海南美蘭國際機場股份有限公司

HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED

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

(Stock Code: 357)

Annual Report 2005

Contents

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 liabilities 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. 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 (together as 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, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods.

The Company's notable corporate achievements in 2005 are as follows:

- Accredited the title of an "International Hygienic Airport" by the World Health Organization (WHO);
- Accredited the title of "2005 The Best Airport" by Civil Aviation Resource Net of China;
- 'Meilan Airport' brand was ranked 185th amongst "2005 The Most Valuable 500 Chinese Brands" by the World Brand Laboratory and the "World Manager Weekly";
- Awarded with "2005 The National Top Passenger Satisfaction Enterprise " by China Association for Quality;
- Accredited the title "2005 National Model Unit of Civilization" by Central Spiritual Civilization Construction Guidance Committee.

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
Zhang Cong, *Chairman*
Wang Zhen
Huang Qiu
Gunnar Moller

Non-executive Directors
Zhang Han'an
Kjeld Binger

Independent Non-executive Directors
Xu Bailing
Xie Zhuang
Fung Ching, Simon

Supervisors
Chen Kewen
Zhang Shusheng
Zeng Xuemei

Company Secretary
Bai Yan

Authorised Representatives
Zhang Cong
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
No. 2 Austin Avenue, Unit B, 7/F,
Tsimshatsui, Kowloon
Hong Kong

Legal Adviser to the Company
as to Hong Kong laws:
Lovells
23/F Cheung Kong Central
2 Queen's 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

Financial Highlights

Two-Year Comparison of Key Financial Figures

For the year ended 31 December

	2005 RMB'000	2004 RMB'000	Change (%)
Turnover	334,844	360,025	-7.0%
Gross profit	224,076	239,826	-6.6%
Net profit attributable to shareholders	151,844	185,677	-18.2%
Earnings per share – basic (RMB)	0.32	0.39	-17.9%
Net operating cashflow	121,559	182,755	-33.5%
Current ratio (Times)	4.74	5.31	-10.7%
Debt/Equity ratio	11.5%	16%	-4.5%
EBITDA	198,750	222,701	-10.8%

Five-Year Summary of Financial Performance

For the year ended 31 December

	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	334,844	360,025	307,933	283,452	185,001
Cost of services and sale of goods	(99,140)	(106,267)	(90,328)	(70,412)	(60,226)
EBITDA	198,750	222,701	191,434	210,578	133,468
Finance income/(expense) -net	4,494	4,849	(5,790)	(18,816)	(17,659)

Five-Year Summary of Financial Position

As at 31 December

	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Total assets	1,717,267	1,703,951	1,610,696	1,744,502	796,574
Total liabilities	177,390	240,720	216,215	398,595	389,631
Shareholders' equity	1,539,877	1,462,203	1,393,409	1,339,228	406,801

Chairman's Statement

Zhang Cong *Chairman*

To all shareholders,

In 2005, the Group continuously headed towards the "people-oriented and internationalised" branding by timely keeping abreast of the ever challenging aviation market and by gradually enhancing security level and service quality.

During the year under review, under adversities in the operating environment, the Group placed dual-focus strategies of income growth and cost savings through vigorous resources consolidation and a totally strengthened budget management. With magnificent exploitation of aviation routes, the opening of aviation rights posted robust results. The Group was the first to pass the aviation security examination by the General Administration of Civil Aviation of China, marking its entering into the 7th year of safe operation in its history. The successful passing of the verification of the World Health Organization embarked the Group's positioning as the first airport of less than 10 million passenger throughput winning the reputation of an international hygienic airport. To forge towards a unified and professional commercial management of airports, the Group has introduced with Select Service Partner ("SSP"), a catering company, and Duty Free Shoppers Hong Kong Limited ("DFS"), a retailer, resulting in ideal operating conditions with an increasingly upgrading internationalised image.

To capture the increasing passenger and cargoes throughput, the Group took the move to commence the phase II expansion in early 2004, which included the expansion of the terminal building and apron. The terminal building has been duly examined and delivered upon the completion of the constructions, and will be put into a formal commission in January 2006.

Chairman's Statement

Results

In 2005, the Group's total revenue decreased by 7.0% over last year to RMB334.84 million. Income from aeronautical business amounted to RMB248.36 million, representing a decrease of 4.4% as compared with that of last year. Income from non-aeronautical business amounted to RMB86.48 million, representing a drop of 13.8% over last year. Net profit attributable to shareholders dropped by 18.2% to RMB151.84 million.

Operation Review

In 2005, the Group's transportation production business was severely impacted by strategic reorganisations and structural adjustments by a number of domestic airlines, tourist market consolidation in Hainan, and a drift of passenger flows upon the commission of the Guangdong-Hainan Railway. On the side of aeronautical business, the annual total aircraft movement reached 68,879 (of which 57,994 being transportation cargo movement), representing an increase of 0.9% over last year. Passenger throughput reached 7.027 million, representing a decrease of 6% over that of last year. Cargoes throughput decreased by 3.8% over the previous year to 94,728.9 tones. Besides, with the opening of aviation rights in Hailan Province, the Group achieved a drastic increase in international and regional routes. As to international and regional routes, the annual passenger throughput and aircraft movement of 228,000 and 2,496 respectively, which represented an increase of 30.4% and 34%, and marked new highlights for transportation production business during the year.

Outlook

In 2005, the Group experienced a decline in targeted production operation for the first time in its history under an unfavorable operating environment. Looking forward to 2006, the Group will devote greater efforts in developing domestic and international aeronautical markets through various initiatives of income growth and cost savings measurement, with an aim to enhance overall profitability for the Group and strive to achieve better operating results to shareholders.

Broaden the thought of route development to build up a comprehensive Route Network

In early 2005, to resist against market adversities and tough operating environment, the Group has set up a principal business development team to formulate and implement sales and marketing strategies. Timely information supports were customized for airlines, which motivated those airlines to gradually increase their injection of transportation capacities in Hainan Meilan International Airport. In 2006, the Group will dedicate more efforts to explore the development of aviation market and broaden the thought of route development to build up a comprehensive rout network. In addition, the Group will devote to the new route tracing and post management tasks, with an aim to consolidate and enlarge the share of aeronautical market.

Persistent Exploration of International Routes for fostering New Sectors of Economic Growth

The Group has driven substantial growth momentums for regional and international routes by fully leveraging on the embedded opportunities arising from the opening of aviation rights in Hainan and by capitalizing on the regional and resources advantages. Hainan Meilan International Airport currently operates 11 international and regional routes. Five new international airlines, including Malaysia Air Asia, Singapore Valuair, Korea Asiana Airlines, Thailand Phuke Airlines and Singapore Silk Air, have opened routes to and from Haikou. In 2006, the Group will take advantage of the speedily growing domestic aeronautical industry by capitalizing on the external momentums of the foreign aeronautical industry in order to establish a firmer foothold in the international aeronautical market and to explore new sectors of economic growth.

Commission of Phase II Expansion

The Group has undergone a trial commission upon the completion of the phase II expansion, followed by a formal commission on 17 January 2006. The expanded new terminal building fully represented a blended mixture of a harmonic, healthy, saving and environmental design. An annual passenger throughput of 9.3 million can be accommodated based on a total terminal building area of 99,300 m^2, a total apron area of 384,000 m^2 and 33 aprons spaces. With the completion and commission of the phase II expansion, a solidly strong foundation is set to pave for an expanded operation scale, an enhanced operation quality and an upgraded positioning as a regional aviation pivot on the part of the Group.

People-oriented Philosophy for gearing towards a "harmonic Meilan"

In 2006, the Group will optimize its human deployment system by adhering to a people-oriented philosophy in order to head towards a corporate culture of mutual respect and treasured talent values, as well as a positive mechanism of preferential talent policies. Reinforced job trainings and fully exerted talent potentials will serve to form a base for a total enhancement in operation quality and professional skills. A "harmonic Meilan" will be realized by improving staff compensation policies through gradual reforms in remuneration and welfare packages.

Implement Management Reforms and Enhance Operation Quality

In 2005, the Group put into place a more scientific and reasonable management and control mechanism by taking great leaps in insisting and deepening profound management reforms. 2006 will be a year making the Group's devoted efforts in promoting management reforms for smoother work flows and sustainable improvement in operation efficiency and service quality.

Acknowledgement

On behalf of our Board of Directors and the Management, I would like to express heartfelt gratitude to our business partners, clients and shareholders for their continuous support and to our fellow staff for their dedicated efforts. We look forward to striving for our vision of becoming a regional airport management player with all of our working partners.

Zhang Cong
Chairman

Hainan Province, the PRC
21 March 2006

Management Discussion and Analysis

Civil Aviation Industry in China

In 2005, the overall profitability of the civil aviation industry in China was dragged down over 2004 under the tense pressure of fiercely surging oil fuel prices. In light of great steps taken by various governments towards the development of airport industry following the airport localised reforms in 2004, many airports were expanded in response to constantly increasing passenger flows. With marked improvements in airport infrastructures, operation security was further assured coupled with a healthy and contributive competitive environment.

Concerted efforts made by Hainan Provincial Government in opening aviation rights and localising had fostered a gradual increase in international and regional routes and flights. Presently, 51 international and regional routes have been opened by 19 domestic and foreign aviation companies, including 12 regular routes and 39 irregular routes. The opening of aviation rights will create a flurry of foreign passenger sources for Hainan Island. With an optimized structure of passenger source, Hainan Meilan International Airport is set to enjoy continuously growing passenger flows at the same time. In 2006, Hainan Province will endeavour to further explore its passenger flows in European markets through stronger promotional efforts and interchanges and upgraded international reputation in order to solicit more foreign passenger sources.

Tourism in Hainan Province

Hainan Island, being well-known as a paradise resort, has emerged as a popular scenic spot for many domestic and foreign tourists over a decade of leaping developments. In 2005, Hainan Province remarkably consolidated the tourism market so as to actively expand into the international and domestic tourism markets and to gradually convert from a scenic spot to a resort. In addition, through active participations in a number of domestic and foreign marketing campaigns including Moscow International Travel Tour Expo, Expo Aichi, Japan and Korea International Travel Show in Seoul, and through the hosting of a pool of cultural activities like Boao Asia Golf Open Tournament, Film Festivals, Chinese Happiness Stanza and Miss World, Hainan Island is becoming an increasingly famous place with favourable external environment for sustaining business growth of Hainan Meilan International Airport.

