THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, or as to the action to be taken, you should consult our stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Hainan Meilan International Airport Company Limited**, you should at once hand this circular together with the enclosed form of proxy to the purchaser or other transferees or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

美兰机场
MEILAN AIRPORT

海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

PROPOSED ISSUE OF A SHARES IN THE PRC
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND PROCEDURAL RULES AND SYSTEMS
AND
SPECIAL DIVIDENDS

Financial Adviser to
Hainan Meilan International Airport Company Limited

廣發融資（香港）有限公司
GF Capital (Hong Kong) Limited

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

OPTIMA CAPITAL
Optima Capital Limited

Capitalized terms used in this cover page have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 6 to 30 of this circular. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders of the Company is set out on pages 31 to 32 of this circular.

A letter from Optima Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 59 of this circular.

Notices convening the EGM and CSMs to be held on 31 May 2010 in the meeting room on 3rd Floor, Office Building of Haikou Meilan International Airport, Haikou City, Hainan Province, the PRC are set out on pages EGM-1 to DCSM-5 of this circular, together with the rely slips and forms of proxy are enclosed herein. Whether or not you are to attend the EGM and/or CSMs, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the meetings. Completion and return of the form of proxy shall not preclude you from attending and voting at the meetings or any adjourned meetings should you so desire.

13 May 2010

* *For identification purpose only*

CONTENTS

Unless the context requires otherwise, the following expressions shall have the following meanings in this circular:

"A Share(s)"	the domestic ordinary share(s) of the Company with a nominal value of RMB1.00 each
"A Share Issue"	the proposed issue of 200,000,000 A Shares to qualified institutional investors as approved by CSRC and subscribers allowed by the regulatory bodies and by the applicable PRC laws and regulations at the time of A Share Issue, and the A Shares to be issued therefore are proposed to be listed on the Shanghai Stock Exchange
"Acquisition"	the proposed acquisition of 54.5% of the issued share capital of HNA Airport by the Company subject to the terms and conditions of the Share Transfer Agreements
"Announcements"	the announcements of the Company dated 6 April 2010 and 21 April 2010 in relation to, among others, the Acquisition and the A Share Issue
"Associate"	the meaning ascribed thereto in the Listing Rules
"Articles of Association"	Articles of Association of the Company
"Beijing Lixin"	北京立信資產評估有限公司 (Beijing Lixin Assets Appraisal Company Limited*), an independent qualified valuer in the PRC
"Board"	the board of Directors
"CAAC"	中國民用航空局 (Civil Aviation Administration of China)
"Company"	海南美蘭國際機場股份有限公司 (Hainan Meilan International Airport Company Limited*), a joint stock limited company incorporated in the PRC on 28 December 2000, 226,913,000 H Shares of which are listed on the Stock Exchange and 246,300,000 Domestic Shares of which are held by the PRC Shareholders including HNA Group
"Completion"	the completion of the Acquisition as contemplated in the Share Transfer Agreements
"Completion Date(s)"	the date(s) of completion respectively agreed under the Kingward Agreement and the HNA Group Agreement

"Connected Person"	the meaning ascribed thereto in the Listing Rules
"Consideration"	RMB2,199.9 million, being the aggregate consideration of the Acquisition
"CSM(s)"	the general meeting for each of the holders of H Shares and holders of Domestic Shares or either of them
"CSRC"	China Securities Regulatory Commission
"Director(s)"	director(s) of the Company
"Domestic Shares"	the domestic shares with a nominal value of RMB1.00 each in the registered capital of the Company
"Dongying Yong An"	東營永安機場有限責任公司(Dongying Yong An Airport Co., Ltd*), a company incorporated in the PRC
"Dunhuang Mogao"	敦煌莫高機場管理公司(Dunhuang Mogao Airport Management Company Limited*), a company incorporated in the PRC
"EGM"	the extraordinary general meeting of the Company to be convened to approve, amongst other things, the Acquisition and the A Share Issue
"Enlarged Group"	the Group as enlarged by the Acquisition
"Further Announcement"	the further announcement of the Company dated 21 April 2010 in relation to the Acquisition
"GF Capital"	GF Capital (Hong Kong) Limited, the financial adviser to the Company which is a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
"Gansu Airport Group"	甘肅機場集團有限公司(Gansu Airport Group Company Limited*), a company incorporated in the PRC
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas listed foreign shares with a nominal value of RMB1.00 each in the registered capital of the Company which are listed on the Stock Exchange

"HNA Airport"	海航機場控股(集團)有限公司(HNA Airport Holding (Group) Company Ltd*), the target company of the Share Transfer Agreements
"HNA Group"	海航集團有限公司(HNA Group Company Limited*), a company incorporated in the PRC with limited liability, which holds 0.74% share capital of the Company and 51% equity interest in HNA Airport prior to the Completion
"HNA Group Agreement"	the agreement entered into between the Company (as the Purchaser) and HNA Group (as the Vendor) on 25 March 2010 in respect of the acquisition of the 30% equity interest in HNA Airport by the Company from HNA Group
"HNA Group Sale Shares"	the 30% of the issued share capital of HNA Airport held by the HNA Group and sold pursuant to the HNA Group Agreement
"HNA Group Supplemental Agreement"	the supplemental agreement entered into between HNA Group (as the vendor) and the Company (as the purchaser) on 31 March 2010
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	a committee consisting of the Independent Non-executive Directors
"Independent Non-executive Directors"	Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng
"Independent Shareholders"	any Shareholder(s) that is(are) not required to abstain from voting at the general meeting in relation to the approval of the HNA Group Agreement under the Listing Rules
"Independent Third Party(ies)"	to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, any third party(ies) that is (are) independent of the Company and its Connected Person (as defined in the Listing Rules)
"Jiayuguan"	嘉峪關機場管理有限公司(Jiayuguan Airport Management Company Limited*), a company incorporated in the PRC
"Kingward"	Kingward Investment Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party

"Kingward Agreement"	the agreement entered into between the Company (as the Purchaser) and Kingward (as the Vendor) on 25 March 2010 in respect of the acquisition of the 24.5% equity interest in HNA Airport by the Company from Kingward
"Kingward Sale Shares"	the 24.5% of the issued share capital of HNA Airport held by Kingward and sold pursuant to the Kingward Agreement
"Lanzhou Zhongchuan"	蘭州中川機場管理有限公司(Lanzhou Zhongchuan Airport Management Company Limited*), a company incorporated in the PRC
"Latest Practicable Date"	10 May 2010, being the latest practicable date for ascertaining certain information for inclusion in this circular before printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Manzhouli Xijiao"	滿洲里西郊機場有限責任公司(Manzhouli Xijiao Airport Company Limited*), a company incorporated in the PRC
"Meilan Airport"	海南美蘭國際機場(Hainan Meilan International Airport*), an airport located in Haikou City, Hainan Province, the PRC
"Optima Capital"	Optima Capital Limited, appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to give them advice on the HNA Group Agreement
"PRC"	the People's Republic of China
"PRC Lawyer"	Grandall Legal Group (Shanghai), the legal adviser to the Company as to the PRC laws and an Independent Third Party
"Qingyang Xifeng"	慶陽西峰機場管理有限公司(Qingyang Xifeng Airport Management Company Limited*), a company incorporated in the PRC
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC
"Sale Shares"	the 54.5% of the issued share capital of HNA Airport comprising of the HNA Group Sale Shares and Kingward Sale Shares
"Sanya Phoenix"	三亞鳳凰國際機場有限責任公司(Sanya Phoenix International Airport Co. Limited*), a company incorporated in the PRC

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	the ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Shares
"Share Transfer Agreements"	the HNA Group Agreement and the Kingward Agreement
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"US$"	the lawful currency of the United States of America
"Vendor(s)"	HNA Group and Kingward or either of them
"Worldwide"	Worldwide United Limited, a company incorporated in Hong Kong with limited liability, an Independent Third Party
"Yichang Sanxia"	宜昌三峽機場有限責任公司(Yichang Sanxia Airport Company Limited*), a company incorporated in the PRC
"%"	per cent

* *For identification purpose only*

For the purpose of this circular, unless otherwise indicated, exchange rates of RMB1.00 to HK$1.13, US$1.00 to HK$7.7066 and US$1.00 to RMB6.82 have been used. The usage of these exchange rates is for illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged or converted at the above rates or at any other rate at all.

美兰机场
MEILAN AIRPORT

海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

Executive Directors:
Zhao Yahui, Chairman
Liang Jun, Chief Executive Officer
Xing Xihong, Chief Financial Officer

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
Xie Zhuang
George F Meng

Registered Office:
Meilan Airport Office Building
Haikou City
Hainan Province, the PRC

Principal Place of Business in Hong Kong:
28/F, Bank of East Asia
Harbour View Centre
56 Gloucester Road
Hong Kong

13 May 2010

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

**PROPOSED ISSUE OF A SHARES IN THE PRC
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND PROCEDURAL RULES AND SYSTEMS
AND
SPECIAL DIVIDENDS**

INTRODUCTION

Reference is made to the Announcements.

On 25 March 2010, the Company entered into the conditional Share Transfer Agreements with the Vendors (namely HNA Group and Kingward) respectively for the acquisition of 54.5% of the issued share capital of HNA Airport Holding (Group) Company Ltd. (hereinafter referred to as "HNA Airport") at the total consideration of RMB2,199.9 million (approximately HK$2,485.887 million) which shall be satisfied in cash.

* *For identification purpose only*

The Acquisition constitutes a very substantial acquisition of the Company under Rule 14.07 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules. As HNA Group is the promoter of the Company holding approximately 0.74% equity interest in the Company, HNA Group is a connected person of the Company and hence the entering into of the HNA Group Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the acquisition under the HNA Group Agreement is subject to the Independent Shareholders' approval requirement of Chapter 14A of the Listing Rules. Haikou Meilan International Airport Co., Ltd. ("Haikou Meilan") is the controlling shareholders of the Company and holds 50.19% equity interest in the Company with material interest in the Acquisition. Haikou Meilan, HNA Group and its associates, being connected persons of the Company with material interest in the HNA Group Agreement, will abstain from voting at the EGM in relation to the resolution to approve the HNA Group Agreement.

The Independent Board Committee comprising Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng, all being Independent Non-executive Directors of the Company, has been established to advise the Independent Shareholders in respect of the terms of the Share Transfer Agreements. Optima Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the HNA Group Agreement.

This circular gives you (i) further information on the Acquisition; (ii) the Letter of the Independent Board Committee, which sets out its recommendation to the Independent Shareholders; (iii) the Letter of Optima Capital, which sets out its advice to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Enlarged Group; (v) the business valuation report of HNA Airport; (vi) the property valuation report of the Enlarged Group; (vii) the proposed issue of A Shares; (viii) the proposed amendments to the Articles of Association and procedural rules and systems; (ix) the proposed payment of special dividends; and (x) other information required by the Listing Rules and the notices of EGM and CSMs.

THE KINGWARD AGREEMENT

Date: 25 March 2010 (as supplemented by a letter of exchange dated 1 April 2010)

Parties:

Purchaser: the Company

Vendor: Kingward

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Kingward and its ultimate beneficial owner(s) are Independent Third Party(ies) of the Company and HNA Group.

Pursuant to the Kingward Agreement, Kingward has agreed to sell its 24.5% equity interest in HNA Airport to the Company.

THE HNA GROUP AGREEMENT

Date: 25 March 2010

Parties:

Purchaser: the Company

Vendor: HNA Group

As HNA Group is the promoter of the Company holding approximately 0.74% equity interest in the Company, HNA Group is a connected person of the Company under Chapter 14A of the Listing Rules.

Pursuant to the HNA Group Agreement, HNA Group has agreed to sell its 30% equity interest in HNA Airport to the Company.

The Kingward Agreement and the HNA Group Agreement are not inter-conditional.

ASSETS TO BE ACQUIRED AND CONSIDERATION:

(a) Prior to the entering into of the Share Transfer Agreements, HNA Group, Worldwide and Kingward respectively own 51%, 24.5% and 24.5% of the issued share capital of HNA Airport. Pursuant to the Share Transfer Agreements, the Company will acquire 54.5% equity interests in HNA Airport, including HNA Group Sale Shares and Kingward Sale Shares, at a total consideration of RMB2,199,900,000 (approximately HK$2,485,887,000), including RMB1,211,000,000 (approximately HK$1,368,430,000) for HNA Group Sale Shares and US$145 million (approximately RMB988,900,000 or HK$1,117,457,000) for Kingward Sale Shares.

HNA Airport was established by HNA Group, Kingward and Worldwide in 2007 with registered capital of US$408,200,000. HNA Group holds 51% of the issued share capital of HNA Airport with the capital contribution of US$208,200,000 (approximately RMB1,419,924,000 or HK$1,604,514,120). Kingward holds 24.5% of the issued share capital of HNA Airport with the capital contribution of US$100,000,000 (approximately RMB682,000,000 or HK$770,660,000).

(b) The Consideration was determined by the Company and Vendors after arm's length negotiations and considering a number of factors, including but not limited to the valuation, growth potential and asset appreciation prospect of HNA Airport. The valuation of HNA Airport of approximately RMB4,075,645,509.32 (approximately HK$4,605,479,425.53) as at 31 December 2009 was determined by Beijing Lixin by reference to the market value of HNA Airport using cost approach. Beijing Lixin is an Independent Third Party and not connected with the Company.

SATISFACTION OF CONSIDERATION:

In relation to Kingward Sale Shares:

(a) The Company shall pay 50% of the consideration, i.e. US$72.50 million (approximately RMB494,450,000 or HK$558,728,500), as non-refundable prepayment ("Prepayment") to Kingward before 15 June 2010;

(b) The Company shall pay the remaining 50% of the consideration, i.e. US$72.50 million (approximately RMB494,450,000 or HK$558,728,500) ("Balance") to Kingward before 20 December 2010;

(c) The Prepayment (or/and the Balance) or any part of it paid by the Company shall not be refunded. If, after the Company has paid part or all of the consideration, Kingward commits grave breach of the Kingward Agreement on purpose and fails to make substantive remedies within 30 days from the date where Kingward receives the notice issued by the Company requesting Kingward to make remedies in regard to such breach, which results in the failure in fulfillment of objective of Kingward Agreement or in continuing performance of Kingward Agreement, the Company has the right to require Kingward to refund the paid consideration and indemnify the Company the amount calculated as follows:–

The paid consideration × the interest rate of the People's Bank of China for one year time deposit × (the days between the date of payment and the date of refunding the same)/360

(d) If, after the Company has paid the Prepayment, the Company fails to pay the Balance on time due to force majeure or other reasons beyond the control of the Company, the Company shall immediately notify Kingward in writing giving the reasons. With Kingward's written consent and upon the fulfillment or exemption of other conditions for transfer, Kingward will transfer 12.25% equity interest in HNA Airport to the Company, and the Prepayment will become part of the consideration. The Company will go through the formalities relating to the change of registration with the competent authorities in accordance with the agreement under the Kingward Agreement, i.e. to complete the required registration procedures with the relevant authorities in respect of the share transfer on Completion Date or otherwise agreed between the parties, and Kingward shall provide assistance as reasonably requested by the Company. Meanwhile, both parties shall agree on the performance of terms and conditions regarding the Balance through negotiation in good faith.

In relation to HNA Group Sale Shares:

(a) The Company shall pay 15% of the consideration, i.e. RMB181.65 million (approximately HK$205.26 million) to HNA Group within 10 days after the HNA Group Agreement becomes effective;

(b) The Company shall pay the remaining 85% of the consideration, i.e. RMB1,029.35 million (approximately HK$1,163.17 million) to HNA Group within 30 days after the completion of the share transfer;

(c) If, after the prepayment, (i.e. 15% of the consideration) has been paid by the Company, the Company and HNA Group fail to complete the transfer of HNA Group Sale Shares on the Completion Date, HNA Group shall, besides refunding the prepayment, indemnify the Company the amount calculated as follows:–

The prepayment × the interest rate of the People's Bank of China for one year time deposit × (the days between the date of Prepayment and the date of refunding the same)/360

SOURCE OF FUNDING:

In relation to Kingward Sale Shares:

The Company intends to satisfy the consideration with its current funds and bank borrowings.

In relation to HNA Group Sale Shares:

The Company intends to satisfy the consideration with the proceeds from A Share Issue.

The balance of proceeds from the proposed A Share Issue (if any) will be used as the general working capital of the Company.

CONDITIONS PRECEDENT TO THE KINGWARD AGREEMENT:

The Kingward Agreement will become effective upon the fulfillment of the following precedent conditions:–

(a) all necessary resolutions have been passed by voting at the board meeting and general meeting of Kingward in order to approve the terms and conditions of the Kingward Agreement and the transactions contemplated thereunder; and

(b) all necessary resolutions have been passed by voting at the board meeting and general meeting of the Company (including, if required by law, passed by voting (where necessary, by way of poll) by the Independent Shareholders of the Company at the EGM) in order to approve the terms and conditions of the Kingward Agreement and the transactions contemplated thereunder (Note 1).

The followings are the conditions precedent for the registration of transfer and change of the Kingward Sale Shares:

(a) the Kingward Agreement has become effective before 17 May 2010;

(b) the Company has received the copy of minutes of the board meeting and general meeting of Kingward, and Kingward has received the copy of minutes of the board meeting and general meeting of the Company;

(c) the Company has received the copy of written documents issued by other shareholders of HNA Airport stating their waive of pre-emptive rights regarding the share transfer under Kingward Agreement;

(d) prior to the settlement of share transfer, Kingward shall ensure that it has complete rights of disposal to the Kingward Sale Shares, no third party interests are created on the Kingward Sale Shares, and the Kingward Sale Shares are not subject to any third party interests, including but not limited to the charge, pledge and guarantee, and their transfer may take place in accordance with the agreed terms of the Kingward Agreement;

(e) the parties must obtain the approval or consent necessary for the transfer of the Kingward Sale Shares from the competent government authorities (Note 2); and

(f) Kingward has received all consideration for the transfer of the Kingward Sale Shares.

Notes:

1. If the Company cannot obtain shareholders' approval, the Kingward Agreement will not be effective and the Company will not make any Prepayment.

2. In the event condition (e) above cannot be fulfilled, the parties shall negotiate in good faith for the termination of the Kingward Agreement and for the Prepayment to be refunded without interest.

TERMINATION OF THE KINGWARD AGREEMENT:

If, after the Company has paid part of or all of the consideration for the share transfer, the share transfer fails to be completed before the Completion Date due to certain reasons except the breach of agreement by either party, both parties shall negotiate in good faith on the termination of the Kingward Agreement and the refund of consideration paid by the Company for share transfer. The Prepayment made under the Kingward Agreement is not refundable but may be used to acquire the 12.25% equity interest in HNA Airport from Kingward. Further details are set out in the subsection headed "Satisfaction of Consideration" on page 9 of this circular.

CONDITIONS PRECEDENT TO THE HNA GROUP AGREEMENT:

The HNA Group Agreement will become effective upon the fulfillment of the following precedent conditions:–

(a) the passing by the shareholders of HNA Group at the general meeting of all the necessary resolutions to approve the HNA Group Agreement and the transactions contemplated thereunder;

(b) the passing by way of poll by the Independent Shareholders of the Company at the EGM of all the necessary resolutions to approve the HNA Group Agreement and the transactions contemplated thereunder;

(c) the waiving of pre-emptive rights by each shareholder of HNA Airport as to the HNA Group Sale Shares;

(d) prior to the Completion Date, the Vendor shall ensure that there is no appropriation of funds or external guarantee by any of their connected parties in connection with the funds of HNA Airport. In the event of any frozen funds or equity of HNA Airport, the Vendor shall release the same prior to the date of HNA Group Agreement;

(e) prior to the Completion Date, the Vendor shall ensure that they have complete rights of disposal to the HNA Group Sale Shares, no third party interests are created on the HNA Group Sale Shares, and the HNA Group Sale Shares are not subject to any third party interests, including but not limited to the charge, pledge and guarantee, and their transfer may take place in accordance with the agreed terms of the HNA Group Agreement;

(f) the parties must obtain the approval or consent necessary for the share transfer from the competent government authorities; and

(g) the Company obtains the official approval in connection with the A Share Issue from the relevant authority or department and A Share Issue is completed.

In the event that not all of the above precedent conditions are satisfied or fulfilled within 2 years after the passing of the resolution relating to the A Share Issue at the EGM and CSMs, the HNA Group Agreement shall be terminated automatically and neither the Company nor HNA Group shall undertake any responsibility under the HNA Group Agreement unless the Company and HNA Group agree on such other date to satisfy or fulfill the above conditions.

THE HNA GROUP SUPPLEMENTAL AGREEMENT

Date: 31 March 2010

Parties:

Vendor: HNA Group

Purchaser: the Company

Terms of the HNA Group Supplemental Agreement

Upon full payment of the consideration for the HNA Group Sale Shares by the Company to HNA Group in accordance with the HNA Group Agreement, HNA Group agrees that the Company may nominate four directors to the board of HNA Airport and HNA Group shall recommend the same to replace the four directors nominated by HNA Group originally.

TAX

Pursuant to the Kingward Agreement, all taxes incurred in the PRC as a result of the execution and performance of the Kingward Agreement shall be borne by the Company. If Kingward shall pay any tax (including but not limited to income tax and stamp tax) in accordance with the laws and regulations of the PRC, the Company shall pay all such taxes for Kingward to ensure that Kingward may receive all consideration had such deduction or withholding payment not occurred. The taxes paid by the Company for Kingward include income tax and stamp tax of an aggregate of approximately RMB31,214,000 (approximately HK$35,271,820), exact amount shall be subject to the approval by the tax authorities.

The relevant tax authorities did not confirm whether the income tax was applicable to the Kingward Agreement in the PRC in accordance with the "Double Taxation Arrangement between Mainland China and Hong Kong" and "Notice of the State Administration of Taxation on Issues Concerning the Implementation of Protocol II to the Arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income" when the Announcement was published, but after that, such tax authorities confirmed that the Kingward Agreement should be subject to the income tax at 10% as required by the "Notice of the State Council on Income Tax Reduction on Foreign Enterprise Income from Interest and Other Incomes Originated in the PRC". Thus the payable income tax, together with the stamp tax to be paid by the Company for Kingward, amount to approximately RMB31,214,000 (approximately HK$35,271,820).

Upon receipt of the above confirmation on tax, the Company issued the Further Announcement as soon as reasonably practical. The aforesaid arrangement of income tax payment under the Kingward Agreement was determined after arm's length negotiation between the Company and Kingward and its possible effect has already been considered by the Directors when determining the terms of the Kingward Agreement, including but not limited to the consideration. In fact, the preliminary assessed income tax and stamp tax payable by the Company for Kingward was approximately RMB31,214,000 (approximately HK$35,271,820) which is only approximately 3% of the consideration for the Kingward Sale Shares. Having considered the growth potential and asset appreciation prospect of HNA Airport, the Directors consider that the relevant arrangement is fair and reasonable.

Pursuant to the HNA Group Agreement, the taxes incurred as a result of the execution and performance of the HNA Group Agreement shall be borne by the Company and HNA Group respectively in accordance with the applicable laws and regulations and as required by the competent authorities.

TERMINATION OF THE HNA GROUP AGREEMENT:

(a) Upon the completion of the A Share Issue by the Company, if, for any reason, the HNA Group Agreement is terminated by any party, the Company is entitled to retain the proceeds from the A Share Issue as its general working capital.

(b) If the A Share Issue fails to be completed or the relevant approval is not obtained, the parties may otherwise enter into a supplemental agreement in respect of the acquisition under the HNA Group Agreement. The Directors intend to purchase the HNA Group Sale Shares even if the Company does not proceed with the A Share Issue. A supplemental agreement will be entered in the event that the A Share Issue fails to complete or the official approval is not obtained.

(c) No party shall terminate the HNA Group Agreement unilaterally unless the above precedent conditions fail to be satisfied or fulfilled.

COMPLETION

For the purpose of acquisition of HNA Group Sale Shares, completion shall take place upon the full payment of the consideration of RMB1,211 million (approximately HK$1,368.4 million) or such other days as agreed by the parties involved.

For the purpose of acquisition of Kingward Sale Shares, completion shall take place upon the fulfillment and/or exemption of all precedent conditions and the completion of procedures relating to the registration of transfer and change of Kingward Sale Shares, and no later than seven days after all precedent conditions have been fulfilled and/or exempted (in any event, no later than 27 December 2010) or such other days as agreed by the parties involved.

Upon Completion, the Company will own 54.5% equity interests in HNA Airport. HNA Airport will therefore become a subsidiary of the Company and its financial results will be consolidated into the books of the Company.

THE PRC LEGAL OPINION

Pursuant to the legal opinion issued by the PRC Lawyer on 25 March 2010 in relation to the acquisition of the equity interests in HNA Airport by the Company, among the 51% equity interests in HNA Airport currently held by HNA Group, 37.79% equity interests are under pledge. According to the Agreement on Modification of RMB Loan Pledge Contract of China Development Bank (《國家開發銀行人民幣資金貸款質押合同變更協議》) entered into between HNA Group and China Development Bank on 26 September 2009, the subject, being the equity interest in 134,000,000 shares of Sanya Phoenix held by HNA Group, was changed to the equity interest in 1,144,119,550 shares of HNA Airport held by HNA Group (representing 37.79% of the total share capital of HNA Airport), provided as the security for the loan of RMB548 million from China Development Bank extended under the Loan Contract No.4600070302004020081 entered into between Sanya Phoenix and China Development Bank for the construction of Sanya Phoenix International Airport Phase II. The pledge security was approved by the Reply Regarding the Pledge of Equity Interest in HNA Airport Holding (Group) Company Ltd (《關於海航機場控股(集團)有限公司股權質押的批覆》) (Qiong Shang Wu Geng Zi No. [2009]059) issued by Hainan Provincial Department of Commerce on 24 April 2009, and confirmed by the Notice of Creation and Registration of the Equity Interest Pledge (《股權出質設立登記通知書》) ((Qiong) Gu Zhi Deng Ji She Zi No.[2009] A0900270496) issued by the Industrial and Commercial Administration Bureau of Hainan Province on 5 June 2009, hence was legally registered.

HNA Group intends to transfer its 30% equity interest in HNA Airport, including 13.21% unpledged interest and 16.79% pledged interest in HNA Airport, to the Company. The 16.79% pledged interest will be released from its pledge before completion. Hence, such pledge has no negative impact on the transaction.

The PRC Lawyer is of the opinion that, save as those stated above, none of equity interest in relation to the Acquisition is charged, distressed, frozen or otherwise restricted from transfer. The PRC Lawyer had examined the necessary legal documents of HNA Airport obtained from HNA Airport, the relevant authorities, etc before coming into the conclusion.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors are of the view that the Acquisition will facilitate the Company's medium-long term strategy of evolving into a regional airport management company, underpin the profitability of the Company's principal operations, expand the Company's operation scale and enhance the Company's core competitive power, hence laying a solid foundation for the Company's sustainable development with an aim to expand the Company's business into other parts of the PRC from Hainan.

The CAAC has determined the strategic direction of national airport network based on three national airline hubs (Beijing, Shanghai and Guangzhou) and six regional airline hubs (Shenyang, Wuhan, Xi'an, Chengdu, Kunming and Urumchi). Though Meilan Airport used to be one of the ten largest airports in the PRC, it was not selected as one of the airline hubs, thus its development has been limited and impacted.

