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Corporate Mission

To be the most successful regional airport management company in China, offering quality and safe airport services.

Corporate Background

Hainan Meilan International Airport Company Limited ("Meilan Airport" or the "Company") is a joint stock company established in the People's Republic of China (the "PRC") with limited liability on 28 December 2000. The Company's H Shares were issued and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 18 November 2002 (the "Listing"). On 6 November 2003, the Company was approved by the Ministry of Commerce of the PRC (the "Ministry of Commerce") to convert into a foreign invested joint stock company.

The Company and its subsidiaries (collectively the "Group") are currently engaged in both aeronautical and non-aeronautical businesses at the Hainan Meilan International Airport, Haikou, Hainan Province, the PRC (the "Hainan Meilan International Airport"). The aeronautical businesses consist of the provision of terminal facilities, ground handling services and passenger and cargo handling services. The non-aeronautical businesses include leasing of commercial and retail spaces at the Hainan Meilan International Airport, advertising, car parking, airport-related business franchising, tourism services and sales of duty-free and consumable goods.

The Company's notable corporate achievements in 2004 are as follows:

- Passenger Satisfaction and Quality Service Award from "2004 Passenger Evaluation of Civil Aviation (Annual Passenger Throughput 3-10 million Category)" Campaign held by Civil Aviation Association of China. It's publicly praised by Civil Aviation Association of China;
- "National Model Unit of Creditable Company" issued by China Consumer Protection Funds;
- "National Model Unit of Green Coverage" issued by China Green Coverage Committee;
- "National Model Unit of Integrity Company" issued by Credit Evaluation Committee of China Corporate Culture Promotion Association;
- "Satisfied Unit Recognised by National Consumers" issued by Consumer Evaluation Committee of China Corporate Culture Promotion Association;
- Ranks the 1st in the Best Airport in China in 2004 in China Civil Aviation Internet Survey.



Corporate Information

Name in Chinese

海南美蘭國際機場股份有限公司

Name in English

Hainan Meilan International Airport Company Limited

Executive Directors

Wang Zhen
Huang Qiu
Kristian Bjorneboe

Non-executive Directors

Chen Wenli (*Chairman*)
Zhang Han'an
Kjeld Binger

Independent Non-executive Directors

Xu Bailing
Xie Zhuang
Fung Ching, Simon

Supervisors

Zhang Cong
Zhang Shusheng
Zeng Xuemei

Company Secretary

Bai Yan

Authorised Representatives

Chen Wenli
Bai Yan

Audit Committee

Xu Bailing
Xie Zhuang
Fung Ching, Simon

Legal Address and Head Office

Meilan Airport Complex
Haikou City
Hainan Province, PRC

Address of Business in Hong Kong

Unit 3205A, Shun Tak Centre (West Tower)
200 Connaught Road Central
Sheung Wan, Hong Kong

Legal Adviser to the Company

as to Hong Kong laws:

Deacons (Note)

5th Floor, Alexandra House, 16-20 Chater Road
Central, Hong Kong

International Auditors

PricewaterhouseCoopers

22/F, Prince's Building
Central, Hong Kong

PRC Auditors

Hainan Congxin

Certified Public Accountants
Unit 1202, CMEC Building
Guomao Avenue
Hainan Province, PRC
Post code: 571100

Principal Bankers

Bank of China, Meilan Branch

Meilan Airport Terminal,
Haikou City,
Hainan Province, PRC

H Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

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

Note: Effective on 1 January 2005, the Company appointed Lovells as the Company's legal adviser as to Hong Kong laws.

Financial Highlights

Two-Year Comparison of Key Financial Figures

For the year ended 31 December

	FY2004 RMB'000	FY2003 RMB'000	Change (%)
Turnover	360,025	307,933	16.9%
Gross profit	239,826	210,673	13.8%
Net profit attributable to shareholders	185,677	152,608	21.7%
Earnings per share – basic (RMB)	0.39	0.32	21.9%
Net operating cashflow	182,755	187,213	-2.4%
Current ratio (Times)	5.31	9.40	–
Debt/Equity ratio	16%	16%	–
EBITDA	222,701	191,434	16.3%

Five-Year Summary of Financial Performance

For the year ended 31 December

	FY2004 RMB'000	FY2003 RMB'000	FY2002 RMB'000	FY2001 RMB'000	FY2000 RMB'000
Turnover	360,025	307,933	283,452	185,001	161,643
Cost of services and sale of goods	(106,267)	(90,328)	(70,412)	(60,226)	(59,375)
EBITDA	222,701	191,434	210,578	133,468	109,302
Finance income/(expense) – net	4,849	(5,790)	(18,816)	(17,659)	(22,966)

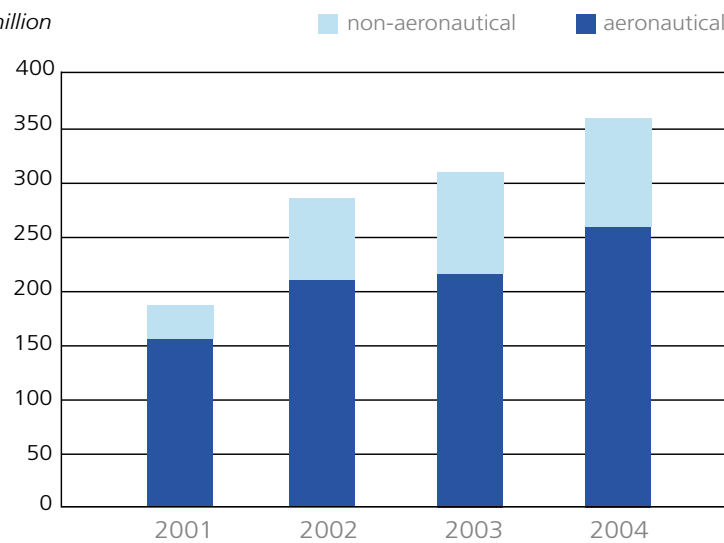
Five-Year Summary of Financial Position

For the year ended 31 December

	FY2004 RMB'000	FY2003 RMB'000	FY2002 RMB'000	FY2001 RMB'000	FY2000 RMB'000
Total assets	1,703,951	1,610,696	1,744,502	796,574	755,416
Total liabilities	240,720	216,215	398,595	389,631	435,878
Shareholders' equity	1,462,203	1,393,409	1,339,228	406,801	319,390
Net liabilities/Share equity (%)	9	9	23	73	89
EBITDA/Interest expense (Times)	–	16	11	8	5
Net liabilities/EBITDA (%)	57.5	66.9	149	222	261
Return on equity (%)	13	11	12	21	18

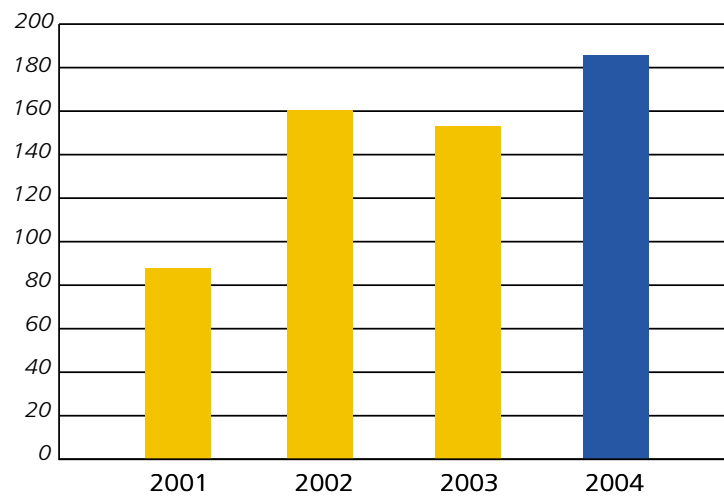
Turnover

RMB' million



Net Profit Attributable to Shareholders

RMB' million



Chairman's Statement

To all shareholders,

2004 marked a year of stable development. Meilan Airport successfully established its corporate image of a pivot regional airport via a "people-oriented and internationalised" brand positioning. The Group is dedicated to becoming a regional international airport management company.

During the year under review, the Group captured the opportunities arising from the opening of aviation rights in Hainan province and achieved its annual target by embracing its development philosophy of "integrity, performance and innovation" as well as its "proactive and dedicated" corporate culture. As the realisation of six consecutive years of safe operation since its open, the Group recorded a passengers throughput over 7 million in its sixth year. Capitalised on the edge brought forth by the opening of aviation rights, the Group proactively promoted and attracted foreign airlines to develop routes that via Haikou Meilan International Airport, endeavored to becoming a pivot of regional international airport and expanding its business network. In addition, the Group attained remarkable progress in both external and internal development. Externally, the Group continued to explore international and domestic routes to increase revenue base of its aeronautical business, while implementing regulated services to



Opening of aviation rights will bring opportunities to the Group

Chen Wenli
Chairman



establish innovative services system. Also, the Group introduced the internationally renowned company, Select Service Partner (“SSP”) for airport, catering and beverages services, and Duty Free Shoppers Hong Kong Limited (“DFS”) for airport retail services, so as to increase the revenue proportion of its non-aeronautical business. Internally, the Group also focused on enhancing corporate governance structure, establishing modernised airport management system and transforming from an operational enterprise to a management enterprise to strengthen profitability.

To cater for increasing number of passengers and cargoes throughput, the Group commenced the construction of phase II in the beginning of 2004. Currently, the core construction of the passenger terminal building has completed and undergone examination, and is expected to put into operation in the second quarter of 2005.

In 2004, Hainan Meilan International Airport was accredited the “Customer Satisfaction Quality” award again in “2004 Passenger Evaluation of Civil Aviation Survey” conducted by Civil Aviation Association of China in the group of airports with a capacity of 3-10 million passengers throughput. Meilan Airport has obtained such award for three consecutive years, together with a number of accreditations, effectively strengthened the attractiveness and competitiveness of Hainan Meilan International Airport.

Chairman's Statement



Results

In 2004, the Group's turnover reached RMB 360.03 million, representing an increase of 16.9% over that of last year. Revenue from the aeronautical business increased by 21% as compared to last year, reaching RMB 259.75 million. Revenue from non-aeronautical business amounted to RMB 100.27 million, recorded an increase of 7.7% as compared with that of last year. Net profit attributable to shareholders amounted to RMB 185.68 million, representing a persisting increase of 21.7%.

Operation Review

In 2004, the Group met its annual target successfully. In respect of aeronautical business, total aircraft movement reached 68,282 (of which transportation airport movements were 61,435) for the year, representing an increase of 6.5% as compared to previous year. Passengers throughput reached 7.48 million, posting a persisting increase of 24.4%. Cargoes throughput reached 98,482.5 tones, which was increased by 21.0% over that of previous year. During the international summit "Annual Bo'ao Forum for Asia" (BOA) and the National Congress of the Communist Party of China of Hainan Province and National Committee of Hainan Province attending conference held in Beijing, Hainan Meilan International Airport provided impeccable and quality services and received tremendous recognition and praise from the honorable domestic and international guests.



Outlook

Benefited from the robust economic growth in China, the accelerating restructuring and development of domestic aviation industry and the flourishing tourism in Hainan province, the Group achieved significant growth in operation performance as compared to previous years.

Looking ahead for 2005, the Group will implement a series of effective measures to enhance its progress in business expansion and business growth, with the view of rewarding our shareholders with impressive returns.

Proactive Exploration of International Routes to Become a Quality International Airport

Benefited from the preferential policies provided by the General Administration of Civil Aviation of China and the Hainan Provincial Government in respect of the opening of aviation rights in Hainan province, Hainan Meilan International Airport has developed a total of 9 international/regional routes, together with 3 new international airlines (Thailand Puket Airline, Malaysia Airlines and Asiana Airlines) opened routes to Haikou. In 2005, Meilan Airport will continue to embrace the philosophy of "integrity, performance and innovation" and persist in the implementation of brand strategy to enhance the domestic route distribution and expedite international route expansion. By introducing new international airlines, exploring new international and domestic routes and providing quality services in accordance with international standards, the Group is committed to establishing a reputable international corporate image and becoming a prominent brand of international airport.

Scheduled Completion of Phase II Expansion Which Is Expected To Commence Operation By Mid 2005

By the end of 2004, the core construction of the Company's phase II expansion plan (including new passenger terminal building and apron) was completed and progressed to the installation and refurbishment stage as scheduled. It is expected to complete all construction work and put into operation by mid 2005. The timely completion of phase II expansion plan will establish a solid foundation for the Group to expand operation scale, enhance efficiency, satisfy the demand of increasing number of tourists and propel future development.