Business Review

Overview of Aeronautical Business

In 2005, the Group's production and operation indicators were dampened for the first time over its history due to the strategic reorganizations and structural changes by the airlines, market consolidation in Hainan and a drift of passenger flows upon the commencement of the Guangdong-Hainan Railway. Therefore, to enhance the overall profitability, the Group has established various income growths and cost savings measurement.

Optimistic Exploitation of International Airlines

Since the opening of aviation rights in Hainan Province, the Group has dedicated itself to hold fruitful negotiations with several major international airlines in respect of the exploitation of international and regional routes, by which extensive cooperative intentions were reached. In 2005, Hainan Meilan International Airport delivered impressive growth in international and regional routes. Up to now, seven domestic and foreign airlines have opened eleven international or regional routes departing from or arriving at Hainan Meilan International Airport, reaching destination of Hong Kong, Macau, Seoul, Singapore, Bangkok, Kuala Lumpur, Osaka, Pusan and Fukuoka., etc. Five international airlines including Malaysia Airlines Co. Ltd., Singapore Valuair Airlines Co. Ltd., Singapore Silk Air Co. Ltd., Korea Asiana Airlines Co. Ltd. and Thailand Phuket Airlines Co. Ltd. have opened routes to and from Haikou.

In January 2005, the Group successfully obtained the hosting right of New Routes Asia Conference in 2007 by entering into an agreement with ASM International Company. Haikou will become the first city in China to host an international airline conference. The Group believes the New Routes Asia Conference will not only bring potential gain in aeronautical market of the hosting city, but also represent a valuable opportunity for the group to promote its image and enhance international recognition. Taking advantage of organizing New Routes Asia Conference, the Group plans to lure additional opening of more routes to and from Haikou by foreign airlines through strengthening interchanges with international airlines.

Management Discussion and Analysis

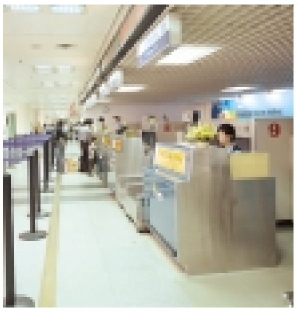



Aviation traffic throughput for 2005 and the comparison figures for the previous year are set out below:

	2005	*2004*	*Change (%)*
Aircraft movement	**68,879**	**68,282**	**0.9%**
In which: Domestic	66,383	66,422	-0.1%
Hong Kong/Macau	1,562	1,317	18.6%
International	934	543	72.0%
Passengers Throughput (Ten thousand persons)	**702.7**	**747.8**	**-6.0%**
In which: Domestic	680	730.3	-6.9%
Hong Kong/Macau	14	12.5	12.0%
International	8.7	5	74.0%
Cargoes Throughput (Tones)	**94,728.9**	**98,482.5**	**-3.8%**
In which: Domestic	91,217.7	96,179.6	-5.2%
Hong Kong/Macau	1,938	1,489.5	30.1%
International	1,573.2	813.4	93.4%

Attributable to the opening of the third, fourth and fifth aviation rights and the Group's aggressive approach in exploring more international routes, the number of international airlines grew substantially. It is estimated that the Group's international flights and international passenger throughout will sustain stable growths in 2006. Under unfavourable market environment, the Group's revenue from aeronautical business for the year 2005 was RMB248.36 million, representing a decrease of 4.4% as compared to last year. Details are set out as follows:

	Amount (RMB'000)	*Change to last year (%)*
Passenger charges	95,366	-6.3%
Aircraft movement fees and related charges	42,262	-0.1%
Airport fee	85,327	-5.4%
Ground handling service fees	25,409	-0.5%
Total revenue from Aeronautical Business	**248,364**	**-4.4%**



Overview of Non-Aeronautical Business

In 2005, with the help of the business development experience of Copenhagen Airports, the Group built up a business development model which includes the method of resources utilization and management to suit the development requirement of the airport and stable achievements are made in the non-aeronautical business. The non-aeronautical business revenue was RMB86.48 million, representing a decrease of 13.8% as compared to last year. The decrease in revenue was attributable to the transfer of the retail business of a shopping arcade by the Company to DFS in March 2005 in return for the receipt of franchise income from DFS and the impact of the reduction in passenger and cargo throughout of Hainan Meilan International Airport. Details are set out as follows:

	Amount (RMB'000)	*Change to last year (%)*
Retail	10,160	-53.4%
Franchise revenue	15,980	14.2%
Leasing of commercial areas in the airport terminal	16,469	-14.7%
Tourism transportation revenue	19,457	-12.2%
Advertising revenue	9,157	11.0%
Car parking fees	5,327	5.0%
Other revenue	9,930	2.4%
Total revenue from non-aeronautical business	**86,480**	**-13.8%**

Commercial Sales

The Group entered into a close cooperative relationship with SSP, a world famous catering company and DFS in the year under review in order to put into place a unified and professional commercial management of airports by gradually transforming from self operation to licensed operation. Through the entering into a contract with minimum-guaranteed rental, the Group will be assured of fixed revenue in times of falling turnover while obtaining pro rata additional revenue in times of growing turnover. Losses in association with a reduction in production output were effectively reduced by minimizing operation risks.

Tourism and Traveling

Hainan Meilan International 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 and travel reception. It also actively organises many short tour packages. Due to a reduction in passenger and cargo throughout, turnover from tourism and traveling in 2005 was RMB19.46 million.

Management Discussion and Analysis

Car Parking

Car parking charges is another income contributor for the Group's non-aeronautical business. The turnover in 2005 amounted to RMB5.33 million.

Advertising Business

In 2005, leverage on hosting material events, such as Boao Asia Forum in Hainan, the Group has entered into advertising contracts with Merrill Lynch (Asia Pacific) Limited and Shanghai Asiaray Advertising Limited through the deployment of more promotional resources and efforts and the building up of an extensive sales network. Over 30 reputed enterprises, including Shanghai Brawman Group（上海寶名國際集團）, Boao Sofitel Hotel, Sanya Film Festival Coordination Committee（三業電影藝組織委員會）and Hainan Mobile Communication Company Limited, were introduced to take up advertising spaces in Hainan Meilan International Airport. For the year ended 31 December 2005, revenue from advertising business reached RMB9.16 million, equivalent to an approximately 11% growth over 2004.

Retail Business

Revenue from retail business was RMB10.16 million for the year ended 31 December 2005, which represented a 53% decrease over that of last year. It was attributable to the decrease of overall revenue after the transfer of the retail business of the shopping arcade by the Group to DFS in March 2005 in return for the receipt of franchise income from DFS.

Income from Franchise

For the year ended 31 December 2005, income from franchise was RMB15.98 million, representing an increase of 14% over the previous year. This was largely attributable to the outsourcing by the Group of the commercial operating of the airport terminal building to DFS since March 2005 in return for the receipt of franchise income from DFS.

Financial Review

Structure of Assets

As at 31 December 2005, the total assets of the Group amounted to RMB1,717.27 million, representing an increase of 0.8% as compared to last year. The increase was mainly attributable to the increase in the shareholders' equity brought by the operating results.

Cost Structure

In 2005, total operating costs of the Group were RMB99.14 million, representing a decrease of RMB7.13 million or 6.7% over last year. The administrative expenses were RMB62.17 million, representing an increase of RMB6.1 million or 10.9% as compared to last year. The increase in annual administrative expenses was attributable to the following:

1. The logistic expenses paid by the Company to HNA Group rose by RMB1.24 million over the previous year due to increasing crude oil prices and rising costs of other vehicle services;
2. In compliance with new International Financial Reporting Standards, net goodwill of RMB3.49 million was written off.

Cash Flows

In 2005, the Group's net cash flows from operating activities was RMB121.56 million, representing a decrease of 33%, which was primarily due to that the airport fee has not received. During the year, the Group's net cash outflows for investing activities was RMB156.36 million, which was mainly attributable to the capital injection from the Group for the expansion of the terminal building.

Pledge of the Group's Assets

The Group pledged its rights to revenues, including the rights of the airport fee to secure a long-term bank loan of RMB103 million from China Development Bank.

Gearing Ratio

As at 31 December 2005, the current assets of the Group was approximately RMB536.17 million, the total assets was approximately RMB1,717.27 million, a current liability of approximately RMB113.13 million and a total liability of approximately RMB177.39 million. The Group's gearing ratio, representing the ratio of the total bank borrowing to the total asset, was 6%, a decrease of 1.5% in comparison to that of the previous year. The main reason for the improvement was the partial repayment in the amount of RMB25 million by the Group when it fell due.

Exposure to Foreign Exchange Risk

Except the purchase of certain equipment, goods and raw materials which were 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 in HK Dollars. As at 31 December 2005, except that cash and cash equivalents of approximately RMB960,000 were denominated in HK Dollar and US Dollar, all of the Group's assets and liabilities were denominated in RMB. The fluctuation of the exchange rate of RMB to foreign currency may cause a limited impact on the Group's results of operations.

Financial Instruments

As at 31 December 2005, financial instruments of the Group mainly comprised bank loans, cash and bank deposits. The purpose of those financial instruments is to finance the Group's operations. Besides, the Group has other financial instruments in relation to daily operations, such as accounts receivable and accounts payable.

Contingent Liability

As at 31 December 2005, the Group or the Company did not have any significant contingent liabilities.

Purchase, Sales or Redemption of Shares

As at 31 December 2005, neither the Group nor the Company has purchased, sold or redeemed any of the Company's shares.

Employment, Training and Development

As at 31 December 2005, the Group had a total of 691 employees, representing a decrease of 23 employees as compared to last year. This was mainly due to stringent control over the recruitment of personnel and the outsourcing of the business of the shopping arcade. Total staff costs accounted for about 10% of total turnover, representing an increased of 1.6% as compared to last year. The reason of the increase in cost was mainly contributed by the increase in staff welfare expenses by the Group, including the increase in social insurance premiums. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and its related combination on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Retirement Pension

The Company and its respective subsidiaries have participated in the employee retirement scheme operated by the relevant domestic government of the PRC. The relevant domestic 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. For the year ended 31 December 2005, the contribution for the pension was amounted to approximately RMB3.53 million (2004: RMB2.78 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 2005.

Corporate Governance Report

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Hong Kong Stock Exchange, as well as requirements of other regulatory bodies. During the year ended 31 December 2005, the Company had complied with the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules which came into effect in January 2005 and met with all reasonable governance and disclosure requirements. The Company will strive for continuously enhancing its corporate governance standard and transparency to shareholders.