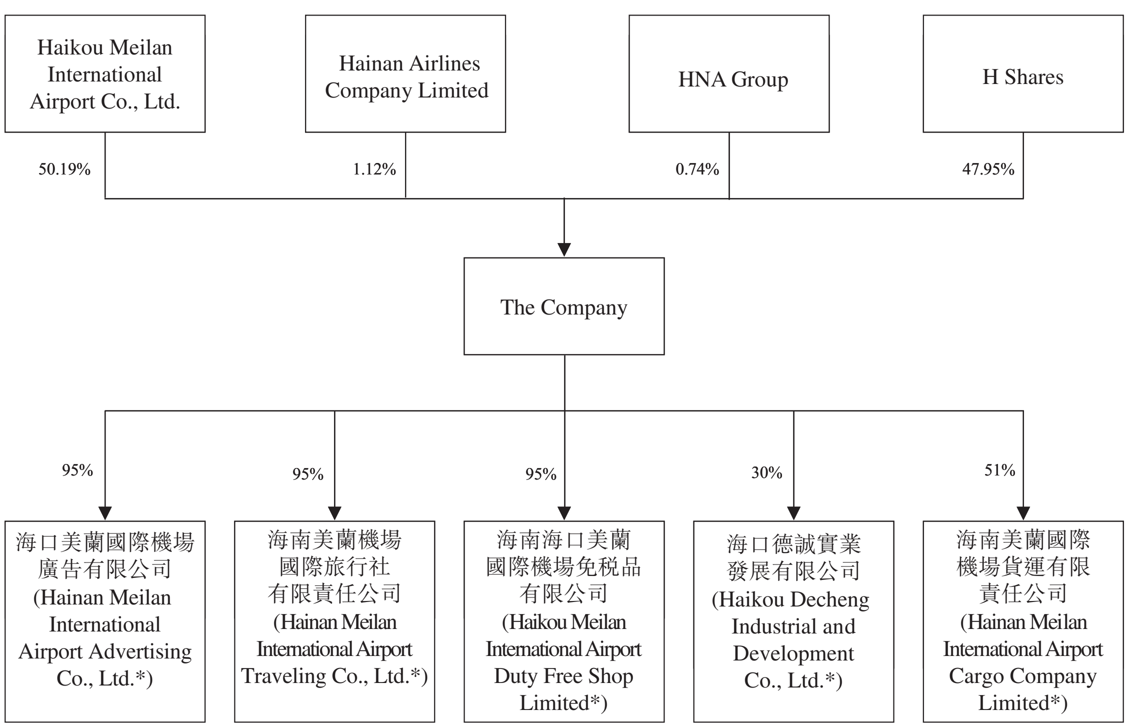
In recent years, the annual traffic volume of Meilan Airport has been fluctuating between 7 million and 8 million persons. Though the operating profits remain substantially stable, Meilan Airport could hardly achieve substantial traffic volume growth, which is mainly due to the diversion of traffic volume by Sanya Phoenix International Airport, an airport less than 200 kilometers (straight-line land distance) away.

The Acquisition will facilitate the Company to integrate the civil airport resources in Hainan Island, and thoroughly resolve the horizontal competition issue of "one island, two airports". Upon the acquisition of the equity interest in HNA Airport, the Company will indirectly hold 67% of the equity interest in Sanya Phoenix Airport, benefiting from the fast development of Sanya Phoenix Airport. The Acquisition will increase the Company's core competitiveness and popularity in the airport operation industry, ensure a broaden stream of revenue source and a relatively stable profits rate.

Upon Completion, the Company will also become the holding company of seven airports outside Hainan Island, including the four airports in Gansu Province, Manzhouli Airport, Yichang Sanxia Airport and Dongying Airport. In view of the geographic advantages of the seven airports and the favourable national development strategies, the future development of the regional economy will definitely enhance the profitability of the seven airports. Moreover, a large number of business travelers will become the passengers of the Company, which will make the customer structure of the Company more comprehensive and reasonable, and ensure the profitability in the future.

The Directors believe that the Acquisition will support the Company's development and expansion, which is in line with the Company's strategy of evolving into a regional airport management company and in the commercial interests of the Company. The Directors (including Independent Non-executive Directors) are of the view that the transactions contemplated under the Share Transfer Agreements are conducted on normal commercial terms, and are fair and reasonable and the Acquisition is in the interests of the Company and its Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY



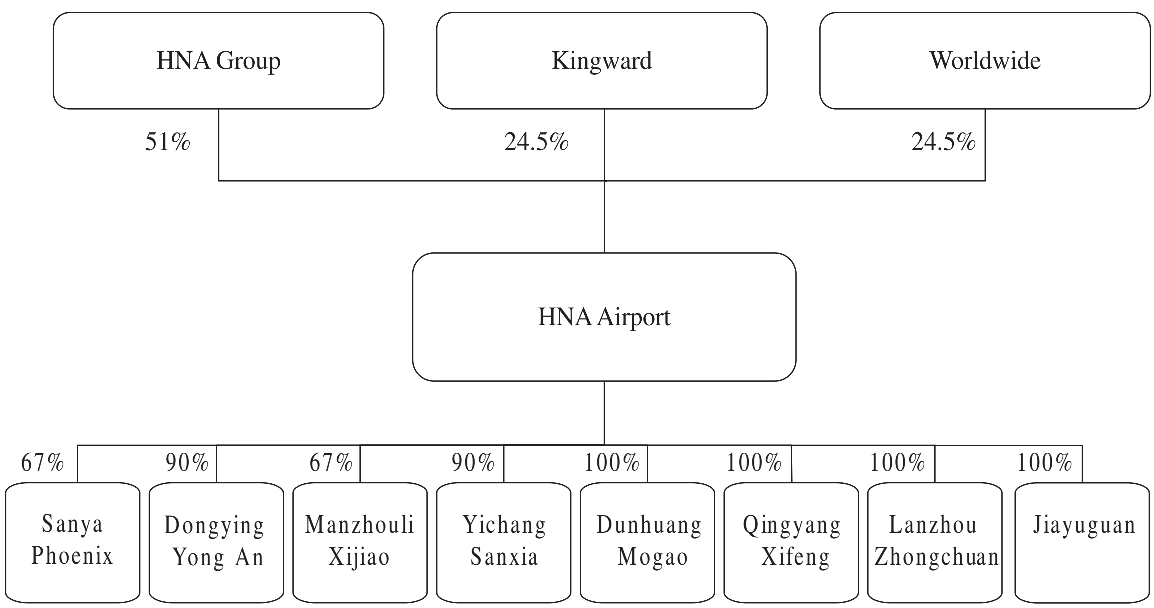
* *For identification purpose only*

INFORMATION ON HNA AIRPORT AND ITS SUBSIDIARIES

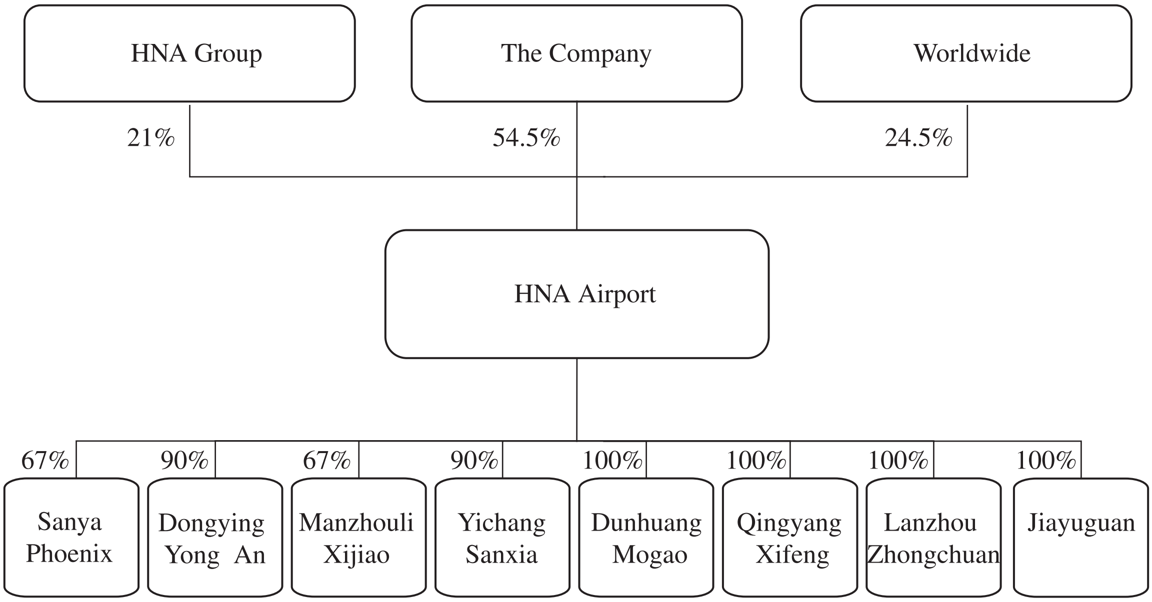
HNA Airport is a limited liability company legally established and validly existing in the PRC with a registered capital of US$408.2 million and paid-in capital of US$408.2 million. Its current shareholders and their respective shareholding percentages are set out below:

Name of Shareholders	Amount of Paid-in Capital (US$'000)	Percentage of Shareholding
HNA Group Company Limited	208,200	51%
Worldwide United Limited	100,000	24.5%
Kingward Investment Limited	100,000	24.5%
Total	408,200	100%

HNA Airport is principally engaged in airport investment, operation management and ground services relating to air transportation, including owning and operating Sanya Phoenix Airport. HNA Airport, being the holding company of eight airports, is one of the major airport management groups in the PRC. Set out below is the shareholding structure of HNA Airport before Completion:



Set out below is the shareholding structure of HNA Airport after Completion:



Set out below is the financial information of HNA Airport in recent years (based on the accountants' report of HNA Airport as set out in Appendix II to this circular and prepared under the International Accounting Standards):

1. Condensed Consolidated Statements of Financial Position

			in RMB'000
Items	**31 December 2009**	**31 December 2008**	**31 December 2007**
Total assets	7,850,538	6,879,138	6,341,674
Total liabilities	3,526,086	2,560,922	2,597,087
Total shareholders' equity	4,324,452	4,318,216	3,744,587
Total equity attributable to shareholders of HNA Airport	3,546,715	3,355,058	2,804,709

2. Condensed Consolidated Statements of Comprehensive Income

			in RMB'000
Items	**2009**	**2008**	**2007**
Operating revenue *(note)*	609,184	1,514,905	47,829
Gross profit	279,842	253,848	2,292
Net profit	196,452	210,904	43,379
Net profit attributable to shareholders of HNA Airport	191,657	187,624	43,813
Profit before taxation and extraordinary items	205,667	226,138	43,452
Profit after taxation and extraordinary items	196,452	210,904	43,379

note: Included in the operating revenue of HNA Airport for the year ended 31 December 2008 RMB475.6 million represents the revenue from aeronautical and non-aeronautical activities and RMB1,039.3 million represents the revenue from sales of crude oil by a former subsidiary, Hainan Pacific Oil Co., Limited, which was disposed of on 1 January 2009.

Sanya Phoenix

Sanya Phoenix was incorporated in the PRC on 27 August 1993. As at the Latest Practicable Date, Sanya Phoenix is owned as to 67% by the HNA Airport and as to 33% by Independent Third Parties. Sanya Phoenix operates Sanya Phoenix International Airport, which is located at 海南省三亞市 (Sanya City, Hainan Province), covering an area of 463 hectares. Sanya Phoenix International Airport's throughput of passengers reached 7.941 million in year 2009.

Dongying Yong An

Dongying Yong An was incorporated in the PRC on 29 September 2001. As at the Latest Practicable Date, Dongying Yong An is owned as to 90% by the HNA Airport and as to 10% by Independent Third Parties. Dongying Yong An operates Dongying Yong An Airport, which is located at 山東省東營市 (Dongying City, Shandong Province), covering an area of 3,966 acres. Dongying Yong An Airport's throughput of passengers reached 75,600 in year 2009.

Manzhouli Xijiao

Manzhouli Xijiao was incorporated in the PRC on 27 September 2004. As at the Latest Practicable Date, Manzhouli Xijiao is owned as to 67% by HNA Airport and as to 33% by Independent Third Parties. Manzhouli Xijiao Airport is owned by HNA Group, which has authorised Manzhouli Xijiao operates Manzhouli Xijiao Airport, which is located in 內蒙古自治區滿洲里市 (Manzhouli City, the Inner Mongolia Autonomous Region), covering an area of 212.2 hectares. Manzhouli Xijiao Airport's throughput of passengers reached 147,000 in year 2009.

HNA Group has provided a confirmation letter to the Company confirming that Manzhouli Xijiao is authorised to operate the Manzhouli Xijiao Airport, entitled to the revenue generated from the airport operation and the government subsidy in respect of the operation of the Manzhouli Xijiao Airport, and is responsible for the operating expenses. HNA Group has also confirmed to the Company that it intends to continue the aforesaid arrangement with Manzhouli Xijiao. The Board has taken into consideration the benefits and risks concerning the aforesaid arrangement when assessing the acquisition of Manzhouli Xijiao, including but not limited to the terms of the acquisition. In light of the relationship between HNA Group and the Company, the Board considered that the risks imposed by such arrangement is relatively low.

Dunhuang Mogao

Dunhuang Mogao was incorporated in the PRC on 7 December 2007. As at the Latest Practicable Date, Dunhuang Mogao is wholly owned by the HNA Airport. Pursuant to the Fee Collection and Profit Sharing Agreement entered between Dunhuang Airport Company under Gansu Airport Group Company Limited and Dunhuang Mogao on 25 June, 2008 ("Dunhuang Agreement"), Dunhuang Mogao operates Dunhuang Mogao Airport, which is located in 甘肅省敦煌市 (Dunhuang City, Gansu Province). Dunhuang Mogao Airport's throughput of passengers reached 153,000 in year 2009.

Qingyang Xifeng

Qingyang Xifeng was incorporated in the PRC on 29 November 2007. As at the Latest Practicable Date, Qingyang Xifeng is wholly owned by the HNA Airport. Pursuant to the Fee Collection and Profit Sharing Agreement entered between Qingyang Airport Company under Gansu Airport Group Company Limited and Qingyang Xifeng on 25 June, 2008 ("Qingyang Agreement"), Qingyang Xifeng operates Qingyang Xifeng Airport, which is located in 甘肅省慶陽市 (Qingyang City, Gansu Province). Qingyang Xifeng Airport's throughput of passengers reached 20,600 in year 2009.

Lanzhou Zhongchuan

Lanzhou Zhongchuan was incorporated in the PRC on 19 October 2007. As at the Latest Practicable Date, Lanzhou Zhongchuan is wholly owned by the HNA Airport. Pursuant to the Fee Collection and Profit Sharing Agreement entered between Lanzhou Airport Company under Gansu Airport Group Company Limited and Lanzhou Zhongchuan on 25 June, 2008 ("Lanzhou Agreement"), Lanzhou Zhongchuan operates Lanzhou Zhongchuan Airport, which is located in 甘肅省蘭州市永登縣 (Yongdeng County, Lanzhou City, Gansu Province). Lanzhou Zhongchuan Airport's throughput of passengers reached 2.86 million in year 2009.

Jiayuguan

Jiayuguan was incorporated in the PRC on 22 October 2008. As at the Latest Practicable Date, Jiayuguan is wholly owned by the HNA Airport. Pursuant to the 中小機場補貼分成協議 (Agreement of Subsidy and Profit Sharing for small to medium sized Airports) entered between Jiayuguan Airport Company under Gansu Airport Group Company Limited and Jiayuguan on 27 October, 2008 ("Jiayuguan Agreement"), Jiayuguan operates Jiayuguan Airport, which is located in 甘肅省嘉峪關市 (Jiayuguan City, Gansu Province). Jiayuguan Airport's throughput of passengers reached 89,600 in year 2009.

(Dunhuang Agreement, Qingyang Agreement, Lanzhou Agreement and Jiayuguan Agreement collectively called "Operation Agreements"; Dunhuang Mogao, Qingyang Xifeng, Lanzhou Zhongchuan and Jiayuguan collectively called "Operating Companies")

Major Terms of Operation Agreements

a) The relevant airport companies will entrust the respective Operating Companies to collect landing fees and passenger fees on behalf of the respective airport pursuant to the terms of the Operation Agreements.

b) The relevant Operating Companies are entitled to 75% of the landing fees while the remaining 25% of the landing fee will be retained by the relevant airport companies.

c) The relevant Operating Companies are entitled to 75% of the passenger fees while the remaining 25% of the passenger fees will be retained by the relevant airport companies.

d) The Operation Agreements were effective from 1 January 2008 for a term of three years, and will automatically be extended unless it is terminated by any party by giving such notice in writing to the other party 3 months before expiry of the same.

As disclosed above, the Operating Companies do not possess certain key assets of the airports. To secure the control of the operations of such airports, the Operating Companies respectively entered into the Operation Agreements with the owners of the four relevant airports. The Board realized that the non-possession of certain key assets of the airports would pose risks for the continuing operations of the Operating Companies and therefore already considered such risks when assessing the acquisition of the Operating Companies, including but not limited to the terms of the acquisition. To mitigate the risks concerned, the Company has obtained confirmation letters issued by each of the owners of the four airports confirming that they intend to continue the existing arrangement after the expiration of the Operation Agreement.

Yichang Sanxia

Yichang Sanxia was incorporated in the PRC on 18 January 2002. As at the Latest Practicable Date, Yichang Sanxia is owned as to 90% by the HNA Airport and as to 10% by Independent Third Parties. Yichang Sanxia operates Yichang Sanxia Airport, which is located in 湖北省宜昌市猇亭區 (Huting District, Yichang City, Hubei Province), covering an area of 3,966 acres. Yichang Sanxia Airport's throughput of passengers reached 657,500 in year 2009.

INFORMATION ABOUT THE COMPANY

The Company is principally engaged in aeronautical and non-aeronautical businesses at Meilan Airport. The business scope of the Company mainly includes the provision of transit and ground transportation services to domestic and foreign air transportation companies and transit passengers; the leasing of the aviation commercial area, business and commercial premises within the departure tower and the provision of integrated services, the construction and operation of aviation facilities within the airport and the ancillary buildings thereto, the provision of cargo storage, packing, loading and unloading and transportation services.

INFORMATION ABOUT HNA GROUP

HNA Group is principally engaged in aeronautical business, investment and management of airports, investment and management of hotels and golf courses, IT services, export and import of aircrafts and aviation supplies, investment and development of energy, transportation, new technologies and new materials, and equity operation.

INFORMATION ABOUT KINGWARD

Kingward is an investment holding company, incorporated under the Companies Ordinance in Hong Kong on 22 August 2007.

Kingward is an Independent Third Party.

FINANCIAL ADVISER, INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

GF Capital has been appointed as the financial adviser to the Company in respect of the Acquisition.

An Independent Board Committee comprising Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng, all being Independent Non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the HNA Group Agreement. Optima Capital has been appointed as the independent financial adviser to the Independent Board Committee and Independent Shareholders to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the HNA Group Agreement.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

After Completion, HNA Airport will become a subsidiary of the Company. Accordingly, the results, assets and liabilities of HNA Airport will be consolidated into the financial statements of the Group. However, as the Kingward Agreement and the HNA Group Agreement are not inter-conditional, it is possible that only the Kingward Agreement or the HNA Group Agreement will complete.

As disclosed in the paragraph headed "Source of Funding" in the Letter from the Board, in relation to Kingward Sale Shares, the Company intends to satisfy the consideration with its current funds and bank borrowings. In relation to HNA Group Sale Shares, the Company intends to satisfy the consideration with the proceeds from A Share Issue.

Accordingly, the following analysis, which is based primarily on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, will take into account the sources of financing of the Acquisition and analyze the financial effects of the Acquisition on the Group in the scenario of (i) the Completion; (ii) the completion of Kingward Agreement only and (iii) the completion of HNA Group Agreement only.

Earnings

According to the audited consolidated income statement of the Group for the year ended 31 December 2009, the profit attributable to the equity holders of the Company for the year ended 31 December 2009 was approximately RMB180.6 million.

Assuming the Completion had taken place and the A Share Issue had been completed on 1 January 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the unaudited pro forma profit attributable to the equity holders of the Company for the year ended 31 December 2009 would increase to approximately RMB221.8 million.

Assuming only the completion of Kingward Agreement had taken place on 1 January 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the unaudited pro forma profit attributable to the equity holders of the Company for the year ended 31 December 2009 would increase to approximately RMB175.4 million.

Assuming only the completion of HNA Group Agreement had taken place and the A Share Issue had been completed on 1 January 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the unaudited pro forma profit attributable to the equity holders of the Company for the year ended 31 December 2009 would increase to approximately RMB233.7 million.

In light of the prospects of the HNA Airport, the Directors are of the view that the Acquisition would likely have a positive impact on the future financial performance of the Enlarged Group.

Net asset Value

According to the audited consolidated balance sheet of the Company as at 31 December 2009, the Group had the net asset value attributable to the equity holders of the Company as at 31 December 2009 of approximately RMB1,962.1 million.

Assuming the Completion had taken place and the A Share Issue had been completed on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the unaudited pro forma net asset value attributable to the equity holders of the Company as at 31 December 2009 would increase to approximately RMB3,560.6 million.

Assuming only the completion of Kingward Agreement had taken place on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the unaudited pro forma net asset value attributable to the equity holders of the Company as at 31 December 2009 would remain unchanged.

Assuming only the completion of HNA Group Agreement had taken place and the A Share Issue had been completed on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the unaudited pro forma net asset value attributable to the equity holders of the Company as at 31 December 2009 would increase to approximately RMB3,567.3 million.

Liquidity

According to the audited consolidated balance sheet of the Company as at 31 December 2009, the Group had consolidated net current assets, calculated as the difference between the current assets and current liabilities, of approximately RMB839.5 million.

Assuming the Completion had taken place and the A Share Issue had been completed on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the net current assets of the Enlarged Group, calculated as the difference between the current assets and liabilities would increase to RMB1,889.5 million.

Assuming only the completion of Kingward Agreement had taken place on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the net current assets of the Enlarged Group, calculated as the difference between the current assets and liabilities would decrease to RMB810.4 million.

Assuming only the completion of HNA Group Agreement had taken place and the A Share Issue had been completed on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the net current assets of the Enlarged Group, calculated as the difference between the current assets and liabilities would increase to RMB1,224.7 million.

Gearing ratio

According to the audited consolidated balance sheet of the Company as at 31 December 2009, the Group had a gearing ratio, calculated as total liabilities over total assets, of approximately 6.16%.

Assuming the Completion had taken place and the A Share Issue had been completed on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the gearing ratio of the Enlarged Group, calculated as total liabilities over total assets, would increase to 43.90%.

Assuming only the completion of Kingward Agreement had taken place on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the gearing ratio of the Enlarged Group, calculated as total liabilities over total assets, would increase to 36.51%.

Assuming only the completion of HNA Group Agreement had taken place and the A Share Issue had been completed on 31 December 2009, based on the unaudited pro forma financial information of the Enlarged Group set out in the Appendix III to this circular, the gearing ratio of the Enlarged Group, calculated as total liabilities over total assets, would decrease to 3.48%.

PROPOSED ISSUE OF A SHARES IN THE PRC

The Company intends to apply to the CSRC for the issue of 200,000,000 A Shares. The A Shares will be issued to the natural persons, corporations and other institutions in the PRC which have maintained A share accounts with the Shanghai Stock Exchange or Shenzhen Stock Exchange (other than those as prohibited by the applicable PRC laws and regulations and other regulatory requirements with which the Company shall comply). The H Shares are currently listed on the Stock Exchange. The Company has not conducted any fund raising exercise within the 12-month period prior to the date of the Announcement.

STRUCTURE OF THE A SHARE ISSUE

The proposed structure of the A Share Issue is set out below:

(1)	Type of securities to be issued	:	RMB denominated ordinary shares
(2)	Number of A Shares to be issued	:	200,000,000 A Shares, representing 42.26% of the existing issued share capital of the Company and approximately 29.71% of the enlarged issued share capital of the Company immediately after completion of the proposed A Share Issue, the exact number of which shall be determined by the Board as proposed to be authorized by the Shareholders at the EGM and CSMs.
(3)	Par value	:	RMB1.00 each
(4)	Rights attached to A Shares	:	The A Shares shall rank pari passu with the existing Domestic Shares and H Shares in all respects.
(5)	Target subscribers	:	Natural persons, corporations and other institutions in the PRC which have maintained A Share holders' accounts with the Shanghai Stock Exchange and Shenzhen Stock Exchange (other than those as prohibited by the applicable PRC laws and regulations and other regulatory requirements with which the Company shall comply). It is expected that none of the Connected Persons of the parent company or the Company will subscribe for A Shares. The Company will comply with the relevant provisions of the listing rules even if such Connected Persons do subscribe for A Shares. The Company will (subject to the applicable rules and regulations of the CSRC) issue A Shares by offline placing to book-building targets and online public offering at fixed price to public investors.
(6)	Proposed place of listing	:	All the A Shares issued pursuant to the A Share Issue are proposed to be listed on the Shanghai Stock Exchange.

(7) Issue price and pricing process : The pricing of the A Share Issue will follow the market-driven principle. The issue price for the A Share Issue shall be determined based on the prevailing conditions of the PRC securities market at the time when the A Share Issue takes place by way of market consultation or such other methods as approved by the CSRC.

The issue price will not be lower than 90% of the average closing price of the Company's H Shares on the Stock Exchange during the Price Consultation Period of the A Share Issue. (Note) The issue price for the proposed A Share Issue will be determined based on the PRC securities market conditions at the time when the A Share Issue takes place and in accordance with the applicable CSRC regulations. Thus the amount to be raised from the A Share Issue cannot be ascertained as at the date of this circular.

(8) Use of proceeds : The proceeds from the A Share Issue will be used to fund the Acquisition, and the balance (if any) will be used as general working capital.

(9) Expected timetable : The application for the A Share Issue is expected to be submitted to the CSRC after the relevant resolutions have been approved at the EGM and CSMs and all necessary materials have been obtained. The A Share Issue will be completed by the end of January 2011, subject to the market conditions and the policies promulgated by the CSRC.

Note: The Price Consultation Period commences upon the publish of《招股意向書摘要》("Summary of Share Offer Prospectus") and《發行安排及初步詢價公告》("Issue Arrangements and Preliminary Price Consultation Announcement") and it takes about nine business days to determine the issue price.

REASONS FOR AND BENEFITS OF THE A SHARE ISSUE

The Directors (including the Independent Non-executive Directors) believe that the A Share Issue could increase the Company's available capital for its core business, including the investment capital for the acquisition of HNA Group Sale Shares. In addition, the A Share Issue will provide the Company with an alternative channel to raise further capital and will enhance the shareholders base and enlarge the capital base of the Company. The Directors (including the Independent Non-executive Directors) believe that the A Share Issue will benefit the Company and the Shareholders as a whole.

EFFECTS OF THE A SHARE ISSUE ON THE COMPANY'S SHAREHOLDING STRUCTURE

Set out below is a summary of the changes in the shareholding percentage of the Company prior to and immediately after completion of the A Share Issue based on the assumption that the entire 200,000,000 A shares will be issued under the proposed A Share Issue:

Classes of Shareholders	Immediately before the completion of the A Share Issue Number of Shares held *(Shares)*	 Percentage of shareholding *(%)*	Immediately after the completion of the A Share Issue Number of Shares held *(Shares)*	 Percentage of shareholding *(%)*
Domestic Shares holders				
Haikou Meilan International Airport Company Limited *(Note 1)*	237,500,000	50.19	237,500,000	35.28
Other Domestic Shares holders	8,800,000	1.86	8,800,000	1.31
	246,300,000	52.05	246,300,000	36.59
H Shares holders				
Oriental Patron Resources Investment Limited *(Note 2)*	94,343,000	19.94	94,343,000	14.01
UBS AG *(Note 3)*	36,192,179	7.65	36,192,179	5.38
Other H Shares holders	96,377,821	20.37	96,377,821	14.32
	226,913,000	47.96	226,913,000	33.71
A Shares holders	N/A	N/A	200,000,000	29.71
Total *(Note 4)*:	**473,213,000**	**100.00**	**673,213,000**	**100.00**

Notes:

1. Haikou Meilan International Airport Company is a company established in the PRC and is the controlling shareholder of the Company.

