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海南美蘭國際機場股份有限公司
**HAINAN MEILAN INTERNATIONAL AIRPORT
COMPANY LIMITED** *

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

**ANNOUNCEMENT ON
NON-EXEMPT CONNECTED TRANSACTIONS AND
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

INDEPENDENT FINANCIAL ADVISER

GD Guangdong Securities Limited

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 this 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. This announcement 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 to be next convened.

The Independent Board Committee has been formed to consider the terms of the Agreements and the New Annual Caps and GDS has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, inter alia, the terms of those Non-exempt Continuing Connected Transactions, the New Annual Caps and the Non-exempt Connected Transaction.

A circular containing, among others, further details of the Non-exempt Continuing Connected Transactions, the New Annual Caps and the Non-exempt Connected Transaction, a letter from the Independent Board Committee, a letter of advice from GDS and a notice of the extraordinary general meeting will be dispatched to the Shareholders within 21 days from the date of this announcement.

* For identification purpose only

I. 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 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. 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 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, 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 was 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. 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 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 derive 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 derive 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 announcement 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 (Paragraphs II(a)(i), II(a)(ii) and II(b) 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 forth in Paragraphs II(a)(ii), III(a)(iii) and III below.

II. 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.

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 II(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, which sum shall be offset entirely by the receivable by the Hainan Airlines from the Company as the consideration for the asset sale and purchase under the Asset Transfer Agreement.

A monthly rate of RMB 500,000 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, 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.

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 II(a)(iii) below) and Asset Transfer Agreement (Paragraph III below) 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.

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 II(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.

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.

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 forth 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
	2002 (RMB)	2003 (RMB)	2004 (RMB)	31 July 2005 (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.

New Annual Caps

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

	2005 (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

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.

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.

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.

The Board has carefully considered all the views presented to it with respect to 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 for the Logistic Composite Services Agreement would be in the interest of the Company.

III. NON-EXEMPT CONNECTED TRANSACTION

Asset Transfer Agreement

Date of
Agreement: 26 August, 2005

Parties: the Company, as Transferor
the Hainan Airlines, as Transferee

Subject: The Hainan Airlines shall transfer the assets and facilities in relation to the operation of the cargo handling services at Hainan Meilan Airport to the Company at the Asset Transfer Closing Date.

Price: the value of the assets and facilities in relation to the operation of the cargo handling services at Hainan Meilan Airport which are subject to this agreement has been determined with reference to a valuation by the Hainan Zhong Li Xin Asset Appraisal Company at approximately RMB 8,970,557.90 while the book value of same is RMB11,427,743.41. Both parties agree that, the payment obligations of the Company under this Asset Transfer Agreement shall be offset entirely by the payment payable by the Hainan Airlines under the Business Handover Agreement in respect of the transactions occurred between 1 January, 2005 and 31 July, 2005. The amount of the payment under the Business Handover Agreement is approximately RMB 3,500,000.

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 necessary equipment and facilities at the Cargo Center currently owned by the Hainan Airlines. The parties agreed that following the set-off of the considerations under this Asset Transfer Agreement and that payable under the Business Handover Agreement, there will be no outstanding balance owing to each other with respect to the asset transfer transaction and the Cargo Center operation by the Hainan Airlines for the period from 1 January, 2005 up to 31 July, 2005. Given that each of the percentage ratios (other than the profit ratio) is less than 2.5%, no Independent Shareholders approval would be required in reliance on Rule 14A.32(1). The Company will comply with Rules 14A.45 to 14A.47 of the Listing Rules in respect of the non-exempt connected transaction as contemplated in the Asset Transfer Agreement.

The Independent Board Committee considers that the terms of the Asset Transfer Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole and have been negotiated on an arm's length basis in the usual and ordinary course of business on normal commercial terms and on terms no more favourable than would have been with independent third parties.

IV. 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 II(a)(i), II (a)(ii), II(a)(iii) and II(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.

V. EXTRAORDINARY GENERAL MEETING

The next extraordinary general meeting is to be held for consideration and approval of the Non-exempt Continuing Connected Transactions and the New Annual Caps as set out in Paragraphs II(a)(i), II(a)(ii), II(a)(iii) and II(b). A circular containing, among other things, further details of the relevant Agreements, a letter from the Independent Board Committee, a letter of advice from GDS and a notice for the extraordinary general meeting to approve the aforesaid will be dispatched to the Shareholders within 21 days from the date of this Announcement.

VI. GENERAL INFORMATION

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

At the time of this announcement, there are nine Directors on the Board. They are Wang Zhen, Huang Qiu and Kristian Bjerneboe as executive Directors; Chen Wenli, Zhang Han'an and Kjeld Binger as non-executive Directors; and Xu Boling, Xie Zhuang and Fung Ching Simon as non-executive independent Directors.

X. DEFINITION

“Agreements”	the agreements referred to in Paragraph II and Paragraph III of this announcement
“Asset Transfer Agreement”	the agreement entered into between the Company and the Hainan Airlines which is set forth in Paragraph III of this announcement
“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 forth in Paragraph II(a)(ii) of this announcement
“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 forth in Paragraph II(a)(iii) of this announcement

“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
“Group”	the Company and its subsidiaries
“Expired Terminal Lease”	has the meaning ascribed to it in Paragraph I(c)
“Expired Outsourcing Agreement”	has the meaning ascribed to it in Paragraph I(c)
“Expired Logistic Composite Services Agreement”	has the meaning ascribed to it in Paragraph I(c)
“GDS”	Guangdong Securities Limited, the independent financial adviser retained in respect of the Non-exempt Continuing Connected Transaction that are subject to independent shareholders’ approval.
“Hainan Airlines”	海南航空股份有限公司(Hainan Airlines Company Limited), a joint stock limited company incorporated in the PRC and one of the Promoters of the Company
“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, the Hainan Airlines and the 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 in the year of 2002
“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 forth in Paragraph II(b) of this announcement
“Meilan Airport”	the civil airport known as 海口美蘭國機場 (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 II of this announcement
“Non-exempt Connected Transactions”	the non-exempt connected transactions which was entered into between the Company and the Hainan Airlines that set out in Paragraph III of this announcement
“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 Paragraph II of this announcement
“Outstanding Resolutions”	has the meaning ascribed to it in Paragraph I(c)
“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 which is the controlling shareholder of the Company
“Promoters”	the parties to a promoters agreement dated 20 December, 2000 in relation to the promotion and incorporation of the Company including, inter alia, Parent Company, the Hainan Airlines, China Southern Airlines and the HNA Group
“Proposed Cargo Centre Lease”	has the meaning ascribed to it in Paragraph I(c)
“Proposed Logistic Services Agreement”	has the meaning ascribed to it in Paragraph I(c)
“Proposed Terminal Lease”	has the meaning ascribed to it in Paragraph I(c)
“Renegotiated Outsourcing Agreement”	has the meaning ascribed to it in Paragraph I(c)
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Terminal Lease”	the terminal lease entered into between the Company and the Hainan Airlines which is set forth in the Paragraph II(a)(i) of this announcement

“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 the HNA Group, 10% by Shanghai Airport (Group) Company Limited and 5% by the Hainan Airlines

By Order of the Board

Hainan Meilan International Airport Company Limited

Mr. Chen Wenli

Chairman

Haikou, People's Republic of China

26 August, 2005

*Please also refer to the published version of this announcement in
The Standard and Wen Wei Po Post.*