I. Board of Directors

1. Chairman of the board and Chief Executive Officer (CEO)

The chairman of the board is the authorized representative of the Company. The chairman is responsible for development direction and effective running of the board, and ensuring the board acts in the best interests of the Company.

The CEO is accountable to the board, and is delegated with the responsibility for running the Company's business and implementing the resolutions of the board.

The chairman and CEO of the Company are Mr. Zhang Cong and Mr. Wang Zhen respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

2. Composition of the board

The board currently comprises the following members:

Chairman: Zhang Cong (appointed as chairman of the board on 27 January 2006)

Executive Directors: Wang Zhen, Huang Qiu, Gunnar Moller (appointed as director on 14 December 2005)

Non-executive directors: Zhang Han'an, Kjeld Binger

Independent non-executive directors: Xu Bailin, Xie Zhuang, Fung Ching Simon

Information of the directors listed above is set out in the section headed 'Directors, Supervisors and Senior Management' and the sub-section headed 'Service contracts, interests in share capital and contracts by directors and supervisors' in the section 'Report of the Directors' of annual report 2006.

Three independent non-executive directors of the Company have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence.

For the year ended 31 December 2005, the composition of the board had the following changes:

On 14 December 2005, Mr. Gunnar Moller was appointed as an executive director in replacement of Mr. Kristian Bjorneboe.

There is no relationship between directors that is discloseable under applicable rules and regulations.

3. Nomination of directors

i. The Company does not have a nomination committee at present.

ii. The board had adopted a nomination procedure and process during the year, according to which a qualified shareholders group may nominate a candidate for directorship and put the nomination onto the board for vote. If more than a half of the directors have voted for the nomination, it would then be put onto a general meeting as an ordinary resolution seeking for shareholders' approval.

iii. Criteria for director selection and nomination:

1) the candidate shall meet the conditions for a listed company director as required by the Company Law and Securities Law;

2) the candidate shall meet the requirements as prescribed in the Company's articles of association;

3) the candidate shall be regarded as having a high moral standard and relevant professional expertise, and being able to act in good faith, prudence and diligence, and to avoid any material and potential conflict of interest or of role with the Company.

iv. Non-executive directors shall hold office for a term of 3 years, and shall then be eligible for re-election and, if re-elected, their tenures may continue thereafter.

v. For the year ended 31 December 2005, Mr Gunnar Moller had been appointed as an executive director in replacement of Mr Kristian Bjorneboe, and Mr Kjeld Binger had been re-elected as a non-executive director. The selection, nomination and appointment of Mr Gunnar Moller and Mr Kjeld Binger were in line with the director nomination criteria mentioned above.

4. Board meetings

i. The board of the Company held 5 meetings in 2005.

ii. The attendance records of the members of the board are set out below:

	Chen Wenli	*Wang Zhen*	*Huang Qiu*	*Kristian Bjorneboe*	*Zhang Han'an*	*Kjeld Binger*	*Xu Bailin*	*Xie Zhuang*	*Fung Ching Simon*
2nd term, 9th meeting	√	√	√	√	√	√	√	√	√
2nd term, 10th meeting	√	√	√	√	√	√	√	√	√
2nd term, 11th meeting	Voting of this meeting was by telecommunication means.								
2nd term, 12th meeting	√	√	√	√	√	√	√	√	√
2nd term, 13th meeting	√	√	√	√	√	√	√	√	√

Corporate Governance Report

5. Duties of Directors

i. For the year ended 31 December 2005, the Company had engaged legal advisory professionals to provide training for newly-appointed directors, ensuring that they had sufficient knowledge to its business and activities, and were fully aware of their duties and responsibilities under prevailing regulations, Listing Rules, applicable provisions of law and other regulatory requirements, as well as the operational and management policies of the Company.

ii. For the year ended 31 December 2005, two non-executive directors of the Company, Mr Kjeld Binger and Mr Zhang Han'an had discharged their duties as non-executive directors.

iii. For the year ended 31 December 2005, each director of the Company had dedicated adequate time and effort to attend the Company's board meetings and considered the affairs of the Company.

iv. For the year ended 31 December 2005, all directors of the Company had complied with the Model Code as set out in Appendix 10 of the Listing Rules.

v. The directors shall be responsible for preparing the financial statements.

vi. For the year ended 31 December 2005, the directors have no aware of any material affairs or circumanstances which are able to gravely influence the capability of continuing operation of the Company.

vii. The Board of directors has reviewed the internal control system of the Company and subsidiaries and acknowledged the system effective.

6. Authority and practice of the board

The board has established the remuneration committee and audit committee. Each of these committees has established its own written terms of reference and functions effectively on this basis.

Details of terms of reference of the board and the management and the respective areas to exercise their authority are set out in the articles of association of the Company.

The board has the power to make decision or formulate plan on the following:

i. to decide on the operational plan and investment plan of the Company;

ii. to formulate the Company's proposed annual financial budget and final accounts;

iii. to formulate plans for profit distribution and recovery of losses;

iv. to formulate plans for increases in or reductions of the Company's registered capital and the issue of corporate bonds;

v. to prepare plans for merger, division and dissolution of the Company;

vi. to decide on the set up of the Company's internal management structure;

vii. to appoint or dismiss the Company's general manager and pursuant to the general manager's nominations to appoint or dismiss the vice general managers and other senior officers of the Company (includes financial officers) and decide upon their remuneration;

viii. to formulate the Company's basic management system;

ix. to formulate proposals for amendment of the articles of association of the Company;

x. to formulate proposals for major acquisitions or disposals of the Company.

The management may make decisions on the following:

i. to coordinate the implementation of the Company's annual business and investment plans;

ii. to formulate plans for the establishment of the Company's internal management structure;

iii. to formulate the basic administration system of the Company;

iv. to formulate the basic rules of the Company;

v. to recommend the appointment and dismissal of vice managers and other senior officers (include financial officers) of the Company;

vi. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the board).

The board of the Company acts in strict compliance with relevant requirements of the Company Law, its articles of association and the Listing Rules.

7. Securities transactions by the directors

i. The Company has not adopted a code for securities transactions by directors on terms more exacting than the required standard of the Model Code due to the fact that most directors of the Company are Mainland China persons whose investment in H shares are subject to legal restriction from the PRC government;

ii. Following specific enquiry made with all directors, none of the directors of the Company failed to comply with the required standard set out in the Model Code regarding securities transactions by the directors.

II. Remuneration of Directors and Senior Management

1. **A remuneration committee has been set up by the Company.** It is a sub-committee under the board which is responsible for giving advice to the board on overall remuneration policies of directors and senior management of the Company.

2. **Composition of the remuneration committee:** Mr. Xie Zhuang, an independent non-executive director, is the chairman. The other members of the committee are Mr. Fung Ching Simon, an independent non-executive director, and Mr. Huang Qiu, an executive director.

3. For the year ended 31 December 2005, no meeting had been held by the remuneration committee as the remuneration policy for the directors, supervisors and senior management had been determined. The year 2005 meeting of the remuneration committee would be held immediately before the board meeting for year 2005 is convened. On that meeting, matters related to directors' remuneration for 2006 would be discussed and disclosed in its report of next year.

Corporate Governance Report

4. Directors' remuneration policies: each of the chairman and executive directors receives director's fee of RMB 70,000. Each of the non-executive directors receives director's fee of RMB 50,000. Each of the independent non-executive directors receives director's fee of RMB 80,000. Salaries to executive directors are paid by reference to their respective positions in the salary scale. Non-executive directors and independent non-executive directors are not entitled to any salary. Details of remunerations for each member of the board and senior management are disclosed in the 2005 annual report. Such remuneration policies came into effect after review by the board and approval granted in general meeting prior to the Company's listing. These policies are subject to review and approval in each year's annual general meeting.

   Payment of performance bonus and other incentive bonuses is based on actual financial results achieved by the Company, such that as much as 2 per cent of consolidated net profit for previous financial year as audited by international auditors would be allocated and paid-out to directors, supervisors and members of senior management. Incentive bonus for 2005 had not yet been released.

Remuneration of Auditors

During the year ended 31 December 2005, the external auditors of the Company had not provided any non-audit service to the Company. Proposed auditors' remuneration to be paid by the Company would come into effect only after discussion in the audit committee and review of the board and further approval granted in a general meeting. The remuneration of auditors for the year ended 31 December 2005 was RMB2.38 million.

III. Audit Committee

1. An audit committee has been set up under the board. The duties of the audit committee are to review the appointment of external auditors, to determine the auditors' remuneration, to monitor the work of auditors and to review the Company's internal control and reporting system. The audit committee comprises three independent non-executive directors, namely Xu Bailing, Xie Zhuang and Fung Ching Simon, with Xu Bailing acting as the chairman.

2. In 2005, the audit committee has hold two meetings; all of the three committee members have attended these meetings.

   – The Audit Committee has reviewed the 2004 annual results and the execution of continuing connected transactions and prepared the work report in the first meeting in 2005.

   – The Audit Committee has reviewed the financial statements for the six months ended 30 June 2005 in the second meeting in 2005.

   Furthermore, the Audit Committee has discussed with PricewaterhouseCoopers before the interim audit and annual audit in 2005, respectively.

   The Audit Committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company. The Board of Directors has no disagreement.

IV. Shareholding Interests of Senior Management

None of the senior management members held any shareholding interests in the Company during the year.

V. Shareholders' Right

In respect of protecting the rights of the Company, the articles of association set out the requirements for shareholders to request a special general meeting to be convened: When two or more shareholders holding in aggregate ten per cent (10%) or more (consists of ten per cent (10%)) of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and substance to the board to convene a special general meeting with an agenda of the meeting. A special general meeting is required to be held as soon as practicable upon receipt by the board of such written request.

During the year ended 31 December 2005, the board did not receive any requests from shareholders to convene a special general meeting.

VI. Investors Relations

1. There was no alteration of material nature to the articles of association of the Company during the year;

2. Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Directors' Report in the 2005 annual report;

3. The last general meeting of the Company was held on 27 January 2006 at the conference room at 3rd floor of the Company's complex. The agenda were 1) to consider and approve the appointment of Mr Zhang Cong as the Company's director; 2) to consider and approve the appointment of Mr Chen Kewen as the Company's supervisor;

4. As at 31 December 2005, 226,913,000 H shares of the Company were held by the public, and the market value attributable to such public float was HK$936,016,125.

5. The Company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors. 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.

