have reviewed the breakdown of fee receivables in relation to the Cargo Center operations outsourced to Hainan Airline each month from January to July 2005 and found that the fee receivable can be compared to the amount calculated by the numbers of planes landed using the Cargo Centre operated by Hainan Airlines times the fee schedule fixed by the CAAC guidelines.

(iv) Our Opinions and Conclusion

We have reviewed the transactions from January to July 2005 included in the Business Handover Agreement and found that the average monthly fee within the said period was approximately RMB500,000 which can be compared to the amount with reference to the fee schedule fixed by the CAAC guidelines save as the wages, depreciation cost and other operating borne by Hainan Airlines in the period under the Business Handover Agreement. We concur with the Directors that a suitable transitional arrangement should be made between the Company and Hainan Airlines before the completion of the transactions under the Asset Transfer Agreement and commencement of the transactions under the Cargo Services Agreement. The Directors considered a monthly rate of RMB500,000 is to be paid by Hainan Airlines to the Company for the period from 1 August 2005 to the date immediately before the Asset Transfer Closing Date which was made with reference to the average amount of fees incurred from January to July 2005. We are of the opinion that the terms of the Business Handover Agreements with Hainan Airlines are fair and reasonable and are in the interests of the Shareholders and the Company as a whole.

We have reviewed the Cargo Servicing Agreement which we, together with the management of the Company, consider that the major terms (e.g. storage facilities, baggage service, goods and mail services, basic cargo handling service, and other related services) in the agreements are materially the same as those set out by the CAAC and are applicable to the airlines customers of the Company including independent third parties and those terms are not less favourable than other independent third parties. Therefore, we concur with the Directors' view that the Cargo Service Agreement are on normal commercial terms and the charge rates are determined on an arm's length basis. We are of the opinion that those terms of the Cargo Service Agreement are fair and reasonable and are in the interests of the Shareholders and the Company as a whole.

C. The Logistic Composite Services Agreement

(i) Background

The Initial Waivers were also in place in respect of a predecessor logistic services agreement (the "Expired Logistic Composite Services Agreement") for a period from the IPO to 31 December 2004. The transactions thereunder enabled the Company to receive services on an ongoing basis from the HNA Group and its associates with respect to staff training, staff shuttle bus services, staff cafeteria services, vehicle maintenance, and appliance procurement. In return, the Company was to remunerate the HNA Group for the services rendered according to certain pre-agreed formulae. The Proposed Logistic Composite Service Agreement entered into between the Company and HNA Group was to replace the Expired Logistic Composite Services Agreement and was the subject matter underlying one of the Outstanding Resolutions. As stated earlier, the Outstanding Resolution regarding the Proposed Logistic Composite Service Agreement was not adopted at the extraordinary general meeting of the Company held on 17-18 May 2005. As a result, the Board subsequently decided to revise the annual cap on the value of the transaction.

Without the composite services provided by the HNA Group, the Company would have to find a substitute service provider to provide such services in place of the HNA Group. Such service provider would not necessarily have the economies of scale or local and industry experience to maintain the same standard of services and pricing as offered by the HNA Group. There was also no assurance that the Company would be able to find such a service provider in time to continue with the services at a normal market commercial rate. Given the circumstances, the HNA Group continued its services to the Company on the same terms and conditions as those contained in the Proposed Logistic Composite Services Agreement pending the Shareholders' approval of the Logistic Composite Service Agreement.

The terms of the Logistic Composite Services Agreement are the same as those of the Proposed Logistic Composite Services Agreement except for the annual cap calculations. Upon the approval by the Shareholders of the Logistic Composite Services Agreement, the terms of the services provided before the effective date of this agreement by HNA Company to the Group will be ratified.

(ii) Principal terms of the agreement

Pursuant to the Logistic Composite Services Agreement, the HNA Group, a company engaged principally in aeronautical business will enter into the Logistic Composite Services Agreement for a term of three years commencing from 1 January 2005 and ending on 31 December 2007. Pursuant to the Logistic Composite Services Agreement, the HNA Group will 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.

Charges as to the service of item (a) will be at cost for providing such services as shared by the HNA Group, the Company and other relevant companies on a pro rata bases 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 item (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. Such charges are prepaid on a quarterly basis and the invoices are issued on an annual basis, with such further terms to be determined in line with the usual business practice.

