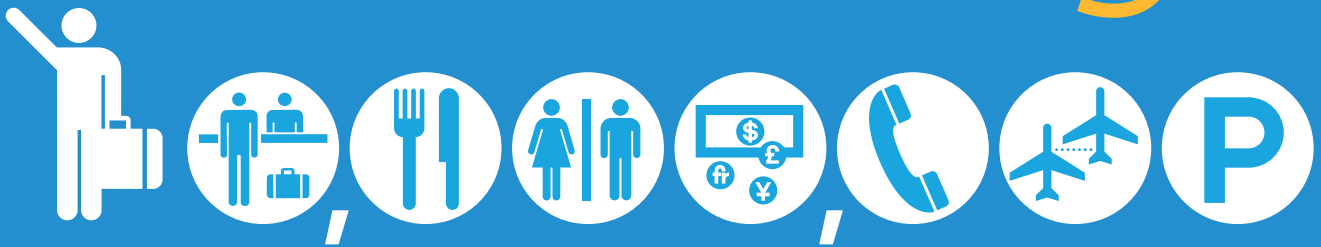


Breakthrough



ANNUAL REPORT 2011



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

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CORPORATE MISSION



To be a successful regional airport management company in China, and offer 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 (the “Main Board”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 November 2002. On 6 November 2003, the Company was approved by the Ministry of Commerce (the “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 services. The non-aeronautical businesses of the Company include leasing of commercial and retail spaces at Hainan Meilan International Airport, franchising of airport related business, advertising, car parking, tourism services, cargo handling and sales of consumable goods.

The Company’s notable corporate achievements in 2011 are as follows:

- Awarded “Best Regional Airport in China” by Skytrax
- Awarded “Four-star Airport” by Skytrax
- Passed the Airport Service Quality (ASQ) qualification certification of the Airports Council International (ACI)
- Awarded “National Airport Civilization Unit” by Civil Aviation Administration of China (CAAC)

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

Liang Jun, Chairman
Dong Zhanbin
Xing Xihong

NON-EXECUTIVE DIRECTORS

Hu Wentai, Vice Chairman
Zhang Han'an
Chan Nap Kee, Joseph
Yan Xiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Xu Bailing
Fung Ching, Simon
George F. Meng
Feng Da'an

SUPERVISORS

Dong Guiguo, Chairman
Zhang Shusheng
Han Aimin

COMPANY SECRETARY

Xing Zhoujin

AUTHORISED REPRESENTATIVES

Liang Jun
Xing Zhoujin

AUDIT COMMITTEE

Xu Bailing, Chairman
Fung Ching, Simon
George F. Meng

REMUNERATION COMMITTEE

Feng Da'an, Chairman
Fung Ching, Simon
Xing Xihong

NOMINATION COMMITTEE

Xu Bailing, Chairman
Feng Da'an
Liang Jun

CORPORATE INFORMATION

STRATEGIC COMMITTEE

Fung Ching, Simon, Chairman
Xu Bailing
Feng Da'an
Liang Jun
Hu Wentai

LEGAL ADDRESS AND HEAD OFFICE

Office Building of Meilan Airport
Haikou City
Hainan Province, the PRC

PLACE OF BUSINESS IN HONG KONG

16/F, Luk Kwok Centre
72 Gloucester Road
Wanchai, Hong Kong

LEGAL ADVISER

Orrick, Herrington & Sutcliffe LLP.
43rd Floor, Gloucester Tower, the Landmark
15 Queen's Road Central
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AUDITOR

PricewaterhouseCoopers
Zhong Tian CPAs Limited Company
11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District
Shanghai China

PRINCIPAL BANKER

Bank of China, Haikou Jinyu
Sub-branch of Hainan Province Branch
81 Haixiu Central Road
Haikou City
Hainan Province, the PRC

China Everbright Bank, Yingbin Sub-branch
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H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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Wanchai, Hong Kong

STOCK CODE

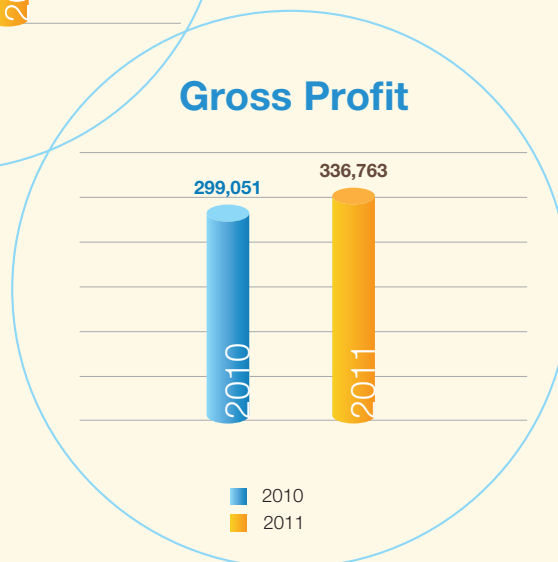
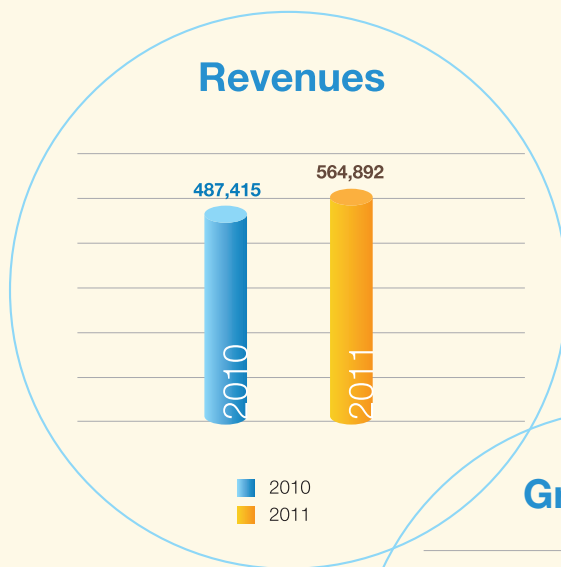
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FINANCIAL HIGHLIGHTS

TWO-YEAR COMPARISON OF KEY FINANCIAL FIGURES

(RMB'000)

	For the year ended 31 December		
	2011	2010	Change (%)
Revenues	564,892	487,415	15.90
Gross Profit	336,763	299,051	12.61
Net Profit attributable to shareholders of the Company	289,778	238,231	21.64
Earnings per share — basic (RMB)	0.61	0.51	19.61
Net cash generated from operating activities	307,892	385,687	-20.17
Current ratio (times)	2.26	5.08	-55.51
Gearing ratio	22.39%	10.72%	11.67
EBITDA	405,745	313,633	29.37



FINANCIAL HIGHLIGHTS

FIVE-YEAR SUMMARY OF FINANCIAL PERFORMANCE

(RMB'000)

	For the year ended 31 December				
	2011	2010	2009	2008	2007
Revenues	564,892	487,415	400,721	391,072	344,391
Net Profit attributable to shareholders of the Company	289,778	238,231	182,701	186,434	138,777
EBITDA	405,745	313,633	247,805	239,708	233,872

FIVE-YEAR SUMMARY OF FINANCIAL POSITION

(RMB'000)

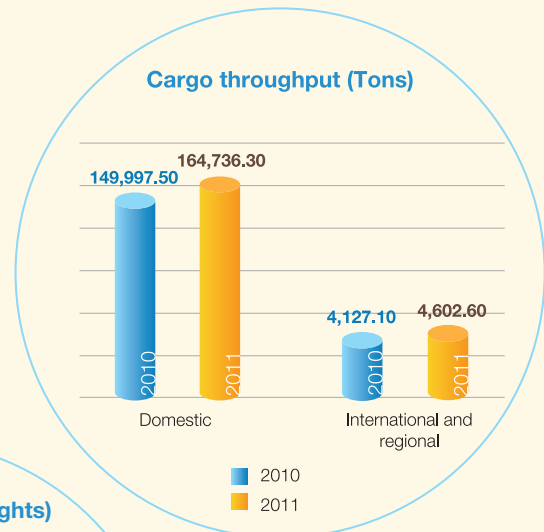
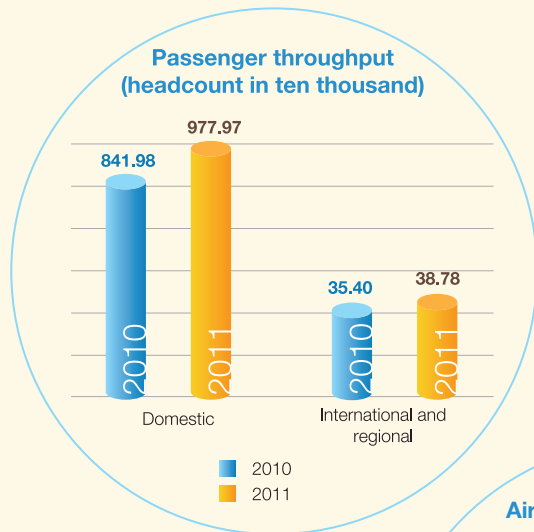
	For the year ended 31 December				
	2011	2010	2009	2008	2007
Total assets	2,855,003	2,297,967	2,073,823	1,957,032	1,808,483
Total liabilities	639,358	246,345	124,452	128,260	140,555
Shareholders' equity	2,215,645	2,051,622	1,949,371	1,828,772	1,667,928

FINANCIAL HIGHLIGHTS

OPERATIONAL DATA HIGHLIGHTS

Two-Year Comparison of Key Operation Data

	For the year ended 31 December		
	2011	2010	Change (%)
Passenger throughput (headcount in ten thousand)	1,016.75	877.38	15.88
In which: Domestic	977.97	841.98	16.15
International and regional	38.78	35.40	9.55
Aircraft movement (flights)	83,058	73,824	12.51
In which: Domestic	79,890	70,874	12.72
International and regional	3,168	2,950	7.39
Cargo throughput (Tons)	169,338.90	154,124.60	9.87
In which: Domestic	164,736.30	149,997.50	9.83
International and regional	4,602.60	4,127.10	11.52





Significant events of 2011



Interactions of guests

On 7 January, as sponsored by Haikou Tourism Development Commission, Meilan Airport held 2011 Haikou Promotion Show of Air Tourism Products, which lays a solid foundation for the exploration of aviation market of the Company in the coming year.

Jan



Seminar of Policies for Air Right and Flight of Civil Aviation in Central and Southern China in Summer/Fall of 2011

On 22 February,

Dong Zhanbin, our President, led our management team to attend the Seminar of Policies for Air Right and Flight of Civil Aviation in Central and Southern China in Summer/Fall (民航中南地区夏秋航季航权航班时刻政策研讨会) held in Xianning, Hubei Province, to enhance the communication and connection with airline companies and airports and establish solid foundations for the Company to achieve its targets for the year.

Feb

Receiving the Award by Qiu Guo Liang, the Vice President of Meilan Airport



On 31 March, the Company was awarded the Best Regional Airport in China award (中国区最佳机场) by SKYTRAX.

Our guests highly praised the airline security services for the annual meeting



On 12 April, the 2011 national leaders' summit of "BRICS" and the 10th Anniversary Annual Meeting of Boao Forum of Asia was held in Hainan Province. Meilan Airport successfully completed security works, and received high complements by the provincial government and authorities of aviation industry.

May

The commencement of the review



On 26 May, Mr. Damien Kobel, a designated reviewer of DKMA (an accrediting body of ASQ), conducted an on-site review of Meilan Airport for ASQ qualification certificate.

Mar

Aug

From 22 August to 23 August, as sponsored by China Civil Airport Association and China Air Transport Association, Meilan Airport successfully held the 11th Airlines Flight Business Development Forum in Haikou, which provided a favourable platform for sharing of market information and development directions between various airline companies and the Company.

Apr



Face to face meeting between the management of the Company and other company

On 22 September, as sponsored by the Civil Aviation Administration of Central and Southern Region, Meilan Airport and Sanya Phoenix International Airport successfully held the Seminar of Management Policies for Airlines and Flights in Central and Southern China in Winter/Spring of 2011/2012 (中南地區 2011/2012 冬春航季航線航班管理政策研討會) in Haikou.



Seminar of Management Policies

Angela Gittens, the General Secretary of ACI issuing the certificate to Gunnar Moller, Assistant to the Chairman of the Board



On 31 October, the Company received the "ASQ Qualification Certificate" by Airports Council International (ACI).



Airplane of China Airline passing through the water gate

Sep

On 31 October, a ceremony of maiden flights of China Airlines and EVA Air was held in the terminal of Meilan Airport.

Oct

On 16 November, the Company successfully passed the second review and has maintained the "Customer Satisfactory Tripod Certificate of China".



Certificate of Customer Satisfactory Tripod Certificate



Liang Jun, our Chairman, receiving the Award

Edward Plaisted, chairman of SKYTRAX, issuing the award to Liang Jun, our Chairman



On 30 November, the Company was awarded as the "National Civilized Unit of Aviation Industry (全國民航文明單位)" by the Civil Aviation Administration of China.

Nov

Dec

The management of the Company issuing souvenir to the 10,000,000th lucky passenger on the Pick-up ceremony



On 26 December, the Company held a celebration ceremony for the number of passengers of Meilan Airport reaching 10 million.

The opening ceremony of Duty-free shops in Meilan Airport



On 21 December, the grand opening of Duty-free shops were held in Meilan Airport.

On 6 December, the SKYTRAX Four Star Airport Award Ceremony and Press Conference were successfully convened.



Chairman's Statement

To all shareholders:

2011 was a year of fluctuations. Despite the international political unrest and economic downturn, domestic economic restructuring and high inflation, the PRC government fully capitalised on the implementation of the Twelfth Five-year Plan to further strengthen its infrastructure construction and maintain the balance between price control, steady growth and economic restructuring by adhering to the macro-economic control principles so that inflation was under control, economic growth rate was stabilised and economic transformation was accelerated, facilitating the economy of China to grow at a steady and relatively rapid pace.



CHAIRMAN'S STATEMENT

During the year under review, capitalizing on the favorable development brought by the start of the Twelfth Five-year Plan in China as well as the opportunity brought by the construction of Hainan's International Tourism Island, and persisting in the strategy of "focusing on aviation market", the Group further strengthened its development and marketing efforts in aviation market, actively capitalised market opportunities, and expanded the passenger and cargo transportation markets.

In addition, the Group also enhanced the profitability of its non-aeronautical business, tightened up cost control and streamlined its management structure. All these efforts resulted in good financial revenue achieved.

As at 31 December 2011, the Group had been recognised as Four-Star Airport by Skytrax, being the ninth and second four-star airport in the world and China respectively, and its passenger throughput had exceeded 10 million, which made it becoming one of the largest airports in China. The Group also achieved its 13th year of safe operation in its history. The Group had made outstanding achievements in international brand building, business development and security management.

RESULTS

In 2011, the Group's total revenue amounted to RMB564,892,282, representing an increase of 15.90% over the previous year. Income from aeronautical business amounted to RMB371,560,850, representing an increase of 14.46% over the previous year.

Income from non-aeronautical business amounted to RMB193,331,432, representing an increase of 18.76% over the previous year.

CHAIRMAN'S STATEMENT

AERONAUTICAL BUSINESS OVERVIEW

In 2011, the national strategy of building Hainan as an International Tourism Island stimulated the growth of both tourism and transportation industries in Hainan. In particular, Meilan Airport is one of the stations of East Ring Railway after its operation, being the first airport station of high speed rail in China. It has changed the remote and inconvenient characteristics of traditional airports and provided convenience to the passengers of East Ring Railway going to Meilan Airport. Sticking with its annual objective of becoming a four-star airport with 10 million throughput and safe operation, and benefitting from the support of government, the Group formulated plans and conducted preparation works for active expansion in the aviation market in accordance with market demand and network design based on the capacity of airline companies leveraging on the transportation convenience of high speed rail and other transportations. The Company successfully realised its annual transportation and production target by developing 22 new routes and achieved outstanding performance. As for aeronautical business, all production and operation indicators surpassed the annual budget plan. The annual passenger throughput reached 10,167,500, representing an increase of 15.88% over the previous year. Aircraft movements reached 83,058, representing an increase of 12.51% over the previous year. Cargo throughput reached 169,338.9 tons, representing an increase of 9.87% over the previous year.

NON-AERONAUTICAL BUSINESS OVERVIEW

In 2011, similar to the aeronautical business, the performance of non-aeronautical business of the Group was outstanding. Annual revenue from the non-aeronautical business was RMB193,331,432, representing an increase of 18.76% over the previous year. In particular, for project development and expansion, seizing the opportunity arising from the tourism development and tax exemption in Hainan, the Group cooperated with the government and other related enterprises and successfully promoted and introduced the first airport tax-free out-lying island store in China which commenced operation on 21 December. In addition, the Group enhanced its communication with the parties with presence in the airport by offering advices to help them increase their sales revenue effectively.

OUTLOOK

“Progress through stability” becomes the theme of China’s economic development in 2012. The PRC will continue to implement supportive fiscal policy and prudent monetary policy to ensure the consistency and stability of macroeconomic policy, maintain the balance between steady and rapid economic growth, economic restructuring and inflation control, and make great efforts to reduce the adverse impact of the European sovereign debt crisis on China’s economy. With the efforts to boost domestic demand, achieve economic transformation and maintain economic growth, the economic growth rate of China in 2012 is expected to be relatively stable.

In contrast to the severe international situation, the building of Hainan’s International Tourism Island shows a good momentum. In 2012, Hainan targets to achieve GDP growth rate of 13%, local general budgeted income growth rate of 20% and fixed assets investment growth rate of around 28%. Hainan will sign protocols of intent with the central, provincial and municipal authorities for the development of its ten key projects to boost the tourist industry and further improvement of transportation facilities and thus laying the foundation for the development of Meilan Airport in 2012. Moreover, favourable conditions including the operation of the tax-free out-lying island store in Meilan Airport and nearly 10 million of passenger flow volume of East Ring Railway in 2011 will also drive the revenue growth of the Group.



CHAIRMAN'S STATEMENT

In 2012, the Group will face great challenges and opportunities. The Group will buckle up with the strategic development planning, implement the transformation of income model, actively acquire external resources, effectively carry out investment and financing work, strive to realize the Company's strategic development goals as soon as possible, actively expand aviation and non-aviation businesses and strengthen assets and fund management, so as to achieve a sustainable and healthy development of Meilan Airport and strive for better performance for the interests of all shareholders.