Directors, Supervisors and Senior Management

Executive Directors

Mr. Zhang Cong, aged 46, was appointed as an Executive Director and the Chairman of the Board of the Company in January 2006. Mr. Zhang Cong graduated from the Civil Aviation University of China in 1990 with a degree in English literature. From May 1997 to December 2001, he worked in the human resources department of Hainan Airlines Company Limited, in turn, as the general manager's assistant, vice general manager and the general manager of the department. Thereafter, Mr. Zhang had taken on the positions as the general manager of the project development and management department and the senior assistant to the chief executive officer in HNA Group Company Limited. Mr. Zhang was appointed as the chairman of the supervisory committee in December 2000 and was reappointed in January 2004. Mr. Zhang Cong has now tendered his resignation from his position as a supervisor and the chairman of the supervisor committee of the Company.

Mr. Wang Zhen, aged 43, was appointed as Chief Executive Officer (CEO) 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 and worked part-time as the general manager of the Company since January 2004.

Mr. Huang Qiu, aged 42, 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 (CFO) of the Company in July 2004. Mr. Huang graduated from the Civil Aviation University of China majoring in accounting and finance. He has 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, vice 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. Gunnar Moller, aged 41, was appointed as an Executive Director and Chief Commercial Officer of the Company in December 2005. Mr. Gunnar Moller graduated from Edinburgh Business School with a Master's degree in Business Administration. He is a senior project manager of CPH. In his present position Mr. Gunnar Moller has been involved in the international development, strategic planning, and investment and acquisition activities of CPH. Prior to joining CPH, Mr. Gunnar Moller had more than five years of project management experiences in China with major Chinese public and private institutions. Mr. Gunnar Moller's other career experience includes holding the office of commercial secretary of the Danish Ministry of Foreign Affairs in New York for three years, and holding the office of director of Danish operations for a US consulting engineering company for seven years, and working within the oil sector in North Europe and the Baltic countries.

Non-executive Directors

Mr. Zhang Han'an, aged 60, was appointed as an Executive Director and the general manager of the Company in December 2000. Mr. Zhang has over 20 years of experiences in military aviation in the PRC. From August 1998 to August 2000, Mr. Zhang acted as the vice 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 51, was re-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 Airport in 1994 as Head of the Planning and Development Department. In 1997, he was appointed as the senior vice president of Copenhagen Airport. In 2000, he was appointed as the chief executive officer of CADI, a subsidiary of Copenhagen Airport, responsible for international development activities.

Independent Non-executive Directors

Mr. Xu Bailing, aged 73, 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 vice chief and chief of division in January 1977 and June 1979 respectively. Mr. Xu was then appointed as the vice 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 52, 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 vice 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 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 37, 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 senior member of the Australia Society of Institute of Certified Public Account.

Directors, Supervisors and Senior Management

Members of the Supervisory Committee

Mr. Chen Kewen, aged 45, was appointed as supervisor and the chairman of the supervisor committee of the Company in January 2006. Mr. Chen Kewen graduated from the Civil Aviation University of China in 1982 and joined the CAAC, Heilongjiang branch as the chief of the quality inspection office in the same year. In 1990, Mr. Chen Kewen became the vice manager of the planning and development department of Dalian International Airport. Mr. Chen was awarded a master degree in management science and engineering by Dalian Zhoushuizi University of Technology in 2000. Since 2001, Mr. Chen Kewen has been acting as the general manager of the strategy development department of HNA Group.

Mr. Zhang Shusheng, aged 69, 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 36, 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, responsible for filing and database management.

Senior Management

Mr. Fang Zhen'an, aged 56, was appointed as the vice 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 50, was appointed as the vice 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 in 1979.

Mr. Wei Chang Rong, aged 47, 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, Cabin and Ground Service Department in Hainan Airlines Co., Ltd.

Company Secretary

Mr. Bai Yan, aged 30, was appointed as the Company Secretary in April 2002. Mr. Bai graduated from the Economics Department of Northwestern University. 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 2005.

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 2005, 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 2005, and the financial positions of the Group and the Company as at 31 December 2005 are set out from page 34 to page 74 of this annual report.

Final Dividend

In view of various issues and opportunities facing the Company, the Directors of the Company hereby declared that there will be no further dividend payout for the year ended 31 December 2005.

Closure of Register of Members

The Company's Register of Members will be closed from 25 April, 2006 (Tuesday) to 24 May, 2006 (Wednesday) (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 vote in the meeting 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 24 April, 2006 (Monday) for completion of the registration of the relevant transfer.

Report of the Directors

Bank Borrowings

Details of the bank borrowings of the Group and the Company are set out in Note 14 to the accompanying financial statements.

Property, plant and equipment

Details of the property, plant and equipment as at 31 December 2005 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2005 are set out in Note 7 to the accompanying financial statements.

Taxation

Details of taxation of the Group (including all tax preferences) and the Company for the year ended 31 December 2005 are set out in Note 20 to the accompanying financial statements.

Reserves

Change in reserves of the Group and the Company for the year ended 31 December 2005 is set out in Note 13 to the accompanying financial statements. Distributable reserves of the Company as at 31 December 2005, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to RMB308,501,000 (2004: RMB215,892,000).

Donations

Charitable and other donations made by the Group during the year amounted to RMB800,000.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2005 are set out in Note 9 to the accompanying financial statements.

Major customers and suppliers

The largest customer and the top five customers of the Group represented 25.6% and 48% of the total operating revenues of the Group for the year ended 31 December 2005, respectively.

The largest supplier and the top five suppliers of the Group represented 12.7% and 32.5% of the total operating costs of the Group for the year ended 31 December 2005, respectively.

Mr. Zhang Han'an, a Director of the Company, holds 20,000 staff shares in Hainan Airlines Company Limited. Save for the foregoing, none of the Directors or Supervisors 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 2005, the total issued share of the Company was 473, 213, 000 in number. The percentage of the total shares is as follows:

	Number of shares	*Percentage in total issued*
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 2005, 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

Name of shareholders	*Capacity*	*Nature of shares*	*Ordinary shares capacity*	*Percentage of issued domestic shares/total issued shares (%)*
Haikou Meilan International Airport Company Limited *(Note 1)*	Beneficial owner	Corporate	237,500,000	96.43/50.19

H shares

Name of Shareholders	*Capacity*	*Nature of shares*	*Ordinary shares capacity (Note 3)*	*Percentage of total H shares in issue (%)*	*Date of latest disclosure*
Copenhagen Airport A/S (note 2)	Beneficial Owner	Corporate	94,643,000	41.71 (L)	31/12/2004
Deutsche Bank Aktiengesellschaft	Beneficial Owner	Corporate	12,935,000	5.70 (L)	03/01/2006
QVT Financial GP LLC	Beneficial Owner	Corporate	13,135,000	5.79 (L)	29/12/2005
QVT Financial LP (note 4)	Beneficial Owner	Corporate	13,135,000	5.79 (L)	29/12/2005

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*
4. *QVT Financial LP is the controlling shareholder of QVT Financial GP LLC thereby deemed to be a substantial shareholder in the shares of the Company.*

Report of the Directors

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 2005, 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.

Connected Transactions

Material and persistent related party transactions entered by the Group and the Company during the year ended 31 December 2005 which constitute connected transactions (the "Connected Transactions") under the Listing Rules, are disclosed in note 28 to the accompanying financial statements.

With respect to the persistent 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. The clauses are fair and reasonable, and of the shareholders interests.

The exception were noted was as follows:

(a) The agreement with China Southern Airlines Company Limited on the lease of commercial area in the terminal buildings was not reached by the two parties before the Extraordinary General Meeting ("EGM") and was not approved by the EGM by 31 December 2005. The agreement was approved by the Board of Directors on 21 March 2006 and to be approved by the forth coming EGM.

(b) For the year ended 31 December 2005, due to the Phase II expansion project and the upgrade of the network by the year-end, the transaction volume with Hainan Airlines Information System Company for computer system maintenance increased substantially to approximate RMB1.5 million and the transaction was not declared or announced by 31 December 2005. The agreement with Hainan Airlines Information System Company was approved by the Board of Directors on 21 March 2006 and to be announced.

Based on the work done, the international auditors of the Company have confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Connected Transactions that:

a) Except the above matters, the Connected Transactions have been approved by the Board of Directors of the Company;

b) Except the above matters, the Connected Transactions are in accordance with the pricing policies as disclosed in the section of "Connected Transactions" of Directors' Report in the 2005 Annual Report;

c) Except the above matters, the Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing the Transactions.

d) Except the above matters, the Connected Transactions have been entered into under the cap approved by the Extraordinary General Meeting.

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

As at 31 December 2005, 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 2005, 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

Zhang Cong	(appointed on 27 January 2006)
Wang Zhen	(appointed on 9 May 2003)
Huang Qiu	(appointed on 9 May 2003)
Gunnar Moller	(appointed on 14 December 2005)

Non-executive Directors

Zhang Han'an	(re-appointed on 19 January 2004)
Kjeld Binger	(re-appointed on 14 December 2005)

Independent non-executive Directors

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

The Company has received the annual confirmation letter on independency of each independent non-executive director.

Supervisors

Chen Kewen	(appointed on 27 January 2006)
Zhang Shusheng	(appointed on 19 January 2004)
Zeng Xuemei	(re-appointed on 19 July 2005)

The resigned directors and supervisors as at the date of this report are as follows:

Executive Directors

Kristian Bjorneboe	(resigned on 14 December 2005)

Non-executive Directors

Chen Wenli	(resigned on 27 January 2006)

Supervisors

Zhang Cong	(resigned on 27 January 2006)

Report of the Directors

Brief biographical details of the Directors and Supervisors are set out on page 20 to page 22 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 2005.

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 18 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 18 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 2005, 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 2005.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2005.

Auditors

The financial statements of the Group prepared in accordance with the PRC Accounting Principles and those prepared in accordance with International Financial Reporting Standards were audited by Hainan Congxin Certified Public Accountant and PricewaterhouseCoopers respectively. The two firms, who are retiring and being eligible for re-appointment, offer themselves for re-appointment. Resolutions concerning the re-appointment of the two firms will be submitted for consideration at the annual general meeting.

Ernst & Young were auditors of the Company in the two financial years ended 31 December 2002 and 2003. PricewaterhouseCoopers has been appointed as international auditor since 11 October 2004.

Audit Committee

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

Five year financial summary

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

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 48% to the total shares. This satisfies the minimum requirement of 8.08 in the Listing Rules regarding the Public Float.