(iii) Amounts from 1 January 2005 to 31 July 2005

For the seven months ended 31 July 2005, the services fee amount paid by the Company to HNA Group was accumulated to RMB6,479,734 which is calculated in accordance with the charging schedule under the Logistic Composite Services Agreement, of which, services fee incurred for (a) staff training was nil; (b) staff shuttle bus services was RMB1,412,700; (c) staff cafeteria services was RMB282,540; (d) vehicle maintenance was RMB4,734,586; and (e) commodities and appliance procurement was RMB49,908.

(iv) Our Opinions and Conclusion

We note that the above charge bases in essence have remained unchanged from those applicable to the parties during the three years ended 31 December 2004. We have discussed with the Directors about the 5% mark-up as management fee on the vehicle maintenance services charged by the HNA Group and note that such management fee corresponds with the business tax rate charged by the relevant PRC tax authorities. Accordingly, the HNA Group charges a 5% mark-up as management fee, all of which is to cover the taxation cost (approximately RMB225,000 for the period from 1 January 2005 to 31 July 2005) and such rate will continue to apply for the future three years ending 31 December 2007. 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 discussed with the Directors that it is the policy of the HNA Group to centralize all the commodities and appliance procurement for its subsidiaries and the Company's fellow subsidiaries and the range of such types of management fee charged by the HNA Group to its subsidiaries and the Company's fellow subsidiaries is from 1% to 1.5%.

We have reviewed the Logistic Composite Services Agreement and we concur with the Directors that the above terms of the agreement have been negotiated on an arm's length basis. We have also reviewed the charges for the three years ended 31 December 2004 and the 7 months ended 31 July 2005 and note 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 and 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 and the Company as a whole.

IV. BASES 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 Agreements which have been analyzed and concluded in section II of this letter; and (2) whether the bases of the New Annual Caps are in line with the business expansions and operations of the Group. We elaborate as follows:

A. Terminal Lease Agreement and Cargo Services Agreement

As stated in the Letter from the Board and advised by the Company, the proposed annual caps for the Terminal Lease Agreement (aggregate with the Business Handover Agreement) and the Cargo Services between the Company and Hainan Airlines for the period from 1 January 2005 to 31 December 2007 are as follows:

		2005	**2006**	**2007**
		RMB	*RMB*	*RMB*
(i)	Terminal Lease Agreement	6,699,600 or 11,199,600 (when aggregated with the Business Handover Agreement of 4,500,000 from January to September 2005	6,699,600	6,699,600
(ii)	Cargo Services Agreement	2,000,000 (October to December)	10,000,000	13,000,000

(i) Terminal Lease Agreement

As stated in the Letter from the Board, the annual rental charges of the office and commercial area and premises leased to Hainan Airline for the three years ended 31 December 2004 were approximately RMB5,863,000, RMB5,831,000 and RMB5,839,000, respectively. We compare the historical annual rental charge of approximately RMB5,839,000 in 2004 under the Expired Terminal Lease with the annual caps for the Terminal Lease Agreement (i.e. RMB6,699,600), and note that the proposed new annual caps for the Terminal Lease Agreement are set to an amount of approximately 15% increase as compared with the historical annual rental charge of the Expired Terminal Lease. We note that such an increase is mainly due to the increase of rental areas, which involves 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. As also stated in the Letter from the Board, the caps in relation to the Terminal Lease Agreement are determined with reference to the fixed rental charges and based on the assumption that there will be no increase in the annual rental under the Terminal Lease Agreement from 2005 to 2007. In this regard, we consider that the proposed annual cap relating to the Terminal Lease Agreement for each of the three years ended 31 December 2007 is fair and reasonable.

(ii) Business Handover Agreement

For the calculation of the cap related to the Business Handover Agreement, it is assumed that the Asset Transfer Closing Date is 30 September 2005 as the Directors intended to hold the extraordinary general meeting at the end of September upon the preparation of the announcement for these continuing and non-exempt connected transactions. The Business Handover Agreement will cover the period from January to September 2005. Also, pursuant to the Business Handover Agreement, a monthly rate of RMB500,000 is to be paid by the Hainan Airlines to the Company for the period from 1 August 2005 to the date immediately before the Asset Transfer Closing Date (including the date after 30 September 2005), with a downward adjustment of RMB20,000 per day if the Asset Transfer Closing Date falls on a date before the 30th date of the month. Based on our review, workdone and bases mentioned in the Paragraph IIIB(iii) and (iv), we consider that the proposed annual cap relating to the Business Handover Agreement for period from January to September 2005 is fair and reasonable.