CAPTURING THE OPPORTUNITY FOR MARKET EXPANSION

In 2012, the Group will capture the opportunity brought by the development of Hainan's International Tourism Island, and fully capitalize on the incentive policies for aviation market issued by the local government, such as the measures on encouraging the development of air passenger market, to enhance the promotion of the civil aviation market and to introduce airlines to build their bases in Haikou with an aim to expand the capacity and improve the airline network of Haikou. The Group will also ally with travel agencies and airlines to coordinate the operations of two airports as well as the airline and railway transportations on the island. The Group will put more efforts in introducing more foreign airlines to open up new routes that make transfer flight in Haikou using the third, fourth and fifth freedom right of Hainan, with a vision to build Meilan Airport as the southern gateway of China.

DIVERSIFYING NON-AERONAUTICAL REVENUE THROUGH COORDINATION AND PLANS

With the operation of airport tax-free store, the revenue pattern of the non-aeronautical business of the Group is expected to be further diversified and developed in 2012. The Group will focus on improving the management of the tax-free shopping mall based on the existing management model in the next year. The Group will also assist Hainan DFS Retail Company Limited ("DFS"), which has a business presence in the shopping mall, to adjust its development mode. The Group will also expand its VIP services, formulate business plans for the newly built international terminal in advance and strengthen the procedures for acquiring high-quality commercial projects.

INCREASING PROFITABILITY BY RAISING REVENUE AND REDUCING EXPENDITURE

The Group has always attached great importance to optimizing its budget through cost controls in management and operations, and has achieved remarkable results, and the administrative expenses were under effective control. In 2012, the Company will further enforce its budget control to reduce costs and integrate resources to increase its profitability. Furthermore, grasping the opportunities arising from the government policy to boost domestic demand and the building of Hainan's International Tourism Island, the Company will actively apply for various preferential treatments from the favourable policies and grants of the government to create a favorable external environment for the development of the Group.



CHAIRMAN'S STATEMENT

ACCELERATING MANAGEMENT AND BUSINESS MODEL TRANSFORMATION

According to the need of management transformation, the Group has outsourced the travel agency business, car parking business, daily repairs and maintenance business of certain terminal building facilities, VIP service business and first-class cabin service, and established an independent joint venture cargo company in 2010 so as to promote the development of freight service. In 2011, the Group also transferred the operations of ground handling service and travel agency business to enhance management specialisation. In 2012, the Group will continue to be efficiency oriented. In addition to speeding up outsourcing of various non-aeronautical businesses, it will also reform the operation models and standardize management of outsourced businesses with innovative management model and, establish supporting policy systems in order to bring breakthrough to the airport management ecology in the region.

IMPROVING INFRASTRUCTURE CONSTRUCTION TO BECOME A FIVE-STAR AIRPORT

In 2011, the Company reached agreements with Haikou Meilan International Airport Company Limited (hereinafter referred to as the "Parent Company"), in respect of the asset transfer after the completion of the terminal expansion projects, including the expansion of West Gallery (西指廊) (extension to the west) and the construction of the new international terminal building. In 2012, the Group will strive to achieve the infrastructure requirement of SKYTRAX five-star airport by requesting the construction unit to accelerate the expansion and construction of terminal buildings to further improve the existing infrastructure and build a more comfortable waiting environment for travellers.

STRENGTHENING BRAND BUILDING AND IMPROVING SERVICE QUALITIES TO INTERNATIONAL STANDARDS

Adhering to the customer-oriented principle, the Group continues to explore customised services with unique features. In 2011, the Group has carried out restructuring and reformation effectively according to the requirement of the ASQ program of Airports Council International ("ACI"), and became the first airport in China to obtain the ASQ qualification certificate on 31 October 2011. Meilan Airport also actively participated in the SKYTRAX star airport ranking, and was honored as the SKYTRAX Best Regional Airport (China) in March 2011. On 6 December 2011, the Group was honored as the SKYTRAX Four-Star Airport and became the ninth and second four-star airport in the world and China, respectively, which also marked Meilan Airport's turning from an excellent domestic airport to an international airport. In 2012, the Group will further strengthen the brand building of ASQ and SKYTRAX and strive to become a SKYTRAX five-star airport in the near future by speeding up the service system construction through learning from the modern service models and experiences of domestic and international airports, updating and reforming hardware facilities, enhancing service consciousness and improving service skills and quality.

CHAIRMAN'S STATEMENT

UPDATES OF ACQUISITIONS AND THE ISSUES OF A SHARES AND CORPORATE BONDS

In early 2011, the Company completed the acquisition of 24.5% equity interests in HNA Airport Holding (Group) Company Limited (hereinafter referred to as the "HNA Airport") from Hong Kong Kingward Investment Limited.

Affected by the debt crisis of the United States, domestic capital market in China was sluggish, which has posted obstacles to our financing plans. The Company will conduct thorough research and adjust and implement its issuance plan of A shares based on the market condition.

According to the announcements of the Company dated 26 August 2011 and 19 March 2012 as well as the circular to shareholders dated 19 September 2011, the Company completed the issuance of domestic corporate bonds with aggregate principle amount of RMB800 million on 19 March 2012, in order to meet the middle to long term capital requirement of the Company, optimize the capital structure and reduce financing costs.

In addition, according to the announcement of the Company dated 28 August 2011 and the circular to shareholders of the Company dated 19 September 2011, the Company agreed to acquire all assets of the international terminal project and ancillary project, the expansion project of the west gallery of the terminal and ancillary project, the customs regulatory warehouse project and ancillary project and the special garage project and ancillary project from the Parent Company, and entered into an acquisition agreement with the Parent Company in respect with the acquisition of the assets of the above projects. Relevant details please see the above-mentioned announcements and circulars. The customs warehouse and special garage have been completed as scheduled. The main structure of the international terminal of the new terminal was topped up on 2 October 2011. However, as advised by the Parent Company recently, the construction progress of the project may be delayed and it is expected to be completed in October 2012, which is mainly because the Parent Company needs more time to revise the project design according to the requirement of the additional usable areas of the relevant customs and immigration inspection units and to enhance the functions of the project in view of the increasing international passengers, aviation transportation, users and logistics of the Meilan Airport along with the development of Hainan as an international tourist island. In addition, the construction supervision, quotation and tendering of the expansion project of the west gallery have started and the construction works of the water and electricity supply systems and transportation system and site levelling have been completed.

ACKNOWLEDGEMENT

On behalf of our board of directors (the "Board") 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.

Liang Jun
Chairman

Hainan Province, the PRC
27 March 2012



Home for Passengers

Providing — “a sense of home for passengers”



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND REVENUE REVIEW

Civil Aviation Industry in the PRC

Due to the slackened growth of the global economy and the ongoing downturn of the international air passenger and freight market in 2011, the growth of the civil aviation industry in the PRC showed a slight slowdown. Nevertheless, the performance of the civil aviation industry remained outstanding and a net profit of RMB26 billion was recorded in the year. In 2011, passenger volume of the civil aviation industry in China was over 290 million, representing an increase of 8.2% over the previous year. Cargo volume reached 5.52 million tons, representing a decrease of 2% over the corresponding period of the previous year. The decrease in increment was mainly due to the significant increase in fuel prices and the stagnant international aviation industry. The increment of the aviation industry lacked luster when compared to its satisfactory performance last year due to the diversion of services resulting from the opening of Beijing-Shanghai High-Speed Railway.

The aviation sector is highly related to the global trade and economic development. In 2012, the prospects of aviation section will be hindered by uncertainties in economies in Europe and the United States and unfavorable factors such as the mandatory inclusion of aviation sector into the EU Emissions Trading System. In addition, with the intensifying conflict between the increase in flights and airspace control, China's civil aviation industry will face various adverse conditions in 2012, including the weakening international market, shortage of airspace resources, high fuel prices and deficiencies of the domestic aviation industry. It is reported that the civil aviation industry of China will adhere to its capacity tightening policy and the number of aircrafts will increase up to 150 in 2012. As the international economy has not yet recovered in 2012 and the growth of the domestic economy is slowing down, it will be a tough challenge for the domestic civil aviation enterprises to digest the increasing capacity and expand into the international aviation market by taking advantage of its slack performance. The Company will pay close attention to domestic civil aviation development and be well-prepared in 2012. Targeting on consolidating the position of Meilan Airport among large airports, the Company will study the government policies and put efforts in expanding the capacity of aviation companies apart from ensuring safe operation.

Establishment of the International Tourism Island in Hainan

In 2010, the National Development and Reform Commission officially approved "Establishment of Hainan as an International Tourism Island Development Plan" (the "Plan"), which clearly sets out objectives, tasks, space planning, infrastructure, industrial development and security measures of the construction and development of international tourism in Hainan Island. The establishment progress of the International Tourism Island was accelerated in 2011 under the guidance of the Plan:

- The General Administration of Quality Supervision, Inspection and Quarantine of the PRC entered into cooperative memorandum with the Hainan government in June 2011. The memorandum suggested 13 major tasks, including "to support the establishment of the International Tourism Island by improving the development quality and economy of Hainan";
- Duty free stores in Sanya and Meilan Airport commenced operation in April and December respectively under the support of China Duty Free Group Co., Ltd.;
- The construction of ten key tourism projects in Hainan was in full swing in 2011;
- The Hainan government entered into cooperative memorandum with other provincial governments, such as Shaanxi and Heilongjiang, to consolidate the cooperation in tourism, agriculture, logistics and trading;

MANAGEMENT DISCUSSION AND ANALYSIS

- The Hainan government and representatives of the Hainan tourism industry visited various developed countries including Australia, New Zealand, Finland and Denmark to promote tourist attractions in Hainan.

Attributable to the close cooperation between the Hainan government and the competent authorities and other provincial governments of China, comprehensive infrastructure, diplomatic activities, cultural and sports activities and the promotion of tourism, there will be new favourable opportunities for the development of the International Tourism Island in 2012.

Tourism Industry in Hainan

The performance of the tourism industry in Hainan was remarkable in 2011. The number of tourists of Hainan surpassed the record of over 30 million and the income from the tourism industry exceeded RMB30 billion, representing an increase of 25%. The tourism industry is growing rapidly. Apart from the auspices of the tax exemption policy, the growth of the tourism industry was also driven by diplomatic activities, sports and cultural competitions, such as Boao Forum for Asia, Tour of Hainan International Cycling Race, Golf World Cup, Central Hainan Island International Regatta, Snooker Hainan Classic, Miss World Final and New Silk Road Model Competition. In addition, the rapid growth of the tourism industry in Hainan in 2011 was also attributable to the efforts of the Hainan government in organising and participating in tourist exhibitions and promotion activities of different provinces and cities in China and the world to introduce the attractions of Hainan. With the robust growth of the tourism industry, the optimised regulatory mechanism and the globalised services concept, the tourism industry in Hainan will maintain its satisfactory growth momentum in 2012.

Offshore Duty Free Store

In April 2011, CDFG Sanya Duty Free Store, the first offshore duty free store in China, commenced its operation. The offshore duty free store attracted a large number of tourists from off-island and overseas with its offshore (or departure) duty-free (or tax refund) policy. The store served 11,000 customers per day and the total sales amounted to RMB800 million. In December 2011, Haikou Meilan Airport Duty Free Store, the first offshore duty store in airport in China, commenced its operation. With the coverage of the duty free operation extending to the northern and southern parts of Hainan in 2012, tourist consumption of Hainan and the influence of the International Tourism Island will be boosted.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Tourism Projects in Hainan

The Hainan government identified ten key tourism projects in Hainan to support the establishment needs of International Tourism Island in Hainan. Currently, the construction of two key tourism projects, namely the duty free stores in Sanya and Meilan Airport, have already been completed and the trail operation of some hotels in Haitang Bay Resort Project has been carried out. In addition, the construction of projects, including aerospace theme park, shopping mall and marine park, is in full swing and the construction of other projects is in progress systematically. The above projects cover all essential requirements of tourists, such as catering, accommodation, sightseeing and shopping. It is expected that these tourism projects will attract additional tourists.

- Aerospace theme park in Haikou. The overall planning and detailed regulatory plan have been approved by the Hainan government and approval documents have been obtained. As at the end of 2011, the investment in this project amounted to RMB900 million and it is expected that the theme park will open by the end of 2013.
- Large outlet shopping mall in Wanning. This large outlet shopping mall is located in Wanning and its construction commenced on 30 December 2010. In 2011, the investment in the project amounted to over RMB300 million. Upon completion, there will be outlets of over 100 international leading and well-known brands, which will drive the growth of tourism and retailing.
- Haitang Bay Resort. As at 31 December 2011, the construction of five renowned hotels, including Sheraton Hotel, was completed for the commencement of operation. In addition, ten more five-star or super-five-star hotels are under construction.
- Marine theme park in Lingshui. Marine theme park in Lingshui consists of marine area and ancillary facilities, including yachts, hotel and shopping mall. The construction of the marine theme park started in March 2011 and it is expected that the operation will commence in 2014.
- Changying Hainan Century City (長影海南世紀城). Changying Hainan Century City Project is located in Haikou with a planned area of ten thousand mou. The concept of the project consists of four elements, including movie entertainment, production and businesses and classic movie settings. The planning and design of the project are underway currently and the construction of the project is expected to start in 2012.
- Hainan Wenchang Tongguling International Ecological Tourism Region. The project is located in Wenchang and is adjacent to Wenchang Satellite Launch Center. It is the key project of the “12th Five-year Plan” in Hainan and its total investment amounted to RMB30 billion. China Development Bank has already provided the project with credit facilities of RMB20 billion in aggregate.
- Longmuwan International Tourism and Vacation Area. The project is a resort with a planned area of 70 km² and consists of theme parks, high-end coastal villas and apartments, business centres, commercial facilities, cultural and entertainment facilities, tourism attractions and sports facilities. The planning of the project is underway.

MANAGEMENT DISCUSSION AND ANALYSIS

Transportation on the Island

In respect of railways, the East Ring Railway with a total length of 308 km was put into operation in 2011 and has served a total of 9.528 million passengers with 26,000 passengers each day. As for the West Ring Railway with a total length of 344 km, it is expected that the construction of the route from Sanya Phoenix International Airport to Sanya commenced in February 2012 and the construction of the remaining route will start in the second half of 2012. It is expected that the construction will be completed within four years and the rail will be put into operation.

In respect of highways, according to the “12th Five-year Plan”, the Hainan government will construct a highway with a total length of 380 km across Hainan vertically and horizontally. The highway will connect Haikou—Tunchang—Wuzhishan—Baoting—Sanya and Yangpu—Danzhou—Qiongzhong—Wanning. The grid-shaped highway network design will connect all counties in Hainan. The construction of the middle part of the central highway connecting Tunchang to Qiongzhong will start in 2012 as scheduled. Upon completion, this highway will become the main transportation route connecting all counties and cities in central Hainan.

In respect of aviation, according to the “12th Five-year Plan”, the Hainan government will expand two major international airports, namely Haikou Meilan Airport and Sanya Phoenix International Airport, to increase the planned passenger reception capacity to 20 million people per year and 25 million people per year respectively. The construction of Boao Airport has completed and the Hainan government has strived to start the construction of Western Airport. In 2011, supported by the local governments, Sanya exerted its effort to relocate and expand the existing airport, Sanya Phoenix International Airport, and was granted an approval of land use from the Sanya government. In 2011, the Central Government approved the construction of a domestic regional airport, Boao civil airport in Qionghai, Hainan.

The Sea Crossing Engineering Project of Qiongzhou Straits was highly valued due to its strategic importance and economic impacts. Subject to high technical difficulties, large investment amount and substantial liquidity requirement, the project is still under the preparation progress, including field exploration, scientific demonstration and selection of design and investment and financing means. It is believed that the Hainan economy will unprecedentedly transform from island economy to peninsular economy after the completion of the project.

Constructing a safe and convenient integrated transportation system is the major task of the establishment of the International Tourism Island in Hainan. The establishment also provides great opportunities for the development of Meilan Airport in the region. As the construction of the East Ring Railway was completed for operation and the West Ring Railway and central highway are under construction, the travel time between cities and counties in Hainan and Haikou will be shortened significantly. The transportation system provides a convenient access for travellers travelling through Meilan Airport. As the Western Airport is still under planning and Boao Airport mainly focuses on providing services to business aircrafts and chartered planes at the initial stage due to its limited construction scale, the passenger volume of Meilan Airport is inevitably diverted to Sanya Phoenix International Airport. The Company will pay close attention to the construction progress of International Tourism Island in Hainan to create favourable conditions for developing its aviation business in Hainan. It will also grasp new opportunities to cooperate with local airports in order to maintain its stable development.

MANAGEMENT DISCUSSION AND ANALYSIS

Aeronautical Business Overview

In 2011, under the auspices of the policies of the aviation industry issued by the government in Hainan, such as the Supplementary Provisions for the Implementation Rules on Policies for the opening of Some of Aviation Rights in Hainan Province (海南省開放部分航權若干政策實施細則補充規定) and the Provisional Measures on Further Encouraging Operation of Air Passenger Transport in Haikou (海口市鼓勵航空客運市場開發暫行辦法), the Group grasped the opportunity brought by the construction of Hainan International Tourism Island and deployed marketing plans for different markets. Various measures and channels were also used for its aviation market expansion. As at 31 December 2011, Meilan airport has launched domestic aviation routes to 76 cities. In 2011, Meilan Airport newly launched aviation routes to four cities, namely Changzhou, Dongsheng, Enshi and Liuzhou and also successfully established aviation routes, including Haikou – Nanning – Xi'an, Haikou – Changsha – Tianjin, Haikou – Beihai/Zhanjiang, Haikou – Changsha – Erdos, Haikou – Liuzhou – Beijing, Haikou – Nanning – Changzhou, Haikou – Guilin – Linyi, Haikou – Beihai – Wuhan and Haikou – Xi'an – Xining. As such, the aviation route network of Haikou was further optimised.

As for the international aviation sector, EVA Air and China Airlines became the international air carriers of the Meilan Airport in 2011. The international (regional) transportation volume of the Group reached a historic high and the international and regional passenger throughput reached a total of 387,800 people, representing an increase of 9.55% as compared to the corresponding period of the previous year.