Comprehensive Business Training For Improving Staff Performance

In 2004, in capturing the opportunities brought forth by the opening of the aviation rights and the increasing challenges ahead as an international airport, the Group has placed more emphasis on staff training and provided a number of diversified training courses which attained impressive achievements. Training courses included foreign languages, knowledge of aviation rights, customs of international flights, value-added services, sales and ticketing services for international passengers and knowledge of international ports. In addition, the Group also provided harmonious work environment and organised entertainment activities to improve staff remuneration and welfare. In 2005, the Group will continue to offer diversified training such as language courses, technical skill training, security training and quality training so as to enhance the quality and service standards of its workforce.

Management System Reform Enhances Security And Service Quality

In 2005, the Group will further expedite management system reform, continue to introduce and learn from international advanced management model and acquaint to establish a competitive human resource management system with immense development potential, so as to enhance overall security and service quality.

Acknowledgment

On behalf of the Board and the management of Meilan Airport, I would like to express my heartfelt gratitude to our business partners, clients and shareholders for their continuous support. Beside, I would like to thank our fellow staff members for their dedication and contribution to the Group. With our intimate cooperation, let us join hands to achieve our ultimate goal of becoming a regional airport management company.

Chen Wenli

Chairman

Hainan Province, the PRC

22 March 2005

Management Discussion and Analysis

Phase II expansion of the airport will pave solid foundation to the Group





Civil Aviation Industry in China

Civil aviation industry sustained its robust growth in 2004 and its profit reached RMB8.69 billion, which illustrated enjoyable economic return. At the same time, as the PRC economy continued its uptrend development, strong demand of the PRC civil aviation industry will continue and expects to continue its growth in 2005.

In order to maintain favourable development of civil aviation, the industry implemented many revolutions and the PRC airport implemented localised revolution. New airport business model will develop in professional and diversified direction. Many airports proceeded restructuring and consolidation after the localised revolution, optimising resources allocation, adopted professional management, further enhance safety and services quality, resulting to the favourable competition in the civil aviation industry. It developed an aggressive external environment and enabled the Company to be the regional airport management company.

2004 is the second year of the opening of the aviation rights of Hainan province and it has already achieved significant development. Until the end of 2004, 10 domestic and international airline companies launched 50 international (region) routes and attracted 6 international airlines to establish routes to Hainan. It also launched 12 international routes and added 306 international flights. At the same time, many airlines and agents eager to the flight to Hainan and is in negotiation with Hainan Provincial Government for the flight arrangement. Besides, Hainan Provincial Government sent the invitation to the airlines of Russia, Japan, Korea, Germany, etc. The opening of the aviation rights is a positive sign and development which is favorable to the Company to develop its business and enhance its reputation.

Tourism in Hainan Province

Hainan Island, being well-known as "Healthy Island" and "Sunshine Island" in the world, is one of the major tourist destinations in the PRC attracting both domestic and international visitors. In 2004, the number of individual visits reached 14.03 million representing an increase of 13.7% when compared with previous year. Income generated from tourism increased by 18.7%, amounted to RMB11,101 million. In 2004, Hainan Island captured the opportunity and carried out large-scaled promotion campaign so as to actively explore the international market. The annual number of international tourism reached 308,600 persons, kept at a healthy year-on-year growth rate of 5.22%.

The special and natural environment of Hainan Island not only attracted a large number of domestic and overseas tourists, but also attracted a lot of domestic and international conference activities. Various forms of business and academic seminars enhanced the reputation of Hainan's tourism. The hosting of the Annual Bo'ao Forum for Asia (BOA), the 54th Miss World Final, the Hainan Island Festival, International Wedding Festival and Vehicle Enduro have become the new highlights of the Hainan's tourism and further expedite its tourism development. The 55th Miss World Final will be held in Hainan Island again in 2005. We believe that the event will bring a positive influence on Hainan's tourism.

Hainan Provincial Government has already set out natural disasters (such as typhoon and flood, etc.) warning system and reaction policy as preventive measures. A healthy and safe Hainan Island has become an ideal place for tourists. This is also the drive for the increase of traffic volume of Hainan Meilan International Airport.

Business Review

Overview of Aeronautical Business

In 2004, the Group has achieved its annual target and reached historical height since its inauguration in 1999.

The exploitation of International Airline

Since Hainan Meilan Airport was upgraded as international airport in mid 2003, the Group aggressively discussed with international airlines to open international routes originated from Haikou. As at the end of 2004, there were already 7 local and foreign airlines opened 9 international or regional routes in total which depart from or arrive at Hainan Meilan Airport, reaching Hong Kong, Macau, Seoul, Singapore, Bangkok, Kuala Lumpur, Osaka, Pusan and Fukuoka, etc. 3 other international airlines including, Thailand Phuket Airlines, Malaysia Airlines and Asiana Airlines opened routes to and from Haikou. At the same time, the Group intends to discuss with international airlines, and invite them to carry out field study in Hainan Meilan Airport in order to establish a better foundation for future cooperation.

Management Discussion and Analysis



In September 2004, the Group successfully got the organisation right of New Routes Asia in 2007. The subsidiary of ASM International Company, Routes Development Organisation Routes, is the organiser of The Asian New Airlines Conference. The headquarters of Routes is located in Manchester, England. Routes is also the organiser of Routes World and Routes Latin America. The New Routes Asia 2003 - 2005 is held in Kuala Lumpur, Malaysia. The New Routes Asia not only provides an opportunity for the city to generate huge income from aeronautical industry, but also increase the international reputation of the city and the airport. It is a valuable opportunity for the Group to promote itself through organising New Routes Asia. The Group will treasure this opportunity to enhance the communication with the international airlines and to open more international routes.

Traffic throughput for 2004 and the previous year are set out below:

	Year 2004	Year 2003	Change (%)
Aircraft movement	68,282	64,136	6.46
In which: Domestic	66,422	62,996	5.44
Hong Kong/Macau	1,317	1,027	28.24
International	543	113	380.53
Passengers Throughput (Ten thousand persons)	747.8	602.9	24.03
In which: Domestic	730.3	592.6	23.24
Hong Kong/Macau	12.5	9.1	37.36
International	5	1.2	316.67
Cargoes Throughput (Tones)	98,482.5	81,401.9	20.98
In which: Domestic	96,179.6	80,065.2	20.13
Hong Kong/Macau	1,489.5	1,138.1	30.88
International	813.4	198.6	309.57

Because of the opening of the third, fourth and fifth aviation rights and the aggressive approach to explore more international routes, the number of international airlines increased substantially. It is estimated that the international routes and international passengers throughput may be the growth momentum of the aeronautical business in 2005.



Benefited from the overall increase in traffic volume in 2004, the Group's revenue from aeronautical business for the year reached RMB 259.75 million, representing an increase of 20.9% when compared with the same period last year.

	<i>Amount (RMB '000)</i>	<i>Change to last year (%)</i>
Passenger charges	101,819	20.3%
Aircraft movement fees and related charges	42,222	10.2%
Airport fee	90,176	25.8%
Ground handling service fees	25,536	26.1%
Total revenue from Aeronautical Business	259,753	20.9%

Overview of Non-Aeronautical Business

In 2004, the Company introduced the business development experience of Copenhagen Airports A/S and established business development strategies which meet the development requirements of the Company. The development strategies include resources allocation and management method, etc. The Group attained encouraging results in respect of its non-aeronautical business. The revenue from non-aeronautical business amounted to RMB 100.27 million, representing an increase of 7.7% as compared to last year. The sources of revenue are set out as follows:

	<i>Amount (RMB '000)</i>	<i>Change to last year (%)</i>
Leasing of commercial areas in the airport terminal	19,307	21%
Franchise revenue	13,992	-43%
Advertising revenue	8,247	33%
Retail	21,788	90%
Tourism transportation revenue	22,165	0.9%
Car parking fees	5,072	71%
Other revenue	9,701	-3.5%
Total revenue from non-aeronautical business	100,272	7.7%

It is estimated that the leasing of the commercial areas in the airport terminal and car parking fees may be the growth momentum of the non-aeronautical business in 2005.

Management Discussion and Analysis

Commercial Sales

In 2004, the Group successfully introduced international renowned brands to join the operation of the Group, which included Select Service Partner Hong Kong Limited commenced their businesses and received favourable market response. In October 2004, the Group has entered into an agreement with DFS (the basic charge is decided upon the number of departing passenger, together with a concession fee which is certain percentage of the total turnover), which rented the commercial area of the terminal to them and expect to complete the design and decoration and commence operation in the mid of 2005. The successful introduction of SSP and DFS will enhance the quality of food and beverages and retail services, and encourage the development of other non-aeronautical businesses, which is regarded as a new operation model of the commercial development of the civil aviation airport in the PRC.

In 2004, the Group extended the advertising and VIP services to the area of telecommunications and the sales of vehicles, which can further complete the services of the airport. It can explore income sources and determine suitable business model of the Group, and achieved favourable market response of non-aeronautical business. Turnover amounted at RMB100.27 million.

Tourism and Traveling

Hainan Meilan Airport Traveling Company Limited ("Meilan Traveling") provides a wide range of services such as transportation between Hainan Meilan International Airport and Haikou City, hotel reservation, air ticket sales, travel reception and organises more tour package. The turnover in 2004 amounted RMB 22.17 million.

Car Parking

Car parking charges is another major income source for the Group's non-aeronautical businesses. The turnover in 2004 amounted to RMB 5.07 million.

Advertising Business

The Group also generated revenue by operating and leasing out advertising space at the airport terminal. For the year ended 31 December 2004, income from advertising was RMB 8.25 million, representing an increase of 33% as compared to 2003. As Hainan Meilan International Airport begins accommodating more international flights, the number of domestic and international corporations placing advertisements in the airport terminal will increase and develop more advertising places and ultimately, revenue from advertising business will be further boosted in the future.

Retail

For the year ended at 31 December 2004, the annual revenue from the retail business of the group reached RMB 21.79 million, representing an increase of 90% comparing to last year. The main driving forces for this dramatic increase are: Enormous effort put into the retail market development by the Group, thorough research undertaken on the customer needs, "customer-oriented" operation concept, adjustment to the shop layout and merchandise structure. Moreover, the Group also expanded the retail spaces in the terminal building. In year 2005, the Group is going to enter cooperation with world famous retailer DFS, according to the agreement, the Company will terminate the domestic retail business and outsource them to DFS, the Company will therefore only operate the retail business in the international hall of the terminal building. As a result, it is estimated that the revenue from retail business will drop, but the Company will recognise other income for DFS.

Income from Concession

For the year ended 31 December 2004, revenue from the concession was RMB 13.99 million, representing a decrease of 43% comparing to last year, this is mainly due to the change on the concession fee payment method of the Catering Company and reduction on the outsourcing fee of Cargo Business sine 1 January 2004. As a result, the concession income from the Catering business for 2004 was RMB 2.08 million and the outsourcing income from the Cargo business was RMB 9.9 million, representing decreases of RMB2.3 million and RMB8.1 million respectively comparing to last year.

Financial Review **Structure of assets**

As at 31 December 2004, the total assets of the Group amounted to RMB1,703.95 million, an increase of 5.79% as compared to the previous year. The increase was mainly attributable to the increase of the company reserves brought by the net profit.



Cost Structure

In 2004, the total operating costs of the Group were RMB106.27 million, representing an increase of 17.6% and RMB15.94 million compared to last year; the administrative expenses were RMB 56.07 million, representing an increase of 5.9% and RMB 3.11 million compared to last year. The increase in expenses was attributable to the followings:

1. The revenue from retails increased by 90% comparing to the previous year, thus the cost of goods sold increased by RMB5.44 million, 92% up comparing with previous year.
2. According to the clauses stated in the General Logistic Service Contract with HNA Group, the logistic expense for 2004 was RMB9.5 million, which increased by RMB3 million or 46% comparing to last year.
3. The staff cost increased by 14% (or RMB4.19 million) comparing with previous year, it is mainly due to the increase in employees as well as the additional expenditure on the Housing Provident Fund.

Cash flows

In 2004, the Group's net cash flow from operating activities was RMB182.76 million, representing a decrease of 2%, the primary reason for the decrease was the increase in trade receivables. The Group's net cash flow from investing activities was RMB 99.6 million, which was contributed by the phase II expansion of the terminal building.

Pledge of the Group's Assets

The Company pledged its rights to revenues to secure a long-term bank loan of RMB128 million from China Development Bank.

Gearing Ratio

As at 31 December 2004, the current assets of the Group was approximately RMB670.22 million, the total assets was approximately RMB1,703.95 million, the current liability was approximately RMB126.22 million and the total liability was approximately RMB240.72 million. The Group's gearing ratio, representing the ratio of the total bank borrowing to the total asset, was 7.5%, a decrease of 0.4% in comparison to that of the previous year. The main reason for the improvement was the increase of the total assets.

