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 2006

Successful Management
provided quality & safe services

Contents

Corporate Mission

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

Corporate Background

Hainan Meilan International Airport Company Limited (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 H shares of the Company ("H Shares") were issued and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 November 2002. On 6 November 2003, the Company was approved by the Ministry of Commerce of the PRC to convert into a foreign invested joint stock company.

The Company and its subsidiaries (together, the "Group") are currently engaged in both aeronautical and non-aeronautical businesses at the Hainan Meilan International Airport, Haikou, Hainan Province, the PRC (the "Meilan Airport"). The aeronautical businesses of the Company consist of the provision of terminal facilities, ground handling services and passenger and cargo handling services. The non-aeronautical businesses of the Company include leasing of commercial and retail spaces at the Meilan 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 2006 are as follows:

- Awarded with "2006 Million Passengers' Appraisal of Civil Airport Ground Services Appreciation Award" by the Civil Aviation Association Committee;

- Awarded with "2006 Million Passengers' Appraisal of Civil Aviation Satisfaction Quality Award" by the Civil Aviation Association Committee;

- Accredited the title of "Outstanding Enterprise of the National Safety and Health Cup Competition" by the State Administration of Work Safety and All China Federation of Trade Unions State;

- Awarded with "2006 The National Passenger Satisfaction Enterprise" by China Association for Quality; and

- Accredited the title "National Youth of Civilization Entity" by Civil Aviation Administration of China and the Central Communist Youth League Organization Department.

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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*
Dong Zhanbin
Dong Guiguo
Gunnar Moller

Non-executive Directors
Zhang Han'an

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

Remuneration Committee
Xie Zhuang
Fung Ching, Simon
Dong Guiguo

Legal Address and Head Office
Meilan Airport Complex
Haikou City
Hainan Province, PRC

Principal Place of Business in Hong Kong
No. 2 Austin Avenue, Unit B, 7/F,
Tsimshatsui, Kowloon
Hong Kong

Legal Adviser
Coudert Brothers in association with
Orrick, Herrington & Sutcliffe LLP
39/F, Gloucester Tower
The Landmark
15 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 Banker
Bank of China, Jinyu Branch
Haikou City,
Hainan Province, PRC

H Share Registrar and Transfer Office in Hong Kong
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai,
Hong Kong

Stock Code
357

Financial Highlights

Two-Year Comparison of Key Financial Figures

For the year ended 31 December

(RMB'000)

	2006	*2005*	*Change (%)*
Turnover	334,375	334,844	-0.1%
Gross profit	196,840	224,076	-12.2%
Net profit attributable to shareholders	122,976	151,844	-19.0%
Earnings per share – basic and diluted (RMB)	0.26	0.32	-18.8%
Net operating cashflow	173,860	121,559	43.0%
Current ratio (Times)	3.78	4.74	-20.3%
Debt/Equity ratio (%)	12.5%	11.5%	8.7%
EBITDA	183,215	198,750	-7.8%

Five-Year Summary of Financial Performance

For the year ended 31 December

(RMB'000)

	2006	*2005*	*2004*	*2003*	*2002*
Turnover	334,375	334,844	360,025	307,933	283,452
Cost of services and sale of goods	(125,250)	(99,140)	(106,267)	(90,328)	(70,412)
EBITDA	183,215	198,750	222,701	191,434	210,578
Finance income/(expense) – net	238	4,494	4,849	(5,790)	(18,816)

Five-Year Summary of Financial Position

As at 31 December

(RMB'000)

	2006	*2005*	*2004*	*2003*	*2002*
Total assets	1,870,351	1,717,267	1,703,951	1,610,696	1,744,502
Total liabilities	207,496	177,390	240,720	216,215	398,595
Shareholders' equity	1,662,855	1,539,877	1,462,203	1,393,409	1,339,228

We strive

to become a successful airport management company of the mainland and bring better returns to shareholders.

Chairman's Statement

Zhang Cong *Chairman*

To all shareholders,

In 2006, the Group continued its endeavour to position itself as a "people-oriented and internationalised brand" in strict accordance with its strategic deployment for the "Year of Management and Regulation". The Group also proactively explored new system for airport operation management, to cope with the ever challenging aviation market.

During the year under review, despite the adversities in the operating environment of the aviation market, the Group continued to strengthen its market development efforts and successfully introduced various domestic and foreign low-cost airlines. By actively exploring new system for airport operation management in accordance with our strategic deployment for the "Year of Management and Regulation", the Group intensified its internal management reform and accelerated the business transformation from our operation-orientation to management-orientation. The Group also kept a close eye on its cost control measures by placing dual-focused strategies of income growth and cost savings, and optimised budget management comprehensively. Such cost control measures were found to be effective. The steadily improving operational quality marked the 8th year of safe operation in the Group's history. The remarkable success of its brand also allowed the Group to receive various national and provincial honours. The Phase II airport expansion of the Group has successfully passed the examination upon completion and has officially commenced operation in January 2006. The expansion provided necessary space and hardware for the pursuit of a harmonic and rapid development of Meilan Airport.

Chairman's Statement

Results

In 2006, the Group's total revenue decreased by 0.1% over last year to RMB334,375,000. Income from aeronautical business amounted to RMB230,756,000, representing a decrease of 7.1% as compared with that of last year. Income from non-aeronautical business amounted to RMB103,619,000, representing an increase of 19.8% over last year. Net profit attributable to shareholders dropped by 19% to RMB122,976,000.

Operation Review

In 2006, domestic airlines continued to adjust their capacities, to grasp tourist market share from the top three aviation hubs. The switch of destination choices, consumption concepts and travelling manners of tourists, together with the commencement of operations of the Guangdong-Hainan Railway as well as the rapid growth of Sanya Phoenix International Airport, kept on bringing diffluent impact on the passenger flow of Meilan Airport. Affected by the above factors, the Group's transportation production business has continued to suffer from this declining trend since the second half of 2005. As for the aeronautical business, the annual total aircraft movement reached 61,738 (of which 54,222 being transportation cargo movement), representing a decrease of 10.4% over last year. Passenger throughput reached 6.668 million, representing a decrease of 5.1% over that of last year. Besides, with the opening of aviation rights in Hainan Province, the Group achieved a robust increase in international and regional routes as well as overall cargo business. As for international and regional routes, the annual passenger throughput and aircraft movement totaled 271,000 and 2,833 respectively, which represented an increase of 18.9% and 13.5%, and marked new highlights for transportation business during the year. Cargoes throughput increased by 3.1% over last year to 97,641.1 tones.

Future Outlook

In 2006, the Group experienced a slight decline in operation target following the downward trend in 2005 as the operating environment remained unfavorable. Nonetheless, looking forward to 2007, the Group will utilize its resources to fully develop the domestic and international aviation markets and carry on our strategies of strengthening comprehensive budget management as well as promoting income growth and cost control. Pursuing cost-effective and professional operation, the Group strives to accelerate the transformation from being operation-oriented into management-oriented so as to enhance the Group's overall profitability and achieve better operating results for the shareholders.

Enrich measures for domestic and international routes development to increase market share

In 2006, the growth trend of international and regional aeronautical transportation volume was satisfactory while the competition in the domestic aviation market became more severe when compared with 2005. The Group timely underwent restructuring and established a principal business development and corporate reformation office, which paid regular visits to airlines and sent them with latest analysis reports of the aviation market. With reference to the advanced management experience of foreign airports, the Group introduced low-cost domestic and international airlines with a view to push forward the expansion of the aeronautical market. In 2007, the Group will endeavour to devise new measures to develop its share in the aeronautical market. The Group will actively promote Hainan Island's tourism, in particular, Haikou travelling and the Meilan Airport to mass media in domestic and international markets, and build up a comprehensive route network. Effort will also be placed on the exploration of new source of visitors from the cities with existing routes to Hainan, maintaining high level of security and service quality, so as to enlarge its share in the aeronautical market.

Strengthen budget management comprehensively to reduce operation cost

In 2006, while ensuring safe operation, the Group implemented strict cost control through the embarkment of technology innovation and enhancement of equipment maintenance capability, which resulted in remarkable effects on cost control. In 2007, the Group will carry forward the budget management towards those less significant aspects of operation cost so as to fully enhance cost control measures. Through the introduction of innovative technology, promotion of self-initiative of research and development, technology uplifting and maintenance, as well as the strengthening of cost control research, it is expected that operation cost will be reduced.

Accelerate management transformation and actively subcontract business

In 2006, in accordance with its operation philosophy of "operational resources utilization in line with market demand and future development, while non-operational units concentrate on production", the Group accelerated its transformation from the role of direct operation to management. The Group successfully outsourced the travelling business to Luckyway International Travel Service Co., Ltd ("Luckyway Travelling"). In 2007, the Group will carry on with the subcontracting policy for more stable revenue growth and operation efficiency maximization in accordance with our operation philosophy.

Continually intensify human resources reform to support corporate development

In 2007, adhering to a people-oriented ideology, the Group will offer opportunities for its employees to utilize their talents. Employing innovative ideas towards the development and management of human resources, the Group will promote a full-scale system reform on its organizational structure, management selection and remuneration and welfare packages. The Group will also enhance on-the-job training to strengthen business qualities of senior management, fully develop talents of its staff, promote technological advancement and develop professional technicians, so as to push forward the corporate development.

Acknowledgement

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

Zhang Cong
Chairman

Hainan Province, the PRC
10 April 2007

Management Discussion and Analysis

Civil Aviation Industry in China

In 2006, the rapid growth of business and tourism was driven by the continuous economic growth of China. The aviation market of China continued to demonstrate a fast-growing trend which made air transport the top priority among various means of high-speed transportation in the mainland. China's civil aviation industry is taking its step towards the golden era of rapid development. China will invest approximately RMB140 billion in airport infrastructure during the period under the "11th Five-Year Plan". In 2006, the PRC government entered into a contract for an order of more than 300 aircrafts with a view to creating favourable conditions for the development of the civil aviation industry. While the overall development of air transport in China was on an accelerating track, feeder air transport was also relatively well-prepared to speed up its development with particularly active progress made in regions such as southwest, northwest, northern China, Xinjiang, the Yangtze River Delta and the Pearl River Delta.

