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 : 0357

OUR MISSION

To be a successful regional airport management company in China, offering quality and safe airport 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 "Meilan Airport" or the "Company") is a joint stock company incorporated in the People's Republic of China ("PRC" or "China") with limited liability on 28 December 2000. The H shares of the Company were issued and listed on the Main Board ("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 ("MOC") 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 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 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 2008 are as follows:

- Awarded with "2008 The National Passenger Satisfaction Enterprise" by China Association for Quality;

- 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;

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

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

CORPORATE WEBSITE:
www.mlairport.com

EXECUTIVE DIRECTORS
Zhao Yahui, *Chairman*
Dong Zhanbin
Bai Yan

NON-EXECUTIVE DIRECTORS
Hu Wentai, *Vice Chairman*
Zhang Han'an
Chan Nap Kee, Joseph
Yan Xiang

INDEPENDENT NON-EXECUTIVE DIRECTORS
Xu Bailing
Xie Zhuang
Fung Ching, Simon
George F. Meng

COMPANY SECRETARY
Bai Yan

SUPERVISORS
Chen Kewen
Zhang Shusheng
Zeng Xuemei

AUTHORISED REPRESENTATIVES
Zhao Yahui
Bai Yan

AUDIT COMMITTEE
Xu Bailing
Xie Zhuang
Fung Ching, Simon

REMUNERATION COMMITTEE
Xie Zhuang
Fung Ching, Simon
Dong Zhanbin

NOMINATION COMMITTEE
Xu Bailing
Xie Zhuang
Dong Zhanbin

STRATEGIC COMMITTEE
Fung Ching, Simon
Xu Bailing
Xie Zhuang
Dong Zhanbin

LEGAL ADDRESS AND HEAD OFFICE
Meilan Airport Complex
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H SHARE REGISTRAR AND TRANSFER OFFICE
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Wanchai, Hong Kong

STOCK CODE
357

Financial Highlights

Two-Year Comparison of Key Financial Figures

For the year ended 31 December
(RMB'000)

	2008	2007	Change (%)
Turnover	391,072	344,391	13.6%
Gross Profit	242,116	222,624	8.76%
Net profit attributable to shareholders	186,434	138,777	34.3%
Earnings per share – basic and diluted (RMB)	0.39	0.29	34.5%
Net operating cash flow	231,296	272,696	-15.2%
Current ratio (times)	7.16	5.65	26.7%
Assets – liabilities ratio	6.72%	7.90%	-14.9%
EBITDA	239,708	233,872	2.50%

Five-Year Summary of Financial Performance

For the year ended 31 December
(RMB'000)

	2008	2007	2006	2005	2004
Turnover	391,072	344,391	334,375	334,844	360,025
EBITDA	239,708	233,872	183,215	198,750	227,701
Financial income/(costs) – net	15,557	3,585	238	4,494	4,849

Five-Year Summary of Financial Position

For the year ended 31 December
(RMB'000)

	2008	2007	2006	2005	2004
Total assets	1,977,061	1,836,576	1,870,351	1,717,267	1,703,951
Total liabilities	132,799	145,092	207,496	177,390	240,720
Shareholders' equity	1,844,262	1,691,484	1,662,855	1,539,877	1,462,203

"As the key contributor to mainland's position as a leading regional and international aviation hub...."

Chairman's Statement

To all shareholders,

2008 was a truly extraordinary year in China's way to development. The Chinese people touched the whole world by overcoming the unwonted natural calamities including unprecedented sleet and frost disaster, Wenchuan Earthquake and the continuous downpour and flood disaster in southern China in summer. The great success of the 29th Beijing Olympic Games and 2008 Paralympic Games fulfilled our Olympic dream that the nation had been dreaming for over a century. 2008 also witnessed the successful accomplishment of Shenzhou VII manned space mission, marking a milestone in the development of space technology. In the year, China was also confronted with the global economic recession triggered by the once-in-a-century financial tsunami, and the domestic real economy was badly hit.

During the year under review, the Group made special efforts in exploring and marketing in aviation market in line with the strategy of "focusing on aviation market". In the complicated and changing market environment, the Group optimized its strategies in a timely manner by actively rationalizing

our management structure in response to market changes, and made quick response to benefit rather than suffer from such changes. With these efforts, the three main operation indicators recorded a new high, and the growth of passenger throughput was the highest among the top 15 airports of China. Meanwhile, the Group concentrated on increasing income and decreasing expenditure, further expedited management system reform, and facilitated the transformation from operation-oriented to management-oriented system, by which, we enhanced our core competitive strengths and our capability to withstand market risks. The Group also laid great stress on production safety, and continued to achieve its 10th year of safe operation in the Group's history. We were also honored with a number of major awards, including the award of "Outstanding Enterprise of the National Safety and Health Cup Competition" jointly granted by the State Administration of Work Safety and All China Federation of Trade Unions, and "2008 The National Passenger Satisfaction Enterprise" granted by China Association for Quality, based on which, we steadily built our service brand.

Results

In 2008, the Group's total revenue amounted to RMB391,072,000, representing an increase of 13.6% over the previous year. Income from aeronautical business amounted to RMB292,742,000, representing an increase of 16.3% over the previous year. Income from non-aeronautical business amounted to RMB98,330,000, representing an increase of 6.2% over the previous year. Net profit attributable to shareholders amounted to RMB186,434,000, representing an increase of 34.3% over the previous year.

Aeronautical Business Overview

In the first half of 2008, facing the changes in domestic and international market environment, the Group took the initiative to explore aviation market through multiple measures and channels, which effectively eased the pressure in terms of passenger markets imposed by the natural calamities occurred in China, so as to maintain the good growing momentum of 2007; in the second half of 2008, the consequential effects of the aforesaid natural disasters became more apparent, meanwhile the financial crisis sweeping across the world began to hit severely on various real economies in China, affecting to certain extent our transportation and production and curtailing our good growing trend as appeared in the first half of 2008. However, as for the aeronautical business, the Group still achieved excellent performance. The annual total aircraft movements reached 66,411, representing an increase of 9.6% over the previous year. Passenger throughput reached 8.222 million, representing an increase of 13.2% over the previous year. Cargo throughput reached 131,637.9 tons, representing an increase of 18.1% over the previous year.

Outlook

In 2008, despite the impact from the changing external operation environment and pressure due to the weak aviation market, the Group managed to maintain steady growth in our transportation production business targets. However, in the second half of 2008, the severe impact of the global financial crisis on the domestic real economies began to reveal, which will likely impose direct impact on our production and operation. Looking forward to the next year, the impact of financial crisis on real economy would be more apparent, and will become the major factor affecting our production and operation. Meanwhile, a series of measures unveiled by the Chinese government to boost domestic demand will effectively help the national economy to shake off the impact of the financial crisis, thus propelling domestic economy to bounce back soon. The Group shall stick to its profit-oriented, market-driven and reform-based strategy. Leveraging on our precise judgement on the situation of China's macro-economy and the development trend of the civil aviation sector, the Group will actively seek for policy and capital support from the government. At the same time, we will adhere to the all-around and multiple-channel market development strategy, and further expedite our management structure optimization. With these measures, we aim to establish a management model that meets the requirements of scientific development and to enforce our capability to withstand market risk, so as to achieve sustainable, harmonized and sound development of Meilan Airport and reward all of our shareholders with good results.

Adjusting our aviation market development strategy in response to market changes

In 2008, in light of the complex and changing aviation market, the Group actively adjusted its market development strategy and achieved remarkable results. In 2009, taking advantage of the encouraging policies issued by the local government for development of aviation market, the Group will strive to increase the attractiveness of Haikou aviation market and explore more new aviation routes. The Group will also strengthen our coordination with local municipal and provincial governments and, backed with the support of government, promote the development of Haikou tourism industry, which will in return boost the development of aviation market. We will continue to seek for effective cooperation ways for charter flights, and will ally with travel agencies and airlines to offer charter flight service. To solve the long-dated problem of Hainan tourism market downturn in summer, the Group will enhance our promotion activities on the airlines and increase government grants. We believe all of these efforts will further improve the operation performance of Meilan Airport.

Enforcing budget control and seeking for various preferential treatments

In 2008, the Group fully implemented budget optimization in both administration management and operation. This resulted in remarkable achievements in cost control. In 2009, the Company will further enforce its budget control to reduce costs, and enhance its incentive system and integrate resources to increase its profitability. Furthermore, while making proper arrangement for the refund of the airport construction fees, the Company will capture the opportunity, where the government is advocating for cooperation between banks and enterprises in order to boost domestic demand and promote economic growth, to apply for various preferential treatments to create a favourable external environment for the development of the Company.

Accelerating management transformation and enhancing management structure optimization

Following the outsourcing of airport travel agency business and retail sales of duty-free goods, in 2008, the Group has successfully outsourced the advertising and cabin and terminal building cleaning business, further optimizing its business process and business organization. In 2009, the Group will accelerate the transformation of its management model, facilitate the outsourcing of various non-core businesses, so as to enhance our core competitive strengths and establish a management mechanism that will promote our development and ensure sustainable profitability. At the same time, we will, in light of the actual situation of the enterprise, enhance appraisal and disposition of employees who are not competent for their jobs, and take measures to streamline our workforce and reduce labor cost, with an aim to optimize our business process and employees' quality structure and improve our efficiency in human resources management.

Establishing service brand with an on-going effort to improve service quality

In 2008, the Group successfully passed the re-assessment for an international hygienic airport, provided quality services to achieve the success of Bo'ao Forum, Olympic Torch Relay and many other major events, and provided safe, quality and efficient services for domestic and foreign political leaders and people from various social circles, winning wide good reputation. In 2009, the Group will actively participate in the appraisal for World Best Airport. To win this prize, we will regulate our services to improve our service quality, provide training to enhance our service awareness and skills via multiple channels, and introduce the advanced service models at home and abroad to establish an integrated mechanism for promoting airport service quality.

Acknowledgement

On behalf of our Board of Directors and the management of the Group, 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.

Zhao Yahui
Chairman

Hainan Province, the PRC
25 March 2009

Management Discussion and Analysis

Civil Aviation Industry in the PRC

In 2008, subprime mortgage crisis broke out in the USA, triggering global financial crisis. Along with slump in stock market and credit crunch, investors' confidence collapsed and the financial crisis began to cause severe damage on global real economy, which made many developed countries and some emerging market countries fall into economic recession. During the second half of 2008, the pace of world economy development slowed down remarkably and the downward risk increased gradually while the outlook of global development got more uncertain. Under the background of economic integration and supply and purchase globalization, no country can keep itself away from the influence.

Such financial crisis not only spread increasingly severe impact on global financial circle but also had an act on the economic order of China. The development of China's economy have been depending much more on the foreign trade for a long term, with its total import and export volume nearly accounted for approximately 65% of the nation's total amount of GDP and its total export volume up to 35% of the total GDP. The demand decrease

"To further expand our global aviation network and provide passengers with more destinations, greater frequency of flights and a wider choice of carriers....."

in those high consumption countries will bring direct impact on foreign trade processing and service industries. And the slower growth of export will directly tamper the growing speed of national economy, thus impairing national consumption level and consumption capability.

The financial tsunami caused by the subprime mortgage crisis is devouring the operational achievements of almost all industries. As a barometer of economic development, the civil aviation industry was directly affected by the slowdown of foreign trade in terms of passenger and cargo throughput growth, which were brought about by international economic exchange, thus exerting enormous pressure onto the enterprises engaged in aviation, tourism and logistics industries. The sharp decrease in the demand of aviation passenger and cargo transportation led to stoppage of some flight routes from airlines, or reduction of flights, or even delay in launching of new flight routes. According to IATA, in September 2008, global aviation industry witnessed first slip in passenger throughput since SARS, and the drop of international passenger throughput in Asia-Pacific region was even more remarkable. In 2008, the international crude price rose up swiftly and the domestic jet fuel price maintained at relatively high level till early 2009 when the jet fuel price fell down virtually. High jet fuel price substantially added aviation operation cost while the financial crisis worsened the operation of airlines even further. The data issued by Civil Aviation Administration of China (CAAC) shows that, in 2008, all the airports across China recorded in aggregate a passenger throughput of 190 million in 2008, only an increase of 3.3% over the previous year; cargo throughput of 4.03 million tons, edging up 0.3% over the previous year; total turnover slipping throughout the year with only a tiny annual growth of 2.2%, which was the lowest growth rate in the past two decades since 1990, even lower than that of 2.7% recorded in SARS period in 2003.

In 2008, Meilan Airport took effective measures to develop the aviation market. Due to this effort, during the first half of the year, the passenger throughput maintained a double-digit growth all along, however, when the impact of financial crisis on international flight routes began to emerge, the growth rate of international flight routes fell down apparently, far below the figure for the same period of 2007. During the second half of 2008, the impact of financial crisis on Meilan Airport completely took its shape. Checking through the Winter-Spring Flight Schedule implemented from 26 October 2008, Meilan Airport plan to tally 1,642 aircraft movements per week in the winter-spring flight season, that is 234 aircraft movements per day on average, and a drop of 2.4% year on year. Besides Meilan Airport, all other airlines had adjusted transportation capacity of their own airports to different degrees, and there was apparent overall reduction. In respect of international flight routes and transportation capacity, the large amount of charter flights for Russian, South Korean and Japanese tourists which

usually boomed during the period of Winter-Spring Flight Schedule nearly dropped to zero. As Meilan Airport maintains a relatively stable charge on flights and a stable cost, the change in throughput is the main factor affecting its profit performance. Under the circumstances of year-on-year decrease of flights in winter-spring season and downtion of international flights, the revenue from flights which takes up more than 70% of the total revenue of the airport will be adversely affected, making the profit margin narrower.

In 2009, on the back of global financial crisis caused by the subprime mortgage crisis in the USA, China's economy is still facing many challenges and its growth pace will slow down obviously. China's aviation industry also will encounter a "cold winter" which will certainly impair our airport business to a large extent. Albeit Chinese government had worked out a series of policies, including those to expand domestic demand, cut interest rates and exempt interest tax, to stimulate economic development, it takes some time for the effect of governmental measures on dragging up economy to reveal. Therefore, the transportation and operation of civil airports will still suffer influence and restriction in the coming year. However, in a long-term view, China's civil aviation industry will enjoy the environment and conditions for rapid growth in the next five to ten years, showing a bright development prospect.

Tourism industry in Hainan Province

The great success of cultural and sport activities such as China Happiness Stanza, Miss World Contest and Round-the-Island Bicycle Tournament has made Hainan's wonderful "healthy and sunny" image overwhelmingly popular and diversified tourism products highly favored. In 2008, a year marking the 20th anniversary of the establishment of Hainan Province and Hainan Special Economic Zone (SEZ), the State Council approved Hainan Province to be constructed as an "International Tourism Island". Hainan Province will take this opportunity to make good use of the advantages of SEZ system and policies, actively seek ways for establishing industry system and mechanism that are in line with the international practices and common rules, with an aim to speed up the internationalized reconstruction of the essentials of Hainan tourism industry, propel the internationalization of investment subjects, tourism products, tourists infrastructure and tourism service management, accelerate the cultivation of foreign-related tourism professionals, and improve the supportive accommodation system for tourism internationalization. In addition, Hainan tourism industrial chain is rapidly extending. A group of high-level elaborately designed tourism projects, including Shenzhou Peninsula Comprehensive Tourism Development Zone, new Sanya Bay region, Begonia Bay, Sandalwood Bay, Shimei Bay and Bo'ao Phase II project, had been launched for implementation. Moreover, a group of large-scale projects such as Sanya Hongtang Bay, Wenchang Tonggu Ridge and a spaceflight theme park etc. are also under pre-phase preparation, which will become the new highlights of Hainan's economic development in the coming few years.