Exposure to Foreign Exchange Risk

Except the purchase of certain equipment, goods and raw materials denominated in US Dollar, the Group's businesses were denominated in RMB. The dividends of H share of the shareholders was published by RMB and paid with HK Dollars. As at 31 December 2004, all of the Group's assets and liabilities are denominated in RMB, only cash and cash equivalents of approximately RMB5.187 million was denominated in HK Dollar and US Dollar. The fluctuation of the exchange rate of RMB to foreign currency may have an impact on the Group's results.

Financial Instruments

As at 31 December 2004, financial instruments of the Group were mainly comprised bank loans, cash and bank deposits. The purpose of those financial instruments is to finance the operation needs. Besides, the Group has other direct finance instruments in relation to daily operations, such as accounts receivable and accounts payable.

Contingent Liability

As at 31 December 2004, the Group or the Company did not have any significant contingent liabilities.

Purchase, Sales or Redemption of Shares

As at 31 December 2004, the Group or the Company has not purchased, sold or redeemed any of the Company's shares.

Employment, Training and Development

As at 31 December 2004, the Group had a total of 714 employees, representing an increase of 146 employees as compared to that of 2003. Total staff costs accounted for about 9.3% of total turnover, representing an increased of 14% as compared to the previous year. The reason of the increase in cost was mainly contributed by the increase in headcount, higher percentages on the Housing Provident Fund borne by the Company and the increase in the Seniority Payment etc.. Employees are remunerated based on their performance, experience and prevailing industry practices, and the Group will review the remuneration policy and its related combination on a regular basis. Bonuses and commissions may be awarded to employees as incentives based on their performance.

Retirement pension

The Company and its respective subsidiaries have participated in the employee retirement scheme operated by the relevant local government of the PRC. The relevant local government shall be responsible for the pension of the retired employees. The Group has to make contribution at a rate of 20% of the salary of the employees of permanent residence in the PRC after 1 January 2004 respectively. For the year ended 31 December 2004, the contribution for the pension was amounted to approximately RMB2.78 million (2003: RMB2.72 million).

Other Information

The Group has no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules in 2004.

Corporate Governance

For the year ended 31 December 2004, the board of directors of the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

To comply with the requirements from the latest version of the Listing Rules, the Company will incorporate "Corporate Governance Report" in its interim report and annual report starting from 2005 interim report.

Board of Directors

The Board of Directors shall perform its duties in an accountable manner and shall ensure the best interests of the Company. The functions of the Board of Directors shall include the review and approval of the Company's results and operations to be disclosed on a regular basis to the public, the review and approval of the Group's operating strategies, budget and the strategies in collaboration with international enterprises, as well as other major investments, application of funds and mergers and acquisitions with other enterprises. An Audit Committee under the Board of Directors was set up.

For the year ended 31 December 2004, the Board of Directors comprised three Independent Non-executive Directors, and the Company has received the Confirmation of Independency which is required by the Listing Rules of HKSE from these three Independent Non-executive directors before the disclosure of the annual report and the Company has confirmed their independency as required in accordance with the Listing Rules of HKSE. At the present, one third of the members of the Board of Directors are Independent Non-executive Directors. The Independent Non-executive Directors and Non-executive Directors of the Company are influential persons; they are well-experienced in the aviation industry in either domestic or international area, as well as in corporate governance, finance and laws, which are of crucial importance to the healthy and sustainable growth of the Company.

In 2004, the Company held four physical Board meetings for discussion of the annual results of 2003, the interim results of 2004 and some important issues including change of directors, change of international auditors and change of management system. In addition to the aforesaid four Board meetings, other Board meetings were held through electronic communication devices.

The Board of Directors treasures the relationship with shareholders and investors. Executive Directors of the Company would attend the results announcement meeting with analysts organised by the Company, and would make timely response to the questions and comments raised by public investors, fund managers and analysts.

The Company Secretary shall report to the Board of Directors and shall be responsible for the compliance of the Board Meeting procedures and the relevant rules and regulations.

Audit Committee

The Audit Committee under the Board of Directors comprises three Independent Non-executive Directors and the Independent Non-executive Directors Mr. Xu Bailing is the chairman.

The Audit Committee was established in September 2002. The duties of the Audit Committee are to review the appointment of auditors, to determine the auditors' remuneration, to monitor the work of external auditors and to review the financial reports of the Company and its internal financial control and reporting system.

In 2004, the Audit Committee reviewed the connected transaction of the Company, and made independent opinions regarding these connected transactions (including the cap amounts of the connected transaction during 2005 – 2007) and account receivables of the Company. The Audit Committee Meeting was held on 21 March 2005 and the committee reviewed the performance of the Group and presented opinions and recommendations to the Board of Directors.

Supervisory Committee

The Supervisory Committee shall be responsible for monitoring the Board of Directors and its members, CEO and other senior management to prevent the abuse of power which could possibly affect the interests of shareholders, the Company and the staff, as well as for reviewing the financial information contained in the financial reports, business reports and profit distribution proposals. And the members of the Supervisory Committee would also attend the Board Meeting.

In 2004, two Supervisory Committee's meetings were convened for reviewing the 2003 annual report and 2004 interim report respectively and had performed its duties in relation to the supervision of the performance of the Board of Directors and its members, CEO and other senior management.

Chief Executive Officer

In 2004, the Board of Directors of the Company has created the position of Chief Executive Officer (CEO) in charge of the integrated operation of the Company to improve the function of the management.

Investors Relations

The Company has engaged a professional financial public relations firm as the daily communication channel between investors and the Company. The financial public relations firm will answer the queries brought by investors and maintain active communications with investors and fund managers. The Company will publish the key operation data on a monthly basis and report the Company's latest development in relevant media and at the Company's website by means of press releases and announcements.

Public Float Requirement

As to the date of publication, from the public information held by the Company and the knowledge from the directors, the Public Float was 226,913,000 H shares, which contributes 47.95% of total shares. This satisfies the minimum requirement of 8.08 in the Listing Rules regarding the Public Float.

Directors, Supervisors and Senior Management

Executive Directors

Mr. Wang Zhen, aged 42, was appointed as Chief Executive Officer of the Company in March 2003 and an Executive Director of the Company in May 2003. Mr. Wang graduated from the Mechanics Department of the Civil Aviation University of China with a major in plane engines. He joined Hainan Airlines Company Limited in 1992 where he held a number of senior management positions. In May 2000, Mr. Wang held the position of executive vice president of Hainan Airlines. From January 2004, he also serves as the general manager of the Company.

Mr. Huang Qiu, aged 41, was appointed as Financial Controller of the Company in March 2003, and an Executive Director of the Company in May 2003, and Chief Financial Officer of the Company in July 2004. Mr. Huang graduated from the Civil Aviation University of China majoring in finance. He has been held positions in the finance division of the Southwest Administration Bureau of the General Administration of Civil Aviation of China ("CAAC"), the Chongqing subsidiary company of Southwest Airlines Company Limited as well as Sanya Phoenix International Airport Company Limited. Mr. Huang joined Hainan Airlines Company Limited in 1995 and held the positions of project manager, manager, deputy general manager and general manager of the finance department. From October 2001 to February 2003, Mr. Huang acted as Financial Controller of the Haikou Meilan Airport Company Limited.

Mr. Kristian Bjerneboe, aged 39, was appointed as an Executive Director of the Company in February 2003, and Chief Commercial Officer of the Company in July 2004. He holds a Master's degree in Management of Technology at the Sloan School of Management, Massachusetts Institute of Technology. He is a director and Head of International Projects Department of Copenhagen Airports A/S. He is responsible for international development, strategic planning, investment and acquisition activities of Copenhagen Airport. Prior to 2000, he was a consultant at McKinsey & Company and Head of Planning Department at Statens Serum Institute in Denmark.

Non-executive Directors

Mr. Chen Wenli, aged 41, was appointed as an Executive Director and Chairman of the Company in December 2000. He became a Non-executive Director and chairman of the Company in March 2003 and was re-appointed in January 2004. He graduated from China Civil Aviation Institute with an aeronautical engineering degree and obtained a license from the Federal Aviation Administration Airman Certification Branch. Mr. Chen served as the general manager of the maintenance engineering department, senior assistant to managing director and a director of Hainan Airlines Company Limited as well as assistant to the general manager and chief executive officer of the parent company – Haikou Meilan Airport Company Limited. Mr. Chen is currently also a director of HNA Group Company Limited.

Mr. Zhang Han'an, aged 59, was appointed as an Executive Director and the general manager of the Company in December 2000. Mr. Zhang has over 20 years of experience in military aviation in the PRC. From August 1998 to August 2000, Mr. Zhang acted as the deputy general manager and later a general manager for the parent company – Haikou Meilan Airport Company Limited. He resigned from the office of general manager of the Company and became a Non-executive Director of the Company in January 2004. Mr. Zhang is also the chairman of Hainan Meiya Enterprise Company Limited (the subsidiary of the parent company).

Mr. Kjeld Binger, aged 50, was appointed as a Non-executive Director of the Company in February 2003. He is an executive vice president and chief operating officer of Copenhagen Airport. He holds a bachelor's degree in Structural and Civil Engineering at Odense University in Denmark and joined Copenhagen Airports A/S in 1994 as Head of the Planning and Development Department. In 1997, he was appointed as the senior deputy vice president of Copenhagen Airports A/S. In 2000, he was appointed as the chief executive officer of CPHI, a subsidiary of Copenhagen Airports A/S, responsible for international development activities.

Directors, Supervisors and Senior Management

Independent Non-executive Directors

Mr. Xu Bailing, aged 72, was appointed as an Independent Non-executive Director of the Company in June 2001. Mr. Xu was the representative of the Fourth and Fifth National People's Congress and a member of the Ninth Chinese People's Political Consultative Conference. Mr. had worked for the Civil Aviation Beijing Administrative Bureau since 1954 holding various positions such as pilot, inspector and captain and was appointed as the deputy chief and chief of division in January 1977 and June 1979 respectively. Mr. Xu was then appointed as the associate director of CAAC in December 1986 and then as the chief executive officer of Air China in March 1988. He was appointed as a consultant of CAAC in August 1993.

Mr. Xie Zhuang, aged 51, was appointed as an Independent Non-executive Director of the Company in January 2004. Mr. Xie graduated from the Faculty of Law, Xi Nan College of Politics and Law and obtained a bachelor's degree in law. In December 1984, he was the vice presiding judge of the High Court (Civil Division) of Sichuan Province. In November 1986, he was the vice presiding judge of the High Court (Economic Division) of Sichuan Province, as well as the deputy director of the Trademark Committee of Sichuan Province's Industrial Property Rights Research Association. In October 1989, Mr. Xie became a postgraduate student of the Faculty of Law, Beijing University and attained a master's degree in economic law. After graduation, he became the vice presiding judge of the Higher People's Court (Economic Division) of Sichuan Province. In February 1993, he was transferred to the Intermediate People's Court of Haikou City and has successively taken up such posts as Judicial Committee member, the presiding judge of Real Estate Division and the vice presiding judge and presiding judge of First Economic Division. In 1998, he was honored with the title of Level 4 Senior Judge of the PRC.

Mr. Fung Ching Simon, aged 36, was appointed as an Independent Non-Executive Director of the Company in October 2004. Mr. Fung is the chief financial officer of Baoye Group Company Limited, an H-share company listed on the Mainboard of the Hong Kong Stock Exchange Company Limited. Prior to that, Mr. Fung had over 10 years of experience in auditing, accounting and business advisory with PricewaterhouseCoopers, Hong Kong. Mr. Fung graduated from the Queensland University of Technology, Australia and obtained a bachelor's degree in Accountancy. Mr. Fung is a Hong Kong resident. He is an associate member of the Hong Kong Society of Institute of Certified Public Accountants and a member of the CPA Australia.

Members of the Supervisory Committee

Mr. Zhang Cong, aged 46, was appointed as a Supervisor of the Company in December 2000 and was re-appointed in January 2004. Mr. Zhang graduated from the China Civil Aviation Institution in 1990 with a degree in English language and taught in the China Civil Aviation Institution from 1996 to 1999. From May 1997 to July 2000, he acted as the assistant to general manager, deputy general manager of the personnel department of Hainan Airlines Company Limited. Since July 2000, Mr. Zhang has been the general manager of the human resources department of HNA Group Company Limited.