In face of the phenomenal fuel price hike over the past few years, the General Administration of Civil Aviation of China ("CAAC") has launched various relevant policies and ensured airlines could sustain their stable development under such price surge. As international fuel prices has already peaked and begun to drop, it is expected that the prices will gradually resume the normal level. As such, the most difficult time of the aviation industry will come to an end and the level of gross profit margin will turn around gradually. As for listed airlines which hold substantial foreign liabilities, the inevitable and stable appreciation of Renminbi in the long run is surely a piece of favourable news.

Domestic airlines will find themselves confronted by vigorous competition upon the gradual opening of both the domestic and the international air transport markets. With the opening of the domestic air transport market, airlines are allowed to operate more routes to expand their coverage. However, this also means that more competitors will contend for the popular routes which used to be relatively monopolised. Under such keen competition, it is expected that more frequent integrations and mergers will take place among airlines in order to lower operation costs and improve operating efficiency.

Under the strong auspices of the CAAC and Hainan Provincial Government, the trial run of the opening of aviation rights was launched in Hainan Province. In 2006, the CAAC confirmed the success in opening aviation rights in Hainan Province and loosened the midway division policy of aviation rights for the province. Meanwhile, Hainan Provincial Government also accelerated the opening of aviation rights by introducing various concessionary policies and launching extensive marketing campaigns to facilitate the opening. There was a tremendous increase in the number of international routes and flights in Hainan during 2006. The new foreign airlines operating international flights to and from Hainan achieved a significant breakthrough in the midway division policy of aviation rights.

On 30 March 2007, Office of the Release of Aviation Right in Hainan Province formally announced that the adjustment problem of aviation rights of Hainan routes had been solved. The international route network of Hainan achieved the objective of "opening to the south and north", which means establishing a channel from the sky over the Hainan peninsular to connect the international routes of Nanhai and Beibu Wan and releasing part of the northern routes to foreign airlines, which signifies that Hainan will have the most open sky in China.

The Group believed more foreign airlines will open the routes to Hainan as the aviation rights become more comprehensive. It will attract more foreigners for tourism or investment.

Tourism in Hainan Province

The tourism market of Hainan Island is regaining its confidence after two years of adjustment. Given the implementation of concessionary polices in relation to the opening of aviation rights in Hainan and the enormous marketing effort for international markets, the number of international tourists visiting Hainan in 2006 increased approximately 42.8% as compared with 2005. As the nature of tourism of Hainan has transformed from sightseeing to leisure and relaxation, its tourist products has started to advance from low-end to middle-to-high-end ones. In particular, golfing on Hainan Island has become overwhelmingly popular. Besides, Hainan Island's wonderful "healthy and sunny" image has been effectively promoted through a number of large scale cultural and sports activities organised by the province such as Chinese Happiness Stanza and Round-the-Island Bike Tournament. As such, the reputation of Hainan has been immensely enhanced, which in turn facilitated the development of the tourism industry of Hainan Island in both the domestic and the international markets.

Management Discussion and Analysis

Business Review

Overview of Aeronautical Business

In 2006, the Group's production and operation indicators slightly decreased due to the strategic restructuring and organizational adjustment of airlines, reformation of the Hainan tourism markets, as well as the diffluent effect on passenger flow arising from the commencement of operation of the Guangdong-Hainan Railway and the increasing popularity of Sanya Phoenix Airport.

Aviation traffic throughput for 2006 and the comparison figures for last year are set out below:

	2006	*2005*	*Change (%)*
Aircraft movement	**61,738**	**68,879**	**-10.4%**
In which: Domestic	58,905	66,383	-11.26%
Hong Kong/Macau	1,646	1,562	5.38%
International	1,187	934	27.1%
Passenger Throughput (Ten thousand persons)	**666.8**	**702.7**	**-5.1%**
In which: Domestic	639.71	680	-5.93%
Hong Kong/Macau	13.06	14	-6.7%
International	14.03	8.7	61.3%
Cargo Throughput (Tones)	**97,641.1**	**94,728.9**	**3.1%**
In which: Domestic	93,775	91,217.7	2.8%
Hong Kong/Macau	1,614.6	1,938	-16.7%
International	2,251.5	1,573.2	43.1%

It is estimated that the Group's international flights and international passenger throughput will sustain stable growths in 2007. Under unfavourable market environment, the Group's revenue from aviation business for 2006 was RMB230,756,000, representing a decrease of 7.1% as compared to last year. Details are set out as follows:

	Amount (RMB'000)	*Change to last year (%)*
Passenger charges	89,005	-6.7
Aircraft movement fees and related charges	41,044	-2.9
Airport fees	80,564	-5.6
Ground handling service fees	20,143	-20.7
Total revenue from aeronautical businesses	**230,756**	**-7.1**

Particulars of Commencement of New International Routes

Capitalising on the opening of aviation rights in Hainan Province, the passenger throughput of both international and regional routes of Meilan Airport continued to grow steadily in 2006. During the year, the Group successfully introduced the first foreign low-cost airline, Tiger Airways Pte Ltd. from Singapore, to operate a daily flight between Haikou and Singapore. In the meantime, Hong Kong Dragon Airlines Limited, also successfully operates the first "Hong Kong – Haikou – Sanya – Hong Kong" route, representing a breakthrough in the midway division policy of aviation rights. Currently, there are 11 domestic and foreign airlines operating 9 international/regional routes covering places such as Hong Kong, Macau, Singapore, Thailand, Malaysia, Korea and Japan departing from/arriving at Hainan Meilan International Airport.

Zealous Introduction of Low-cost Airlines

In 2006, the boom of domestic low-cost airlines was attributable to the opening of aviation rights and the flourishing growth of tourism. The Group promptly activated the research project of "Introducing Low-Cost Airlines" as an endeavour to attract these airlines to establish external depots in Haikou. At present, domestic and foreign low-cost airlines such as Spring Airlines, East Star Airlines, OKAIR and Tiger Airways Pte Ltd. from Singapore are operating routes to and from Haikou with satisfactory track record.

From 25 to 27 March 2007, the Group successfully organized the forum of Regional New Route Asia 2007 Forum. Haikou was the first city in China to orgnaise the meeting of international routes. Taking advantage of such valuable opportunity, the Group aggressively promoted the policy of the release of aviation rights of Hainan, the subsidy measures of the routes, together with abundancy of travel resources in Hainan, which aroused the interests of the airlines in Asia Pacific and Europe regions. The Group believed that the success of the forum could further promote the progress of the release of the aviation rights in Hainan province. It will not only enhance the reputation of the Meilan Airport, but also attract more airlines to open routes to Haikou.

Overview of Non-Aeronautical Business

In 2006, with the help of the advanced business development experience of foreign airports, the Group established and optimised its business development model which incorporated the concept of "operating resources utilisation in line with market demand and future development" to suit the development requirement of the airport. By actively promoting business outsourcing, stable development was achieved in the non-aviation business. The non-aeronautical revenue was RMB103,619,000, representing an increase of 19.8% as compared to last year. The main reason is that, as a result of the inauguration of Terminal Expansion Phase II, the business of Duty Free Shoppers Hong Kong Limited ("DFS") has been fully commenced with the expansion of commercial areas, which recorded an increase in the franchise income from the DFS. Details are set out as follows:

	Amount (RMB'000)	*Change to last year (%)*
Retail business	9,509	-6.4
Franchise revenue	27,769	73.8
Leasing of commercial areas in the airport terminal	17,942	8.9
Tourism and travelling revenue	20,485	5.3
Advertising revenue	12,008	31.1
Car parking fees	5,101	-4.2
Other revenue	10,805	8.8
Total revenue from non-aeronautical businesses	**103,619**	**19.8**

Commercial Development

In 2006, the cooperation between the Group and the world famous catering company, Select Service Partner ("SSP"), and DFS was ready to operate with full force. The transformation of the Group from self-operation to franchise operation has completed and put into place a unified and professional commercial management of airports. Through entering into a contract with minimum-guaranteed rental, the Group was assured of fixed revenue in times of falling turnover while obtaining pro rata additional revenue in times of growing turnover. As such, operation risks were minimised by effectively curbing losses in association with reduction in production output.

Tourism and Travelling

Hainan Meilan International Airport Traveling Company Limited ("Meilan Travelling") provides a wide range of services such as transport between Meilan Airport and Haikou City, hotel reservation, air ticket sales and travel reception. It also actively organises more and more short tour packages. Due to a reduction in passenger and cargo throughput, the Group outsourced its tourism and travelling business to Luckyway Travelling in 2006 to ensure stable income of the Group. In addition to the franchise fee paid by Luckyway Travelling, the Group received additional income from a pro rata share of its operating profit. In 2006, the Group's revenue from tourism was RMB20,485,000, in addition RMB 583,000 was franchise fee paid by Luckyway Traveling.

Car Parking

Car parking charges is another income contributor for the Group's non-aviation business. The turnover in 2006 amounted to RMB5,101,000.

Advertising Business

In 2006, leveraging on hosting significant events such as Boao Asia Forum and Forum on Agricultural Cooperation between Mainland and Taiwan in Hainan, the Group entered into advertising contracts with more than 30 clients such as Merrill Lynch (Asia Pacific) Limited, Shanghai Brawman Group and PetroChina Company Limited through the deployment of more promotional resources and efforts and the building up of an extensive sales network. For the year ended 31 December 2006, revenue from advertising business reached RMB12,008,000, equivalent to an approximately 31.1% growth over 2005.

Retail Business

Revenue from retail business was RMB9,509,000 for the year ended 31 December 2006, which represented a 6.4% decrease over that of last year. The main reason is that the domestic duty free shop was outsourced to DFS since April, 2005, and the Company obtained franchise income from DFS. For the first three months of 2005, retail income comprised revenue from both domestic and international duty free shops. For the period from April 2005 to December 2006, retail income only represented the revenue from international duty free shop.