2. Zhang Gaobo and Zhang Zhiping are holding 49.19% and 49.92% interest, respectively, in Oriental Patron Financial Group Limited. Oriental Patron Financial Group Limited is holding 95% interest in Oriental Patron Financial Services Group Limited, which is in turn holding 100% interest in Oriental Patron Resources Investment Limited.

3. Among the 36,192,179 Shares, UBS AG is holding 225,000 shares as beneficial owner, holding 420,779 shares as investment manager and is deemed to own interest in 35,546,400 shares (UBS Fund Services (Luxemburg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd are all wholly-owned by UBS AG, and are beneficially holding 21,143,400 shares, 8,321,000 shares and 6,082,000 shares in the Company, respectively).

4. The balance figures may not exactly equal to the sum of the individual items due to rounding differences.

REGULATORY APPROVALS

It should be noted that the A Share Issue and the proposed listing of A Shares on the Shanghai Stock Exchange, upon the approval from the Shareholders at the EGM and the CSMs, is still subject to the approval by the CSRC and other relevant PRC authorities to the issue of the A Shares and the Shanghai Stock Exchange to the listing of the A Shares on the Shanghai Stock Exchange. The resolutions to be passed at the EGM and the CSMs approving the A Share Issue will be valid for a period of 12 months from the date of approval at the EGM and the CSMs.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND PROCEDURAL RULES AND SYSTEMS

In light of the A Share Issue and pursuant to the statutory requirements of the applicable PRC laws and regulations, certain amendments are proposed to be made to the Articles of Association, and a set of procedural rules and systems are adopted. Such proposed amendments to the Articles of Association and the procedural rules and systems are subject to the approval by the Shareholders at the EGM, and are conditional upon obtaining any approval, endorsement or registration as may be necessary from the relevant PRC authorities.

The proposed amendments deal with matters relating to a number of areas, including, among other things: (a) alteration of the Company's registered capital and shareholding structure; (b) restrictions on the application of the Company's capital; (c) definition and regulations on approving connected transactions (in accordance with the requirements of the CSRC); and (d) qualifications and rights of the Independent Directors. All of the above amendments are proposed to accommodate the A Share Issue and in connection with A Share Issue. Further details regarding the proposed amendments to the Articles of Association and the procedural rules and systems are set out in the Appendix VII and VIII in this circular.

PROCEDURAL RULES AND OTHER SYSTEMS OF THE MEETINGS

Under the listing requirements of the PRC, the Company shall lay down certain procedural rules as well as other decision-making systems, some of which require approval by the Shareholders at the EGM. Ordinary and special resolutions to consider, approve and adopt the following procedural rules and systems will be proposed at the EGM: (a) the rules and procedures for Shareholders' general meetings; (b) the rules and procedures for Board meetings; (c) the rules and procedures for Supervisor Committee meetings; (d) the connected transaction decision-making system; and (e) the proceeds administration measures. These rules and systems are also subject to the obtaining of any approval, endorsement or registration (as applicable) from or with the relevant authorities. The procedural rules and systems will only be effective upon A Share Issue.

SPECIAL DIVIDENDS

The Board has resolved to pay a proposed special dividend of RMB0.35 (approximately HK$0.3955) per share to the Shareholders of the Company, subject to approval by the Shareholders at the EGM and the A Share Issue being approved by the CSRC.

REASONS OF DISTRIBUTION

The Board proposed to pay the Special Dividend after reviewing the financial situation of the Company. The Board is of the opinion that, in order to emphasize a bright prospect for the Company to the investors so as to win support from the existing investors for the Acquisition and the A Share Issue and to attract potential investors, and in accordance with Rule 45 of *Measures on Administration of Initial Public Offering and Listing on the Growth Enterprise Board* "the issuer's shareholders' meeting shall make resolutions on the shares issuance, containing at least the following issues: (v) The distribution scheme of the profits carried over before the issuance", it is appropriate to declare a special dividend to the Shareholders prior to the A Share Issue.

The Company had undistributed profits of approximately RMB684,315,000 (approximately HK$773,276,000) for the year ended 2009 based on the PRC accounting standards. The Company proposes to pay a final dividend of RMB94,642,600 (approximately HK$106,946,100) for 2009 and the dividend of RMB165,624,600 (approximately HK$187,155,800) is proposed to be paid as the special dividend prior to the A Share Issue, while the balance shall be reserved as retained profits for the benefit of the Shareholders.

EXTRAORDINARY GENERAL MEETING AND CLASS SHAREHOLDERS MEETINGS

For the purpose of approving, inter alia, the Share Transfer Agreements, the proposed A Share Issue, the proposed amendments to the Articles of Association and the proposed payment of special dividends, an EGM will be held, at which certain resolutions will be proposed, to consider and, if thought fit, approve, inter alia, the resolution authorizing the Board to deal with matters relating to the A Share Issue and the listing of A Shares on the domestic market at its sole discretion.

The Independent Shareholders shall vote on the resolution to approve the acquisition for the HNA Group Sale Shares by way of poll at the EGM. As at the Latest Practicable Date, HNA Group is the listing promoter of the Company and holds approximately 0.74% equity interest in the Company. Further, Haikou Meilan International Airport Co., Ltd. ("Haikou Meilan") is the controlling shareholders of the Company and holds 50.19% equity interest in the Company with material interest in the Acquisition. As at the Latest Practicable Date, Haikou Meilan, HNA Group together with its associates were holding 255,100,000 shares, representing approximately 52.05% equity interest in the Company. Therefore, Haikon Meilan, HNA Group and its associates will abstain from voting at the EGM in relation to the resolution to approve the acquisition of the HNA Group Sale Shares. Other than HNA Group, there is no other Shareholder who has a material interest in the acquisition of the HNA Group Sale Shares.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than Haikou Meilan, HNA Group and its associates, no Shareholder has a material interest in the Share Transfer Agreements and the transactions contemplated thereunder. Accordingly, save for Haikou Meilan, HNA Group and its associates, no Shareholder is required to abstain from voting in relation to the resolution(s) to approve the Share Transfer Agreements and the transactions contemplated thereunder at the EGM.

In accordance with Rule 19A.38 of the Listing Rules and the Articles of Association, for the purpose of approving the A Share Issue, CSMs will be held for each of the Domestic Share holders and the H Share holders, at which certain special resolutions will be proposed, to consider and, if thought fit, approve, inter alia, the resolution authorizing the Board to deal with matters relating to the A Share Issue and the listing of A Shares on the domestic market at its sole discretion.

Notices convening the EGM and CSM of the Company respectively to be held at 11:30 a.m. on 31 May 2010 in the meeting room on 3rd Floor, Office Building of Haikou Meilan International Airport, Haikou City, Hainan Province and at 10:30 a.m. on 31 May 2010 in the meeting room on 3rd Floor, Office Building of Haikou Meilan International Airport, Haikou City, Hainan Province are set out on pages EGM-1 to DCSM-5 of this circular. Forms of proxy for use at the EGM and CSM are enclosed with this circular. Whether or not you are able to attend the EGM and/or CSM, you are requested to complete the accompanying forms of proxy in accordance with the instructions printed thereon, and return the same to the Company's office as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM and/or CSM. Completion and return of the forms of proxy shall not preclude you from attending and voting in person at the EGM and/or CSM or any adjourned meeting should you so desire.

RECOMMENDATION

The Directors (including the Independent Non-executive Directors) are of the view that the terms of the Share Transfer Agreements are fair and reasonable and on normal commercial terms, as well as in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the Independent Non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the Letter from the Independent Board Committee containing its recommendation to the Independent Shareholders; (ii) the Letter from Optima Capital containing its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the information set out in the appendices to this circular as required under the Listing Rules. None of the members of the Independent Board Committee has any material interest in the Acquisition.

Your attention is also drawn to the additional information set out in the appendices to this circular. Forms of proxy and copies of reply slip for use at the EGM and CSMs are enclosed with this circular.

Yours faithfully,
By the order of the Board
Hainan Meilan International Airport Company Limited
Zhao Yahui
Chairman

The following is the text of a letter of advice from the Independent Board Committee to the Independent Shareholders for the purpose of inclusion in this circular.

海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

13 May 2010

To the Independent Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular dated 13 May 2010 of the Company ("Circular") of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you in respect of the HNA Group Agreement, details of which are set out in the letter from the Board in the Circular.

Optima Capital has been appointed as the independent financial adviser ("Independent Financial Adviser") to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the HNA Group Agreement. We wish to draw your attention to the letter from Optima Capital on pages 33 to 59 of the Circular.

* *For identification purpose only*

We have discussed with the management of the Company the reasons for entering into the HNA Group Agreement and the basis upon which its terms have been determined. Having taken into account the advice of Optima Capital and the principal factors and reasons considered by it in arriving at its advice, we consider the terms of the HNA Group Agreement are on normal commercial terms and are fair and reasonable so far as the interests of the Independent Shareholders are concerned, and the acquisition under the HNA Group Agreement is in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the HNA Group Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Mr. Xu Bailing, Mr. Fung Ching Simon, Mr. Xie Zhuang, Mr. George F Meng
Independent Non-executive Directors

The following is the text of a letter received from Optima Capital setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the HNA Group Agreement for the purpose of inclusion in this circular.

OPTIMA CAPITAL

Suite 1501, 15th floor
Jardine House
1 Connaught Place
Central
Hong Kong

13 May 2010

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the HNA Group Agreement. Details of the HNA Group Agreement and the Acquisition are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 13 May 2010 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

On 6 April 2010, the Company announced that the Company and the Vendors entered into the Share Transfer Agreements pursuant to which the Company shall acquire from the Vendors a total of a 54.5% equity interest in HNA Airport for an aggregate consideration of approximately RMB2,199.9 million. Since one of the Vendors, HNA Group, is the promoter of the Company (as defined under the Listing Rules) and therefore a connected person of the Company, the entering into of the HNA Group Agreement constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders at the EGM. An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng, has been established to give a recommendation to the Independent Shareholders in respect of the voting on the HNA Group Agreement. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

SUMMARY OF THE TERMS OF THE ACQUISITION

1. Assets to be acquired

On 25 March 2010, the Company entered into (i) the Kingward Agreement pursuant to which the Company conditionally agreed to acquire and Kingward conditionally agreed to sell 24.5% of the registered capital of HNA Airport subject to the terms and conditions thereof; and (ii) the HNA Group Agreement pursuant to which the Company conditionally agreed to acquire and HNA Group conditionally agreed to sell 30% of the registered capital of HNA Airport subject to the terms and conditions thereof. The Sale Shares together represent 54.5% of the equity interest in HNA Airport and the aggregate consideration for the Sale Shares amounts to approximately RMB2,199.9 million. The Kingward Agreement and the HNA Group Agreement are not inter-conditional and are capable of being completed independent of each other. For completeness purpose, the principal terms of both the Kingward Agreement and the HNA Group Agreement are set out below.

HNA Group is a connected person of the Company while Kingward is an Independent Third Party. The consideration for each of the HNA Group Sale Shares and Kingward Sale Shares is pro rata to the size of equity interest in HNA Airport to be acquired by the Company from the each of the Vendors respectively.

2. Consideration

The Kingward Sale Shares

Pursuant to the Kingward Agreement, the consideration for the Kingward Sale Shares amounts to US$145.0 million (equivalent to approximately RMB988.9 million) and shall be satisfied in cash in the following manner:

(a) 50% of the consideration, being US$72.50 million (equivalent to approximately RMB494.45 million) (the "Prepayment"), shall be paid by the Company to Kingward before 15 June 2010; and

(b) the balance of US$72.50 million (equivalent to approximately RMB494.45 million) (the "Balance") shall be paid by the Company to Kingward before 20 December 2010.

If, after the Company has paid part or all of the consideration for the Kingward Sale Shares, Kingward commits grave breach of the Kingward Agreement on purpose and fails to make substantive remedies which results in the failure in fulfillment of objective of Kingward Agreement or in continuing performance of the Kingward Agreement, the Company has the right to require Kingward to refund the paid consideration and indemnify the Company the paid consideration together with interest accrued thereon (calculated based on the interest rate of one year time deposit in People's Bank of China).

If the Company fails to pay the Balance on time due to force majeure or other reasons beyond the control of the Company, the Company shall immediately notify Kingward in writing giving the reasons. With Kingward's written consent and upon the fulfillment or exemption of other conditions for the transfer of the Kingward Sale Shares, Kingward will transfer 12.25% equity interest in HNA Airport to the Company, and the Prepayment will become the consideration thereof.

The HNA Group Sale Shares

Pursuant to the HNA Group Agreement, the consideration for the HNA Group Sale Shares amounts to RMB1,211.0 million and shall be satisfied in cash in the following manner:

(a) 15% of the consideration, being RMB181.65 million, shall be paid by the Company to HNA Group within 10 days after the HNA Group Agreement becomes effective pursuant to the terms and conditions thereof; and

(b) the balance of RMB1,029.35 million shall be paid by the Company to HNA Group within 30 days after the completion of the transfer of the HNA Group Sale Shares.

If the Company and HNA Group fail to complete the transfer of HNA Group Sale Shares on the Completion Date, HNA Group shall refund the consideration received so far to the Company plus the interest accrued thereof (calculated based on the interest rate of one year time deposit in People's Bank of China).

3. Conditions precedent

Both Kingward Agreement and the HNA Group Agreement are subject to a number of conditions including, among other things, approval of the Independent Shareholders at the EGM. The HNA Group Agreement is also subject to (i) the Company having obtained the official approval in connection with the A Share Issue from the relevant authority or department and the completion of the A Share Issue; and (ii) the HNA Group Sale Shares are free from any third party interests, including but not limited to charge, pledge and guarantee. Independent Shareholders should note that the Kingward Agreement and the HNA Group Agreement are not inter-conditional and are capable of being completed independent of each other.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background to and reasons for the Acquisition

The Company is principally engaged in aeronautical and non-aeronautical businesses at Haikou Meilan Airport in Hainan Province, the PRC. The business of the Group includes the provision of transit and ground transportation services to domestic and foreign air transportation companies and transit passengers; the leasing of the aviation commercial area, business and commercial premises within the departure tower and the provision of integrated services, the construction and operation of aviation facilities within the airport and the ancillary buildings thereto; and the provision of cargo storage, packing, loading and unloading and transportation services.

As disclosed in the Company's annual report, the Group's revenue for the year ended 31 December 2009 recorded immaterial growth of 2.5% as compared to the year ended 31 December 2008; while net profit after tax recorded a small drop of about 3.2%. Whilst the business of the Group remains substantially stable, the Group could hardly achieve any traffic volume growth, which is mainly due to the diversion of traffic volume by Sanya Phoenix, being one of the major subsidiaries of the Target which operates an airport less than 200 kilometers (straight-line land distance) away from the Haikou Meilan Airport. Having considered the business and the airports managed by the Target and its subsidiaries (the "Target Group") as well as the financial performance of the Target Group as discussed in the paragraphs headed "Business of the Target Group" and "Financial information of the Target Group") below, the Directors are of the view that the Acquisition will facilitate the medium-long term strategy of the Group to evolve into a regional airport management company, underpin the profitability, expand the operation scale and enhance the competitiveness of the Group. In addition, the Acquisition will allow the Group to integrate the civil aviation market of the Hainan Province and seize the opportunities presented by the prosperous tourism industry in the Hainan Province. Taking into account the above, the Directors are of the view that the Acquisition will bring positive effects to the Group, with which we concur.

2. Overview of the civil aviation industry in Hainan Province

Hainan Province is the southest province of the PRC located between tropic and sub-tropic regions, where the climate is warm and mild. At present, there are two airports in the Hainan Province, which are located in Haikou and Sanya respectively. Haikou, being the capital of Hainan Province, is the administrative and commercial hub of the Hainan Provice, while Sanya, with the proximity to various resorts and beaches, is a popular tourist spot. During recent years, a number of resorts operated by international reputed hotel groups have been opened near Sanya.

According to the National Bureau of Statistics of the PRC, the gross domestic product of the Hainan Province of 2008 amounted to approximately RMB145.9 billion, representing a growth of approximately 9.8% as compared to 2007. Such growth has been mainly contributed by the tertiary industry.

According to The Collection of Statistics on China Economy and Social Development 2008-2009 published by the National Bureau of Statistics, during 2008, passenger throughput of the Hainan Province amounted to 34.3 billion persons-km, of which approximately 54.2% was by way of civil aviation. Cargo throughput amounted to 65.3 billion ton-km, of which approximately 0.5% was by way of civil aviation. These statistics indicate that the civil aviation industry in the Hainan Province is mainly serving as passenger transport while cargo service takes up a small portion of civil aviation service.

In respect of the tourism industry in the Hainan Province, Hainan Province recorded domestic tourist arrivals of 19.6 million person-times and international tourist arrivals of 0.98 million person-times in 2008, representing increases of 10.3% and 4.4% respectively as compared to 2007. Of the total revenue generated from the tourism industry, over 85% was contributed by domestic tourism. These statistics suggest that domestic tourist is the principal market driver of the aeronautical industry in the Hainan Province.

3. Existing business of the Group

The Group's operation in Haikou

The Group has a strong foothold in Haikou of the Hainan Province. It is engaged in both aeronautical and non-aeronautical businesses at the Hainan Meilan International Airport at Haikou, Hainan Province. The aeronautical businesses of the Group consist of the provision of terminal facilities, ground handling services and passenger and cargo handling services. The non-aeronautical businesses of the Group include leasing of commercial and retail spaces at Haikou Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods. The aeronautical businesses of the Group contributed approximately 74.9% and 75.3% of the total revenue of the Group during the years ended 31 December 2008 and 2009 respectively.

Financial results of the Group

Set out below is a summary of the Group's audited consolidated income statement for the three years ended 31 December 2007, 2008 and 2009.

	For the year ended 31 December		
	2007	**2008**	**2009**
	RMB'm	*RMB'm*	*RMB'm*
Revenue			
Aeronautical	251.8	292.7	301.8
Non-aeronautical	92.6	98.3	98.9
	344.4	391.0	400.7
% change	+3.0%	+13.5%	+2.5%
Profit for the year attributable to the Shareholders	138.8	186.4	180.6
	RMB	*RMB*	*RMB*
Earnings per Share attributable to the Shareholders – basic and diluted	29 cents	39 cents	38 cents

The Group's revenue for the year ended 31 December 2007 increased slightly by 3.0% and amounted to RMB344.4 million. In 2008, the Group's revenue increased by approximately 13.5% and reached RMB391.0 million. According to the 2008 annual report of the Group, the increase in revenue from aeronautical business was mainly attributable to the marketing effort of the Group, the opening of regular domestic routes between Haikou and other cities of the PRC by China United Airlines, and the launching of direct route between Haikou and Kuala Lumpur by Airasia Airline. The growth is however partly offset by the decrease of charter flights booked by Russian, South Korean and Japanese airlines due to the global economic downturn in the second half of 2008. In respect of non-aeronautical business of the Group, the increase was mainly attributable to the Group's effort in expanding its cargo business.

During the year ended 31 December 2009, the growth of the Group's revenue slowed down to 2.5% only and profit of the Group attributable to the Shareholders decreased slightly by 3.1%. According to the 2009 annual report of the Company, the decline in growth and profit was mainly attributable to the global epidemic of the H1N1 influenza which had led to a decrease in tourist charter flights booked by Russian, South Korean and Japanese airlines. The decline was partly compensated by the growth brought by the Group's successful introduction of Jetstar Asia Airways which launched a route between Singapore and Haikou.

Financial position of the Group

Set out below is a summary of the audited consolidated balance sheet of the Company as at 31 December 2009.

	As at 31 December 2009 *RMB'm*
Land use rights	153.6
Property, plant and equipment	959.3
Trade receivables	179.9
Time deposits and cash and cash equivalents	748.7
Other assets	50.0
Total assets	2,091.5
Total borrowings	(12.0)
Trade and other payables	(104.1)
Other liabilities	(12.7)
Total liabilities	(128.8)
	1,962.7
Minority interests	(0.6)
Equity attributable to the Shareholders	1,962.1

As shown in the table above, the Group had a strong balance sheet with low borrowings, significant cash reserves and sizeable assets base which includes principally tangible assets such as land use rights, property, plant and equipment.

Prospects and challenges for the Group

As stated in the 2009 annual report of the Company, the Company expects challenges in the coming year could be brought by, among other things, the international oil price trend which may strike the international aviation industry; and competition casted by the launch of high-speed railway which provides transits between major cities in the PRC as an alternative to air transportation. During 2009, a number of announcements/policies have been promulgated by the Hainan provincial government which relate to the development of the Hainan Province into an international tourism island as a State strategy. In the absence of the Acquisition, the Group would face intensified competition brought by the introduction of alternative means of transportation and that the business growth could be hindered by the competition and diversion effect of the Sanya Phoenix Airport along with the tourism development of Sanya.

4. Business of the Target Group

Airports operated by the Target Group

The Target Group is principally engaged in airport investment, operation management and ground services relating to air transportation. At present, the subsidiaries of the Target Group operate eight airports in the PRC as listed below:

Subsidiaries of HNA Airport	% owned	Provinces and location
Sanya Phoenix	67%	Hainan (Southern China)
Yichang Sanxia	90%	Hubei (Central China)
Dongying Yong An	90%	Shandong (Northern China)
Manzhouli Xijiao	67%	Inner Mongolia (Northern China)
Dunhuan Mogao	100%	Gansu (Northern China)
Qingyang Xifeng	100%	Gansu (Northern China)
Lanzhou Zhongchuan	100%	Gansu (Northern China)
Jiayuguan	100%	Gansu (Northern China)

Besides the subsidiaries above, HNA Airport also has other subsidiaries which are engaged in the provision of various auxiliary services related to air transport.

The Airport Management Companies

Out of the eight subsidiaries which are engaged in the operation of airports as mentioned above, three of them (being Sanya Phoenix, Yichang Sanxia and Dongying Yong An) possess the key assets for the airport operations such as the taxiway and control building. The other five companies (the "Airport Management Company(ies)") do not possess the key assets of the airport. Instead, they are authorised to manage and operate the respective airports pursuant to various agreements and/or arrangements. Details of these agreements/arrangements are set out in the paragraph headed "Information on HNA Airport and its subsidiaries" in the Letter contained in the Circular.

Among these five Airport Management Companies, four of them (the "Gansu Entities") are located in Gansu Province, the PRC. Pursuant to the relevant operation agreements entered into between the Gansu Entities and the respective owners of the four airports in Gansu Province, the Gansu Entities manage and operate the four airports in Gansu Province and are entitled to revenue generated and responsible for the operating expenses in connection with the operation of the respective airports. These four operation agreements will expire on 31 December 2010. In this regard, the Company has obtained confirmation letters issued by each of the owners of the four airports confirming that they intend to continue the existing arrangement with the Gansu Entities after the expiration of the aforesaid operation agreement.

The remaining Airport Management Company, Manzhouli Xijiao, operates the Manzhou Xijiao Airport located in Inner Mongolia. As advised by the Directors, Manzhou Xijiao Airport is owned by HNA Group, which has authorised Manzhouli Xijiao to operate the Manzhou Xijiao Airport. No formal agreement has been entered into between Manzhouli Xijiao and HNA Group as regards the terms and effective period of the arrangement. The Company has obtained a confirmation letter from HNA Group confirming that Manzhouli Xijiao is authorized to operate the Manzhou Xijiao Airport, entitled to the revenue generated from the airport operation and the government subsidy in respect of the operation of the Manzhou Xijiao Airport, and is responsible for the operating expenses. HNA Group has also confirmed to the Company that it intends to continue the aforesaid arrangement with Manzhou Xijiao.

The aggregate unaudited profit after tax of the Airport Management Companies amounted to RMB10.9 million for the year ended 31 December 2009, representing approximately 5.5% of the consolidated profit after tax of the Target Group for the year.

Passenger and cargo throughput

The Group has provided to us information about passenger throughput and cargo throughput of the airports operated by the Group and the respective members of the Target Group as summarized below:

Airports operated by the Group/members of the Target Group	**Passenger throughput during 2009**		**Cargo throughput during 2009**	
	1,000 persons	*% change from 2008*	*Tons*	*% change from 2008*
The Group				
Haikou Meilan International Airport	8,391.0	+2.1	137,819.6	+4.7
The Target Group				
Sanya Phoenix	7,941.0	+32.2	94,105.5	+31.8
Lanzhou Zhongchuan	2,861.5	+29.3	27,021.2	+24.2
Yichang Sanxia	657.5	+25.7	7,697.9	+18.5
Dunhuang Mogao	152.6	+13.8	108.50	+6.8
Manzhouli Xijiao	147.5	+20.9	1,659.8	+12.2
Jiayuguan	89.6	+38.5	83.2	+0.8
Dongying Yong An	75.6	+32.6	671.3	+33.1
Qingyang Xifeng	20.6	–24.8	–	–

As shown in the table above, the airport operated by the Group (being the Haikou Meilan International Airport in Hainan Province) recorded the highest passenger throughput and cargo throughput during 2009 among all the airports listed above. Nevertheless, the growth in volume throughput of the Group is rather stable, with an increase of 2.1% in passenger throughput and an increase of 4.7% in cargo throughput, while most of the other airports listed above achieved a double-digit percentage growth in throughput volume. Sanya Phoenix, the entity which contributed the largest amount of profit to the Target Group and which operates the Sanya Phoenix Airport in Hainan Province, recoded growth in passenger throughput of 32.2% and cargo throughput of 31.8%. Its throughput volume is significantly higher than those of the other airports operated by the Target Group.

5. Financial information of the Target Group

Income sources of the Target Group

Set out below is a summary of the revenue of the Target Group by business segments and geographic segments as extracted from the Accountants' Report of the Target Group (the "Accountants' Report") contained in Appendix II to the Circular:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Business segments			
Aeronautical			
Ground handling services income	6,098	88,258	107,353
Passenger charges	16,297	158,103	208,344
Aircraft movement fees and related charges	11,465	76,915	100,077
	33,860	323,276	415,774
Non-aeronautical	13,969	152,281	193,410
Sale of crude oil	–	1,039,348	–
	47,829	1,514,905	609,184
Geographical segments			
Southern China	–	1,375,460	406,310
Northern China	13,416	105,494	164,535
Central China	34,413	33,951	38,339
	47,829	1,514,905	609,184

During the year ended 31 December 2008, the Target Group recorded revenue from the sales of crude oil of approximately RMB1,039.3 million. According to note 20 to the Accountants' Report, pursuant to an operating agreement entered into between Sanya Phoenix and Hainan Pacific Oil Co. Limited ("Hainan Pacific Oil"), a company with 35.29% equity interest held by Sanya Phoenix, Sanya Phoenix has control over the financial and operating policies of Hainan Pacific Oil up to 30 June 2012. Accordingly, Hainan Pacific Oil was regarded as a subsidiary of Sanya Phoenix during the years ended 31 December 2007 and 2008. Nevertheless, during the year ended 31 December 2009, Sanya Phoenix and Hainan Pacific Oil entered into a termination agreement to terminate the operating agreement and Sanya Phoenix ceased to control the financial and operating policies of Hainan Pacific Oil with effect from 1 January 2009. Accordingly, Hainan Pacific Oil was accounted for as an associate starting from 1 January 2009. According to note 20 of the Accountants' Report, the Target Group recorded share of results of associates of RMB5.6 million, representing approximately 2.9% of the consolidated profit of the Target Group for the year ended 31 December 2009.