The Population, Resources and Environment Committee under National Committee of the Chinese People's Political Consultative Conference (NCCPPCC) recently submitted to NCCPPCC a Study Report on the Construction of Hainan International Tourism Island. The report states that with 20 years' efforts since the establishment of Hainan Province and Hainan SEZ, Hainan's economic strength has been notably enhanced; its characteristic agriculture, new types of industries and modern service industry have been growing rapidly; and the relevant infrastructure is tending complete. Therefore, considering from both hardware and software, Hainan has satisfied the essential requirements for the construction of an international tourism island. In regard to this, Hainan enjoys the following six advantages:

– Unique geographical advantage. Hainan is located between tropic and sub-tropic regions, where is warm and mild like spring in all seasons, and is also a best place to develop tourism, particularly winter tourism. Hainan Island is at the similar latitude with Hawaii, Bali Island, Phuket Island and other world famous scenic spots. Yalong Bay can be comparable to Hawaii, and Haikou, as a rare northern coastal city in the world, boasts broad and calm sea.

– Unparalleled resource advantage. Hainan has the most beautiful tropical plants and animals as well as tropical rain forests in the world. On the eastern coast, there is a globally largest exploitable tourism resource reserve, and across the whole island there are over 200 tourist spots to be developed that can attract a large number of tourists.

– First-class resort facilities. At present, Hainan has set up 32 tourist scenic spots, of which two are listed at national 5A level and three at 4A level. Hainan also possesses the first 100,000-DWT terminal in China dedicated to international cruise lines. In addition, Hainan is an area with most densely concentrated world-known resort hotels in Asia.

– Convenient traffic network. Sanya Phoenix International Airport and Haikou Meilan International Airport had opened over 100 international and domestic flight routes, and their passenger throughput exceeded 10 million in 2007. The direct trains from Haikou and Sanya to Beijing, Shanghai and Guangzhou had been put into operation and Hainan East Ring Railway is going to be completed in 2010.

– Special policy advantage. Hainan is the existing and only one SEZ in China with its special economic zone covering the entire province, which is incomparable for other provinces. A Letter on Related Issues of Supporting Hainan Province to Develop Tourism Industry issued by the General Office of the State Council clearly states that the governmental support and help would be given in respect of Hainan tourism industry. The Letter also approves that Hainan should go further to make full use of its SEZ advantages, actively probe into the opening up of tourism industry and system reform, and should take the lead to conduct tentative experiment. The representatives from 15 ministries and commissions under the Central Government, including National Tourism Administration, National Development and Reform Commission, Ministry of Foreign Affairs, Ministry of Public Security, CAAC, State Administration of Taxation and so on, had formed into an investigation group on Hainan tourism industry, and they all expressed their proactive support on the construction of Hainan as an international tourism island.

– All-around opening up pattern. The major tourism hotel management companies in the world followed each other to establish businesses in Hainan, such as Japanese second largest travel agency HIS, German TUI Group and British Mytravel Group. Russian Ural Airlines (俄羅斯烏拉爾洲際航空) also had opened an international charter flight route to Hainan. On the domestic side, China's large-scale competitive enterprise groups had stepped into the island as well. For instance, China Resources (Holdings) Co. Ltd had invested RMB3 billion into the construction of Hainan International Tourism Island.

According to the plan, Hainan Island will endeavor to promote golf industry in the northern area, add cruise routes for "South China Sea Tour" and "Hainan Tour" international passenger liners in the southern area, construct China's sunny seashore in the eastern area, launch the construction project of a national park in the central area, and carry out industrial tourism consistent with international standards in the western area. The Province will deepen the development of oceanic tourism programs to create sea sports centers, speed up the construction of yacht docks and construct a first-class yacht base in China. The Province will also introduce world-branded, large-sized recreational projects to enrich its tourism culture, expedite the development of healthy and leisure tourism by constructing a group of large-scale, high-ranked and unique traditional Chinese medicinal health care and rehabilitation centers, and further develop the tourism products like international business tourism as well as convention and exhibition tourism. In the end, Hainan will be constructed into "One Island", namely the world-class resort island, with "Two Ports", referring to the world-class mother port for international cruise lines and another port as a world-class yachts hub, and will become "Three Centers", that is the world-renowned first-class convention and exhibition center, recreational center and rehabilitation center in Asia.

Business Review

Overview of Aeronautical Business

In 2008, in response to the changing domestic and overseas market environment, the Group stuck to the strategy of "focusing on aviation market", and took initiative measures to fully enhance marketing by differential promoting means, such as encouraging airlines to open direct aviation routes to Haikou, introducing China United Airlines to open regular domestic routes between Haikou and other cities, and soliciting a number of domestic airlines to open new routes or add more flights on the original routes. In respect of international aviation routes, due to the impact of financial crisis, the tourist charter flights booked by Russian, South Korean and Japanese airlines decreased significantly throughout the year. However, the Group had adjusted our strategy in due course and successfully introduced Airasia Airline to launch a direct route between Haikou and Kuala Lumpur, which effectively offset the drop in the passenger throughput resulting from the decrease of charter flights booked by Russian, South Korean and Japanese airlines and achieved a modest annual growth in passenger throughput and aircraft movements on international routes.

Aviation traffic throughput for 2008 and the comparison figures for the last year are set out below:

	2008	2007	Change (%)
Aircraft movement	66,411	60,579	9.6
In which: Domestic	63,206	57,381	10.2
Hong Kong/Macau	1,697	1,810	-6.2
International	1,508	1,388	8.6
Passenger throughput (Headcount in ten thousand)	822.2	726.5	13.2
In which: Domestic	787.2	692.7	13.6
Hong Kong/Macau	16.1	17.3	-6.9
International	18.9	16.5	14.5
Cargo throughput (Tons)	131,637.9	111,451.9	18.1
In which: Domestic	126,948.9	106,742.9	18.9
Hong Kong/Macau	2,043	2,243.8	-8.9
International	2,646	2,465.2	7.3

The Group's revenue from aeronautical business for 2008 was RMB292,742,000, representing an increase of 16.3% over last year. Details of which are as follows:

	Amount (RMB'000)	**Change over last year** (%)
Passenger charges	116,157	26.9
Aircraft movement fees and related charges	42,948	4.5
Airport fees	96,567	9.2
Ground handling service fees	37,070	20.6
Total revenue from aeronautical business	292,742	16.3

Overview of Non-Aeronautical Business

In 2008, the Group leveraged on its geographical advantage as aviation transportation hub to offset the impact of the natural disaster and the financial storm. 2008 saw the breakthrough in non-aeronautical business thanks to the Group's great efforts in enhancing the market development advocacy for new projects, exploring new revenue drivers and expanding its freight and VIP service business. In 2008, the non-aeronautical business recorded a revenue of RMB98,330,000, representing an increase of 6.2% in comparison with that of last year. Cargo throughput hit a record high of 130,000 tons, representing an increase of over 18% over last year.

	Amount (RMB'000)	**Change over last year** (%)
Retailing	-	-100.0
Franchise fee	35,043	45.1
Rental	15,336	-11.2
Freight	13,005	34.6
Advertising	9,425	-32.9
Car parking	5,960	20.7
VIP service	9,645	77.8
Others	9,916	9.7
Total revenue from non-aeronautical businesses	98,330	6.2

Franchise Fee

For the year ended 31 December 2008, the Group recorded franchise fees of RMB35,043,000, representing an increase of 45.1% over last year, as the Group outsourced all of its retailing and advertising businesses during the year of 2008 and received the franchise fees, which resulted in substantial increase in franchise fees.

Freight

In 2008, the Group enhanced its management structure in a timely manner to establish the cargo business as its core non-aeronautical business, and made full efforts to facilitate expansion of the business. For the year ended 31 December 2008, income from cargo business was RMB13,005,000, representing an increase of 34.6% over last year, hence the business became a core non-aeronautical business in the future development of Meilan Airport.

VIP Service Revenue

In 2008, the Group achieved encouraging results by enhancing the development of VIP service business and exploring new revenue drivers. For the year ended 31 December 2008, income from VIP service was RMB9,645,000, representing an increase of 77.8% over last year, hence the business became another core non-aeronautical business of Meilan Airport.

Financial Review

Asset Analysis

As at 31 December 2008, the total assets of the Group amounted to RMB1,977,061,000, current assets were RMB794,492,000, non-current assets were RMB1,182,569,000, representing an increase of 8% over last year, which was mainly due to the increase in cash and cash equivalents.

Cost Analysis

In 2008, total operating costs of the Group were RMB148,956,000, representing an increase of RMB27,189,000 (or 22.3%) in comparison with that of last year. Administrative expenses were RMB72,931,000, representing an increase of RMB25,729,000 (or 54.5%) over last year. The increase in annual operating costs is mainly due to the increase in impairment charge of trade receivable, repair and maintenance expenses, staff costs and relevant costs resulting from the growth of business.

Cash Flow

For the year ended 31 December 2008, the Group's net cash inflow from operating activities was RMB231,296,000, representing a decrease of 15.2% over last year. This was mainly due to an increase in the gross receivables. During the year, the Group's net cash outflow from investing activities was RMB44,463,000, which was mainly due to the capital contribution to an associate.

Pledge of the Group's Assets

As at 31 December 2008, the Group had no pledge on assets.

Gearing Ratio

As at 31 December 2008, total current assets of the Group were approximately RMB794,492,000, total assets were approximately RMB1,977,061,000, total current liabilities were approximately RMB111,024,000 and total liabilities were approximately RMB132,799,000. The gearing ratio (total liabilities/total assets) of the Group was 6.7%, representing a decrease of 1.2% over last year. The main reason was the repayment of long-term borrowings in the amount of RMB9,000,000 and the payment of construction expenses for the Terminal Expansion Phase II in the amount of RMB28,630,000.

Foreign Exchange Exposure

The fluctuation in the RMB exchange rate may have an impact on foreign exchange gains/losses on translation of US dollar-denominated cash and cash equivalents and trade receivables. The Group's businesses are principally denominated in RMB, except that limited aeronautical revenues are in US dollars. Dividends to shareholders holding H Shares are declared and paid in Hong Kong dollars. Given the fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations, the Group has not entered into any forward rate contract to hedge its exposure of foreign exchange risk.

Financial Instruments

As at 31 December 2008, financial instruments of the Group mainly comprised bank loans, cash and bank deposits. The purpose of those financial instruments is to finance the Group's operations. Besides, the Group had other financial instruments in relation to daily operations, such as accounts receivable and accounts payable.

Contingent Liability

As at 31 December 2008, neither the Group nor the Company had any significant contingent liability.

Purchase, Sale or Redemption of the Shares

As at 31 December 2008, neither the Group nor the Company had purchased, sold or redeemed any of the Shares.

Employment, Training and Development

As at 31 December 2008, the Group had a total of 676 employees, representing a decrease of 84 employees over last year. The decrease was mainly attributable to the optimization of our management structure by streamlining the organization and workforce of the Group during the second half of 2008. Total staff costs accounted for approximately 13% of total turnover, representing an increase of 15% over last year. The main reason for the increase of staff costs was the Company increased the staff wages by the end of 2007. The Group determined its training schemes for the year based on the needs of the positions of its employees, in order to provide technical training for its staff and raise the staff's quality. 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 subsidiaries have participated in the employee retirement scheme operated by the relevant local government of the PRC. The PRC 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 2008, the contribution for the pension amounted to approximately RMB4,516,000 (2007: RMB4,196,000).

Other Information

In 2008, the Group had no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 in the Listing Rules.

Corporate Governance Report

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited, 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 on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code on Corporate Governance") which came into effect in January 2005. During the year ended 31 December 2008, the Company had complied with the Code on 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, SUPERVISORS AND SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by the directors, supervisors and senior management 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 (the "Directors"), supervisors and senior management of the Company, all of the Directors, supervisors and senior management have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during any time of the accounting period covered by this report.

BOARD OF DIRECTORS

Composition of the Board

As at 31 December 2008, the Board of the Company comprised eleven directors:

Chairman

Mr. Zhao Yahui	(duly appointed on 16 December 2008)

Executive Directors

Mr. Dong Zhanbin	(duly appointed on 5 February 2007)
Mr. Bai Yan	(duly appointed on 15 October 2007)

Non-executive Directors

Mr. Hu Wentai	(duly appointed on 16 December 2008)
Mr. Zhang Han'an	(re-appointed on 7 June 2007)
Mr. Chan Nap Kee, Joseph	(duly appointed on 15 October 2007)
Mr. Yan Xiang	(duly appointed on 15 October 2007)

Independent non-executive Directors

Mr. Xu Bailing	(re-appointed on 3 August 2007)
Mr. Xie Zhuang	(re-appointed on 7 June 2007)
Mr. Fung Ching, Simon	(re-appointed on 15 October 2007)
Mr. George F. Meng	(duly appointed on 15 October 2007)

The Company has received annual confirmation letters regarding the independence of each Independent Non-executive Director and we believe each of the Independent Non-executive Directors is independent from the Company.

There is no relationship among the Directors that is discloseable.

BOARD MEETINGS

1. The Board had held 6 meetings during the year ended 31 December 2008.

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

	3rd term, 6th meeting	3rd term, 7th meeting	3rd term, 8th meeting	3rd term, 9th meeting	3rd term, 10th meeting	3rd term, 11th meeting	3rd term, 12th meeting
Zhang Cong	√	√	√	√	√	√	–
Zhao Yahui	–	–	–	–	–	–	√
Dong Zhanbin	√	√	√	√	√	√	√
Dong Guiguo	√	√	√	√	√	√	–
Bai Yan	√	√	√	√	√	√	√
Hu Wentai	–	–	–	–	–	–	√
Zhang Han'an	√	√	√	√	√	√	√
Chan Nap Kee, Joseph	√	√	√	√	√	√	√
Yan Xiang	√	√	√	√	√	√	√
Xu Bailing	√	√	√	√	√	√	√
Xie Zhuang	√	√	√	√	√	√	√
Fung Ching, Simon	√	√	√	√	√	√	√
George F. Meng	√	√	√	√	√	√	√

Note: On 16 December 2008, Mr. Zhang Cong and Mr. Dong Guiguo resigned as a director of the Company, which became effective on the same day, and Mr. Zhao Yahui and Mr. Hu Wentai were appointed as directors of the Company. On 18 December 2008, the Group held the 12th Board meeting of the 3rd term, on which Director Zhao Yahui and Hu Wentai were present for the first time.

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 exercises 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 setup of the Company's internal management structure;

9. to appoint or dismiss the Company's general manager and to appoint or dismiss the vice general managers and other senior officers of the Company (including financial officers) pursuant to the general manager's nominations and determine 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 operates effectively on this basis.

The general management can decide the following matters:

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 general 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.

Corporate Governance Report

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

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 general manager 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 general manager of the Company are Mr. Zhao Yahui and Mr. Dong Zhanbin respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2008, the Company had four Non-executive Directors, namely Mr. Hu Wentai, Mr. Zhang Han'an, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang, and four Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching, Simon and Mr. George F. Meng.