Franchise Revenue

For the year ended 31 December 2006, income from franchise was RMB27,769,000, representing an increase of 73.8% over the previous year. The main reason is that, as a result of the inauguration of Terminal Expansion Phase II, the business of DFS has been fully commenced with the expansion of commercial areas, which recorded an increase in the franchise income from DFS.

Financial Review

Structure of Assets

As at 31 December 2006, the total assets of the Group amounted to RMB1,870,351,000, representing an increase of 8.9% as compared to last year. The increase was mainly attributable to the increase in the shareholders' equity due to the operating results in 2006.

Cost Structure

In 2006, total operating costs of the Group were RMB125,250,000, representing an increase of RMB26,110,000 or 26.3% over last year. The main reason was that, as a result of the inauguration of Terminal Expansion Phase II, the depreciation expenses increased accordingly. The administrative expenses were RMB61,528,000, representing a decrease of RMB644,000 or 1% as compared to last year.

Capital Structure

The Group maintained an appropriate mix of equity and debt to ensure an efficient capital structure to reduce costs of capital. As at 31 December 2006, the total liabilities of the Group which amounted to approximately RMB207,496,000, representing an increase of 16.97% as compared to last year. The main reason is that the construction payable for the Phase II expansion of terminal building has increased approximately by RMB66,000,000.

Cash Flows

For the year ended 31 December 2006, the Group's net cash flow from operating activities was RMB173,860,000, representing an increase of 43%, which was primarily due to the airport construction fee of RMB113,000,000 received for the period between September 2004 and December 2005. During the year, the Group's net cash outflow for investing activities was RMB47,228,000, which was mainly attributable to the capital injection from the Group for the expansion of the terminal building.

Financial Resources

As at 31 December 2006, financial resources 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 had other financial instruments in relation to daily operations, such as accounts receivable and accounts payable.

Gearing Ratio

As at 31 December 2006, the current assets of the Group was approximately RMB616,809,000, the total assets was approximately RMB1,870,351,000, the current liability was approximately RMB163,016,000 and the total liability was approximately RMB207,496,000. As at 31 December 2006, the ratio between total liabilities and total assets of the Group was 11.1%(31 December 2005: 10.3%).

Exposure to Foreign Exchange Risk

Except the purchase of certain equipment and services which was denominated in US Dollar, the Group's businesses were denominated in RMB. The dividends of H shares of the shareholders was declared in RMB and paid in HK Dollar. As at 31 December 2006, except that cash and cash equivalents of approximately RMB753,000 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.

Pledge of the Group's Assets

The Group pledged its rights to revenues, including the rights of the airport construction management fee, to secure a long-term bank loan of RMB53,000,000 from China Development Bank.

Contingent Liability

As at 31 December 2006, the Group or the Company did not have any significant contingent liabilities.

Purchase, Sales or Redemption of Shares

As at 31 December 2006, 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 2006, the Group had a total of 676 employees, representing a decrease of 15 employees as compared to last year. This was mainly due to the refinement of corporate structure and the optimisation of employees. Total staff costs accounted for approximately 11% of total turnover, representing an increase of 5.5% as compared to last year. The reason for the increase in cost was mainly due to the cost arising from the promotion of employees. 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 local government of the PRC. The relevant local government shall be responsible for the pension of the retired employees. The Group has to make contribution at a rate of 20% of the salary of the employees with permanent residence in the PRC. For the year ended 31 December 2006, the contribution for the pension amounted to approximately RMB4,000,000 (2005: RMB3,530,000).

Other Information

Save as disclosed above, in 2006, the Group had no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

Corporate Governance Report

Corporate Governance Practices

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Stock Exchange, as well as requirements of other regulatory bodies. The Company has adopted a code on corporate governance practices on terms no less exacting than the standard of the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code of Corporate Governance") which came into effect in January 2005. During the year ended 31 December 2006, the Company had complied with the Code of Corporate Governance and met with all governance and disclosure requirements. The Company will strive for continuously enhancing its corporate governance standard and transparency to shareholders.

Directors' Securities Transactions

The Company has adopted a code for securities transactions by the directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the directors of the Company (the "Directors") all of the Directors have complied with the required standard set out in the Model Code regarding directors' securities transaction during the time of the accounting period.

Board of Directors

Composition of the Board

As at 31 December 2006, the Board of the Company comprised nine directors:

Chairman

Mr. Zhang Cong	(appointed on 27 January 2006)

Executive Directors

Mr. Wang Zhen	(re-appointed on 9 May 2006)
Mr. Dong Guiguo	(appointed on 25 May 2006)
Mr. Gunnar Moller	(appointed on 14 December 2005)

Non-executive Directors

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

Independent non-executive Directors

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

The Company has received the annual confirmation letter on independence of each Independent Non-executive Director.

There is no relationship among the Directors that is discloseable under the Listing Rules.

Corporate Governance Report

Board meetings

1. The Board had held 4 meetings during the year ended 31 December 2006.

2. The attendance records of the Board meetings are set out below:

	Chen Wenli (note 1)	*Zhang Cong (note 1)*	*Wang Zhen*	*Huang Qiu (note 2)*	*Dong Guiguo (note 2)*	*Gunnar Moller*	*Zhang Han'an*	*Kjeld Binger*	*Xu Bailing*	*Xie Zhuang*	*Fung Ching Simon*
2nd term, 14th meeting	√	–	√	√	–	√	√	√	√	√	√
2nd term, 15th meeting	–	√	√	√	–	√	√	√	√	√	√
2nd term, 16th meeting	–	√	√	–	√	√	√	√	√	√	√
2nd term, 17th meeting	–	√	√	–	√	√	√	√	√	√	√

Notes 1: *On 27 January 2006, Mr. Zhong Cong was appointed as an Executive Director and chairman of the Board in replacement of Mr. Chen Wenli.*

Notes 2: *On 25 May 2006, Mr. Dong Guiguo was appointed as an Executive Director in replacement of Mr. Huang Qiu.*

Authority and practice of the Board

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 is accountable to the shareholders' general meeting, and exercise the following powers:

1. to convene general meetings and report to the shareholder;

2. to carry out the resolutions of the general meetings;

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

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

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

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

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

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

9. 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 (including financial officers) and decide upon their remuneration;

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

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

12. to formulate proposals for major acquisitions or disposals of the Company; and

13. to exercise other powers conferred under the articles of association of the Company and by the general meeting.

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.

The general management is accountable to the Board, and exercise the following powers:

1. to supervise the management of production and business operations, and organize the implementation of the resolutions of the Board;

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

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

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

5. to formulate the basic rules of the Company;

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

7. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the Board); and

8. to exercise other powers conferred under the articles of association of the Company and by the Board.

Both the Board and the management act in strict compliance with relevant requirements of the Company Law, the Company's articles of association and the Listing Rules.

Chairman of the Board and Chief Executive Officer (CEO)

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. Dong Zhanbin respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

There is no relationship between the chairman and the CEO that is discloseable under the Listing Rules.

Non-executive Directors and Independent Non-executive Directors

For the year ended 31 December 2006, the Company had two Non-executive Directors, namely Mr. Zhang Han'an and Mr. Kjeld Binger, and three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Fung Ching, Simon.

Mr. Kjeld Binger subsequently resigned on 27 March 2007.

Mr. Zhang Han'an's current term of appointment is from 19 January 2004 to 18 January 2007. Mr. Xu Bailing's current term of appointment is from 30 June 2004 to 29 June 2007. Mr. Xie Zhuang's current term of appointment is from 19 January 2004 to 18 January 2007. Mr. Fung Ching, Simon's current term of appointment is from 11 October 2004 to 10 October 2007.

Ordinary resolutions to re-appoint Mr. Zhang Han'an as Non-executive Director, and Mr. Xie Zhuang as Independent Non-executive Director, will be proposed by the Board at the forthcoming annual general meeting of the Company to be convened and held on 7 June 2007.

Remuneration of Directors, Supervisors and senior management

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, Supervisors and senior management of the Company.

Mr. Xie Zhuang, an Independent Non-executive Director, is the chairman of the remuneration committee. The other members of the remuneration committee are Mr. Fung Ching, Simon, an Independent Non-executive Director, and Mr. Dong Guiguo, an Executive Director of the Company.

For the year ended 31 December 2006, the Company held one meeting of the remuneration committee on 21 March 2006. On that meeting director's remuneration for 2005 and directors' remuneration policy for 2006 had been determined.

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, for the year 2006, the remuneration paid to the Executive Directors 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 Directors was RMB80,000 per person; and the remuneration paid to the Supervisors was RMB20,000 per person. In addition to the aforesaid remuneration, the Executive Directors 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. Save for Executive Directors who are full time staff of the Company, none of the Directors or Supervisors is entitled to any other remunerations of the Company. The remuneration policies were approved by the Board and the 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 at most two 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.

Nomination of Directors

The Company does not have a nomination committee at present.

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 voting. If more than a half of the Directors have voted for the nomination, the nomination would then be put onto a general meeting as an ordinary resolution for shareholders to approve.

Criteria for Director selection and nomination are as follows:

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

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.

A Director shall hold office for a term of 3 years, and shall then be eligible for re-election and, if re-elected, his/her tenure may continue thereafter for another term.

For the year ended 31 December 2006, Mr. Zhang Cong and Mr. Dong Guiguo had been appointed as Executive Directors, and Mr. Zhang Cong had also been appointed as chairman of the Board. The selection, nomination and appointment of Mr. Zhang Cong and Mr. Dong Guiguo were in line with the Director nomination criteria mentioned above.

Remuneration of Auditors

During the year ended 31 December 2006, 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 2006 was RMB2,333,000.

Audit Committee

An audit committee has been set up by the Company. It is a sub-committee 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, to review the Company's financial reporting process and internal control system and provide advice and comments to the Board.