Revenue of the Target Group from aeronautical business increased by nearly nine times from RMB33.9 million in 2007 to RMB323.3 million in 2008. The surge in revenue in 2008 was mainly attributable to the full year contribution of Sanya Phoenix which was acquired by the Target Group in December 2007. Since the acquisition, passenger charges has become a more important income source of the Target Group and Sanya Phoenix has replaced Yichang Sanxia as the largest revenue contributor in respect of the aeronautical business of the Target Group. We believe that this is mainly attributable to the rapid development of the tourism industry in Sanya in recent years.

The non-aeronautical revenue of the Target Group is mainly generated from transportation and cargo logistic services and accounted for approximately 29.2%, 10.1%, and 31.7% of the total revenue of the Target Group during each of the years ended 31 December 2007, 2008 and 2009.

Historical financial performance of the Target Group

Set out below is a summary of the results of the Target Group for the three years ended 31 December 2007, 2008 and 2009 as extracted from the Accountants' Report:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	47,829	1,514,905	609,184
Cost of goods and services sold	(45,537)	(1,261,058)	(329,342)
Gross profit	2,292	253,847	279,842
Profit before tax	43,452	226,138	205,667
Income tax expense	(73)	(15,234)	(9,215)
Profit for the year	43,379	210,904	196,452
Profit for the year attributable to:			
Owners of HNA Airport	43,813	187,624	191,657
Minority interests	(434)	23,280	4,795
	43,379	210,904	196,452

(a) Year ended 31 December 2007

During the year ended 31 December 2007, revenue and profit of the Target Group were mainly contributed by Yichang Sanxia and Dongying Yong An, which operated in Hubei and Shangdong provinces respectively. Revenue of the Target Group amounted to approximately HK$47.8 million. The Target Group had also incurred administrative expenses of RMB68.5 million (which was larger than the revenue) and restructuring expenses of RMB21.8 million for the group restructuring involving the reformation of HNA Airport into a Sino-foreign equity joint venture during the year ended 31 December 2007. Taking all these into account and the gain on disposal of an associate and share of results of associates, the Target Group managed to record a profit after tax of approximately RMB43.4 million.

(b) Year ended 31 December 2008

During the year ended 31 December 2008, revenue of the Target Group increased significantly from RMB47.8 million to RMB1,514.9 million. The increase was chiefly attributable to the inclusion of the revenue of the sale of crude oil of RMB1,039.3 million. Excluding the sale of crude oil, aggregate revenue from the aeronautical and non-aeronautical business of the Target Group also increased significantly from RMB47.8 million to RMB475.6 million, and the increase was mainly because of the full year contribution by Sanya Phoenix which was acquired by the Target Group in December 2007 (see further analysis below). Besides, administrative expenses were relatively smaller than that in 2007, which amounted to approximately 10.0% of the revenue of the Target Group. As a result of the above and the reversal of impairment loss in respect of other receivables, the Group recorded net profit after tax of RMB210.9 million for the year ended 31 December 2008, representing an increase by approximately 3.9 times of that in 2007.

(c) Year ended 31 December 2009

During the year ended 31 December 2009, revenue of the Target Group decreased from RMB1,514.9 million to RMB609.2 million. The decrease was mainly due to the exclusion of the revenue from sale of crude oil. As discussed in the paragraph headed "Income sources of the Target Group" above, the results of Hainan Pacific Oil was no longer consolidated in the Target Group starting from 1 January 2009 and its results were accounted for as share of results of associates, contributing an immaterial portion of profit to the Target Group. Excluding the sale of crude oil, aggregate revenue from the aeronautical and non-aeronautical business of the Target Group increased from RMB475.6 million to RMB609.2 million. According to note 7 to the Accountants' Report, the increase in revenue from the aeronautical and non-aeronautical business of the Target Group was mainly attributable to Sanya Phoenix and airports in the northern China. According to the management of the Target Group, the increase in revenue contributed by Sanya Phoenix was attributable to the vigorous development of the tourism industry in Sanya in 2009. In respect of the business in northern China, the management of the Target Group believes that the increase in revenue was brought by the economic recovery from the snow storm which hit the northern China in 2008.

Finance costs of the Target Group amounted to RMB125.6 million, representing a significant increase of 63.5%. This was because the Target Group had increased bank borrowings and other borrowings from a total of approximately RMB1.9 billion as at 31 December 2008 to a total of approximately RMB2.8 billion as at 31 December 2009. Because of the increase in finance cost, profit for the year decreased by 6.8%, from RMB210.9 million for the year ended 31 December 2008 to RMB196.5 million for the year ended 31 December 2009.

Profit of Sanya Phoenix

As disclosed in note 15 to the Accountants' Report, pursuant to an agreement between HNA Airport and a minority shareholder of Sanya Phoenix, as an incentive for HNA Airport to operate Sanya airport, the minority shareholder of Sanya Phoenix has agreed to assign its profit sharing entitlement of Sanya Phoenix for the period from 1 January 2008 to 31 December 2010 to HNA Airport and such that HNA Airport's share of results in Sanya Phoenix is 99% instead of its equity holding of 67% during the period. As a result of the profit sharing arrangement, the profit attributable to owners of HNA Airport attributable to the additional 32% share amounted to approximately RMB53,747,000 and RMB70,208,000 for the years ended 31 December 2008 and 2009 respectively, representing approximately 28.6% and 36.6% of the profit attributable to owners of HNA Airport for the respective years. From 1 January 2011 onwards, it is expected that HNA Airport would share profit of Sanya Phoenix proportionate to its equity interest in Sanya Phonix which is currently 67%. Since Sanya Phoenix is the most significant contributor of profit to the Target Group, the cessation of the current profit sharing arrangement is expected to adversely affect the profitability of the Target Group.

As discussed with the management of the Company, while they acknowledge that the cessation of the current profit sharing arrangement would adversely affect the future profitability of the Target Group, in view of the vigorous growth in demand for aeronautical services particularly due to the promotion by the State of Sanya as a tourist spot, they believe that the business growth brought by the growing market demand would compensate the adverse effect as a result of the cessation of the current profit sharing arrangement.

The charts below analyse the trend of passengers and cargo throughput volume of Sanya Phoenix based on the information provided by the Target Group:

Chart 1: Passenger throughput of Sanya Phoenix:

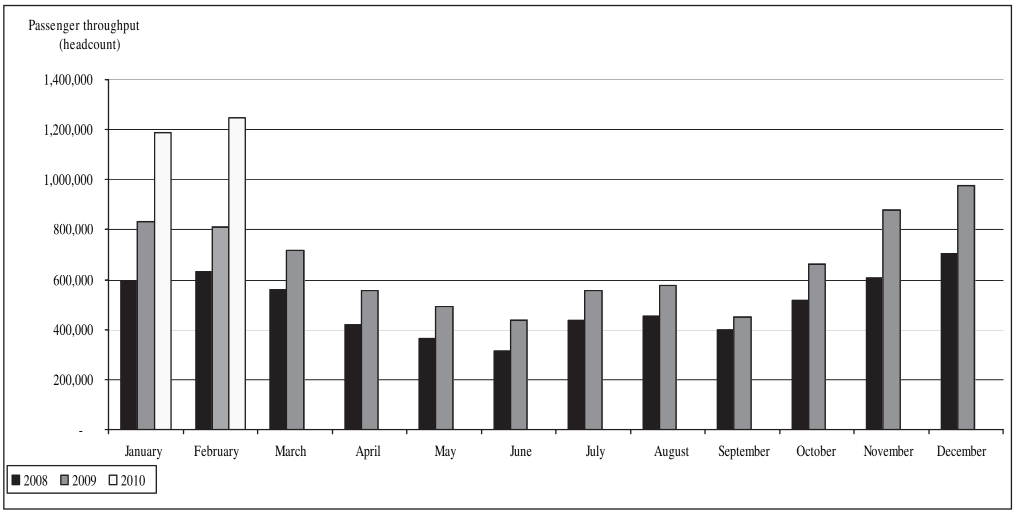
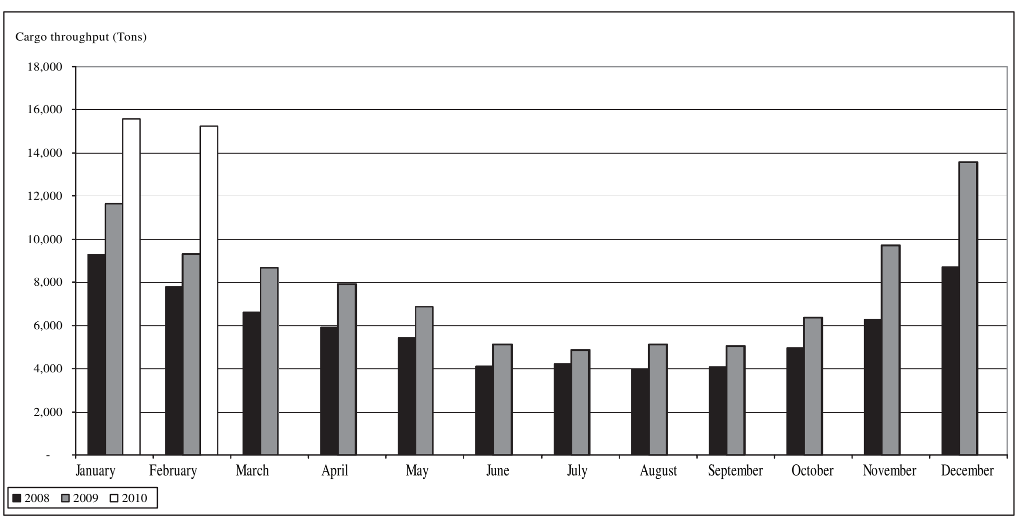


Chart 2: Cargo throughput of Sanya Phoenix:



From the charts above, it is noted that the winter season each year is the peak season of Sanya Phoenix. This is mainly because of the influx of tourists from other parts of the PRC particularly near the Chinese New Year holiday to enjoy the all-year-round warm and comfortable weather in Hainan. As shown in the charts above, both passenger throughput and cargo throughput in the first two months of 2010 were significantly higher than those in 2009. For the first two months in 2010, passenger throughput increased by 48.1% and cargo throughput increased by 47.3% as compared to that in the same period of 2009. According to the management of the Target Group, the significant increase in turnover in 2009 and 2010 was due to the introduction of government policy to encourage tourism in Sanya. In view of such vigorous growth prospects, the Directors are positive about the future business of the Target Group despite the anticipated drop in profit sharing ratio in Sanya Phoenix from 99% to 67%.

Financial position of the Target Group

The Target Group recorded net assets of RMB4,324.5 million and net current assets of RMB699.5 million as at 31 December 2009. Set out below is a summary of the financial position of the Target Group as at 31 December 2009:

	As at 31 December 2009
	RMB'000
NON-CURRENT ASSETS	
Property, plant and equipment	2,662,638
Premium on prepaid lease payments	698,152
Goodwill	232,824
Prepaid lease payments – non-current portion	721,984
Interests in associates	125,431
Available-for-sale investments	1,250
Finance lease receivable – due after one year	3,856
Loan to ultimate holding company – due after one year	850,000
	5,296,135
CURRENT ASSETS	
Inventories	1,767
Trade and other receivables	383,485
Prepaid lease payments – current portion	14,515
Finance lease receivable – due within one year	1,191
Loans to fellow subsidiaries – due within one year	214,000
Loan to ultimate holding company – due within one year	50,000
Amounts due from fellow subsidiaries, related companies, an associate and minority shareholders of subsidiaries	841,003
Deposits in a group treasury company	375,036
Bank balances and cash	673,406
	2,554,403

	As at 31 December 2009
	RMB'000
CURRENT LIABILITIES	
Trade and other payables	361,479
Amounts due to ultimate holding company, fellow subsidiaries, related companies and an associate	117,821
Tax payable	1,653
Bank borrowings – due within one year	645,000
Unsecured other borrowings – due within one year	20,000
Unsecured loan notes	709,000
	1,854,953
Net current assets	699,450
Total assets less current liabilities	5,995,585
NON-CURRENT LIABILITIES	
Bank borrowings – due after one year	1,162,192
Unsecured other borrowings – due after one year	236,155
Deferred tax liabilities	141,013
Deferred income	131,773
	1,671,133
	4,324,452
CAPITAL AND RESERVES	
Paid-in capital	3,020,152
Reserves	526,563
Equity attributable to owners of HNA Airport	3,546,715
Minority interests	777,737
	4,324,452

(a) Assets

Total assets of the Target Group mainly comprised property, plant and equipment and prepaid lease payments relating to the airport operations of the Target Group. In addition, the Target Group recorded loan to ultimate holding company of RMB900 million and loans to fellow subsidiaries of RMB214 million. The loans carry interest at fixed rates ranging from 5.9% to 7.98% per annum. According to the management of the Target Group, the aforesaid loans to ultimate holding and fellow subsidiaries are temporary in nature and they do not expect any difficulties in recovering such balances due from the related parties.

As at 31 December 2009, deposits and bank balances of the Target Group amounted to RMB1,048.4 million.

(b) Liabilities

Liabilities of the Target Group mainly comprised bank borrowings, other borrowings and unsecured loan notes. Total borrowings amounted to approximately RMB2,772.3 million as at 31 December 2009. According to the management of the Target Group, the borrowings were obtained mainly for the purpose of acquisition of and construction for the airport operations in Sanya and Yichang.

Trade and other payables amounted to approximately RMB361.5 million as at 31 December 2009 and comprised mainly accruals for various operational expenses.

6. Prospects of the Enlarged Group

Upon Completion, the Enlarged Group will operate a total of nine airports, including both the existing airports in Hainan Province, all the existing four airports in Gansu province, and three airports in other provinces. The income source of the Enlarged Group will be diversified and expanded. Most importantly, the Acquisition will enable the Group to integrate the airport operation business in Hainan province and relieve the Group from the intense competition posed by Sanya Phoenix. As mentioned in the annual report of the Company, on 31 December 2009, the "Certain Opinions on Promoting the Establishment of Hainan as an International Tourism Island" were duly approved, marking the State policy of developing Hainan Province into an international tourism island. The "Plan of Constructing an International Tourism Island in Hainan" promulgated by the Hainan provincial government also put forward a number of policies to foster the tourism industry in Hainan Province, including further liberation of aviation rights and the introduction of renowned foreign travel agencies to attract foreign tourists. The Directors are optimistic that the tourism industry in Hainan Province will bring more business opportunities to the Enlarged Group.

7. Evaluation of the Consideration

Valuation

As stated in the Letter in the Circular, the Consideration was determined by the Company and the Vendors after arm's length negotiations and considering a number of factors, including but not limited to the valuation, growth potential and asset appreciation prospects of the Target Group. The Company has engaged Beijing Lixin, an independent registered valuer in the PRC, to conduct a valuation on the Target Group. The relevant valuation report of the Target Group prepared by Beijing Lixin (the "Valuation Report") is set out in Appendix VI to the Circular.

According to the Valuation Report, the Target Group is valued at approximately RMB4,075.6 million as at 31 December 2009. Valuation attributable to the Sale Shares, which represent a 54.5% equity interest in the Target Group, amounted to approximately RMB2,221.2 million. The aggregate Consideration of approximately RMB2,199.9 million represents a slight discount of approximately 0.96% to the aforesaid valuation.

We note from the Valuation Report that:

(a) the valuation of the Target Group has been reached by aggregating the value of all the assets and liabilities of the Target Group;

(b) properties, plants and equipments of the Target Group are valued by replacement cost approach;

(c) land use rights of the Target Group are valued by Hainan Zhengli Land Valuation Company Limited (the "Land Valuer"), an independent and registered land valuer engaged by the Company. Based on our discussion with the Land Valuer, the cost approach method and the benchmark land price coefficient modification method are applied in valuing the land use rights owned by the Target Group; and

(d) for assets and liabilities other than properties, plants and equipments and land use rights, their book value are taken as the valuation.

Based on our discussion with the management of the Company, the Target Group, Beijing Lixin and the Land Valuer, we understand that while it is the discretion of the valuer in selecting the most appropriate methodologies in valuing the underlying assets and liabilities based on their professional judgment, the valuation approaches adopted by Beijing Lixin and the Land Valuer as mentioned above are commonly used and accepted in the PRC and are in accordance with the relevant rules and regulations concerning valuation issued by the Ministry of Finance, the PRC and other relevant authorities in the PRC. Based on our review of the Valuation Report and discussions with the management of the Company and the Target Group, Beijing Lixin and the Land Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions underlying the Valuation. Independent Shareholders are advised to refer to the valuation report prepared by Beijing Lixin contained in Appendix VI to the Circular for details of the basis and assumptions of the valuation of the Target Group.

Comparable Companies

For the purpose of our evaluation of the Consideration, we have also, based on information available in the public domain, reviewed the market ratings of companies which are engaged in businesses similar to HNA Airport and with their shares listed on the Hong Kong, Shenzhen or Shanghai stock exchanges (the "Comparable Companies"). The table below summarises our research results:

Company (stock code)	Market capitalisation	Closing price as at the 7 May 2010	Price-to-earnings	Price-to-book	Price-to-revenue	Price-to-operating cash flow
Listed on the Stock Exchange:						
The Company (357)	HK$2.3 billion	HK$8.82	26.2	2.4	11.8	31.6
Beijing Capital International Airport Company Limited (694)	HK$9.0 billion	HK$4.25	68.6	1.6	4.2	15.7
Listed in the PRC						
Shanghai Stock Exchange:						
Xiamen International Airport Company Limited (600897)	RMB5.1 billion (HK$5.8 billion)	RMB17.23	19.0	3.9	6.7	14.1
Shanghai International Airport Company Limited (600009)	RMB14.9 billion (HK$16.8 billion)	RMB13.63	36.8	2.0	7.9	22.2
Guangzhou Baiyun International Airport Company Limited (600004)	RMB9.8 billion (HK$11.1 billion)	RMB9.63	20.5	1.8	3.3	9.6
Shenzhen Stock Exchange:						
Shenzhen Airport Company Limited (000089)	RMB4.1 billion (HK$4.6 billion)	RMB6.26	18.4	2.0	6.4	18.2
Mean			**24.2[1]**	**2.3**	**6.7**	**18.6**
Median			**20.5[1]**	**2.0**	**6.5**	**17.0**
The Acquisition	**RMB2.20 billion***		**21.1**	**1.1**	**6.6**	**14.4**

Source: Bloomberg and public financial information of the relevant companies.

* *the Consideration*

1 The price-to-earnings ratio of Beijing Capital International Airport Company Limited (stock code: 694) is far higher than that of the other Comparable Companies and is therefore excluded from the calculation of mean and median of the price-to-earnings ratio of the Comparable Companies to avoid distortion.

Based on the audited consolidated profit after tax of the Target Group attributable to the owners of HNA Airport for the year ended 31 December 2009 as reported in the Accountants' Report, the Consideration of RMB2,199.9 million represents a price-to-earnings ratio of approximately 21.1 times. As shown in the table above, the price-to-earnings ratio represented by the Consideration is in the lower end of the range of the corresponding ratios for all the Comparable Companies, and is lower than both the mean and median of the corresponding ratio for the Comparable Companies. We believe the low price-to-earnings ratios represented by the Consideration could be due to the relatively smaller size of the operations and the non-listing status of HNA Airport as well as the pricing differentials between the stock market in Hong Kong and the PRC.

As mentioned in the paragraph headed "Financial information of the Target Group" above, as a result of a profit sharing arrangement between HNA Airport and the minority shareholder of Sanya Phoenix, HNA Airport had been sharing 99% of the profits of Sanya Phoenix in the past years instead of a 67% based on its equity interest in Sanya Phoenix. Such profit sharing arrangement is expected to end in 2010 and the Target Group's share of profit of Sanya Phoenix would decrease from 99% to 67%. Had 67% of profit from Sanya Phoenix been shared in the year ended 31 December 2009, the price-earnings ratio represented by the Consideration would have been approximately 33.2 times, which is still within the range of such ratios of the Comparable Companies although it is higher than the mean of 24.2 times.

As set out in the table above, the Consideration of RMB2,199,900,000 represents price-to-book ratio of approximately 1.1 times. The price-to-book ratio represented by the Consideration are in the lower end of the range of the corresponding ratios for all the Comparable Companies, and is lower than both the mean and median of the corresponding ratio for the Comparable Companies. In addition, we have also looked into the price-to-revenue and price-to-operating cash flow ratios as represented by the Consideration. As noted from the table above, the price-to-revenue ratio represented by the Consideration is between the mean and median of that of the Comparable Companies, while the price-to-operating cash flow ratio represented by the Consideration is lower than the mean and median of that of the Comparable Companies. Based on the above, we consider that the Consideration to be fair and reasonable.

8. Settlement and funding of the Consideration

In respect of the acquisition for the Kingward Sale Shares, US$72.5 million (equivalent to approximately RMB494.45 million) shall be paid before 15 June 2010 and US$72.5 million (equivalent to approximately RMB494.45 million) shall be paid before 20 December 2010. As stated in the Letter contained in the Circular, the Company intends to finance the consideration with its current funds and bank borrowings. As noted from the 2009 annual report of the Company, as at 31 December 2009, the Group had time deposits, cash and cash equivalents amounting to approximately RMB748.7 million and net current assets of RMB839.5 million. We are also advised by the Directors that the Company has applied to certain PRC national banks for borrowings of up to RMB1,000 million for financing the acquisition of Kingward Sale Shares. However, no formal and definitive loan agreements had been signed as at the Latest Practicable Date. In this regard, the Company has obtained an undertaking from HNA Group Finance Co., Ltd. (海航集團財務有限公司), a non-bank financial institution and a related party of the Company, pursuant to which HNA Group Finance Co., Ltd. has undertaken to the Company that it will provide a loan to the Company in the principal amount of up to RMB1,000 million to finance the acquisition of Kingward Sale Shares and that the loan shall carry interest based on borrowing rate announced by the People's Bank of China.

In respect of the consideration for the HNA Group Sale Shares which amounts to RMB1,211 million, the Company intends to satisfy the consideration with the proceeds from the A Share Issue. It is one of conditions precedent to the completion of the HNA Group Agreement that the A Share Issue has been completed. The Company currently proposes to issue not more than 200,000,000 A Shares for listing on the stock exchange of Shanghai or Shenzhen. On this basis, the issue price of the A Shares would have to be not less than RMB6.055 per A Share in order to fully finance the consideration for the HNA Group Sale Shares. As at the Latest Practicable Date, the Company has not yet determined the issue price of the A Shares. As stated in the Letter contained in the Circular, the issue price for the A Share will be determined based on the then prevailing conditions of the PRC securities market at the time of the A Share Issue and will not be lower than 90% of the average closing price of the Company's H Shares during the period commencing upon the publish of the relevant summary of share offer prospectus and issue arrangements and preliminary price consultation announcement in relation to the A Share Issue. Accordingly, the amount to be raised from the A Share Issue cannot be ascertained as at the Latest Practicable Date. The Company currently expects that the A Share Issue will be completed by the end of January 2011.

Shareholders should note that despite the HNA Group Agreement is conditional on the successful completion of the A Share Issue, there is neither a guaranteed minimum issue price of the A Shares nor a minimum amount of proceeds to be raised from the A Share Issue. In the event that the result of the A Share Issue is less favourable than that being currently contemplated and that the amount raised from the A Share Issue is less than RMB1,211.0 million, the Company will have to utilise part of its cash reserve or to seek additional borrowings to fund the consideration for the HNA Group Sale Shares.

9. Financial effects of the Acquisition on the Group

Independent Shareholders should note that the Kingward Agreement and the HNA Group Agreement are not inter-conditional and are capable of being completed independent of the other. It is anticipated that the acquisition of the Kingward Sale Shares would be completed in or around December 2010, while the acquisition of the HNA Group Sale Shares would be completed after completion of the A Share Issue, which is in turn expected to be in early 2011. Following the completion of acquisition of the Kingward Sale Shares and prior to the completion of the acquisition of the HNA Group Sale Shares, the Company would hold a 24.5% equity interest in HNA Airport and the Company's interest in HNA Airport will be accounted for as an investment in associate. The Company would share 24.5% of the results and net assets of HNA Airport. Since the Kingward Agreement and the HNA Group Agreement are not inter-conditional, in the event that the Kingward Agreement is not completed for whatever reasons and that only the HNA Group Agreement is completed, the Company will hold a 30% equity interest in HNA Airport. According to an agreement between the Company and HNA Group, HNA Group agreed to allow the Company to, following the settlement of the consideration for the HNA Group Sale Shares, appoint directors to the board of HNA Airport which shall otherwise be appointed by HNA Group, such that the Company shall appoint 4 out of 7 directors to the board of HNA Airport following completion of the HNA Group Agreement. As advised by the auditors of the Company and as illustrated in the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to the Circular (the "Pro Forma Report"), assuming only the HNA Group Agreement is completed, the Company's interest in HNA Airport will be accounted for as investment in a jointly controlled entity and the Company would share 30% of the results and net assets of HNA Airport.

Furthermore, as mentioned in the paragraph headed "Satisfaction of Consideration" in the Letter, if the Company paid 50% of the consideration for the Kingward Sale Shares and fail to pay the balance of the consideration, Kingward will transfer 12.25% equity interest in HNA Airport (i.e. 50% of the Kingward Sale Shares) to the Company. As advised by the Directors, in the event that the Company has acquired 12.25% equity interest in HNA Airport only, the 12.25% interest in HNA Airport will be accounted for as an available-for-sale investment and the Company will only be entitled to dividend (if any) declared by HNA Airport but will not share the results or net assets of the Target Group.

Immediately following completion of both the Kingward Agreement and the HNA Group Agreement, the Company would hold a 54.5% equity interest in HNA Airport and HNA Airport would become a subsidiary of the Company. The accounts of the Target Group would be consolidated into the financial statements of the Company.

Despite the fact that a number of different scenarios could be resulted from the Share Transfer Agreements as described above, in view of the profitable track record of the Target Group in the last three financial years, the Target Group is expected to contribute positively to the profitability of the Enlarged Group and provide return on investment to the Company.

The financial effects of the Acquisition are analysed in more detail as follows:

Scenario 1: Immediately following completion of the Kingward Agreement and the HNA Group Agreement

(a) Earnings

Immediately following the completion of the Kingward Agreement and the HNA Group Agreement, the Company would hold a 54.5% equity interest in HNA Airport. HNA Airport would become a subsidiary of the Company and its accounts would be consolidated into the financial statements of the Company.

According to the unaudited pro forma financial information of the Pro Forma Report, assuming completion of the Acquisition took place on 1 January 2009, RMB1.0 billion was borrowed to finance the acquisition under the Kingward Agreement and that 200,000,000 A Shares were issued in order to finance the acquisition under the HNA Group Agreement, profit of the Enlarged Group attributable to the Shareholders would increase from RMB180.6 million to RMB221.8 million. Due to the dilution effect of the A Share Issue, the additional finance costs and the additional depreciation and amortization charges as a result of the fair value adjustments on certain property, plant and equipment and land use rights of the Target Group recognized in the Acquisition, earnings per Share would decrease by 13.2%, from RMB0.38 per Share to RMB0.33 per Share.

(b) Net assets

According to the Pro Forma Report, assuming Completion had taken place on 31 December 2009 and that approximately RMB1,605.2 million have been raised from issuing 200,000,000 A Shares, net assets of the Enlarged Group attributable to the Shareholders would increase significantly from approximately RMB1,962.1 million to approximately RMB3,560.6 million and net tangible asset per Share will increase from RMB4.15 to RMB5.12. The increase in net asset value is mainly due to the enlargement in capital base as a result of the completion of the A Share Issue before completion of the HNA Group Agreement. On the other hand, in spite of the fact that the issue price of the A Shares is yet to be determined, as set out in the Letter contained in the Circular, it is expected that the issue price will not be lower than 90% of the average closing price of the Company's H Shares on the Stock Exchange during the price consultation period (which commences upon the publish of the summary of share offer prospectus and issue arrangement and preliminary price consultation announcement and it takes about nine business days to determine the issue price). Taking into account the current price of an H Share which is in the range of approximately HK$9.0 to HK$10.0 (equivalent to RMB10.17 to approximately RMB11.3) and the net assets attributable to the Shareholders per Share of RMB4.15 as at 31 December 2009, it is expected that the net asset value per Share would be enhanced by the A Share Issue.