Mr. Zhang Shusheng, aged 68, is a senior reporter. He was appointed as an Independent Supervisor of the Company in January 2004. He is a graduate of the Faculty of Chinese, Lan Zhou University majoring in Han Literature. He once worked for Gansu Daily and the People's Daily. In June 1994, he was transferred to China Civil Aviation News working as the chief editor and Party branch secretary and was responsible for the management of China Civil Aviation News. He has been the vice-chairman of Gansu Province Journalist Association, the president of the Association for Resident Correspondent in Gansu Province, the managing director of China Press Cultural Advancement Association and the director of China Civil Aviation Association. He has been working as a consultant of China Civil Aviation News since March 1999.

Ms. Zeng Xuemei, aged 35, was appointed as a Supervisor of the Company in July 2002. Ms. Zeng graduated with a degree in biochemistry in Qiong Zhou University in 1991. From May 1994 to December 2000, she acted as the secretary in the human resources training centre, aviation department and senior officer of staff duty office of Hainan Airlines Company Limited. Mr. Zeng worked in the administrative office of HNA Group Company Limited from May 2000 to September 2000. She then worked in the administrative office of Haikou Meilan Airport Company Limited from September 2000 to December 2000. Mr. Zeng is currently the administrative officer of the Company, the responsible for filing and database management.

Senior Management

Mr. Fang Zhen'an, aged 55, was appointed as the deputy general manager of the Company in December 2000 and was re-appointed in January 2004. He was appointed as Chief Security Officer of the Company in July 2004. Mr. Fang graduated with a degree in politics from Huanan Normal University in 1986. From 1993 to December 1997, Mr. Fang worked in Civil Aviation Hainan Administrative Bureau and had acted as the officer of Politics Bureau in 1996.

Mr. Hu Wentai, aged 49, was appointed as the deputy general manager of the Company in December 2000 and was re-appointed in January 2004. He was appointed as Chief Operation Officer of the Company in July 2004. Mr. Hu graduated with a diploma from Navy Institute of Logistic 1979.

Mr. Wei Chang Rong, aged 46, was appointed as Vice General Manager of the Company on April 4th, 2004 and CHO of the Company in July 2004. Mr. Wei graduated from No. 16 Aviation Institute of China Liberation Army Air Force with a degree in Aviation. He was the General Manager of Operation Support Department and Cabin and Ground Service Department in Hainan Airlines Co., Ltd.

Company Secretary

Mr. Bai Yan, aged 29, was appointed as the Company Secretary in April 2002. Mr. Bai graduated from the Economics Department of Northwestern University with a degree in international finance. From July 1997 to March 2002, he worked in the Securities Department of Hainan Airlines. In October 2000, Mr. Bai was assigned to assist in the establishment of the Company and the related restructuring and H share issue and listing process matters. He also has been responsible for handling the results disclosure and daily operation of the Board of Directors of the Company after its Listing.

Report of the Directors

The Board of Directors (the "Board") herein presents their report together with the audited financial statements of Hainan Meilan International Airport Company Limited ("Meilan Airport" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004.

Principal Activities

The Group is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of terminal facilities, ground handling services, passenger and cargo handling services. Its non-aeronautical businesses include commercial and retail spaces leasing at the Hainan Meilan Airport, airport-related business franchising, advertising space leasing, car parking business, tourism services, and sales of duty-free and consumable goods.

For the year ended 31 December 2004, the Group conducted its business within one business segment, i.e., the business of operating an airport and provision of related services in the PRC. The Group also operated within one geographical segment and its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

Operating Results and Financial Position

The Group's operating results (prepared in accordance with the International Financial Reporting Standards) for the year ended 31 December 2004, and the financial positions of the Group and the Company as at 31 December 2004 are set out from page 31 to page 33 of this annual report.

Final Dividend

The Board has passed the resolution to recommend the payment of a final dividend on or before 28 June 2005 (Tuesday) of RMB7.4 cents per share during the AGM to be held on 10 May 2005 (Tuesday) to shareholders of the Company whose names appear on the Company's Register of Members on 9 April 2005 (Saturday).

During the year 2004, the Company's audited after-tax profit based on the PRC accounting rules and regulations amounted to RMB168.53 million, and the audited after-tax profit based on the International Financial Reporting Standards amounted to RMB186.88 million. Pursuant to the stipulations of the Articles of Association of the Company, the Company's dividend distribution for the relevant accounting year should be based on the lower of the after-tax profit calculated in accordance with the aforesaid two accounting standards. In this regard, the dividend payment for the year 2004 will be based on the after-tax profit calculated in accordance with the PRC accounting standards.

Closing Register of Members

The Company's Register of Members will be closed from 9 April 2005 (Saturday) to 9 May 2005 (Monday) (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the annual general meeting and qualify for entitlement to the final dividend referred to above must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited, located at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 8 April 2005 (Friday) for completion of the registration of the relevant transfer.

Bank Borrowings

Details of the bank borrowings of the Group and the Company are set out in Note 20 to the accompanying financial statements.

Fixed Assets

Details of the fixed assets as at 31 December 2004 and the change in fixed assets of the Group and the Company for the year ended 31 December 2004 are set out in Note 13 to the accompanying financial statements.

Taxation

Details of taxation of the Group and the Company for the year ended 31 December 2004 are set out in Note 9 to the accompanying financial statements.

Reserves

Change in reserves of the Group and the Company for the year ended 31 December 2004 is set out in Note 28 to the accompanying financial statements. Distributable reserves of the Company as at 31 December 2004, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to RMB215,892,000 (2003: RMB138,516,000).

Donations

Charitable and other donations made by the Group during the year amounted to RMB130,000 (2003: Nil).

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2004 are set out in Note 16 to the accompanying financial statements.

Major customers and suppliers

The largest customer and the five largest customers of the Group represented 22 % and 43% of the total operating revenues of the Group for the year ended 31 December 2004, respectively.

The largest supplier and the five largest suppliers of the Group represented 11 % and 25 % of the total operating costs of the Group for the year ended 31 December 2004, respectively.

Mr. Chen Wenli, Chairman and Mr. Zhang Han'an, each being a Director of the Company, holds 35,640 and 20,000 staff shares, respectively, in Hainan Airlines Company Limited. Save for the foregoing, none of the Directors or their respective associates (as defined under the Rules Governing the Listing of Securities On The Stock Exchange of Hong Kong Limited ("the Listing Rules") or shareholders who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company, has any interests in any of such suppliers or customers.

Share Capital Structure

As at 31 December 2004, the total issued share of the Company was 473, 213, 000 shares. The percentage of the total shares is as follows:

	<i>Number of shares</i>	<i>Percentage in total issued</i>
Domestic shares	246,300,000	52%
H shares	226,913,000	48%
Total issued share	473,213,000	100%

Disclosure of interests

As at 31 December 2004, the following persons (other than directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register of interest in shares and short positions maintained under section 336 of the Securities and Futures Ordinance ("SFO"):

Long positions in shares

Domestic shares

<i>Name of shareholders</i>	<i>Capacity</i>	<i>Nature of shares</i>	<i>Ordinary shares capacity</i>	<i>Percentage of issued domestic shares/total issued shares</i>
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000	96.43/50.20

Report of the Directors

H shares

Name of Shareholders	Capacity	Nature of shares	No. of Ordinary shares (Note 3)	Percentage of total H shares in issue (%)	Date of latest disclosure (DD/MM/YYYY)
Copenhagen Airport A/S (Note 2)	Beneficial owner	Corporate	94,643,000	41.71 (L)	12/31/2004
Allianz Aktiengesellschaft	Beneficial owner	Corporate	21,012,000 (L)	9.26 (L)	13/09/2004
Morgan Stanley	Beneficial owner	Corporate	19,331,000 (L) 1,714,000 (S)	8.52 (L) 0.76 (S)	29/12/2004
J.P. Morgan Chase & Co.	Beneficial owner	Corporate	18,033,000 (L) 10,171,000 (P)	7.95 (L) 4.48 (P)	16/09/2004
Commonwealth Bank of Australia	Beneficial owner	Corporate	14,372,000 (L)	6.33 (L)	24/03/2004

Note:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
2. Copenhagen Airport A/S is a public company owned by the Danish government and other private and institutional investors in and outside Denmark, and the shares of which are listed on the Copenhagen Stock Exchange.
3. L = Long Position, S = Short Position, P = Lending Pool

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2004, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Use of proceeds from issue of H shares (since IPO)

- Approximately an accumulated amount of RMB94.38 million was applied as payment to the parent company of the Company for the acquisition of land use rights for the construction of Phase II expansion of the Meilan airport;
- Approximately an accumulated amount of RMB50.07 million was applied as cost for the expansion of the apron and terminal areas of the airport; and
- Approximately an accumulated amount of RMB15.50 million was applied to the construction of an international customs and inspection joint operation building for passenger and cargo transportation.
- Approximately an accumulated amount of RMB155.00 million was applied to the construction of Phase II of the terminal.

The remaining balance of the net proceeds is placed with creditworthy commercial banks in the PRC.

Connected Transactions

Related party transactions entered by the Group during the year ended 31 December 2004 which constitute connected transactions (the "Connected Transactions") under the Listing Rules, are disclosed in note 31 to the accompanying financial statements.

With respect to the Connected Transactions, the Independent Non-Executive Directors are of the opinion that those Connected Transactions:

- a) fall into the category of daily operation of the Company;
- b) were conducted on normal commercial terms, and
- c) were conducted in accordance with the clauses in the agreement governing such transactions except for those as referred to at (c) and (d) below. The clauses are fair and reasonable, and of the shareholders interests.

The international auditor of the company has performed agreed-upon procedures and reported to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Connected Transactions that:

- a) the Connected Transactions have been approved by the Board of Directors of the Company;
- b) the Connected Transactions are in accordance with the pricing policies as disclosed in the section of "Connected Transactions" of Directors' Report in the 2004 Annual Report;
- c) the Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing the Transactions except for the extension of credit periods and waiver of penalty interest that the Company was otherwise entitled to charge under certain governing agreements;
- d) the following Connected Transactions have exceeded the cap amounts specified in the conditional wavier letter of The Stock Exchange of Hong Kong Limited dated 5 November 2002:
 - the 2004 annual ground handling services with Hainan Airlines Company Limited amounted to RMB75 million, which exceeded the relevant cap amount of RMB70 million, as specified in the conditional wavier letter of The Stock Exchange of Hong Kong Limited;
 - the 2004 annual logistic composite services with HNA Group Company Limited amounted to RMB9.5 million, which exceeded the relevant cap amount of RMB6.5 million, as specified in the conditional wavier letter of The Stock Exchange of Hong Kong Limited.

Report of the Directors

The Management of the Company consider that in clause c) such an extension of credit period and the waiver of penalty interest arose in the ordinary course of business of the Company and was common to the manner in which all customers who have a long-term relationship with the Company were treated; and the Connected Transactions in clause d) which exceeded the relevant cap amounts were conducted in the ordinary course of business of the Company, the Company is applying to The Stock Exchange of Hong Kong Limited for exemption and preparing for the relevant announcement. The approval from the independent shareholders has also been applied.

Directors', supervisors' and chief executives' interests and short positions

As at 31 December 2004, none of the Directors or Supervisors or Chief Executives had any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be recorded in the register of the Company required to be kept under section 352 of the SFO. None of the Directors, Supervisors, Chief Executives or their spouses or their children under 18 is entitled to subscribe for the shares or debentures of the Company or the members of the Group.

Service contracts, interests in share capital and contracts by directors and supervisors

As at 31 December 2004, the Board Meeting of the Company comprises nine directors.

The Directors and Supervisors as at the date of this report are as follows:

Executive Directors

Wang Zhen	(appointed on 9 May 2003)
Huang Qiu	(appointed on 9 May 2003)
Kristian Bjerneboe	(appointed on 24 February 2003)

Non-executive Directors

Chen Wenli	(re-appointed on 19 January 2004)
Zhang Han'an	(re-appointed on 19 January 2004)
Kjeld Binger	(appointed on 24 February 2003)

Independent non-executive Directors

Xu Bailing	(re-appointed on 30 June 2004)
Xie Zhuang	(appointed on 19 January 2004)
Simon Fung Ching	(appointed on 11 October 2004)

Supervisors

Zhang Cong	(re-appointed on 19 January 2004)
Zhang Shusheng	(appointed on 19 January 2004)
Zeng Xuemei	(appointed on 19 July 2002)

Brief biographical details of the Directors and Supervisors are set out on page 17 to page 19 of this annual report. Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years.

None of the Directors, Supervisors or their respective spouses or children under 18 held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights to subscribe for shares in or debentures of the Company.

During the reported period, none of the Directors or Supervisors of the Company has any material interests in any contracts entered into by the Company or its subsidiaries.

Directors' and supervisors' interests in competing businesses

None of the Directors and Supervisors holds any interests in any competing businesses against the Company or any of its jointly-controlled entities or subsidiaries for the year ended 31 December 2004.