Mr. Hu Wentai's current term of appointment is from 16 December 2008 to 15 December 2011;

Mr. Zhang Han'an's current term of appointment is from 7 June 2007 to 6 June 2010;

Mr. Chan Nap Kee, Joseph's current term of appointment is from 15 October 2007 to 14 October 2010;

Mr. Yan Xiang's current term of appointment is from 15 October 2007 to 14 October 2010;

Mr. Xu Bailing's current term of appointment is from 3 August 2007 to 2 August 2010;

Mr. Xie Zhuang's current term of appointment is from 7 June 2007 to 6 June 2010;

Mr. Fung Ching, Simon's current term of appointment is from 15 October 2007 to 14 October 2010;

Mr. George F. Meng's current term of appointment is from 15 October 2007 to 14 October 2010.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A remuneration committee has been set up by the Company. It is a sub-committee under the Board and is responsible for giving advice to the Board regarding the overall remuneration policies of Directors, Supervisors and senior management of the Company.

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

For the year ended 31 December 2008, the Company held one meeting of the remuneration committee on 31 March 2008. During that meeting, director's remuneration for 2007 and directors' remuneration policy for 2008 had been determined.

Remuneration policy for 2008: The Chairman and Executive Directors shall have an allowance of RMB70,000 each, Non-executive Directors shall have an allowance of RMB50,000 each; Independent Non-executive Directors shall have an allowance of RMB100,000 each. In addition to the aforesaid allowance, Executive Directors who are also the Company's staff are also entitled to receive respective salaries according to their respective positions taken on a full-time basis in the Company. The remuneration policies were approved by the Board and general meeting prior to the Company's listing. These policies are subject to review and approval in the annual general meeting of each year.

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 the 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

A nomination committee has been set up by the Company, which is a sub-committee under the Board. The responsibilities of the nomination committee are:

(1) to make recommendations to the Board of Directors in respect of the size and composition of the Board of Directors in accordance with the business activities, assets size and shareholding structure;

(2) to study the selection criteria and procedures of directors, supervisors, chief executive officer and other senior management staff in accordance with the laws and regulations, and to make recommendations to the Board of Directors in this regard;

(3) to openly identify eligible candidates for the positions of directors, supervisors, chief executive officer and other senior management staff;

(4) to review the candidates for the positions of directors, supervisors, chief executive officer and other senior management staff and to make recommendations;

(5) to deal with other matters authorized by the Board of Directors.

Formation of nomination committee: Mr. Xu Bailing, an Independent Non-executive Director, is the chairman. The other members of the nomination committee are Mr. Xie Zhuang, an Independent Non-executive Director, and Mr. Dong Zhanbin, an Executive Director.

For the year ended 31 December 2008, the Company held one meeting of the nomination committee on 13 October 2008. During that meeting, Mr. Zhao Yahui and Mr. Hu Wentai were recommended to be directors of the Company and Ms. Xing Xihong was recommended to be the chief financial officer of the Company.

On 25 March 2009, Mr. Dong Zhanbin applied for resignation from his position as executive director of the Company, and Mr. Chen Kewen applied for resignation from his position as supervisor of the Company. The Company held one meeting of the nomination committee, Mr. Liang Jun was recommended to be executive director of the Company, and Mr. Dong Guiguo was recommended to be supervisor of the Company. The appointments are subject to approval by the general meeting of the Company. The resume of Mr. Liang Jun and Mr. Dong Guiguo can be found in the notes to the Notice of Annual General Meeting.

REMUNERATION OF AUDITORS

During the year ended 31 December 2008, 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 2008 was RMB1,550,000.

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 audit fees, to monitor the work of auditors, to review the relevant report regarding the Company's internal control system. The audit committee is comprised of three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Fung Ching, Simon with Mr. Xu Bailing as the chairman.

For the year ended 31 December 2008, the audit committee had held two meetings; all of the three committee members had attended these meetings.

The audit committee had reviewed the 2007 annual report, auditor's report, the report on re-appointment of the accounting firm and determination of their remuneration in the first meeting of 2008. The audit committee had reviewed the 2008 interim report in the second meeting of 2008.

The audit committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company in 2009.

INTERNAL CONTROLS

The Board has overall responsibility for the Group's internal control systems and through the Audit Committee, conducts review on the effectiveness of these systems. During the year 2008, the Board of the Company had conducted a review of the Group's internal control systems, covering the financial, operational, procedural compliance and risk management functions. The process used in reviewing the effectiveness of these internal control systems includes discussion with management on risk areas identified by management. No material deficiencies had been identified so far by the Board of the Company.

In 2008, the Group has further enhanced the relevant systems. The Company's governance was improved considerably, with its internal control work further enhanced.

SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT

During the year, none of the senior management held any shareholding interests in the Company.

SHAREHOLDERS' RIGHTS

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 more than ten per cent (10%) (including the ten per cent (10%)) of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and 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 2008, the Board did not receive any request from shareholders to convene a special general meeting.

Corporate Governance Report

INVESTORS' RELATIONS

1) Relevant clauses of the 2008 articles of association of the Company had been amended as follows:

Article 3

which reads:

"Company address:	Meilan Airport Complex, Haikou City, Hainan Province, PRC
Postal Code:	571126
Telephone number:	(86-898) 65751159
Facsimile number:	(86-898) 65751882"

was amended as:

"Company address:	Meilan Airport Complex, Haikou City, Hainan Province, PRC
Postal Code:	571126
Telephone number:	(86-898) 65762009
Facsimile number:	(86-898) 65762010"

Clause 8

which reads:

"The Company may invest in other limited liability companies and joint stock limited companies, and shall be liable to the investee companies to the extent of its capital contribution.

Subject to the approval of the enterprise review and approval authority authorized by the State Council, the Company may run as a holding company under sub-section 2 of Article 12 of the Company Law to meet the needs of its operation and management.

The holding subsidiaries of the Company are Haikou Meilan Airport Advertising Co., Ltd., Hainan Meilan International Airport Traveling Co., Ltd., and Hainan Meilan Duty Free Shop Limited in which the Company holds 95%, 60% and 95% of their equity interests respectively."

was amended as:

"The Company may invest in other limited liability companies and joint stock limited companies, and shall be liable to the investee companies to the extent of its capital contribution.

Subject to the approval of the enterprise review and approval authority authorized by the State Council, the Company may run as a holding company under sub-section 2 of Article 12 of the Company Law to meet the needs of its operation and management.

The holding subsidiaries of the Company are Haikou Meilan Airport Advertising Co., Ltd., Hainan Meilan International Airport Traveling Co., Ltd., and Hainan Meilan Duty Free Shop Limited in which the Company holds 95%, 95% and 95% of their equity interests respectively."

Clause 80

which reads:

"The shareholders' meeting shall be convened and presided over by the chairman of the Board. If the chairman of the Board is unable to attend the meeting, the meeting shall be convened and presided over by a director designated by the chairman. In the circumstance of the failure to designate a director to preside over the meeting, the shareholders attending the meeting shall elect the chairman of the meeting. If due to any reason, the shareholders are unable to designate the chairman of the meeting, the shareholder (including his proxies) who attends the meeting and holds the largest voting power shall act as the chairman of the meeting."

was amended as:

"The shareholders' meeting shall be convened by the Board, and presided over by the chairman of the Board. If the chairman of the Board is unable or fails to perform such duty, the vice-chairman of the Board shall perform such duty. If the vice chairman is unable or fails to perform such duty, the meeting shall be presided over by a director designated by more than half of the directors. In the circumstance of the failure to get majority votes from all of the Directors for the designation of a director to preside over the meeting, the shareholders attending the meeting may elect the chairman to preside over the meeting. If due to any reason, the shareholders are unable to elect the chairman of the meeting, the shareholder (including his proxies) who attends the meeting and holds the largest voting power shall act as the chairman of the meeting.

If the Board is unable or fails to perform its duty of convening the shareholders' meeting, the Board of Supervisors shall convene and preside over such meetings promptly. If the Board of Supervisors is not able to convene and preside over such meetings, the shareholder(s) alone or in aggregate holding 1/10 or more of the shares for 90 days consecutively may convene and preside over such meetings on their own initiative."

Clause 93

which reads:

"The Board of the Company shall comprise eleven directors, including one chairman and four independent non-executive directors."

was amended as:

"The Board of the Company shall comprise eleven directors, including one chairman and one vice-chairman.

The Board shall comprise 1/2 or more external directors, who do not hold any position within the Company, and 1/3 or more independent non-executive directors, who are independent from the shareholders of the Company and do not hold any position within the Company."

Clause 94

which reads:

"The chairman shall be elected or dismissed by more than half of all directors. The chairman shall serve for a term of three years and may be reelected.

The chairman and directors may concurrently serve as the general manager, deputy general manager or other senior management (except for supervisor)."

was amended as:
"The chairman and vice-chairman shall be elected or dismissed by more than half of all directors. The chairman and vice-chairman shall serve for a term of three years and may be reelected.

The chairman, vice-chairman and directors may concurrently serve as the general manager, deputy general manager or other senior management (except for supervisor)."

Clause 107
which reads:
"The Company shall have one (1) general manager and two (2) deputy general manager, who shall be engaged or disengaged by the Board of Directors, serving for a term of three years and being eligible for re-election."

was amended as:
"The Company shall have one (1) general manager and several deputy general managers, who shall be engaged or disengaged by the Board of Directors, serving for a term of three years and being eligible for re-election."

2) Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Report of the Directors in the 2008 annual report;

3) As at 31 December 2008, 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
Zhao Yahui
Chairman

Hainan Province, the PRC
25 March 2009

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Yahui, aged 60, joined the Company in September 2008 and was appointed as the executive director and chairman of the Company in December 2008. Currently, Mr. Zhao also holds the positions of chairman and CEO of Sanya Phoenix International Airport Company Limited. Mr. Zhao graduated from Air Force No. 2 Aviation University in September 1969, majoring in aviation. Since he joined HNA Group in December 1992, Mr. Zhao had worked successively as the standing deputy general manager of department of aviation matters and the general manager of flight department of Hainan Airlines Company Limited, the standing deputy general manager of Shanxi Airlines Company Limited, the deputy general manager of Yangtze River Express Delivery Aviation Company Limited, the general manager of supervisory department of HNA Group, the chairman of Sanya Phoenix International Airport Company Limited and the standing executive vice president of HNA Airport Group Company Limited etc., with extensive experience in the area of airport operational management.

Mr. Dong Zhanbin, aged 57, joined the Company in November 2006 and was appointed as Chief Executive Officer of the Company in December 2006. He was appointed as a Director of the Company in February 2007. He was appointed as General Manager of the Company in April 2007. Mr. Dong 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, the chief of Flight Operation Division and the head of Air Traffic Control Center of CAAC Guangxi Administration, and was then promoted to be 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 International 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. Bai Yan, aged 33, was re-appointed as Company Secretary in April 2007 and was appointed as an Executive Director of the Company in October 2007. 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. He joined the Company in April 2002 as Company Secretary responsible for managing 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.

NON-EXECUTIVE DIRECTORS

Mr. Hu Wentai, aged 53, was appointed as a Non-executive Director and Vice Chairman of the Company in December 2008. Mr. Hu joined HNA Group in June 2000, working as the general manager of Hainan Henghe Property Management Company Limited, the executive vice president of Haikou Meilan Airport Company Limited. Since Mr. Hu joined the Company in 2002, he has held a number of senior positions in the Company, including the chief operating officer and vice president of the Company. In February 2006, he was also the chairman of Haikou New City Area Construction Development Company Limited and the deputy general manager of Beijing HNA Realty Group Company Limited. Mr. Hu Wentai has extensive experience in the area of airport management and project construction.

Mr. Zhang Han'an, aged 63, was re-appointed as a Non-executive Director of the Company in June 2007. 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 the general manager for our parent company. He joined the Company in December 2000 as Executive Director and General Manager. He resigned from the office of general manager of the Company and became a Non-executive Director of the Company in January 2004.

Directors, Supervisors and Senior Management

Mr. Chan Nap Kee, **Joseph,** aged 48, was appointed as a Non-executive Director of the Company in October 2007. Mr. Chan received his master's degree from the University of Strathclyde in the major of International Marketing and a diploma from Peking University in China Investment and Trade Study. He holds licenses respectively of Type 1 (dealing in securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under Hong Kong Securities and Futures Ordinance. Mr. Chan was the deputy general manager of Credit Agricole Bank from 1986 to 1994, where he was also in charge of China business. From 1992 to 1994, he was also the co-head of Credit Agricole Asset Management South East Asia Limited. From 1994 to now, Mr. Chan has been an executive director of Oriental Patron Financial Group. Mr. Chan has more than twenty years of experience in commercial and investment banking, and asset management.

Mr. Yan Xiang, aged 45, was appointed as a Non-executive Director of the Company in October 2007. Mr. Yan is now a director of Zhongfu Industrial Co., Ltd. and an independent director of China United Travel Company Limited. Mr. Yan graduated from Peking University, where he received a bachelor's degree in Economics and a master's degree in Management and Legal Study. From January 1988 to August 1991, he had been a teaching assistant and lecturer in Economics at Peking University. After August 1991, he was a research fellow with the Research Center of the People's Government of Hainan Province, the general manager of Hainan Securities Exchange Center and the president of Hainan Securities Company Limited. From January 2002 till now, Mr. Yan has been the general manager of Oriental Patron Investment Consulting (Shenzhen) Limited. Mr. Yan had been the executor director of Hainan Development Promotion Association, committee member of Experts Committee in Research of National Debts And Futures and committee member of Credit Assessment Experts Committee of China Credit Securities Assessment Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bailing, aged 76, was appointed as an Independent Non-executive Director of the Company in June 2001, re-appointed as an Independent Non-executive Directors of the Company in June 2004 and re-appointed as an Independent Non-executive Director of the Company in August 2007. 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. Xu had worked for the Civil Aviation Beijing Administrative Bureau since 1954, holding various positions such as captain, flight leader, the chief captain, the vice director, director. Mr. Xu was then appointed as the vice director of CAAC in December 1986 and then as the president of Air China in March 1988. He was appointed as a consultant of CAAC in August 1993.

Mr. Xie Zhuang, aged 55, was re-appointed as an Independent Non-executive Director of the Company in June 2007. Mr. Xie graduated from the Department of Law, Southwest University of Political Science & 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 of the Department of Law, Peking University majoring in Economic Law and attained a master's degree in law. After graduation, he became the vice presiding judge of the High 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 presiding judge and vice president of First Economic Division. In 1998, he was honored with the title of Level 4 Senior Judge of the PRC. Mr. Xie was appointed as an Independent Non-executive Director of the Company in January 2004.

Mr. Fung Ching, Simon, aged 40, was appointed as an Independent Non-executive Directors of the Company in October 2004 and was re-appointed as an Independent Non-Executive Director of the Company in October 2007. 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 one of the "Big-4" international accounting firms. Mr. Fung graduated from the Queensland University of Technology, Australia and obtained a bachelor's degree in Accountancy. Mr. Fung is a fellow Hong Kong resident. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia.

Directors, Supervisors and Senior Management

Mr. George F. Meng, aged 65, was appointed as an Independent Non-Executive Director of the Company in October 2007. Mr. Meng graduated from Civil Aviation University of China in 1966, where he studied radio communication and English language. In 1972, he entered into Tianjin Foreign Studies University for further study of English language. From 1984 to 1991, he once studied FAA Aircraft Dispatcher Training Course sponsored by Aviation Training Services, Long Island, New York, Advanced Training in Aviation Course with Ansett Airlines, and MBA course at Oklahoma City University. During the years of 1966 to 1988, Mr. Meng served various positions including Radio Station Master of Communication Department of CAAC Chengdu Administration, Dean of the Technical English Department of Civil Aviation University of China, and Deputy Director of CAAC Training Center. After 1991, he was a director and the general manager of China Resource Ltd., USA. From 2000 to now, Mr. Meng is the president of Soaring Eagle Industrial LLC., USA.