The audit committee comprises three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Fung Ching, Simon, with Mr. Xu Bailing acting as the chairman.

For the year ended 31 December 2006, the audit committee had held two meetings; all of the three committee members had attended these meetings.

The audit committee had reviewed the 2005 annual report, auditor's report, the report on re-appointment of the external auditors and determination of their remuneration and the report on the connected transactions of the Company in the first meeting of 2006. The audit committee had reviewed the 2006 interim report in the second meeting of 2006.

The audit committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company in 2007.

Shareholding interests of senior management

None of the senior management held any shareholding interests in the Company during the year ended 31 December 2006.

Shareholders' right

To ensure better protection of shareholders' interests, the articles of association of the Company 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 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 submit 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 2006, the Board did not receive any requests from shareholders to convene a special general meeting.

Investors relations

1. There was no alteration of material nature to the articles of association of the Company during the year ended 31 December 2006;

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 2006 annual report;

3. As at 31 December 2006, 226,913,000 H shares of the Company were held by the public.

4. 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.

By the order of the Board
Zhang Cong
Chairman

Hainan Province, the PRC
10 April 2007

Directors, Supervisors and Senior Management

Executive Directors

Mr. Zhang Cong, aged 47, 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 ("HNA Group"). 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 supervisory committee of the Company.

Mr. Dong Zhanbin, aged 55, graduated from Party Cadet College of Guangxi Autonomous Region in 1986 with a major in politics. Mr. Dong has over 37 years of experience in the management and administration of civil aviation industry. From 1970 to 1989, Mr. Dong served as the associate director of Control Center of Civil Aviation Administration of China ("CAAC") Guangzhou Administration. He became the chief of Flight Operation Division and the head of Air Traffic Control Center of CAAC Guangxi Administration in 1989, and was then promoted to deputy director of CAAC Hainan Administration in 1994. Since August 1998, Mr. Dong has held a number of senior management positions in HNA Group, including the vice general manager of Haikou Meilan Airport Company Limited, the vice executive president of HNA Airport Group Company Limited, and the general manager, the vice chairman and the chairman of Yichang Three Gorges Airport Co., Ltd.

Mr. Dong Guiguo, aged 44, graduated from Civil Aviation University of China majoring in aircraft engineering. He has pursued further studies in China Europe International Business School. He is an aviation engineer and accountant. He was appointed as our Director in March 2006 and as our Chief Financial Officer in December 2006. Mr. Dong has worked at civil aviation maintenance base in Beijing, Beijing Aircraft Maintenance Engineering Co., Ltd.. Since October 2000, he has respectively served as supervisor of the aviation material and equipment procurement center of the procurement department of 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 Company Limited, all of which presented his track records in the fields of civil aviation and finance.

Mr. Gunnar Moller, aged 42, 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 61, was appointed as a Non-executive Director and the general manager of the Company in January 2004. Mr. Zhang has over 20 years of experience in military aviation in the PRC. From August 1998 to August 2002, Mr. Zhang acted as the vice general manager and later a general manager for 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. Mr. Zhang holds 20,000 staff shares in Hainan Airlines Company Limited, an associate and connected party of the Company.

Independent Non-executive Directors

Mr. Xu Bailing, aged 74, was re-appointed as an Independent Non-executive Director of the Company in June 2004. 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 53, 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 became 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 38, 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 Main board 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 a "Big-4" International accounting firm. 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 Accountants.

Directors, Supervisors and Senior Management

Supervisors

Mr. Chen Kewen, aged 46, was appointed as a supervisor and the chairman of the supervisory committee of the Company in January 2006. Mr. Chen 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 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 has been acting as the general manager of the strategy development department of HNA Group.

Mr. Zhang Shusheng, aged 70, 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 37, was re-appointed as a Supervisor of the Company in July 2005. 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 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 57, 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 (CSO) of the Company in July 2004. Mr. Fang graduated with a degree in politics from South China 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 51, 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 (COO) of the Company in July 2004. Mr. Hu graduated with a diploma from Navy Institute of Logistic in 1979.

Mr. Wei Chang Rong, aged 48, 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 in 1979. 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 31, 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 Company Limited. 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 has also 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 hereby presents their report together with the audited financial statements of the Group for the year ended 31 December 2006.

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 2006, 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 2006, and the financial positions of the Group and the Company as at 31 December 2006 are set out from page 40 to page 80 of this annual report.

Final Dividend

The majority of the Board approved the proposal of no final dividend payout in order to support the future development of the Company. The Board consequently approved the resolution by simple majority and proposed that there will be no final dividend payout for the year ended 31 December 2006.

Closure of Register of Members

The Company's Register of Members will be closed from 7 May 2007 (Monday) to 6 June 2007 (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 Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 4 May 2007 (Friday) for completion of the registration of the relevant transfer.

Bank Borrowings

Details of the bank borrowings of the Group and the Company for the year ended 31 December 2006 are set out in Note 13 to the accompanying financial statements.

Property, Plant and Equipment

Details of the property, plant and equipment as at 31 December 2006 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2006 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 2006 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 2006 is set out in Note 12 to the accompanying financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to RMB1,200,000.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2006 are set out in Note 8 to the accompanying financial statements.

Major customers and suppliers

The largest customer and the top five largest customers of the Group represented 18.2% and 40% of the total operating revenues of the Group for the year ended 31 December 2006, respectively.

The largest supplier and the top five largest suppliers of the Group represented 14.7% and 23% of the total operating costs of the Group for the year ended 31 December 2006, respectively.

Haikou Meilan International Airport Company Limited, the parent company of the Company, holds 12.22% of shares in Hainan Airline Company Limited. Save as disclosed above, none of the Directors, Supervisors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors own more than 5.0% of the share capital of the Company) has any beneficial interest in any of the Group's five largest customers and suppliers.

Share Capital Structure

As at 31 December 2006, the total issued shares of the Company was 473, 213, 000 in number, consisting of:

	Number of shares	*Percentage in total issued shares*
Domestic shares	246,300,000	52%
H shares	226,913,000	48%
Total issued shares	**473,213,000**	**100%**

Substantial Shareholders

As at 31 December 2006, so far as known to any Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**"); or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Long position in shares

Domestic shares

Name of Shareholders	*Type of interests*	*Number of shares*	*Percentage of domestic shares*	*Percentage of issued share capital*
Haikou Meilan International Airport Company Limited *(Note 1)*	Beneficial	237,5000,000	96.43%	50.19%

H shares

Name of Shareholders	*Type of interests*	*Number of shares*	*Percentage of H shares*	*Percentage of issued share capital*
Copenhagen Airport A/S *(Note 2)*	Beneficial	94,643,000	41.71%	20.00%
Deutsche Bank Aktiengesellschaft *(Note 3)*	Beneficial and investment manager	18,724,000	8.25%	3.96%
QVT Financial GP LLC *(Note 4)*	Controlled corporate interest	17,893,000	7.88%	3.78%
QVT Associates GP LLC *(Note 5)*	Controlled corporate interest	14,969,649	6.59%	3.16%
Templeton Asset Management Limited	Investment manager	11,700,000	5.16%	2.47%
Utilico Emerging Markets Utilities Limited *(Note 6)*	Investment manager	11,629,000	5.12%	2.46%

Notes:

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. *Deutsche Bank Aktiengesellschaft is a company listed on the Deutsche Boerse and the New York Stock Exchange.*
4. *QVT Financial GP LLC is the controlling shareholder of QVT Financial LP which directly held 17,893,000 H shares of the Company as investment manager, and QVT Financial GP LLC is thereby deemed to be a substantial shareholder in the shares of the Company.*
5. *QVT Associates GP LLC is the controlling shareholder of QVT Fund LP which directly held 14,969,649 H shares of the Company as beneficial owner, and QVT Associates GP LLC is thereby deemed to be a substantial shareholder in the shares of the Company.*
6. *Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.*

Save as disclosed above, as at 31 December 2006 so far as is known to the Directors, Supervisors or chief executive of the Company, no other person (not being a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Directors', Supervisors' and Chief Executive's Interests in Shares

As at 31 December 2006, the interests of the Directors, Supervisors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, were as follows:

Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	Name of associated corporation	*Type of interest*	*Number of shares*
Zhang Han'an (Non-executive Director)	Hainan Airlines Company Limited *(Note 1)*	Personal	20,000

Save as disclosed above, as at 31 December 2006, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO.

Connected Transactions

Material and persistent related party transactions entered by the Group and the Company during the year ended 31 December 2006, all of which constitute continuing 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.

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) the Connected Transactions have been approved by the Board of the Company;

(b) the Connected Transactions are in accordance with the pricing policies as disclosed in the section of "Connected Transactions" of Directors' Report in the 2006 Annual Report;

(c) the Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing the Connected Transactions;

(d) the Connected Transactions have been entered into under the cap disclosed in previous announcements.

In respect of the Connected Transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Service contracts of Directors and Supervisors

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

Executive Directors

Mr. Zhang Cong	(appointed on 27 January 2006)
Mr. Dong Zhanbin	(appointed on 5 February 2007)
Mr. Dong Guiguo	(appointed on 25 May 2006)
Mr. Gunnar Moller	(appointed on 14 December 2005)

Non-executive Directors

Mr. Zhang Han'an	(re-appointed on 19 January 2004)

Independent non-executive Directors

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

The Company has received the annual confirmation letter on independence of each Independent Non-executive Director.

Supervisors

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

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

Executive Directors

Mr. Huang Qiu	(resigned on 25 May 2006)
Mr. Wang Zhen	(resigned on 5 February 2007)

Non-executive Directors

Mr. Chen Wenli	(resigned on 27 January 2006)
Mr. Kjeld Binger	(resigned on 27 March 2007)

Supervisors

Mr. Zhang Cong	(resigned on 27 January 2006)

Report of the Directors

Brief biographical details of the Directors, Supervisors and senior management of the Company are set out on page 24 to page 26 of this annual report. There is no relationship among the Directors that is discloseable under the Listing Rules.