Remuneration of directors and supervisors

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, the remuneration paid to the Chairman and Executive Director of the Company was RMB70,000 per person; the remuneration paid to the Non-executive Director was RMB50,000 per person; the remuneration paid to the Independent Non-executive Director was RMB80,000 per person; and the remuneration paid to Supervisor was RMB20,000 per person. Save for Executive Directors and Supervisors representing staff, none of the Directors or Supervisors is entitled to any other remunerations of the Company. Save as the aforesaid benefits, the Executive Directors and Supervisors who are also Company's staff are also entitled to receive salaries in respect of their respective positions taken on full-time basis in the Company. Details of the remuneration of Directors and Supervisors are set out in Note 8 to the accompanying financial statements.

The highest paid individuals

The five highest paid individuals of the Group during the reported period were either Directors or senior executives of the Company. Details of their remuneration are set out in Note 8 to the accompanying financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no similar restriction against such rights under the relevant PRC law that applicable to the Company as a joint stock limited company incorporated in the PRC. Therefore, the Company is not obliged to offer new shares, if any, to its existing shareholders on a pro-rata basis.

Transactions in its securities

For the year ended 31 December 2004, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company has not redeemed any of its share capital during the year.

Entrusted deposits and overdue fixed deposits

The Group had no entrusted deposits and overdue fixed deposits as at 31 December 2004.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2004.

Auditors

The financial statements of the Group prepared in accordance with PRC accounting rules and regulations and those prepared in accordance with International Financial Reporting Standards were audited by Hainan Congxin Certified Public Accountant and PricewaterhouseCoopers, respectively. They retire and, being eligible, offer themselves for re-appointment. Resolutions to re-appoint these two firms will be submitted at the forthcoming annual general meeting of 2004.

Ernst & Young were auditors of the Company in the two financial years ended 31 December 2002 and 2003.

Report of the Directors

Audit Committee

The Company established an audit committee on 24 September 2002. The audit committee consists of three members who are also Independent Non-executive Directors. Mr. XuBailing, is the chairman.

Compliance with the Code of Best Practice

For the year ended 31 December 2004, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

To comply with the requirements from Appendix 23 of the Listing Rules, the Company will incorporate "Corporate Governance Report" in its interim report and annual report starting from 2005 interim report.

Compliance with Model Code for Securities Transactions by Directors of Listed Issues

Most of the directors of the Company are citizens of the mainland of the PRC and are restricted in the H shares transactions by the domestic laws. Therefore, the Company does not adopt any regulation under Model Code; none of the directors of the Company are not, for any part of the accounting period contained in the interim report, in compliance with the Model Code.

Five Year Financial Summary

A table of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4.

On behalf of the Board

Chen Weni

Chairman

Hainan Province, the PRC

22 March 2005

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2004, the Supervisory Committee of the Company and its members have duly performed its duties in an honest and stringent manner and have undertaken various activities in an active and prudent manner to protect the interests of the Company and its shareholders in accordance with the provisions of the Company law of the PRC (the "Company Law") and the Company's Articles of Association (the "Articles").

The major activities of the Supervisory Committee during 2004 were as follows:

1. Attending meetings of the Board of Directors, and monitoring the decision making process of the Board of Directors in terms of regulatory compliance, legality and managerial system;
2. Attending the meetings of the office of the Chairman of the Company, participating in other important activities of the Company in the ordinary course of business, and monitoring the daily operation and management by the CEO and other senior officers and providing constructive suggestions thereto; and
3. Review the financial statements of the Company on a regular basis and the books and accounts of the Company on an ad-hoc basis.

Having made the above efforts, the Supervisory Committee is of the view that the Directors, Chairman and other senior officers of the Company have diligently implemented their obligations under the Articles and the resolutions passed in general meeting by the shareholders of the Company, honestly discharged their official function and acted in the interests of the Company and its shareholders as a whole without prejudice to the interests of any individual shareholders or employee of the Company. The Supervisory Committee further confirms that the management of the Company has provided leadership to the staff in operation management and market expansion, under which satisfactory results were achieved. The accounts of income and expenses have been well maintained and the audit activities and financial management have been in compliance with the relevant rules and regulations.

Prior to the forthcoming annual general meeting of the Company, the Supervisory Committee has carefully reviewed the audited reports and financial statements of the Company prepared by the PRC and international auditors of the Company. It has also reviewed the Directors' report and profit distribution proposal to be presented to the shareholders. The Supervisory Committee is of the view that the above reports give a true and fair view of the operating and financial position of the Company for the period under review. It further confirms that the above reports and proposals are prepared in compliance with the relevant laws and regulations and the Articles.

The Supervisory Committee is confident in the future prospect of the Company. We would continue to monitor the Company, its Directors and the management in an effective manner, and to protect the interests of all our shareholders and the Company in its best endeavour.

By order of the Supervisory Committee,

Zhang Cong

Chairman of the Supervisory Committee

Hainan Province, the PRC

21 March 2005

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Annual General Meeting") of Hainan Meilan International Airport Company Limited (the "Company") will be held at 10 May 2005 (Tuesday), 10:00 a.m. at the meeting room of the Company on 3rd Floor, Meilan Airport Complex No. 6 Haikou City, Hainan Province, the People's Republic of China (the "PRC") to consider and, if thought fit, to pass the following resolutions:

By way of ordinary resolutions:

1. To consider and approve the working report of the Board of Directors of the Company for the year ended 31 December 2004;
2. To consider and approve the working report of the Supervisory Committee of the Company for the year ended 31 December 2004;
3. To consider and approve the audited financial statements of the Company as at and for the year ended 31 December 2004;
4. To consider and approve the final dividend distribution plan of the Company for the year ended 31 December 2004; and to authorise the Board of Directors of the Company to distribute such dividend to shareholders;
5. To consider and approve the re-appointment of PricewaterhouseCoopers (certified public accountants in Hong Kong) and Hainan Congxin (registered accountants in the PRC (excluding Hong Kong)) as the Company's international and domestic auditors for the financial year 2005, respectively, to hold office until the conclusion of the next annual general meeting, and to determine their remunerations;
6. To consider and approve the remuneration of Directors, Supervisors and the Company's Secretary of year 2005;
7. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent or more of the shares carrying the right to vote at such meeting.

By way of special resolutions:

8. To consider and, authorise the Board of Directors of the Company to:

Subject to any governmental and/or regulatory approval under the applicable law, issue, allot and deal with additional H Shares of the Company (not exceeding 20 per cent of the aggregate nominal amount of the H Shares in issue as at the date of passing of the shareholders' special resolution).

9. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent or more of the share carrying the right to vote at such meeting.

By order of the Board

Bai Yan

Company Secretary

Hainan Province, the PRC

22 March 2005

Notes:

- (A) Holders of the Company's overseas listed foreign invested shares (in the form of H Shares) whose names appear on the Company's Register of Members which is maintained by Computershare Hong Kong Investor Services Limited at the close of business on 9 April 2005 (Saturday) are entitled to attend and vote at the Annual General Meeting and qualified for the redemption of 2004 final dividend.
- (B) Holders of H Shares, who intend to attend the Annual General Meeting, must complete and return the written replies for attending the Annual General Meeting to the Office of the Secretary of the Board of Directors of the Company no later than 19 April 2005 (Tuesday).

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

Details of the Office of the Secretary to the Board of Directors of the Company are as follows:

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

- (C) Each holder of H Shares who has the right to attend and vote at the Annual 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 Annual 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 appointer or his attorney duly authorised in writing. If the instrument appointing a proxy is signed by an attorney of the appointer, 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 Annual General Meeting in order for such documents to be valid.
- (D) The Company's Register of Members will be closed from 9 April 2005 (Saturday) to 9 May 2005 (Monday) (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the Annual General Meeting and qualify for entitlement to the 2004 dividend of RMB 0.074 per share (for Domestic shares, including tax; while for H shares, excluding tax) 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 4:00 p.m. on 8 April 2005 (Friday) for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company.

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

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

- (E) The 2004 final dividend will be distributed on or around 28 June 2005 (Tuesday) to those shareholders whose names registered in the Company's Register of Members on around 9 April 2005 (Saturday).
- (F) The Annual General Meeting is expected to last not more than one day. Shareholders or proxies attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
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To the Shareholders of

Hainan Meilan International Airport Company Limited

(Formerly Hainan Meilan Airport Company Limited)

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

We have audited the accompanying consolidated balance sheet of Hainan Meilan International Airport Company Limited (the "Company") and its subsidiaries (together as the "Group") as at 31 December 2004, the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the balance sheet of the Company as at 31 December 2004. These financial statements set out on pages 31 to 62 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company standing alone and of the Group as of 31 December 2004, and of the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PRICEWATERHOUSECOOPERS

Certified Public Accountants

Hong Kong, 22 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Revenues			
Aeronautical		259,753	214,839
Non-aeronautical		100,272	93,094
	4	360,025	307,933
Business tax and levies		(13,932)	(6,932)
Cost of services and sale of goods		(106,267)	(90,328)
Gross profit		239,826	210,673
Selling and distribution costs		(2,977)	(1,616)
Administrative expenses		(56,069)	(52,959)
Investment income		–	3,670
Other gains		37	585
Profit from operations	5	180,817	160,353
Interest income		4,849	5,930
Interest expense	6	–	(11,720)
Profit before taxation		185,666	154,563
Taxation	9	(33)	(160)
Profit after taxation		185,633	154,403
Minority interests		44	(1,795)
Profit attributable to shareholders	10	185,677	152,608
Dividends	12	84,232	80,446
		RMB	RMB
Earnings per share	11		
– basic		39 cents	32 cents
– diluted		Not applicable	Not applicable

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet and Balance Sheet

As at 31 December 2004

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	860,120	717,464	858,321	714,853
Prepaid leases	14	170,131	168,301	170,131	168,301
Goodwill	15	3,650	4,063	–	–
Negative goodwill	15	(165)	(202)	–	–
Investments in subsidiaries	16(a)	–	–	18,094	18,094
		1,033,736	889,626	1,046,546	901,248
Current assets					
Inventories, at cost		3,874	2,853	48	28
Trade receivables, net	17	164,416	109,349	163,888	108,642
Other receivables and prepayments		10,504	9,660	9,714	8,680
Due from subsidiaries	16(b)	–	–	15,478	1,143
Due from related parties	31(b)	9,831	15,504	9,008	13,751
Held-to-maturity investments		–	90,000	–	90,000
Time deposits	18(a)	101,614	80,000	101,614	80,000
Cash and cash equivalents	18(b)	379,976	413,704	354,994	401,930
		670,215	721,070	654,744	704,174
Total assets		1,703,951	1,610,696	1,701,290	1,605,422
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	26	473,213	473,213	473,213	473,213
Share premium		627,037	627,037	627,037	627,037
Revaluation surplus	27	36,481	36,481	36,481	36,481
Statutory reserves	28	78,464	53,096	77,904	52,624
Retained earnings		211,990	135,913	215,892	138,516
Proposed dividends		35,018	67,669	35,018	67,669
		1,462,203	1,393,409	1,465,545	1,395,540
Minority interests	29	1,028	1,072	–	–

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Liabilities					
Non-current liabilities					
Long-term bank loans	20	103,000	128,000	103,000	128,000
Deferred income tax liabilities	21	11,503	11,503	11,503	11,503
		114,503	139,503	114,503	139,503
Current liabilities					
Trade and other payables	19	101,212	75,674	90,757	66,817
Due to subsidiaries	16(b)	–	–	5,485	3,562
Income tax payable		5	1,038	–	–
Current portion of long-term bank loans	20	25,000	–	25,000	–
		126,217	76,712	121,242	70,379
Total liabilities		240,720	216,215	235,745	209,882
Total equity and liabilities		1,703,951	1,610,696	1,701,290	1,605,422

The accompanying notes form an integral part of these financial statements.