SUPERVISORS

Mr. Chen Kewen, aged 48, 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 Zhoushuizi International Airport. Mr. Chen was awarded a master degree in management science and engineering by Dalian University of Technology in 2000. Since 2001, Mr. Chen has been acting as the general manager of the strategy development department of HNA Group. In May 2008, Mr. Chen became the vice president of Hainan HNA Realty Holding Company Limited (海南海航地產控股有限公司).

Mr. Zhang Shusheng, aged 72, is a senior reporter. He was re-appointed as an Independent Supervisor of the Company in June 2007. He is a graduate of the Department 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 39, was re-appointed as a Supervisor of the Company in May 2008. Ms. Zeng graduated from 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. Ms. 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 International Airport Company Limited from September 2000 to December 2000. She joined the Company in July 2002 and was appointed as a Supervisor. Ms. Zeng is currently the administrative officer of the Company, responsible for filing and database management.

SENIOR MANAGEMENT

Mr. Liu Jiyao, aged 58, joined the Company in August 2008 and was appointed as vice president of the Company in October 2008. Mr. Liu Jiyao has held a number of important positions in CAAC Gansu Administration. From May 2004 to August 2006, Mr. Liu worked in Gansu Airport Group Co., Ltd., in turn, as secretary of Party Committee and Discipline Inspection Commission, executive president and vice chairman. In June 2008, he was also the vice president of HNA Airport Group Company Limited.

Directors, Supervisors and Senior Management

Mr. Qiu Guo Liang, aged 34, was appointed as deputy general manager of the Company in August 2007. Mr. Qiu Guo Liang graduated from Nanjing Aviation Aeronautical University with professional background, holder of FAA Licence. He had been working as assistant to manager of Flight Planning Office, Operation Control Center, Production Operation Center of Hainan Airlines Co., Ltd., shift supervisor, deputy supervisor, deputy manager of Operation Control Department. He joined the Company in March 2004 and had been the manager of Control Center, assistant to chief operating officer and has a lot of working experience in aviation management.

Ms. Xing Xihong, aged 40, was appointed as the chief financial officer of the Company in October 2008. During the term of office in Hainan Airport Co., Ltd., Ms. Xing Xihong held the positions of accountant in Finance and Accounting Department and vice general manager of Finance and Securities Department. In October 1997, she became the deputy director of Integrated Finance Division under Finance and Accounting Department of Haikou Meilan International Airport Company Limited. From March 1999 to February 2004, Ms. Xing successively held the positions of project director and vice general manager in Finance and Accounting Department of Haikou Meilan International Airport Company Limited. In February 2004, she joined the Company, serving as the assistant to chief financial officer, executive deputy general manager and general manager.

COMPANY SECRETARY

Mr. Bai Yan, aged 33, was re-appointed as Company Secretary in April 2007 and was appointed as an Executive Director of the Company in October 2007. 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. He joined the Company in April 2002 as Company Secretary responsible for managing 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 of Directors is pleased to present their report together with the audited financial statements of Hainan Meilan International Airport Company Limited ("Meilan International Airport" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

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 2008, the Company conducted its business within one business segment, i.e. the business of operating an airport and provision of related services in the PRC. The Company 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 2008, and the financial positions of the Group and the Company as at 31 December 2008 are set out from page 45 to page 106 of this annual report.

FINAL DIVIDEND

The Board has passed the resolution to recommend the payment of a final dividend on or before 27 July 2009 (Monday) of HK15 cents per share (before tax) (the "2008 Final Dividend") on the annual general meeting to be held on 25 May 2009 (Monday) (the "Annual General Meeting") to shareholders of the Company whose names appear on the Company's Register of Members on 25 April 2009 (Saturday). The 2008 Final Dividend is subject to the approval by the shareholders at the coming Annual General Meeting of the Company.

In 2008, the Company had a domestic audited profit after tax of RMB189,442,000 and an international audited profit after tax of RMB186,460,000. Pursuant to the requirements of Memorandum and Articles of Association and the Listing Rules, in appropriating the dividends of respective accounting year, the basis of distribution shall be the lower of the two aforesaid profit after tax stated in that financial statement. Therefore, the 2008 dividend to be distributed shall adopt the audited profit based on International Accounting Standards.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from 25 April 2009 (Saturday) to 25 May 2009 (Monday) (both days inclusive), during which time no transfer of shares will be registered. To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the annual general meeting, shareholders 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 24 April 2009 (Friday) for completion of the registration of the relevant transfer.

BANK BORROWINGS

Details of the bank borrowings of the Group and the Company are set out in Note 16 to the accompanying financial statements.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of the property, plant and equipment as at 31 December 2008 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2008 are set out in Note 7 to the accompanying financial statements.

TAXATION

Details of taxation of the Group and the Company (including all tax preferences) for the year ended 31 December 2008 are set out in Note 22 to the accompanying financial statements.

RESERVES

Change in reserves of the Group and the Company for the year ended 31 December 2008 is set out in Note 14 to the accompanying financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2008 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 24% and 47% of the total sales of the Group for the year ended 31 December 2008, respectively. The largest supplier and the top five largest suppliers of the Group represented 15% and 23% of the total operating costs of the Group for the year ended 31 December 2008, respectively. None of the directors, their respective associates, or any shareholders (who to the knowledge of the directors own 5% or more of the Company's issued share capital) had any interest in any of the top five largest customers or top five largest suppliers of the Group for the year ended 31 December 2008.

SHARE CAPITAL STRUCTURE

As at 31 December 2008, the total number of issued shares of the Company was 473,213,000 as follows:

	Number of Shares	Percentage of 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 2008, so far as known to the 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	Identity	Type of shares	Number of ordinary shares	Percentage of domestic issued shares (%)	Percentage of issue share capital (%)
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000	96.43	50.20

H shares

Name of Shareholder	Type of Interest	Number of shares	Approximate percentage of H shares issued	Approximate percentage of total issued share capital
Zhang Gaobo (Note 2)	Interest of controlled corporations	94,643,000 (L)	41.71%	20.00%
Zhang Zhiping (Note 2)	Interest of controlled corporations	94,643,000 (L)	41.71%	20.00%
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporations	94,643,000 (L)	41.71%	20.00%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial	94,643,000 (L)	41.71%	20.00%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporations	94,643,000 (L)	41.71%	20.00%
UBS AG (Note 3)	Beneficial owner and interest of controlled corporations	29,649,400 (L) 360,000 (S)	13.07% 0.16%	6.27% 0.08%
ChinaRock Capital Management Limited (Note 4)	Investment manager	16,220,000 (L)	7.15%	3.43%
Farallon Capital Management, L.L.C. (Note 4)	Investment manager	16,220,000 (L)	7.15%	3.43%
Utilico Emerging Markets Utilities Limited (Note 5)	Investment manager	11,629,000 (L)	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. Zhang Gaobo and Zhang Zhiping were holding 49.19% and 49.92% interest, respectively, in Oriental Patron Financial Group Limited. Oriental Patron Financial Group Limited was holding a 95% interest in Oriental Patron Financial Services Group Limited, which was in turn holding 100% interests in Oriental Patron Resources Investment Limited.

3. Among the 29,649,400 shares in the Company, UBS AG was holding 305,000 shares as a beneficial owner, and was deemed to have equity interest in 29,344,400 shares (UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd, UBS Global Asset Management (Hong Kong) Ltd and UBS Securities LLC were all wholly-owned by UBS AG, and were beneficially holding 16,902,400 shares, 5,173,000 shares, 6,638,000 shares and 360,000 shares in the Company, respectively). In addition, UBS AG was deemed to hold the short position of 360,000 shares in the Company (UBS AG wholly owned UBS Securities LLC, which beneficially owned 360,000 shares in the Company).

4. As investment advisors, ChinaRock Capital Management Limited and Farallon Capital Management, L.L.C. were deemed to hold the equity interests of 16,220,000 shares in the Company (ChinaRock Capital Management Limited and Farallon Capital Management, L.L.C. held 100% interests in Farallon Capital Offshore Investors II, L.P., Tinicum Partners, L.P., Farallon Capital Institutional Partners III, L.P., Farallon Capital Institutional Partners II, L.P., Farrallon Capital Institutional Partners, L.P., Farallon Capital Partners, L.P. and Farallon Capital Offshore Investors, Inc., and those companies beneficially owned 2,343,100 shares, 2,176,100 shares, 190,500 shares, 120,400 shares, 91,800 shares, 3,457,500 shares and 7,840,600 shares in the Company, respectively).

5. Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.

6. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as at 31 December 2008 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 2008, 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 recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules. No Directors, Supervisors and chief executive of the Company have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

CONNECTED TRANSACTIONS

Details of the continuing connected transactions among the connected parties of the Group and the Company during the year ended 31 December 2008 are set out in the Notes to the accompanying financial statements. The transactions with connected parties mentioned in the Notes constitute the connected transactions of the Company.

Report of the Directors

THE TRANSACTIONS

1. The information system management agreement of Hainan Avirlines Aviation Information System Co., Ltd was entered on 17 May 2006 in which the commencement and expiry dates are 1 January 2006 and 31 December 2008 respectively. The service fees paid in 2008 was RMB2,043,000.

2. The franchised business agreement of Luckyway International Travel Service Co., Ltd. was entered on 22 September 2006 in which the commencement and expiry dates are on 1 October 2006 and 31 December 2008 respectively. The tourism franchised income received in 2008 was RMB4,773,000.

3. The customary airport ground services agreement of Hong Kong Airlines Limited was entered on 2 March 2007 in which the commencement and expiry dates are on 28 November 2006 and 27 November 2009 respectively. The airport ground services income received in 2008 was RMB2,359,000.

4. The franchised business agreement of Hainan HNA China Duty Free Merchandise Co., Ltd. was entered on 22 June 2007 in which the commencement and expiry dates are on 22 June 2007 and 21 June 2010 respectively. The duty free franchised income received in 2008 was RMB3,627,000.

5. The airport ground services agreement of Hainan Airlines Co., Ltd. was entered on 1 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income received in 2008 was RMB84,275,000.

6. The airport ground services agreement of China Southern Airlines Co., Ltd. was entered on 1 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income received in 2008 was RMB44,271,000.

7. The cargo services agency agreement of Hainan Airlines Co., Ltd. was entered on 8 October 2007 in which the commencement and expiry dates are on 8 October 2007 and 31 December 2009 respectively. The customary cargo services income received in 2008 was RMB4,236,000.

8. The airport ground services agreement of Xiamen Airlines Co., Ltd. was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income received in 2008 was RMB2,585,000.

9. The customary composite services agreement of HNA Group Co., Ltd. was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The service fees paid in 2008 was RMB11,848,000.

10. The airport composite services agreement of Haikou Meilan International Airport Co., Ltd. was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The service fees paid in 2008 was RMB15,360,000.

11. The catering services agreement of Hainan Airlines Food Co., Ltd. was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The franchised catering income received in 2008 was RMB2,417,000.

12. The financial services agreement of HNA Group Finance was entered on 8 October 2007 and the financial services supplemental agreement was entered on 6 November 2007, in which the commencement and expiry dates are on 8 October 2007 and 7 October 2010 respectively. For the year 2008, the maximum daily deposits of the Company put in the Group's Finance Company were not more than RMB450,000,000.

13. The airport ground services agreement of Deer Air Co., Ltd. was entered on 17 April 2008 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income received in 2008 was RMB2,294,000.

14. The airport ground services agreement of Grand China Express Airlines Co., Ltd. was entered on 17 April 2008 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income received in 2008 was RMB652,000.

15. The joint venture agreement was entered between the Company and Hainan Hongcheng Industrial and Development Co., Ltd. on 5 June 2008 to establish the joint venture company Haikou Decheng Industrial and Development Co., Ltd., pursuant to which, the Company contributed RMB30,504,300, holding 30% equity interests of the joint venture company.

16. The airport complex tenancy agreement of Hainan Airlines Co., Ltd. was entered on 16 October 2008 in which the commencement and expiry dates are on 1 March 2008 and 31 December 2010 respectively. The rental income received in 2008 was RMB7,287,500.

17. The airport complex tenancy agreement of China Southern Airlines Co., Ltd. was entered on 16 October 2008 in which the commencement and expiry dates are on 1 March 2008 and 31 December 2010 respectively. The rental income received in 2008 was RMB5,553,000.

Details of the above connected transactions and the related relationship between the Company and the connected parties are available in the relevant announcements posted on the Stock Exchange or the Company's website.

With respect to the Continuing Connected Transactions, the Independent Non-Executive Directors, after having reviewed the aforesaid transactions, are of the opinion that the 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 terms in the agreement governing such transactions. The terms are fair and reasonable, and are in the interest of the shareholders as a whole.

The International Auditors of the Company has confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Continuing Connected Transactions that:

(a) the Connected Transactions had received the approval of the Board;

(b) the Connected Transactions were made in accordance with the pricing policies as disclosed in the section headed "Related Party Transactions" set out in the Company's 2008 Annual Report;

(c) the Connected Transactions were carried out in accordance with the terms of the relevant agreements governing the transactions; and

(d) the Connected Transactions had been conducted within the approved cap amounts which had been published.

With respect to the Connected Transactions, the Company has complied with the disclosure requirement as set out in 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. Zhao Yahui	(duly appointed on 16 December 2008)
Mr. Dong Zhanbin	(duly appointed on 5 February 2007)
Mr. Bai Yan	(duly appointed on 15 October 2007)

Non-executive Directors

Mr. Hu Wentai	(duly appointed on 16 December 2008)
Mr. Zhang Han'an	(re-appointed on 7 June 2007)
Mr. Chan Nap Kee, Joseph	(duly appointed on 15 October 2007)
Mr. Yan Xiang	(duly appointed on 15 October 2007)

Independent non-executive Directors

Mr. Xu Bailing	(re-appointed on 3 August 2007)
Mr. Xie Zhuang	(re-appointed on 7 June 2007)
Mr. Fung Ching, Simon	(re-appointed on 15 October 2007)
Mr. George F. Meng	(duly appointed on 15 October 2007)

The Company has received annual confirmation letters of each Independent Non-executive Director regarding his independent position.

Supervisors

Mr. Chen Kewen	(duly appointed on 27 January 2006)
Mr. Zhang Shusheng	(re-appointed on 7 June 2007)
Ms. Zeng Xuemei	(re-appointed on 30 May 2008)

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

Executive Directors

Mr. Zhong Cong	(resigned on 15 December 2008)
Mr. Dong Guiguo	(resigned on 15 December 2008)

Brief biographical details of the Directors and Supervisors of the Company are set out on page 26 to page 29 of this annual report. There is no relationship among the Directors that is discloseable under the Listing Rules.

Each of the Directors and Supervisors had entered into a service contract with the Company for a term of three years. None of the Directors or the Supervisors 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 (within the meaning of the Listing Rules) held any shares, debentures or other interests in the Company, nor were they granted, nor had 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 directly or indirectly) in any contracts of significance entered into by the Company or its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or Supervisors hold any interests in any competing businesses against the Company or any of its jointly-controlled entities or subsidiaries for the year ended 31 December 2008.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Pursuant to the service contracts entered into between the Company and Directors and Supervisors and the resolution passed at the general meeting, for the year 2008, the allowance paid to the Chairman of the Board and Executive Directors of the Company was RMB70,000 per person; the allowance paid to the Non-executive Director was RMB50,000 per person; the allowance paid to the Independent Non-executive Directors was RMB100,000 per person; and the allowance paid to the Supervisors was RMB20,000 per person. Apart from Executive Directors and Supervisor of Staff Representative, other Directors and Supervisors are not entitled to receive any other remuneration from the Company. In addition to the aforesaid allowance, the Executive Directors and Supervisor of Staff Representative are entitled to receive salaries in respect of their respective positions taken on a full-time basis in the Company. Details of the remuneration of Directors and Supervisors are set out in Note 20 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 20 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 required 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 2008, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company had no redeemable securities as at 31 December 2008.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

The Group had no entrusted deposits and overdue time deposits as at 31 December 2008.