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 or the Supervisiors had entered into any service contract with the Group which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Supervisors' rights to acquire shares or debentures

None of the Directors, Supervisors or their respective associates (as defined under the Listing Rules held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights or options to subscribe for shares in or debentures of the Company.

Directors' and Supervisors' interest in contracts

During the reported period, none of the Directors or Supervisors of the Company had any material interests whether direct or indirect in any contracts of significance 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 2006.

Remuneration of directors and supervisors

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, for the year 2006, the remuneration paid to the Executive Directors 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 Directors was RMB80,000 per person; and the remuneration paid to the Supervisors was RMB20,000 per person. In addition to the aforesaid remuneration, the Executive Directors 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. Save for Executive Directors who are full time staff of the Company, none of the Directors or Supervisors is entitled to any other remunerations of 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 is 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 2006, 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 as at 31 December 2006.

Entrusted deposits and overdue fixed deposits

The Group had no entrusted deposits and overdue fixed deposits as at 31 December 2006.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2006.

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 5.

Public Float Requirement

As to the date of publication, from the public information held by the Company and the knowledge from the directors, the Public Float was 226,913,000 H shares, which contributes 47.95% to the total issued share capital of the Company. 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
10 April 2007

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2006, 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 2006 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. 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 of association of the Company.

We would continue to monitor the Company, its Directors and the management in an effective manner, and to protect the interests of all our shareholders and the Company in its best endeavor.

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

Hainan Province, the PRC
10 April 2007

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 on 7 June 2007 (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 2006;

2. To consider and approve the working report of the Supervisory Committee of the Company for the year ended 31 December 2006;

3. To consider and approve the audited financial statements of the Company as at and for the year ended 31 December 2006;

4. To consider and approve the final dividend distribution plan of the Company for the year ended 31 December 2006;

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 year ending 31 December 2007, respectively, to hold office until the conclusion of the next annual general meeting, and to determine their remunerations;

6. To consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2007;

7. To consider and approve the re-appointment of Mr. Zhang Han'an as non-executive director of the Company;

8. To consider and approve the re-appointment of Mr. Xie Zhuang as independent non-executive director of the Company;

9. To consider and approve the re-appointment of Mr. Zhang Shusheng as supervisor of the Company;

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 way of extraordinary resolutions:

11. 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
20 April 2007

Notice of Annual General Meeting

Notes:

(A) Holders of the Company's H shares ("H shares") whose names appear on the Company's H Share register which is maintained by Computershare Hong Kong Investor Services Limited at the close of business on 4 May 2007 (Friday) are entitled to attend and vote at the Annual General Meeting (or any adjournment thereof).

(B) Holders of H Shares and Domestic Shares of the Company ("Domestic Shares"), who intend to attend the Annual General Meeting, must complete and return the reply slips for attending the Annual General Meeting to the Secretary Office to the Board of Directors of the Company no later than 17 May 2007 (Thursday).

Holders of H Shares and Domestic Shares can deliver the reply slips 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) 6576 2009
Fax: (86-898) 6576 2010

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting (or at any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney duly authorised in writing. If the instrument appointing a proxy is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. Instrument appointing a proxy of any holder of H Shares (being a body corporate) must be affixed with the corporate seal of such holder of H Shares or duly signed by the chairman of its board of directors or by its authorised attorney. For holders of H Shares, the power of attorney or other documents of authorisation and the proxy form must be delivered to the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Room 1806, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no less than 24 hours before the time appointed for the holding of the Annual General Meeting (or at any adjournment thereof) in order for such documents to be valid.

(D) Each holder of Domestic Shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the Annual General Meeting. Note (C) above also applies to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the Secretary Office to the Board of Directors of the Company, the address of which is set out in Note (B) above, not less than 24 hours before the time appointed for the holding of the Annual General Meeting (or adjournment thereof) in order for such documents to be valid.

(E) If a proxy attends the Annual General meeting on behalf of a shareholder, he should produce his ID card and the instrument signed by the shareholder appointer or his attorney, which specifies the date of its issuance. If the legal representative of a legal person shareholder attends the Annual General Meeting, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a legal person shareholder appoints a representative of the company other than its legal representative to attend the Annual General meeting, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person shareholder and duly signed by its legal representative.

(F) The H Share register of the Company will be closed from 7 May 2007 (Monday) to 6 June 2007 (Wednesday) (both days inclusive), during which time no transfer of H Shares will be registered. Transferees of H Shares who wish to attend and vote in the Annual General Meeting must deliver all share transfer documents including (the duly stamped instruments of transfer and the relevant share certificate(s)), to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on 4 May 2007 (Friday) for completion of the registration of the relevant transfer.

The address of Computershare Hong Kong Investor Services Limited is as follows:

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

(G) Set out below is the procedure by which shareholders of the Company and the chairman of any shareholders' meeting of the Company may demand a poll pursuant to the articles of association of the Company:

"At any general meeting of shareholders, a resolution shall be decided on a show of hands unless a poll is required in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or is demanded before or after any vote by show of hands by:

(i) the chairman of the meeting;

(ii) at least two shareholders with voting rights or their proxies; or

(iii) any shareholder or shareholders (including proxies) holding separately or in aggregate 10 percent or more of the shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman of the shareholders' meeting that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution, that the resolution has been carried."

(H) The Directors of the Company declared that there will be no final dividend payout for the year ended 31 December 2006.

(I) 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.

(J) The brief biographies of the directors of the Company who are proposed for re-appointment at the Annual General Meeting are set out below:

Mr. Zhang Han'an, aged 61, was appointed as a Non-executive Director of the Company in January 2004. Mr. Zhang has over 20 years of experience in military aviation in the PRC. From August 1998 to August 2002, Mr. Zhang acted as the vice general manager and later a general manager for the parent company. 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. Mr Zhang holds 20,000 staff shares in Hainan Airlines Company Limited, an associate and connected party of the Company.

Mr. Xie Zhuang, aged 53, 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.

(K) The brief biography of the supervisor of the Company who is proposed for re-appointment at the Annual General Meeting is set out below:

Mr. Zhang Shusheng, aged 70, 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.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT 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 consolidated financial statements of Hainan Meilan International Airport Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 40 to 80, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit 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.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 April 2007

Consolidated Balance Sheet and Balance Sheet

	Note	The Group 31 December 2006 RMB'000	 31 December 2005 RMB'000	The Company 31 December 2006 RMB'000	 31 December 2005 RMB'000
ASSETS					
Non-current assets					
Land use rights	*6*	**163,710**	166,821	**163,710**	166,821
Property, plant and equipment	*7*	**1,089,832**	1,014,279	**1,088,334**	1,012,448
Investments in subsidiaries	*8(a)*	**–**	–	**18,094**	18,094
		1,253,542	1,181,100	**1,270,138**	1,197,363
Current assets					
Inventories		**3,716**	2,750	**45**	42
Trade receivables	*9*	**193,813**	189,674	**192,483**	188,864
Other receivables and prepayments		**11,266**	12,592	**10,319**	11,807
Due from subsidiaries	*8(b)*	**–**	–	**10,874**	5,254
Due from related parties	*28(c)*	**56**	1,275	**56**	1,275
Time deposits	*10(a)*	**85,918**	84,468	**85,918**	84,468
Cash and cash equivalents	*10(b)*	**322,040**	245,408	**314,161**	234,036
		616,809	536,167	**613,856**	525,746
Total assets		**1,870,351**	1,717,267	**1,883,994**	1,723,109
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*11*	**1,100,250**	1,100,250	**1,100,250**	1,100,250
Other reserves	*12*	**149,528**	137,223	**148,903**	136,628
Retained earnings		**412,477**	301,806	**419,607**	308,501
		1,662,255	1,539,279	**1,668,760**	1,545,379
Minority interests		**600**	598	**–**	–
Total equity		**1,662,855**	1,539,877	**1,668,760**	1,545,379

		The Group		The Company	
		31 December	31 December	**31 December**	31 December
		2006	2005	**2006**	2005
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Liabilities					
Non-current liabilities					
Borrowings-secured	*13*	**25,000**	53,000	**25,000**	53,000
Deferred income tax liabilities	*14*	**11,021**	11,262	**11,021**	11,262
Deferred income	*15*	**8,459**	–	**8,459**	–
		44,480	64,262	**44,480**	64,262
Current liabilities					
Trade and other payables	*16*	**134,907**	59,906	**128,953**	49,269
Due to subsidiaries	*8(b)*	**–**	–	**13,801**	11,024
Current income tax liabilities		**109**	3,222	**–**	3,175
Borrowings-secured	*13*	**28,000**	50,000	**28,000**	50,000
		163,016	113,128	**170,754**	113,468
Total liabilities		**207,496**	177,390	**215,234**	177,730
Total equity and liabilities		**1,870,351**	1,717,267	**1,883,994**	1,723,109
Net current assets		**453,793**	423,039	**443,102**	412,278
Total assets less current liabilities		**1,707,335**	1,604,139	**1,713,240**	1,609,641

The notes on page 45 to 80 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhanbin
Director and Chief Executive Officer

Dong Guiguo
Director and Chief Financial Officer

Consolidated Income Statement

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Revenue			
Aeronautical		**230,756**	248,364
Non-aeronautical		**103,619**	86,480
	5	**334,375**	334,844
Business tax and levies		**(12,285)**	(11,628)
Cost of services and sales	17	**(125,250)**	(99,140)
Gross profit		**196,840**	224,076
Selling and distribution costs	17	**(2,731)**	(2,927)
Administrative expenses	17	**(61,528)**	(62,172)
Other gains – net		**257**	180
Operating profit		**132,838**	159,157
Finance income		**4,111**	4,494
Finance costs		**(3,873)**	–
Finance income-net	19	**238**	4,494
Profit before income tax		**133,076**	163,651
Income tax expense	20	**(10,098)**	(12,237)
Profit for the year		**122,978**	151,414
Attributable to:			
Equity holders of the Company	21	**122,976**	151,844
Minority interests		**2**	(430)
		122,978	151,414
		RMB	RMB
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic and diluted	22	**26 cents**	32 cents
		RMB'000	*RMB'000*
Dividends	23	**–**	39,750