Aviation traffic throughput for 2011 and comparison figures for the year 2010 are set out below:

	2011	2010	Change (%)
Aircraft movement (flights)	83,058	73,824	12.51
In which: Domestic	79,890	70,874	12.72
Hong Kong/Macau/Taiwan	1,652	1,399	18.08
International	1,516	1,551	-2.26
Passenger throughput (headcount in ten thousand)	1,016.75	877.38	15.88
In which: Domestic	977.97	841.98	16.15
Hong Kong/Macau/Taiwan	19.87	16.60	19.70
International	18.91	18.80	0.59
Cargo throughput (Tons)	169,338.90	154,124.60	9.87
In which: Domestic	164,736.30	149,997.50	9.83
Hong Kong/Macau/Taiwan	2,508.30	2,157.60	16.25
International	2,094.30	1,969.50	6.34

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue from aeronautical business for 2011 was RMB371,560,850, representing an increase of 14.46% over 2010. Details of which are as follows:

	Amount (RMB)	Change over 2010 (%)
Passenger charges	152,339,324	14.31
Reimbursement of airport construction cost	118,851,803	15.17
Aircraft movement fees and related charges	51,773,603	10.8
Ground handling service income	48,596,120	17.3
Total revenue from aeronautical business	371,560,850	14.46

According to Notice on the grants for administrative and construction fee of airports of three listed companies (關於三家上市機場管理建設費補貼問題的通知), the Bureau of invention of electricity [2011]17, issued by Civil Aviation Administration of China ("CAAC"), the validity for the airport construction cost subsidies granted to the Group has been extended to 31 December 2015. The percentage of airport construction cost reimbursement for the Group approximated to 48% since 2009. Based on the best estimates made by the management, the Group has recognized the income of airport construction cost reimbursement for the year based on the reimbursement percentage of 48% and received the reimbursement payment in full from CAAC based on the above percentage as at the end of the year.

Non-Aeronautical Business Overview

In 2011, the Group took full advantage of opportunities arising from the construction of Hainan International Tourism Island and widened sources of income. Driven by the continued growth in transportation volume, the Group achieved a substantial growth with its non-aeronautical business. The non-aeronautical business recorded a revenue of RMB193,331,432 during the year, representing an increase of 18.76% as compared to the same period of 2010.

	Amount (RMB)	Change over 2010 (%)
Franchise fee	63,473,770	15.47
Freight and packing income	56,452,294	1.66
Rental income	24,922,743	52.98
VIP room charge	26,023,343	54.33
Car parking fees	8,087,793	13.46
Others	14,371,489	19.66
Total revenue from non-aeronautical businesses	193,331,432	18.76

MANAGEMENT DISCUSSION AND ANALYSIS

Rental income

The Company has strengthened its marketing capacity and business expansion. It planned and managed the leased premises based on market demand and formulated different rental packages to attract more stores and enhance the occupancy rates. In 2011, the Group recorded rental income of RMB24,922,743, representing an increase of 52.98% as compared to the same period of the previous year.

VIP room charge

In 2011, the VIP room service charge of the Group maintained fast growth and amounted to RMB26,023,343, representing an increase of 54.33% as compared to the corresponding period of the previous year, which was mainly attributable to the increase of the usage of VIP room services as a result of the higher service quality and passenger volume as well as the increases in charges for VIP service and naming right.

Franchise income

In 2011, the franchise income of the Group amounted to RMB63,473,770, representing an increase of 15.47% as compared to the corresponding period of the previous year. The increase in the franchise income of the Group was mainly due to the increase in advertising franchise income and the increase in sales revenue as a result of the implementation of rational designs for the terminals according to the cooperation with Hainan DFS Retail Company Limited (“DFS”) and Select Service Partner Hainan Company Limited (“SSP”).

FINANCIAL REVIEW

Asset Analysis

As at 31 December 2011, total assets of the Group amounted to RMB2,855,002,529, in which RMB524,899,250 was current assets, representing 18.39% of the total assets, and RMB2,330,103,279 was non-current asset, representing 81.61% of the total assets. Total asset increased by 24.24% as compared with the corresponding period of 2010, which was mainly due to the increase in long-term equity investment upon the acquisition of 24.5% equity interests in HNA Airport by the Company during 2011.

Cost Analysis

In 2011, total operating costs of the Group were RMB209,714,326, representing an increase of RMB35,534,490 or 20.40% as compared with the corresponding period of 2010. The increase was mainly attributable to the increase in repair and maintenance expenses due to the needs of repair and maintenance for relevant facilities and equipment in the terminals after years of operation of the airport owned by the Company and the upgrades and renovation of various hardware facilities and equipment for the brand building of the Company, the increase in outsourcing costs as a result of inflation and increase in labour costs, as well as the increase in the costs of production for staff and raw materials along with the growth of transportation volume.

In 2011, total business tax and surcharges of the Group amounted to RMB18,414,798, representing an increase of RMB4,230,648 or 29.83% as compared with the corresponding period of 2010, which was mainly due to the increase in sales revenue of the Group.

In 2011, total administrative expenses of the Group amounted to RMB68,398,680, representing an increase of RMB4,440,900 or 6.94% as compared with the corresponding period of 2010, which was mainly due to the increases in salary and remuneration of the management of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash Flow

In 2011, the Group recorded a net cash inflow from operating activities of RMB307,892,280, representing a decrease of 20.17% as compared with the same period of 2010. This was mainly because in 2011 the Company paid the aircraft movement fees and ground handling service fees which were collected on behalf of others and outstanding in 2010.

In 2011, the Group's net cash outflow from investment activities was RMB1,210,826,552, which was mainly due to the payment for the acquisition of 24.5% equity interest in HNA Airport and partial payment for the purchase of assets in the terminal extension of the parent company.

In 2011, the Group's net cash inflow from financing activities was RMB309,401,664, which was mainly attributable to the bank borrowings of USD72,500,000 for the acquisition of 24.5% equity interest in HNA Airport.

Pledge of the Group's Assets

The Group obtained a long-term borrowing of USD72,500,000 from China Development Bank. Such borrowing was pledged by 24.5% equity interests in HNA Airport held by the Group. As at 31 December 2011, the balance of such outstanding borrowing was USD72,500,000 (equivalent to RMB456,815,250).

In addition, a long-term borrowing of RMB128,000,000 from China Development Bank by the Group was pledged by the operating income. As at 31 December 2011, the balance of such outstanding borrowing was RMB4,000,000.

Gearing Ratio

As at 31 December 2011, total current assets, total assets, current liabilities and total liabilities of the Group amounted to RMB524,899,250, RMB2,855,002,529, RMB232,030,865 and RMB639,357,565 respectively. The gearing ratio (total liabilities/total assets) of the Group was 22.39%, representing an increase of 11.67% over 2010. This was mainly attributable to the increase of USD72,500,000 in bank borrowings of the Group during 2011, mainly for the financing of the acquisition of 24.5% equity interests in HNA Airport during 2011.

Foreign Exchange Exposure

The Group's businesses are principally denominated in RMB, except that limited aeronautical revenues, purchase of certain equipment and consultation fee are denominated in US dollars or HK dollars. The dividends payable to holders of H shares are denominated in RMB and paid in HK dollars. According to the arrangement for the acquisition of 24.5% equity interest in HNA Airport, the Group is obliged to repay the principal and interest of the loan of USD72,500,000 provided by China Development Bank in connection with the equity acquisition. Consequently, the fluctuation of the exchange rate of RMB against US dollars will affect the Group's financial results. The Group has not entered into any forward rate contract to hedge its exposure of foreign exchange risk.

Interest Rate Risks

The Group is obliged to repay the principal and interests of the bank borrowings of USD72,500,000 and RMB4,000,000 provided by China Development Bank. Changes in relevant Libor and interest rate adjustments by the PBOC will affect the interest expense and results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Instruments

As at 31 December 2011, financial instruments of the Group mainly comprised bank borrowings, 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, other receivables excluding prepayment and long-term loan, accounts payable, other payables excluding statutory liabilities.

Contingent Liabilities

As at 31 December 2011, neither the Group nor the Company had any significant contingent liabilities.

Purchase, Sale or Redemption of Shares

As at 31 December 2011, neither the Group nor the Company had purchased, sold or redeemed any of the Shares of the Company.

Employment, Training and Development

For the year ended 31 December 2011, the Group had a total of 465 employees, representing a decrease of 166 employees over the 2010. The decrease was mainly attributable to the outsourcing of airport ground service of the Group according to the transformation needs, the transfer of staff as well as the implementation of streamlined manpower structure. With the manpower structure remaining unchanged, the Group re-organised the posts of various departments to enhance the efficiency of human resources allocation. In 2011, total staff costs accounted for approximately 10.32% of total turnover (total income), representing a decrease of 0.45% over the previous year. The main reason for the decrease of staff cost was the decrease of staff number as a result of the outsourcing of airport ground handling services as well as the increase of total turnover.. The Group formulated its annual training schemes based on the needs of the positions of its employees to provide technical training for its staff and improve its staff's quality. As at 31 December of 2011, a total of 133 courses under the training schemes were completed with a completion rate of 100%. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Retirement Plan

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 the rate of 20% of the salary of its employees with permanent residence in the PRC. For the year ended 31 December 2011, the contribution for the pension amounted to approximately RMB3,864,629 (2010: RMB3,938,000).

Other Information

In 2011, the Group had no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules.



i Effective Service

Providing passengers an effective service
within a minimum time

CORPORATE GOVERNANCE REPORT

The Company is committed to complying with all the rules prescribed by the China Securities Regulatory Commission and the Stock Exchange, as well as requirements of other regulatory bodies. The Company has adopted a code on corporate governance practices on terms no less exacting than the standard of the Code on Corporate Governance Practices (the “Code on Corporate Governance”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which came into effect in January 2005, as amended from time to time. During the year ended 31 December 2011, the Company had complied with the Code on Corporate Governance and all governance and disclosure requirements. The Company will strive to continuously enhance its corporate governance standard and transparency to shareholders.

GOVERNANCE STRUCTURE

The committees under the Board are established in accordance with the relevant rules prescribed in the Listing Rules of the Hong Kong Stock Exchange. The chairman of the committees shall be served by Independent Non-executive Directors.



DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by the directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the directors (the “Directors”) of the Company, all of the Directors 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 annual report.



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Composition of the Board

As at 31 December 2011, the Board of the Company comprised eleven directors:

Chairman

Mr. Liang Jun (duly appointed on 21 March 2011)

Vice Chairman and Non-executive Directors

Mr. Hu Wentai (duly appointed on 16 December 2008 with a term of office continued until being reappointed at the next general meeting according to the articles of association)

Executive Directors

Mr. Liang Jun (duly appointed on 25 May 2009, appointed as Chairman on 21 March 2011)
Mr. Dong Zhanbin (duly appointed on 25 January 2011)
Ms. Xing Xihong (duly appointed on 12 October 2009)

Non-executive Directors

Mr. Zhang Han'an (re-appointed on 26 July 2010)
Mr. Chan Nap Kee, Joseph (re-appointed on 15 October 2010)
Mr. Yan Xiang (re-appointed on 15 October 2010)

Independent non-executive Directors

Mr. Xu Bailing (re-appointed on 15 October 2010)
Mr. Fung Ching, Simon (re-appointed on 15 October 2010)
Mr. George F. Meng (re-appointed on 15 October 2010)
Mr. Feng Da'an (duly appointed on 26 July 2010)

The Company has received annual confirmation letters regarding the independence from each of the Independent Non-executive Directors. The Company considers that each of the Independent Non-executive Directors is independent from the Company.

There is no relationship among the Directors that is discloseable.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

1. The Board had held 6 meetings during as at 31 December 2011.
2. The attendance records of the Directors in the Board meetings

Name of Director	Independent Non-executive Director	Number of Board meetings in the year	Attendance in person	Attendance by audio or video conferencing	Attendance by proxy	Absence	Not attending any meeting in person for two consecutive times
Liang Jun	No	6	6	0	0	0	No
Dong Zhanbin	No	5	4	1	0	0	No
Xing Xihong	No	6	6	0	0	0	No
Hu Wentai	No	6	6	0	0	0	No
Zhang Han'an	No	6	5	0	1	0	No
Chan Nap Kee, Joseph	No	6	4	2	0	0	No
Yan Xiang	No	6	6	0	0	0	No
Xu Bailing	Yes	6	6	0	0	0	No
Fung Ching, Simon	Yes	6	4	2	0	0	No
George F. Meng	Yes	6	6	0	0	0	No
Feng Da'an	Yes	6	6	0	0	0	No

Note: On 25 January 2011, Mr. Dong Zhanbin was appointed as an Executive Director of the Company. On 21 March 2011, the Company held the 6th Board meeting of the 4th term, on which Mr. Dong Zhanbin was present for the first time. Mr. Zhang Han'an could not attend the 7th Board meeting of the 4th term held on 28 March 2011 for business reason and appointed Mr. Liang Jun as proxy to attend and vote on the meeting.

TRAINING FOR DIRECTORS

On 25 August 2011, the Company carried out a 10-hour "Continuous Due Diligence and Compliance Training for Directors" covering topics including the Listing Rules and corporate governance and internal control. It aimed at strengthening the understanding of the Directors, Supervisors and senior management on the laws and regulations as well as concepts and practices of corporate governance in Hong Kong so as to facilitate standard operation and enhance corporate governance and internal control standards of the Company.

CORPORATE GOVERNANCE REPORT

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 duties and powers:

1. to convene general meetings and report to the shareholders;
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 audit committee, nomination committee, remuneration committee and strategic 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;

CORPORATE GOVERNANCE REPORT

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.

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. Liang Jun 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

As at 31 December 2011, 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. Fung Ching, Simon, Mr. George F. Meng and Mr. Feng Da'an.

Mr. Hu Wentai's current term of appointment is from 16 December 2008 to 15 December 2011, which was approved by the Board on 27 March 2012 for seeking approval for reappointment at the general meeting;

Mr. Zhang Han'an's current term of appointment is from 26 July 2010 to 25 July 2013;

Mr. Chan Nap Kee, Joseph's current term of appointment is from 15 October 2010 to 14 October 2013;

Mr. Yan Xiang's current term of appointment is from 15 October 2010 to 14 October 2013;

Mr. Xu Bailing's current term of appointment is from 15 October 2010 to 14 October 2013;



CORPORATE GOVERNANCE REPORT

Mr. Fung Ching, Simon's current term of appointment is from 15 October 2010 to 14 October 2013;

Mr. George F. Meng's current term of appointment is from 15 October 2010 to 14 October 2013;

Mr. Feng Da'an's current term of appointment is from 26 July 2010 to 25 July 2013.

INSURANCE ARRANGEMENT

According to the Recommended Best Practices A.1.9 of the Code on Corporate Governance Practices that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has arranged the liability insurance for the Directors, the Supervisors and other senior management.

INTERNAL CONTROLS

The internal control system of the Group comprised the Supervisory Committee, the Board and its audit committee and the internal audit department, which aims at ensuring effectiveness and efficiency of operations, security of asset and reliability of operation information and financial reports. It manages risks in five major aspects namely internal environment, risk evaluation, control activities, information and communication, and internal supervision.

The Group has formulated and implemented the Articles of Association, the By-laws of the Shareholders' General Meeting, the By-laws of the Board of Directors, the By-laws of the Supervisory Committee, Internal Control System for Related Parties Transactions, the Code of Conduct for Staff of Meilan Airport and the Insider Registration and Management System pursuant to the requirements of laws and regulations such as the Company Law, Securities Regulation and Guidelines for Internal Control of Listed Companies. It has also formulated and implemented operating management systems in contract management, fixed asset planning and management and tendering management. Internal financial control systems of the Company including the accounting policies, accounting and auditing measures, fund management system and fees and expenses management system have been established and put into practice. Safety manual was formulated and implemented with regard to the internal control system on safety.

In addition, the Board of the Company has established the audit committee, which oversees the income and expenses and economic activities of the Company with the assistance of the auditors. The audit committee has further strengthened risk management and ensured effective implementation of internal control system for the standard operation and healthy development of the Company.

The Board of the Company has carried out self-assessment on internal control of 2011 based on its timeliness and applicability, and no material deficiencies have been identified in the design or execution of the internal control system. The Company will continue to improve and establish a sound and effective internal control system.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A remuneration committee has been set up by the Company, which is a sub-committee under the Board.

Formation of remuneration committee: Mr. Feng Da'an, an Independent Non-executive Director, is the chairman. The other member of the remuneration committee is Mr. Fung Ching, Simon, an Independent Non-executive Director, and Ms. Xing Xihong, an Executive Director.

As at 31 December 2011, the Company held one meeting of the remuneration committee on 28 March 2011. During that meeting, Director's remuneration for 2010 and Directors' remuneration policy for 2011 had been determined.

Directors' remuneration policy for 2011: 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 percent of consolidated net profit for the previous financial year as audited by the 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.

Formation of nomination committee: Mr. Xu Bailing, an Independent Non-executive Director, is the chairman. The other members of the nomination committee are Mr. Feng Da'an, an Independent Non-executive Director, and Mr. Liang Jun, an Executive Director.

As at 31 December 2011, the Company held the 4th nomination committee meeting of the 4th term on 25 January 2011. During that meeting, Mr. Liang Jun was recommended to be the chairman of the Board of the Company, Mr. Dong Zhanbin was recommended to be the Executive Director and Chief Executive Officer of the Company, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang was recommended to be re-appointed as Non-executive Directors of the Company, and Mr. George F. Meng was recommended to be appointed as an Independent Non-executive Director and a member of the audit committee under the Board.

REMUNERATION OF AUDITORS

The remuneration of auditors for the year ended 31 December 2011 was RMB1,860,240.



CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

An audit committee has been set up by the Company. It is a sub-committee under the Board. For the year ended 31 December 2011, the audit committee is comprised of three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Fung Ching, Simon and Mr. George F. Meng with Mr. Xu Bailing as the chairman.

As at 31 December 2011, the audit committee had held two meetings.

In the first meeting of 2011, the audit committee had reviewed the 2010 annual report, auditor's report, the report on re-appointment of the accounting firm and determination of their remuneration and the report on determination of interim audit methods of 2011.

In the second meeting of 2011, the audit committee had reviewed the 2011 interim report and 2011 interim auditor's report.

The Audit Committee had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2011.

The audit committee suggested the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as auditors of the Company in 2012.

SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT

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

AMENDMENTS OF THE ARTICLES OF ASSOCIATION

During the year, the major amendments of the articles of association of the Company are as follows:

Original Article 7:

The Articles of Association are binding to the Company and its shareholders, directors, supervisors, general managers and other senior management. The above persons may have claims regarding the affairs of the Company according to the Articles of Association.

Shareholders may sue the Company or other shareholders according to the Articles of Association and the Company may sue its shareholders according to the Articles of Association. Shareholders may sue any of the directors, supervisors, general managers and other senior management of the Company according to the Articles of Association.

The aforementioned act of suing includes proceedings to be instituted at a court or application to be submitted to arbitration organizations for arbitration.

CORPORATE GOVERNANCE REPORT

Amended Article 7:

The Articles of Association are binding to the Company and its shareholders, directors, supervisors, general managers (or president and chief executive officer) and other senior management. The above persons may have claims regarding the affairs of the Company according to the Articles of Association.