(c) Gearing

It is expected that the gearing level of the Enlarged Group would increase as a result of the Acquisition. According to the 2009 annual report of the Company, the Group had total borrowings of RMB12.0 million as at 31 December 2009, representing a relatively low debt to total asset ratio of approximately 0.6%. According to the Pro Forma Report, assuming that (i) Completion took place on 31 December 2009; (ii) net proceeds of RMB1,605.2 million would be raised from the issue of 200,000,000 A Shares; and (iii) RMB1.0 billion additional borrowings would be obtained by the Group, the total borrowings of the Enlarged Group would increase from RMB12.0 million to RMB3,784.3 million, resulting in an increase in the debt to total asset ratio of the Enlarged Group from 0.6% to 34.1%; and an increase in the debt to equity ratio of the Enlarged Group from 0.6% to 106.3%.

(d) Future working capital and liquidity

According to the cash flow projections of the Enlarged Group prepared by the executive Directors, the Acquisition is not expected to adversely affect the overall cash flow and liquidity position of the Group. Further, as noted from the Accountants' Report, the Target Group had capital commitments amounted to approximately RMB184.7 million as at 31 December 2009, which seems to us an acceptable amount as compared to the consolidated equity base of HNA Airport attributable to its owners of approximately RMB3.5 billion as at 31 December 2009. Your attention is drawn to the paragraph headed "Working capital" in Appendix IV to the Circular which states that the Directors are of the opinion that after taking into account the financial resources available to the Enlarged Group, including the internally generated funds, the net proceeds from the proposed issue of 200,000,000 A Shares in the PRC and available borrowing facilities provided by HNA Finance Co., Limited, a related party, the Enlarged Group has sufficient working capital for its present requirements for the coming 12 months from the date of the Circular.

Scenario 2: Immediately following the completion of the Kingward Agreement only

As disclosed in the Pro Forma Report, assuming completion of the Kingward Agreement took place on 1 January 2008, the Group's 24.5% equity interest in HNA Airport would be accounted for as an investment in associate. Profit of the Enlarged Group attributable to the Shareholders will decrease slightly by approximately 2.9% from RMB180.6 million to RMB175.4 million due to the anticipated finance cost of RMB54.0 million, which offset partly the expected increase in share of results of associates.

Since the Company will have to obtain additional borrowings to finance the consideration for the acquisition of the Kingward Sale Shares, gearing of the Enlarged Group will be increased. According to the Pro Forma Report, the debt to total assets ratio of the Enlarged Group will be increased from 0.6% to 32.7% as a result of the completion of the Kingward Agreement.

Scenario 3: Immediately following the completion of the HNA Group Agreement only

As disclosed in the Pro Forma Report, assuming completion of the HNA Group Agreement took place on 1 January 2009, the Group's 30% equity interest in HNA Airport would be accounted for as an investment in a jointly controlled entity by way of equity method and the Enlarged Group would share 30% of the book value and results of the Target Group. Profit of the Enlarged Group attributable to the Shareholders would increase from RMB180.6 million to RMB233.7 million due to the increase in share of result a jointly controlled entity.

Net assets attributable to the Shareholders would be increased from RMB1,962.1 million to RMB3,567.3 million while net tangible assets of the Enlarged Group per Share would increase from RMB4.15 to RMB5.30. The increase in net assets and net tangible asset per Share is mainly due to the A Share Issue which is a condition precedent to the HNA Group Agreement.

As the acquisition of the HNA Group Sale Shares is expected to be funded by the proceeds from the A Share Issue, the acquisition of the HNA Group Sale Shares is expected to enhance the gearing and debt to equity ratio due to the enlargement of the capital base of the Company.

10. Dilution effect on Shareholders' holdings

The following table illustrates the Company's shareholding changes as a result of the Acquisition, assuming that 200,000,000 A Shares are to be issued to finance the Acquisition:

Classes of Shareholders	Immediately before completion of the Acquisition and the A Share Issue Number of Shares held	 Percentage of shareholding	Immediately after completion of the Acquisition and the A Share Issue Number of Shares held	 Percentage of shareholding
Domestic Shares holders	246,300,000	52.05%	246,300,000	36.59%
H Shares holders	226,913,000	47.95%	226,913,000	33.70%
A Shares holders	–	–	200,000,000	29.71%
Total:	473,213,000	100.00%	673,213,000	100.00%

As shown in the table above, the aggregate shareholding interest of the existing Shareholders will decrease to approximately 70.29% immediately upon Completion, assuming that 200,000,000 A Shares are issued to the public before Completion to finance the payment of the Consideration. The aforesaid dilution is in our view acceptable, taking into account of the potential future earnings contribution by the Target Group and that the issue of the A Shares would finance a substantial part of the Acquisition, thus relieving the Group from the pressure of incurring external borrowings and increasing financing costs.

11. Risk factors

As with investments in any other businesses or assets, the Acquisition involves certain risks which are highlighted as follows:

- although completion of the A Share Issue is one of the conditions precedent to completion of the acquisition of the HNA Group Sale Shares, there is no guarantee as to the minimum issue price of or proceeds from the A Share Issue which are dependent on the then economic environment and capital market condition when the A Share Issue takes place, which is expected to be in or around January 2011. The Company will need to seek extra funding from external borrowing in the event that the proceeds from the A Share Issue is less than expected, resulting in an increase in the gearing and interest expense of the Enlarged Group after Completion;

- as mentioned in the paragraph headed "The Airport Management Companies" above, five entities in the Target Group manage and operate airports without owning the key assets. Although the contributions of the Airport Management Companies are not substantial to the Target Group in the previous financial years, in the event that the relevant management agreements or arrangement cannot be renewed or continued, the profitability of the Target Group would be adversely affected;

- the civil aviation industry in the PRC is subject to extensive governmental regulations, policies and controls. There is no assurance that the relevant government authorities will not change such laws and regulations or impose additional or more stringent laws or regulations. Changes in government policy may adversely impact, among other things, the operating costs of the Target Group, the tourism and economic development in the provinces where the operations of the Target Group are located and thus the prospects of the Target Group; and

- following completion of the Acquisition, the Enlarged Group's business will be expanded to provinces other than Hainan where the Company does not have any business presence at present. The change in risk exposure may adversely affect the Company.

DISCUSSION AND CONCLUSION

The Group is operating under a challenging business environment and facing increased competition from Sanya Phoenix, tourism development of provinces other than Hainan Province in the PRC as well as the introduction of other means of domestic transportation in the PRC. The Acquisition will allow the Group to consolidate the civil aviation market of Hainan Province to eliminate the diversion effect of the Sanya Phoenix Airport and expand its footstep to other provinces of the PRC. Taking into account the strong and profitable track record of the Target Group in the past three years and the impressive growth in passenger and cargo turnover of Sanya Phoenix in 2009 and the first two months of 2010, we concur with the view of the Directors that the Acquisition will increase the Group's competitiveness and popularity in the airport operation industry, ensure a broadened stream of revenue source and a relatively stable profits rate for the Group, despite the Company may not obtain statutory control over HNA Airport due to the fact that the Kingward Agreement and the HNA Group Agreement are not inter-conditional.

As discussed in the section headed "Risk factors" above, five entities in the Target Group (i.e. the Airport Management Companies as mentioned above) operate airports without owning the key assets and there is a risk that the relevant management agreements or arrangement in relation to the operation right of the Airport Management Companies cannot be renewed or continued. Having considered that (i) although formal agreements in relation to the extension of management rights are yet to be confirmed, the owners of the respective airports have issued confirmation letters confirming that they intend to continue with the relevant agreements/arrangement; and (ii) the aggregate unaudited profit after tax of the Airport Management Companies only accounted for approximately 5.5% of the consolidated profit after tax of the Target Group for the year ended 31 December 2009, the risk associated with the continuity of the operation rights of the Airport Management Companies is, in our view, acceptable.

There are certain uncertainties associated with the future profitability of the Target Group which include the anticipated drop in profit sharing in Sanya Phoenix from 99% to 67% starting from 2011 onwards and the non-renewal of the management agreements or arrangements for the Airport Management Companies. Such unfavourable factors could, in our view, be compensated by the substantial growth prospects in passenger and cargo throughput of the airports operated by the Target Group particularly at the Sanya Phoenix airport supported by the State policy to develop Hainan into a tourism hub.

The HNA Group Agreement is conditional upon, among other things, the A Share Issue. Although no concrete issue price and number of A Shares to be issued have been determined, the A Share Issue will inevitably cause dilution to the shareholding of the existing Shareholders. As the A Share Issue will provide considerable amount of extra funding to the Group to finance the Acquisition and to enhance the equity base of the Company, we are of the view that the dilution to existing Shareholders' holding upon completion of the Acquisition acceptable, having regard to the benefits of the Acquisition that may be accrued to the Group.

In the event that the net proceeds from the A Share Issue is less than the consideration for the HNA Group Sale Shares (being RMB1,211.0 million), the Group may have to obtain addition borrowings or to utilize its cash reserve to finance the acquisition. Given the existing relatively low gearing ratio of the Group and the profitable track record of the Target Group, we consider such additional gearing and financing costs acceptable.

The Consideration has been determined based on the valuation prepared by an independent registered PRC valuers principally based on replacement cost method, standard land price method and book value. As advised by the PRC valuers, the aforesaid methodologies are commonly used in the PRC and are recognised by the relevant PRC authorities. On this basis, we agree with the Directors that it is appropriate to determine the Consideration based on the valuation. Furthermore, the price-to-earnings ratio, the price-to-book ratio, the price-to-sale ratio and the price-to-operating cash flow ratio are all at the lower end of the range of the corresponding ratios for the Comparable Companies. The Consideration is, in our view, reasonable.

OPINION AND ADVICE

Having taken into account the above principal factors and reasons, we consider that the acquisition of the HNA Group Sale Shares is in the interests of the Company and the Shareholders as a whole, and the terms of the HNA Group Agreement are on normal commercial terms and fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the HNA Group Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
Optima Capital Limited
Beatrice Lung
Managing Director

A. SUMMARY OF RESULTS AND FINANCIAL POSITION OF THE GROUP

Set out below is the Group's combined results for the three years ended 31 December 2009, which are extracted from the published audited financial statements of the Group:

Consolidated income statement

	Year ended 31 December		
	2009	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenues			
Aeronautical	301,807	292,742	251,798
Non-aeronautical	98,914	98,330	92,593
	400,721	391,072	344,391
Cost of services and goods sold	(158,482)	(148,956)	(121,767)
Gross profit	242,239	242,116	222,624
Selling and distribution costs	–	–	(226)
Administrative expenses	(62,377)	(72,931)	(47,202)
Other gains-net	260	300	279
Operating profit	180,122	169,485	175,475
Finance income	12,328	16,963	6,554
Finance costs	(1,017)	(1,406)	(2,969)
Finance income – net	11,311	15,557	3,585
Share of loss of an associate	(24)	–	–
Profit before income tax	191,409	185,042	179,060
Income tax expense	(10,848)	1,418	(40,308)
Profit for the year	180,561	186,460	138,752
Profit attributable to:			
Shareholders of the Company	180,563	186,434	138,777
Minority interests	(2)	26	(25)
	180,561	186,460	138,752

Consolidated Statement of Comprehensive Income

	Year ended 31 December		
	2009	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	180,561	186,460	138,752
Other comprehensive income	–	–	–
Total comprehensive income for the year	180,561	186,460	138,752
Attributable to:			
Shareholders of the Company	180,563	186,434	138,777
Minority interests	(2)	26	(25)
Total comprehensive income for the year	180,561	186,460	138,752

Consolidated Balance Sheet

	31 December 2009 *RMB'000*	31 December 2008 *RMB'000*	31 December 2007 *RMB'000*
ASSETS			
Non-current assets			
Land use rights	153,622	156,965	160,456
Property, plant and equipment	959,344	995,100	1,009,800
Investment in an associate	30,875	30,504	–
	1,143,841	1,182,569	1,170,256
Current assets			
Inventories	11	106	49
Trade receivables	179,883	109,236	123,320
Other receivables and prepayments	14,229	15,811	12,362
Current income tax recoverable	4,864	–	–
Time deposits	160,000	162,000	167,401
Cash and cash equivalents	588,678	507,339	363,188
	947,665	794,492	666,320
Total assets	2,091,506	1,977,061	1,836,576
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	1,100,250	1,100,250	1,100,250
Other reserves	177,559	160,204	143,383
Retained earnings			
– Proposed final dividend	94,643	62,580	35,449
– Others	589,672	520,627	411,827
	1,962,124	1,843,661	1,690,909
Minority interests	599	601	575
Total equity	1,962,723	1,844,262	1,691,484

	31 December 2009 *RMB'000*	31 December 2008 *RMB'000*	31 December 2007 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	8,000	12,000	16,000
Deferred income tax liabilities	9,666	9,775	11,193
Deferred income-government grants	3,000	–	–
	20,666	21,775	27,193
Current liabilities			
Trade and other payables	104,117	67,768	67,579
Current income tax liabilities	–	39,256	41,320
Borrowings	4,000	4,000	9,000
	108,117	111,024	117,899
Total liabilities	128,783	132,799	145,092
Total equity and liabilities	2,091,506	1,977,061	1,836,576
Net current assets	839,548	683,468	548,421
Total assets less current liabilities	1,983,389	1,866,037	1,718,677

B. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below are the audited financial statements of the Group for the year ended 31 December 2009, which are extracted from the annual report of the Company for the year ended 31 December 2009.

Reference to page numbers in the audited financial statements of the Group is to the page numbers of the 2009 annual report of the Company.

Consolidated Balance Sheet and Balance Sheet

		The Group		The Company	
		31 December 2009	**31 December 2008**	**31 December 2009**	**31 December 2008**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	*6*	153,622	156,965	153,622	156,965
Property, plant and equipment	*7*	959,344	995,100	958,977	994,428
Investments in subsidiaries	*8*	–	–	18,094	18,094
Investment in an associate	*9*	30,875	30,504	30,504	30,504
		1,143,841	1,182,569	1,161,197	1,199,991
Current assets					
Inventories		11	106	11	106
Trade receivables	*11*	179,883	109,236	177,010	105,387
Other receivables and prepayments		14,229	15,811	12,108	11,966
Current income tax recoverable		4,864	–	4,864	–
Due from subsidiaries	*8(b)*	–	–	25,155	22,633
Time deposits	*12(a)*	160,000	162,000	160,000	162,000
Cash and cash equivalents	*12(b)*	588,678	507,339	559,000	484,399
		947,665	794,492	938,148	786,491
Total assets		2,091,506	1,977,061	2,099,345	1,986,482
EQUITY					
Equity attributable to the Company's shareholders					
Share capital	*13*	1,100,250	1,100,250	1,100,250	1,100,250
Other reserves	*14*	177,559	160,204	176,539	159,579
Retained earnings	*15*				
– Proposed final dividend	*25*	94,643	62,580	94,643	62,580
– Others		589,672	520,627	595,960	526,217
		1,962,124	1,843,661	1,967,392	1,848,626
Minority interests		599	601	–	–
Total equity		1,962,723	1,844,262	1,967,392	1,848,626

		The Group		The Company	
		31 December 2009	**31 December 2008**	**31 December 2009**	**31 December 2008**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Borrowings	*16*	8,000	12,000	8,000	12,000
Deferred income tax liabilities	*17*	9,666	9,775	9,666	9,775
Deferred income-government grants		3,000	–	3,000	–
		20,666	21,775	20,666	21,775
Current liabilities					
Trade and other payables	*18*	104,117	67,768	92,527	60,573
Due to subsidiaries	*8(b)*	–	–	14,760	12,331
Current income tax liabilities		–	39,256	–	39,177
Borrowings	*16*	4,000	4,000	4,000	4,000
		108,117	111,024	111,287	116,081
Total liabilities		128,783	132,799	131,953	137,856
Total equity and liabilities		2,091,506	1,977,061	2,099,345	1,986,482
Net current assets		839,548	683,468	826,861	670,410
Total assets less current liabilities		1,983,389	1,866,037	1,988,058	1,870,401

Consolidated Income Statement

		Year ended 31 December	
		2009	**2008**
	Note	*RMB'000*	*RMB'000*
Revenues			
Aeronautical	*5*	301,807	292,742
Non-aeronautical	*5*	98,914	98,330
		400,721	391,072
Cost of services and sales	*19*	(158,482)	(148,956)
Gross profit		242,239	242,116
Administrative expenses	*19*	(62,377)	(72,931)
Other gains-net		260	300
Operating profit		180,122	169,485
Finance income		12,328	16,963
Finance costs		(1,017)	(1,406)
Finance income – net	*21*	11,311	15,557
Share of loss of an associate	*9*	(24)	–
Profit before income tax		191,409	185,042
Income tax expense	*22*	(10,848)	1,418
Profit for the year		180,561	186,460
Profit attributable to:			
Shareholders of the Company	*23*	180,563	186,434
Minority interests		(2)	26
		180,561	186,460
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic and diluted	*24*	38 cents	39 cents
		RMB'000	*RMB'000*
Dividends	*25*	94,643	62,495

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2009	**2008**
	RMB'000	*RMB'000*
Profit for the year	180,561	186,460
Other comprehensive income	–	–
Total comprehensive income for the year	180,561	186,460
Attributable to:		
Shareholders of the Company	180,563	186,434
Minority interests	(2)	26
Total comprehensive income for the year	180,561	186,460

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company					
		Share capital	**Other reserves**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2008		1,100,250	143,383	447,276	1,690,909	575	1,691,484
Comprehensive income:							
Profit for the year		–	–	186,434	186,434	26	186,460
Other comprehensive income:							
Depreciation transfer	*14*	–	(2,051)	2,051	–	–	–
Total comprehensive income for the year		–	(2,051)	188,485	186,434	26	186,460
2007 final dividends paid	*25*	–	–	(33,682)	(33,682)	–	(33,682)
Transfer to statutory reserves	*14*	–	18,872	(18,872)	–	–	–
Balance as at 31 December 2008		1,100,250	160,204	583,207	1,843,661	601	1,844,262
Balance as at 1 January 2009		1,100,250	160,204	583,207	1,843,661	601	1,844,262
Comprehensive income:							
Profit for the year		–	–	180,563	180,563	(2)	180,561
Other comprehensive income:							
Transfer upon disposal of property, plant and equipments	*14*	–	(87)	87	–	–	–
Depreciation transfer	*14*	–	(2,051)	2,051	–	–	–
Total comprehensive income for the year		–	(2,138)	182,701	180,563	(2)	180,561
2008 final dividends paid	*25*	–	–	(62,495)	(62,495)	–	(62,495)
Share of reserve of an associate	*9*	–	395	–	395	–	395
Transfer to statutory reserves	*14*	–	19,098	(19,098)	–	–	–
Balance as at 31 December 2009		1,100,250	177,559	684,315	1,962,124	599	1,962,723

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Profit before income tax		191,409	185,042
Adjustments for:			
– Interest income		(12,328)	(16,963)
– Interest expense		1,017	1,406
– Depreciation and amortisation		55,377	51,868
– Impairment (reverse)/charge of trade and other receivables		(3,524)	14,179
– Loss on disposal of property, plant and equipment	28	560	93
– Share of loss of an associate		24	–
Changes in working capital:			
– Receivables and prepayments		(65,764)	(3,544)
– Trade and other payables		38,371	2,742
– Inventories		95	(57)
Cash generated from operations		205,237	234,766
Interest paid		(995)	(1,406)
Income tax paid		(55,077)	(2,064)
Net cash generated from operating activities		149,165	231,296
Cash flows from investing activities			
Capital contribution to an associate		–	(30,504)
Purchase of property, plant and equipment		(19,231)	(36,495)
Decrease in time deposits		2,000	5,401
Proceeds from disposal of property, plant and equipment	28	349	172
Government grants received		3,000	–
Interest received		12,551	16,963
Net cash used in investing activities		(1,331)	(44,463)
Cash flows from financing activities			
Repayments of borrowings		(4,000)	(9,000)
Dividends paid to the Company's shareholders		(62,495)	(33,682)
Net cash used in financing activities		(66,495)	(42,682)
Net increase in cash and cash equivalents		81,339	144,151
Cash and cash equivalents at beginning of year		507,339	363,188
Cash and cash equivalents at end of year	12	588,678	507,339

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Hainan Meilan International Airport Company Limited (the "Company") was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 28 December 2000. Its H-shares have been listed on The Stock Exchange of Hong Kong Limited since 18 November 2002. The Company and its subsidiaries (collectively the "Group") are mainly engaged in the operation of the Meilan Airport in Hainan Province, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

The Company is majority owned by Haikou Meilan International Airport Company Limited ("Haikou Meilan"), a state-owned enterprise established in the PRC with limited liability.

The consolidated financial statements are presented in Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2009, all of which have no impact on earnings per share:

- IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.

- IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

- IAS 23, 'Borrowing costs' (2007) (effective 1 January 2009). The new standard requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, using effective interest rate defined in IAS 39. It is the Group's accounting policy to capitalise borrowing costs directly attributable to the construction of any qualifying assets as part of the cost of the assets. The change in accounting policy had no impact on the financial statements.

- IFRS 8, 'Operating segments' (effective 1 January 2009). The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the senior management lead by the general manager. The change in accounting policy had no material impact on the Group's disclosures.

- IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011). In 2009, the Group has also early adopted the amendment, which introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship, the nature and amount of any individually-significant transactions, and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRIC 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The group and company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment) 'Intangible Assets' (effective from 1 July 2009). The Group and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale' (effective from 1 January 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group and Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- IAS 1 (amendment), 'Presentation of financial statements' (effective from 1 January 2010). The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

2.2 Consolidation

(a) Subsidiaries

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (see Note 2.7). The results of the subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Associates

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

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

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

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2.7). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management lead by the general manager.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income – net'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net'.

2.5 Property, plant and equipment

Property, plant and equipment (other than assets under construction) are initially recognised at cost and subsequently measured at revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the Directors once the fair value of a revalued asset differs materially from its carrying amount, less accumulated depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Depreciation is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within 'other gains – net', in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the cost of construction, costs of plant and equipment and other direct costs plus cost of borrowings used to finance these projects during the period of construction or installation and testing. Assets under construction are not depreciated until such time as the relevant assets are completed and ready for their intended use.

2.6 Land use right

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

2.7 Impairment of investment in subsidiaries, an associate and non-financial assets

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

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.8 Financial assets

Financial assets of the Group represent loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, other receivables, time deposits, cash and cash equivalents (see Note 2.12 and 2.13).

Regular purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.10 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio; and

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.11 Inventories

Inventories represent spare parts and low value consumables, which are stated at the lower of cost and net realisable value. Cost is determined using the first in first out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

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

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.16 Borrowings

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

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

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associate, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.18 Government grant

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

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

2.19 Pension obligations

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the services performed in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues are recognised as follows:

(i) Airport fee is recognised upon outbound passengers departing from the airport, and the charge rates are regulated by the relevant authorities.

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

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

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

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

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

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

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

(ix) Interest income is recognised using effective interest method.

2.21 Operating leases

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

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

2.22 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

(a) Foreign exchange risk

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

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

(b) Interest rate risk

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

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

As at 31 December 2009, if interest rates on RMB denominated short-term and time deposits had been 27 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB402,000 (2008: RMB279,000) higher/lower, mainly as a result of higher/lower interest income on short-term and time deposits.

(c) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions (including RMB427,120,000 (2008: RMB448,342,000) placed in a related party, which is a financial institution), as well as credit exposures to customers. The extent of the Group's credit exposure is presented by the aggregated balance of cash and cash equivalents, time deposits and trade and other receivables.

The Group has policies in place to ensure that services are made to customers with an appropriate credit history. A provision for impairment of trade and other receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Only listed or state-owned banks are accepted.

Credit risk arising from balances with related parties, including HNA Group Finance Co., Ltd., ("HNA Group Finance") and Hainan Airlines Company Limited ("Hainan Airlines") is closely monitored by management, taking into consideration of their respective financial positions, profitability and repayment history. These transactions had been approved by management and the Company's balances placed with HNA Group Finance are kept within the limit of RMB450,000,000.

(d) Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
	RMB'000	*RMB'000*	*RMB'000*
The Group:			
As at 31 December 2009			
Bank borrowings	4,461	4,396	4,428
Trade and other payables excluding statutory liabilities	99,620	–	–
Total	104,081	4,396	4,428
As at 31 December 2008			
Bank borrowings	4,911	4,835	8,822
Trade and other payables excluding statutory liabilities	64,556	–	–
Total	69,467	4,835	8,822

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*
The Company:			
As at 31 December 2009			
Bank borrowings	4,461	4,396	4,428
Trade and other payables excluding statutory liabilities	88,118	–	–
Total	92,579	4,396	4,428
As at 31 December 2008			
Bank borrowings	4,911	4,835	8,822
Trade and other payables excluding statutory liabilities	57,459	–	–
Total	62,370	4,835	8,822

3.2 Capital risk management

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

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

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

The Group's strategy is to maintain a low gearing ratio. The gearing ratios at 31 December 2009 and 2008 were as follows:

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total liabilities	128,783	132,799	131,953	137,856
Total assets	2,091,506	1,977,061	2,099,345	1,986,482
Gearing ratio	6%	7%	6%	7%

3.3 Fair value estimation

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT

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

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

(a) Property, plant and equipment

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

Were the useful lives differ by 10% from management's estimates, the depreciation expense for the year would have been increased or decreased by RMB4,450,000 and RMB5,150,000 respectively.

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

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

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

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

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

5 REVENUES AND 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.

	2009	**2008**
Analysis of revenues by category	*RMB'000*	*RMB'000*
Aeronautical:		
Passenger charges	122,707	116,157
Aircraft movement fees and related charges	43,347	42,948
Airport fee (note)	98,025	96,567
Ground handling services income	37,728	37,070
	301,807	292,742
Non-aeronautical:		
Franchise fee	44,795	44,468
Rental	15,112	15,336
Freight	13,811	13,005
Car parking	5,562	5,960
VIP room charge	10,254	9,645
Others	9,380	9,916
	98,914	98,330
Total revenues	400,721	391,072

Note:

The charge rates of the airport fee are regulated by relevant authorities. Pursuant to the approval document (Ju Fa Ming Dian [2009] No. 2328) issued by Civil Aviation of China ("CAAC") on 17 July 2009, for the year ended 31 December 2009, the charge rates for the airport fee is 48% (2008: 48%) of total amount collected from outbound passengers when departing the airport.