The notes on page 45 to 80 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhanbin
Director and Chief Executive Officer

Dong Guiguo
Director and Chief Financial Officer

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company					
Balance at 1 January 2005		1,100,250	114,945	247,008	1,462,203	1,028	1,463,231
Profit/(loss) for the year		–	–	151,844	151,844	(430)	151,414
Dividends							
– 2004 final paid		–	–	(35,018)	(35,018)	–	(35,018)
– 2005 interim paid		–	–	(39,750)	(39,750)	–	(39,750)
Transfer to statutory reserves	12	–	22,278	(22,278)	–	–	–
Balance at 31 December 2005		1,100,250	137,223	301,806	1,539,279	598	1,539,877
Balance at 1 January 2006		1,100,250	137,223	301,806	1,539,279	598	1,539,877
Profit for the year		–	–	122,976	122,976	2	122,978
Transfer to statutory reserves	12	–	12,305	(12,305)	–	–	–
Balance at 31 December 2006		1,100,250	149,528	412,477	1,662,255	600	1,662,855

The notes on page 45 to 80 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhanbin
Director and Chief Executive Officer

Dong Guiguo
Director and Chief Financial Officer

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	*26*	**188,773**	138,406
Interest paid		**(3,873)**	(7,586)
Income tax paid		**(11,040)**	(9,261)
Net cash generated from operating activities		**173,860**	121,559
Cash flows from investing activities			
Purchase of property, plant and equipment		**(49,889)**	(177,999)
(Increase)/decrease in time deposits		**(1,450)**	17,146
Interest received		**4,111**	4,494
Net cash used in investing activities		**(47,228)**	(156,359)
Cash flows from financing activities			
Repayments of borrowings		**(50,000)**	(25,000)
Dividends paid to the Company's shareholders		**–**	(74,768)
Net cash used in financing activities		**(50,000)**	(99,768)
Net increase/(decrease) in cash and cash equivalents		**76,632**	(134,568)
Cash and cash equivalents at beginning of the year		**245,408**	379,976
Cash and cash equivalents at end of the year	*10*	**322,040**	245,408

The notes on page 45 to 80 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhanbin
Director and Chief Executive Officer

Dong Guiguo
Director and Chief Financial Officer

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 (collectively 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 10 April 2007.

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 significant 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.

(i) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment – New Investment in a Foreign Operation;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment – The Fair Value Option;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- IFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC-Int 4, Determining whether an Arrangement contains a Lease;
- IFRIC-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Standard, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard, amendment and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 November 2006 or later periods that the Group has not early adopted:

- IFRS 7, Financial instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosure (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analyses to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analyses to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007;

- IFRIC-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

(iii) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRIC-Int 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC-Int 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, IFRIC-Int 7 is not relevant to the Group's operations; and

- IFRIC-Int 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. As the Group has no transactions involving the issuance of equity instruments, IFRIC-Int 8 is not relevant to the Group's operations; and

- IFRIC-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, IFRIC-Int 9 is not relevant to the Group's operations.

2 Summary of significant accounting policies (continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

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 (see Note 2(f)). 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment 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 balance sheet, the investments in subsidiaries are stated at cost less provision for impairment in value (see Note 2(g)). The results of the subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(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.

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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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

Depreciation is calculated on the straight-line method to allocate their cost or revalued amount 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 balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other gains – net, in the income statements. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

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 assets.

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 (see Note 2(g)). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use 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 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Loans and receivables

Financial assets represent 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 (see Note 2(k)). Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2(k).

(i) Operating leases

Leases in which 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.

2 Summary of significant accounting policies (continued)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other 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 the 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(m) Share capital

Ordinary shares are classified as equity.

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

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) 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.

Borrowing cost incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the assets to intended use.

Other borrowing cost are recognised as an expense in the period in which they are incurred.

2 Summary of significant accounting policies (continued)

(p) 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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 income 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, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Deferred income

Incentives related to purchase of equipment are included in non-current liabilities as deferred income and then recognised in the consolidated income statement over the period necessary to match them with the costs, such as depreciation charges, that they are intended to compensate on a systematic basis.

(r) Employee benefits

(i) Pension obligations

The Group participates in defined contribution plans. The defined contribution plans are employee retirement plans 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 benefits expenses. The Group has no legal or constructive obligations to pay further contributions.

(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.

2 Summary of significant accounting policies (continued)

(s) 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses. 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.

(t) 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, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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.

(u) Dividend distribution

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

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 2006, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB753,000 (2005: RMB960,000) were denominated in Hong Kong dollar and US dollar. 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

As the Group has no significant interest-bearing assets, other than cash and cash equivalents, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The interest rates and terms of repayment of the long-term borrowings of the Group and the Company are disclosed in Note 13.

(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

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The carrying values less a reasonable impairment provision for financial assets and liabilities with a maturity of less than one year are approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgment

Estimates and judgments 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 a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is made based on management's experience in operating airport and the conditions of the property, plant and equipment. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of trade receivables

Whenever events or changes in circumstances indicate that the carrying amounts of trade receivables may not be recoverable, the Group will test whether trade receivables have suffered any impairment in accordance with the accounting policies stated in Note 2(h). In making its judgment, the Group considers information from a variety of sources including:

i) Recent prices of similar receivables in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

ii) Discounted cash flow projections based on reliable estimates of future cash flows and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on recent prices of receivables is not available, the fair value of receivable is determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

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 2006. 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	
	2006	2005
Analysis of revenue by category	***RMB'000***	*RMB'000*
Aeronautical:		
Passenger charges	**89,005**	95,366
Aircraft movement fees and related charges	**41,044**	42,262
Airport fee	**80,564**	85,327
Ground handling services income	**20,143**	25,409
	230,756	248,364
Non-aeronautical:		
Retailing	**9,509**	10,160
Franchise fee	**27,769**	15,980
Rental	**17,942**	16,469
Tourism	**20,485**	19,457
Advertising	**12,008**	9,157
Car parking	**5,101**	5,327
Others	**10,805**	9,930
	103,619	86,480
Total revenue	**334,375**	334,844

6 Land use rights

The interests of the Group and the Company in land use rights represent prepaid operating lease payments for land use rights. The movement of the land use rights is as follows:

	The Group and the Company
	RMB'000
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
Year ended 31 December 2006	
Opening net book amount	166,821
Amortisation	(3,111)
Closing net book amount	163,710
As at 31 December 2006	
Cost	179,499
Accumulated amortisation	(15,789)
Net book amount	163,710

As at 31 December 2006, certain land use rights amounting to RMB4,393,000 were in the process of application for official certificates.

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of over 50 years	**88,671**	90,065
Leases of between 10 to 50 years	**75,039**	76,756
	163,710	166,821

7 Property, plant and equipment

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 2005						
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 *(Note 17)*	(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
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
Additions	276	391	3,889	849	113,321	118,726
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals *(Note 26)*	–	–	–	(16)	–	(16)
Depreciation *(Note 17)*	(22,959)	(10,773)	(5,323)	(4,102)	–	(43,157)
Closing net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
As at 31 December 2006						
Cost or valuation	993,640	144,080	48,051	49,262	5,550	1,240,583
Accumulated depreciation	(75,803)	(35,171)	(24,715)	(15,062)	–	(150,751)
Net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832

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	**2006 Total RMB'000**	2005 Total RMB'000
Cost	1,032,615	164,755	59,607	53,493	5,550	**1,316,020**	1,197,424
Accumulated depreciation	(148,179)	(57,892)	(36,435)	(19,655)	–	**(262,161)**	(219,832)
	884,436	106,863	23,172	33,838	5,550	**1,053,859**	977,592

Depreciation expense of RMB42,600,000 (2005: RMB31,248,000) has been charged in cost of services and sales, RMB421,000 (2005: RMB45,000) in selling and distribution costs and RMB136,000 (2005: RMB66,000) in administrative expenses.

7 Property, plant and equipment (continued)

The analysis of the cost or valuation at 31 December 2006 of the above assets is 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*	Total *RMB'000*
At cost	432,640	66,360	11,307	39,939	5,550	555,796
At valuation	561,000	77,720	36,744	9,323	–	684,787
	993,640	144,080	48,051	49,262	5,550	1,240,583

The analysis of the cost or valuation at 31 December 2005 of the above assets is 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*	Total *RMB'000*
At cost	77,624	1,627	7,418	13,136	337,394	437,199
At valuation	561,000	77,720	36,744	9,323	–	684,787
	638,624	79,347	44,162	22,459	337,394	1,121,986

7 Property, plant and equipment (continued)

The Company:

	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 2005						
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
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
Additions	276	391	3,889	705	113,321	118,582
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals	–	–	–	(16)	–	(16)
Depreciation	(22,959)	(10,773)	(5,302)	(3,646)	–	(42,680)
Closing net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
As at 31 December 2006						
Cost or valuation	993,640	144,080	47,536	43,699	5,550	1,234,505
Accumulated depreciation	(75,803)	(35,171)	(24,340)	(10,857)	–	(146,171)
Net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334

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 RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	2006 Total RMB'000	2005 Total RMB'000
Cost	1,032,615	164,755	59,093	47,930	5,550	**1,309,943**	1,191,491
Accumulated depreciation	(148,179)	(57,892)	(36,061)	(15,449)	–	**(257,581)**	(215,730)
	884,436	106,863	23,032	32,481	5,550	**1,052,362**	975,761

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 2006 RMB'000	2005 RMB'000
Cost	**57,227**	30,473
Accumulated depreciation	**(4,751)**	(2,805)
Net book amount	**52,476**	27,668

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 approximately RMB4,968,000, was recorded in Note 12.