(iii) Cargo Services Agreement

We note from the management of the Company that the caps determined with reference to the trend of the average monthly historical figures of the carriage weight of flights and based on the estimation that there will be an increase in the transaction volume of the cargo center services by 25% for the fourth quarter of 2005 over that of 2004 and by approximately 30% each year over the preceding year from 2006 to 2007. Such increase is based in part on the statistics relating to Yangzi Express' use of the Company's Cargo Center from 2002 to 2004 and the Chinese Major Airport Traffic Statistics of 2004 prepared by the CAAC, having taken into account the socio-economic factors that will likely affect the level of the Company's Cargo Center Services. The Directors expect that with the launch of the additional routes provided by the 14 international airline companies to and from Haikou as at 30 June 2005, the further opening up of the third, fourth and fifth categories of aviation rights, and the Olympic Games in Beijing 2008, there will be an increase in the demand and ultimately, the transaction level of the Company's Cargo Center Services.

To evaluate the basis of 25% increase for the fourth quarter of 2005 over that of 2004 and 30% rate of annual increase each year over the preceding year from 2006 to 2007, we have obtained the following statistic regarding the use of cargo services of Meilan Airport by Hainan Airlines:

	Aircraft movements	**Passenger throughput**	**Cargo throughput**	
	number of flights	*'000*	*tons*	
2002	24,958	2,306	35,789	
2003	25,858	2,601	43,193	
2004	27,986	3,124	52,015	
Year-on-year increase				**Average increase**
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 note 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 note that such mild increase was mainly due to the gradual recovery of the tourism industry after the outbreak of the severe acute respiratory syndrome ("SARS") in the PRC in 2003. In this regard, we have reviewed the Chinese Major Airport Traffic Statistics of 2004 reported by CAAC and note 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 cover about 130 airports locating in different major cities of the PRC. According to the interim result of the Company, 14 international airline companies launched routes to and from Haikou as at 30 June 2005 which will result in an increase in usage of cargo services in future. In addition, the Directors expect the demand for cargo center 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 are expected to cause an increase in the transaction volume of cargo center services and the Directors therefore expect the average rate of increase will be about 25% increase for the fourth quarter of 2005 over that of 2004 and 30% rate of annual increase each year over the preceding year from 2006 to 2007. In this regard, we have discussed with the Directors and reviewed the relevant articles on describing the future demand for cargo center services and consider that such average rate of increase in the transaction volume of proposed by the Directors is acceptable.

Based on the above facts and representations from management of the Company, we concur with the Directors' view that the use of 25% increase for the fourth quarter of 2005 over that of 2004 and 30% rate of annual increase each year over the preceding year from 2006 to 2007 for Cargo Services Agreement is fair and reasonable.

We concur with the Directors' view that the proposed caps for the Terminal Lease Agreement (as aggregated with the Business Handover Agreement) and the Cargo Services Agreement for each of the three financial years ending 31 December 2007 are fair and reasonable.

B. Logistic Composite Services by HNA Group

As stated in the Letter from the Board, the proposed annual caps of the Logistic Composite Services being and to be provided by the HNA Group are as follows:–

Financial year ending	*RMB*
31 December 2005	11,000,000
31 December 2006	11,550,000
31 December 2007	12,100,000

The above caps are determined with reference to the historical figures and based on the assumption that (i) there will be an increase in the headcounts by 10% and a decrease in volumes of the procurement of materials by 24% respectively in 2005 over that in 2004; (ii) due to the delay of completion of the Phase II expansion project of Meilan Airport from mid of 2005 to the last quarter of 2005 (after completion, it will commence operation on a trial basis and official commencement of commercial operation will be in the first quarter of 2006) and thereafter an increase in headcounts by 30% in 2006 and; (iii) by 5% each year over the preceding year in terms of the aggregate amount under the Logistic Composite Service Agreement in 2006 and 2007.

We note that (i) the delay of completion of the Phase II expansion project of Meilan Airport; and (ii) the Directors will begin to impose stringent control on the expenses will together lead to a moderate decrease in the annual cap relating to the Logistic Composite Services Agreement as compared with the Proposed Logistic Composite Services Agreement.