By the order of the Board
Zhang Cong
Chairman of the Board

Hainan Province, the PRC
21 March 2006

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2005, 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 2005 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 office meetings of the Chairman of the Company, participating in 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 vouchers 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.

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 endeavor.

By order of the Supervisory Committee,
Chen Kewen
Chairman of the Supervisory Committee

Hainan Province, the PRC
21 March, 2006

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 25 May, 2006 (Thursday), 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 2005;

2. To consider and approve the working report of the Supervisory Committee of the Company for the year ended 31 December 2005;

3. To consider and approve the audited financial statements of the Company as at and for the year ended 31 December 2005;

4. To consider and approve the final dividend distribution plan of the Company for the year ended 31 December 2005;

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 2006, 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 2006;

7. To consider and approve the Re-appointment of Mr. Wang Zhen as Executive Director of the Company;

8. To consider and approve the replacement of executive director;

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 shares carrying the right to vote at such meeting.

By way of Extraordinary resolutions:

10. 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 order of the Board
Bai Yan
Company Secretary

Hainan Province, the PRC
21 March, 2006

Notice of Annual General Meeting

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 24 April, 2006 (Monday) are entitled to attend and vote at the Annual General Meeting.

(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 Secretary Office to the Board of Directors of the Company no later than 4 May, 2006 (Thursday).

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

Details of the Secretary Office 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 one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the Annual General Meeting in written. 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 written under the hand of the appointer or his attorney duly authorised in written. 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 25 April, 2006 (Tuesday) to 24 May, 2006 (Wednesday) (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 vote in the meeting 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 24 April, 2006 (Monday) for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company.

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

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

(E) In view of various issues and opportunities facing the Company, the Directors of the Company declared that there will be no further dividend payout for the year ended 31 December 2005.

(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.

(G) The Resume of the directors:

Mr. Wang Zhen, aged 43, was appointed as Chief Executive Officer (CEO) 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.

Mr. Dong Guiguo, aged 43 years, graduated from Civil Aviation University of China majoring in aircraft engineering in 1985. From June 1985 to October 2000, he has worked at civil aviation maintenance base in Beijing (民航北京維修基地) and Beijing Aircraft maintenance engineering Co.,Ltd. (北京飛機維修工程有限責任公司) respectively. Since October 2000, he has respectively served as supervisor of the aviation material and equipment procurement center of the procurement department of HNA Group Co., Ltd. ("HNA Group"), deputy general manager of airport management department of HNA Group, general manager of Haikou Meilan International Airport Co.,Ltd., executive chairman's assistant, general manager of the finance department and general manager of the project management department of HNA Airport Group Co.,Ltd. ("Airport Group").

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

TO THE SHAREHOLDERS OF
Hainan Meilan International 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 2005, the related consolidated statements of income, cash flows and changes in equity for the year then ended and the balance sheet of the Company as at 31 December 2005. These financial statements set out on pages 35 to 74 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company standing alone and of the Group as of 31 December 2005, 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, 21 March 2006

Consolidated Balance Sheet and Balance Sheet

		The Group		The Company	
		31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Land use right	*6*	**166,821**	170,131	**166,821**	170,131
Property, plant and equipment	*7*	**1,014,279**	860,120	**1,012,448**	858,321
Goodwill	*8*	**–**	3,485	**–**	–
Investments in subsidiaries	*9(a)*	**–**	–	**18,094**	18,094
		1,181,100	1,033,736	**1,197,363**	1,046,546
Current assets					
Inventories, at cost		**2,750**	3,874	**42**	48
Trade receivables, net	*10*	**189,674**	164,416	**188,864**	163,888
Other receivables and prepayments		**12,592**	10,504	**11,807**	9,714
Due from subsidiaries	*9(b)*	**–**	–	**5,254**	15,478
Due from related parties	*28(c)*	**1,275**	9,831	**1,275**	9,008
Time deposits	*11(a)*	**84,468**	101,614	**84,468**	101,614
Cash and cash equivalents	*11(b)*	**245,408**	379,976	**234,036**	354,994
		536,167	670,215	**525,746**	654,744
Total assets		**1,717,267**	1,703,951	**1,723,109**	1,701,290
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	*12*	**1,100,250**	1,100,250	**1,100,250**	1,100,250
Other reserves	*13*	**137,223**	114,945	**136,628**	114,385
Retained earnings					
– Proposed dividends	*23*	**–**	35,018	**–**	35,018
– Others		**301,806**	211,990	**308,501**	215,892
		1,539,279	1,462,203	**1,545,379**	1,465,545
Minority interests		**598**	1,028	**–**	–
Total equity		**1,539,877**	1,463,231	**1,545,379**	1,465,545

Consolidated Balance Sheet and Balance Sheet (continued)

		The Group		The Company	
		31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Liabilities					
Non-current liabilities					
Borrowings – secured	*14*	**53,000**	103,000	**53,000**	103,000
Deferred income tax liabilities	*15*	**11,262**	11,503	**11,262**	11,503
		64,262	114,503	**64,262**	114,503
Current liabilities					
Trade and other payables	*16*	**59,906**	101,212	**49,269**	90,757
Due to subsidiaries	*9(b)*	**–**	–	**11,024**	5,485
Current income tax liabilities		**3,222**	5	**3,175**	–
Borrowings – secured	*14*	**50,000**	25,000	**50,000**	25,000
		113,128	126,217	**113,468**	121,242
Total liabilities		**177,390**	240,720	**177,730**	235,745
Total equity and liabilities		**1,717,267**	1,703,951	**1,723,109**	1,701,290
Net current assets		**423,039**	543,998	**412,278**	533,502
Total assets less current liabilities		**1,604,139**	1,577,734	**1,609,641**	1,580,048

The notes on page 40 to 74 are an integral part of these consolidated financial statements.

On behalf of the Board

Wang Zhen
Director and Chief Executive Officer

Huang Qiu
Director and Chief Financial Officer

Consolidated Income Statement

	Note	Year ended 31 December 2005 RMB'000	2004 RMB'000
Revenues			
Aeronautical		**248,364**	259,753
Non-aeronautical		**86,480**	100,272
	5	**334,844**	360,025
Business tax and levies		**(11,628)**	(13,932)
Cost of services and sale of goods	17	**(99,140)**	(106,267)
Gross profit		**224,076**	239,826
Selling and distribution costs	17	**(2,927)**	(2,977)
Administrative expenses	17	**(62,172)**	(56,069)
Other gains		**180**	37
Profit from operations		**159,157**	180,817
Interest income		**4,494**	4,849
Profit before income tax		**163,651**	185,666
Income tax expense	20	**(12,237)**	(33)
Profit for the year		**151,414**	185,633
Attributable to:			
Equity holders of the Company	21	**151,844**	185,677
Minority interests		**(430)**	(44)
		151,414	185,633
		RMB	RMB
Earnings per share for profit attributable to the equity holders of the Company during the year	22		
– basic		**32 cents**	39 cents
– diluted		**Not applicable**	Not applicable
		RMB'000	RMB'000
Dividends	23	**39,750**	84,232

The notes on page 40 to 74 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company				
		Share capital	**Other reserves**	**Retained earnings**	**Minority interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004		1,100,250	89,577	203,582	1,072	1,394,481
Profit/(loss) for the year		–	–	185,677	(44)	185,633
Dividends						
– 2003 final paid		–	–	(67,669)	–	(67,669)
– 2004 interim paid		–	–	(49,214)	–	(49,214)
Transfer to statutory reserves	*13*	–	25,368	(25,368)	–	–
Balance at 31 December 2004		1,100,250	114,945	247,008	1,028	1,463,231
Balance at 1 January 2005		1,100,250	114,945	247,008	1,028	1,463,231
Profit/(loss) for the year		–	–	151,844	(430)	151,414
Dividends						
– 2004 final paid		–	–	(35,018)	–	(35,018)
– 2005 interim paid		–	–	(39,750)	–	(39,750)
Transfer to statutory reserves	*13*	–	22,278	(22,278)	–	–
Balance at 31 December 2005		**1,100,250**	**137,223**	**301,806**	**598**	**1,539,877**

The notes on page 40 to 74 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

		Year ended 31 December	
		2005	2004
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	*26(a)*	**138,406**	190,279
Interest paid		**(7,586)**	(7,496)
Income tax paid		**(9,261)**	(28)
Net cash generated from operating activities		**121,559**	182,755
Cash flows from investing activities			
Purchase of property, plant and equipment		**(177,999)**	(170,193)
Purchase of land use right		**–**	(4,239)
Disposal of held-to-maturity investments		**–**	90,000
Decrease/(increase) in time deposits		**17,146**	(21,614)
Interest received		**4,494**	6,446
Net cash used in investing activities		**(156,359)**	(99,600)
Cash flows from financing activities			
Repayment of borrowings		**(25,000)**	–
Dividends paid to the Company's equity holders		**(74,768)**	(116,883)
Net cash used in financing activities		**(99,768)**	(116,883)
Net decrease in cash and cash equivalents		**(134,568)**	(33,728)
Cash and cash equivalents at beginning of the year		**379,976**	413,704
Cash and cash equivalents at end of the year	*11(b)*	**245,408**	379,976

The notes on page 40 to 74 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

Year ended 31 December 2005

1 General information

Hainan Meilan International Airport Company Limited (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. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 18 November 2002. 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.

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2006.

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 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised IFRS

In 2005, the Group adopted the new/revised IFRSs below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment property
IFRS 2	Share-based Payments
IFRS 3	Business Combinations
IFRIC-Int1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC-Int2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC Amendment to SIC-12	Scope of SIC-12 Consolidation – Special Purpose Entities

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33, 39, 40, IFRIC-Int 1, 2 and IFRIC Amendment to SIC-12 did not result in substantial changes to the Group's accounting policies. In summary:

– IAS 1 has affected the presentation of minority interests and other disclosures.

– IAS 2, 8, 10, 16, 17, 24, 27, 28, 31, 32, 33, 39, 40, IFRIC-Int 1, 2 and IFRIC Amendment to SIC-12 had no material effect on the Group's policies.

– IAS 21 had no material effect on the Group's policy. All the Group entities have the same functional currency as their measurement currency.

IFRS 2 had no material effect on the Group's policy. All the Group activities have not undertaken any share-based payment transaction.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised IFRS (continued)

The adoption of IFRS 3, IAS 36 and IAS 38 resulted in a change in the accounting policy for goodwill. Until 31 December 2004 goodwill and negative goodwill were:

– Amortised on a straight line basis over a period of 10 years;

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3, IAS 36 and IAS 38:

– The Group ceased amortisation of goodwill and negative goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and negative goodwill;

– From 1 January 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment while negative goodwill was derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings.