Interest expenses capitalised to assets under construction for the year ended 31 December 2006 amounted to RMB1,576,000 (2005: RMB7,586,000) *(Note 19)*.

8 Investments in and amounts due from/to subsidiaries

(a) Investments in subsidiaries

	The Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost	**18,094**	18,094

As at 31 December 2006, 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**	**Paid up 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 Traveling 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	–

* Hainan Meilan International Airport Traveling Co., Ltd. was granted a franchise by the Company to provide tourism and traveling services at Meilan Airport before 1 October 2006. Effective from 1 October 2006, such franchise was granted to Luckyway Traveling Co., Ltd. ("Luckyway Traveling"), a related company, to provide such services at Meilan Airport (Note 28(a)(v)).

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

9 Trade receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from third parties *(Note (a))*	**28,229**	29,466	**27,441**	29,210
Less: provision for impairment of receivables	**(2,425)**	(2,248)	**(2,186)**	(2,186)
	25,804	27,218	**25,255**	27,024
Trade receivables from related parties *(Note (b) and 28(c))*	**87,445**	49,255	**86,664**	48,639
Airport fee receivable *(Note (c))*	**80,564**	113,201	**80,564**	113,201
	193,813	189,674	**192,483**	188,864

(a) As at 31 December 2006, the ageing analysis of the trade receivables from third parties was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**22,064**	20,469	**21,427**	20,267
91 – 180 days	**3,643**	3,377	**3,627**	3,363
181 – 365 days	**171**	2,530	**171**	2,530
Over 365 days	**2,351**	3,090	**2,216**	3,050
	28,229	29,466	**27,441**	29,210

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.

(b) As at 31 December 2006, the ageing analysis of the trade receivables from related parties was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**46,176**	45,514	**45,436**	45,186
91 – 180 days	**17,972**	2,242	**17,972**	1,954
181 – 365 days	**12,993**	1,181	**12,959**	1,181
Over 365 days	**10,304**	318	**10,297**	318
	87,445	49,255	**86,664**	48,639

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.

9 Trade receivables (continued)

(c) As at 31 December 2006, the original amount, fair value and ageing analysis of the airport fee receivable were as follows:

	The Group and the Company			
	2006		2005	
	Original amount	**Fair value**	Original amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
0 – 90 days	**22,281**	**22,036**	22,124	21,899
91 – 180 days	**15,995**	**15,819**	18,914	18,721
181 – 365 days	**43,185**	**42,709**	44,289	43,838
Over 365 days	**–**	**–**	29,040	28,743
	81,461	**80,564**	114,367	113,201

The fair values are based on cash flows, discounted using an effective deposit interest rate of 2.25% per annum.

10 Time deposits and cash and cash equivalents

(a) Time deposits

As at 31 December 2006, the Group and the Company had two deposits (as at 31 December 2005: two deposits) placed with Xiamen International Bank amounting to RMB65,918,000 (2005: RMB64,468,000) and one deposit placed with China Merchants Bank amounting to RMB20,000,000 (as at 31 December 2005: RMB20,000,000). The deposits placed with Xiamen International Bank earn interest at 2.25% per annum and will be matured on 9 June 2007 and the deposit placed with China Merchants Bank earns interest at 2.25% per annum and will be matured on 15 June 2007.

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**322,040**	21,408	**314,161**	10,036
Short-term bank deposit	**–**	224,000	**–**	224,000
	322,040	245,408	**314,161**	234,036

11 Share capital

	2006	2005
	RMB'000	*RMB'000*
At 1 January and 31 December		
Share capital registered, issued and fully paid		
246,300,000 Domestic shares of RMB 1 each	**246,300**	246,300
226,913,000 H shares of RMB 1 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
	627,037	627,037
	1,100,250	1,100,250

12 Other reserves

		The Group	
	Revaluation surplus	**Statutory reserves**	**Total**
	(Note a)	*(Note b)*	
	RMB'000	*RMB'000*	*RMB'000*
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
Balance at 1 January 2006	36,481	100,742	137,223
Transfer from retained earnings	–	12,305	12,305
Balance at 31 December 2006	36,481	113,047	149,528

		The Company	
	Revaluation surplus	**Statutory reserves**	**Total**
	(Note a)	*(Note b)*	
	RMB'000	*RMB'000*	*RMB'000*
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
Balance at 1 January 2006	36,481	100,147	136,628
Transfer from retained earnings	–	12,275	12,275
Balance at 31 December 2006	36,481	112,422	148,903

12 Other reserves (continued)

(a) Revaluation surplus

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Property, plant and equipment *(Note 7)*	**36,481**	36,481

(b) Statutory reserves

Until 31 December 2005, 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.

Pursuant to revised "Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by Ministry of Finance ("MOF")(Cai Qi [2006]No.67), the Company shall cease to provide for the statutory public welfare fund out of appropriation of net profit. The balance of public welfare fund as at 31 December 2005 is converted into statutory reserve. The profit appropriation to statutory reserve fund remained unchanged.

13 Borrowings – Secured

As at 31 December 2006, 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 2006, loans of RMB53,000,000 (2005: RMB103,000,000) denominated in RMB bear interest at commercial rate of 6.39% per annum (2005: 6.12% per annum) with maturities through 2013(2005: through 2013).

As at 31 December 2006, the bank borrowings were repayable as follows:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Within 1 year	**28,000**	50,000
Between 1 and 2 years	**9,000**	28,000
Between 3 and 5 years	**12,000**	17,000
Over 5 years	**4,000**	8,000
	53,000	103,000
Less: current portion of borrowings included in current liabilities	**(28,000)**	(50,000)
	25,000	53,000

The effective interest rate as at 31 December 2006 was 6.39% (2005: 6.12%).

13 Borrowings – Secured (continued)

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

	The Group and the Company			
	Carrying value		**Fair value**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings				
– non-current	**25,000**	53,000	**25,108**	53,270

The fair value are based on cash flows discounted using a rate based on the borrowing rate of 6.39% (2005: 6.12%).

The carrying amounts of short-term borrowings are approximate their fair value.

There were no undrawn banking facilities as at 31 December 2006 (2005: nil).

14 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	
	2006	2005
	RMB'000	*RMB'000*
Land use rights	**6,373**	6,454
Property, plant and equipment	**4,648**	4,808
	11,021	11,262
Deferred income tax liabilities to be settled:		
– after more than 12 months	**10,780**	11,021
– within 12 months	**241**	241
	11,021	11,262

14 Deferred income tax liabilities (continued)

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

	The Group and the Company		
	Land use rights	Property, plant and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2005	6,535	4,968	11,503
Recognised in the income statement	(81)	(160)	(241)
As at 31 December 2005	6,454	4,808	11,262
Recognised in the income statement	(81)	(160)	(241)
As at 31 December 2006	6,373	4,648	11,021

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 RMB501,000 (2005: RMB442,000) in respect of the tax losses of the Group's subsidiaries as at 31 December 2006 of approximately RMB3,454,000 (2005: RMB3,052,000). Tax losses amounting to RMB814,000, RMB727,000, RMB744,000, RMB767,000 and RMB402,000, will expire in 2007, 2008, 2009, 2010 and 2011 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.

15 Deferred income

	The Group and the Company
	2006
	RMB'000
Addition	**9,237**
Amortisation *(Note 17)*	**(778)**
At the end of year	**8,459**

Deferred income represents incentive received for the purchase of property, plant and equipment manufactured locally in the PRC. The amount is included in non-current liabilities and then recognised in the consolidated income statement over the period necessary to match with the depreciation charges of the relevant fixed assets on a systematic basis.

16 Trade and other payables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**5,146**	2,621	**2,770**	1,715
Other payables	**108,544**	36,007	**105,116**	30,452
Deposits received	**1,391**	1,326	**1,391**	1,326
Due to related parties *(Note 28(c))*	**19,826**	19,952	**19,676**	15,776
	134,907	59,906	**128,953**	49,269

As at 31 December 2006, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 -90 days	**16,868**	17,054	**14,736**	16,428
91-180 days	**2,803**	859	**2,785**	752
181-365 days	**3,352**	484	**2,976**	311
Over 365 days	**1,243**	–	**1,243**	–
	24,266	18,397	**21,740**	17,491

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:

	2006	2005
	RMB'000	*RMB'000*
Cost of goods and services	**44,933**	41,977
Depreciation of property, plant and equipment *(Note 7)*	**43,157**	31,359
Amortisation of land use rights *(Note 6)*	**3,111**	3,310
Employee benefit expense *(Note 18)*	**35,761**	33,891
Impairment of goodwill	**–**	3,650
Other taxes	**5,975**	4,881
Auditors remuneration	**2,333**	2,384
Consulting fee	**9,030**	4,587
Operating lease rentals – building	**255**	509
Amortisation of deferred income *(Note 15)*	**(778)**	–
Loss on disposal of property, plant and equipment *(Note 26)*	**16**	67
Impairment charge of trade receivables	**177**	33
Utilities and power	**17,172**	11,204
Repair and maintenance	**5,347**	6,690

18 Employee benefit expense

	2006 RMB'000	2005 RMB'000
Wages and salaries	**25,537**	23,481
Pension costs – statutory pension *(Note 24)*	**4,003**	3,526
Staff welfare	**1,888**	2,172
Housing fund *(Note 25)*	**1,963**	1,841
Medical benefits	**1,063**	1,015
Other allowances and benefits	**1,307**	1,856
	35,761	33,891

As at 31 December 2006, the Group and the Company had 676 and 593 (2005: 691 and 600) employees respectively.