On behalf of the Board

Chen Wenli
Chairman

Wang Zhen
Director and Chief Executive Officer

Huang Qiu
Director and Chief Financial Officer

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2004

	Note	Share capital RMB'000	Share premium RMB'000	Revaluation surplus RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2003		473,213	627,037	36,481	32,936	169,561	1,339,228
Net profit		-	-	-	-	152,608	152,608
Dividends							
– 2002 final paid		-	-	-	-	(85,650)	(85,650)
– 2003 interim paid		-	-	-	-	(12,777)	(12,777)
Transfer to statutory reserves	28	-	-	-	20,160	(20,160)	-
Balance at 31 December 2003		473,213	627,037	36,481	53,096	203,582	1,393,409
Representing:							
Share capital and reserves		473,213	627,037	36,481	53,096	135,913	1,325,740
2003 proposed final dividend		-	-	-	-	67,669	67,669
Balance at 31 December 2003		473,213	627,037	36,481	53,096	203,582	1,393,409
Balance at 1 January 2004		473,213	627,037	36,481	53,096	203,582	1,393,409
Net profit		-	-	-	-	185,677	185,677
Dividends							
– 2003 final paid		-	-	-	-	(67,669)	(67,669)
– 2004 interim paid		-	-	-	-	(49,214)	(49,214)
Transfer to statutory reserves	28	-	-	-	25,368	(25,368)	-
Balance at 31 December 2004		473,213	627,037	36,481	78,464	247,008	1,462,203
Representing:							
Share capital and reserves		473,213	627,037	36,481	78,464	211,990	1,427,185
2004 proposed final dividend		-	-	-	-	35,018	35,018
Balance at 31 December 2004		473,213	627,037	36,481	78,464	247,008	1,462,203

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Cash generated from operations	30(a)	190,279	199,147
Interest paid		(7,496)	(11,882)
Income tax paid		(28)	(52)
Net cash from operating activities		182,755	187,213
Cash flows from investing activities			
Purchase of property, plant and equipment		(170,193)	(11,523)
Proceeds from sale of property, plant and equipment	30(b)	–	32
Purchase of land use right		(4,239)	–
Purchase of additional interest in subsidiary		–	(9,800)
Purchase of held-to-maturity investments		–	(300,000)
Disposal of held-to-maturity investments		90,000	212,365
Purchase of available-for-sale investments		–	(398,829)
Disposal of available-for-sale investments		–	398,912
Increase in time deposits		(21,614)	(80,000)
Interest received		6,446	5,075
Net cash used in investing activities		(99,600)	(183,768)
Cash flows from financing activities			
Repayment of short-term bank loans		–	(50,000)
Drawdown of long-term bank loans		–	128,000
Repayment of long-term bank loans		–	(264,000)
Dividends paid to Company's shareholders		(116,883)	(98,427)
Expenses for placing and initial public offering		–	(9,066)
Net cash used in financing activities		(116,883)	(293,493)
Net decrease in cash and cash equivalents			
		(33,728)	(290,048)
Cash and cash equivalents at beginning of year		413,704	703,752
Cash and cash equivalents at end of year	18	379,976	413,704

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2004

1 Company organisation and principal activities

Hainan Meilan International Airport Company Limited (formerly "Hainan Meilan Airport Company Limited" and hereinafter the "Company") was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 28 December 2000. The Company and its subsidiaries (together as the "Group") are mainly engaged in the operation of the Meilan Airport in Hainan, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

On 18 November 2002, 198,000,000 newly issued H shares of the Company and 3,700,000 existing state-owned shares (after conversion to H shares) were offered, at a premium, to the public and were subsequently traded on The Stock Exchange of Hong Kong Limited. On 9 December 2002, 25,213,000 additional H shares were issued.

On 31 July 2003, the General Administration of Civil Aviation of China (the "CAAC") granted the qualification of international airport to the Meilan Airport and it was then eligible to operate international routes. With effect from 25 March 2004, the Company's name was changed from Hainan Meilan Airport Company Limited to Hainan Meilan International Airport Company Limited.

In the opinion of the directors, the ultimate holding company is Haikou Meilan International Airport Company Limited, a company established in the PRC with limited liability.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Group accounting

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note 2(f) below for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

In the Company's financial statements, interests in subsidiaries are carried at cost less provision for impairment in value. The results of the subsidiaries' operations are accounted for to the extent of dividends received and receivable. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

2 Principal accounting policies (continued)

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The financial statements are presented in Renminbi ("RMB"), which is the measurement currency of the parent.

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(d) Property, plant and equipment

Property, plant and equipment are stated at original cost or revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the directors, less accumulated depreciation and impairment losses. In the intervening years, the directors review the carrying amounts of the property, plant and equipment and adjustment is made where there has been a material change.

Increases in the carrying amount arising on revaluation of buildings are credited to revaluation surplus reserve in the shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus reserve; all other decreases are charged to the income statement.

Depreciation is calculated on the straight-line method to write off the cost or revalued amount less accumulated impairment losses of each asset to their residual value of 3% over their estimated useful life as follows:

Buildings and improvements	15 – 40 years
Machinery and equipment	10 – 15 years
Motor vehicles	10 years
Furniture, fixtures and other equipment	6 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit from operations. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Notes to the Financial Statements

Year ended 31 December 2004

2 Principal accounting policies (continued)

(d) Property, plant and equipment (continued)

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the cost of construction, costs of plant and equipment and other direct costs plus cost of borrowings (including interest charges and exchange differences arising from foreign currency borrowings to the extent these exchange differences are regarded as an adjustment to interest costs) used to finance these projects during the period of construction or installation and testing. Assets under construction are not depreciated until such time as the relevant assets are completed and ready for their intended use.

(e) Prepaid leases

Costs of prepaid leases are recognised as an expense on the straight-line basis over the period of the lease.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life of ten years. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(g) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

(h) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

2 Principal accounting policies (continued)

(i) Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(j) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(1) *The Group is the lessee*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(2) *The Group is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(k) Inventories

Inventories consist mainly of merchandise for resale and consumable items. Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Net realisable value of consumable items is the expected amount to be realised from use, whereas that of raw materials and merchandise for resale are the estimated selling price in the ordinary course of business, less the costs of completion and marketing and distribution expenses.

(l) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the effective interest rate.

Notes to the Financial Statements

Year ended 31 December 2004

2 Principal accounting policies (continued)

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in the current liabilities on the balance sheet.

(n) Share capital

- (1) Ordinary shares with discretionary dividends are classified as equity.
- (2) Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

(o) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Deferred income taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee benefits

(1) Pension obligations

For defined contribution plans, the Group participates in employee retirement schemes regarding pension benefits required under existing PRC legislation. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees. The regular contributions, which are charged to the income statement on an accrual basis, constitute net periodic costs for the year in which they are due and as such are included in staff costs. Once the contributions have been paid, the Group has no further payment obligations.

2 Principal accounting policies (continued)

(q) Employee benefits (continued)

(2) Bonus entitlements

A liability for employee benefits in the form of bonus entitlements is recognised in payroll and welfare payable when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus entitlements are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain that reimbursement will be received if the Group settles the obligation.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenues are shown net of value-added tax, if applicable, and are recognised on the following bases:

- (i) Airport fee is recognised upon receipt from outbound passengers when departing from the airport.
- (ii) Aeronautical revenues other than airport fee are recognised when the related airport services are rendered.
- (iii) Revenues from duty free shops and other shops, air catering, restaurants and lounges are recognised upon delivery of goods and/or when title is passed to customers, or upon rendering of services.
- (iv) Rental income is recognised on the straight-line basis over the lease periods.
- (v) Advertising income is recognised on the straight-line basis over the period of display of the advertisements.
- (vi) Car parking fees are recognised when the parking services are rendered.
- (vii) Franchise fee is recognised on the straight-line basis during the period of granting the right of operations;
- (viii) Management fee is recognised when the related management services are rendered;
- (ix) Tourism income is recognised when the services are rendered.
- (x) Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Notes to the Financial Statements

Year ended 31 December 2004

2 Principal accounting policies (continued)

(t) Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

(u) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(v) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(w) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

(x) Comparatives

The Group previously disclosed trade receivable of RMB65,810,000 due from a related party with 'Due from related parties'. Management believes that this inclusion in 'Trade receivables, net' is a fairer presentation of the Group's activities.

The Company previously disclosed amounts due from subsidiaries of RMB1,143,000 and amounts due to subsidiaries of RMB3,562,000 with 'Investments in subsidiaries'. Management believes that their inclusion under 'Current assets' and 'Current liabilities, respectively is a fairer presentation of the activities of the Company standing alone.

3 Financial risk management

(a) Financial risk factors

The Group and the Company conduct their operations in the PRC and accordingly are subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, influence of national authorities over pricing regulation and competition in the industry.

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that purchases of certain equipment, goods and materials and payment of consulting fee are in US dollars. Dividends to shareholders holding H shares are declared in RMB and paid in Hong Kong dollars. As at 31 December 2004, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB5,187,000 (2003: RMB9,656,000) were denominated in Hong Kong dollars and US dollars. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The interest rates and terms of repayment of the bank loans of the Group and the Company are disclosed in note 20.

(iii) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of held-to-maturity investments, trade receivables, other receivables and prepayments and due from related parties. The maximum credit risk exposure in the event that other parties fail to perform their obligations under these financial instruments was approximately RMB184,751,000 and RMB224,513,000 as at 31 December 2004 and 2003 respectively.

(iv) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its construction commitments.

(b) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Notes to the Financial Statements

Year ended 31 December 2004

4 Revenues and segment information

The Group conducts its business within one business segment – the business of operating an airport and provision of related services in the PRC. As the products and services provided by the Group are all related to the operation of an airport and subject to similar business risks, no segment income statement has been prepared by the Group for the year ended 31 December 2004. The Group also operates within one geographical segment because its revenues are primarily generated and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

Analysis of revenues by category	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Aeronautical:		
Passenger charges	101,819	84,620
Aircraft movement fees and related charges	42,222	38,297
Airport fee	90,176	71,668
Ground handling services income	25,536	20,254
	259,753	214,839
Non-aeronautical:		
Retailing	21,788	11,450
Franchise fee	13,992	24,493
Rental	19,307	15,964
Tourism	22,165	21,977
Advertising	8,247	6,192
Car parking	5,072	2,963
Management fee	–	2,472
Others	9,701	7,583
	100,272	93,094
Total revenues	360,025	307,933

5 Profit from operations

The following items have been included in arriving at profit from operations:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Cost of goods sold	11,366	5,929
Depreciation of property, plant and equipment	34,582	31,313
Amortisation of prepaid leases	2,409	3,731
Loss on disposal of property, plant and equipment	452	674
Repairs and maintenance expenditure on property, plant and equipment	6,702	4,365
Amortisation of goodwill (included in cost of services and sale of goods)	413	69
Amortisation of negative goodwill (included in other gains)	(37)	(37)
Operating lease rentals		
– buildings	509	509
Trade receivables		
– (reversal)/impairment charge for bad and doubtful debts	(2,176)	1,876
Staff costs (<i>note 7</i>)	33,364	29,176
Auditors' remuneration	2,121	2,603

6 Interest expense

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Interest on bank loans		
– wholly repayable within five years	–	12,812
– not wholly repayable within five years	7,496	484
	7,496	13,296
Less: interest capitalised (<i>note 13</i>)	(7,496)	(1,576)
	–	11,720

Notes to the Financial Statements

Year ended 31 December 2004

7 Staff costs

	2004 RMB'000	2003 RMB'000
Wages and salaries	24,737	21,316
Pension costs – statutory pension (note 22)	2,784	2,717
Staff welfare	1,163	1,336
Housing fund (note 23)	1,587	363
Medical benefits	928	907
Other allowances and benefits	2,165	2,537
	33,364	29,176

As at 31 December 2004, the Group and the Company had 714 and 538 (2003: 568 and 410) employees respectively.

8 Directors' senior executives' and supervisors' emoluments

	2004 RMB'000	2003 RMB'000
Directors' and supervisors' emoluments		
Fees	655	644
Salaries and other benefits	217	310
Bonuses	266	256
Retirement scheme contributions	27	70
	1,165	1,280

Directors' fee disclosed above included RMB236,000 (2003: RMB160,000) paid to independent non-executive directors.

For the years ended 31 December 2004 and 2003, the annual emoluments paid to each of the directors, supervisors and the five highest-paid employees fell within the band from RMB nil to RMB1 million.

No directors waived or agreed to waive any emoluments during the year.

Five highest-paid employees included three directors (2003: five directors), whose emoluments have been included in the above disclosure. Details of emoluments of another two highest-paid employees (2003: nil) were:

	2004 RMB'000	2003 RMB'000
Basic salaries and allowances	90	–
Bonuses	132	–
Retirement scheme contributions	21	–
	243	–

During the year, no emolument was paid to the five directors, supervisors and any of the five highest-paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.

9 Taxation

Enterprise income tax

Hong Kong profits tax has not been provided as the Group had no estimated assessable profits arising in Hong Kong during the year (2003: Nil). Taxation in the income statement represents provision for PRC enterprise income tax.