MATERIAL LITIGATION OR ARBITRATION

The Group had no material litigation or arbitration as at 31 December 2008.

AUDITORS

On 8 January 2008, Hainan Congxin CPA resigned as auditors of the Company and Zon Zun Certified Public Accountants was appointed by the special general meeting to fill the vacancy. The annual financial statements for the year ended 31 December 2008 of the Group prepared in accordance with the PRC Accounting Principles and those prepared in accordance with International Financial Reporting Standards were audited by Zon Zun Certified Public Accountants and PricewaterhouseCoopers respectively. The two firms, who are retiring and are 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.

Report of the Directors

Ernst & Young Certified Public Accountants acted as our International Auditors for the two financial years of 2002 and 2003. PricewaterhouseCoopers took over as our International Auditors 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. Xu Bailing, 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 at the date of publication, from the public information held by the Company and to the knowledge of the directors, the Public Float was 226,913,000 H shares, which represents 47.95% of the total issued share capital of the Company which is in compliance with the public float minimum requirement pursuant to Rules 8.08 of the Listing Rules.

By the order of the Board
Zhao Yahui
Chairman

Hainan Province, the PRC
25 March 2009

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2008, 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 2008 were as follows:

1. Attending meetings of the Board of Directors, and monitoring the decision making process of the Board of Directors in terms of regulatory compliance, legality and managerial system;

2. Attending meetings at the office of the Chairman of the Board, participating in important activities of the Company in the ordinary course of business, and monitoring the daily operation and management by the Chairman and other senior officers and providing constructive suggestions thereto; and

3. Reviewing 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 performed 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 shareholder 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 certified public accountants 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
25 March 2009

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Annual General Meeting") of Hainan Meilan International Airport Company Limited (the "Company") will be held at 10:00 a.m. on 25 May 2009 (Monday) at the meeting room of the Company on 3rd Floor, Meilan Airport Complex, 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 2008;

2. To consider and approve the working report of the Supervisory Committee of the Company for the year ended 31 December 2008;

3. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2008;

4. To consider and approve the final dividend distribution plan of the Company for the year ended 31 December 2008;

5. To consider and approve the re-appointment of PricewaterhouseCoopers (certified public accountants in Hong Kong) and Zon Zun Certified Public Accountants Office Limited (registered accountants in the PRC (excluding Hong Kong)) respectively as the Company's international and domestic auditors for the financial year of 2009, who will 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, Supervisors and Company Secretary for the year 2009;

7. To consider and approve the appointment of Mr. Liang Jun as an executive director of the Company;

8. To consider and approve the appointment of Mr. Dong Guiguo as a supervisor of the Company; and

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

By way of extraordinary resolutions:

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

By order of the Board
Bai Yan
Company Secretary

Hainan Province, the PRC
8 April 2009

Notice of Annual General Meeting

Notes:

(A) Holders of the Company's overseas listed 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 24 April 2009 (Friday) are entitled to attend and vote at the Annual General Meeting after completion of the registration in relation to the attendance of such meeting.

(B) Holders of H Shares of the Company 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 4 May 2009 (Monday). Shareholders 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
Postal code: 571126

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder 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 no less than 24 hours before the time appointed for the holding of the Annual General Meeting in order for such documents to be valid.

(D) The H Share register of the Company will be closed from 25 April 2009 (Saturday) to 25 May 2009 (Monday) (both days inclusive), during which period no transfer of H Shares will be registered. Transferees of H Shares who wish to attend the Annual General Meeting must deliver all share transfer documents and the relevant share certificate(s) to Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on 24 April 2009 (Friday) for completion of the registration of the relevant transfer in accordance with the articles of association of the Company.

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

(E) The 2008 final dividend will be distributed on or before 27 July 2009 (Monday) to those shareholders whose names are registered in the Company's Register of members on 25 April 2009 (Saturday).

(F) The Annual General Meeting is expected to last not more than one day. Shareholders or proxies attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.

(G) In the year 2009, the Company will still engage the PricewaterhouseCoopers (certified public accountants in Hong Kong) and Zon Zun Certified Public Accountants Office Limited (registered accountants in the PRC (excluding Hong Kong)) as the international and domestic auditors of the Company respectively in 2009 financial year until the end of the next Annual General Meeting. The Company's interim financial report for 2009 intends to be examined, by which the remuneration for the PricewaterhouseCoopers as international auditors will be RMB1,550,000 per year and the remuneration for Zon Zun Certified Public Accountants Office Limited as domestic auditors will be RMB250,000 per year.

(H) For the year 2009, the allowance standard (after tax) paid to Directors, supervisors and the company secretary was as follows: the allowance paid to the Chairman of the Board and Executive Directors was RMB70,000 per person; the allowance paid to the Non-executive Directors was RMB50,000 per person; the allowance paid to the Independent Non-executive Directors was RMB100,000 per person; the allowance paid to the supervisors was RMB20,000 per person; the allowance paid to the company secretary was RMB30,000 per person.

Notice of Annual General Meeting

(I) The brief biography of the director of the Company who is proposed for appointment is set out as follows:

Mr. Liang Jun, aged 47, has a master degree. From October 1991 to January 1999, Mr. Liang served as the general manager of Hainan Airlines Co., Ltd Sanya Branch, Ningbo Base and acted as its chief representative in Shanghai. He was appointed as the chairman of HNA Hotel Management Group in February 1999, executive vice president of HNA Group Co., Ltd in March 2001. From August 2003 to March 2006, he served as the chief executive officer, vice president and president of HNA Hotel Holdings Ltd. Mr. Liang became the president and general manager of HNA International Hotel Ltd in April 2006, and also the president and chief executive officer of HNA Food Holdings Ltd, general manager of Hainan Airlines Food Company Limited, and became the vice president of HNA Hotels & Resorts Ltd and HNA Hotel Holdings Ltd in March 2007. Mr. Liang has extensive experience in corporate management.

Save as disclosed above, Mr. Liang Jun does not have any relationships with any Directors, supervisors, senior management of the Company or substantial shareholders or controlling shareholders of the Company, nor does he have any interests in any shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), nor does he hold any Directorships in any listed public companies in the last three years. There is no information which is disclosable pursuant to Rules 13.51(2)(h) to (v) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. There are no other matters that need to be brought to the attention of the shareholders of the Company.

The term of service for Mr. Liang Jun will be for three years commencing from the date on which approval by the shareholders of the Company at the Annual General Meeting is obtained. The amount of the emoluments of Mr. Liang Jun as a director is RMB70,000 each year. The Company will determine the bonus for the relevant Directors according to status of the Company's operation, provided that such bonus shall not exceed the limitation of 2% of the Company's net profits for each year audited by an international accounting firm.

(J) The brief biography of the supervisor of the Company who is proposed for appointment is set out as follows:

Mr. Dong Guiguo, aged 46, joined the Company in March 2006 and was appointed as a director of the Company and as Chief Financial Officer of the Company in December 2006. He was appointed as the Chief Financial Director of the Company in April 2007 and resigned from his positions as executive director and Chief Financial Director of the Company on 15 December 2008. Mr. Dong graduated from Civil Aviation University of China majoring in aircraft engine. He has pursued further studies in China Europe International Business School. He is an aviation engineer and accountant. Mr. Dong has worked at civil aviation maintenance base in Beijing, Beijing Aircraft Maintenance Engineering Co., Ltd., HNA Group Purchase Management Department, HNA Group Airport Management Department, HNA Airport Group Co., Ltd.. Since October 2000, he has respectively served as standing deputy manager 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. Currently, Mr. Dong is the vice president and Chief Financial Director of HNA Airport Group Company Limited.

Save as disclosed above, Mr. Dong Guiguo does not have any relationships with any Directors, supervisors, senior management of the Company or substantial shareholders or controlling shareholders of the Company, nor does he have any interests in any shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). There is no information which is disclosable pursuant to Rules 13.51(2)(h) to (v) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. There are no other matters that need to be brought to the attention of the shareholders of the Company.

The term of service for Mr. Dong Guiguo will be for three years commencing from the date on which approval by the shareholders of the Company at the Annual General Meeting is obtained. The amount of the emoluments of Mr. Dong Guiguo as a supervisor is RMB20,000 each year. The Company will determine the bonus for the relevant supervisors according to status of the Company's operation, provided that such bonus shall not exceed the limitation of 2% of the Company's net profits for each year audited by an international accounting firm.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

TO THE SHAREHOLDERS OF
HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Hainan Meinan International Airport Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 45 to 106, which comprise the consolidated and company balance sheets as of 31 December 2008, 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 as to 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 directors, 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.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2008, and of the Group's financial performance 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 other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2009

Consolidated Balance Sheet and Balance Sheet

	Note	The Group 31 December 2008 RMB'000	The Group 31 December 2007 RMB'000	The Company 31 December 2008 RMB'000	The Company 31 December 2007 RMB'000
ASSETS					
Non-current assets					
Land use rights	6	**156,965**	160,456	**156,965**	160,456
Property, plant and equipment	7	**995,100**	1,009,800	**994,428**	1,008,694
Investments in subsidiaries	8	**–**	–	**18,094**	18,094
Investment in an associate	9	**30,504**	–	**30,504**	–
		1,182,569	1,170,256	**1,199,991**	1,187,244
Current assets					
Inventories		**106**	49	**106**	45
Trade receivables	11	**109,236**	123,320	**105,387**	118,583
Other receivables and prepayments		**15,811**	12,362	**11,966**	10,175
Due from subsidiaries	8	**–**	–	**22,633**	16,172
Time deposits	12(a)	**162,000**	167,401	**162,000**	167,401
Cash and cash equivalents	12(b)	**507,339**	363,188	**484,399**	350,088
		794,492	666,320	**786,491**	662,464
Total assets		**1,977,061**	1,836,576	**1,986,482**	1,849,708
EQUITY					
Capital and reserves attributable to the Company's shareholders					
Share capital	13	**1,100,250**	1,100,250	**1,100,250**	1,100,250
Other reserves	14	**160,204**	143,383	**159,579**	142,758
Retained earnings	15				
– Proposed final dividend	25	**62,580**	35,449	**62,580**	35,449
– Others		**520,627**	411,827	**526,217**	418,928
		1,843,661	1,690,909	**1,848,626**	1,697,385
Minority interests		**601**	575	**–**	–
Total equity		**1,844,262**	1,691,484	**1,848,626**	1,697,385

Consolidated Balance Sheet and Balance Sheet

	Note	The Group 31 December 2008 RMB'000	The Group 31 December 2007 RMB'000	The Company 31 December 2008 RMB'000	The Company 31 December 2007 RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings-secured	16	**12,000**	16,000	**12,000**	16,000
Deferred income tax liabilities	17	**9,775**	11,193	**9,775**	11,193
		21,775	27,193	**21,775**	27,193
Current liabilities					
Trade and other payables	18	**67,768**	67,579	**60,573**	61,533
Due to subsidiaries	8	**–**	–	**12,331**	13,355
Current income tax liabilities		**39,256**	41,320	**39,177**	41,242
Borrowings-secured	16	**4,000**	9,000	**4,000**	9,000
		111,024	117,899	**116,081**	125,130
Total liabilities		**132,799**	145,092	**137,856**	152,323
Total equity and liabilities		**1,977,061**	1,836,576	**1,986,482**	1,849,708
Net current assets		**683,468**	548,421	**670,410**	537,334
Total assets less current liabilities		**1,866,037**	1,718,677	**1,870,401**	1,724,578

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

On behalf of the Board

Zhao Yahui
The chairman

Bai Yan
Director

Consolidated Income Statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Revenue			
Aeronautical	5	**292,742**	251,798
Non-aeronautical	5	**98,330**	92,593
		391,072	344,391
Cost of services and sales	19	**(148,956)**	(121,767)
Gross profit		**242,116**	222,624
Selling and distribution costs	19	**–**	(226)
Administrative expenses	19	**(72,931)**	(47,202)
Other gains-net		**300**	279
Operating profit		**169,485**	175,475
Finance income		**16,963**	6,554
Finance costs		**(1,406)**	(2,969)
Finance income-net	21	**15,557**	3,585
Profit before income tax		**185,042**	179,060
Income tax expense	22	**1,418**	(40,308)
Profit for the year		**186,460**	138,752
Attributable to:			
Shareholders of the Company	23	**186,434**	138,777
Minority interests		**26**	(25)
		186,460	138,752
		RMB	RMB
Earnings per share for profit attributable to the shareholders of the Company during the year – basic and diluted	24	**39 cents**	29 cents
		RMB'000	RMB'000
Dividends	25	**62,580**	127,143

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

On behalf of the Board

Zhao Yahui
The chairman

Bai Yan
Director

Consolidated Statement of Changes In Equity

	Note	Attributable to shareholders of the Company				Minority interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2007		1,100,250	149,528	412,477	1,662,255	600	1,662,855
Profit for the year		–	–	138,777	138,777	(25)	138,752
2007 interim dividend paid	25	–	–	(91,694)	(91,694)	–	(91,694)
Revaluation – net of deferred income tax liabilities	14	–	(18,429)	–	(18,429)	–	(18,429)
Depreciation transfer	14	–	(511)	511	–	–	–
Transfer to statutory reserves	14	–	12,795	(12,795)	–	–	–
Balance as at 31 December 2007		1,100,250	143,383	447,276	1,690,909	575	1,691,484
Balance as at 1 January 2008		1,100,250	143,383	447,276	1,690,909	575	1,691,484
Profit for the year		–	–	186,434	186,434	26	186,460
2007 final dividend paid	25	–	–	(33,682)	(33,682)	–	(33,682)
Depreciation transfer	14	–	(2,051)	2,051	–	–	–
Transfer to statutory reserves	14	–	18,872	(18,872)	–	–	–
Balance as at 31 December 2008		1,100,250	160,204	583,207	1,843,661	601	1,844,262

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	28	**234,766**	284,129
Interest paid		**(1,406)**	(2,969)
Income tax paid		**(2,064)**	(8,464)
Net cash generated from operating activities		**231,296**	272,696
Cash flows from investing activities			
Capital contribution to an associate		**(30,504)**	–
Purchase of property, plant and equipment		**(36,495)**	(37,744)
Decrease/(Increase) in time deposits		**5,401**	(81,483)
Proceeds from disposal of property, plant and equipment		**172**	819
Interest received		**16,963**	6,554
Net cash used in investing activities		**(44,463)**	(111,854)
Cash flows from financing activities			
Repayments of borrowings		**(9,000)**	(28,000)
Dividend paid to the Company's shareholders		**(33,682)**	(91,694)
Net cash used in financing activities		**(42,682)**	(119,694)
Net increase in cash and cash equivalents		**144,151**	41,148
Cash and cash equivalents at beginning of year		**363,188**	322,040
Cash and cash equivalents at end of year	12	**507,339**	363,188

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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.

In the opinion of the directors of the Company (the "Directors"), the parent company is Haikou Meilan International Airport Company Limited, a company established in the PRC with limited liability.

The consolidated financial statements are presented in Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2009.