Shareholders may sue the Company or other shareholders according to the Articles of Association and the Company may sue its shareholders according to the Articles of Association. Shareholders may sue any of the directors, supervisors, general managers and other senior management of the Company according to the Articles of Association.

Other senior management mentioned herein refers to vice general manager, secretary to the Board and financial officers.

The aforementioned act of suing includes proceedings to be instituted at a court or application to be submitted to arbitration organizations for arbitration.

Original Article 8:

The Company may invest in another limited liability company or joint stock limited company, and shall be liable to such company to the extent of the Company's capital contribution.

As approved by the approval authority authorized by the State Council, the Company may operate pursuant to Paragraph 2 of Article 12 of the Company Law according to the needs of the Company's operation and management.

The holding subsidiaries of the Company are Hainan Haikou Meilan Airport Advertising Co., Ltd., Hainan Meilan Airport Travel Service Co., Ltd. and Hainan Haikou Meilan Airport Duty Free Co., Ltd., the registered capitals of which are held as to 95%, 95% and 95% by the Company, respectively.

Amended Article 8:

The Company may invest in another limited liability company or joint stock limited company, and shall be liable to such company to the extent of the Company's capital contribution.

As approved by the competent authority authorized by the State Council, the Company may operate pursuant to Paragraph 2 of Article 12 of the Company Law, according to the needs of the Company's operation and management.

Original Article 11:

The business scope of the Company shall be subject to the items approved by the companies' registration authority.

The business scope of the Company includes: to provide over-port services and ground transportation services for domestic and international air transport enterprises and over-port or port transfer passengers; to lease business premises, commercial and office premises in the terminal buildings and provide comprehensive services; construct and operate airport aviation and its ancillary real estate and other aviation facilities and business; to provide warehousing, packaging, loading and uploading and transporting services; to provide aviation fuel, hardware and tools, electric products, electronic products and telecommunications equipment, general merchandise, textile products, arts and crafts, air food, local special products, other food, magazine sales and other services for the airline companies and passengers within the airport.



CORPORATE GOVERNANCE REPORT

Amended Article 11:

The business scope of the Company shall be subject to the items approved by the companies' registration authority.

The business scope of the Company includes: to provide over-port services and ground transportation services for domestic and international air transport enterprises and over-port or port transfer passengers; to lease business premises, commercial and office premises in the terminal buildings and provide comprehensive services; construct and operate airport aviation and its ancillary real estate and other aviation facilities; to provide warehousing (other than hazardous cargo), packaging, loading and unloading and transporting services; to provide aviation fuel, hardware and tools, electric products, electronic products and telecommunications equipment, general merchandise, textile, arts and crafts and magazine retail services for the airline companies and passengers within the airport. (All business requiring administrative approvals shall proceed on the basis of approval certificates)

Original Article 94:

Directors are elected in shareholders' general meetings. The term of service is three years. After completion of a term, a director can stand for re-election.

Any notice of intention to propose a person for election as a director and any notice by such person of his willingness to be elected shall be given no earlier than the day after the despatch of the notice of the meeting appointed for such shareholders' meeting and no later than seven (7) days prior to the date of such meeting.

Chairman and vice chairman are elected and dismissed by more than half of all of the directors. The term of service is three years. They can stand for re-election after their term is completed.

The shareholders' general meeting, in accordance with the premises of adhering to the relevant laws and administrative regulations, may dismiss any director whose term is not completed by ordinary resolution (any request for contract indemnity is not affected).

Directors are not required to hold any shares of the Company.

Chairman, vice chairman and directors may also serve as general manager, assistant general manager or other senior management personnel of the Company (with the exception of supervisor).

Amended Article 94:

Directors are elected in shareholders' general meetings. The term of service is three years. After completion of a term, a director can stand for re-election.

Any notice of intention to propose a person for election as a director and any notice by such person of his willingness to be elected shall be given no earlier than the day after the despatch of the notice of the meeting appointed for such shareholders' meeting and no later than seven (7) days prior to the date of such meeting.

Chairman and vice chairman are elected and dismissed by more than half of all of the directors. The term of service is three years. They can stand for re-election after their term is completed.

The shareholders' general meeting, in accordance with the premises of adhering to the relevant laws and administrative regulations, may dismiss any director whose term is not completed by ordinary resolution (any request for contract indemnity is not affected).

CORPORATE GOVERNANCE REPORT

Directors may tender resignation prior to the expiry of term of office. Directors shall submit a written resignation to the board of directors.

If the quorum of the board of the directors falls below the required number as a result of resignation of director, the former director shall perform the duties as director in accordance with the laws, administrative regulations, department rules and the Articles of Association prior to the engagement of new director.

Save as provided above, resignation of director shall take effect upon the submission of written resignation to the board of directors.

Directors are not required to hold any shares of the Company.

Chairman, vice chairman and directors may also serve as general manager, assistant general manager or other senior management personnel of the Company (with the exception of supervisor).

Original Article 142:

The financial statements of the Company shall, in addition to being prepared in accordance with China's accounting standards and regulations, be prepared in accordance with either international accounting standard or that of the place where overseas shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in a note to the financial statement. When the Company distributes profits after tax, the lower of the profits after tax as shown in the financial statements (i) prepared according to China accounting standard, or (ii) prepared according to international or that of the place where overseas shares are listed shall be adopted.

Amended Article 142:

The financial statements of the Company shall be prepared either in accordance with China's accounting standards and regulations or in accordance with international accounting standards or those of the place where overseas shares are listed.

Original Article 143:

Interim reports or financial information published or disclosed by the Company shall be prepared in accordance with China's accounting standards and regulations, and also with either international standard or that of the place of listing overseas.

Amended Article 143:

Interim reports or financial information published or disclosed by the Company shall be prepared either in accordance with China's accounting standards and regulations or in accordance with either international standards or those of the place of listing overseas.

COMMUNICATIONS WITH SHAREHOLDERS

The Company has placed emphasis on the communication with shareholders. Shareholders can be updated with the operations of the Company and market trends through its website and email and phone enquiries. The information of the Company is delivered to the shareholders by the following methods:

1. publishing annual reports, interim reports, results announcements and other information disclosure on the websites of the Stock Exchange and the Company;

CORPORATE GOVERNANCE REPORT

2. organizing shareholders' general meeting, which is one of the most effective channels to communicate with the shareholders;
3. the Company continues to strengthen communication with shareholders by means including:
 - (1) arranging designated staff to meet with shareholders and answer their enquiries;
 - (2) arranging on-site visits to the Company for shareholders to understand the operation and the latest development of the Company in a timely manner;
 - (3) providing relevant financial and operation data on the Company's website timely.

SHAREHOLDERS' RIGHTS

To ensure better protection of shareholders' interests, the articles of association of the Company set out the requirements for shareholders to request an extraordinary general meeting or class meeting to be convened: When two or more shareholders holding in aggregate more than ten percent (10%) (including the ten percent (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 an extraordinary general meeting or class meeting with an agenda of the meeting. An extraordinary general meeting or class 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 2011, the Board did not receive any request from shareholders to convene an extraordinary general meeting or class meeting.

INVESTORS' RELATIONS

1. 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 2011 annual report;
2. As at 31 December 2011, 226,913,000 H shares of the Company were held by the public;
3. The Company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors and maintained active communications with investors and fund managers and securities analyst and media. The Company will publish the key operation data on a weekly and 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 in a timely manner.

By the order of the Board

Liang Jun
Chairman

Hainan Province, the PRC
27 March 2012

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liang Jun, aged 49, has a master degree in business administration. 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. He has served as the chairman and legal representative of Sanya Phoenix International Airport Co., Ltd. since 31 January 2012. Mr. Liang was appointed as the executive director of the Company on 25 May 2009 and appointed as the chairman of the Company on 21 March 2011. He has also served as a member of the nomination committee and the strategic committee of the Board of the Company.

Mr. Dong Zhanbin, aged 60, was appointed as the executive director and president of the Company in January 2011. Mr. Dong Zhanbin 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 Zhanbin served as the associate director of Control Center of Civil Aviation Administration of China (“CAAC”) Guangzhou Administration and the head of Aviation Department and Air Traffic Control Center of CAAC Guangxi Administration. He was the 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., the general manager of Hainan Meilan International Airport Company Limited and the executive chairman of Sanya Phoenix International Airport., Ltd., from which he gained ample experience in airport operation and management.

Ms. Xing Xihong, aged 43, was appointed as the executive director of the Company in 12 October 2009. She has also served as a member of the remuneration committee of the Board of the Company. 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, general manager and chief financial officer.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Hu Wentai, aged 56, was appointed as a Non-executive Director and Vice Chairman of the Company in December 2008. He has also served a member of the strategic committee of the Board of the Company. Mr. Hu Wentai 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 66, was re-appointed as a Non-executive Director of the Company in July 2010. 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 the 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.

Mr. Chan Nap Kee, Joseph, aged 51, was reappointed as Non-executive Director of the Company in October 2010. Mr. Chan acquired 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 of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under Chapter 571 of Hong Kong Securities and Futures Ordinance respectively. Mr. Chan has nearly 25 years management experience in banking, investment banking and asset investment. 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 a founding partner of Oriental Patron Financial Group. He is also an executive director of Oriental Patron Asia Ltd. and Oriental Patron Securities Limited. Mr. Chan was appointed as an executive Director of Kaisun Energy Group Limited (Stock Code: 8203, a company listed in the GEM board of the Stock Exchange) in September 2008 and is the Chairman of that group.

Mr. Yan Xiang, aged 48, was re-appointed as Non-executive Director of the Company in October 2010. Mr. Yan is now 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 Economics. 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. He had been a director of Zhongfu Industrial Co., Ltd. Mr. Yan is the Chairman of the China Region of the Oriental Patron Financial Group and the President of the Oriental Patron Resources Investment 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bailing, aged 78, was re-appointed as an Independent Non-executive Director of the Company in October 2010. He has also served as the chairman of the audit committee and the nomination committee and a member of the strategic committee of the Board of the Company. 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 pilot, supervisor and captain and was appointed Deputy Head and Head of Department in January 1977 and June 1979 respectively. Mr. Xu was then appointed as the vice director of CAAC in December 1986 and then as the general manager of Air China in March 1988. He was appointed as a consultant of CAAC in August 1993.

Mr. Fung Ching, Simon, aged 43, was re-appointed as an Independent Non-executive Directors of the Company in October 2010. He has also served as the chairman of the strategic committee and a member of the audit committee and remuneration committee. Mr. Fung graduated from the Queensland University of Technology in Australia with a bachelor's degree, majoring in accountancy. Mr. Fung is a Hong Kong resident. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia. Mr. Fung worked in PricewaterhouseCoopers between 1994 and 2004, and he served as the chief financial officer and secretary to the board of directors of Baoye Group Company Limited (寶業集團股份有限公司) (stock code: 02355.HK) between 2004 and 2010. Mr. Fung joined Greentown China Holdings Limited (綠城中國控股有限公司) (stock code: 3900.HK) in August 2010 and served as the chief financial officer and company secretary. Mr. Fung has over 7 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for a PRC company listed in Hong Kong, and has 10 years of experience in auditing, accounting and business advisory with a "Big-4" international accounting firm. Mr. Fung is currently a non-executive director of Baoye Group Company Limited.

Mr. George F. Meng, aged 68, was re-appointed as an Independent Non-Executive Director of the Company in October 2010. He has also served as a member of the audit committee of the Board of the Company. 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. Since September 2010, he has been the principal of Northern New Jersey Huaxia Chinese School (non-profit organization). He has served as the general manager (United States) of Hua Ling Consultant Inc. in Toronto, Canada since January 2012.

Mr. Feng Da'an, aged 65, was appointed as an Independent Non-Executive Director of the Company on 26 July 2010. He has also served as the chairman of the remuneration committee and a member of the nomination committee and strategic committee of the Board of the Company. Mr. Feng graduated from the Industrial and Civil Construction Specialty of Lanzhou University of Technology in December 1981. From January 1982 to October 1990, he served various positions as ordinary official, department chief, specialized sub-branch president and vice president of China Construction Bank, Gansu Branch. In October 1990, he began serving as a vice president of China Construction Bank, Hainan Branch. In July 1995, he began serving as a deputy director of the Securities Administration Office of Hainan Province. He served as deputy director general

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

and director general of the Local Taxation Bureau of Hainan Province from August 1998 to December 2007, and retired in January 2008. At present, Mr. Feng serves as independent director of three listed companies, namely Beijing Hualian Hypermarket Co., Ltd. (A share code: 600361), Sundiro Holding Co., Ltd. (A share code: 000571) and Hainan Dadonghai Tourism Centre (Holdings) Co., Ltd. (A share code: 000613).

SUPERVISORS

Mr. Dong Guiguo, aged 49, was appointed as a supervisor of the Company on 25 May 2009 and has served as the chairman of the Supervisory Committee. 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 and 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 and vice chairman, vice president and chief financial officer of HNA Airport Group Company. Mr. Dong was appointed as a Director of the Company from March 2006 to October 2008 and become the Financial Officer of the Company in December 2006. He was appointed as the Chief Financial Director of the Company in April 2007. In December 2008, he was resigned and quitted the Company. Currently, Mr. Dong is the vice president of HNA Infrastructure Industry Group Limited (海航基礎產業集團有限公司) and the chairman of HNA Airport Group Company Limited. He has extensive work experience in civil aviation and finance.

Mr. Zhang Shusheng, aged 75, is a senior reporter. He was re-appointed as an Independent Supervisor of the Company in July 2010. 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.

Mr. Han Aimin, aged 41, graduated from Beijing Business College (北京商學院) in 1995. He was appointed as the staff representative supervisor of the Company on 23 August 2011. He joined the Company in November 2008. From July 1995 to June 2004, Mr. Han worked at the freight department of Hainan Airlines Co., Ltd. He served as the vice general manager of Haikou freight center of the marketing department of Hainan Airlines Co., Ltd. from June 2004 to March 2007. He was the general manager of the freight company under Hainan Meilan International Airport Company Limited from November 2008 to December 2009, and the general manager of Hainan Meilan International Airport Cargo Co., Ltd. from January 2009 to September 2010. He has been the general manager of the business development department of the Company since September 2010.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Yang Xiaobin, aged 42, graduated from Jiangsu University majoring in laws, and was appointed as vice president of the Company on 29 June 2011. Mr. Yang had been working as the secretary to executive vice president and deputy general manager of the office safety supervisory department in Hainan Meilan International Airport Company Limited. He was the head of office safety standard and service quality supervisory department, and deputy general manager of Control Center of the Company. He also served as the general manager of the operational management department of HNA Airport Group Co., Ltd., and chairman of Yichang Three Gorges Airport Co., Ltd. Mr. Yang has extensive working experience in aviation management.

Ms. Xiong Yan, aged 46, was appointed as the chief financial officer of the Company on 27 March 2012 and is a senior accountant. Ms. Xiong graduated from the Capital University of Economics and Business in 2002 and obtained a Master's degree. From January 1998 to May 1999, Ms. Xiong served as the manager of the Second Auditing Department of Hainan Huayu Accountant Firm. From May 1999 to July 2004, Ms. Xiong served as the division manager, deputy manager of the planning and financial department, and director of assets disposal of the Hainan Airport Company Limited (海南機場股份有限公司). From July 2004 to August 2008, Ms. Xiong served as the deputy general manager of the planning and financial department of HNA Airport Holding Group Company Limited (海航機場控股集團有限公司). From September 2008 to March 2011, Ms. Xiong served as the general manager of the planning and financial department of the Company. From March 2011 to December 2011, Ms. Xiong worked as the general manager of planning and financial department, general manager of fiscal and financial department of HNA Airport Group Company Limited (海航機場集團有限公司). From December 2011 to March 2012, Ms. Xiong worked as the general manager of planning and financial department of HNA Basic Industries Group Company Limited (海航基礎產業集團有限公司). From October 2010 to present, Ms. Xiong serves as the chief financial officer of Haikou Meilan International Airport Company Limited. Ms. Xiong has worked in the financial department for years and has extensive experience in financial management and capital operation.

COMPANY SECRETARY

Mr. Xing Zhoujin, aged 46, was appointed as Company Secretary on 25 August 2009. Mr. Xing graduated from the Anhui Normal University majoring in financial management. He also has a bachelor degree in laws and a title of economist. Mr. Xing has been the personnel and office director of Sanya Phoenix International Airport and Haikou Meilan International Airport. He is engaged in the management and operation of Hainan Meilan International Airport Company Limited since 2002 and fully participated in the listing of H shares of Hainan Meilan International Airport Company Limited and worked as a board secretary of the parent company Haikou Meilan International Airport Company Limited. He has also been responsible for handling the results disclosure and daily operation of the Board of the Company after its listing.



REPORT OF THE DIRECTORS

The Board has approved 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 2011.

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 and passenger services. Its non-aeronautical businesses include commercial and retail spaces leasing at the Haikou Meilan International Airport, airport-related business franchising, advertising space leasing, car parking business, cargo handling services and sales of consumable goods.

For the year ended 31 December 2011, the Company conducted its business within one business segment, i.e. the operation of an airport and provision of related services in the PRC. The Company also operated within one geographical segment and its revenues are primarily generated from its assets located in the PRC. Accordingly, no geographical segment data is presented.

OPERATING RESULTS AND FINANCIAL POSITION

The Group’s operating results for the year ended 31 December 2011 was prepared in accordance with the Accounting Standards for Business Enterprises, Company Ordinance of Hong Kong and applicable disclosure requirements of the relevant stock exchanges, and the financial positions of the Group and the Company as at 31 December 2011 are set out in page 58 to page 118 of this annual report.

FINAL DIVIDEND

In 2012, the capital requirement of the Company is expected to be substantial, mainly used for the acquisition of assets from the Parent Company, taxation and the repayment of principal and interests of bank borrowings. Based on the current macro monetary policy of the government and the capital requirement of the Company for future development, the Board of the Company recommended not to pay a final dividend for the year 2011.

CLOSURE OF REGISTER OF MEMBERS

The Company’s Register of Members will be closed from Monday, 30 April 2012 to Tuesday, 29 May 2012 (both days inclusive), during which time no transfer of shares will be registered. In order to qualify for attending the annual general meeting of the Company, shareholders must deliver their instruments of transfer, accompanied by the relevant share certificates, to the Company’s Share Registrar and Transfer Office 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 Friday, 27 April 2012 for completion of the registration of the relevant transfer.

REPORT OF THE DIRECTORS

BANK BORROWINGS

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

PROPERTY, PLANT AND EQUIPMENT

Details of the property, plant and equipment as at 31 December 2011 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2011 are set out in notes to the financial statements.

TAXATION

Details of taxation of the Group and the Company (including all tax preferences) for the year ended 31 December 2011 are set out in notes to the financial statements.