The difference between the annual taxation charge in the consolidated income statement and the amount which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	185,666	154,563
Tax calculated at a tax rate of 15% (2003: 15%)	27,850	23,184
Effect of tax holidays	(28,231)	(26,198)
Effect of current year losses of subsidiaries	108	106
Investment income not subject to income tax	(28)	(81)
Expenses not deductible for tax purposes	334	3,149
Tax charge	33	160

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (2003: 15%) on the taxable income as reported in their statutory accounts which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

Pursuant to the approval documents issued by Hainan Qiongsan State Tax Bureau, the Company has been granted full exemption from enterprise income tax from 2000 to 2004 and a 50% reduction from 2005 to 2009.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB332,000 (2003: RMB223,000) in respect of the tax losses of the Group's subsidiaries as at 31 December 2004 of approximately RMB2,285,000 (2003: RMB1,541,000). Losses amounting to RMB814,000, RMB727,000 and RMB744,000 expire in 2007, 2008 and 2009 respectively.

Except for the tax losses carry-forwards as referred to in the preceding paragraph, there are no other material deferred income tax assets not recognised.

Business taxes

The Group is subject to business taxes on its service revenues at the following rates:

Aeronautical revenues	3% of service revenue
Non-aeronautical revenues	5% of rental income, advertising income, car parking fee income and repairs and maintenance service income

Value-Added Tax ("VAT")

VAT is levied at general rate of 4% on the selling price of goods and services.

Notes to the Financial Statements

Year ended 31 December 2004

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB186,888,000 (2003: RMB157,503,000).

11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Profit attributable to shareholders (RMB'000)	185,677	152,608
Weighted average number of ordinary shares in issue (in thousands)	473,213	473,213
Basic earnings per share (RMB per share)	39 cents	32 cents

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2004 and 2003.

12 Dividends

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Interim, paid, of RMB10.4 cents (2003: RMB2.7 cents) per ordinary share	49,214	12,777
Final, proposed, of RMB7.4 cents (2003: RMB14.3 cents) per ordinary share	35,018	67,669
	84,232	80,446

At the Board of Directors' meeting held on 22 March 2005, the directors of the Company proposed a final dividend of RMB7.4 cents per ordinary share. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31 December 2005.

13 Property, plant and equipment

Movements in property, plant and equipment of the Group were:

	Buildings and improvements <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and other equipment <i>RMB'000</i>	Assets under construction <i>RMB'000</i>	2004 Total <i>RMB'000</i>	2003 Total <i>RMB'000</i>
Cost or valuation							
At beginning of year	624,968	77,871	39,364	17,142	771	760,116	700,844
Additions	9,693	1,359	6,086	2,770	157,782	177,690	64,329
Transfer	1,499	–	–	26	(1,525)	–	–
Disposals	–	–	(1,063)	(24)	–	(1,087)	(1,057)
Reclassification	–	–	(306)	306	–	–	–
Government grant	–	–	–	–	–	–	(4,000)
At end of year	636,160	79,230	44,081	20,220	157,028	936,719	760,116
Accumulated depreciation							
At beginning of year	19,519	9,508	7,892	5,733	–	42,652	11,690
Charge for the year	16,960	7,797	7,142	2,683	–	34,582	31,313
Disposals	–	–	(612)	(23)	–	(635)	(351)
Reclassification	–	–	(74)	74	–	–	–
At end of year	36,479	17,305	14,348	8,467	–	76,599	42,652
Net book value							
At end of year	599,681	61,925	29,733	11,753	157,028	860,120	717,464
At beginning of year	605,449	68,363	31,472	11,409	771	717,464	689,154

Had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation, the carrying amounts of each class would have been:

	Buildings and improvements <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and other equipment <i>RMB'000</i>	Assets under construction <i>RMB'000</i>	2004 Total <i>RMB'000</i>	2003 Total <i>RMB'000</i>
Cost	675,135	99,906	55,331	24,756	157,028	1,012,156	835,554
Accumulated depreciation	109,056	40,671	25,807	13,334	–	188,868	157,096
	566,079	59,235	29,524	11,422	157,028	823,288	678,458

Notes to the Financial Statements

Year ended 31 December 2004

13 Property, plant and equipment (continued)

Movements in property, plant and equipment of the Company were:

	Buildings and improvements <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and other equipment <i>RMB'000</i>	Assets under construction <i>RMB'000</i>	2004 Total <i>RMB'000</i>	2003 Total <i>RMB'000</i>
Cost or valuation							
At beginning of year	624,968	77,871	38,849	12,738	745	755,171	697,060
Additions	9,693	1,359	6,086	2,565	157,782	177,485	63,008
Transfer	1,499	–	–	–	(1,499)	–	–
Disposals	–	–	(1,063)	(24)	–	(1,087)	(897)
Government grant	–	–	–	–	–	–	(4,000)
At end of year	636,160	79,230	43,872	15,279	157,028	931,569	755,171
Accumulated depreciation							
At beginning of year	19,519	9,508	7,738	3,553	–	40,318	10,120
Charge for the year	16,960	7,797	6,968	1,840	–	33,565	30,447
Disposals	–	–	(612)	(23)	–	(635)	(249)
At end of year	36,479	17,305	14,094	5,370	–	73,248	40,318
Net book value							
At end of year	599,681	61,925	29,778	9,909	157,028	858,321	714,853
At beginning of year	605,449	68,363	31,111	9,185	745	714,853	686,940

Had the property, plant and equipment of the Company been carried at historical cost less accumulated depreciation, the carrying amounts of each class would have been:

	Buildings and improvements <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and other equipment <i>RMB'000</i>	Assets under construction <i>RMB'000</i>	2004 Total <i>RMB'000</i>	2003 Total <i>RMB'000</i>
Cost	675,135	99,906	55,122	19,816	157,028	1,007,007	830,609
Accumulated depreciation	109,056	40,671	25,781	12,344	–	187,852	157,096
	566,079	59,235	29,341	7,472	157,028	819,155	673,513

13 Property, plant and equipment (continued)

Leased assets included in the above table, where the Group is a lessor, comprise buildings leased to third parties under operating leases:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Cost	26,072	26,072
Accumulated depreciation	1,606	918
Net book value	24,466	25,154

An valuation of the property, plant and equipment of the Group was performed at 31 August 2002 by Vigers Hong Kong Ltd., independent professionally qualified surveyors, for the purpose of the listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited. Except for the valuation of property which was based on a combination of the open market value and depreciated replacement cost, the valuation of the remaining plant and equipment was based on the open market method. The depreciated replacement cost approach considers the costs to reproduce or replace in new condition the property appraised, in accordance with current construction costs for similar property in the locality, less depreciation whether arising from physical, functional or economic causes. The valuer assumed that the buildings and assets under construction will be used for the purposes for which they are presently used and did not consider alternative uses. A net valuation surplus of approximately RMB41,449,000 resulted from the revaluation, net off deferred income tax liabilities of RMB4,968,000, was recorded in the note 27.

In the opinion of directors, the fair value of the property, plant and equipment is not materially different from their carrying amount as at 31 December 2004.

Interest expenses capitalised to assets under construction for the year ended 31 December 2004 amounted to RMB7,496,000 (2003: RMB1,576,000) (note 6). Total accumulated interest expenses capitalised to assets under construction as at 31 December 2004 is RMB9,072,000 (2003: RMB1,576,000).

14 Prepaid leases

As at 31 December 2004, the prepaid leases represent land use rights and comprised:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Cost	179,499	175,260
Accumulated amortisation	9,368	6,959
Net	170,131	168,301

The land use rights are amortised on the straight-line basis over the terms of 50 to 70 years.

As at 31 December 2004, the legal formalities for the transfer of title of certain land use rights amounting to RMB4,239,000 (2003: RMB94,380,000) were still in progress.

Notes to the Financial Statements

Year ended 31 December 2004

15 Goodwill and negative goodwill

The amount of goodwill and negative goodwill, capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries are as follows:

	The Group			
	Goodwill		Negative goodwill	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost				
At beginning and end of year	4,132	4,132	(260)	(260)
Accumulated amortisation				
At beginning of year	(69)	–	58	21
Amortisation for the year	(413)	(69)	37	37
At end of year	(482)	(69)	95	58
Net book amount				
At end of year	3,650	4,063	(165)	(202)

16 Investments in subsidiaries

(a) Details of investments in subsidiaries are as follows:

	The Company	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	18,094	18,094

As at 31 December 2004, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability company and operating in the PRC:

Name	Place and date of establishment	Percentage of equity interest held by the Company		Amount of Issued and fully paid capital <i>RMB'000</i>	Principal activities
		Directly	Indirectly		
Hainan Meilan International Airport Advertising Co., Ltd.	PRC 8 June 1999	95	4.75	1,000	Provision of advertising services
Hainan Meilan International Airport Travelling Co., Ltd.	PRC 13 November 2001	95	–	11,000	Provision of tourism services
Hainan Meilan Duty Free Shop Limited	PRC 11 May 1999	95	–	1,000	Duty free shop

(b) The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

17 Trade receivables, net

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivables from third parties	32,172	31,556	31,615	30,777
Less: provision for impairment	(2,215)	(4,391)	(2,186)	(4,319)
	29,957	27,165	29,429	26,458
Trade receivables from related parties (note 31(b))	105,419	82,184	105,419	82,184
Airport fee receivable (note 19(i))	29,040	–	29,040	–
	164,416	109,349	163,888	108,642

At 31 December 2004, the ageing analysis of the trade receivables from third parties was as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 90 days	22,375	21,474	22,358	21,128
Over 90 days but within 180 days	5,906	2,795	5,604	2,641
Over 180 days but within 365 days	972	1,804	814	1,748
Over 365 days	704	1,092	653	941
	29,957	27,165	29,429	26,458

The credit terms given to trade customers are determined on individual basis with the normal credit period from 3 to 6 months.

At 31 December 2004, the ageing analysis of the trade receivables from related parties was as follows:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Within 90 days	53,416	48,076
Over 90 days but within 180 days	24,461	28,647
Over 180 days but within 365 days	25,043	5,427
Over 365 days	2,499	34
	105,419	82,184

The credit terms given to related parties are determined on individual basis with the normal credit period from 3 to 6 months.

Trade receivables from related parties included amount due from Hainan Airlines Company Limited of RMB79,004,000, of which RMB63,000,000 was settled in January 2005.

Airport fee receivable is aged within 180 days.

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18 Time deposits and cash and cash equivalents

(a) Time deposits

At 31 December 2004, the Group and the Company had two deposits (2003: two deposits) placed with Xiamen International Bank amounting to RMB81,614,000 (2003: RMB80,000,000) and one deposit (2003: Nil) placed with China Merchants Bank, Shenzhen Shatoujiao Branch amounting to RMB20,000,000. The deposits placed with Xiamen International Bank earn interest at 1.89% per annum and have maturity date of 20 April 2005 and the deposit placed with China Merchants Bank, Shenzhen Shatoujiao Branch earns interest at 1.98% per annum and has maturity date of 22 April 2005.

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash at bank and in hand	379,976	213,704	354,994	201,930
Short term bank deposits	–	200,000	–	200,000
	379,976	413,704	354,994	401,930

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits of 2003 are made for varying period of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short deposit rates.

19 Trade and other payables

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade payables	4,699	2,225	1,355	–
Other payables	52,867	52,440	46,635	46,688
Deposit received	1,281	1,452	1,281	1,452
Airport fee payable (note (i))	–	7,867	–	7,867
Due to related parties (note 31(b))	42,365	11,690	41,486	10,810
	101,212	75,674	90,757	66,817

As at 31 December 2004 and 2003, all trade payables were aged within one year.

Note (i): In previous years, the Company was required to collect on behalf of the CAAC the civil airport management and construction fee (the "Airport Fee"), subject to certain exemptions, from each outbound passenger (RMB50 per domestic passenger and RMB70 per international passenger), CAAC refunded 50% of the fee collected to the Company as revenue. Tourism development fund (RMB20 per passenger) was collected together with the Airport Fee from each outbound international passenger on behalf of and payable to the PRC government after deducting certain handling charges. Effective from 1 September 2004, the Airport Fee and the tourism development fund are collected by CAAC directly. CAAC will pay 50% of the Airport Fee to the Company as revenue.

20 Long-term bank loans

As at 31 December 2004, all of the bank borrowings were borrowed by the Group and the Company to finance the construction of the airport terminal, the related premises and facilities and were guaranteed by a floating charge over the Company's revenues.

As at 31 December 2004, loans of RMB128,000,000 (2003: RMB128,000,000) denominated in RMB bear interest at commercial rates 5.76% per annum (2003: 5.76% per annum) with maturities through 2013 (2003: through 2013).