– Assets that have indefinite useful lives are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

– An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The following new/revised Standards or Interpretations have been issued but are not yet effective. The Group has not early adopted these and expect the adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC-Int 3	Emission Rights
IFRIC-Int 4	Determining whether an Arrangement contains A Lease
IFRIC-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC-Int7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassesment of Embedded Derivatives

2 Summary of significant accounting policies (continued)

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note f).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the 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.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional 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.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(e) 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 properties, plant and equipment are credited to revaluation surplus reserve in the equity holders' 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 values 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

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.

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.

2 Summary of significant accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is at least tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (Note g).

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

The Group classified its financial assets into two categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

Regular purchases and sales of investments are recognised on trade-date, which is the date that the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(i) Leases

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

(i) The Company is the lessee

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.

(ii) The Company 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.

(j) 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 merchandise for resale are the estimated selling price in the ordinary course of business, less the marketing and distribution expenses.

(k) 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Cash and cash equivalents

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.

(m) Share capital

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(n) Borrowings

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

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.

2 Summary of significant accounting policies (continued)

(o) Deferred income tax

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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Employee benefits

(i) 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.

(ii) 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.

(q) 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.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns (if applicable), rebates and discounts and after eliminating sales within the Group.

Revenues are recognised as follows:

(i) Airport fee is recognised upon outbound passengers 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) Tourism income is recognised when the services are rendered.

(ix) Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

(s) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

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 and payment of consulting fee are in US dollars. Dividends to equity holders holding H Shares are declared in RMB and paid in Hong Kong dollars. As at 31 December 2005, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB960,000 (as at 31 December 2004: RMB5,187,000) were denominated in Hong Kong dollars or US dollars. Fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations.

(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 14.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(iv) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents 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.

4 Critical accounting estimates and judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate impairment of property, plant and equipment

Whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, the Group will test whether property, plant and equipment has suffered any impairment in accordance with the accounting policies stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Notes to the Financial Statements

Year ended 31 December 2005

4 Critical accounting estimates and judgement (continued)

(b) Estimate impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policies stated in Notes 2(f) and 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

5 Revenue 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 2005. 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.

	Year ended 31 December	
	2005	2004
Analysis of revenue by category	***RMB'000***	*RMB'000*
Aeronautical:		
Passenger charges	**95,366**	101,819
Aircraft movement fees and related charges	**42,262**	42,222
Airport fee	**85,327**	90,176
Ground handling services income	**25,409**	25,536
	248,364	259,753
Non-aeronautical:		
Retailing	**10,160**	21,788
Franchise fee	**15,980**	13,992
Rental	**16,469**	19,307
Tourism	**19,457**	22,165
Advertising	**9,157**	8,247
Car parking	**5,327**	5,072
Others	**9,930**	9,701
	86,480	100,272
Total revenues	**334,844**	360,025

6 Land use right

The interests of the Group and the Company in land use right represent prepaid operating lease payments for land use right outside Hong Kong held on leases of over the terms of 50 to 70 years. The movement of the land use right is as follows:

	The Group and the Company
	RMB'000
Year ended 31 December 2004	
Opening net book amount	168,301
Additions	4,239
Amortisation	(2,409)
Closing net book amount	170,131
As at 31 December 2004	
Cost	179,499
Accumulated amortisation	(9,368)
Net book amount	170,131
Year ended 31 December 2005	
Opening net book amount	170,131
Amortisation	(3,310)
Closing net book amount	166,821
As at 31 December 2005	
Cost	179,499
Accumulated amortisation	(12,678)
Net book amount	166,821

Notes to the Financial Statements

Year ended 31 December 2005

7 Property, plant and equipment

Property, plant and equipment of the Group:

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
As at 1 January 2004						
Cost or valuation	624,968	77,871	39,364	17,142	771	760,116
Accumulated depreciation	(19,519)	(9,508)	(7,892)	(5,733)	–	(42,652)
Net book amount	605,449	68,363	31,472	11,409	771	717,464
Year ended 31 December 2004						
Opening net book amount	605,449	68,363	31,472	11,409	771	717,464
Additions	9,693	1,359	6,086	2,770	157,782	177,690
Transfer	1,499	–	–	26	(1,525)	–
Disposals *(Note 26)*	–	–	(451)	(1)	–	(452)
Reclassification	–	–	(232)	232	–	–
Depreciation	(16,960)	(7,797)	(7,142)	(2,683)	–	(34,582)
Closing net book amount	599,681	61,925	29,733	11,753	157,028	860,120
As at 31 December 2004						
Cost or valuation	636,160	79,230	44,081	20,220	157,028	936,719
Accumulated depreciation	(36,479)	(17,305)	(14,348)	(8,467)	–	(76,599)
Net book amount	599,681	61,925	29,733	11,753	157,028	860,120
Year ended 31 December 2005						
Opening net book amount	599,681	61,925	29,733	11,753	157,028	860,120
Additions	2,464	123	211	2,421	180,366	185,585
Disposals *(Note 26)*	–	(3)	(18)	(46)	–	(67)
Depreciation	(16,365)	(7,096)	(5,156)	(2,742)	–	(31,359)
Closing net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
As at 31 December 2005						
Cost or valuation	638,624	79,347	44,162	22,459	337,394	1,121,986
Accumulated depreciation	(52,844)	(24,398)	(19,392)	(11,073)	–	(107,707)
Net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279

If the property, plant and equipment of the Group were stated on the historical cost basis, the amounts of each class would be as follows:

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	**2005 Total *RMB'000***	2004 Total *RMB'000*
Cost	677,599	100,023	55,718	26,690	337,394	**1,197,424**	1,012,156
Accumulated depreciation	(125,330)	(47,652)	(31,312)	(15,538)	–	**(219,832)**	(188,868)
	552,269	52,371	24,406	11,152	337,394	**977,592**	823,288

Depreciation expense of RMB31,248,000 (2004: RMB34,481,000) has been charged in cost of services and sale of goods, RMB45,000 (2004: RMB41,000) in selling and distribution costs and RMB66,000 (2004: RMB60,000) in administrative expenses.

7 Property, plant and equipment (continued)

Property, plant and equipment of the Company were:

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
As at 1 January 2004						
Cost or valuation	624,968	77,871	38,849	12,738	745	755,171
Accumulated depreciation	(19,519)	(9,508)	(7,738)	(3,553)	–	(40,318)
Net book amount	605,449	68,363	31,111	9,185	745	714,853
Year ended 31 December 2004						
Opening net book amount	605,449	68,363	31,111	9,185	745	714,853
Additions	9,693	1,359	6,086	2,565	157,782	177,485
Transfer	1,499	–	–	–	(1,499)	–
Disposals	–	–	(451)	(1)	–	(452)
Reclassification	–	–	(232)	232	–	–
Depreciation	(16,960)	(7,797)	(6,968)	(1,840)	–	(33,565)
Closing net book amount	599,681	61,925	29,546	10,141	157,028	858,321
As at 31 December 2004						
Cost or valuation	636,160	79,230	43,566	15,585	157,028	931,569
Accumulated depreciation	(36,479)	(17,305)	(14,020)	(5,444)	–	(73,248)
Net book amount	599,681	61,925	29,546	10,141	157,028	858,321
Year ended 31 December 2005						
Opening net book amount	599,681	61,925	29,546	10,141	157,028	858,321
Additions	2,464	123	211	1,637	180,366	184,801
Disposals	–	(3)	(18)	(46)	–	(67)
Depreciation	(16,365)	(7,096)	(5,130)	(2,016)	–	(30,607)
Closing net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
As at 31 December 2005						
Cost or valuation	638,624	79,347	43,647	17,040	337,394	1,116,052
Accumulated depreciation	(52,844)	(24,398)	(19,038)	(7,324)	–	(103,604)
Net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448

Notes to the Financial Statements

Year ended 31 December 2005

7 Property, plant and equipment (continued)

If the property, plant and equipment of the Company were stated on the historical cost basis, the amounts of each class would be as follows:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	2005 Total	2004 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost	677,599	100,023	55,204	21,271	337,394	**1,191,491**	1,007,007
Accumulated depreciation	(125,330)	(47,652)	(30,959)	(11,789)	–	**(215,730)**	(187,852)
	552,269	52,371	24,245	9,482	337,394	**975,761**	819,155

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	
	2005	2004
	RMB'000	*RMB'000*
Cost	**30,473**	26,072
Accumulated depreciation	**(2,805)**	(1,606)
Net book amount	**27,668**	24,466

An valuation of the property, plant and equipment of the Group was performed at 31 August 2002 by Vigers Hong Kong Limited, 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, being the difference between the valuation surplus of approximately RMB41,449,000 resulted from the revaluation and the related deferred tax of approximately RMB4,968,000, was recorded in Note 13.

Interest expenses capitalised to assets under construction for the year ended 31 December 2005 amounted to RMB7,586,000 (2004: RMB7,496,000) (Note 19). Total accumulated interest expenses capitalised to assets under construction as at 31 December 2005 is RMB16,658,000 (as at 31 December 2004: RMB9,072,000).

8 Goodwill

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

	Goodwill *RMB'000*	Negative goodwill *RMB'000*	Total *RMB'000*
Year ended 31 December 2004			
Opening net book amount	4,063	(202)	3,861
Amortisation charge	(413)	37	(376)
Closing net book amount	3,650	(165)	3,485
As at 31 December 2004			
Cost	4,063	(202)	3,861
Accumulated amortisation	(413)	37	(376)
Net book amount	3,650	(165)	3,485
Year ended 31 December 2005			
Opening net book amount	3,650	(165)	3,485
Impairment charge	(3,650)	–	(3,650)
Write-off	–	165	165
Closing net book amount	–	–	–
As at 31 December 2005			
Cost	3,650	–	3,650
Accumulated impairment	(3,650)	–	(3,650)
Net book amount	–	–	–

9 Investments in and amounts due from/to subsidiaries

(a) Investments in subsidiaries

	The Company	
	2005 ***RMB'000***	2004 *RMB'000*
Unlisted shares, at cost	**18,094**	18,094

Notes to the Financial Statements

Year ended 31 December 2005

9 Investments in and amounts due from/to subsidiaries (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31 December 2005.