RESERVES

Change in reserves of the Group and the Company for the year ended 31 December 2011 is set out in notes to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2011 are set out in notes to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the top five largest customers of the Group represented 23.76% and 45% of the total sales of the Group for the year ended 31 December 2011, respectively.

The largest supplier and the top five largest suppliers of the Group represented 12.87% and 32.19% of the total operating costs of the Group for the year ended 31 December 2011, respectively.

REPORT OF THE DIRECTORS

SHARE CAPITAL STRUCTURE

As at 31 December 2011, 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 2011, 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 shares issued (%)	Percentage of issued share capital (%)
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial Owner	Corporate	237,500,000	96.43	50.19

REPORT OF THE DIRECTORS

H Share

Name of Shareholders	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	94,343,000 (L)	41.58%	19.94%
		32,788,500 (S)	14.45%	6.93%
Zhang Zhiping (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
		32,788,500 (S)	14.45%	6.93%
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
		32,788,500 (S)	14.45%	6.93%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial	94,343,000 (L)	41.58%	19.94%
		32,788,500 (S)	14.45%	6.93%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
		32,788,500 (S)	14.45%	6.93%
UBS AG (Note 3)	Person having a security interest in shares and interest of controlled corporations	31,537,400 (L)	13.90%	6.66%
Utilico Emerging Markets Utilities Limited (Note 4)	Investment manager	11,629,000 (L)	5.12%	2.46%
ARC Capital Holdings Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
ARC Capital Partners Limited (Note 5)	Investment manager	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Asia Opportunity Fund L.P. (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Equity Partners Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Asset Management Limited (Note 5)	Investment manager	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Holdings Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Investment Management Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Walden Ventures Limited (Note 5)	Beneficial owner and person having a security interest in shares	98,365,500 (L)	43.35%	20.79%
Deutsche Bank Aktiengesellschaft (Note 6)	Beneficial owner, investment manager and person having a security interest in shares	14,349,980 (L)	6.32%	3.03%
		5,498,000 (S)	2.42%	1.16%

REPORT OF THE DIRECTORS

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.

Zhang Gaobo, Zhang Zhi Ping, Oriental Patron Financial Group Limited and Oriental Patron Financial Services Group Limited were holding long position in 94,343,000 shares and short position in 32,788,500 shares, respectively, through their interests in controlled corporations. Oriental Patron Resources Investment Limited was holding long position in 94,343,000 shares and short position in 32,788,500 shares in its capacity as beneficial owner.

3. Among the 31,537,400 shares in the Company, UBS AG was deemed to hold 60,000 shares through its securities interest in those shares and was deemed to have equity interest in 31,472,400 shares (UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd were all wholly-owned by UBS AG, and were beneficially holding 21,987,400 shares, 5,271,000 shares and 4,214,000 shares in the Company, respectively).
4. Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.
5. Pacific Alliance Group Holdings Limited was holding 99.17% interest in Pacific Alliance Group Limited, which was in turn holding 90% interest in Pacific Alliance Investment Management Limited.

Pacific Alliance Investment Management Limited was holding 61.8% interest in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited was holding 100% interest in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 98,365,500 shares in its capacity as investment manager. ARC Capital Holdings Limited is a corporation controlled by ARC Capital Partners Limited for the purpose of Part XV of the SFO. ARC Capital Holdings Limited was holding 46.67% interest in Walden Ventures Limited which was in turn holding 43.35% interest of the Company.

Pacific Alliance Investment Management Limited was also holding 100% in Pacific Alliance Group Asset Management Limited. Pacific Alliance Group Asset Management Limited was deemed to be interested in 98,365,500 shares in its capacity as investment manager. Pacific Alliance Asia Opportunity Fund L.P. is a corporation controlled by Pacific Alliance Group Asset Management Limited for the purpose of Part XV of the SFO. Pacific Alliance Asia Opportunity Fund L.P. was holding 36.67% interest in Walden Ventures Limited which was in turn holding 43.35% interest of the Company.

6. The long position in 14,349,980 shares held by Deutsche Bank Aktiengesellschaft was held in the capacities of beneficial owner (relating to 5,508,980 shares), investment manager (relating to 2,698,000 shares) and person having a security interest in shares (relating to 6,143,000 shares). Deutsche Bank Aktiengesellschaft was holding short position in 5,498,000 shares in its capacity as beneficial owner.
7. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as at 31 December 2011 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.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2011, 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.

THE CONNECTED TRANSACTION

The "Related Party Transactions" of Haikou Meilan as set out in Note 7(5)(b) to the financial statements also constituted connected transactions under the Listing Rules, and are required to comply with the relevant requirements under Chapter 14A of the Main Board Listing Rules.

The airport composite services agreement of Haikou Meilan International Airport Co., Ltd. was entered on 18 November 2010 in which the commencement and expiry dates are on 1 January 2011 and 31 December 2013, respectively. The service fees in 2011 was RMB18,639,841.

With respect to the continuing connected transaction, the Independent Non-Executive Directors, after having reviewed the aforesaid transaction, are of the opinion that the transaction was:

- (a) entered into in the ordinary course of business of the Company;
- (b) conducted on normal commercial terms; and
- (c) conducted in accordance with the terms of the relevant transaction agreement and on terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

The international auditor of the Company has confirmed to the Board the matters regarding the continuing connected transaction set out under Rule 14A.38 of the Listing Rules that:

- (a) the connected transaction was approved by the Board;
- (b) the connected transaction was made in accordance with the pricing policies as disclosed in the section headed "Connected Transaction" of the annual report for 2011;
- (c) the connected transaction had been entered into in accordance with the relevant terms of contracts governing such transactions; and
- (d) the connected transaction was made within the approved annual cap as disclosed in the relevant announcements.

REPORT OF THE DIRECTORS

With respect to the connected transaction, the Company has complied with the disclosure requirement as set out in Chapter 14A of the Listing Rules.

Pursuant to the amendments to the rules relating to connected transactions in the Listing Rules which came into effect on 3 June 2010, “promoter” of PRC issuers has been removed from the definition of “connected persons”. The following transactions were agreements entered into between the Company and the associates of the Company’s promoter, and there were no other conditions that meet the definition of connected transactions in the Listing Rules. According to the said amendment, the following transactions carried out under such agreements no longer constitute continuing connected transactions of the Company under the Listing Rules since 3 June 2010:

1. The information system management agreement of Hainan Airlines Aviation Information System Co., Ltd. was entered on 16 October 2008 in which the commencement and expiry dates are 1 January 2009 and 31 December 2011 respectively. The service fees in 2011 was RMB1,348,061.
2. The franchised business agreement of Luckyway International Travel Service Co., Ltd. was entered on 16 October 2008 in which the commencement and expiry dates are on 1 January 2009 and 31 December 2011 respectively. The tourism franchised income in 2011 was RMB6,527,760.
3. The customary airport ground services agreement of Hong Kong Airlines was entered on 30 October 2009 in which the commencement and expiry dates are on 28 November 2009 and 27 November 2012 respectively. The airport ground services income in 2011 was RMB453,766.
4. The franchised business agreement of Hainan HNA China Duty Free was entered on 25 May 2010, in which the commencement and expiry dates are on 1 June 2010 and 31 May 2011 respectively. The duty-free franchised business income in 2011 was RMB4,693,944.
5. The financial services agreement of HNA Group Finance was entered on 25 May 2010, in which the commencement and expiry dates are on 25 May 2010 and 25 May 2013. For the year 2011, the daily maximum deposits placed with HNA Group Finance were not exceeded RMB450,000,000.

REPORT OF THE DIRECTORS

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Liang Jun	(duly appointed on 25 May 2009)
Mr. Dong Zhanbin	(succeeded Mr. Zhao Yahui and duly appointed on 25 January 2011)
Ms. Xing Xihong	(duly appointed on 12 October 2009)

Non-executive Directors

Mr. Hu Wentai	(duly appointed on 16 December 2008)
Mr. Zhang Han'an	(re-appointed on 26 July 2010)
Mr. Chan Nap Kee, Joseph	(re-appointed on 15 October 2010)
Mr. Yan Xiang	(re-appointed on 15 October 2010)

Independent non-executive Directors

Mr. Xu Bailing	(re-appointed on 15 October 2010)
Mr. Fung Ching, Simon	(re-appointed on 15 October 2010)
Mr. George F. Meng	(re-appointed on 15 October 2010)
Mr. Feng Da'an	(duly appointed on 26 July 2010)

Supervisors

Mr. Dong Guiguo	(duly appointed on 25 May 2009)
Mr. Zhang Shusheng	(re-appointed on 26 July 2010)
Mr. Han Aimin	(succeeded Ms. Zeng Xuemei and duly appointed on 23 August 2011)

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

Mr. Zhao Yahui	(resigned on 25 January 2011)
Ms. Zeng Xuemei	(resigned on 23 August 2011)

Brief biographical details of the Directors and Supervisors of the Company are set out on page 39 to page 43 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.

REPORT OF THE DIRECTORS

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 holds any interests in any competing businesses against the Company or any of its jointly-controlled entities or subsidiaries for the year ended 31 December 2011.

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 2011, 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 7 to the 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 7 to the 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.

REPORT OF THE DIRECTORS

TRANSACTIONS IN ITS SECURITIES

For the year ended 31 December 2011, 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 2011.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

The Group had no entrusted deposits and overdue time deposits as at 31 December 2011.

MATERIAL LITIGATION OR ARBITRATION

The Group had no material litigation or arbitration as at 31 December 2011.

AUDITORS

As at 31 December 2011, the financial statements of the Group prepared in accordance with the PRC Accounting Principles and Policies were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company. According to the latest requirements of the 98th amendment to the Listing Rules, PRC companies listed in Hong Kong are allowed to prepare their financial statements in accordance with the PRC Accounting Principles. In order to maintain the consistency of audits, the Company proposes to re-appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company to perform audit for the financial statements prepared by the Group in accordance with the China Standards on Auditing. Specific resolutions in relation to the above issue will be presented in the annual general meeting.

AUDIT COMMITTEE

The Company established an audit committee on 24 September 2002. The audit committee consists of three members, all of whom are 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 6.

REPORT OF THE DIRECTORS

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, representing 47.95% of the total share capital of the Company, which is in compliance with the minimum public float requirement pursuant to Rules 8.08 of the Listing Rules.

By the order of the Board

Liang Jun

Chairman

Hainan Province, the PRC

27 March 2012

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders,

During the year ended 31 December 2011, 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 2011 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 report and financial statements of the Company prepared by PricewaterhouseCoopers Zhong Tian CPAs Limited 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

Dong Guiguo

Chairman of the Supervisory Committee

Hainan Province, the PRC

27 March 2012

AUDITOR'S REPORT

(English Translation for Reference Only)



普华永道

PwC ZT Shen Zi (2012) No. 10069
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To the Shareholders of
Hainan Meilan International Airport Company Limited,

We have audited the accompanying financial statements of Hainan Meilan International Airport Company Limited (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 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 management, as well as evaluating the overall presentation of the financial statements.

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

普华永道中天会计师事务所有限公司
*PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com*

AUDITOR'S REPORT



普华永道

PwC ZT Shen Zi (2012) No. 10069
(Page 2 of 2)

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China
27 March 2012

CONSOLIDATED AND COMPANY'S BALANCE SHEETS

As at 31 December 2011

(All amounts in Renminbi ("RMB") unless otherwise stated)

ASSETS	Note(s)	31 December 2011 consolidated	31 December 2010 consolidated	31 December 2011 company	31 December 2010 company
Current assets					
Cash at bank and on hand	5(1),11(1)	366,887,159	960,553,354	322,579,699	908,841,783
Accounts receivable	5(2),11(2)	145,125,372	218,363,021	138,163,766	214,906,960
Advances to suppliers	5(3)	6,076,495	13,355,245	5,286,661	12,991,112
Other receivables	5(4),11(3)	3,696,823	8,325,399	35,724,084	35,332,289
Interest receivable		1,793,832	1,591,669	1,793,832	1,053,366
Inventories		26,172	25,792	26,172	25,792
Other current assets	5(5)	1,293,397	—	117,534	—
Total current assets		524,899,250	1,202,214,480	503,691,748	1,173,151,302
Non-current Assets					
Long-term equity investments	5(6),11(4)	1,068,164,742	30,874,651	1,087,698,578	50,408,487
Fixed assets	5(7),11(5)	885,230,061	906,753,190	883,960,266	905,871,467
Construction in progress		—	4,550,510	—	4,550,510
Intangible assets	5(8),11(6)	147,238,713	150,401,902	147,238,713	150,401,902
Long-term prepaid expenses		5,686,823	—	5,686,823	—
Deferred tax assets	5(9)	4,421,740	3,171,877	4,421,740	3,171,877
Other non-current assets	5(3),7(7)	219,361,200	—	219,361,200	—
Total non-current assets		2,330,103,279	1,095,752,130	2,348,367,320	1,114,404,243
Total assets		2,855,002,529	2,297,966,610	2,852,059,068	2,287,555,545

CONSOLIDATED AND COMPANY'S BALANCE SHEETS

As at 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note(s)	31 December 2011 consolidated	31 December 2010 consolidated	31 December 2011 company	31 December 2010 company
Current liabilities					
Accounts payable	5(10),11(7)	17,575,257	6,339,915	17,051,068	5,847,175
Advances from customers		8,885,537	31,444,567	8,823,636	31,382,667
Employee benefits payable	5(11)	51,683,674	50,060,703	46,313,764	45,413,949
Taxes payable	5(12)	11,967,808	389,550	11,654,593	(168,943)
Interest payable		3,508,354	14,520	3,508,354	14,520
Dividends payable	5(13)	666,000	666,000	666,000	666,000
Other payables	5(14)	75,885,685	143,629,683	92,960,683	148,488,810
Current portion of non-current liabilities	5(15)	61,858,550	4,000,000	61,858,550	4,000,000
Total current liabilities		232,030,865	236,544,938	242,836,648	235,644,178
Non-current liabilities					
Long-term borrowings	5(15)	398,956,700	4,000,000	398,956,700	4,000,000
Other non-current liabilities	5(16)	8,370,000	5,800,000	8,370,000	5,800,000
Total non-current liabilities		407,326,700	9,800,000	407,326,700	9,800,000
Total liabilities		639,357,565	246,344,938	650,163,348	245,444,178
Shareholders' equity					
Share capital	5(17)	473,213,000	473,213,000	473,213,000	473,213,000
Capital surplus	5(18)	699,484,654	699,484,654	699,484,654	699,484,654
Surplus reserve	5(19)	216,748,099	187,992,913	216,748,099	187,992,913
Undistributed profits	5(20)	815,766,996	682,511,611	812,449,967	681,420,800
Total capital and reserves attributable to shareholders of the Company		2,205,212,749	2,043,202,178	2,201,895,720	2,042,111,367
Minority interest	5(21)	10,432,215	8,419,494	—	—
Total shareholders' equity		2,215,644,964	2,051,621,672	2,201,895,720	2,042,111,367
Total liabilities and shareholders' equity		2,855,002,529	2,297,966,610	2,852,059,068	2,287,555,545

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

Legal representative:

Liang Jun

Person in charge of accounting function:

Xing Xihong

Person in charge of accounting department:

Shen Chaorong

CONSOLIDATED AND COMPANY'S INCOME STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

	Note(s)	2011 consolidated	2010 consolidated	2011 company	2010 company
Revenue	5(22),11(8)	564,892,282	487,415,300	497,659,598	436,426,269
Less: Operating costs	5(22),11(8)	(209,714,326)	(174,179,836)	(164,937,736)	(137,527,466)
Taxes and surcharges	5(23)	(18,414,798)	(14,184,150)	(15,746,903)	(12,271,242)
General and administrative expenses	5(22)	(68,398,680)	(63,957,780)	(60,093,744)	(58,374,658)
Add: Financial income — net	5(24),11(9)	9,030,708	11,129,746	8,589,969	10,699,998
Less: Asset impairment losses		(377,217)	7,120,378	(377,217)	6,796,945
Add: Investment income	5(25),11(10)	25,574,988	—	28,124,988	—
Investment income from joint ventures and associates		25,574,988	—	28,124,988	—
Operating profit		302,592,957	253,343,658	293,218,955	245,749,846
Add: Non-operating income	5(26),11(11)	27,582,799	962,247	27,521,526	670,185
Less: Non-operating expenses		(647,219)	(380,050)	(636,832)	(379,107)
Loss on disposal of non-current assets		(612,832)	(379,107)	(612,832)	(379,107)
Total profit		329,528,537	253,925,855	320,103,649	246,040,924
Less: Income tax expenses	5(27),11(12)	(35,287,735)	(12,774,072)	(32,551,786)	(10,878,184)
Net profit		294,240,802	241,151,783	287,551,863	235,162,740
Attributable to shareholders of the Company		289,778,081	238,231,162	287,551,863	235,162,740
Minority interest		4,462,721	2,920,621	—	—
Earnings per share					
Basic earnings per share	5(28)	0.61	0.51	N/A	N/A
Diluted earnings per share	5(28)	0.61	0.51	N/A	N/A
Other comprehensive income		—	—	—	—
Total comprehensive income		294,240,802	241,151,783	287,551,863	235,162,740
Attributable to shareholders of the Company		289,778,081	238,231,162	287,551,863	235,162,740
Minority interest		4,462,721	2,920,621	—	—

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Xing Xihong

Person in charge of accounting department:
Shen Chaorong

CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

	Note(s)	2011 consolidated	2010 consolidated	2011 company	2010 company
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		612,064,711	476,899,435	548,337,571	422,653,758
Refund of taxes and surcharges		362,000	223,000	362,000	223,000
Cash received relating to other operating activities		119,203,928	233,860,843	113,171,366	256,643,468
Sub-total of cash inflows		731,630,639	710,983,278	661,870,937	679,520,226
Cash paid for goods and services		(123,719,975)	(36,691,623)	(76,856,087)	(36,691,623)
Cash paid to and on behalf of employees		(56,648,595)	(55,693,897)	(43,452,260)	(50,572,680)
Payments of taxes and surcharges		(51,679,725)	(34,840,182)	(44,822,001)	(32,054,207)
Cash paid relating to other operating activities		(191,690,064)	(198,070,416)	(187,410,500)	(187,249,224)
Sub-total of cash outflows		(423,738,359)	(325,296,118)	(352,540,848)	(306,567,734)
Net cash flows from operating activities	5(29),11(13)	307,892,280	385,687,160	309,330,089	372,952,492
Cash flows from investing activities					
Cash received from return on investment		—	—	2,550,000	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,461,662	—	3,394,362	—
Cash received from other investment activities		3,000,000	3,000,000	3,000,000	3,000,000
Sub-total of cash inflows		6,461,662	3,000,000	8,944,362	3,000,000
Cash paid to acquire fixed assets and intangible assets		(236,417,264)	(18,742,631)	(235,383,662)	(18,045,855)
Net cash paid for acquisition of subsidiaries and other business units		(980,870,950)	—	(980,870,950)	(5,100,000)
Sub-total of cash outflows		(1,217,288,214)	(18,742,631)	(1,216,254,612)	(23,145,855)
Net cash flows from investing activities		(1,210,826,552)	(15,742,631)	(1,207,310,250)	(20,145,855)

CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

Note(s)	2011 consolidated	2010 consolidated	2011 company	2010 company
Cash flows from financing activities				
Cash received from borrowings	456,815,250	—	456,815,250	—
Cash received from capital contributions by minority shareholders of subsidiaries	—	4,900,000	—	—
Sub-total of cash inflows	456,815,250	4,900,000	456,815,250	—
Cash repayments of borrowings	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
Cash payments for distribution of dividends or profits and interest expenses	(143,413,586)	(151,869,605)	(140,963,586)	(151,869,605)
Cash payments for other financing activities	—	(7,242,424)	—	(7,242,424)
Sub-total of cash outflows	(147,413,586)	(163,112,029)	(144,963,586)	(163,112,029)
Net cash flows from financing activities	309,401,664	(158,212,029)	311,851,664	(163,112,029)
Effect of foreign exchange rate changes on cash and cash equivalents	(133,587)	142,534	(133,587)	146,857
Net (decrease)/increase in cash and cash equivalents	(593,666,195)	211,875,034	(586,262,084)	189,841,465
Add: Cash and cash equivalents at beginning of the year	960,553,354	748,678,320	908,841,783	719,000,318
Cash and cash equivalents at end of the year	366,887,159	960,553,354	322,579,699	908,841,783

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Xing Xihong

Person in charge of accounting department:
Shen Chaorong

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

	Attributable to shareholders of the Company					Total share holders' equity
	Share capital 5(17)	Capital Reserves 5(18)	Surplus Reserves 5(19)	Undistributed profits 5(20)	Minority interest 5(21)	
Balances at 1 January 2010	473,213,000	699,484,654	164,476,639	619,224,883	598,873	1,956,998,049
Net profit	—	—	—	238,231,162	2,920,621	241,151,783
Capital injected by minority shareholders of subsidiaries	—	—	—	—	4,900,000	4,900,000
Surplus reserves	—	—	23,516,274	(23,516,274)	—	—
Profit distributed to shareholders	—	—	—	(151,428,160)	—	(151,428,160)
Balances at 31 December 2010	473,213,000	699,484,654	187,992,913	682,511,611	8,419,494	2,051,621,672
Balances at 1 January 2011	473,213,000	699,484,654	187,992,913	682,511,611	8,419,494	2,051,621,672
Net profit	—	—	—	289,778,081	4,462,721	294,240,802
Surplus reserves	—	—	28,755,186	(28,755,186)	—	—
Profit distributed to shareholders	—	—	—	(127,767,510)	(2,450,000)	(130,217,510)
Balances at 31 December 2011	473,213,000	699,484,654	216,748,099	815,766,996	10,432,215	2,215,644,964

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Xing Xihong

Person in charge of accounting department:
Shen Chaorong

COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

	Share capital	Capital Reserves	Surplus Reserves 5(19)	Undistributed profits 5(20)	Total share holders' equity
Balances at 1 January 2010	473,213,000	699,484,654	164,476,639	621,202,494	1,958,376,787
Net profit	—	—	—	235,162,740	235,162,740
Surplus reserves	—	—	23,516,274	(23,516,274)	—
Profit distributed to shareholders	—	—	—	(151,428,160)	(151,428,160)
Balances at 31 December 2010	473,213,000	699,484,654	187,992,913	681,420,800	2,042,111,367
Balances at 1 January 2011	473,213,000	699,484,654	187,992,913	681,420,800	2,042,111,367
Net profit	—	—	—	287,551,863	287,551,863
Surplus reserves	—	—	28,755,186	(28,755,186)	—
Profit distributed to shareholders	—	—	—	(127,767,510)	(127,767,510)
Balances at 31 December 2011	473,213,000	699,484,654	216,748,099	812,449,967	2,201,895,720

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Xing Xihong

Person in charge of accounting department:
Shen Chaorong

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi (“RMB”) unless otherwise stated)

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. The legal address and head office is at Haikou City, Hainan Province, the PRC. The Company’s 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 Province, the PRC (the “Meilan Airport”) and certain ancillary commercial businesses. The parent company and the ultimate holding company of the Company is Haikou Meilan Airport Co., Ltd. (“Haikou Meilan”), a state-owned enterprise established in the PRC with limited liability.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of preparation

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”).

2.2 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2011 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Consolidated and the Company as of 31 December 2011 and of their financial performance, cash flows and other information for the year then ended.

2.3 Accounting year

The Company’s accounting year starts on 1 January and ends on 31 December.

2.4 Recording currency

The recording currency is Renminbi (RMB).

2.5 Business Combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi (“RMB”) unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.5 Business Combinations (Continued)

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at the fair value at the acquisition date. Where the cost of the combination exceeds the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the difference is recognised in profit or loss for the current period.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

2.6 Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of a subsidiaries’ equity and the portion of a subsidiaries’ net profits or losses for the period not contributable to Company are recognized as minority interests and presented separately in the consolidated balance sheet within equity and net profits respectively.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8 Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.8 Foreign currency translation (Continued)

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

2.9 Financial instrument

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

The financial assets of the Group are receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument, and transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Receivables are measured at amortised cost using the effective interest method.

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.9 Financial instrument (Continued)

(a) Financial assets (Continued)

(iv) *Derecognition of financial assets*

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: The financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise other financial liabilities, including payables and borrowings.

Payables, including accounts payable and other payables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

2.10 Receivables

Receivables comprise accounts receivable, other receivables and interest receivable. Accounts receivable arising from rendering of services or sales of goods are initially recognised at fair value of the contractual payments from the service recipients or buyers.

Receivables with amounts that are individually significant are subject to assessment for impairment on the individual basis. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.10 Receivables (Continued)

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

2.11 Inventories

Inventories include food and turnover materials, and are presented at the lower of cost and net realisable value. Cost is determined using the first in first out method. Provision for declines in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale and related taxes.

2.12 Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries and the Group's long-term equity investments in its associates.

Subsidiaries are all investees over which the Company is able to control. Associates are the investees that the Company has significant influence on their financial and operating policies.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements; Investments in associates are accounted for using the equity method.

(a) Determining initial investment cost

Long-term equity investments acquired by payment in cash for the Group, are measured at the initial investment cost.

(b) Subsequent measurement and recognition of related profit or loss

For long-term equity investments accounted for using the cost method, investment income is recognised in profit or loss for the cash dividends or profit declared by the investee.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.12 Long-term equity investments (Continued)

(b) Subsequent measurement and recognition of related profit or loss (Continued)

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(c) Basis for determining existence of control and significant influence over investees

Control is the power to govern the financial and operating policies of the investee so as to obtain benefits from its operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights over the investee is considered, such as convertible debts and warrants currently exercisable, etc.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries and associates is reduced to the recoverable amount when the recoverable amount is less than the carrying amount (Note 2(18)).

2.13 Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, motor vehicles, office equipment and others.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the acquisition date.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.13 Fixed assets (Continued)

(a) Recognition and initial measurement of fixed assets (Continued)

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	15–40 years	3%	6.5–2.4%
Machinery and equipment	14 years	3%	6.9%
Motor vehicles	10 years	3%	9.7%
Office equipment and others	6–15 years	3%	16.2%–6.5%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at least at each year-end.

(c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(18)).

(d) Fixed assets disposal

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi (“RMB”) unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.14 Construction in progress (“CIP”)

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation cost, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is less than the carrying amount (Note 2(18)).

2.15 Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

2.16 Intangible assets

Intangible assets are land use rights (“LUR”) and are measured at cost. LUR acquired are amortized on the straight-line basis over their estimated useful lives.

For an intangible asset with a finite useful life, review and adjustment on useful life and amortization method are performed at each year-end.

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is less than the carrying amount (Note 2(18)).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.17 Long-term prepaid expenses

Long-term prepaid expenses mainly include unrealized financing expenses. The remaining amortization of financial expense is amortised using the effective interest method over the period of the financial expenses. Other prepayments are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

2.18 Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are 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 the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

2.19 Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Employees of the Group participate in the defined contribution pension plan set up and administered by government authorities. Based on salaries of the employees, basic pensions are provided for monthly according to stipulated proportions and not exceeding the stipulated upper limit, which is paid to local labour and social security institutions. Apart from this, the Group has no other post-retirement benefit commitments.

Where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from termination of the employment relationship with employees is recognised, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.19 Employee benefits (Continued)

Except for the compensation to employees for termination of the employment relationship, the employee benefits are recognised in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable.

2.20 Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the shareholders' meeting.

2.21 Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of rebates and discounts.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Group's activities as described below:

(a) Rending of services

- Services have been provided;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- the relevant amount of revenue and costs can be measured reliably.

(b) Sales of goods

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The relevant amount of revenue and costs can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.21 Revenue recognition (Continued)

(c) Transfer of asset use rights

- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The relevant amount of revenue and costs can be measured reliably.

2.22 Government Grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including fire alarm system subsidies.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. Government grants measured at nominal amounts are recognised immediately in profit or loss for the current period.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.

2.23 Deferred tax assets

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax base of assets and liabilities and their carrying amount (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax law. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.23 Deferred tax assets (Continued)

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, joint ventures and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same tax payer within the group and same fiscal authority, and;
- That tax payer has a legally enforceable right to offset current tax assets against current tax liabilities.

2.24 Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

2.25 Jointly controlled operations

The jointly controlled operation is that the Group participates certain operation using the assets or other resources of the Group with other parties.

The Group should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation applicable to the particular assets, liabilities, revenues and expenses.

2.26 Held for sale and discontinued operations

A non-current asset or a component of the Group satisfying the following conditions is classified as held for sale: (1) the Group has made a resolution for disposal of the non-current asset or the component; (2) an irrevocable contract with the transferee has been signed and; (3) the transfer will be completed within one year.

Non-current assets, except for financial assets and deferred tax assets, that meet the recognition criteria for held for sale are included in other current assets at the amount equal to the lower of the fair value less costs to sell and the carrying amount. Any excess of the original carrying amount over the fair value less costs to sell is recognised as an asset impairment loss.

Discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and can be distinguished from other components within the Group in the business operations and in the preparation of financial statements.

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For the year ended 31 December 2011
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.27 Segment information

The Group identify operating segments based on the internal organization structure, management requirement and internal reporting, then disclose segment information of reportable segment which is based on operating segment.

An operating segment is the component of the Group that all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and (3) for which the information of financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

2.28 Critical accounting estimates and judgments

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Critical accounting estimates and key assumptions

The critical accounting estimates and key 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 outlined below:

(a) Fixed assets

The Group's management determines the estimated useful lives and related depreciation charges for its fixed assets. This estimate is made based on management's experience in operating airport and the conditions of the fixed assets. 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.

Management determines the residual values of its fixed assets based on all relevant factors (including the use of the current scrap value in current market as a reference value) at the end of each year.

(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 2.9. In making its judgment, the Group considers information from a variety of sources including 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

2.28 Critical accounting estimates and judgments (Continued)

(c) Airport fee return rates

According to Minhangfa [2011]17 “Notice about the subsidy airport fee for the three listed airports” from Civil Aviation Administration of China (“CAAC”), the airport fee can be recognised as income by the Group till 31 December 2015. Since the year of 2009, the return rate of airport fee is 48%. According to the best estimate of the management, the Group calculated its airport fee return based on 48%, and has received most of the airport fee at the end of the year.

3 TAXATION

(1) The types and rates of taxes applicable to the Group are set out below:

Category	Tax base	Tax rate
Corporate income tax (“CIT”)	Taxable income	24%
Business tax	Taxable turnover amount	3% or 5%
City maintenance and construction tax	Business tax paid	5% or 7%
Surcharge for education	Business tax paid	3%
Local surcharge for education	Business tax paid	2%

(2) Preferential tax treatments and approval discounts

According to “Measures for tax preference on investment issued by the People’s Government of Hainan Province”, the group’s applicable to CIT rate of 15% as a jointly control entity.

In accordance with the Corporate Income Tax Law of the People’s Republic of China (the “New CIT Law”, effective from 1 January 2008) as approved by the National People’s Congress on 16 March 2007, the CIT rate applicable to the Company will be gradually increased from 15% to 25% in a 5-year period from 2008 to 2012. The tax rate in 2011 is 24% (2010: 22%).

Pursuant to the approval document (Hai Guo Shui Han [2008] No. 13) issued by Haikou State Tax Bureau on 2 February 2008, the Company was entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013. Therefore, the applicable tax rate for the Company in 2011 is 12% (2010: 11%).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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4 BUSINESS COMBINATION AND CONSOLIDATION

Subsidiaries

Subsidiaries obtained through incorporation

	Type of subsidiaries	Place of registration	Principal activities	Paid up Capital RMB'000	Interest held (%)	Voting rights (%)	Whether consolidate the financial statements or not
Haikou Meilan International Airport Advertising Co., Ltd. ("Meilan Advertising")	subsidiary	Haikou	Provision of advertising services	1,000	Directly 95, Indirectly 4.75	100	Yes
Haikou Meilan International Airport Duty Free Shop Ltd. ("Meilan Duty free shop")	subsidiary	Haikou	Retail sales	1,000	95	100	Yes
Hainan Meilan International Airport Travelling Co., Ltd. ("Meilan Travelling")	subsidiary	Haikou	Provision of tourism services	11,000	95	100	Yes
Hainan Meilan International Airport Cargo Co., Ltd. ("Meilan Cargo")	subsidiary	Haikou	Provision of cargo service	10,000	51	60	Yes

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2011	31 December 2010
Cash on hand	47,476	73,726
Cash at bank	366,839,683	960,479,628
	366,887,159	960,553,354

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
(All amounts in Renminbi ("RMB") unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable

	31 December 2011	31 December 2010
Accounts receivable		
— from aeronautical services	122,708,420	198,048,826
— from non-aeronautical services	27,140,583	24,715,368
	149,849,003	222,764,194
Less: provision for bad debts	(4,723,631)	(4,401,173)
	145,125,372	218,363,021

The credit terms given to customers are determined on an individual basis by the management, with a normal credit period ranging from 1 to 3 months.

The ageing of accounts receivable is analysed below:

	31 December 2011	31 December 2010
Within 90 days	88,419,162	104,848,825
91 to 180 days	10,473,887	41,192,621
181 to 365 days	33,044,367	56,143,496
Over 365 days	17,911,587	20,579,252
	149,849,003	222,764,194

	31 December 2010	Addition	Reductions		31 December 2011
			Reversals	Written off	
Provision for bad debts	4,401,173	1,485,836	(1,108,619)	(54,759)	4,723,631

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Advances to suppliers

	31 December 2011	31 December 2010
Advances to suppliers	225,437,695	13,355,245
Less: Advances to suppliers disclosed in other non-current assets	(219,361,200)	—
	6,076,495	13,355,245

The ageing of advances to suppliers is analysed below:

	31 December 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	225,298,132	99.94%	12,000,000	89.85%
1 to 2 years	139,563	0.06%	1,355,245	10.15%
	225,437,695	100%	13,355,245	100%

As at 31 December 2011, the balance of advance to Haikou Meilan for Terminal and its Ancillary Project is RMB219,361,200 (31 December 2010: RMB0), please refer to note 7(7).

(4) Other receivables

The ageing of other receivables is analysed below:

	31 December 2011	31 December 2010
Within 90 days	930,189	3,217,520
91 to 180 days	157,723	113,416
181 to 365 days	189,344	635,803
Over 365 days	2,419,567	4,358,660
	3,696,823	8,325,399

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other current assets

	31 December 2011	31 December 2010
Prepayment of Corporate Income tax	1,175,863	—
Prepayment of other taxes	117,534	—
	1,293,397	—

(6) Long-term equity investments

Associates — Unlisted companies

	31 December 2010	Additional investment cost	Share of profit of investees under equity method	31 December 2011	Interest Held	Voting Rights
Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng")	30,874,651	—	—	30,874,651	30%	1/3
Hainan Airlines Airport Holding Group Company Limited ("HNA Airport")	—	1,011,715,103	25,574,988	1,037,290,091	24.5%	1/7
	30,874,651	1,011,715,103	25,574,988	1,068,164,742		

No significant restrictions on the long term equity investments.

	31 December 2011			1 January 2011 or the acquisition date to 31 December 2011	
	Assets RMB	Liabilities RMB	Net assets RMB	Revenue RMB	Net profits RMB
Associates –					
Haikou Decheng	1,017,323,686	914,409,243	102,914,443	—	(465)
HNA Airport	9,464,383,104	4,493,730,570	4,970,652,534	858,278,612	203,229,724

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Long-term equity investments (Continued)

Associates — Unlisted companies (Continued)

Pursuant to the agreement entered into between the Company and Kingward Investment Limited ("Kingward") on 25 March 2010, the Company would acquire 24.5% equity interests in HNA Airport from Kingward. The consideration of USD145,000,000 was paid to Kingward on 28 January 2011 and the acquisition of such shares was completed. HNA Airport became an associate of the Company. The equity interest has been secured by the Group for the long-term borrowings, please refer to Note 5 (15).

In the year of 2011, the initial investment cost to HNA Airport is less than the Group's share of the fair value of its identifiable net assets, the difference RMB26,490,103 is included in non-operating income. Please refer to Note 5(26).

HNA Airport's fair value of definable net assets was estimated by an independent valuer according to cost method. Key valuation assumption consisted of output value standard, basic price of urbanland, tax rate and interest rate/discount rate.

(7) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and others	Total
Cost					
31 December 2010	951,824,250	211,552,376	77,496,527	58,258,874	1,299,132,027
Transfer from CIP	1,812,229	—	—	—	1,812,229
Other additions	7,033,321	4,069,285	17,050,671	5,559,096	33,712,373
Disposals	(220,071)	(23,300)	(2,070,109)	(2,323,839)	(4,637,319)
31 December 2011	960,449,729	215,598,361	92,477,089	61,494,131	1,330,019,310
Accumulated Depreciation					
31 December 2010	(209,680,545)	(98,181,329)	(49,243,779)	(35,273,184)	(392,378,837)
Depreciation	(24,599,600)	(17,027,983)	(5,539,437)	(9,196,190)	(56,363,210)
Disposals	103,802	14,896	1,811,737	2,022,363	3,952,798
31 December 2011	(234,176,343)	(115,194,416)	(52,971,479)	(42,447,011)	(444,789,249)
Net book value					
31 December 2011	726,273,386	100,403,945	39,505,610	19,047,120	885,230,061
31 December 2010	742,143,705	113,371,047	28,252,748	22,985,690	906,753,190

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Fixed assets (Continued)

Depreciation expenses of RMB55,799,363 and RMB563,847 were charged in operating costs and general and administrative expenses in the current year (for the year of 2010, the amounts are: RMB55,386,879 and RMB466,051).