6 LAND USE RIGHTS – THE GROUP AND THE COMPANY

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

	2009	2008
	RMB'000	*RMB'000*
As at 1 January		
Cost	179,499	179,499
Accumulated amortisation	(22,534)	(19,043)
Net book amount	156,965	160,456
Year ended 31 December		
Opening net book amount	156,965	160,456
Additions	138	–
Amortisation	(3,481)	(3,491)
Closing net book amount	153,622	156,965
As at 31 December		
Cost	179,637	179,499
Accumulated amortisation	(26,015)	(22,534)
Net book amount	153,622	156,965

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

	2009	2008
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of over 50 years	88,129	89,755
Leases of between 10 to 50 years	65,493	67,210
	153,622	156,965

7 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2008						
Cost or valuation	832,310	112,807	39,821	36,595	5,843	1,027,376
Accumulated depreciation	(6,531)	(2,679)	(2,413)	(5,953)	–	(17,576)
Net book amount	825,779	110,128	37,408	30,642	5,843	1,009,800
Year ended 31 December 2008						
Opening net book amount	825,779	110,128	37,408	30,642	5,843	1,009,800
Additions	4,133	583	4,695	2,562	21,969	33,942
Transfers	27,812	–	–	–	(27,812)	–
Disposals	–	–	(73)	(192)	–	(265)
Depreciation	(25,035)	(12,424)	(5,756)	(5,162)	–	(48,377)
Closing net book amount	832,689	98,287	36,274	27,850	–	995,100
As at 1 January 2009						
Cost or valuation	864,255	113,390	44,170	38,591	–	1,060,406
Accumulated depreciation	(31,566)	(15,103)	(7,896)	(10,741)	–	(65,306)
Net book amount	832,689	98,287	36,274	27,850	–	995,100
Year ended 31 December 2009						
Opening net book amount	832,689	98,287	36,274	27,850	–	995,100
Additions	–	–	9,291	942	6,816	17,049
Reclassification	(33,000)	33,000	–	–	–	–
Transfers	2,476	4,020	–	–	(6,496)	–
Disposals	–	–	(374)	(535)	–	(909)
Depreciation	(26,536)	(13,774)	(8,173)	(3,413)	–	(51,896)
Closing net book amount	775,629	121,533	37,018	24,844	320	959,344
As at 31 December 2009						
Cost or valuation	832,271	151,870	52,093	37,475	320	1,074,029
Accumulated depreciation	(56,642)	(30,337)	(15,075)	(12,631)	–	(114,685)
Net book amount	775,629	121,533	37,018	24,844	320	959,344

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

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	31 December 2009 Total	31 December 2008 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost	992,171	217,471	78,678	55,645	320	1,344,285	1,330,659
Accumulated depreciation	(218,864)	(97,801)	(52,352)	(33,607)	–	(402,624)	(357,728)
	773,307	119,670	26,326	22,038	320	941,661	972,931

Depreciation expenses of RMB50,564,000 (2008: RMB47,128,000) has been charged in cost of services and sales and RMB1,332,000 (2008: RMB1,249,000) in administrative expenses.

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

The analysis of the cost or valuation as at 31 December 2009 of the above assets is as follows:

	Buildings and improvements	Machinery and equipment	Motor Vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost	34,421	4,610	18,238	7,604	320	65,193
At valuation	797,850	147,260	33,855	29,871	–	1,008,836
	832,271	151,870	52,093	37,475	320	1,074,029

The analysis of the cost or valuation as at 31 December 2008 of the above assets is as follows:

	Buildings and improvements	Machinery and equipment	Motor Vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost	31,945	590	9,393	7,841	–	49,769
At valuation	832,310	112,800	34,777	30,750	–	1,010,637
	864,255	113,390	44,170	38,591	–	1,060,406

The Company

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2008						
Cost or valuation	832,310	112,807	39,308	31,027	5,843	1,021,295
Accumulated depreciation	(6,531)	(2,679)	(2,024)	(1,367)	–	(12,601)
Net book amount	825,779	110,128	37,284	29,660	5,843	1,008,694
Year ended 31 December 2008						
Opening net book amount	825,779	110,128	37,284	29,660	5,843	1,008,694
Additions	4,133	583	4,695	2,515	21,969	33,895
Transfers	27,812	–	–	–	(27,812)	–
Disposals	–	–	(73)	(73)	–	(146)
Depreciation	(25,035)	(12,424)	(5,746)	(4,810)	–	(48,015)
Closing net book amount	832,689	98,287	36,160	27,292	–	994,428
As at 1 January 2009						
Cost or valuation	864,255	113,390	43,656	33,294	–	1,054,595
Accumulated depreciation	(31,566)	(15,103)	(7,496)	(6,002)	–	(60,167)
Net book amount	832,689	98,287	36,160	27,292	–	994,428
Year ended 31 December 2009						
Opening net book amount	832,689	98,287	36,160	27,292	–	994,428
Additions	–	–	9,291	942	6,816	17,049
Reclassification	(33,000)	33,000	–	–	–	–
Transfers	2,476	4,020	–	–	(6,496)	–
Disposals	–	–	(374)	(498)	–	(872)
Depreciation	(26,536)	(13,774)	(8,171)	(3,147)	–	(51,628)
Closing net book amount	775,629	121,533	36,906	24,589	320	958,977
As at 31 December 2009						
Cost or valuation	832,271	151,870	51,680	32,367	320	1,068,508
Accumulated depreciation	(56,642)	(30,337)	(14,774)	(7,778)	–	(109,531)
Net book amount	775,629	121,533	36,906	24,589	320	958,977

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

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	31 December 2009 Total	31 December 2008 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost	992,171	217,471	78,264	50,533	320	1,338,759	1,324,845
Accumulated depreciation	(218,864)	(97,801)	(52,050)	(28,750)	–	(397,465)	(352,586)
	73,307	119,670	26,214	21,783	320	941,294	972,259

The analysis of the cost or valuation as at 31 December 2009 of the above assets is as follows:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost	34,421	4,610	17,825	2,496	320	59,672
At valuation	797,850	147,260	33,855	29,871	–	1,008,836
	832,271	151,870	51,680	32,367	320	1,068,508

The analysis of the cost or valuation as at 31 December 2008 of the above assets is as follows:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost	31,945	590	8,879	2,544	–	43,958
At valuation	832,310	112,800	34,777	30,750	–	1,010,637
	864,255	113,390	43,656	33,294	–	1,054,595

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

	The Group and the Company	
	2009	**2008**
	RMB'000	*RMB'000*
Gross carrying amount	32,803	35,867
Accumulated depreciation	(2,069)	(1,257)
Net carrying amount	30,734	34,610

8 INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES – THE COMPANY

	2009	2008
	RMB'000	*RMB'000*
Unlisted shares, at cost	18,094	18,094

(a) As at 31 December 2009, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability companies established and operating in the PRC:

Name	Principal activities	Paid up capital	% Interest held	
		RMB'000	Directly	Indirectly
Hainan Meilan International Airport Advertising Co., Ltd.	Provision of advertising services	1,000	95	4.75
Hainan Meilan International Airport Traveling Co., Ltd.	Provision of tourism services	11,000	95	–
Haikou Meilan International Airport Duty Free Shop Limited	Retail sales	1,000	95	–

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

9 INVESTMENT IN AN ASSOCIATE

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	30,504	–	30,504	–
Establishment of an associate	–	30,504	–	30,504
Share of loss	(24)	–	–	–
Share of reserves	395	–	–	–
At 31 December	30,875	30,504	30,504	30,504

The Group's share of the results of its associate, Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng"), and its aggregated assets and liabilities, is as follows:

Year	**Assets**	**Liabilities**	**loss**	**Interest held**
	RMB'000	*RMB'000*	*RMB'000*	
2009	105,273	2,358	(80)	30%
2008	105,273	3,593	–	30%

Haikou Decheng is an unlisted limited liability established in the PRC and engaged in property development.

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

	The Group		**The Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and receivables as per balance sheet:				
Trade receivables *(Note (11))*	179,883	109,236	177,010	105,387
Other receivables excluding prepayments *(Note (a))*	11,657	9,779	9,745	5,934
Due from subsidiaries *(Note (a))*	–	–	25,155	22,633
Time deposits *(Note (b))*	160,000	162,000	160,000	162,000
Cash and cash equivalents *(Note (b))*	588,678	507,339	559,000	484,399
	940,218	788,354	930,910	780,353
Other financial liabilities at amortised cost as per balance sheet:				
Bank borrowings	12,000	16,000	12,000	16,000
Trade and other payables excluding statutory liabilities	99,620	64,556	87,845	57,361
Due to subsidiaries	–	–	14,760	12,331
	111,620	80,556	114,605	85,692

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

(a) Other receivables and due from subsidiaries do not have due day.

(b) As at 31 December 2009, deposits of RMB427,120,000 (2008: RMB448,342,000) were placed with HNA Group Finance, which is a financial institution established in the PRC (Note 30(b)). Apart from the deposits placed with HNA Group Finance, all cash and cash equivalents and time deposits were deposited with PRC state-owned banks.

11 TRADE RECEIVABLES

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables from third parties *(Note (a))*	72,156	74,635	71,502	74,342
Less: provision for impairment of trade receivables *(Note (c))*	(11,520)	(14,471)	(11,143)	(14,179)
	60,636	60,164	60,359	60,163
Trade receivables from related parties *(Note (b) and 30(b))*	119,247	49,072	116,651	45,224
	179,883	109,236	177,010	105,387

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

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

(a) As at 31 December 2009, the ageing analysis of gross trade receivables from third parties is as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0-90 days	53,778	61,931	53,779	61,930
91-180 days	6,002	7,802	6,002	7,802
181-365 days	8,932	4,505	8,932	4,505
Over 365 days	3,444	397	2,789	105
	72,156	74,635	71,502	74,342

As at 31 December 2009, trade receivables of RMB11,548,000 (2008: RMB26,911,000) are impaired and the amount of the provision is RMB11,520,000 (2008: RMB14,471,000). The individually impaired receivables mainly relate to certain airlines companies, which are in difficult economic situations. The ageing of these receivables is as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0-90 days	590	18,753	590	18,753
91-180 days	1,339	5,877	1,339	5,877
181-365 days	6,538	1,884	6,538	1,884
Over 365 days	3,081	397	2,676	105
	11,548	26,911	11,143	26,619

As at 31 December 2009, certain trade receivables of RMB5,419,000 (2008: RMB2,041,000) from third parties are past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
91-180 days	4,662	1,925	4,662	1,925
181-365 days	394	116	394	116
Over 365 days	363	–	113	–
	5,419	2,041	5,169	2,041

(b) As at 31 December 2009, the ageing analysis of gross trade receivables from related parties is as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0-90 days	52,249	38,025	52,248	36,261
91-180 days	25,249	1,680	25,249	1,680
181-365 days	38,777	5,116	38,777	5,116
Over 365 days	2,972	4,251	377	2,167
	119,247	49,072	116,651	45,224

As at 31 December 2009, trade receivables from related parties of RMB65,027,000 (2008: RMB7,443,000) are past due but not impaired. The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
91-180 days	24,707	1,210	24,707	1,210
181-365 days	37,348	4,065	37,348	4,065
Over 365 days	2,972	2,168	377	168
	65,027	7,443	62,432	5,443

As of 25 March, 2010, trade receivables from related parties totaling RMB63,211,000 have been settled.

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

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January	14,471	439	14,179	–
Provision for receivable impairment	85	14,179	–	14,179
Receivables written-off as uncollectible	–	(147)	–	–
Provision reversed as receivables collected	(3,036)	–	(3,036)	–
Balance as at 31 December	11,520	14,471	11,143	14,179

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

(d) The carrying amounts of the Group's and the Company's trade receivables are mainly denominated in RMB.

12 TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Time deposits

As at 31 December 2009, the Group and the Company had deposits denominated in RMB placed with certain banks and financial institutions. The average maturity is 8 months and the carrying amount of these time deposits approximate their fair values.

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Time deposits with related party	100,000	100,000
Time deposits with third parties	60,000	62,000
Total time deposits	160,000	162,000
Maximum exposure to credit risk	160,000	162,000

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	80	122	38	116
Cash in bank				
Current deposits with related party	42,120	88,342	32,184	88,342
Short-term deposits with related party	285,000	260,000	285,000	260,000
Deposits with third parties	261,478	158,875	241,778	135,941
	588,598	507,217	558,962	484,283
Total cash and cash equivalents	588,678	507,339	559,000	484,399
Maximum exposure to credit risk	588,598	507,217	558,962	484,283

Carrying amounts of the Group and the Company's time deposits, cash and cash equivalents are mainly denominated in RMB.

13 SHARE CAPITAL

	2009	**2008**
	RMB'000	*RMB'000*
Share capital registered, issued and fully paid		
246,300,000 Domestic shares of RMB 1 each	246,300	246,300
226,913,000 H-shares of RMB 1 each	226,913	226,913
	473,213	473,213
Share premium arising from group reorganisation in 2000	69,390	69,390
Share premium arising from new issuance	557,647	557,647
	627,037	627,037
	1,100,250	1,100,250

14 OTHER RESERVES

The Group:	Revaluation surplus	Statutory reserves *(Note)*	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2008	17,541	125,842	–	143,383
Depreciation transfer	(2,051)	–	–	(2,051)
Transfer from retained earnings	–	18,872	–	18,872
Balance at 31 December 2008	15,490	144,714	–	160,204
Balance at 1 January 2009	15,490	144,714	–	160,204
Depreciation transfer	(2,051)	–	–	(2,051)
Transfer upon disposal of property, plant and equipments	(87)	–	–	(87)
Transfer from retained earnings	–	19,098	–	19,098
Share of reserve of an associate	–	–	395	395
Balance at 31 December 2009	13,352	163,812	395	177,559

The Company:	Revaluation surplus	Statutory reserves *(Note)*	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2008	17,541	125,217	142,758
Depreciation transfer	(2,051)	–	(2,051)
Transfer from retained earnings	–	18,872	18,872
Balance at 31 December 2008	15,490	144,089	159,579
Balance at 1 January 2009	15,490	144,089	159,579
Depreciation transfer	(2,051)	–	(2,051)
Transfer upon disposal of property, plant and equipments	(87)	–	(87)
Transfer from retained earnings	–	19,098	19,098
Balance at 31 December 2009	13,352	163,187	176,539

Note:

Pursuant to the revised "The Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by the Ministry of Finance ("MOF") (Cai Qi Han [2006] No.67), when distributing the net profit of each year, the Company shall set aside 10% of its profit after taxation (based on the Company's local statutory financial statements) for the statutory reserves. These reserves shall not be used for the purposes other than those for which they are created and are not distributable as cash dividend.

15 COMPANY RETAINED EARNINGS

	2009	2008
	RMB'000	*RMB'000*
Balance at 1 January	588,797	454,377
Depreciation transfer	2,051	2,051
Transfer upon disposal of property, plant and equipments	87	–
Transfer to statutory reserves *(Note 14)*	(19,098)	(18,872)
Profit for the year	181,261	184,923
2007 final dividend paid	–	(33,682)
2008 final dividend paid	(62,495)	–
Balance at 31 December	690,603	588,797

16 BORROWINGS – THE GROUP AND THE COMPANY

As at 31 December 2009, bank borrowings of RMB12,000,000 (2008: RMB16,000,000) for financing the construction of airport terminals, the related premises and facilities were secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear average coupons of 6.95% (2008: 7.50%) per annum, the interest of the full loans is determined yearly with reference to the market interest rates. These bank borrowings mature until 2013.

The Bank borrowings were repayable as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 1 year	4,000	4,000
Between 1 and 2 years	4,000	4,000
Between 2 and 5 years	4,000	8,000
	12,000	16,000
Less: current portion of borrowings included in current liabilities	(4,000)	(4,000)
	8,000	12,000

The carrying amounts of the borrowings approximate their fair values.

17 DEFERRED INCOME TAX – THE GROUP AND THE COMPANY

The analysis of deferred income tax assets and liabilities is as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Deferred income tax assets to be recovered:		
– within 12 months	(1,258)	(1,418)
Deferred income tax liabilities to be recovered:		
– after more than 12 months	10,628	10,924
– within 12 months	296	269
	10,924	11,193
Deferred income tax liabilities (net)	9,666	9,775

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

	2009	**2008**
	RMB'000	*RMB'000*
At 1 January	9,775	11,193
Credited to income statement (Note 22)	(109)	(1,418)
At 31 December	9,666	9,775

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

	Deferred income tax assets	**Deferred income tax liabilities**			
	Provision for impairment of receivables	**Land use rights**	**Property, plant and equipment**	**Sub-total**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2008	–	6,655	4,538	11,193	11,193
Credited to income statement	(1,418)	–	–	–	(1,418)
As at 31 December 2008	(1,418)	6,655	4,538	11,193	9,775
Charged/(credited) to income statement	160	(62)	(207)	(269)	(109)
As at 31 December 2009	(1,258)	6,593	4,331	10,924	9,666

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB337,000 (2008: RMB615,250) in respect of the tax losses of the Group's subsidiaries of approximately RMB1,348,000 as at 31 December 2009 (2008: RMB2,461,000). Tax losses amounting to RMB374,000, RMB402,000, RMB485,000, RMB63,000 and RMB24,000, will expire in 2010, 2011, 2012, 2013 and 2014 respectively.

18 TRADE AND OTHER PAYABLES

	The Group		**The Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	4,095	2,594	3,774	2,002
Other payables	91,133	54,635	80,486	48,280
Deposits received	6,003	6,013	6,003	6,013
Due to related parties *(Note 30(b))*	2,886	4,526	2,264	4,278
	104,117	67,768	92,527	60,573

As at 31 December 2009, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) are as follows:

	The Group		**The Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0-90 days	2,314	4,314	1,923	3,897
91-180 days	731	186	731	186
181-365 days	1,123	639	1,123	639
Over 365 days	2,813	1,981	2,261	1,558
	6,981	7,120	6,038	6,280

19 EXPENSES BY NATURE

Expenses/(income) included in cost of services and sales and administrative expenses are analysed as follows:

	2009	2008
	RMB'000	*RMB'000*
Airport and logistic composite services fee	31,553	28,426
Business tax and levies	10,880	10,942
Depreciation of property, plant and equipment *(Note 7)*	51,896	48,377
Amortisation of land use rights *(Note 6)*	3,481	3,491
Employee benefit expenses *(Note 20)*	63,887	49,954
Other taxes	6,213	6,222
Auditors' remuneration	2,030	1,800
Traveling expenses	5,472	7,733
Consulting fees	742	3,399
(Reversal)/provision of impairment of trade and other receivables	(3,524)	14,179
Utilities	16,052	15,779
Repairs and maintenance	10,414	10,506

20 EMPLOYEE BENEFIT EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Wages and salaries	42,868	35,063
Pension costs-statutory pension *(Note 26)*	3,564	4,516
Staff welfare	1,116	1,306
Housing fund *(Note 27)*	2,485	2,261
Medical benefits	1,164	1,386
Termination cost	8,526	–
Other allowances and benefits	4,164	5,422
	63,887	49,954

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2009 is set out below:

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director					
Zhao Yahui	–	113	–	12	125
Dong Zhanbin *(Note (i))*	–	34	–	4	38
Bai Yan *(Note (iii))*	–	73	–	10	83
Xing Xihong *(Note (iv))*	–	88	–	12	100
Liang Jun *(Note (ii))*	–	94	–	10	104
Zhang Han'an	–	–	–	–	–
Chan Nap Kee, Joseph	50	–	–	–	50
Yan Xiang	50	–	–	–	50
Hu Wentai	–	113	–	12	125
Xu Bailing	100	–	–	–	100
Fung Ching, Simon	100	–	–	–	100
Xie Zhuang	100	–	–	–	100
George F. Meng	100	–	–	–	100
Name of Supervisor					
Chen Kewen *(Note (i))*	–	–	–	–	–
Dong Guiguo *(Note (ii))*	–	–	–	–	–
Zhang Shusheng	20	–	–	–	20
Zeng Xuemei	–	–	–	–	–
	520	515	–	60	1,095

Notes:

(i) Resigned on 25 May 2009.

(ii) Appointed on 25 May 2009.

(iii) Resigned on 12 October 2009.

(iv) Appointed on 12 October 2009.

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

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director					
Zhang Cong *(Note (i))*	–	85	28	12	125
Zhao Yahui *(Note (ii))*	–	5	–	–	5
Dong Zhanbin	–	84	26	12	122
Dong Guiguo *(Note (i))*	–	69	23	12	104
Bai Yan	–	61	21	12	94
Zhang Han'an	–	–	–	–	–
Chan Nap Kee, Joseph	50	–	–	–	50
Yan Xiang	50	–	–	–	50
Hu Wentai *(Note (ii))*	–	88	28	12	128
Xu Bailing	100	–	–	–	100
Fung Ching, Simon	100	–	–	–	100
Xie Zhuang	100	–	–	–	100
George F. Meng	100	–	–	–	100
Name of Supervisor					
Chen Kewe	–	–	–	–	–
Zhang Shusheng	20	–	–	–	20
Zeng Xuemei	–	–	–	–	–
	520	392	126	60	1,098

Notes:

(i) Resigned in 16 December 2008

(ii) Appointed in 16 December 2008

In the year of 2009, Mr Zhao Yahui, Mr Dong Zhanbin, Mr Bai Yan, Mrs Xing Xihong, Mr Liang Jun, Mr Zhang Han'an, Mr Hu Wentai, Mr Chen Kewen, Mr Dong Guiguo and Mrs Zeng Xuemei waived director fees of RMB380,000 (2008: RMB399,000) in total.

(b) Five highest paid individuals

During the year ended 31 December 2009, the five individuals whose emoluments were the highest in the Group included three directors (2008: five directors) whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining two individual (2008: Nil) are as follows:

	2009
	RMB'000
Basic salaries and allowances	195
Bonuses	–
Retirement scheme contributions	23
	218

During the years ended 31 December 2009 and 2008, no emolument was paid to the Directors, Supervisors or any of the five highest-paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.

During the years ended 31 December 2009 and 2008, the five highest-paid employees fell within the band from nil to RMB1 million (2008: nil to RMB1 million).

21 FINANCE INCOME – NET

	2009	**2008**
	RMB'000	*RMB'000*
Finance income – interest	12,328	16,963
Interest on bank borrowings	(1,017)	(1,406)
Finance income – net	11,311	15,557

There was no interest capitalised for the years ended 31 December 2009 (2008: Nil).

22 INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for as the Group had no assessable profits arising in Hong Kong during the year (2008: nil). Income tax expense represents provision for the PRC corporate income tax.

	2009	**2008**
	RMB'000	*RMB'000*
Current income tax		
– outside Hong Kong	10,957	–
Deferred income tax *(Note 17)*	(109)	(1,418)
Income tax expense	10,848	(1,418)

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

	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	191,409	185,042
Tax calculated at a rate applicable to profits in the Hainan Province *(Note (a))*	38,282	33,308
Effect of tax holiday *(Note (b))*	(19,145)	(34,757)
Income not subject to corporate income tax *(Note (c))*	(9,803)	–
Tax losses not recognised	6	9
Utilisation of previously unrecognised tax losses	(192)	(128)
Expenses not deductible for tax purposes	1,700	150
Tax charge	10,848	(1,418)

Note (a)

Effective from 1 January 2008, the Company shall pay the corporate income tax ("CIT") in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") as approved by the National People's Congress on 16 March 2007. Under the New CIT Law, the CIT rate applicable to the Company will be gradually increased to 25% in a 5-year period from 2008 to 2012. The tax rate in 2009 is 20% (2008: 18%).

Note (b)

Pursuant to the approval document (Hai Guo Shui Han [2008] No.13) issued by Haikou State Tax Bureau on 2 February 2008, the CIT holiday of the Company was revised and the Company was then entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013. With 50% reduction of CIT in 2009, the applicable tax rate for the Company in 2009 is 10% (2008: nil).

Note (c)

Pursuant to the approval document (Cai Shui [2009] No.87) issued by Ministy of Finance on 16 June 2009, the airport fee income of the Company for the years from 2008 to 2010 is exempted from CIT.

23 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB181,261,000 (2008: RMB184,923,000).

24 EARNINGS PER SHARE

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

	2009	2008
Profit attributable to shareholders of the Company (RMB'000)	180,563	186,434
Weighted average number of ordinary shares in issue (thousands)	473,213	473,213
Basic earnings per share (RMB per share)	38 cents	39 cents

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary share outstanding during the years ended 31 December 2009 and 2008.

25 DIVIDENDS

The dividends paid in 2009 and 2008 were Hong Kong Dollars ("HKD") 70,982,000 (HKD0.15 per ordinary share) equivalent to RMB62,495,000, and HKD37,857,000 (HKD0.08 per ordinary share) equivalent to RMB33,682,000, respectively. The Directors of the Company recommend the payment of a final dividend of RMB0.2 per ordinary share, totaling RMB94,643,000. Such dividend is to be approved by the shareholders at the Annual General Meeting in 2010. These financial statements do not reflect this dividend payable.

	2009	2008
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.2 (2008: HKD0.15) per ordinary share	94,643	62,495

In accordance with the Corporate Income Tax Law of the PRC and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H share of the Company when distributing dividends to them. Any H shares of the Company registered other than in the name(s) of individual(s), including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed to be shares held by non-resident enterprise shareholder(s). Such H-shares shareholders will receive their dividends after the deduction of corporate income tax.

26 PENSIONS

All of the Group's full-time employees, who are permanent PRC citizens, are covered by a State-sponsored defined contribution pension scheme and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the State-sponsored retirement plan at a rate of 20% of the employees' salaries in 2009 and 2008. The Group provides no other retirement benefits than those described above.

27 HOUSING FUND

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State sponsored housing fund at 12% (2008: 12%) of the specified salary amount of its full-time Chinese employees. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2009, the Group's contribution to the housing fund amounted to approximately RMB2,485,000 (2008: RMB2,261,000).

As at 31 December 2009 and 2008, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

28 CASH GENERATED FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	2009	**2008**
	RMB'000	*RMB'000*
Net book amount *(Note 7)*	909	265
Loss on disposal	(560)	(93)
Proceeds from disposal	349	172

29 COMMITMENTS – THE GROUP AND THE COMPANY

(a) Capital commitments

Capital expenditure at the end of the year but not yet incurred is as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Buildings and improvements		
Contracted but not provided for	863	7,512

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

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

	2009	**2008**
	RMB'000	*RMB'000*
Not later than 1 year	14,657	14,566
Later than 1 year and not later than 5 years	4,666	17,106
	19,323	31,672

30 RELATED PARTY TRANSACTIONS

The Company is majority owned by Haikou Meilan, a state-owned enterprise established in the PRC with limited liability.

In accordance with IAS 24, "Related Party Disclosure", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are also defined as related parties of the Company. On that basis, related parties include Haikou Meilan and its subsidiaries (other than the Company), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and Haikou Meilan as well as their close family members.

A significant portion of the Company's business activities are conducted with state-owned enterprises. Sale of services to these state-owned enterprises are at state-prescribed prices which are similar to prices to other customers. The Company considers that these sales are activities in the ordinary course of business. In this connection, the Company has significant trading balances with state-owned enterprises in the ordinary course of business which have similar terms of repayments as balances with third parties.

In addition, a large portion of the Company's bank deposits/bank borrowings were held at/borrowed from stateowned financial institutions in accordance with the terms as set out in the respective agreements or as mutually agreed between the parties in concern at prevailing market terms and rates.

For the purpose of the related party transaction disclosures, the Directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

Other than the transactions as disclosed in the respective notes, the following is a summary of significant transactions carried out with related parties in the ordinary course of business.