As at 31 December 2005, the Company had equity interests in the following principal subsidiaries, all of which are unlisted limited liability company and operating in the PRC:

Name	Place of establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held	
			RMB'000	Directly	Indirectly
Hainan Meilan International Airport Advertising Co., Ltd.	PRC, limited liability company	Provision of advertising services in the PRC	1,000	95	4.75
Hainan Meilan International Airport Travelling Co., Ltd.	PRC, limited liability company	Provision of tourism services in the PRC	11,000	95	–
Hainan Meilan Duty Free Shop Limited	PRC, limited liability company	Retail sales in the PRC	1,000	95	–

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

10 Trade receivables, net

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from third parties	**29,466**	32,172	**29,210**	31,615
Less: provision for impairment of receivables	**(2,248)**	(2,215)	**(2,186)**	(2,186)
	27,218	29,957	**27,024**	29,429
Trade receivables from related parties *(Note 28(c))*	**49,255**	105,419	**48,639**	105,419
Airport fee receivable	**113,201**	29,040	**113,201**	29,040
	189,674	164,416	**188,864**	163,888

10 Trade receivables, net (continued)

As at 31 December 2005, the ageing analysis of the trade receivables from third parties was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**20,437**	22,375	**20,267**	22,358
91 – 180 days	**3,363**	5,906	**3,363**	5,604
181 – 365 days	**2,530**	972	**2,530**	814
Over 365 days	**888**	704	**864**	653
	27,218	29,957	**27,024**	29,429

The carrying amounts of trade receivables from third parties approximate their fair value.

The credit terms given to trade customers are determined on individual basis with the normal credit period from 1 to 3 months.

As at 31 December 2005, the ageing analysis of the trade receivables from related parties was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**45,514**	53,416	**45,186**	53,416
91 – 180 days	**2,242**	24,461	**1,954**	24,461
181 – 365 days	**1,181**	25,043	**1,181**	25,043
Over 365 days	**318**	2,499	**318**	2,499
	49,255	105,419	**48,639**	105,419

The carrying amounts of trade receivables from related parties approximate their fair value.

The credit terms given to related parties are determined on an individual basis with the normal credit period from 1 to 3 months.

As at 31 December 2005, the original amount, fair value and ageing analysis of the airport fee receivable were as follows:

	The Group and the Company			
	2005		2004	
	Original amount	**Fair value**	Original amount	Fair value
	RMB'000	**RMB'000**	RMB'000	RMB'000
0 – 90 days	**22,124**	**21,899**	29,040	29,040
91 – 180 days	**18,914**	**18,721**	–	–
181 – 365 days	**44,289**	**43,838**	–	–
Over 365 days	**29,040**	**28,743**	–	–
	114,367	**113,201**	29,040	29,040

Notes to the Financial Statements

Year ended 31 December 2005

10 Trade receivables, net (continued)

In accordance with the "Notice regarding Questions on Levy and Management Methods of Civil Aviation Airport Construction Fee (the "Notice")" issued jointly by General Administration of Civil Aviation of China (the "CAAC") and Ministry of Finance of the PRC (the "Ministry of Finance") on 22 July 2004, with effect from 1 September 2004, the Airport Fee would be collected together with air tickets sold by the airlines companies instead of being collected at airport directly by the Company. Based on the Notice, the Company should eventually receive the Airport Fee from the Ministry of Finance. After the change in the collection procedures in September 2004, the Company has not collected any Airport Fee because the relevant PRC authorities are still in the process of finalising the detailed procedures for the payment of the Airport Fee to the Company.

The Directors of the Company believes that such receivable will be fully recoverable in 2006. The fair value is estimated based on cash flows, discounted using an effective deposit interest rate of 2.07% per annum.

11 Time deposits and cash and cash equivalents

(a) Time deposits

As at 31 December 2005, the Group and the Company had two deposits (2004: two deposits) placed with Xiamen International Bank amounting to RMB64,468,000 (2004: RMB81,614,000) and one deposit placed with China Merchants Bank, Shenzhen Shatoujiao Branch amounting to RMB20,000,000 (2004: RMB20,000,000). The deposits placed with Xiamen International Bank earn interest at 2.25% per annum and have maturity date of 9 June 2006 and the deposit placed with China Merchants Bank, Shenzhen Shatoujiao Branch earns interest at 2.07% per annum and has maturity date of 26 June 2006.

(b) Cash and cash equivalents, which are also for the purpose of cash flow statement, comprised:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**21,408**	379,976	**10,036**	354,994
Short-term bank deposit	**224,000**	–	**224,000**	–
	245,408	379,976	**234,036**	354,994

The effective interest rate on the short-term bank deposit was 1.71% per annum and the maturity date is 28 March 2006.

12 Share capital

	2005	2004
	RMB'000	*RMB'000*
At 1 January and 31 December		
Share capital registered, issued and fully paid		
246,300,000 Domestic shares of RMB1 each	**246,300**	246,300
226,913,000 H shares of RMB1 each	**226,913**	226,913
	473,213	473,213
Share premium on group reorganisation in 2000	**69,390**	69,390
Share premium on issue net of issuing expenses	**557,647**	557,647
	1,100,250	1,100,250

13 Other reserves

	The Group		
	Revaluation surplus	Statutory reserves	Total
	(note a)	*(note b)*	
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2004	36,481	53,096	89,577
Transfer from retained earnings	–	25,368	25,368
Balance at 31 December 2004	36,481	78,464	114,945
Balance at 1 January 2005	36,481	78,464	114,945
Transfer from retained earnings	–	22,278	22,278
Balance at 31 December 2005	**36,481**	**100,742**	**137,223**

	The Company		
	Revaluation surplus	Statutory reserves	Total
	(note a)	*(note b)*	
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2004	36,481	52,624	89,105
Transfer from retained earnings	–	25,280	25,280
Balance at 31 December 2004	36,481	77,904	114,385
Balance at 1 January 2005	36,481	77,904	114,385
Transfer from retained earnings	–	22,243	22,243
Balance at 31 December 2005	**36,481**	**100,147**	**136,628**

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Year ended 31 December 2005

13 Other reserves (continued)

(a) Revaluation surplus

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment *(Note 7)*	**36,481**	36,481

(b) 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 financial statements) 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. Title to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

14 Borrowings

As at 31 December 2005, all of the borrowings were borrowed from the bank to finance the construction of the airport terminal, the related premises and facilities and were secured by a floating charge over the Company's revenues.

As at 31 December 2005, loans of RMB103,000,000 (2004: RMB128,000,000) denominated in RMB bear interest at commercial rate of 6.12% per annum (2004: 5.76% per annum) with maturities through 2013 (2004: through 2013).

The bank borrowings were repayable as follows:

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**50,000**	25,000
In the second year	**28,000**	50,000
In the third to fifth year	**17,000**	41,000
After five years	**8,000**	12,000
	103,000	128,000
Less: Current portion of borrowings included in current liabilities	**(50,000)**	(25,000)
	53,000	103,000

The effective interest rate as at 31 December 2005 was 6.12% (2004: 5.76%).

14 Borrowings (continued)

The carrying amounts and fair values of the non-current borrowings are as follows:

	The Group and the Company			
	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings – non-current	**53,000**	103,000	**53,270**	103,387

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.12% (2004: 5.76%).

There were no undrawn banking facilities as at 31 December 2005 (2004: nil).

15 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	
	2005	2004
	RMB'000	*RMB'000*
Land use right	**6,454**	6,535
Property, plant and equipment	**4,808**	4,968
	11,262	11,503
Deferred income tax liabilities to be recovered:		
– after more than 12 months	**11,021**	11,262
– within 12 months	**241**	241
	11,262	11,503

The movement on the deferred income tax account is as follows:

	The Group and the Company		
	Land use right	Property, plant and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2004 and as at 31 December 2004	6,535	4,968	11,503
Credit to the income statement	(81)	(160)	(241)
As at 31 December 2005	6,454	4,808	11,262

Notes to the Financial Statements

Year ended 31 December 2005

15 Deferred income tax liabilities (continued)

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 RMB442,000 (2004: RMB332,000) in respect of the tax losses of the Group's subsidiaries as at 31 December 2005 of approximately RMB3,052,000 (2004: RMB2,285,000). Tax losses amounting to RMB814,000, RMB727,000, RMB744,000 and RMB767,000 will expire in 2007, 2008, 2009 and 2010 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.

16 Trade and other payables

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**2,621**	4,699	**1,715**	1,355
Other payables	**36,007**	52,867	**30,452**	46,635
Deposits received	**1,326**	1,281	**1,326**	1,281
Due to related parties *(Note 28(c))*	**19,952**	42,365	**15,776**	41,486
	59,906	101,212	**49,269**	90,757

At 31 December 2005, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 -90 days	**17,054**	15,059	**16,428**	12,399
91-180 days	**859**	12,707	**752**	12,707
181-365 days	**484**	17,443	**311**	16,760
Over 365 days	**–**	975	**–**	975
	18,397	46,184	**17,491**	42,841

17 Expenses by nature

Expenses included in cost of services and sale of goods, selling and distribution costs and administrative expenses are analysed as follows:

	2005	2004
	RMB'000	*RMB'000*
Cost of goods and services	**41,977**	44,835
Depreciation of property, plant and equipment *(Note 7)*	**31,359**	34,582
Amortisation of land use right *(Note 6)*	**3,310**	2,409
Employee benefit expense *(Note 18)*	**33,891**	33,364
Amortisation of goodwill *(Note 8)*	**–**	376
Impairment of goodwill *(Note 8)*	**3,650**	–
Other taxes	**4,881**	4,903
Auditors' remuneration	**2,384**	2,121
Consulting fee	**4,587**	6,012
Operating lease rentals – building	**509**	509
Loss on disposal of property, plant and equipment *(Note 26)*	**67**	452
Impairment/(reversal of impairment) of trade receivables	**33**	(2,176)

18 Employee benefit expense

	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	**23,481**	24,737
Pension costs – statutory pension *(Note 24)*	**3,526**	2,784
Staff welfare	**2,172**	1,163
Housing fund *(Note 25)*	**1,841**	1,587
Medical benefits	**1,015**	928
Other allowances and benefits	**1,856**	2,165
	33,891	33,364

As at 31 December 2005, the Group and the Company had 691 and 600 (2004: 714 and 538) employees respectively.