The costs of fixed assets transferred from construction in progress which consist of buildings amount to RMB1,812,229 in the current year.

(8) Intangible assets

	Land use right
Cost	
31 December 2010 and 31 December 2011	179,637,283
Accumulated amortisation	
31 December 2010	(29,235,381)
Amortisation	(3,163,189)
31 December 2011	(32,398,570)
Net book amount	
31 December 2011	147,238,713
31 December 2010	150,401,902

Amortisation expenses of RMB3,163,189 (for the year of 2010: RMB3,220,381) were charged in operating costs in the current year.

NOTES TO FINANCIAL STATEMENTS

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Intangible assets (Continued)

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

	31 December 2011	31 December 2010
Inside Mainland China—		
between 10 to 50 years	61,454,272	63,064,426
over 50 years	85,784,441	87,337,476
	147,238,713	150,401,902

(9) Deferred tax assets

	31 December 2011		31 December 2010	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for asset impairment	590,454	4,723,631	521,570	4,401,173
Accrued termination costs	1,528,494	8,104,854	1,713,865	9,893,070
Accrued bonus, and accrued Directors' emoluments	2,302,792	18,422,334	936,442	7,803,684
	4,421,740	31,250,819	3,171,877	22,097,927

As at 31 December 2011, no deferred tax liabilities existed (31 December 2010:nil).

(10) Accounts payable

The ageing of accounts payable is analysed below:

	31 December 2011	31 December 2010
Within 90 days	12,297,551	3,753,244
91 to 180 days	745,955	388,100
over 181 days	4,531,751	2,198,571
	17,575,257	6,339,915

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Employee benefits payable

	31 December 2010	Additions	Reductions	31 December 2011
Wages and salaries, bonuses, allowances and subsidies	33,407,446	47,245,849	(42,320,617)	38,332,678
Staff welfare	—	1,026,598	(1,026,598)	—
Social security contributions	1,159,802	6,127,777	(7,287,579)	—
Including: Basic pensions	1,011,732	3,864,629	(4,876,361)	—
Medical insurance	443,657	1,224,153	(1,667,810)	—
Unemployment insurance	(323,520)	790,037	(466,517)	—
Work injury insurance	17,191	139,815	(157,006)	—
Maternity insurance	10,742	109,143	(119,885)	—
Housing funds	649,276	2,629,676	(2,919,143)	359,809
Labor union and employee education funds	2,922,107	1,241,666	(873,689)	3,290,084
Termination costs	11,922,072	—	(2,220,969)	9,701,103
	50,060,703	58,271,566	(56,648,595)	51,683,674

(12) Taxes payable

	31 December 2011	31 December 2010
Corporate income tax payable/(prepaid)	5,538,122	(5,516,165)
Business tax payable	3,825,557	3,941,163
Real estate tax payable	1,499,488	1,342,901
Educational surcharge payable/(prepaid)	591,746	(60,321)
Individual income tax payable	370,950	661,177
Others	141,945	20,795
	11,967,808	389,550

NOTES TO FINANCIAL STATEMENTS
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Dividends payable

	2011	2010
Dividends payable of ordinary shares at the beginning of the year	666,000	666,000
Add: Dividends payable of ordinary shares in current year (5(20))	127,767,510	151,428,160
Less: Dividends and withholding tax paid in current year	(127,767,510)	(151,428,160)
Dividends payable of ordinary shares at the end of the year	666,000	666,000

(14) Other payables

	31 December 2011	31 December 2010
Airport ground services payable	30,481,334	94,270,605
Construction payables	11,056,019	15,505,012
Deposit guarantees	10,536,355	8,132,058
Plant and other equipment repairs expenses	6,419,698	5,326,305
Airlines subsidy payables	5,531,976	3,000,000
Others	11,860,303	17,395,703
	75,885,685	143,629,683

(15) Long-term borrowings

	31 December 2011	31 December 2010
Secured borrowings	460,815,250	8,000,000
Less: current portion of long-term borrowings	(61,858,550)	(4,000,000)
	398,956,700	4,000,000

As at 31 December 2011, the weighted average interest rate of long-term borrowings is 3.74% (31 December 2010: 5.94%).

As at 31 December 2011, bank borrowings of USD72,500,000, equivalent to RMB456,815,250 (31 December 2010: nil) are secured by the 24.5% interest of HNA Airport held by the Group. Interest is payable every quarter and the principal is due for repayment on installment before 26 January 2016.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Long-term borrowings (Continued)

As at 31 December 2011, bank borrowings of RMB4,000,000 (31 December 2010: RMB8,000,000) are secured by the Group's operating revenue. Interest is payable every quarter and the principal is due for repayment on installment before 17 June 2013.

(16) Other non-current liabilities

	2011	2010
Government grants relevant to assets		
31 December 2010	5,800,000	3,000,000
Addition	3,000,000	3,000,000
Amortisation	(430,000)	(200,000)
31 December 2011	8,370,000	5,800,000

Government grants relevant to assets are amortised over the expected useful life of the assets, i.e. 15 years.

(17) Share capital

	31 December 2011 and 31 December 2010 (Number of shares)	31 December 2011 and 31 December 2010 (RMB)
Shares held by domestic legal entities		
Haikou Meilan	237,500,000	237,500,000
HNA Group company Limited ("HNA Group")	3,512,500	3,512,500
Hainan Airlines Company Limited ("Hainan Airlines")	5,287,500	5,287,500
Shares held by foreign investors	226,913,000	226,913,000
	473,213,000	473,213,000

NOTES TO FINANCIAL STATEMENTS
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Capital reserve

	31 December 2011 and 31 December 2010
Capital premium	598,983,655
Other capital reserve	100,500,999
	699,484,654

(19) Surplus reserve

	31 December 2010	Additions	Reductions	31 December 2011
Statutory surplus reserve	187,992,913	28,755,186	—	216,748,099
	164,476,639	23,516,274	—	187,992,913

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities. The accrued statutory surplus reserve of group for the current year is RMB28,755,186 (for the year of 2010: RMB23,516,274).

(20) Undistributed profits

As at 31 December 2011, included in the undistributed profits, RMB1,713,868 is subsidiaries' surplus reserve attributable to the Company (31 December 2010: RMB1,248,189), of which RMB465,679 is appropriated for the current year (2010: RMB303,983).

NOTES TO FINANCIAL STATEMENTS

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Undistributed profits (Continued)

In accordance with the resolution at the Board of Directors' meeting dated on 19 May 2011 and 24 October 2011, the Board of Directors proposed a annual cash dividend and interim cash dividend in the amount of RMB0.12 and RMB0.15 to the shareholders, amounting to RMB56,785,560 and RMB70,981,950 calculated by issued shares 473,213,000, please refer to Note 5(13).

(21) Minority interests

Minority interests attributable to the shareholders of the subsidiaries

Subsidiaries	Minority	31 December 2011	31 December 2010
Meilan Cargo	Baixiang Logistic Company Limited	9,844,788	7,820,621
Meilan Advertising	Haikou Meilan	3,929	3,915
Meilan Duty Free Shop	Haikou Meilan	(82,390)	(87,504)
Meilan Travelling	Haikou Meilan	665,888	682,462
		10,432,215	8,419,494

(22) Revenue and cost of sales, general and administrative expenses

	2011	2010
Revenue		
Aeronautical:		
Passenger charges	152,339,324	133,273,493
Airport fee	118,851,803	103,196,893
Aircraft movement fees and related charges	51,773,603	46,726,853
Ground handling services income	48,596,120	41,427,163
	371,560,850	324,624,402
Non-aeronautical:		
Franchise fee	63,473,770	54,968,059
Freight and packing	56,452,294	55,529,172
Rental	24,922,743	16,291,885
VIP room charge	26,023,343	16,862,586
Car parking	8,087,793	7,128,447
Others	14,371,489	12,010,749
	193,331,432	162,790,898
	564,892,282	487,415,300

NOTES TO FINANCIAL STATEMENTS

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales, general and administrative expenses (Continued)

Operating costs, General and administrative expenses include the following items:

	2011	2010
Airport and logistic composite services fee	44,633,537	38,672,918
Depreciation of Fixed assets	56,363,210	55,852,930
Amortisation of land use rights	3,163,189	3,220,381
Employee benefit expenses	58,271,566	52,465,434
Other taxes	7,012,190	6,219,612
Utilities	19,823,535	18,967,217
Audit fee	1,860,240	2,072,732
Travelling expenses	4,371,297	2,244,914
Packaging materials expenses	24,249,886	28,123,482
Repairs and maintenance	20,062,384	7,440,446

(23) Tax and surcharges

	2011	2010
Business tax	16,442,371	13,867,034
City maintenance and construction tax	1,103,313	164,558
Educational surcharge	869,114	152,558
	18,414,798	14,184,150

(24) Financial income – net

	2011	2010
Interest income	7,352,348	11,745,663
Less: interest expense arisen from bank borrowings	(16,689,910)	(633,930)
Exchange gains – net	21,326,125	142,534
Less: Amortisation of financial charges	(1,555,601)	—
Others	(1,402,254)	(124,521)
	9,030,708	11,129,746

NOTES TO FINANCIAL STATEMENTS

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(All amounts in Renminbi ("RMB") unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Financial income — net (Continued)

Interest expense are analysed by the repayment terms of bank:

	31 December 2011	31 December 2010
Wholly repayable within five years	16,689,910	633,930

(25) Investment income

	2011	2010
Share of profit of investees under equity method—HNA Airport	25,574,988	—

No significant restrictions on the repatriation of investment income.

Investment incomes from non-listed companies in 2011 amount to RMB25,574,988 in the Group (2010:RMB0).

(26) Non-operating income

	2011	2010
Gains on initial recognition of long-term investment on HNA Airport (Note 5(6))	26,490,103	—
Government grants	792,000	423,000
Gains on disposal of Fixed assets	261,000	189,100
Others	39,696	350,147
	27,582,799	962,247

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Income tax expenses

	2011	2010
Current income tax	36,537,598	13,384,649
Deferred income tax	(1,249,863)	(610,577)
	35,287,735	12,774,072

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is as below:

	2011	2010
Total profit	329,528,537	253,925,855
Income tax expenses calculated at applicable tax rates	79,698,848	55,863,689
Effect of tax incentive	(32,551,786)	(26,640,059)
Income not subject to tax	(12,495,622)	(1,763,329)
Costs and Expenses not deductible for tax purposes	662,212	608,724
Tax losses for which no deferred tax assets was recognised	(25,917)	(6,291)
Tax deduction arising from purchase of domestic equipments	—	(15,288,662)
	35,287,735	12,774,072

(28) Earnings per share

- (a) Basic earnings per share are calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares Outstanding:

	2011	2010
Profit attributable to ordinary shareholders of the Company (RMB)	289,778,081	238,231,162
Weighted average number of outstanding ordinary shares of the Company (share)	473,213,000	473,213,000
Basic earnings per share (RMB per share)	0.61	0.51

- (b) Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2011 (2010: nil), diluted earnings per share equal to basic earnings per share.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Supplementary information to the consolidated cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	2011	2010
Net profit	294,240,802	241,151,783
Add: Provisions/(Reversal) of asset impairment	377,217	(7,120,378)
Depreciation of fixed assets	56,363,210	55,852,930
Amortisation of intangible assets	3,163,189	3,220,381
Losses on disposal of fixed assets	351,832	379,107
Financial income/(expense)	(3,080,614)	491,396
Investment income	(25,574,988)	—
Gain on acquisition of HNA Airport 24.5% shares (note 5(26))	(26,490,103)	—
Increase in deferred tax assets	(1,249,863)	(610,577)
Increase in inventories	(380)	(14,428)
Decrease/(Increase) in operating receivables	97,304,421	(37,248,355)
(Decrease)/Increase in operating payables	(87,512,443)	129,585,301
Net cash flows from operating activities	307,892,280	385,687,160

(b) Net increase/decrease in cash and cash equivalents

	2011	2010
Cash and cash equivalents at end of the year	366,887,159	960,553,354
Less: cash equivalents at beginning of the year	(960,553,354)	(748,678,320)
Net (decrease)/increase in cash and cash equivalents	(593,666,195)	211,875,034

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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6 SEGMENT INFORMATION

The chief operating decision-maker of the Group has been identified as the senior management lead by the general manager. The management reviews the Group's internal reporting in order to assess performance and allocate resources. The management has determined the operating segments based on these reports.

The management considers the Group conduct its business within one business segment — the business of operating an airport and provision of related services in the PRC and the Group also operates within one geographical segment because its revenues are primarily generated from and its assets are located in the PRC.

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company:

	Place of registration	Nature of business
Haikou Meilan	Haikou	Transportation and ground handling services

(b) Registered capital and changes in registered capital of the parent company:

	31 December 2011 and 31 December 2010
Haikou Meilan	2,028,913,102

(c) The proportions of equity interests and voting rights in the Company held by the parent company:

	31 December 2011 and 31 December 2010	
	% interest held	% voting rights
Haikou Meilan	50.19	50.19

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in Note 4.

(3) Information of associates

	Place of registration	Nature of business	Registered capital	Interest held	Voting rights
Haikou Decheng	Haikou, Hainan Province	Property development, resort operation, eco-agriculture development and gardening	101,681,000	30%	1/3
HNA Airport	Haikou, Hainan Province	Airport operation and ground handling services; airport investment, holding, constructing and rebuilding	3,020,151,992	24.5%	1/7

(4) Information of other related parties

	Relationship with the Group
HNA Group	Has significant influence of Haikou Meilan
Hainan Developing Holding Company Limited (“Hainan Developing”)	Has significant influence of Haikou Meilan
Hainan Airlines	Under control of Hainan Developing
Hainan Airlines Food Company Co. Ltd. (“Hainan Food”)	Under control of HNA Group
Hainan Island Opal Property Management Co., Ltd (“Island Opal”)	Under control of HNA Group
Beijing Capital Airlines Co. Ltd. (“Capital Airlines”)	Under control of HNA Group
HNA Group Finance Co., Ltd (“HNA Group Finance”)	Under control of HNA Group
Hainan Airlines Aviation Information System Co., Ltd. (“HNAAIS”)	Under control of HNA Group
Luckyway International Travel Service Co. Ltd. (“Luckyway”)	Under control of HNA Group
HNA Safe Car Rental Co. Ltd. (“HNA Safe”)	Under control of HNA Group
Tianjin Airlines Co., Ltd. (“Tianjin Airlines”)	Under control of HNA Group
Grand China Aviation Technik Co. Ltd. (“GCA Technik”)	Under control of HNA Group
Hainan HNA China Duty Free Merchandise Co., Ltd. (“HNA China Duty Free”)	Under control of HNA Group
Hong Kong Airlines Co. Ltd. (“Hong Kong Airlines”)	Under control of HNA Group
Hong Kong Express Airlines Co., Ltd. (“Hong Kong Express Airlines”)	Under control of HNA Group
Western Airlines Co., Ltd. (“Western Airlines”)	Under control of HNA Group
HNA Lucky Air Co. Ltd (“Yunnan Xiangpeng”)	Under control of HNA Group
Grand China Aviation Ground Service (“Xinhua Konggang”)	Under control of HNA Group

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions

(a) Pricing policies

The Group's pricing on raw materials purchased from related parties, and services provided or received from related parties are based on market price.

(b) Purchases of goods and services

	2011	2010
Hainan Airlines	24,249,886	28,118,787
Haikou Meilan	18,639,841	17,036,038
HNA Group	15,093,390	14,002,089
Island Opal	10,912,550	5,119,384
HNAAIS	1,348,061	2,045,482
Hainan Newborn	9,203,819	—
	79,447,547	66,321,780

(c) Rendering of services

	2011	2010
Hainan Airlines	113,728,992	98,954,344
Capital Airlines	16,267,959	5,230,361
Tianjin Airlines	8,017,313	8,092,373
Hong Kong Express Airlines	7,186,676	2,610,225
Luckyway	6,527,760	5,471,809
HNA China Duty Free	4,693,944	4,060,697
Western Airlines	2,221,399	1,998,274
Hainan Food	991,257	3,020,100
Others	7,186,676	4,215,625
	166,821,976	133,653,808

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions (Continued)

(d) Remuneration of key management

	2011	2010
Remuneration of key management	2,467,814	2,074,579

(e) Directors' emoluments

Directors' emoluments for the year ended 31 December 2011 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefits	Others	Total
Zhao Yahui	4,834	18,083	—	—	—	—	—	22,917
Xing Xihong	70,000	168,000	16,787	—	—	—	—	254,787
Liang Jun	70,000	264,000	16,787	—	—	—	—	350,787
Zhang Han'an	50,000	—	—	—	—	—	—	50,000
Chan Nap Kee, Joseph	50,000	—	—	—	—	—	—	50,000
Yan Xiang	50,000	—	—	—	—	—	—	50,000
Hu Wentai	50,000	217,000	16,787	—	—	—	—	283,787
Xu Bailing	100,000	—	—	—	—	—	—	100,000
Fung Ching, Simon	100,000	—	—	—	—	—	—	100,000
Dong Zhanbin	65,166	245,000	16,787	—	—	—	—	326,953
George F. Meng	100,000	—	—	—	—	—	—	100,000
Feng Da'an	100,000	—	—	—	—	—	—	100,000

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions (Continued)

(e) Directors' emoluments (Continued)

Directors' emoluments for the year ended 31 December 2010 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefits	Others	Total
Zhao Yahui	70,000	211,200	13,118	—	—	—	—	294,318
Xing Xihong	70,000	105,600	13,118	—	—	—	—	188,718
Liang Jun	70,000	199,200	13,118	—	—	—	—	282,318
Zhang Han'an	50,000	—	—	—	—	—	—	50,000
Chan Nap Kee, Joseph	50,000	—	—	—	—	—	—	50,000
Yan Xiang	50,000	—	—	—	—	—	—	50,000
Hu Wentai	50,000	211,200	13,118	—	—	—	—	274,318
Xu Bailing	100,000	—	—	—	—	—	—	100,000
Fung Ching, Simon	100,000	—	—	—	—	—	—	100,000
Xie Zhuang	56,793	—	—	—	—	—	—	56,793
George F.Meng	100,000	—	—	—	—	—	—	100,000
Feng Da'an	43,207	—	—	—	—	—	—	43,207

(f) The five individuals whose emoluments are the highest

The five individuals whose emoluments were the highest in the Group for the year include four (2010: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2010: one) individuals during the year are as follows:

	2011	2010
Basic salaries, bonus, housing allowance, other allowances in kind	192,000	133,550
Pension	3,740	13,118
	195,740	146,668

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions (Continued)

(f) The five individuals whose emoluments are the highest (Continued)

	Number of individuals	
	2011	2010
Emolument bands: RMB0 – 1,000,000	1	1

(g) Interest Income

	2011	2010
HNA Group Finance	5,351,907	7,885,117

Calculated in accordance with rates of commercial banks over the same period.