(a) The following is a summary of material transactions carried out with these related parties, controlled, or significantly influenced by HNA Group, which has significant influence on the Company, in the ordinary course of business during the year:

			The Group	
Name of related party	**Nature of transactions**	*Note*	**2009**	**2008**
			RMB'000	*RMB'000*
Revenues:				
Hainan Airlines	Income for provision of customary airport ground services	(i)	80,465	84,275
	Income from provision of cargo, mail and luggage service	(i)	4,108	4,236
	Rental income for leasing of offices and commercial space	(ii)	6,608	7,285
Hainan Airlines Food Company Limited ("Hainan Food")	Franchise income from catering services	(iii)	2,720	2,417

Name of related party	Nature of transactions	*Note*	The Group 2009 *RMB'000*	2008 *RMB'000*
Luckyway International Travel Services Co., Ltd. ("Luckyway")	Franchise income from tourism and traveling services	(iv)	5,024	4,773
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Franchise income	(v)	3,330	3,627
Deer Air Co., Ltd.	Income for provision of customary airport ground services	(i)	2,955	2,294
Hong Kong Airlines Limited	Income for provision of customary airport ground services	(i)	3,295	2,359
Tianjin Airlines Co., Ltd. ("Tianjin Airlines", previous name "Grand China Express Airlines Co., Ltd.")	Income for provision of customary airport ground services	(i)	4,684	652
HNA Group Finance	Interest income from deposits	(vi)	10,000	11,991
Expenses:				
Haikou Meilan	Airport composite services charged	(vii)	15,531	15,360
HNA Group	Logistic composite services charged	(viii)	11,618	11,848
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Information system maintenance service	(ix)	2,028	2,043

Name of related party	Nature of transactions	Note	The Group 2009 RMB'000	The Group 2008 RMB'000
Revenues:				
HNA Henghe Property Management Co., Ltd. ("Henghe Property Management")	Property management service	(x)	4,821	–
Sharing of customary airport ground services income:				
Haikou Meilan	Sharing of customary airport ground services income	(xi)	87,831	82,218
Deposits:				
HNA Group Finance	Maximum deposits placed with HNA Group Finance	(vi)	449,312	449,793

(i) The Company provided customary airport ground services including landing facilities, basic ground handling services, cargo, mail and luggage service, passenger and baggage security check services and other related services to airlines at rates prescribed by the CAAC.

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

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

(iv) Pursuant to a revised franchise agreement with a term from 1 January 2009 to 31 December 2011 between the Company and Luckyway dated 16 October 2008, the Company granted Luckyway of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is RMB4.7 million. Besides, 50% of the profits earned by Luckyway from its franchise operations at Meilan Airport are charged by the Company.

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

(vi) In accordance with an agreement with a term from 8 October 2007 to 7 October 2010 between the Company and HNA Group Finance dated 8 October 2007, HNA Group Finance shall provide financial services to the Group, including deposit services, settlement services, loans and finance leasing services,

(vii) According to a renewed airport composite services agreement with a term of three years effect from 1 January 2008, Haikou Meilan has agreed to provide the following services to the Group:

(a) Provision of security guard service;

(b) Cleaning and landscaping;

(c) Sewage and refuse processing;

(d) Power, energy supply and equipment maintenance;

(e) Passenger and luggage security inspection; and

(f) Other services required by the Company.

The charges relating to the services in items (a)-(d) are determined in accordance with the cost for the Haikou Meilan in providing such services plus a 5% mark-up as management fee, except for item (d), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to item (e) is determined in accordance with the rate prescribed by CAAC. Item (f) shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus markup fee basis.

(viii) Pursuant to a logistic composite service agreement dated 8 October 2007, HNA Group has agreed to provide and procure its subsidiaries to provide to the Company logistic services including (a) staff training; (b) staff shuttle bus services; (c) staff cafeteria services; (d) vehicle maintenance; (e) commodities and appliance procurement; and (f) other services required by the Company with effect from 1 January 2008.

The charges for these services are determined as follows: item (a), at the cost of providing such services shared among the HNA Group, the Company and other relevant companies on a pro rata basis by reference to employee headcount; items (b), at a fixed price with reference to the relevant cost per employee headcount; item (c), at a fixed annual fee; item (d) at the cost of providing such services plus a 5% mark-up as management fees; item (e), 1% of price of commodities and appliance procured respectively; and item (f) shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus markup fee basis.

(ix) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 16 October 2008, HNAAIS agreed to provide maintenance services for the information system of the Company with effect from 1 January 2009. The monthly service fee varies from month to month depending on the type of services rendered by HNAAIS.

(x) Pursuant to the agreements between the Group and Henghe Property Management dated 16 October 2008, Henghe Property Management agreed to provide to the Company the services including (a) terminal cleaning services; (b) baggage carts and aircraft cleaning services; (c) property management services on the cargo center.

The charges for these services are determined as follows: item (a), the cleaning fee for Terminal I is calculated based on the number of passenger throughput, and the fee for Terminal II is fixed annually; item (b) at a fixed price with reference to the passengers throughput; and items (c), with an fixed annual fee, based on the cost of providing such services.

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

(b) As at 31 December 2009, balances with related parties comprised:

	The Group		**The Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables from related parties:				
Hainan Airlines	95,605	32,479	93,130	30,005
Hainan Food	2,962	2,297	2,962	2,297
Luckyway	4,973	1,459	4,483	969
HNA China Duty Free	981	971	981	971
Tianjin Airlines	7,752	1,323	7,752	1,323
Hong Kong Airlines Limited	2,050	5,218	2,050	5,218
Deer Air Co., Ltd.	2,889	3,243	2,889	3,243
Others	2,035	2,082	2,404	1,198
	119,247	49,072	116,651	45,224
Other receivables from related parties:				
Luckyway	4,641	3,299	3,270	2,491
Hainan Airlines	626	115	626	115
Others	433	468	355	473
	5,700	3,882	4,251	3,079

	The Group		**The Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits with related party – HNA Group Finance				
Time deposits	100,000	100,000	100,000	100,000
Short-term deposits	285,000	260,000	285,000	260,000
Current deposits	42,120	88,342	32,184	88,342
	427,120	448,342	417,184	448,342

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables to related parties:				
Haikou Meilan	197	2,247	197	2,097
Luckyway	1,000	1,000	1,000	1,000
Others	1,689	1,279	1,067	1,181
	2,886	4,526	2,264	4,278

Trade receivables from related parties are unsecured, interest-free and with a credit period of 1 to 3 months. Other balances due from/to related parties are unsecured, interest-free and without fixed terms of repayment, unless otherwise stated in above notes.

31 EVENTS AFTER THE REPORTING PERIOD

At the Board meeting held on 25 March 2010, it was resolved by the Board of Directors that the Company will acquire a total of 54.5% equity interests in HNA Airport Holding (Group) Co, Ltd. (the "Target"). The Company has entered into agreements with two vendors respectively to acquire 30% and 24.5% equity interests in the Target on 25 March 2010. The transaction under these agreements constitutes a very substantial acquisition and a connected transaction, and is still subject to approval of the coming General Meeting.

C. MANAGEMENT DISCUSSION AND ANALYSIS

For the year of 2009

Civil Aviation Industry in the PRC

During the year of 2009, while the international aviation industry was battered by the financial crisis, the Chinese aviation industry has seen prosperous development. According to the information released by the International Air Transport Association, demand for air transportation service in the international market recorded the most serious setback and operators in the industry were loss making in general. As opposed to its foreign counterparts, the aviation industry in China recorded a profit of RMB12.2 billion in total, representing an increase of RMB38.2 billion from loss making condition in 2008.

As a transportation enterprise, rapid retrieval of the economy has fuelled market demand and laid a good foundation for the aviation industry to revive. In response to the international financial crisis, Civil Aviation Administration of China (CAAC) promulgated a series of measures aiming to maintain continuous growth of the industry, among which most were directly and indirectly benefiting the country's airlines. Moreover, with the capital injection by the PRC government to rescue the state-owned airlines, all of Air China, China Southern and China Eastern have seen increase in their profitability. Leveraging on the low base figures recorded in 2008, the responding measures implemented by the government and the industry players, roll-out of cross-strait direct flights in 2009, as well as the pegging mechanism between fuel surcharge of internal routes and domestic fuel price, China's aviation industry was the world's first market to walk out from the shadow and achieved rapid growth.

Looking into 2010, development prospect of China's aviation industry is expected to be promising: the PRC government will put great efforts in developing air transportation and general aviation; CAAC will promulgate incentive policies that in line with the country's outward economic model, accelerate the building of the international grand passageway, enhance the capacity of international routes, and introduce and encourage the opening up of more remote long-haul flight routes. Still, as an extension of the development trend of 2009, in addition to the H1N1 flu epidemic, there are some other uncertainties in the market as follows, casting shadow on the development of the air transportation industry in 2010:

Firstly, the international oil price trend. As the world's economy restores, the international oil price returned to an upward trend in mid-2009. If oil price continues to surge and break USD100 again, it will strike the international aviation industry seriously.

Secondly, appreciation of Renminbi. Although appreciation in Renminbi will be favorable to airlines which major liabilities are denominated in US dollar, it exerts great pressure on development of the air transportation industry. In the future, appreciation in Renminbi will bring high level of pressure to the development of export and import trade of China, together with those trade protection measures implemented by some countries to promote their own economic development, it will likely to affect China's external trade position very seriously, and thus the development of international flight market. Indeed, international flight is the weakest link of China's airlines, and they will face great pressure if demand drops.

Thirdly, concerns about inflation. With the implementation of the government's 4 trillion economic stimulating plan in 2009 to "pull domestic demand", market becomes more concern about inflation. Under the expectation of inflation, the Management Discussion and Analysis government restated that it will continue the policies in 2009, but there are some signs of moderate contraction. Some specialists forecast that, in 2010, the People's Bank of China will increase its deposit rate. This will be harmful to airlines with high debt level.

Fourthly, effect of the high-speed railway. Construction of the "Four Vertical and Four Horizontal" Passenger Line will speed up in 2010. Major transits will be located in Beijing, Shanghai, Shenyang, Zhengzhou, Wuhan, Changsha, Chongqing and Guangzhou, all of which are tier-one cities in China with developed economies, and are the main markets for air transportation. In China, due to relatively low level of disposal income of the residents, people tend to be more price-oriented and less sensitive to traveling time in choosing mode of transportation. Some airlines have introduced the "Air Express" product in anticipation of the challenges brought by the high-speed railway, which has helped to increase their volume of passengers in short term, however from the view of profit, it is not considered as a sustainable business because of cost control. In the future, whether they should exit from or reform this business model will in no doubt have enormous effect to the development progress of the domestic airlines.

Despite all these, the series of macro-economic reforming policies and the new trend of international cooperation have provided the domestic aviation industry with the opportunities of rapid development in 2010. On 1 December 2009, the State Council announced the "Opinion on Speeding up the Development of the Tourism", expressly stating the reforms and liberating measures to boost the tourism industry, which includes optimizing the spending environment of tourism industry, diversification of tourism products, and increasing government spending in the industry. On 31 December 2009, the State Council further promulgated "Certain Opinions on Promoting the Establishment of Hainan as an International Tourism Island", with an aim to strategically position Hainan Province as the pilot region for innovative reforms of the country's tourism industry, a world first-class resort and vacation destination, a national model of ecological and cultural industry development, an important platform for international economic cooperation and cultural exchange, the South China Sea resources development and service base and a national tropical modern agricultural base, and have stated several development targets. Such policies will have significant impact on the economic development of China. With all these reforms, it is expected that focus of the PRC air transportation market will be shifted to the ASEAN countries and the coastal region in South China in 2010.

Establishment of the International Tourism Island in Hainan

On 31 December 2009, the "Certain Opinions on Promoting the Establishment of Hainan as an International Tourism Island" were duly approved, marking the policy of developing Hainan to an international tourism island as a state strategy. In face of such a good chance, Hainan will ride on its unique geographical position as an island and its advantage in resources to deepen liberation of its tourism industry and promote internationalization of its tourism services, in an attempt to build a vacation destination of high competitiveness in the international market.

According to the "Plan of Constructing an International Tourism Island in Hainan" promulgated by the Hainan provincial government, upon approval of the plan, new developments in Hainan's tourism industry in respect of visa-free entry, aviation rights and internationalization of tourism services will come out soon, which may include the following.

1. Implementation of the Visa-free Visit Policy

For the policy of "15 days visa-free visit for foreign tourists over five people applicable to 21 countries", it is pursuing to expand the applicable area to 26 countries and the limit of "foreign tourists over five people" to "foreign tourists over two people". It is also in the course of considering several new markets in northern Europe and central Asia with great market potential for extending its policy of visa-free visit to Hainan. Other policies under consideration include extending the 15 days visa-free visit period to 30 days; for domestic tourists, the relevant authority is pursuing to be competent for handling their departures and arrivals from and to ASEAN countries.

2. Full Implementation of the Policy of Liberation of Aviation Rights

Such moves include full implementation of the third and the fourth aviation rights, acceleration of the process of exploring sources of tourist; opening up of international routes in potential markets; consolidation and addition of new routes and new flights to Japan, Korea and Russia; striving for the opening up of new routes to the U.S. and northern Europe; finalization of the fifth aviation right; leveraging on the policy of "gateway in the south and window in the north" to develop Hainan into a regional tourism hub in the Southeast Asia market.

3. More Efforts in Developing International Tourism Market

Such moves include more efforts to be put into promotion of tourism; enhance the cooperation between the media agencies of the central government with the media in Europe, the U.S., Hong Kong, Macau and Taiwan, capitalizing on the advantage of the tourism channels for planning, packaging and promotion of the overall image of Hainan's tourism; strategically participate in major international tourism exhibitions, make more use of innovative promotion methods to carry out high quality, distinguishing and focusing tourism promotions, so as to upgrade the packaging and promotion of a new Hainan-characterized tourism; consolidate the markets in Hong Kong, Macau and Taiwan, further expand the markets in Japan, Korea, Southeast

Asia and Russia, and explore long-haul markets in Europe, Australia and North America; open up new international and regional routes. We aim to increase to 60 international and regional routes and 50 airlines in 5 years; and to complete the construction of the Bo'ao Airport during the Eleventh Five Year Plan.

4. Introduction of Renowned Foreign Travel Agencies

Such moves include introduction of 20 renowned foreign travel agencies with sources of customers and routes from major markets like Russia, Korea and Japan, with a view to accelerate our integration with international tourism markets; encourage renowned foreign travel agencies to set up new travel agencies jointly or independently, so as to attract more foreign customers.

5. Establishment of Investment and Financing Systems Tailored for the Development of an International Tourism Island

This includes establishment of development fund for Hainan's tourism to support important projects and network of infrastructure; integration and optimization of resources to foster and promote the listing of tourism resources; exploration of the feasibility of the issue of special tourism zone bonds and integration of existing lottery resources, so as to set up new financing channels for the tourism industry; utilization of existing servicing network of the financial institutions to establish foreign exchange service points and permit small amount of free foreign exchange in the market.

In line with the international practice, we invite large-scale domestic and foreign duty-free operators to establish tourism duty-free chain stores; and speed up the progress of the opening of duty-free shops in the city in addition to the duty-free shops located at the airport.

The ultimate goal of the construction of the Hainan International Tourism Island is to build Hainan into "an environmental-friendly, civilized and harmonious island with beautiful scenery, unique cultures, modern and liberalized society". This will be achieved in two phrases in the next ten years: it is expected that by 2015, the level of marketalization and internationalization of management, marketing, service and product development in the tourism industry will be enhanced significantly; in addition, it is expected by 2020, tourism service facilities, operation management and level of service will be fully in compliance with the international tourism industry standards, building a world-class resort and vacation island in Hainan.

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

East Ring Railway

The Hainan East Ring Railway will link Haikou city at the north end of the province, through Wanchang, Qionghai (Bo'ao), Wanning and Lingshui Li Autonomous County, to Sanya in the south. The construction has started in September 2007 and the main construction works and over half of its ancillary works were completed in general and it is scheduled to put into operation in the fourth quarter of 2010. Upon completion, it will take only 90 minutes by rail to travel from Haikou to Sanya, more than half of the time saved. By then, travelers not only can experience the new idea of "one-day Hainan trip" with the East Ring Railway, they can also view the great natural and cultural sceneries along the Donghai sealine.

Aerospace City and Tourism in Wenchang

Approximately 80 km from Haikou city, Wenchang is a city abundant in tourism resources which gives it unique potential to develop tourism. However, due to certain reasons, the development of its tourism industry is relatively lagged behind. As the construction of the state's focal project Aerospace City commences, Wenchang, with its local ecological, resources and geographical advantages supported by Haikou and led by the Aerospace City project, tourism infrastructure there will continue to improve, leading to a new round of construction tourism development and construction fever. This will help to optimize the regional landscape of Hainan's tourism and offset the existing lack of tourism resources in the northern part of Hainan. More and more business travelers are now going to Wenchang and many travel agencies are designing tourist routes in Wenchang, which are good examples.

Construction and development of Hainan into an international tourism island, together with the building of the East Ring Railway and promotion of tourism in Wenchang led by the Aerospace City project, will inevitably improve imbalance of tourism resources in Hainan, thus providing enormous opportunities for the development of the Meilan Airport.

Aeronautical Business Overview

In 2009, in response to the changing domestic and overseas market environment, the Group actively formulated marketing solutions for various markets, and seized market development opportunities by adopting differential promotion means, such as encouraging airlines to open direct routes to Haikou, successfully introducing Jetstar Asia Airways to open regular routes between Singapore and Haikou, and soliciting more domestic airlines to open new routes or increase the number of flights. In respect of international aviation routes, affected by the global epidemic of the H1N1 influenza, the tourist charter flights booked by Russian, South Korean and Japanese airlines decreased significantly throughout the year. Nonetheless, the Group had adjusted its strategy and introduced Jetstar Asia Airways to launch a route between Singapore and Haikou, which has partly offset the drop in the international passenger throughput resulting from the decrease of charter flights booked by Russian, South Korean and Japanese airlines.

Aviation traffic throughput for 2009 and comparison figures for the previous year are set out below:

	2009	**2008**	**Change** *(%)*
Aircraft movement	69,128	66,411	4.09
In which: Domestic	66,386	63,206	5.03
Hong Kong/Macau/Taiwan	1,452	1,697	(14.44)
International	1,290	1,508	(14.46)
Passenger throughput			
(Headcount in ten thousand)	839.1	822.2	2.06
In which: Domestic	808.3	787.2	2.68
Hong Kong/Macau/Taiwan	15.6	16.1	(3.11)
International	15.2	18.9	(19.58)
Cargo throughput (Tons)	137,819.6	131,637.9	4.70
In which: Domestic	134,069.8	126,948.9	5.61
Hong Kong/Macau/Taiwan	1,867.5	2,043	(8.59)
International	1,882.3	2,646	(28.86)

The Group's revenue from aeronautical business for 2009 was RMB301,807,000, representing an increase of 3.10% over last year. Details of which are as follows:

	Amount *(RMB'000)*	Change over last year *(%)*
Passenger charges	122,707	5.64
Aircraft movement fees and related charges	43,347	0.93
Airport fees	98,025	1.51
Ground handling service fees	37,728	1.78
Total revenue from aeronautical business	301,807	3.10

So far as the directors of the Company are aware, the airport fee levy shall cease after 31 December 2010. For the year ended 31 December 2009, the Company received 48% of the collected airport fee of the Hainan Meilan International Airport according to the notice of the related government authorities. The Company will pay due attention to any adjustment of policies related to the airport fee and will update the shareholders by announcement promptly for any changes on the latest development.

Non-Aeronautical Business Overview

In 2009, the Group leveraged on its geographical advantage as an aviation transportation hub to mitigate the impact of the economic crisis. 2009 saw the increase in non-aeronautical business thanks to the Group's great efforts in enhancing the market development advocacy for new projects, exploring new revenue drivers and expanding its freight and VIP service business. In 2009, the non-aeronautical business recorded a revenue of RMB98,914,000, representing an increase of 0.59% in comparison with that of the previous year.

	Amount *(RMB'000)*	Change over last year *(%)*
Franchise fee	44,795	0.74
Rental	15,112	(1.46)
Freight	13,811	6.20
Car parking	5,562	(6.68)
VIP room charge	10,254	6.31
Others	9,380	(5.41)
Total revenue from non-aeronautical businesses	98,914	0.59

Franchise Fee

For the year ended 31 December 2009, the Group recorded franchise fees of RMB44,795,000, a slight increase compare to the previous year.

Freight

In 2009, the Group enhanced its management structure in a timely manner to establish the cargo business as its core non-aeronautical business, and made full efforts to facilitate expansion of the business. For the year ended 31 December 2009, income from cargo business was RMB13,811,000, representing an increase of 6.20% over last year, maintaining a high growth rate.

VIP room charge

In 2009, the Group achieved encouraging results by enhancing the development of VIP room service business and exploring new revenue drivers. The VIP room charge achieved steady rise. For the year ended 31 December 2009, income from VIP room service was RMB10,254,000, representing an increase of 6.31% over last year.

Financial Review

Asset Analysis

As at 31 December 2009, total assets of the Group amounted to RMB2,091,506,000, representing an increase of 5.79% over the previous year, in which RMB947,665,000 current assets and RMB1,143,841,000, non-current asset. The increase in asset was mainly due to the increase of trade receivable, cash and cash equivalents.

Cost Analysis

In 2009, total costs of service and sales of the Group were RMB158,482,000, representing an increase of RMB9,526,000 (or 6.40%) in comparison with that of last year, which is mainly due to the increase in development cost of the aviation market. Administrative expenses were RMB62,377,000, representing a decrease of RMB10,554,000 (or 14.47%) over last year, which is mainly due to the decrease in the provision for impairment of trade receivables.

Cash Flow

For the year ended 31 December 2009, the Group's net cash inflow from operating activities was RMB149,165,000, representing a decrease of 35.51% over last year. This was mainly due to the payment of RMB55,077,000 income tax. During the year, the Group's net cash outflow from financing activities was RMB66,495,000, which mainly represented the payment of 2008 final dividends.

Pledge of the Group's Assets

As at 31 December 2009, the Group had no pledge on assets.

Liquidity and Financial Resources

As at 31 December 2009, total current assets of the Group were approximately RMB947,665,000, total assets were approximately RMB2,091,506,000, total current liabilities were approximately RMB108,117,000 and total liabilities were approximately RMB128,783,000. The gearing ratio (total liabilities/total assets) of the Group was 6.16%, representing a decrease of 0.56% over last year. The main reason was the repayment of bank borrowings, which reduced total liabilities, and increase in total assets.

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

As at 31 December 2009, bank borrowings of RMB12,000,000 for financing the construction of airport terminals, the related premises and facilities were secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear average coupons of 6.95% per annum, the interest of the full loans is determined yearly with reference to the market interest rates. These bank borrowings mature until 2013. Capital commitment as at 31 December 2009 is approximately RMB863,000.

Foreign Exchange Exposure

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

Financial Instruments

As at 31 December 2009, 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 receivables excluding prepayment and payables excluding statutory liabilities.

Contingent Liabilities

As at 31 December 2009, neither the Group nor the Company had any significant contingent liabilities.

Purchase, Sale or Redemption of Shares

As at 31 December 2009, neither the Group nor the Company had purchased, sold or redeemed any of the Shares.

For the year of 2008

Civil Aviation Industry in the PRC

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

Such financial crisis not only spread increasingly severe impact on global financial circle but also had an act on the economic order of China. The development of China's economy have been depending much more on the foreign trade for a long term, with its total import and export volume nearly accounted for approximately 65% of the nation's total amount of GDP and its total export volume up to 35% of the total GDP. The demand decrease in those high consumption countries will bring direct impact on foreign trade processing and service industries. And the slower growth of export will directly tamper the growing speed of national economy, thus impairing national consumption level and consumption capability.

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

In 2008, Meilan Airport took effective measures to develop the aviation market. Due to this effort, during the first half of the year, the passenger throughput maintained a double-digit growth all along, however, when the impact of financial crisis on international flight routes began to emerge, the growth rate of international flight routes fell down apparently, far below the figure for the same period of 2007. During the second half of 2008, the impact of financial crisis on Meilan Airport completely took its shape. Checking through the Winter-Spring Flight Schedule implemented from 26 October 2008, Meilan Airport plan to tally 1,642 aircraft movements per week in the winter-spring flight season, that is 234 aircraft movements per day on average, and a drop of 2.4% year on year. Besides Meilan Airport, all other airlines had adjusted transportation capacity of their own airports to different degrees, and there was apparent overall reduction. In respect of international flight routes and transportation capacity, the large amount of charter flights for Russian, South Korean and Japanese tourists which usually boomed during the period of Winter-Spring Flight Schedule nearly dropped to zero. As Meilan Airport maintains a relatively stable charge on flights and a stable cost, the change in throughput is the main factor affecting its profit performance. Under the circumstances of year-on-year decrease of flights in winter-spring season and downtion of international flights, the revenue from flights which takes up more than 70% of the total revenue of the airport will be adversely affected, making the profit margin narrower.

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

Tourism industry in Hainan Province

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

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

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

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

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

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

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

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

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

Business Review

Overview of Aeronautical Business

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

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

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

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

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

Overview of Non-Aeronautical Business

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

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

Franchise Fee

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

Freight

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

VIP Service Revenue

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

Financial Review

Asset Analysis

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

Cost Analysis

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

Cash Flow

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

Pledge of the Group's Assets

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

Liquidity and Financial Resources

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

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

As at 31 December 2008, bank borrowings of RMB16,000,000 for financing the construction of airport terminal, the related premises and facilities were secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear interest at a rate of 7.83% per annum, the interest will be determined yearly with reference to the market interest rates. These bank borrowings mature until 2012. Capital commitment as at 31 December 2008 is approximately RMB7,512,000.

Foreign Exchange Exposure

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

Financial Instruments

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

Contingent Liability

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

Purchase, Sale or Redemption of the Shares

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

Employment, Training and Development

As at 31 December 2008, the Group had a total of 676 employees, representing a decrease of 84 employees over last year. The decrease was mainly attributable to the optimization of our management structure by streamlining the organization and workforce of the Group during the second half of 2008. Total staff costs accounted for approximately 13% of total turnover, representing an increase of 15% over last year. The main reason for the increase of staff costs was the Company increased the staff wages by the end of 2007. The Group determined its training schemes for the year based on the needs of the positions of its employees, in order to provide technical training for its staff and raise the staff's quality. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and its related combination on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Retirement Pension

The Company and its subsidiaries have participated in the employee retirement scheme operated by the relevant local government of the PRC. The PRC Government shall be responsible for the pension of the retired employees. The Group has to make contribution at a rate of 20% of the salary of the employees with permanent residence in the PRC. For the year ended 31 December 2008, the contribution for the pension amounted to approximately RMB4,516,000 (2007: RMB4,196,000).

Other Information

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

For the year of 2007

Civil Aviation Industry in the PRC

Following the continuous rapid economic development in China, the demand for civil, aviation transportation prospers through time and China has become the world's second largest civil operating aviation market. The scale of civil aviation transportation has reached its unprecedented growth. In 2007, both civil aviation transportation turnover and passenger transportation throughput had still sustained many years of double digit growth. With the objective of establishing an overall fairly prosperous community, the future civilian living standard will become more and more affluent, regional gaps among urban and sub-urban areas narrowed and social consumption demand exuberant day by day. Corporations and civilians will gradually demand more efficient transportation arrangements and civil aviation transportation will inevitably become the choice of speedy domestic and international traffic transportation. China's aviation industry is gradually becoming a rising industry, with steps moving forward to be more cost effective, more competitive and more secured.

Albeit the overall rapid development of China aviation industry, as an important mode of civil transportation, the sub-route aviation transportation in China has tremendous market potential for development and is becoming the new economic focus for growth where non-hub airports are also benefiting from this. With gradual changes in demand towards efficiency brought about by the potential demand of sub-route airlines, the Civil Aviation Administration of China had also indicated the further study of perfecting relevant policies, adjusts the zealous in various aspects and greatly supports the development of sub-route aviation industry. By taking reference from the development trends of foreign developed countries and regional civil aviation industry, it is expected that through active development in diversified services, such as developing sub-route airplane manufacturing industry business, construction of light aircraft airports or private airports, expanding the setup of sub-route aviation capabilities, the domestic aviation industry will propound new initiatives. The self-research and development and manufacture of downstream industry of ARJ21 Airplane model by China Aviation Industry Group had implied that China aviation industry had proudly moved itself towards a new arena.