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2006 is set out below:

	Fees RMB'000	Salaries and other benefits RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Name of Director					
Zhang Chong	65	61	56	14	196
Wang Zhen	70	73	64	15	222
Huang Qiu	28	47	17	7	99
Chen Wenli	5	–	–	–	5
Dong Guiguo	42	32	38	9	121
Zhang Han'an	50	–	–	–	50
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Fung Ching, Simon	80	–	–	–	80
Xie Zhuang	80	–	–	–	80
Gunnar Moller	70	123	106	–	299
Name of Supervisor					
Chen Kewen	19	–	–	–	19
Zhang Shusheng	20	–	–	–	20
Zeng Xuemei	20	37	26	15	98
Zhang Cong	1	–	–	–	1

18 Employee benefit expense (continued)

(a) Directors' and Supervisors' emoluments (continued)

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

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director					
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	–	–	–	–	–
Name of Supervisor					
Zhang Shusheng	20	–	–	–	20
Zeng Xuemei	20	34	31	12	97
Zhang Cong	20	–	–	– –	20

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: two) individuals during the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**74**	123
Bonuses	**63**	134
Retirement scheme contributions	**15**	26
	152	283

During the year ended 31 December 2006, no emolument was paid to the 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.

For the year ended 31 December 2006 and 2005, the emoluments paid to five highest-paid employees fell within the band from nil to RMB1 million.

19 Finance income-net

	2006	2005
	RMB'000	*RMB'000*
Interest on bank loans	**(5,449)**	(7,586)
Less: interest capitalised *(Note 7)*	**1,576**	7,586
Finance cost	**(3,873)**	–
Finance income – bank interest	**4,111**	4,494
	238	4,494

20 Income tax expense

Hong Kong profits tax has not been provided for as the Group had no estimated assessable profits arising in Hong Kong during the year (2005: Nil). Taxation in the income statement represents provision for the PRC enterprise income tax.

	2006	2005
	RMB'000	*RMB'000*
Current income tax		
– outside Hong Kong	**10,339**	12,478
Deferred income tax *(Note 14)*	**(241)**	(241)
Income tax expense	**10,098**	12,237

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:

	2006	2005
	RMB'000	*RMB'000*
Profit before taxation	**133,076**	163,651
Tax calculated at a domestic rate applicable to profits in the Hainan Province	**19,961**	24,548
Effect of tax holidays	**(10,001)**	(13,397)
Tax loss not recognised	**57**	114
Expenses not deductible for tax purpose	**81**	972
Income tax expense	**10,098**	12,237

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (2005: 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 RMB123,382,000 (2005: RMB154,601,000).

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.

	2006	2005
Profit attributable to equity holders of the Company *(RMB'000)*	**122,976**	151,844
Weighted average number of ordinary shares in issue *(thousands)*	**473,213**	473,213
Basic earnings per share *(RMB per share)*	**26 cents**	32 cents

– Diluted

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary share outstanding during the years ended 31 December 2006 and 2005.

23 Dividends

	2006 ***RMB'000***	2005 *RMB'000*
No interim dividend in 2006 (2005: RMB8.4 cents per share)	**–**	39,750
No final dividend proposed in 2006 (2005: no final dividend proposed)	**–**	–
	–	39,750

At the Board of Director's meeting held on 10 April 2007, the Directors proposed no final dividend payout for the year ended 31 December 2006.

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 2006 and 2005.

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% (2005: 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 2006, the Group's contribution to the housing fund was approximately RMB1,963,000 (2005: RMB1,841,000).

As at 31 December 2006 and 2005, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

26 Cash generated from operations

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Profit before income tax	**133,076**	163,651
Adjustments for:		
– Interest income	**(4,111)**	(4,494)
– Interest expense	**3,873**	–
– Depreciation and amortisation	**46,268**	34,669
– Impairment of goodwill	**–**	3,650
– Write-off of negative goodwill	**–**	(165)
– Loss on sale of property, plant and equipment	**16**	67
Change in working capital:		
– Receivables and prepayments	**5,231**	(18,790)
– Trade and other payables	**5,386**	(41,306)
– Inventories	**(966)**	1,124
Cash generated from operations	**188,773**	138,406

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	
	2006	2005
	RMB'000	*RMB'000*
Contracted but not provided for	**21,708**	41,107
Authorised but not contracted for	**566**	76,770
	22,274	117,877

(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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**–**	1,949	**–**	509
Later than 1 year and not later than 5 years	**–**	–	**–**	–
	–	1,949	**–**	509

(c) Operating lease commitments – where the Group and the Company are the lessor

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**27,258**	19,262	**16,658**	13,766
Later than 1 year and not later than 5 years	**34,029**	16,387	**30,527**	15,568
Over 5 year	**1,452**	–	**1,452**	–
	62,739	35,649	**48,637**	29,334

28 Material related party transactions

The Company is controlled by Haikou Meilan International Airport Company Limited (the "Parent Company") 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 **2006** ***RMB'000***	2005 *RMB'000*
Revenues:					
Hainan Airlines	Shareholder	Income for the provision of customary airport ground services	*(i)*	**59,762**	73,355
		Rental income for the leasing of office and commercial space	*(ii)*	**8,137**	6,699
		Income from franchise fee for the operation of the cargo centre	*(iii)*	**6,000**	6,000
China Southern Airlines Co., Ltd. ("Southern Airlines ")	Promoter	Income for the provision of customary airport ground services	*(i)*	**36,895**	42,895
		Rental income for the leasing of office and commercial space	*(ii)*	**6,725**	5,946
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	*(i)*	**2,264**	1,993
Hainan Airlines Food Company limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	*(iv)*	**1,986**	1,856
Luckyway Travelling	Subsidiary of HNA Group	Franchise income from tourism and traveling services at Meilan Airport	*(v)*	**583**	–
HongKong Airlines Limited	Subsidiary of HNA Group	Income for the provision of customary airport ground services	*(i)*	**481**	–

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 2006 ***RMB'000***	2005 *RMB'000*
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	*(vi)*	**15,227**	12,600
		Rental expense paid for the leasing of office and commercial space	*(vii)*	**255**	509
HNA Group	Shareholder	Logistic composite services charged by HNA Group	*(viii)*	**10,186**	10,741
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Subsidiary of Hainan Airlines	Information system maintenance service	*(ix)*	**1,993**	–
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	*(x)*	**3,729**	3,587
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	*(xi)*	**44,312**	46,603

(i) The Company provided customary airport ground services including landing facilities, basic ground handling services, cargo storage and handling, passenger and baggage security check services and other related services to Hainan Airlines and other airlines at rates prescribed by the General Administration of Civil Aviation of China (the "CAAC").

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

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)

(iii) In accordance with the agreement between the Company and Hainan Airlines 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.

(iv) 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. The franchise fee is calculated on a fixed price with reference to the number of passengers retaining the relevant services.

(v) Pursuant to the franchise agreement with a term from 1 October 2006 to 31 December 2008 between the Company and Luckyway Traveling dated 22 September 2006, the Company granted Luckyway Traveling of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is RMB3.5 million. Besides, 50% of the profits earned by Luckyway Traveling from its franchise operation at Meilan airport will be charged by the Company.

(vi) 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 effect from 1 January 2005 retrospectively, the Parent Company has agreed to provide the following services to the Group:

(a) Provision of security guard service;

(b) Cleaning and landscaping;

(c) Sewage and refuse processing;

(d) Power and energy supply and equipment maintenance; and

(e) Passenger and luggage security inspection.

The charges relating to the services of item (a)-(d) are determined in accordance with the cost for the Parent Company in providing such services plus a 5% mark-up as management fee, except for item (d), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to Item (e) is determined in accordance with the rate prescribed by CAAC.

(vii) The Company and the Parent Company entered into an office lease agreement dated 25 October 2002, the Company agreed to rent from the Parent Company office premises for a term of five years at an annual rental of RMB509,000 with effect from 1 January 2002.

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)

(viii) Pursuant to a logistic composite service agreement dated 26 August 2005, HNA Group has agreed to provide and procure its subsidiaries to provide to the Company logistic services including (a) staff training; (b) staff shuttle bus services; (c) staff cafeteria services; (d) vehicle maintenance; and (e) appliance procurement with effect from 1 January 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.

(ix) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 17 May 2006, HNAAIS provide maintenance service for the information system of the Company with effect from 1 January 2006. The monthly service fee varies from month to month depending on the type of services rendered by HNAAIS.

(x) 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.

(xi) 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

	2006	2005
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**770**	693
Bonuses	**451**	450
Retirement scheme contributions	**90**	76
	1,311	1,219

28 Material related party transactions (continued)

(c) As at 31 December 2006, balances with related parties comprised:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties:				
Hainan Airlines*	**62,723**	24,929	**62,048**	24,929
HNA Group	**–**	5,727	**–**	5,727
Southern Airlines	**15,799**	15,338	**15,765**	15,009
Hainan Food	**3,435**	1,724	**3,435**	1,724
Yangzijiang Air Express	**15**	–	**15**	–
SPIA	**–**	27	**–**	27
Xiamen Airlines	**1,293**	1,015	**1,293**	1,015
Others	**4,180**	495	**4,108**	208
	87,445	49,255	**86,664**	48,639
Other receivables from related parties:				
Hainan Da Lung Enterprise Co., Ltd.	**–**	1,162	**–**	1,162
SPIA	**56**	–	**56**	–
Others	**–**	113	**–**	113
	56	1,275	**56**	1,275
	87,501	50,530	**86,720**	49,914

28 Material related party transactions (continued)

(c) As at 31 December 2006, balances with related parties comprised: (continued)

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payable to related parties:				
Parent Company	**12,998**	16,508	**12,848**	12,337
CPHI	**6,345**	3,129	**6,345**	3,129
Others	**483**	315	**483**	310
	19,826	19,952	**19,676**	15,776

* An amount of RMB30,000,000 was settled in March 2007.

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.

29 Events after the balance sheet date

On March 16 2007, the corporate income tax law was passed at the Fifth Session of Tenth National People's Congress of PRC whereby all enterprises with operations in the PRC will be subject to the same statutory income tax rate effecting from 1 January 2008. As at the date that these financial statements are approved for issue, detail measures of the new law has yet to be issued, the Group will evaluate the impact of the new law on the operating results and the financial position of the future periods as more detail measures and other related regulations are announced.