We have reviewed the internal headcount projection for the coming 5 months and the future two years period ending 31 December 2007 and note that the average staff headcount increased by approximately 10% from 2004 to 2005 and 30% from 2005 to 2006 following the completion and commencement of the commercial operation of the Phase II of Meilan Airport expected to be in first quarter of 2006. The increase in headcounts was based on (1) the increase in the number of employees in the area of security, utility maintenance, VIP room services to cope with the Phase II expansion ; (2) the time of the commercial operation of the Phase II of Meilan Airport; and (3) the increase in business activities and the enlargement of operating areas. From 2007, the average staff number will increase by approximately 5% per year in cooperation with the expected increase in business activities. We note that the internal headcount projection can match with the increase in headcounts used for calculating the proposed annual caps of the Logistic Composite Services. In addition, we note 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 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 10% in 2005, 30% in 2006 and by 5% in 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 note that such costs will decrease by approximately 24% from 2004 to 2005 and remain unchanged for 2006 and 2007. We have also discussed with the Directors and note that the Company will impose a stringent cost control on the commodities and appliances procurement services.

The above proposed annual caps of the Logistic Composite Services are set at an amount higher than the historical value, as the Directors believe that the Group will have business opportunities for further expansion and development of the business and operations. We understand that (1) the mild increase in vehicle maintenance is based on an increase in the number of vehicles to cope with the increasing headcounts; (2) 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 (3) the procurement fees will decrease due to the stringent control on the cost of purchasing commodities and appliances. On this basis, we concur with the Directors' view and consider that the proposed annual caps for the Logistic Composite Services Agreement are fair and reasonable.

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 terms of the Agreements, the Non-exempt Continuing Connected Transactions and the New Annual Caps are fair and reasonable, and are in the interests of the 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 Non-exempt Continuing Connected Transactions and the New Annual Caps at the next extraordinary general meeting to be convened.

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 Company. 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. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest and short positions in the shares in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provision of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies

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 *(Note 1)*	Beneficial owner	Corporate	237,500,000 domestic shares	96.43/50.20
Copenhagen Airport A/S *(Note 2)*	Beneficial owner	Corporate	94,643,000 H shares	41.71/20.00
Morgan Stanley	Beneficial owner	Corporate	15,930,000 H Shares	7.02/3.36
Allianz Aktiengesellschaft	Beneficial owner	Corporate	13,455,000 H Shares	5.93/2.84

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	1,237,000 H shares	0.55/0.26

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 and his/her associates 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 30 June 2005, the date to which the latest published audited consolidated accounts of the Group were made up.

7. MISCELLANEOUS

(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 Lovells at 23/F, Cheung Kong Center, 2 Queen's Road, Central, Hong Kong up to and including 30 September 2005:

(a) the Terminal Lease;

(b) the Business Transfer Agreement;

(c) the Cargo Services Agreement

(d) the Logistic Composite Services Agreement

(e) the letter from GDS to the Independent Board Committee, the text of which is set out on pages 27 to 43 of this Circular;

(f) the written consent of GDS as referred to in the section headed "Expert" in this appendix; and

(g) the letter from the Independent Board Committee, the text of which is set out on page 25-26 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 the shareholders of Hainan Meilan International Airport Company Limited (the "**Company**") will be held at 9 a.m. on 4 November, 2005 in the conference room of the Company on 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People's Republic of China (the "PRC") for the purpose of considering as Non-exempt Continuing Connected Transactions and the New Annual Caps and, if thought fit, passing, with or without modifications, the following resolutions as an ordinary resolution:

1. "**THAT** the Terminal Lease dated 26 August, 2005 entered into between the Company and the Hainan Airlines and the non-exempt continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed."

2. "**THAT** the Business Handover Agreement dated 26 August, 2005 entered into between the Company and the Hainan Airlines and the non-exempt continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed."

3. "**THAT** the Cargo Services Agreement dated 26 August, 2005 entered into between the Company and the Hainan Airlines and the non-exempt continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed."

4. "**THAT** the Logistic Composite Services Agreement dated 26 August, 2005 entered into between the Company and the HNA Group and the non-exempt continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed."

* *for identification purposes only*

5. "**THAT** the proposed annual caps of each of the continuing connected transactions as set out in the circular of Company dated 16 September, 2005 ("**New Annual Caps**") be and are hereby approved, ratified and confirmed."

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

Hainan PRC 16 September, 2005

Notes:

(A) Holders of the Company's H Shares whose names appear on the Company's Register of Members which is maintained by Computershare Hong Kong Investor Services Limited on 4 October, 2005 (Tuesday) 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 Company Secretary no later than 14 October, 2005 (Friday).

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

Details of the Office of the Company Secretary 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.

(D) The Company's Register of Members will be closed from 4 October, 2005 (Tuesday) to 4 November, 2005 (Friday) (both days inclusive), during which time no transfer of shares will be effected. 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 3 October, 2005 (Monday) 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.