The Group's and Company's bank borrowings were repayable as follows:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Within one year	25,000	–
In the second year	50,000	25,000
In the third to fifth year	41,000	87,000
After five years	12,000	16,000
	128,000	128,000
Less: Current portion of long-term bank loans included in current liabilities	(25,000)	–
	103,000	128,000

21 Deferred income tax liabilities

The deferred income tax liabilities arising from the difference between the depreciation and amortisation for accounting purpose and the depreciation and amortisation for tax purpose of the following assets:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Prepaid leases	6,535	6,535
Property, plant and equipment	4,968	4,968
	11,503	11,503
Deferred income tax liabilities to be recovered:		
– after more than 12 months	11,262	11,503
– within 12 months	241	–
	11,503	11,503

22 Pensions

All of the Group's full-time employees, who are permanent PRC citizens, are covered by a state-sponsored pension scheme and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the state-sponsored retirement plan at a rate of 20% of the employees' salaries in 2004 and 2003.

The Group provides no other retirement benefits than those described above.

Notes to the Financial Statements

Year ended 31 December 2004

23 Housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 15% (2003: 5%) of the specified salary amount of its full-time employees, who are permanent PRC citizens. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2004, the Group's contribution to the housing fund was approximately RMB1,587,000 (2003: RMB363,000).

As at 31 December 2004 and 2003, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

24 Financial assets and financial liabilities

The carrying amounts of the Group's and the Company's long-term bank loans at 31 December 2004 approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

The fair value of cash and cash equivalents, held-to-maturity investments, trade receivables, other receivables, amounts due from and to related parties, trade payables, other payables and current portion of long-term bank loans are not materially different from their carrying amounts.

Fair value estimates are made at specific point in time and are based on relevant market information. This estimate is subjective in nature and involves uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

25 Commitments

Capital commitments

Capital expenditure in respect of buildings and improvements at the balance sheet date is as follows:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Contracted but not provided for	77,105	3,520
Authorised but not contracted for	198,259	434,015
	275,364	437,535

Operating lease commitments – where the Group and the Company are the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Not later than 1 year	646	910
Later than 1 year but not later than 5 years	509	1,019
	1,155	1,929

25 Commitments (continued)

Operating lease commitments – where the Group and the Company are the lessor

The future minimum lease payment receivables under non-cancellable operating leases for buildings are as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Not later than 1 year	5,681	9,293	1,937	6,593
Later than 1 year but not later than 5 years	693	1,494	268	1,397
	6,374	10,787	2,205	7,990

On 24 September 2004, the Company entered into an agreement with Duty Free Shoppers Hong Kong Limited ("DFS") to rent the commercial area inside the terminal centre of the Meilan Airport to DFS for rental income based on the departing passengers throughput and for a concession fee based on the sales revenue generated by DFS for a period of 10 years from the date DFS shall pay the rental charge and concession fee to the Company. DFS is expected to commence its operations in the Meilan Airport in mid 2005.

26 Share capital

	Number of shares (thousands)	Ordinary shares RMB'000
Domestic shares of RMB1 each, fully paid	246,300	246,300
H shares of RMB1 each, fully paid	226,913	226,913
At beginning and end of year	473,213	473,213

27 Revaluation surplus

This relates to surplus on the revaluation of property, plant and equipment of the Group and the Company.

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
At beginning and end of year	36,481	36,481

28 Statutory reserves

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, when distributing the net profit of each year, the Company shall set aside 10% of its profit after taxation (based on the Company's local statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% for the statutory public welfare fund. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees. Titles to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Notes to the Financial Statements

Year ended 31 December 2004

29 Minority interests

	The Group	
	2004 RMB'000	2003 RMB'000
At beginning of year	1,072	6,679
Purchase of additional interests in a subsidiary	–	(5,668)
Share of net (loss)/profit of subsidiaries	(44)	1,795
Dividend paid	–	(1,734)
At end of year	1,028	1,072

30 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to cash generated from operations

	The Group	
	2004 RMB'000	2003 RMB'000
Profit before taxation	185,666	154,563
Adjustments for:		
Interest expense	–	11,720
Interest income	(4,849)	(5,930)
Depreciation and amortisation	36,991	35,044
Amortisation of goodwill	413	69
Amortisation of negative goodwill	(37)	(37)
Loss on sale of property, plant and equipment	452	674
(Reversal of)/impairment charge of provision for bad and doubtful debts	(2,176)	1,876
Investment income	–	(3,670)
(Increase)/decrease in receivables and prepayments	(49,660)	4,692
Increase in trade and other payables	24,500	702
Increase in inventories	(1,021)	(556)
Cash generated from operations	190,279	199,147

(b) In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	The Group	
	2004 RMB'000	2003 RMB'000
Net book amount	452	706
Loss on sale of property, plant and equipment	(452)	(674)
Proceeds from sale of property, plant and equipment	–	32

31 Related party transactions

The Company is controlled by Haikou Meilan International Airport Co., Ltd (the "Parent Company") established in the PRC which owns 50% of the Company's shares. Copenhagen Airports A/S ("CPHA") owns 20% of the Company's shares. Hainan Airlines Company Limited ("Hainan Airlines") and HNA Group Co., Ltd. ("HNA Group") owns 1.2% and 0.8%, respectively, of the Company's shares. The remaining 28% of the shares are widely held.

- (a) The following is a summary of significant transactions of the Group carried out with related parties in the ordinary course of business during the year:

Name of related party	Relationship with the Company	Nature of transactions	Notes	The Group	
				2004 RMB'000	2003 RMB'000
Revenues:					
Yangzijiang Air Express Company Limited (Yangzijiang Air Express")	Subsidiary of HNA Group	Income from franchise fee for the operation of the cargo centre	(i)	9,900	18,000
Hainan Airlines Food Company Limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	(ii)	2,078	4,380
Hainan Airlines	Shareholder	Income for the provision of customary airport ground services	(iii)	75,037	65,539
		Rental income for the leasing of office and commercial space	(iv)	5,839	5,831
Southern Airlines	Promoter	Income for the provision of customary airport ground services	(iii)	38,957	41,496
		Rental income for the leasing of office and commercial space	(iv)	6,294	5,906
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	(iii)	2,498	1,619
Expenses:					
Haikou Meilan International Airport Co. Ltd.	Parent company	Airport composite services charged by the Parent Company	(v)	11,222	9,900
		Rental expense paid for the leasing of office and commercial space	(vi)	509	509
HNA Group	Shareholder	Logistic composite services charged by HNA Group	(vii)	9,500	6,500
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	(viii)	6,011	4,146
Sharing of customary airport ground services income:					
Haikou Meilan International Airport Co. Ltd.	Parent Company	Sharing of customary airport ground services income by the Parent Company	(ix)	46,905	41,350

Notes to the Financial Statements

Year ended 31 December 2004

31 Related party transactions (continued)

- (i) In accordance with an agreement between the Company and Yangzijiang Air Express dated 17 December 2004, Yangzijiang Air Express would pay an annual franchise fee of RMB9,900,000 to the Company for operating the cargo centre of the Company as well as rights to utilise the facilities of the cargo centre with retrospective effect on 1 January 2004.
- (ii) In accordance with an agreement between the Company and Hainan Food dated 17 December 2004, Hainan Food is granted a right to provide on-board catering services to airlines. The franchise fee is RMB2,078,000 for the year ended 31 December 2004.
- (iii) The Company provided customary airport ground services including landing facilities, basic ground handling services, cargo storage and handling, passenger and baggage security check services and other related services to Hainan Airlines and other airlines at rates prescribed by the CAAC.
- (iv) The Company leased office, commercial areas, premises, airport counters and an aircraft hangar to Hainan Airlines and other airlines. The rental charges were agreed between the Company and the airlines.
- (v) According to a revised airport composite services agreement dated 25 October 2002, the Parent Company has agreed to provide the following services to the Group:
 - (a) provision of security guard service;
 - (b) cleaning and landscaping;
 - (c) sewage and refuse processing;
 - (d) power and energy supply and equipment maintenance; and
 - (e) passenger and luggage security inspection.

The term of the revised airport composite services agreement is for three years commencing on 1 January 2002 and is renewable upon the mutual agreement of the parties thereto.

- (vi) The Company and the Parent Company entered into an office lease agreement dated 25 October 2002, the Company agreed to rent from the Parent Company office premises for a term of five years at an annual rental of RMB509,000 with effect from 1 January 2002.
- (vii) Pursuant to a logistic composite service agreement dated 25 October 2002, HNA Group agreed to provide and procure its subsidiaries to provide to the Company logistic services including (a) staff training; (b) staff shuttle bus services; (c) staff cafeteria services; (d) vehicle maintenance; and (e) appliance procurement with effect from 1 January 2002.

The charges for these services are determined as follows: item (a), at the cost of providing such services shared among the HNA Group, the Company and other relevant companies on a pro rata basis by reference to employee headcount; items (b) and (c) at a fixed price with reference to the relevant cost per employee headcount; and items (d) and (e) at the cost of providing such services plus a 5% and a 1% mark-up as management fees, respectively.

- (viii) Pursuant to the technical service agreement dated 16 September 2002 and amended on 30 October 2002 between the Company and CPHI. CPHI has agreed to provide certain technical and consultancy services in respect of the long-term management and development of Meilan Airport.

The Company is required to pay fees to CPHI which consist of a fixed fee component and a performance-related component. The fixed fee component is calculated by reference to the number of consultant-days used in providing the technical and consultancy services. The performance-related component is calculated by reference to the Company's actual earnings before interest, tax, depreciation and amortisation.

31 Related party transactions (continued)

- (ix) As directed by the circular (Zong Ju Cai Han No. [2002] 77) issued by the CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company that both parties will share, on the ratio of 75% to the Company and 25% to the Parent Company, the aircraft movement fees for all airlines, passenger charges for domestic airlines and the basic ground handling fees for Hong Kong, Macau and foreign airlines in connection with the airport terminal services and runway services provided to the Group's customers by the Company and the Parent Company, respectively. The Group will collect such fees on behalf of the Parent Company and assumes no liabilities in respect of a default of payment by the airline customers. The Group has accounted for its share of 75% of the aeronautical fees in its consolidated income statement as revenue.

The above transaction with related parties was entered into in accordance with the terms as set out in the agreements governing the transactions or as mutually agreed between the parties.

- (x) The Company's Parent Company has guaranteed the payments of balances due from Hainan Da Lung Enterprise Co., Ltd. to the Group amounting to RMB8,230,000 (2003: RMB13,230,000).
- (xi) During the year ended 31 December 2004, Hainan Airlines obtained control over the management of Sanya Phoenix International Airport Company Limited ("SPIA") and as a result, SPIA became a related party of the Company.

In August 2002, the Company entered into a management contract with SPIA to manage Sanya Airport with management fees set at 1.5% of revenue plus 5% of the reduction in net losses when SPIA remains loss making or 10% of the profit before tax when SPIA starts to generate net profits. During 2004, the two parties agreed to rescind the aforesaid agreement with effect from 1 January 2004 retrospectively.

- (b) As at 31 December 2004, balances with related parties comprised:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivables from related parties:				
Hainan Airlines (note i)	79,004	49,752	79,004	49,752
Southern Airlines	15,492	15,163	15,492	15,163
Hainan Food	2,625	3,493	2,625	3,493
Yangzijiang Air Express	5,477	12,565	5,477	12,565
SPIA	2,499	–	2,499	–
Xiamen Airlines	322	1,211	322	1,211
	105,419	82,184	105,419	82,184
Other receivables from related parties:				
Hainan Da Lung Enterprise Co., Ltd. (note ii)	8,230	13,230	8,230	13,230
Parent Company	823	1,654	–	–
HNA Group	–	309	–	309
SPIA	67	–	67	–
Others	711	311	711	212
	9,831	15,504	9,008	13,751
	115,250	97,688	114,427	95,935

Notes to the Financial Statements

Year ended 31 December 2004

31 Related party transactions (continued)

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Payable to related parties:				
Parent Company	36,352	7,341	35,473	6,463
CPHI	6,011	4,146	6,011	4,146
Others	2	203	2	201
	42,365	11,690	41,486	10,810

Note:

- (i) An amount of RMB63,000,000 was settled in January 2005.
- (ii) On 10 December 2002, the Company entered into a procurement agreement with Hainan Da Lung Enterprise Co., Ltd., a subsidiary of the Parent Company, under which Hainan Da Lung Enterprise Co., Ltd. would purchase equipment amounting to RMB20,000,000 for the apron of Meilan Airport on behalf of the Company. The Company made full payment to Hainan Da Lung Enterprise Co., Ltd. in December 2002 in accordance with the contract terms. The balance is guaranteed by the Parent Company. During the year, Hainan Da Lung Enterprise Co., Ltd. paid an amount of RMB5,000,000 on behalf on the Company.

32 Approval of financial statements

The financial statements were approved by the Board of Directors on 22 March 2005.