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

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

(i) Amendment and interpretations to existing standards effective in 2008 but not relevant for the Group's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
- IFRIC – Int 11, 'IFRS 2 – Group and treasury share transactions'
- IFRIC– Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC – Int 12, 'Service concession arrangements'

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.

- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- IFRS 1 (Amendment), 'First time adoption of IFRS and IAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply IAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements.

- IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) *Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group* (Continued)

- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

  – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  – IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009.

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) *Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group* (Continued)

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This is unlikely to have an impact on the Group's financial statements and has therefore not been analysed in detail.

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

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the group companies' ordinary activities comprise renting and subsequently selling assets.

- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the Group's operations as there are no loans received from the government.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under IAS 39, Financial instruments: recognition and measurement, is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with IAS 39 Financial instruments: recognition and measurement' only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the consolidated financial statements.

- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations, as none of the Group's subsidiaries or associates operate in hyperinflationary economies.

- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations as there are no interests held in joint ventures.

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 (Amendment) and IAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment will not have an impact on the Group's operations.

- IAS 39 (amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective from 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

  – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  – The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. See note 3.1 for further details. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

  – When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Group's operations as no agricultural activities are undertaken.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is not relevant to the Group.

- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs.

- IFRIC – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

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

- IFRIC– Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009) which clarifies whether IAS 18, 'Revenue' or IAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC – Int 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

- IFRIC – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC– Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item.

- IFRIC – Int 18, 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009). It clarifies that an asset received from a customer should be recognised initially at fair value, and the related income should be recognised immediately or if there is a future service obligation, over the relevant service period. This Interpretation also applies to cash received from a customer for the acquisition or construction of an asset. IFRIC/HK(IFRIC) – Int 18 is not relevant to the Group's operations because none of the Group's companies have received any assets nor cash from customers.

- IFRIC– Int 17 – 'Distributions of non-cash assets to owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:

  – a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

  – the dividend payable shall be measured at the fair value of the assets to be distributed.

  – the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss.

  IFRIC – Int 17 is not relevant to the Group's operations as there is no distribution of non-cash assets to owners.

- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property' and IAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

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.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. 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 losses (see Note 2(g)). The results of the subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(ii) Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2(g)). The results of associated companies are accounted for by the Company on the basis of dividend 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 return 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 Renminbi ("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 dates 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 initially recognised at cost and subsequently measured at revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the Directors once the fair value of a revalued asset differs materially from its carrying amount, 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. Historical cost include 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 certain property, plant and equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings.

Depreciation is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives 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 statement. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

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) Land use right

Costs of land use rights are recognised as expenses on a straight-line basis over the lease period of the land use rights.

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

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

(h) Financial assets

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 comprise trade receivables, other receivables, time deposits, cash and cash equivalents (see Note 2(k) and 2(l)). 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 testing of trade and other 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.

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

(j) Inventories

Inventories 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 administrative expenses. 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 administrative expenses 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 costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(p) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Current and deferred income tax (Continued)

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 nor 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 and an associate 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) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(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 the existing PRC legislations. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(ii) Bonus entitlements

A liability for employee benefits in the form of bonus entitlements is recognised in other 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.

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the offering services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, 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, and the charge rates are regulated by the relevant authorities.

(ii) Aeronautical revenues, other than airport fee, including passenger charges, aircraft movement fee and related charges and ground handling services income, are recognised when the related airport services are rendered.

(iii) Franchise fee is recognised on the straight-line basis during the period of granting the right of operations.

(iv) Rental income is recognised on the straight-line basis over the lease periods.

(v) Freight income is recognised when the services are rendered.

(vi) Advertising income is recognised on the straight-line basis over the period of display of the advertisements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(vii) Car parking fees are recognised when the parking services are rendered.

(viii) VIP room income is recognised when the related services are rendered to VIP room users.

(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.

(t) 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 in the PRC. 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 is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the account receivable denominated in United States Dollars ("US dollars"). Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities denominated in foreign currency.

The Group's businesses are principally conducted in RMB, except that limited aeronautical revenues are denominated in US dollars. Dividends to shareholders holding H-shares are declared and paid in Hong Kong dollars. Given the fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations, the Group has not entered into any forward exchange contract to hedge its exposure of foreign exchange risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Interest rate risk

As the Group has significant interest-bearing short-term and time deposits, the Group's income and operating cash flows are substantially dependent of changes in market interest rates.

The Group's interest-rate risk arising from long-term borrowings is insignificant.

At 31 December 2008, if interest rates on RMB denominated short-term and time deposits had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB600,000 (2007: RMB470,000) higher/lower, as a result of higher/lower interest income on short-term and time deposits.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalents and deposits with banks and financial institutions (including RMB448,342,000 (2007: RMB270,105,000) placed in a related party, which is a financial institution), as well as credit exposures to customers, including airport fee receivables of RMB9,578,000 from the Ministry of Finance ("MOF"). The Group has policies in place to ensure that services are made to customers with an appropriate credit history. The extent of the Group's credit exposure is presented by the aggregated balance of cash and cash equivalents, time deposits and trade and other receivables. Credit risk arising from balances with related parties, including HNA Group Finance Co., Ltd. ("HNA Group Finance") and Hainan Airlines Company Limited ("Hainan Airlines") is closely monitored by management, after taking into consideration of their respective financial positions, profitability and repayment history. These transactions had been approved by top management and the Company's balances placed with HNA Group Finance should be kept within the limit of RMB450,000,000. 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.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) *Liquidity risk* (Continued)

The table below analyses the Group's financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000
Group:			
As at 31 December 2008			
Bank borrowings	**4,911**	**4,835**	**8,822**
Trade and other payables	**67,768**	**–**	**–**
Total	**72,679**	**4,835**	**8,822**
As at 31 December 2007			
Bank borrowings	10,120	5,056	13,380
Trade and other payables	67,579	–	–
Total	77,699	5,056	13,380
Company:			
As at 31 December 2008			
Bank borrowings	**4,911**	**4,835**	**8,822**
Trade and other payables	**60,573**	**–**	**–**
Total	**65,484**	**4,835**	**8,822**
As at 31 December 2007			
Bank borrowings	10,120	5,056	13,380
Trade and other payables	61,533	–	–
Total	71,653	5,056	13,380

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, time deposits, trade receivables 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.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets.

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Capital risk management (Continued)

During 2008, the Group's strategy was to maintain a gearing ratio below the average asset-liability ratio of the industry (2008: 24%). The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008 RMB'000	2007 RMB'000
Total liabilities	132,799	145,092
Total assets	1,977,061	1,836,576
Gearing ratio	7%	8%

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 shorter than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Were the useful lives differ by 10% from management's estimates, the depreciation expense would have been increased or decreased by RMB4,000,000 in the future periods.

Management determines the residual values of its property, plant and equipment based on all relevant factors (including the use of the current scrap value in an active market as a reference value) at each measurement date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT (Continued)

(b) Impairment of financial assets

Whenever events or changes in circumstances indicate that the carrying amounts of financial assets may not be recoverable, the Group will test whether financial assets have suffered any impairment in accordance with the accounting policies stated in Note 2(k). 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 operations of an airport and are subject to similar business risks, no segment income statement has been prepared by the Group for the year ended 31 December 2008. The Group also operates within one geographical segment because its revenues are primarily generated from its assets located in the PRC. Accordingly, no geographical segment information is presented.

Analysis of revenues by category	**2008 RMB'000**	2007 RMB'000
Aeronautical:		
Passenger charges	**116,157**	91,540
Aircraft movement fees and related charges	**42,948**	41,099
Airport fee*	**96,567**	88,411
Ground handling services income	**37,070**	30,748
	292,742	251,798
Non-aeronautical:		
Franchise fee	**35,043**	24,158
Rental	**15,336**	17,273
Freight	**13,005**	9,665
Advertising	**9,425**	14,035
Car parking	**5,960**	4,939
VIP room	**9,645**	5,426
Retailing	**–**	8,057
Others	**9,916**	9,040
	98,330	92,593
Total revenues	**391,072**	344,391

* Airports operating in the PRC are entitled to a refund of airport fee collected from passengers at a percentage determined by General Administration of Civil Aviation of China ("CAAC"). The refund rate was 50% prior to 31 December 2007. According to the approval document (Ju Fa Ming Dian [2008] No. 4589) issued by CAAC on 8 December 2008, with effect from 1 January 2008, the refund rate for the airport fee collected in 2008 was adjusted to 48%. As of the date of this report, the refund rate for the airport fee collected from 2009 and onwards has yet to be determined.

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 is as follows:

	The Group and the Company RMB'000
As at 1 January 2007	
Cost	179,499
Accumulated amortisation	(15,789)
Net book amount	163,710
Year ended 31 December 2007	
Opening net book amount	163,710
Amortisation	(3,254)
Closing net book amount	160,456
As at 31 December 2007	
Cost	179,499
Accumulated amortisation	(19,043)
Net book amount	160,456
Year ended 31 December 2008	
Opening net book amount	**160,456**
Amortisation	**(3,491)**
Closing net book amount	**156,965**
As at 31 December 2008	
Cost	**179,499**
Accumulated amortisation	**(22,534)**
Net book amount	**156,965**

The net book value of land use rights are analysed as follows:

	The Group and the Company	
	31 December 2008 RMB'000	31 December 2007 RMB'000
Outside Hong Kong, held on:		
Leases of over 50 years	**85,597**	87,277
Leases of between 10 to 50 years	**71,368**	73,179
	156,965	160,456

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 2007						
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
Year ended 31 December 2007						
Opening net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
Additions	–	7	9,185	1,313	293	10,798
Disposals	–	–	(1,349)	(4)	–	(1,353)
Depreciation	(25,254)	(11,903)	(6,319)	(5,088)	–	(48,564)
Adjustments	(41,302)	13,535	–	6,299	–	(21,468)
Revaluation (deficit)/surplus	(25,502)	(420)	12,555	(6,078)	–	(19,445)
Closing net book amount	825,779	110,128	37,408	30,642	5,843	1,009,800
As at 1 January 2008						
Cost or valuation	**832,310**	**112,807**	**39,821**	**36,595**	**5,843**	**1,027,376**
Accumulated depreciation (Note(a))	**(6,531)**	**(2,679)**	**(2,413)**	**(5,953)**	**–**	**(17,576)**
Net book amount	**825,779**	**110,128**	**37,408**	**30,642**	**5,843**	**1,009,800**
Year ended 31 December 2008						
Opening net book amount	**825,779**	**110,128**	**37,408**	**30,642**	**5,843**	**1,009,800**
Additions	**4,133**	**583**	**4,695**	**2,562**	**21,969**	**33,942**
Transfers	**27,812**	**–**	**–**	**–**	**(27,812)**	**–**
Disposals	**–**	**–**	**(73)**	**(192)**	**–**	**(265)**
Depreciation	**(25,035)**	**(12,424)**	**(5,756)**	**(5,162)**	**–**	**(48,377)**
Closing net book amount	**832,689**	**98,287**	**36,274**	**27,850**	**–**	**995,100**
As at 31 December 2008						
Cost or valuation	**864,255**	**113,390**	**44,170**	**38,591**	**–**	**1,060,406**
Accumulated depreciation	**(31,566)**	**(15,103)**	**(7,896)**	**(10,741)**	**–**	**(65,306)**
	832,689	**98,287**	**36,274**	**27,850**	**–**	**995,100**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

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	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	31 December 2008 Total	31 December 2007 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	1,022,695	180,450	70,753	56,761	–	1,330,659	1,297,627
Accumulated depreciation	(197,510)	(82,579)	(47,710)	(29,929)	–	(357,728)	(310,952)
	825,185	97,871	23,043	26,832	–	972,931	986,675

Depreciation expenses of RMB47,128,000 (2007: RMB46,989,000) has been charged in cost of services and sales, nil (2007: RMB388,000) in selling and distribution costs and RMB1,249,000 (2007: RMB1,187,000) in administrative expenses.

Note (a) The accumulated depreciation at the date of revaluation was eliminated against the gross carrying amount of the assets and the net amount was restated to the revalued amount of the assets.

The Group's and the Company's property, plant and equipment were last revalued on 30 September 2007 by independent valuers. Valuations were made on the basis of open market and depreciated replacement cost by Vigers Hong Kong Limited, a member of the Hong Kong Institute of Surveyors employed by the Group. The revaluation surplus/(deficit) net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 14).

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

The analysis of the cost or valuation as at 31 December 2008 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	**31,945**	**590**	**9,393**	**7,841**	**–**	**49,769**
At valuation	**832,310**	**112,800**	**34,777**	**30,750**	**–**	**1,010,637**
	864,255	**113,390**	**44,170**	**38,591**	**–**	**1,060,406**

The analysis of the cost or valuation as at 31 December 2007 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	–	7	5,044	5,845	5,843	16,739
At valuation	832,310	112,800	34,777	30,750	–	1,010,637
	832,310	112,807	39,821	36,595	5,843	1,027,376

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 2007						
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
Year ended 31 December 2007						
Opening net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
Additions	–	7	9,185	1,269	293	10,754
Disposals	–	–	(1,349)	(1)	–	(1,350)
Depreciation	(25,254)	(11,903)	(6,303)	(4,671)	–	(48,131)
Adjustments	(41,302)	13,535	–	6,299	–	(21,468)
Revaluation (deficit)/surplus	(25,502)	(420)	12,555	(6,078)	–	(19,445)
Closing net book amount	825,779	110,128	37,284	29,660	5,843	1,008,694
As at 1 January 2008						
Cost or valuation	**832,310**	**112,807**	**39,308**	**31,027**	**5,843**	**1,021,295**
Accumulated depreciation (Note(a))	**(6,531)**	**(2,679)**	**(2,024)**	**(1,367)**	**–**	**(12,601)**
Net book amount	**825,779**	**110,128**	**37,284**	**29,660**	**5,843**	**1,008,694**
Year ended 31 December 2008						
Opening net book amount	**825,779**	**110,128**	**37,284**	**29,660**	**5,843**	**1,008,694**
Additions	**4,133**	**583**	**4,695**	**2,515**	**21,969**	**33,895**
Transfers	**27,812**	**–**	**–**	**–**	**(27,812)**	**–**
Disposals	**–**	**–**	**(73)**	**(73)**	**–**	**(146)**
Depreciation	**(25,035)**	**(12,424)**	**(5,746)**	**(4,810)**	**–**	**(48,015)**
Closing net book amount	**832,689**	**98,287**	**36,160**	**27,292**	**–**	**994,428**
As at 31 December 2008						
Cost or valuation	**864,255**	**113,390**	**43,656**	**33,294**	**–**	**1,054,595**
Accumulated depreciation	**(31,566)**	**(15,103)**	**(7,496)**	**(6,002)**	**–**	**(60,167)**
Net book amount	**832,689**	**98,287**	**36,160**	**27,292**	**–**	**994,428**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company (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	31 December 2008 Total RMB'000	31 December 2007 Total RMB'000
Cost	1,022,695	180,450	70,239	51,461	–	**1,324,845**	1,291,545
Accumulated depreciation	(197,510)	(82,579)	(47,648)	(24,847)	–	**(352,584)**	(305,975)
	825,185	97,871	22,591	26,614	–	**972,261**	985,570

Note (a): The accumulated depreciation at the date of revaluation was eliminated against the gross carrying amount of the assets and the net amount was restated to the revalued amount of the assets.