Notes to the Financial Statements

Year ended 31 December 2005

18 Employee benefit expense (continued)

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees *(RMB'000)*	Salaries and other benefits *(RMB'000)*	Bonuses *(RMB'000)*	Retirement scheme contributions *(RMB'000)*	Total *(RMB'000)*
Wang Zhen	70	72	76	13	231
Huang Qiu	70	58	59	13	200
Kristian Bjorneboe	70	108	70	–	248
Chen Wenli	70	–	–	–	70
Zhang Han'an	50	–	–	–	50
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Fung Ching, Simon	80	–	–	–	80
Xie Zhuang	80	–	–	–	80
Gunnar Moller	–	–	–	–	–

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees *(RMB'000)*	Salaries and other benefits *(RMB'000)*	Bonuses *(RMB'000)*	Retirement scheme contributions *(RMB'000)*	Total *(RMB'000)*
Wang Zhen	70	54	72	11	207
Huang Qiu	70	41	57	11	179
Kristian Bjorneboe	70	131	80	–	281
Chen Wenli	70	–	–	–	70
Zhang Han'an	51	–	–	–	51
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Meng Jianqiang	62	–	–	–	62
Fung Ching, Simon	18	–	–	–	18
Xie Zhuang	76	–	–	–	76

For the year ended 31 December 2005 and 2004, the emoluments paid to each of the Directors, Supervisors and the five highest-paid employees fell within the band from nil to RMB1 million.

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

18 Employee benefit expense (continued)

(b) Five highest paid individuals

Five highest paid employees included three Directors (2004: three Directors), whose emoluments have been included in the above disclosure. Details of emoluments of another two highest paid employees (2004: two) were:

	2005 *RMB'000*	2004 *RMB'000*
Basic salaries and allowances	**123**	90
Bonuses	**134**	132
Retirement scheme contributions	**26**	21
	283	243

During the year ended 31 December 2005, 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.

19 Interest expense

	2005 *RMB'000*	2004 *RMB'000*
Interest on bank loans		
– not wholly repayable within five years	**7,586**	7,496
Less: interest capitalised *(Note 7)*	**(7,586)**	(7,496)
	–	–

20 Income tax expense

Hong Kong profits tax has not been provided as the Group had no estimated assessable profits arising in Hong Kong during the period (2004: Nil). Taxation in the income statement represents provision for PRC enterprise income tax.

	2005 *RMB'000*	2004 *RMB'000*
Current income tax		
– outside Hong Kong	**12,478**	33
Deferred income tax *(Note 15)*	**(241)**	–
Income tax expense	**12,237**	33

Notes to the Financial Statements

Year ended 31 December 2005

20 Income tax expense (continued)

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:

	2005 RMB'000	2004 RMB'000
Profit before taxation	163,651	185,666
Tax calculated at a domestic rate applicable to profits in the Hainan Province	24,548	27,850
Effect of tax holidays	(13,397)	(28,231)
Tax loss not recognised	114	108
Investment income not subject to income tax	–	(28)
Expenses not deductible for tax purpose	972	334
Income tax expense	12,237	33

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (2004: 15%) on the taxable income as reported in their statutory financial statements which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

Pursuant to the approval documents issued by Hainan Qiongshan 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.

21 Profit attributable to equity holders of the Company

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of RMB154,601,000 (2004: RMB186,888,000).

22 Earnings per share

– Basic

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

	2005	2004
Profit attributable to equity holders of the Company (RMB'000)	151,844	185,677
Weighted average number of ordinary shares in issue (thousands)	473,213	473,213
Basic earnings per share (RMB per share)	32 cents	39 cents

– Diluted

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the year ended 31 December 2005 and 2004.

23 Dividends

	2005 *RMB'000*	2004 *RMB'000*
Interim, paid, of RMB 8.4 cents (2004: RMB10.4 cents) per share	39,750	49,214
No final dividends proposed (2004: RMB7.4 cents) per share	–	35,018
	39,750	84,232

At the Board of Directors' meeting held on 21 March 2006, the Directors declared no further dividend payout for the year ended 31 December 2005.

24 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 2005 and 2004.

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

25 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% (2004: 15%) of the specified salary amount of its full-time Chinese employees. 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 2005, the Group's contribution to the housing fund was approximately RMB1,841,000 (2004: RMB1,587,000).

As at 31 December 2005 and 2004, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

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Year ended 31 December 2005

26 Notes to consolidated cash flow statement

(a) Reconciliation of profit for the year to cash generated from operations

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Profit for the year	**151,414**	185,633
Adjustments for:		
– Income tax expense	**12,237**	33
– Interest income	**(4,494)**	(4,849)
– Depreciation and amortisation	**34,669**	36,991
– Amortisation of goodwill	**–**	376
– Impairment of goodwill	**3,650**	–
– Write-off of negative goodwill	**(165)**	–
– Loss on sale of property, plant and equipment	**67**	452
– Impairment/(reversal of impairment) of trade receivables	**33**	(2,176)
Change in working capital:		
– Receivables and prepayments	**(18,823)**	(49,660)
– Trade and other payables	**(41,306)**	24,500
– Inventories	**1,124**	(1,021)
Cash generated from operations	**138,406**	190,279

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

	2005	2004
	RMB'000	*RMB'000*
Net book amount	**67**	452
Loss on sale of property, plant and equipment	**(67)**	(452)
Proceeds from sale of property, plant and equipment	**–**	–

27 Commitments

(a) Capital commitments

Capital expenditure in respect of buildings and improvements at the balance sheet date but not yet incurred is as follows:

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Contracted but not provided for	**41,107**	77,105
Authorised but not contracted for	**76,770**	198,259
	117,877	275,364

(b) Operating lease commitments – where the Group and the Company are the lessee

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**1,949**	646	**509**	646
Later than 1 year and not later than 5 years	**–**	509	**–**	509
	1,949	1,155	**509**	1,155

(c) Operating lease arrangements – 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	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**19,262**	5,681	**13,766**	1,937
Later than 1 year and not later than 5 years	**16,387**	693	**15,568**	268
	35,649	6,374	**29,334**	2,205

Notes to the Financial Statements

Year ended 31 December 2005

28 Material related party transactions

The Company is controlled by Haikou Meilan International Airport Company Limited (the "Parent Company") which established in the PRC and 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% of the Company's shares respectively. The remaining 28% of the shares are widely held.

(a) The following is a summary of material transactions 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	*Note*	The Group 2005 RMB'000	The Group 2004 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
Hainan Airlines Food Company Limited ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	*(ii)*	**1,856**	2,078
Hainan Airlines	Shareholder	Income from franchise fee for the operation of the cargo centre	*(i)*	**6,000**	–
		Income for the provision of customary airport ground services	*(iii)*	**73,355**	75,037
		Rental income for the leasing of office and commercial space	*(iv)*	**6,699**	5,839
China Southen Airlines Co., Ltd. ("Southern Airlines ")	Promoter	Income for the provision of customary airport ground services	*(iii)*	**42,895**	38,957
		Rental income for the leasing of office and commercial space	*(iv)*	**5,946**	6,294
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	*(iii)*	**1,993**	2,498

28 Material related party transactions (continued)

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

Name of related party	Relationship with the Company	Nature of transactions	Note	The Group 2005 RMB'000	2004 RMB'000
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	*(v)*	**12,600**	11,222
		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)*	**10,741**	9,500
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	*(viii)*	**3,587**	6,011
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)*	**46,603**	46,905

(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 obtaining the rights to utilise the facilities of the cargo centre with retrospective effect on 1 January 2004. The aforesaid agreement expired on 1 January 2005 and Yangzijiang Air Express ceased operating the cargo centre of the Company since then.

In accordance with the agreement between the Company and Hainan Airlnes dated 26 August 2005, Hainan Airlines would pay a monthly franchise fee of RMB500,000 to the Company for operating the cargo centre with retrospective effect on 1 January 2005.

The aforementioned agreement was approved by the Extraordinary General Meeting on 4 November 2005.

(ii) In accordance with an agreement between the Company and Hainan Food dated 5 January 2005, Hainan Food is granted a right to provide on-board catering services to airlines.

(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, Southern Airlines and Xiamen Airlines at rates prescribed by the CAAC.

Notes to the Financial Statements

Year ended 31 December 2005

28 Material related party transactions (continued)

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

(iv) The Company leased office, commercial areas, premises, airport counters and an aircraft hangar to Hainan Airlines, Southern Airlines and Xiamen Airlines. The rental charges were agreed between the Company and the airlines.

(v) According to a revised airport composite services agreement with a term of three years approved by the Extraordinary General Meeting on 18 May 2005 with retrospective effect from 1 January 2005, 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.

(vi) The Company and the Parent Company entered into an office lease agreement dated 25 October 2002, the Company rented 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 26 August 2005, HNA Group has agreed to 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 services with effect from 1 January 2005.

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.

28 Material related party transactions (continued)

(a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the year: (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 Company 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 Company has accounted for its share of 75% of the aeronautical fees in its consolidated income statement as revenue.

(b) Key management compensation

	2005	2004
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**693**	607
Bonuses	**450**	423
Retirement scheme contributions	**76**	60
	1,219	1,090

(c) As at 31 December 2005, balances with related parties comprised:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties:				
Hainan Airlines	**24,929**	79,004	**24,929**	79,004
HNA Group	**5,727**	–	**5,727**	–
Southern Airlines	**15,338**	15,492	**15,009**	15,492
Hainan Food	**1,724**	2,625	**1,724**	2,625
Yangzijiang Air Express	**–**	5,477	**–**	5,477
SPIA *(Note i)*	**27**	2,499	**27**	2,499
Xiamen Airlines	**1,015**	322	**1,015**	322
Others	**495**	–	**208**	–
	49,255	105,419	**48,639**	105,419

Notes to the Financial Statements

Year ended 31 December 2005

28 Material related party transactions (continued)

(c) As at 31 December 2005, balances with related parties comprised: (continued)

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables from related parties:				
Hainan Da Lung Enterprise Co., Ltd. *(Note ii)*	**1,162**	8,230	**1,162**	8,230
Parent Company	**–**	823	**–**	–
SPIA	**–**	67	**–**	67
Others	**113**	711	**113**	711
	1,275	9,831	**1,275**	9,008
	50,530	115,250	**49,914**	114,427
Payable to related parties:				
Parent Company	**16,508**	36,352	**12,337**	35,473
CPHI	**3,129**	6,011	**3,129**	6,011
Others	**315**	2	**310**	2
	19,952	42,365	**15,776**	41,486

Note:

(i) 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.

(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.

Trade receivables from related parties are unsecured, interest-free and with a credit period of 1 to 3 months.

Other balances due from/to related parties are unsecured, interest-free and without fixed terms of repayment, unless otherwise stated in above notes.