(6) Significant receivables from and payables to related parties

(a) Cash at bank

	31 December 2011	31 December 2010
HNA Group Finance	150,447,515	436,366,137

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Significant receivables from and payables to related parties (Continued)

(b) Accounts receivable

	31 December 2011	31 December 2010
Hainan Airlines	31,155,928	99,875,989
Capital Airlines	17,423,698	7,590,544
Tianjin Airlines	8,788,928	17,037,468
Hong Kong Express Airlines	14,095,478	4,674,723
Hong Kong Airlines	6,771,473	8,143,209
Hainan Food	1,123,228	4,525,906
Luckyway	6,682,409	7,954,649
Western Airlines	768,821	2,846,590
HNA China Duty Free	682,915	1,773,859
GCA Technik	298,080	—
Yunnan Xiangpeng	407,166	252,128
Others	780,727	1,060,994
	88,978,851	155,736,059

(c) Advances to suppliers

	31 December 2011	31 December 2010
Haikou Meilan (Note 7(7))	219,361,200	—
Others	148,739	—
	219,509,939	—

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Significant receivables from and payables to related parties (Continued)

(d) Other receivables

	31 December 2011	31 December 2010
Hainan Airlines	458,559	764,743
Luckyway	—	4,273,795
Others	731,239	247,514
	1,189,798	5,286,052

(e) Interest receivable

	31 December 2011	31 December 2010
HNA Group Finance	867,699	234,688

(f) Accounts payable

	31 December 2011	31 December 2010
Hainan Newbourn	2,711,526	—
Island Opal	1,041,934	583,545
Others	473,964	425,411
	4,227,424	1,008,956

(g) Other payables

	31 December 2011	31 December 2010
Haikou Meilan	30,481,334	94,320,605
Luckyway	1,000,000	1,000,000
Others	1,459,773	177,604
	32,941,107	95,498,209

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Significant receivables from and payables to related parties (Continued)

(h) Advances from customers

	31 December 2011	31 December 2010
Haikou Meilan (Note 7(7))	3,128,973	—
HNA China Duty Free	61,901	61,901
	3,190,874	61,901

(i) Directors' emolument payable


	31 December 2011	31 December 2010
Directors' emolument payable	1,579,934	1,114,728

(7) Significant commitments in relation to related parties

The commitments in relation to related parties contracted for but not yet necessary to be recognised on the balance sheet by the Group as at the balance sheet date are as follows:

Transfer of assets	31 December 2011	31 December 2010
Land Use Right Transfer Agreement and Terminal and its Ancillary Project Acquisition Agreement with Haikou Meilan		
— Receivable of Land Use Right Transfer from Haikou Meilan (note a-1)	(28,160,761)	—
— Payable of Terminal and its Ancillary Project acquisition to Haikou Meilan (note a-2)	877,444,800	—
	849,284,039	—
Transfer of 95% Share Rights on Hainan Travelling		
— Receivable of Share Rights Transfer from Xinhua Konggang (note 10)	13,319,000	—

(a) On 26 August 2011, the Company entered into the Land Use Right Transfer Agreement and Terminal and its Ancillary Project Acquisition Agreement with Haikou Meilan respectively.



NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2011
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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(7) Significant commitments in relation to related parties (Continued)

- (a-1) Pursuant to the Land Use Right Transfer Agreement, in order to facilitate the construction of the Project and the obtaining of relevant property ownership certificate(s) as a whole by Haikou Meilan, the Company will transfer the land use right of the land with a site area of about 125 acres at a consideration of RMB31,289,734. As at 31 December 2011, the company has received a deposit of the consideration amounting to RMB3,128,973 from Haikou Meilan.
- (a-2) Pursuant to the Terminal and its Ancillary Project Acquisition Agreement, Haikou Meilan agreed to sell all assets comprising the Project upon completion of construction of the Project, including but not limited to, the land use rights of the Project, and all buildings, equipment, facilities and other related assets comprising the Project upon completion of construction of the Project, at a consideration of RMB1,096,806,000. As at 31 December 2011, the Company has paid a Tentative Acquisition Consideration amounting to RMB219,361,200 (note 5(3)).

8 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to mitigate the foreign exchange risk. During 2011 and 2010, the Group did not enter into any forward exchange contracts or currency swap contracts.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

As at 31 December 2011 and 2010, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2011		
	USD	Other	Total
Financial assets denominated in foreign currency —			
Cash at bank and on hand	2,481,217	34,251	2,515,468
Financial liabilities denominated in foreign currency —			
Long-term borrowings	456,815,250	—	456,815,250

	31 December 2010		
	USD	Other	Total
Financial assets denominated in foreign currency —			
Cash at bank and on hand	1,439,891	36,724	1,476,615

As at 31 December 2011, if the currency had weakened/strengthened by 10% against the USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB39,981,395 (2010: RMB126,710) lower/higher for various financial assets and liabilities denominated in USD.

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2011, the Group's long-term interest bearing borrowings were mainly RMB-denominated with floating rates, amounting to USD72,500,000 (31 December 2010: nil), RMB456,815,250 (31 December 2010: nil) (Note 5(15)).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(b) Interest rate risk (Continued)

Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's finance department at its headquarters continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. The Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2011 and 2010, the Group did not enter into any interest rate swap agreements.

For the year ended 31 December 2011, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately USD 236,339, equivalent to RMB1,489,151 (2010: nil).

(2) Credit risk

Credit risk is managed on a Group basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, and other receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium, large size listed banks or HNA Group Finance. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2011			Total
	Within 1 year	1 to 2 years	2 to 5 years	
Financial assets				
Cash at bank and on hand	366,887,159	—	—	366,887,159
Account receivables	145,125,372	—	—	145,125,372
Other receivables	3,696,823	—	—	3,696,823
Interests receivable	1,793,832	—	—	1,793,832
	517,503,186	—	—	517,503,186
Financial liabilities				
Accounts payable	17,575,257	—	—	17,575,257
Other payables	75,885,685	—	—	75,885,685
Interests payable	3,508,354	—	—	3,508,354
Long-term borrowings	77,920,024	127,276,314	292,900,998	498,097,336
	174,889,320	127,276,314	292,900,998	595,066,632

	31 December 2010			Total
	Within 1 year	1 to 2 years	2 to 5 years	
Financial assets				
Cash at bank and on hand	960,553,354	—	—	960,553,354
Accounts receivable	218,363,021	—	—	218,363,021
Other receivables	8,325,399	—	—	8,325,399
Interests receivable	1,591,669	—	—	1,591,669
	1,188,833,443	—	—	1,188,833,443
Financial liabilities				
Account payables	6,339,915	—	—	6,339,915
Other payables	143,629,683	—	—	143,629,683
Interests payable	14,520	—	—	14,520
Long-term borrowings	4,390,720	2,165,330	2,055,440	8,611,490
	154,374,838	2,165,330	2,055,440	158,595,608

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2011		31 December 2010	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	498,097,336	—	8,611,490	—

(4) Fair value

Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent accounts receivable, other receivables, interest receivable, accounts payable, other payables, interest payable, and long-term borrows.

The carrying amount of the other financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

9 COMMITMENTS

Capital commitments

Capital expenditures contracted for but not yet necessary to be recognised on the balance sheet

	31 December 2011	31 December 2010
Buildings, machinery and equipment	877,444,800	—

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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10 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the agreement of “Share Rights Transfer Agreement of Hainan Meilan International Airport Travelling Co., Ltd.” signed on the date of 16 December 2011 between the Company, Haikou Meilan and Xinhua Konggang, the company and Haikou Meilan would transfer their 100% shares of interest on Meilan Travelling to Xinhua Konggang at a consideration of RMB14,020,000. The consideration for the 95% share of the Company was RMB13,319,000. The change of business registration was completed on the date of 28 January 2012.

According to “CSRC Approval [2011] No. 2082”— “The Approval of publicly offering corporate bonds for Hainan Meilan International Airport Company Limited”, approving the offer and issue of the Domestic Corporate Bonds with an aggregate principal amount of not more than RMB800 million. The approval shall be valid within 6 months, that is, before 23 June 2012. As at 13 March 2012, the Company issued Domestic Corporate Bonds with an aggregate principal amount of RMB800 million, with Maturity of 7 years, issue price of each Bonds of RMB100, and interest rate of 7.8%. The lead underwriter of the issue was GF Securities Co., Ltd. The Company completed the issuance on 19 March 2012.

11 NOTES TO THE COMPANY’S FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2011	31 December 2010
Cash on hand	16,630	32,205
Cash at bank	322,563,069	908,809,578
	322,579,699	908,841,783

(2) Accounts receivable

	31 December 2011	31 December 2010
Accounts receivables		
— from aeronautical services	122,708,420	198,048,826
— from non-aeronautical services	20,178,977	21,204,548
	142,887,397	219,253,374
Less: provision for bad debts	(4,723,631)	(4,346,414)
	138,163,766	214,906,960

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

The credit terms given to customers are determined on an individual basis by the management, with a normal credit period ranging from 1 to 3 months.

The ageing of accounts receivable is analysed below:

	31 December 2011	31 December 2010
Within 90 days	87,426,157	104,588,770
91 to 180 days	8,101,253	41,192,621
181 to 365 days	32,904,461	56,143,496
Over 365 days	14,455,526	17,328,487
	142,887,397	219,253,374

	31 December 2010	Additions	Reductions		31 December 2011
			Reversal	Written off	
Provision for bad debts	4,346,414	1,485,836	(1,108,619)	—	4,723,631

(3) Other receivables

	31 December 2011	31 December 2010
Franchise fee from intragroup companies	3,866,018	28,027,448
Advance Packaging fee for Meilan Cargo	21,288,699	480,564
Others	10,569,367	6,824,277
	35,724,084	35,332,289

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

The ageing of other receivables is analysed below:

	31 December 2011	31 December 2010
Within 90 days	14,779,950	3,266,234
91 to 180 days	7,158,938	708,114
181 to 365 days	7,525,267	1,852,480
Over 365 days	6,259,929	29,505,461
	35,724,084	35,332,289

(4) Long-term equity investments

	31 December 2011	31 December 2010
Subsidiaries (a)		
— Unlisted companies Associates	19,533,836	19,533,836
Associates (b)		
— Unlisted companies	1,068,164,742	30,874,651
	1,087,698,578	50,408,487

(a) Subsidiaries

	31 December 2010	Increase in current year	Decrease in current year	31 December 2011	Interest Held (%)	Voting Rights (%)
Meilan Advertising	950,000	—	—	950,000	95	100
Meilan Duty Free Shop	277,825	—	—	277,825	95	100
Meilan Traveling	13,206,011	—	—	13,206,011	95	100
Meilan Cargo	5,100,000	—	—	5,100,000	51	60
	19,533,836	—	—	19,533,836		

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Long-term equity investments (Continued)

(b) Associates

	31 December 2010	Additional investment cost	Share of profit of investees under equity method	31 December 2011	Interest Held (%)	Voting Rights
Haikou Decheng HNA — Airport	30,874,651	—	—	30,874,651	30	1/3
	—	1,011,715,103	25,574,988	1,037,290,091	24.5	1/7
	30,874,651	1,011,715,103	25,574,988	1,068,164,742		

No significant restrictions on the long term equity investments.

(5) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and others	Total
Cost					
31 December 2010	951,824,250	211,546,076	76,852,399	52,704,459	1,292,927,184
Transfer from CIP	1,812,229	—	—	—	1,812,229
Additions	7,033,321	4,069,285	16,686,671	5,315,195	33,104,472
Disposals	(220,071)	(17,000)	(2,070,109)	(1,524,620)	(3,831,800)
31 December 2011	960,449,729	215,598,361	91,468,961	56,495,034	1,324,012,085
Accumulated depreciation					
31 December 2010	(209,680,545)	(98,181,329)	(49,143,516)	(30,050,327)	(387,055,717)
Depreciation	(24,599,600)	(17,027,983)	(5,476,935)	(9,045,163)	(56,149,681)
Disposals	103,802	14,896	1,811,737	1,223,144	3,153,579
31 December 2011	(234,176,343)	(115,194,416)	(52,808,714)	(37,872,346)	(440,051,819)
Net book value					
31 December 2011	726,273,386	100,403,945	38,660,247	18,622,688	883,960,266
31 December 2010	742,143,705	113,364,747	27,708,883	22,654,132	905,871,467

A depreciation expense of RMB55,588,197 and RMB561,484 was charged in operating costs and general and administrative expenses in 2011 (for 2010, the amounts are: RMB55,199,645 and RMB463,708).

The cost of fixed assets transferred from construction in progress which consist of buildings amount to RMB1,812,229 in the current year.

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(6) Intangible assets

	Land use right
Cost	
31 December 2010 and 31 December 2011	179,637,283
Accumulated amortisation	
31 December 2010	(29,235,381)
Amortisation	(3,163,189)
31 December 2011	(32,398,570)
Net book amount	
31 December 2011	147,238,713
31 December 2010	150,401,902

Amortisation expenses of RMB3,163,189 (for the year of 2010: RMB 3,220,381) were charged in cost of sales in the current year.

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

	31 December 2011	31 December 2010
Inside Mainland China —		
between 10 to 50 years	61,454,272	63,064,426
over 50 years	85,784,441	87,337,476
	147,238,713	150,401,902

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(7) Accounts payable

The ageing of accounts payable is analysed below:

	31 December 2011	31 December 2010
Within 90 days	11,812,445	3,361,293
91 to 180 days	745,955	357,350
Over 181 days	4,492,668	2,128,532
	17,051,068	5,847,175

(8) Revenue

	2011	2010
Aeronautical:		
Passenger charges	152,339,324	133,273,493
Airport fee	118,851,803	103,196,893
Aircraft movement fees and related charges	51,773,603	46,726,853
Ground handling services income	34,815,730	32,439,487
	357,780,460	315,636,726
Non-aeronautical:		
Franchise fee	63,473,770	54,968,059
Freight and packing	—	11,339,116
Rental	27,922,743	16,291,885
VIP room charge	26,023,343	16,862,586
Car parking	8,087,793	7,128,447
Others	14,371,489	14,199,450
	139,879,138	120,789,543
	497,659,598	436,426,269

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(9) Financial income – net

	2011	2010
Interest income	6,878,732	11,275,914
Less: interest expense arisen from bank borrowings	(16,689,910)	(633,930)
Exchange gains—net	21,332,691	146,857
Less: Amortisation of financial charges	(1,555,601)	—
Others	(1,375,943)	(88,843)
	8,589,969	10,699,998

Interest expense are analysed by the repayment terms of bank:

	2011	2010
Wholly repayable within five years	16,689,910	633,930

(10) Investment income

	2011	2010
Share of profit of investees under equity method — HNA Airport	25,574,988	—
Share of profit of investees under cost method — Meilan Cargo	2,550,000	—
	28,124,988	—

No significant restrictions on the repatriation of investment income.

(11) Non-operating income

	2011	2010
Gains on initial recognition of long-term investment on HNA Airport (Note 5(6))	26,490,103	—
Government grants	792,000	423,000
Gains on disposal of Fixed assets	200,000	189,100
Others	39,423	58,085
	27,521,526	670,185

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(12) Income tax expenses

	2011	2010
Current income tax	33,801,649	11,488,761
Deferred income tax	(1,249,863)	(610,577)
	32,551,786	10,878,184

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the financial statements to the income tax expenses is listed below:

	2011	2010
Total profit	320,103,649	246,040,924
Income tax expenses calculated at applicable tax rates	76,824,875	54,129,003
Effect of change in the tax rates	(32,551,786)	(26,640,059)
Income not subject to tax	(12,495,622)	(1,763,329)
Expenses not deductible for tax purposes	774,319	441,231
Expenses deductible for China-made Equipments	—	(15,288,662)
Income tax expenses	32,551,786	10,878,184

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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11 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(13) Supplementary information to the Company's cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	2011	2010
Net profit	287,551,863	235,162,740
Add: Provisions/(Reversal of) for asset impairment	377,217	(6,796,945)
Depreciation of fixed assets	56,149,681	55,663,353
Amortisation of intangible assets	3,163,189	3,220,381
Losses on disposal of fixed assets	412,832	379,107
Financial (income)/expenses	(3,087,180)	487,073
Investment income	(28,124,988)	—
Gain on acquisition of HNA Airport 24.5% shares (note 5(26))	(26,490,103)	—
Increase in deferred tax assets	(1,249,863)	(610,577)
Increase in inventories	(380)	(14,428)
Decrease/(Increase) in operating receivables	96,433,722	(32,586,182)
(Decrease)/Increase in operating payables	(75,805,901)	118,047,970
Net cash flows from operating activities	309,330,089	372,952,492

(b) Net increase/decrease in cash and cash equivalents

	2011	2010
Cash and cash equivalents at end of the year	322,579,699	908,841,783
Less: cash and cash equivalents at beginning of the year	(908,841,783)	(719,000,318)
Net (decrease)/increase in cash and cash equivalents	(586,262,084)	189,841,465

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2011
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12 NET CURRENT ASSETS

	The Group	
	31 December 2011	31 December 2010
Current assets	524,899,250	1,202,214,480
Less: Current liabilities	(232,030,865)	(236,544,938)
Net current assets	292,868,385	965,669,542

	The Company	
	31 December 2011	31 December 2010
Current assets	503,691,748	1,173,151,302
Less: Current liabilities	(242,836,648)	(235,644,178)
Net current assets	260,855,100	937,507,124

13 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	31 December 2011	31 December 2010
Total assets	2,855,002,529	2,297,966,610
Less: Current liabilities	(232,030,865)	(236,544,938)
Total assets less current liabilities	2,622,971,664	2,061,421,672

	The Company	
	31 December 2011	31 December 2010
Total asset	2,852,059,068	2,287,555,545
Less: Current liability	(242,836,648)	(235,644,178)
Total asset less current liability	2,609,222,420	2,051,911,367