The analysis of the cost or valuation as at 31 December 2008 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	**31,945**	**590**	**8,879**	**2,544**	**–**	**43,958**
At valuation	**832,310**	**112,800**	**34,777**	**30,750**	**–**	**1,010,637**
	864,255	**113,390**	**43,656**	**33,294**	**–**	**1,054,595**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company (Continued)

The analysis of the cost or valuation as at 31 December 2007 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	–	7	4,531	277	5,843	10,658
At valuation	832,310	112,800	34,777	30,750	–	1,010,637
	832,310	112,807	39,308	31,027	5,843	1,021,295

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

	The Group and the Company	
	31 December 2008 RMB'000	31 December 2007 RMB'000
Cost	**37,942**	39,125
Accumulated depreciation	**(7,052)**	(5,919)
Net book amount	**30,890**	33,206

No interest expense was capitalised to assets under construction for the years ended 31 December 2008 and 2007.

8 INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	31 December 2008	31 December 2007
	RMB'000	RMB'000
Unlisted shares, at cost	**18,094**	18,094

(a) As at 31 December 2008, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability companies operating in the PRC:

Name	**Place of establishment and kind of legal entity**	**Principal activities and place of operations**	**Paid up capital** RMB'000	**% Interest held** 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	–
Haikou Meilan International Airport Duty Free Shop Limited	PRC, limited liability company	Retail sales in the PRC	1,000	95	–

(b) The amounts due from/to subsidiaries are unsecured, non-interest bearing and payable on demand. The carrying amounts approximate their fair value at the balance sheet date.

9 INVESTMENT IN AN ASSOCIATE

	The Group and the Company	
	31 December 2008	31 December 2007
	RMB'000	RMB'000
Unlisted shares, at cost	**30,504**	–

The Group's share of the results of its associate, which is unlisted, and its aggregated assets and liabilities, is as follows:

Name	Country of corporation	Assets	Liabilities	Profit/ (loss)	%Interest held
		RMB'000	RMB'000	RMB'000	
Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng")	PRC	105,273	2,357	(83)	30

10 FINANCIAL ASSETS BY CATEGORY AND CREDIT QUALITY OF THE FINANCIAL ASSETS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Loans and receivables:				
Trade receivables (Note (a))	**109,236**	123,320	**105,387**	118,583
Other receivables	**9,779**	7,285	**5,934**	5,098
Due from subsidiaries	**–**	–	**22,633**	16,172
Time deposits (Note (b))	**162,000**	167,401	**162,000**	167,401
Cash and cash equivalents (Note (c))	**507,339**	363,188	**484,399**	350,088
	788,354	661,194	**780,353**	657,342

10 FINANCIAL ASSETS BY CATEGORY AND CREDIT QUALITY OF THE FINANCIAL ASSETS (Continued)

(a) Trade receivables

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Group 1	**–**	–	**–**	–
Group 2	**109,236**	123,320	**105,387**	118,583
	109,236	123,320	**105,387**	118,583

Group 1 – new customers (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Credit quality of trade receivables is disclosed in Note 11.

(b) Time deposits

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial institutions, unlisted*	**162,000**	167,401	**162,000**	167,401

* As at 31 December 2008, a time deposit of RMB100,000,000 (2007: RMB100,000,000) was placed with HNA Group Finance Co., Ltd., a subsidiary of HNA Group (Note 30(c)).

(c) Cash and cash equivalents

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial institutions, unlisted**	**374,820**	173,986	**371,049**	173,986
Financial institutions, listed***	**132,519**	189,202	**113,350**	176,102
	507,339	363,188	**484,399**	350,088

** As at 31 December 2008, a cash and cash equivalent of RMB348,342,000 (2007: RMB170,105,000) was placed with HNA Group Finance Co., Ltd., a subsidiary of HNA Group (Note 30(c)).

*** The majority of listed financial institutions comprised of stated-owned banks with good credit quality.

11 TRADE RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from third parties (Note (a))	**40,645**	35,453	**40,353**	32,301
Less: provision for impairment of receivables (Note (c))	**(14,471)**	(439)	**(14,179)**	–
	26,174	35,014	**26,174**	32,301
Trade receivables from related parties (Note (b) and 30(c))	**73,484**	61,114	**69,635**	59,090
Airport fee receivable (Note (d))	**9,578**	27,192	**9,578**	27,192
	109,236	123,320	**105,387**	118,583

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables. The Group does not hold any collateral as security.

(a) As at 31 December 2008, the ageing analysis of gross trade receivables from third parties is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 – 90 days	**30,140**	23,006	**30,140**	22,833
91 – 180 days	**6,224**	8,888	**6,224**	6,840
181 – 365 days	**3,884**	2,464	**3,884**	1,972
Over 365 days	**397**	1,095	**105**	656
	40,645	35,453	**40,353**	32,301

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

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

11 TRADE RECEIVABLES (Continued)

(a) As at 31 December 2008, the ageing analysis of gross trade receivables from third parties is as follows: (Continued)

As at 31 December 2008, trade receivables of RMB14,471,000 (2007: RMB439,000) are impaired. The amount of the provision is RMB14,471,000 as at 31 December 2008 (2007: RMB439,000). The individually impaired receivables mainly relate to certain airlines companies, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 – 90 days	**5,966**	–	**5,966**	–
91 – 180 days	**6,224**	–	**6,224**	–
181 – 365 days	**1,884**	–	**1,884**	–
Over 365 days	**397**	439	**105**	–
	14,471	439	**14,179**	–

As at 31 December 2008, no trade receivables from third parties (2007: RMB12,008,000) are past due but not impaired. The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
91 – 180 days	**–**	8,888	**–**	6,840
181 – 365 days	**–**	2,464	**–**	1,972
Over 365 days	**–**	656	**–**	656
	–	12,008	**–**	9,468

11 TRADE RECEIVABLES (Continued)

(b) As at 31 December 2008, the ageing analysis of gross trade receivables from related parties is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
0 – 90 days	**62,321**	50,109	**58,472**	50,090
91 – 180 days	**3,258**	4,923	**3,258**	4,669
181 – 365 days	**5,737**	4,024	**5,737**	2,287
Over 365 days	**2,168**	2,058	**2,168**	2,044
	73,484	61,114	**69,635**	59,090

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

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

As at 31 December 2008, trade receivables from related parties of RMB9,642,000 (2007: RMB11,005,000) are past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2008	2007
	RMB'000	RMB'000
91 – 180 days	**2,788**	4,923
181 – 365 days	**4,686**	4,024
Over 365 days	**2,168**	2,058
	9,642	11,005

11 TRADE RECEIVABLES (Continued)

(c) Movements on the provision for impairment of trade receivables are as follows:

	The Group RMB'000	The Company RMB'000
Balance as at 1 January 2007	**2,425**	2,186
Receivables written-off during the year as uncollectible	**(1,986)**	(2,186)
Balance as at 31 December 2007	**439**	–
Balance as at 1 January 2008	**439**	–
Provision for receivable impairment	**14,179**	14,179
Receivables written-off during the year as uncollectible	**(147)**	–
Balance as at 31 December 2008	**14,471**	14,179

The creation of provision for impaired receivables has been included in administrative expenses in the income statement.

(d) As at 31 December 2008, the carrying amounts and aging analysis of the airport fee receivable are as follows:

	The Group and the Company	
	2008 Carrying amount RMB'000	2007 Carrying amount RMB'000
0 – 90 days	**9,578**	27,192

The carrying amounts of the airport construction fee receivable approximate their fair values.

11 TRADE RECEIVABLES (Continued)

(e) The carrying amounts of the Group's and the Company's trade receivables are denominated in the following currencies:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**103,970**	117,069	**100,121**	112,332
USD	**5,266**	6,251	**5,266**	6,251
	109,236	123,320	**105,387**	118,583

12 TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Time deposits

As at 31 December 2008, the Group and the Company had deposits denominated in RMB, placed with certain banks and financial institutions. The average maturity is 8 months and the carrying amount of the time deposits as of 31 December 2008 approximate their fair values.

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Time deposits with a related party (Note 30(c))	**100,000**	100,000	**100,000**	100,000
Time deposits with third parties	**62,000**	67,401	**62,000**	67,401
Total time deposits	**162,000**	167,401	**162,000**	167,401
Maximum exposure to credit risk	**162,000**	167,401	**162,000**	167,401

12 TIME DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

(b) Cash and cash equivalents with maturity less than 3 months comprised:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**122**	79	**116**	54
Cash in bank				
–RMB				
Current deposits with related party (Note 30(c))	**88,342**	105	**88,342**	105
Short-term deposits with related party (Note 30(c))	**260,000**	170,000	**260,000**	170,000
Deposits with third parties	**157,058**	191,715	**134,280**	178,790
–Other currencies	**1,817**	1,289	**1,661**	1,139
	507,217	363,109	**484,283**	350,034
Total cash and cash equivalents	**507,339**	363,188	**484,399**	350,088
Maximum exposure to credit risk	**507,217**	363,109	**484,283**	350,034

13 SHARE CAPITAL

	2008	2007
	RMB'000	RMB'000
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 arising from group reorganisation in 2000	**69,390**	69,390
Share premium arising from new issuance net of issuing expenses	**557,647**	557,647
	627,037	627,037
	1,100,250	1,100,250

14 OTHER RESERVES

	The Group		
	Revaluation surplus	**Statutory reserves** (Note)	**Total**
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	36,481	113,047	149,528
Revaluation – gross (Note 7)	(19,445)	–	(19,445)
Effect of income tax (Note 17)	1,016	–	1,016
Depreciation transfer	(511)	–	(511)
Transfer from retained earnings	–	12,795	12,795
Balance at 31 December 2007	17,541	125,842	143,383
Depreciation transfer	**(2,051)**	**–**	**(2,051)**
Transfer from retained earnings	**–**	**18,872**	**18,872**
Balance at 31 December 2008	**15,490**	**144,714**	**160,204**

	The Company		
	Revaluation surplus	**Statutory reserves** (Note)	**Total**
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	36,481	112,422	148,903
Revaluation – gross (Note 7)	(19,445)	–	(19,445)
Effect of income tax (Note 17)	1,016	–	1,016
Depreciation transfer	(511)	–	(511)
Transfer from retained earnings	–	12,795	12,795
Balance at 31 December 2007	17,541	125,217	142,758
Depreciation transfer	**(2,051)**	**–**	**(2,051)**
Transfer from retained earnings	**–**	**18,872**	**18,872**
Balance at 31 December 2008	**15,490**	**144,089**	**159,579**

14 OTHER RESERVES (Continued)

Note:

Pursuant to the revised "The Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by the MOF (Cai Qi Han [2006] No.67), 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 reserves. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend.

15 COMPANY RETAINED EARNINGS

	Retained earnings
	RMB'000
Balance at 1 January 2007	419,607
Depreciation transfer	511
Transfer to statutory reserves (Note 14)	(12,795)
Profit for the year	138,748
2007 interim dividend paid	(91,694)
Balance at 31 December 2007	454,377
Balance at 1 January 2008	454,377
Depreciation transfer	2,051
Transfer to statutory reserves (Note 14)	(18,872)
Profit for the year	184,923
2007 final dividend paid	(33,682)
Balance at 31 December 2008	588,797

16 BORROWINGS – SECURED

As at 31 December 2008, bank borrowings of RMB16,000,000 (2007: RMB25,000,000) for financing the construction of airport terminal, the related premises and facilities were secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear interest at a rate of 7.83% (2007: 7.20%) per annum, the interest will be determined yearly with reference to the market interest rates. These bank borrowings mature until 2012 (2007: 2012).

As at 31 December 2008, the bank borrowings were repayable as follows:

	The Group and the Company	
	31 December 2008 RMB'000	31 December 2007 RMB'000
Within 1 year	**4,000**	9,000
Between 1 and 2 years	**4,000**	4,000
Between 3 and 5 years	**8,000**	12,000
	16,000	25,000
Less: current portion of borrowings included in current liabilities	**(4,000)**	(9,000)
	12,000	16,000

The effective interest rate as at 31 December 2008 is 6.86% (2007: 7.33%).

The carrying amounts of the borrowings approximate their fair values.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	The Group and the Company	
	2008 RMB'000	2007 RMB'000
One year or less	**16,000**	25,000

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Deferred tax assets		
Deferred tax asset to be recovered:		
– within 12 months	**(1,418)**	–
Deferred tax liabilities		
Deferred tax liabilities to be recovered:		
– after more than 12 months	**10,924**	11,193
– within 12 months	**269**	–
	11,193	11,193
Deferred tax liabilities (net)	**9,775**	11,193

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

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
At 1 January	**11,193**	11,021
Tax charged directly to equity (Note 14)	**–**	(1,016)
(Credited)/Charge to consolidated income statement (Note 22)	**(1,418)**	1,188
At 31 December	**9,775**	11,193

17 DEFERRED INCOME TAX (Continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is as follows:

Deferred tax assets:

	The Group and the Company Provision for impairment of receivables
	RMB'000
As at 1 January 2007 and 31 December 2007	–
Credited to the income statement (Note 22)	(1,418)
As at 31 December 2008	(1,418)

Deferred tax liabilities:

	The Group and the Company		
	Land use rights	Property, plant and equipment	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2007	6,373	4,648	11,021
Tax on revaluation deficit (Note 7)	–	(4,374)	(4,374)
Effect of change in tax rate (Note 22)	906	2,544	3,450
Effect of change in tax holiday (Note 22)	282	814	1,096
As at 31 December 2007	7,561	3,632	11,193
Credited to the income statement	–	–	–
As at 31 December 2008	7,561	3,632	11,193

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 RMB615,250 (2007: RMB781,000) in respect of the tax losses of the Group's subsidiaries of approximately RMB2,461,000 as at 31 December 2008 (2007: RMB3,125,000). Tax losses amounting to RMB744,000, RMB767,000, RMB402,000 and RMB485,000 and RMB63,000, will expire in 2009, 2010, 2011, 2012 and 2013 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 being recognised.

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	**2,594**	3,376	**2,002**	2,537
Other payables	**54,635**	53,939	**48,280**	48,882
Deposits received	**6,013**	882	**6,013**	882
Due to related parties (Note 30(c))	**4,526**	9,382	**4,278**	9,232
	67,768	67,579	**60,573**	61,533

As at 31 December 2008, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	RMB'000	RMB'000
0 -90 days	**4,314**	9,391	**3,897**	8,977
91-180 days	**186**	502	**186**	501
181-365 days	**639**	1,751	**639**	1,722
Over 365 days	**1,981**	860	**1,558**	569
	7,120	12,504	**6,280**	11,769

19 EXPENSES BY NATURE

Expenses/(income) included in cost of services and sales of goods, selling and distribution costs and administrative expenses are analysed as follows:

	2008 RMB'000	2007 RMB'000
Airport and logistic composite services fee (Note 30(a))	**28,426**	26,742
Business tax and levies	**10,942**	10,758
Refund of business tax and levies	**–**	(11,756)
Depreciation of property, plant and equipment (Note 7)	**48,377**	48,564
Amortisation of land use rights (Note 6)	**3,491**	3,254
Employee benefit expenses (Note 20)	**49,954**	43,421
Other taxes	**6,222**	6,105
Auditors' remuneration	**1,800**	2,420
Traveling expenses	**7,733**	4,838
Consulting fees	**3,399**	2,610
Loss on disposal of property, plant and equipment	**93**	534
Impairment charge of trade receivables (Note 11)	**14,179**	–
Utilities	**15,779**	16,529
Repairs and maintenance	**10,506**	5,525

20 EMPLOYEE BENEFIT EXPENSES

	2008 RMB'000	2007 RMB'000
Wages and salaries	**35,063**	32,569
Pension costs – statutory pension (Note 26)	**4,516**	4,196
Staff welfare	**1,306**	1,699
Housing fund (Note 27)	**2,261**	1,678
Medical benefits	**1,386**	1,180
Other allowances and benefits	**5,422**	2,099
	49,954	43,421

20 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2008 is set out below:

Name of Director	Date of appointment/ resignation	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Cong	Resigned in December 2008	–	85	28	12	125
Zhao Yahui	Appointed in December 2008	–	5	–	–	5
Dong Zhanbin	Appointed in February 2007	–	84	26	12	122
Dong Guiguo	Resigned in December 2008	–	69	23	12	104
Bai Yan	Appointed in October 2007	–	61	21	12	94
Zhang Han'an	Re-appointed in June 2007	–	–	–	–	–
Chan Nap Kee, Joseph	Appointed in October 2007	50	–	–	–	50
Yan Xiang	Appointed in October 2007	50	–	–	–	50
Hu Wentai	Appointed in December 2008	–	88	28	12	128
Xu Bailing	Re-appointed in August 2007	100	–	–	–	100
Fung Ching, Simon	Re-appointed in October 2007	100	–	–	–	100
Xie Zhuang	Re-appointed in June 2007	100	–	–	–	100
George F. Meng	Appointed in October 2007	100	–	–	–	100
Name of Supervisor						
Chen Kewen	Appointed in January 2006	–	–	–	–	–
Zhang Shusheng	Re-appointed in June 2007	20	–	–	–	20
Zeng Xuemei	Re-appointed in May 2008	–	–	–	–	–

20 EMPLOYEE BENEFIT EXPENSES (Continued)

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

The remuneration of every Director and Supervisor for the year ended 31 December 2007 is set out below:

Name of Director	Date of appointment/ resignation	Fees RMB'000	Salaries and other benefits RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Zhang Cong	Appointed in January 2006	70	75	40	12	197
Wang Zhen	Resigned in February 2007	7	–	–	–	7
Dong Zhanbin	Appointed in February 2007	63	73	40	12	188
Dong Guiguo	Appointed in May 2006	70	64	35	12	181
Gunnar Moller	Resigned in June 2007	30	66	35	–	131
Bai Yan	Appointed in October 2007	15	10	5	2	32
Zhang Han'an	Re-appointed in June 2007	50	–	–	–	50
Kjeld Binger	Resigned in March 2007	12	–	–	–	12
Chan Nap Kee, Joseph	Appointed in October 2007	11	–	–	–	11
Yan Xiang	Appointed in October 2007	11	–	–	–	11
Xu Bailing	Re-appointed in August 2007	100	–	–	–	100
Fung Ching, Simon	Re-appointed in October 2007	100	–	–	–	100
Xie Zhuang	Re-appointed in June 2007	100	–	–	–	100
George F. Meng	Appointed in October 2007	21	–	–	–	21
Name of Supervisor						
Chen Kewen	Appointed in January 2006	20	–	–	–	20
Zhang Shusheng	Re-appointed in June 2007	20	–	–	–	20
Zeng Xuemei	Appointed in July 2005	20	–	–	–	20

During the year ended 31 December 2008, Mr. Zhang Cong, Mr. Zhao Yahui, Mr. Dong Zhanbin, Mr. Dong Guiguo, Mr. Bai Yan, Mr. Zhang Han'an, Mr. Hu Wentai, Mr. Chen Kewen and Ms. Zeng Xuemei waived emoluments of RMB399,000 (2007: nil) and has agreed to waive 2008 emoluments of RMB399,000.

20 EMPLOYEE BENEFIT EXPENSES (Continued)

(b) Five highest paid individuals

During the year ended 31 December 2008, the five individuals whose emoluments were the highest in the Group are all directors whose emoluments are reflected in the analysis presented above.

During the year ended 31 December 2007, the five individuals whose emoluments were the highest in the Group included four directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual are as follows:

	2008 **RMB'000**	2007 RMB'000
Basic salaries and allowances	**–**	77
Bonuses	**–**	43
Retirement scheme contributions	**–**	12
	–	132

During the year ended 31 December 2008, 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.

During the year ended 31 December 2008, the five highest-paid employees fell within the band from nil to RMB1 million.

21 FINANCE INCOME – NET

	2008 **RMB'000**	2007 RMB'000
Finance income – bank interest	**16,963**	5,656
Finance income – others	**–**	898
Finance income	**16,963**	6,554
Interest on bank borrowings	**(1,406)**	(2,969)
Finance income – net	**15,557**	3,585

There was no interest capitalised for the years ended 31 December 2008 and 2007.

22 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 (2007: Nil). Taxation in the income statement represents provision for the PRC corporate income tax.

	2008	2007
	RMB'000	RMB'000
Current income tax		
– outside Hong Kong	**–**	39,120
Deferred income tax (Note 17)	**(1,418)**	1,188
Income tax expense	**(1,418)**	40,308

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2008	2007
	RMB'000	RMB'000
Profit before taxation	**185,042**	179,060
Tax calculated at a domestic rate applicable to profits in the Hainan Province	**33,308**	26,859
Effect of tax holiday	**(34,757)**	(26,932)
Effect of change in tax rate (Note (a))	**–**	906
Effect of change in tax holiday (Note (b))	**–**	39,402
Tax losses not recognised	**9**	73
Utilisation of previously unrecognised tax losses	**(128)**	–
Expenses not deductible for tax purposes	**150**	–
Tax charge	**(1,418)**	40,308

Note (a)

Effective from 1 January 2008, the Company shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") as approved by the National People's Congress on 16 March 2007. Under the New CIT Law, the corporate income tax rate applicable to the Company will be gradually increased to 25% in a 5-year period from 2008 to 2012. The applicable tax rate in 2008 is 18% (2007: 15%).

Note (b)

Pursuant to the approval document (Hai Guo Shui Han [2008] No.13) issued by Haikou State Tax Bureau on 2 February 2008, the CIT holiday of the Company was revised and the Company was then entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013.

23 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB184,923,000 (2007: RMB138,748,000)

24 EARNINGS PER SHARE

– Basic

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

	2008	2007
Profit attributable to shareholders of the Company (RMB'000)	**186,434**	138,777
Weighted average number of ordinary shares in issue (thousands)	**473,213**	473,213
Basic earnings per share (RMB per share)	**39 cents**	29 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 2008 and 2007.

25 DIVIDENDS

	2008 **RMB'000**	2007 RMB'000
No dividend declared for 2008 interim (2007 interim, paid, of HKD 20 cents per share)	**–**	91,694
2008 final, proposed, of HKD 15 cents per share (2007 final, paid, of HKD 8 cents per share)	**62,580**	35,449
	62,580	127,143

25 DIVIDENDS (Continued)

At a meeting held on 25 March 2009, the directors of the Company proposed a final dividend of HKD 15 cents per share for the year ended 31 December 2008, totalling approximately HKD 70,982,000 (equivalent to RMB 62,580,000). This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

According to the New CIT Law and the detailed implementation regulations, foreign corporate shareholders are subject to a 10% withholding tax ('WHT") for the dividend repatriated by the Company starting from January 1, 2008. According to Cai Shui [2008] Circular 1 jointly issued by the Ministry of Finance and the State Administration of Taxation on 22 February 2008, where the Company declares dividend in 2008 and beyond out of the cumulative retained earnings as of 31 December 2007 (i.e. 2007 retained earnings), such dividends earned by the foreign shareholders are exempted from WHT. For dividend which arises from the Company's profit earned after 1 January 2008, WHT is levied on the foreign corporate shareholders.

26 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 2008 and 2007.

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

27 HOUSING FUND

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 12% (2007:12%) 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 2007, the Group's contribution to the housing fund amounted to approximately RMB 2,261,000(2007: RMB1,678,000).

As at 31 December 2008 and 31 December 2007, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

28 CASH GENERATED FROM OPERATIONS

	2008 RMB'000	2007 RMB'000
Profit before income tax	**185,042**	179,060
Adjustments for:		
– Interest income	**(16,963)**	(6,554)
– Interest expense	**1,406**	2,969
– Depreciation and amortisation	**51,868**	51,818
– Impairment charge of trade receivables	**14,179**	–
– Loss on disposal of property, plant and equipment	**93**	534
Changes in working capital:		
– Receivables and prepayments	**(3,544)**	69,453
– Trade and other payables	**2,742**	(16,818)
– Inventories	**(57)**	3,667
Cash generated from operations	**234,766**	284,129

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2008 RMB'000	2007 RMB'000
Net book amount (Note 7)	**265**	1,353
Loss on disposal of property, plant and equipment	**(93)**	(534)
Proceeds from disposal of property, plant and equipment	**172**	819

29 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Buildings and improvements		
Contracted but not provided for	**7,512**	825
Authorised but not contracted for	**–**	–
	7,512	825

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

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than 1 year	**14,566**	17,224	**14,566**	17,224
Later than 1 year and not later than 5 years	**17,106**	38,172	**17,106**	38,172
Over 5 years	**–**	282	**–**	282
	31,672	55,678	**31,672**	55,678

30 MATERIAL RELATED PARTY TRANSACTIONS

The Company is controlled by Haikou Meilan International Airport Company Limited (the "Parent Company") established in the PRC which owns 50% of the Company's shares. Oriental Patron Financial Services Group Limited ("Oriental Patron") owns 20% of the Company's shares. 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 by the public.

(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 2008 RMB'000	The Group 2007 RMB'000
Revenues:					
Hainan Airlines	Shareholder	Income for provision of customary airport ground services	(i)	**88,511**	65,801
		Rental income for leasing of offices and commercial space	(ii)	**7,285**	8,235
		Income from franchise fee for operations of cargo centre	(iii)	**–**	1,000
China Southern Airlines Co., Ltd. ("Southern Airlines ")	Promoter	Income for provision of customary airport ground services	(i)	**44,271**	40,377
		Rental income for leasing of offices and commercial space	(ii)	**5,553**	7,030
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of Southern Airlines	Income for provision of customary airport ground services	(i)	**2,585**	2,642
Hainan Airlines Food Company Limited ("Hainan Food")	Subsidiary of Hainan Airlines	Franchise income from catering services	(iv)	**2,417**	2,294

30 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 2008 RMB'000	The Group 2007 RMB'000
Luckyway Traveling Company Limited ("Luckyway")	Subsidiary of Hainan Airlines	Franchise income from tourism and traveling services at Meilan Airport	(v)	**4,773**	3,813
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Jointly controlled by HNA Group	Franchise income	(vi)	**3,627**	1,555
Deer Jet Airlines Company Limited	Jointly controlled by HNA Group	Income for provision of customary airport ground services	(i)	**2,294**	–
Hong Kong Airlines Limited	Jointly controlled by HNA Group	Income for provision of customary airport ground services	(i)	**2,359**	2,477
Grand China Express Airlines Co., Ltd.	Jointly controlled by HNA Group	Income for provision of customary airport ground services	(i)	**652**	290
HNA Group Finance	Jointly controlled by HNA Group	Interest income for deposit placed with HNA Group Finance	(vii)	**11,991**	29
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	(viii)	**15,360**	15,814
HNA Group	Shareholder	Logistic composite services charged by HNA Group	(ix)	**11,848**	10,928
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Subsidiary of HNA Group	Information system maintenance service	(x)	**2,043**	2,120
Sharing of customary airport ground services income:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Sharing of customary airport ground services income with the Parent Company	(xi)	**82,218**	45,353

30 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)

(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 CAAC.

(ii) The Company leased offices, 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.

(iii) In accordance with an 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 cargo centre with retrospective effect on 1 January 2005. The aforementioned agreement was approved by the Extraordinary General Meeting on 4 November 2005.

In accordance with the aforementioned agreement, Hainan Airlines transferred the fixed assets for operating the cargo center to the Company on 1 March 2007. Hainan Airlines ceased to pay franchise fee to the Company after 1 March 2007.

(iv) In accordance with an agreement between the Company and Hainan Food dated 8 October 2007, Hainan Food is granted a right to provide on-board catering services to airlines. The franchise fee is calculated at a fixed price with reference to the number of passengers receiving the relevant services.

(v) Pursuant to a franchise agreement with a term from 1 October 2006 to 31 December 2008 between the Company and Luckyway dated 22 September 2006, the Company granted Luckyway of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is RMB3.5million. Besides, 50% of the profits earned by Luckyway from its franchise operations at Meilan airport are charged by the Company. In July 2008, the franchise agreement has been renewed to 31 December 2011.

(vi) Pursuant to a franchise agreement with a term from 22 June 2007 to 21 June 2010 between the Company and HNA China Duty Free dated 22 June 2007, the Company granted HNA China Duty Free the franchise to engage in retail sales of duty free goods in Meilan Airport. The total fee for each month is calculated based on the number of outbound international and regional passenger.

(vii) In accordance with an agreement with a term from 8 October 2007 to 7 October 2010 between the Company and HNA Group Finance dated 8 October 2007, HNA Group Finance shall provide financial services to the Group, including deposit services, settlement services, loans and finance leasing services, etc. as approved by China Banking Regulatory Commission.

30 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) According to a renewed airport composite services agreement with a term of three years approved by the Extraordinary General Meeting on 12 November 2007 with retrospective effect from 1 January 2007, 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, energy supply and equipment maintenance;

(e) Passenger and luggage security inspection; and

(f) Other services required by the Company.

The charges relating to the services in items (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. (f) shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus markup fee basis.

(ix) Pursuant to a logistic composite service agreement dated 8 October 2007, 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; (e) commodities and appliance procurement; and (f) other services required by the Company with effect from 1 January 2008.

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.

(x) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 17 May 2006, HNAAIS agreed to provide maintenance services 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.

30 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)

(xi) As directed by a circular (Zong Ju Cai Han [2002] No.77) issued by CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company whereby both parties agreed to 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**

	2008	2007
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**483**	734
Bonuses	**148**	278
Retirement scheme contributions	**78**	81
	709	1,093

30 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) As at 31 December 2008, balances with related parties comprised:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from related parties:				
Hainan Airlines	**32,479**	34,503	**30,005**	32,928
Hainan Food	**2,297**	2,592	**2,297**	2,592
Luckyway	**1,459**	562	**969**	547
HNA China Duty Free	**971**	1,568	**971**	1,555
Grand China Express Airlines Co. Ltd.	**1,323**	371	**1,323**	371
Hong Kong Airlines Limited	**5,218**	3,720	**5,218**	3,720
Deer Jet Airlines Company Limited	**3,243**	–	**3,243**	–
Southern Airlines	**22,971**	16,246	**22,971**	16,246
Xiamen Airlines	**1,439**	1,017	**1,439**	1,017
Others	**2,084**	535	**1,199**	114
	73,484	61,114	**69,635**	59,090
Other receivables from related parties:				
Luckyway	**3,299**	1,402	**35**	7
Others	**583**	170	**588**	170
	3,882	1,572	**623**	177
Time deposits with related party:				
HNA Group Finance	**100,000**	100,000	**100,000**	100,000
Short-term deposits with related party:				
HNA Group Finance	**260,000**	170,000	**260,000**	170,000
Current deposits with related party:				
HNA Group Finance	**88,342**	105	**88,342**	105
	448,342	270,105	**448,342**	270,105
	525,708	332,791	**518,600**	329,372
Payables to related parties:				
Parent Company	**2,247**	7,771	**2,097**	7,621
Luckyway	**1,000**	1,000	**1,000**	1,000
Others	**1,279**	611	**1,181**	611
	4,526	9,382	**4,278**	9,232

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.