The "Reform Implementation Proposal of Civil Airport Fee Charge" came into effect as from 1 March 2008. The proposal standardizes the fee items of civil airport as aeronautical business fee items, non-aeronautical major business fee items and non-aeronautical business other fee items and government directives were issued for non-aeronautical major business fee items. It regulates the airport fee item management and gradually moves towards to international standard. The proposal facilitates the development of aviation market and leads to the optimized deployment of resources in aviation industry through pricing mechanism. It achieves the redistribution of interests among airport and airline companies and ignites changes in airport non-aeronautical business operating model and improves its operational efficiency.

In 2007, through active promotion and co-ordination by Meilan Airport, augmented by the full support by local government, the aviation route issue of Hainan aviation rights had been solved. During the year, The international route network of Hainan had achieved the objective of "opening to the south and north", which means establishing a channel from the sky over the Hainan peninsula to connect the international routes of Nanhai and Beibu Wan and releasing part of the northern routes to foreign airlines. The new network will shorten the international voyage entering and exiting Hainan Island, in particular the voyages of South-east Asia international routes.

Tourism industry in Hainan Province

After over ten years of stride over development, Hainan Island has become a world famous tourism and leisure resort. In 2007, the tourism market of Hainan Island had undergone tremendous adjustments which see the initial formation of its leisure and relaxation style in the island. Through the successful hosting of cultural and sport activities such as China Happiness Stanza, Miss World Contest and Round-the-Island Bike Tournament, Hainan Island's wonderful "healthy and sunny" image has gradually become overwhelmingly popular. The objective of establishing as an "International Tourism Island" will continue and efforts to be spent in escalating the awareness of Hainan Province, particularly in Haikou City. This, in turn, will bring to Hainan sound economic results in its developing tourism business.

The new festive holiday adjustment plan and paid holiday leave system of the Mainland came into effect as from 1 January 2008. The new plan adjusts the long "Labour Holiday" from seven days to three days and at the same time, adding three traditional important festivals as statutory holidays, namely Ching Ming, Dragon Boat and Mid-autumn. It will generate potential consumer needs for Hainan tourist industry during the low tourist summer season and results a flourish cycle of "booming in peak seasons and healthy in low seasons", and will eventually facilitate the prosperity of aviation market.

Business Review

Overview of Aeronautical Business

In 2007, by actively adjusting its strategy and stabilising the development of its principal aeronautical business, the Group had strongly implemented the "Leaping Out and Inviting To Come" market development strategy. It had expanded the attractiveness of the aeronautical and tourism market of Haikou, strengthened the communication and co-ordination with local government, and by leveraging the support from the government, it had turnaround the disadvantage position of Haikou tourism market of being side-lined. By gradually developing the tourism industry, it had facilitated the development of its aeronautical market. The innovative market development approach and rationalized service protection workflow, coupled with the actual conditions of Hainan aeronautical market, had helped to formulate a more competitive market strategy focusing in attracting low-cost airlines; and thereby effectively compensating and suppressing the diffluent impact brought about by Sanya Phoenix International Airport and Guangdong-Hainan Railway. Hence, the Group achieved an overall increase in its production operation during this year.

Optimistic Exploitation of International Routes

Since the opening up of Hainan's aviation rights, in regard to the opening of international and regional aviation routes, the Group had always been devoted in conducting effective discussions with various international airlines and had openly established the intentions to co-operate. In 2007, the growth trend of both the international and regional aviation routes of Hainan Meilan International Airport remained strong. During the year, for the first time, the Group had successfully introduced Air company "Atlant-Soyuz" Incorporated to open charter flights between Moscow and Haikou. As of today, we already have 11 domestic and foreign airlines that have opened 12 international/regional aviation routes departing from/arriving at Hainan Meilan International Airport. Those routes cover the cities like Moscow, Hong Kong, Macau, Seoul, Singapore, Bangkok, Kuala Lumpur, Osaka, Pusan, Fukuoka, Tokyo, and the route between Tokyo and Haikou is a new route opened by Japan Airlines in 2007.

In 2007, the Group had successfully host the Asian New Aviation Route Conference whereby Haikou had become the first city in China to host this aviation route conference at international level. Leveraging on this, the Group had enhanced its communications with international airlines and had demonstrated sound Group image and escalated our international awareness and attract more foreign airlines to open aviation routes to Haikou.

Aviation traffic throughput for 2007 and the comparison figures for last year are set out below:

	2007	2006	Change (%)
Aircraft movement	60,579	61,738	-1.9
In which: Domestic	57,381	58,905	-2.6
Hong Kong/Macau	1,810	1,646	10.0
International	1,388	1,187	16.9
In which: Transportation cargo movements	56,872	54,219	4.9
Passenger Throughput			
(Headcount in ten thousands)	726.5	666.8	9.0
In which: Domestic	692.7	639.7	8.3
Hong Kong/Macau	17.3	13.1	32.1
International	16.5	14.0	17.9
Cargo Throughput (Tons)	111,451.9	97,641.3	14.1
In which: Domestic	106,742.9	93,775.2	13.8
Hong Kong/Macau	2,243.8	1,614.6	39.0
International	2,465.2	2,251.5	9.5

The number of international flights had increased significantly which is mainly due to the opening up of the Third, Fourth and Fifth Aviation Rights and the strong policy support by both the Civil Aviation Administration of China and the Hainan Provincial Government. At the same time, the Group had adequately adjusted its market development strategy and actively participating in the development of international aviation route activities.

The Group's revenue from aviation business for 2007 was RMB251,798,000, representing an increase of 9.1% over last year. Details of which are as follows:

	Amount *(RMB'000)*	Change over last year *(%)*
Passenger charges	91,540	2.8
Aircraft movement fees and related charges	41,099	0.1
Airport fees	88,411	9.7
Ground handling service income	30,748	52.6
Total revenue from aeronautical businesses	251,798	9.1

Overview of Non-Aeronautical Business

In 2007, in line with the concept of "operating resources utilisation in line with market demand and future development", the Company actively explored the operating model for non-aeronautical business and had established and optimised its business development model to suit the development requirements of the airport. By actively promoting business outsourcing, stable results were achieved in the non-aeronautical business. The non-aeronautical revenue was RMB92,593,000, representing a decrease of 10.6% over last year. The main reason is that the airport travel agency has implemented the franchised operation by the end of 2006 and retail of duty-free products has implemented the franchised operation in the second half of 2007, thus the income statistical standards has changed. However, the advertising revenues, the new additional freight and the commercial operation of VIP Lounge all have achieved encouraging results. Details of which are as follows:

	Amount	**Change over last year**
	(RMB'000)	*(%)*
Retailing	8,057	-15.3
Franchise fee	24,158	-13.0
Rental	17,273	-3.7
Freight	9,665	N/A
Advertising	14,035	16.9
Car parking	4,939	-3.2
Others	14,466	33.9
Total revenue from non-aeronautical businesses	92,593	-10.6

Advertising Business

In 2007, the Group advertising revenue remains steady growth. For the year ended 31 December 2007, revenue from advertising business reached RMB14,035,000, representing an increase of approximately 16.9% over 2006, another unprecedented high.

Freight

In March 2007, the Group took back the cargo business and ran it all by itself, which resulted in the freight concession income decreased but the cargo revenue increased. For the year ended 31 December 2007, freight income from cargo centre was RMB9,665,000, become a pillar of Meilan Airport's non-aeronautical business, but the freight concession income in the concessionaire services revenue reduced RMB5,000,000 compared to the same period.

VIP service Revenue

In 2007, the Group increased the market development advocacy of the passengers' source for the VIP lounge, and achieved encouraging results. For the year ended 31 December 2007, income from VIP service was RMB5,426,000, representing an increase of 187.3% over last year, become additional highlight in non-aeronautical revenues of Meilan Airport in 2007.

Financial Review

Asset Analysis

As at 31 December 2007, the total assets of the Group amounted to RMB1,836,576,000, representing a decrease of 1.8% over last year.

Cost Analysis

In 2007, total operating costs of the Group were RMB121,767,000, representing a decrease of RMB15,768,000 or dropped by 11.5% in comparison with that last year. Administrative expenses were RMB47,202,000, representing a decrease of RMB14,326,000 or dropped by 23.3% in comparison with that last year. The main reason for the decrease in annual operating costs is the refund of business tax and levies on airport fee by the tax authorities and the reinforcement on cost control by the Group. The main reason for the decrease in administrative expenses is the termination of the technical services under the Copenhagen agreement which has reduced the technical service fee.

Cash Flow

For the year ended 31 December 2007, the Group's net cash inflow from operating activities was RMB272,696,000, representing an increase of 56.8% over last year. This was mainly due to the recovery of companies operating and the collection of accounts receivable. During the year, the Group's net cash outflow for investing activities was RMB111,854,000, which was mainly due to the increase of time deposits.

Pledge of the Group's Assets

The Group pledged its rights to revenues, including the rights of the airport fee to secure a long-term bank loan of RMB25,000,000 from China Development Bank.

Liquidity and Financial Resources

As at 31 December 2007, current assets of the Group were approximately RMB666,320,000, total assets were approximately RMB1,836,576,000, current liabilities were approximately RMB117,899,000 and total liabilities were approximately RMB145,092,000. The gearing ratio (total liabilities/total assets) of the Group was 7.9%, representing a decrease of 3.2% over last year. The main reason was the repayment of bank loan. The reduces of principal resulted in a total debt reduction.

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

As at 31 December 2007, bank borrowings of RMB25,000,000 used for financing the construction of airport terminal, the related premises and facilities are secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear interest at commercial rate of 7.20% per annum, the interest will be determined yearly with reference to the market interest rates. These bank borrowings mature until 2012. Capital commitment as at 31 December 2007 is approximately RMB825,000.

Foreign Exchange Exposure

The Group's businesses are principally conducted in RMB, except that limited aeronautical revenues are in US dollars. Dividends to shareholders holding H Shares are declared and paid in Hong Kong dollars. As at 31 December 2007, if RMB had weakened/ strengthened by 10% against the US dollars with all other variables held constant, post-tax profit for the year would have been RMB754,000 (2006: RMB166,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars denominated cash and cash equivalent, trade receivables. Given the fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations, the Group has not entered into any forward rate contract to hedge its exposure of foreign exchange risk.

Financial Instruments

As at 31 December 2007, financial instruments of the Group mainly comprised bank loans, cash and bank deposits. The purpose of those financial instruments is to finance the Group's operations. Besides, the Group had other financial instruments in relation to daily operations, such as accounts receivable and accounts payable.

Contingent Liability

As at 31 December 2007, the Group or the Company did not have any significant contingent liability.

Employment, Training and Development

As at 31 December 2007, the Group had a total of 760 employees, representing an increase of 84 employees over last year. The increase was mainly attributable to the resumption of the operation of Meilan Airport Cargo Centre to the Company, the employees of which were hired by the Group. Total staff costs accounted for approximately 12.6% of total turnover, representing an increase of 21.4% over last year. The main reason for the increase of staff cost was due to the increase in staff and the staff wages. The Group determined its training schemes for the year based on the needs of the positions of its employees, in order to provide technical training for its staff and raise the staff's quality. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and its related combination on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Retirement Pension

The Company and its subsidiaries have participated in the employee retirement scheme operated by the relevant local government of the PRC. The PRC Government shall be responsible for the pension of the retired employees. The Group has to make contribution at a rate of 20% of the salary of the employees with permanent residence in the PRC. For the year ended 31 December 2007, the contribution for the pension amounted to approximately RMB4,196,000 (2006: RMB4,000,000).

Income Tax

On 16 March 2007, the National People's Congress of the People's Republic of China approved the Corporate Income Tax Law of the People's Republic of China ("the New CIT Law"), which takes effect from 1 January 2008. Pursuant to the New CIT Law, the corporate income tax rate applicable to the Company will be gradually increased from 15% to 25% in a 5-year period from 2008 to 2012, namely 18% applicable in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and the years thereafter.

Pursuant to the approval document (Qiong Shan Guo Shui Han [2002] No.11) issued by Hainan Province Qiongshan State Tax Bureau in 2002, the Company was entitled to the exemption of CIT from 2000 to 2004, and 50% deduction of CIT from 2005 to 2009 (the "Original CIT Holiday").

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

In view of changes in tax holiday, the Company was required to pay the exempted CIT totalling RMB63,679,000 for the years from 2001 to 2003 and was entitled to a refund of CIT totalling RMB19,865,000 for the years from 2005 to 2006. Under the revised CIT holiday, the applicable CIT rates to the Company from 2008 to 2013 will be 0%, 10%, 11%, 12%, 12.5% and 12.5% respectively. Comparing to the CIT rates from 2008 to 2013 under the original CIT holiday, which were 9%, 10%, 22%, 24%, 25% and 25% respectively, the Company will save its future income tax expenses.

Other Information

In 2007, the Group had no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 in the Listing Rules.

A. ACCOUNTANT'S REPORT OF HNA AIRPORT

Set out below is the text of accountants' report on HNA Airport prepared by the independent reporting accountants, Deloitte Touche Tohmatsu, certified public accountants, Hong Kong, for the purpose of incorporation in this circular. As stated in the section headed "Documents Available for Inspection" in Appendix IX, copies of the accountants' report are available for inspection.

Deloitte.
德勤

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Hong Kong

13 May 2010

The Directors
Hainan Meilan International Airport Company Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 海航機場控股(集團)有限公司 (HNA Airport Holding (Group) Co. Limited, hereinafter referred to as "HNA Airport") and its subsidiaries (hereinafter collectively referred to as the "HNA Airport Group") for each of the three years ended 31 December 2009 (the "Relevant Periods") for inclusion in the circular issued by the Hainan Meilan International Airport Company Limited ("Meilan Airport") dated 13 May 2010 in connection with its proposed acquisition of the 54.5% of issued share capital of HNA Airport (the "Circular").

HNA Airport was established in the People's Republic of China (the "PRC") on 31 October 2003 as a limited company. As at the date of this report, the registered and paid-in capital of HNA Airport is US$408,200,000. HNA Airport is principally engaged in the business of airport operations and provision of related services in the PRC.

At 31 December 2009 and the date of this report, HNA Airport has the following subsidiaries and their particulars are as follow:

Name of subsidiary	Place and date of establishment/ operations	Registered capital	Proportion of nominal registered capital held by HNA Airport *(note a)* At 31 December			Principal activities
			2007	2008	2009	
		RMB'000				
三亞鳳凰國際機場有限責任公司 Sanya Phoenix International Airport Co. Limited ("Sanya Phoenix") *(note b)*	PRC 27 August 1993	2,000,000	67%	67%	67%	Operation of airport
東營永安機場有限責任公司 Dongying Yong An Airport Co. Limited ("Dongying Yong An")	PRC 29 September 2001	680	90%	90%	90%	Operation of airport
宜昌三峽機場有限責任公司 Yichang Sanxia Airport Co. Limited ("Yichang Sanxia")	PRC 18 January 2002	177,000	90%	90%	90%	Operation of airport
滿州里西郊機場有限責任公司 Manzhouli Xijiao Airport Co. Limited ("Manzhouli Xijiao")	PRC 27 September 2004	5,000	67%	67%	67%	Operation of airport
濰坊南苑機場有限責任公司 Weifang Nanyuan Airport Co. Limited ("Weifang Nanyuan") *(note c)*	PRC 26 February 2001	59,680	–	–	–	Operation of airport
宜昌三峽機場航空食品有限公司 Yichang Sanxia Catering Co. Limited ("Yichang Sanxia Catering") *(note c)*	PRC 19 May 1998	2,200	–	–	–	Provision of catering services
蘭州中川機場管理有限公司 Lanzhou Zhongchuan Airport Management Co. Limited ("Lanzhou Zhongchuan")	PRC 19 October 2007	573,289	100%	100%	100%	Operation of airport
敦煌莫高機場管理有限公司 Dunhuang Mogao Airport Management Co. Limited ("Dunhuang Mogao")	PRC 7 December 2007	78,511	100%	100%	100%	Operation of airport
慶陽西峰機場管理有限公司 Qingyang Xifeng Airport Management Co. Limited ("Qingyang Xifeng")	PRC 29 November 2007	23,170	100%	100%	100%	Operation of airport

Name of subsidiary	Place and date of establishment/ operations	Registered capital RMB'000	Proportion of nominal registered capital held by HNA Airport (note a) At 31 December 2007	2008	2009	Principal activities
嘉峪關機場管理有限公司 Jiayuguan Airport Management Co. Limited ("Jiayuguan Airport")	PRC 28 October 2008	38,310	–	100%	100%	Operation of airport
甘肅民航汽車運輸有限責任公司 Gansu Civil Aviation Transportation Co. Limited* ("Gansu Transportation")	PRC 1 January 2000	4,000	–	100%	100%	Provision of transportation services
甘肅空港客貨銷售有限責任公司 Gansu Airport Transportation Services Co. Limited* ("Gansu Services")	PRC 15 November 2005	6,000	–	100%	100%	Provision of transportation services
甘肅空港廣告有限公司 Gansu Airport Advertising Co. Limited* ("Gansu Advertising")	PRC 3 November 2003	1,000	–	100%	100%	Provision of advertising services
三亞鳳凰機場快捷酒店管理有限公司 Sanya Phoenix Airport Kuajie Hotel Co. Limited* ("Kuajie Hotel")	PRC 13 August 2007	1,000	100%	100%	100%	Operation of hotel
三亞鳳凰國際機場貨運有限公司 Sanya Phoenix International Airport Logistics Co. Limited* ("Sanya Logistics")	PRC 6 March 2000	3,000	51%	51%	51%	Provision of cargo logistic services
三亞鳳凰國際機場旅行社 Sanya Phoenix Airport Travel Limited* ("Sanya Travel")	PRC 17 January 1995	1,000	100%	100%	100%	Inactive
三亞鳳凰物業管理有限公司 Sanya Phoenix Property Management Co. Limited* ("Sanya Property Management") *(note d)*	PRC 25 April 2000	5,000	100%	90%	–	Inactive
三亞鳳凰國際機場旅客服務有限公司 Sanya Phoenix Airport Travel Services Co. Limited* ("Sanya Services") *(note d)*	PRC 17 May 2000	20,000	100%	–	–	Inactive
三亞航空廣告有限責任公司 Sanya Aviation Advertising Co. Limited* (Sanya Advertising") *(note e)*	PRC 17 October 2000	1,000	100%	–	–	Provision of advertising services
海南太平洋石油實業股份有限公司 Hainan Pacific Oil Co. Limited ("Hainan Pacific Oil) *(note f)*	PRC 21 March 1994	367,200	35.29%	35.29%	–	Sale of crude oil

notes:

a. HNA Airport directly holds the interest in Sanya Phoenix, Dongying Yong An, Yichang Sanxia, Manzhouli Xijiao, Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng and Jiayuguan Airport. All other interests shown are indirectly held by HNA Airport.

b. One of the minority shareholders of Sanya Phoenix has assigned its profit sharing entitlement of Sanya Phoenix for the period from 1 January 2008 to 31 December 2010 (the "Period") to HNA Airport. Accordingly, the results of Sanya Phoenix attributable to owners of HNA Airport is 99% during the Period. Subsequent to 31 December 2010, the results of Sanya Phoenix attributable to owners of HNA Airport will be based on its equity interest of 67%.

c. 100% of the equity interests in Weifang Nanyuan and Yichang Sanxia Catering were disposed of during the year ended 31 December 2007

d. 100% of the equity interest in Sanya Services was disposed of during the year ended 31 December 2008, which held 10% of the equity interest in Sanya Property Management. Subsequent to the disposal, HNA Airport's interest in Sanya Property Management was diluted by 10% from 100% to 90% for the year ended 31 December 2008. Sanya Property Management was deregistered during the year ended 31 December 2009.

e. 70% of the equity interest in Sanya Advertising was disposed of during the year ended 31 December 2008. Accordingly, Sanya Advertising was accounted for as an associate thereafter.

f. Pursuant to an operating agreement entered into between Sanya Phoenix and Hainan Pacific Oil, a company with 35.29% equity interest held by Sanya Phoenix, Sanya Phoenix has control over the financial and operating policies of Hainan Pacific Oil up to 30 June 2012. Accordingly, Hainan Pacific Oil was regarded as a subsidiary of Sanya Phoenix during the years ended 31 December 2008 and 2007.

During the year ended 31 December 2009, Sanya Phoenix and Hainan Pacific Oil entered into a termination agreement to terminate the operating agreement and Sanya Phoenix ceased to control the financial and operating policies of Hainan Pacific Oil with effect from 1 January 2009. Accordingly, Hainan Pacific Oil was accounted for as an associate starting from 1 January 2009.

* *English translated name is for identification purpose only.*

All companies comprising the HNA Airport Group have adopted 31 December as their financial year end date.

The statutory financial statements of HNA Airport and its subsidiaries were prepared in accordance with the relevant accounting principles and financial regulations applicable to these enterprises in the PRC ("PRC GAAP") and were audited by certified public accountants registered in the PRC during the Relevant Periods, or since their date of establishment or acquisition if later than 1 January 2007, as follows:

Name of company	Auditors	Financial year end
HNA Airport	信永中和會計師事務所 ShineWing Certified Public Accountants	Years ended 31 December 2007, 2008 and 2009
Sanya Phoenix Kuajie Hotel Sanya Logistics Sanya Travel Hainan Pacific Oil	信永中和會計師事務所 ShineWing Certified Public Accountants	Years ended 31 December 2007, 2008 and 2009
Dongying Yong An	山東新華有限責任會計師事務所 Shangdong Xinhua Limited Liability Certified Public Accountants	Year ended 31 December 2007
	中勤萬信會計師事務所有限公司 Peking Certified Public Accountants	Years ended 31 December 2008 and 2009
Yichang Sanxia	湖北正遠聯合會計師事務所 Hubei Zhengyuan Certified Public Accountants	Year ended 31 December 2007
	湖北眾證會計師事務有限責任公司 Hubei Zhong Zheng Certified Public Accountants*	Years ended 31 December 2008 and 2009
Manzhouli Xijiao	滿洲里祥意聯合會計師事務所 Manzhouli Xiang Yi Lian He Certified Public Accountants*	Years ended 31 December 2007, 2008 and 2009
Lanzhou Zhongchuan Dunhuang Mogao Jiayuguan Airport Qingyang Xifeng Gansu Transportation Gansu Services Gansu Advertising	西安希格瑪有限責任會計師事務所甘肅分所 Xian Xigema Certified Public Accountants Firm Limited	Years ended 31 December 2008 and 2009
Sanya Services Sanya Advertising	信永中和會計師事務所 Shine Wing Certified Public Accountant	Year ended 31 December 2007
Sanya Property Management	信永中和會計師事務所 Shine Wing Certified Public Accountant	Years ended 31 December 2007 and 2008

* *English translated name is for identification purpose only*

Sanya Phoenix, Kuajie Hotel, Sanya Logistics, Sanya Travel, Sanya Property Management, Sanya Services and Hainan Pacific Oil were acquired by HNA Airport in December 2007, and Gansu Transportation, Gansu Services and Gansu Advertising were acquired by HNA Airport in June 2008. The financial results after acquisition were consolidated into HNA Airport.

No statutory audited financial statements of Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng for the year ended 31 December 2007 and Jiayuguan Airport for the year ended 31 December 2008, have been prepared as their first statutory financial statements are not yet due to be issued.

The directors of HNA Airport have prepared the consolidated financial statements of the HNA Airport Group for the Relevant Periods in accordance with International Financial Reporting Standards (the "IFRS") (the "Underlying Financial Statements"). We have undertaken our own independent audit of the Underlying Financial Statements in accordance with International Standards on Auditing.

The Financial Information of the HNA Airport Group for the Relevant Periods as set out in this report has been prepared based on the Underlying Financial Statements, without making any adjustments for the purpose of inclusion in the Circular.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institutes of Certified Public Accountants (the "HKICPA").

The Underlying Financial Statements are the responsibility of the directors of HNA Airport. The directors of Meilan Airport are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the HNA Airport Group as at 31 December 2007, 2008 and 2009 and of the consolidated profit and cash flows for each of the three years ended 31 December 2007, 2008 and 2009.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	47,829	1,514,905	609,184
Cost of goods and services sold		(45,537)	(1,261,058)	(329,342)
Gross profit		2,292	253,847	279,842
Other income	*8*	71,137	110,508	151,686
Distribution expenses		–	(17,453)	(4,000)
Administrative expenses		(68,504)	(151,550)	(154,720)
Restructuring expenses	*9*	(21,758)	–	–
Gain on disposal of available-for-sale investments	*22*	–	–	51,400
Gain on disposal of subsidiaries	*41*	3,657	2,852	1,409
Gain on partial disposal of a subsidiary	*41*	–	888	–
Gain on disposal of an associate	*26*	45,579	6,485	–
Impairment loss reversed in respect of other receivables	*10*	–	90,000	–
Share of results of associates	*20*	40,971	–	5,649
Share of result of a jointly controlled entity	*21*	–	7,366	–
Finance costs	*11*	(29,922)	(76,805)	(125,599)
Profit before tax		43,452	226,138	205,667
Income tax expense	*12*	(73)	(15,234)	(9,215)
Profit for the year	*13*	43,379	210,904	196,452
Other comprehensive income				
Share of other comprehensive income of an associate:				
Fair value gain on available-for-sale investments		360,873	–	–
Reclassification adjustment of investment revaluation reserve upon disposal of an associate		(423,703)	–	–
Other comprehensive expense for the year		(62,830)	–	–
Total comprehensive (expense) income for the year		(19,451)	210,904	196,452
Profit for the year attributable to:				
Owners of HNA Airport	*15*	43,813	187,624	191,657
Minority interests		(434)	23,280	4,795
		43,379	210,904	196,452
Total comprehensive (expense) income for the year attributable to:				
Owners of HNA Airport		(19,017)	187,624	191,657
Minority interests		(434)	23,280	4,795
		(19,451)	210,904	196,452

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*16*	2,239,427	2,693,656	2,662,638
Premium on prepaid lease payments	*17*	727,240	712,696	698,152
Goodwill	*18*	232,824	232,824	232,824
Deposit paid for acquisition of property, plant and equipment		19,246	19,207	–
Prepaid lease payments – non-current portion	*19*	750,740	735,953	721,984
Interests in associates	*20*	–	–	125,431
Interest in a jointly controlled entity	*21*	86,839	87,885	–
Available-for-sale investments	*22*	158,250	158,250	1,250
Finance lease receivable – due after one year	*23*	6,239	4,976	3,856
Loan to ultimate holding company – due after one year	*27*	–	–	850,000
		4,220,805	4,645,447	5,296,135
CURRENT ASSETS				
Inventories	*24*	83,966	30,644	1,767
Trade and other receivables	*25*	389,343	404,111	383,485
Consideration receivable	*26*	187,920	–	–
Prepaid lease payments – current portion	*19*	14,591	14,690	14,515
Finance lease receivable – due within one year	*23*	1,338	1,263	1,191
Loans to fellow subsidiaries – due within one year	*27*	–	10,000	214,000
Loan to ultimate holding company – due within one year	*27*	604,000	542,000	50,000
Amount due from ultimate holding company	*28(i)*	109,019	–	–
Amounts due from fellow subsidiaries	*28(i)*	426,531	300,188	797,548
Amounts due from related companies	*28(ii)*	3,936	2,891	7,047
Amount due from an associate	*28(i)*	–	–	46
Amounts due from minority shareholders of subsidiaries	*28(i)*	–	25,604	36,362
Tax recoverable		32	32	–
Deposits in a group treasury company	*29*	122,293	312,443	375,036
Bank balances and cash	*30*	177,900	589,825	673,406
		2,120,869	2,233,691	2,554,403

		As at 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES				
Trade and other payables	*31*	445,404	387,018	361,479
Amount due to ultimate holding company	28(i)	–	21,521	7,343
Amounts due to fellow subsidiaries	*28(i)*	45,576	68,763	88,590
Amounts due to related companies	*28(ii)*	–	18,404	19,716
Amount due to an associate	*28(i)*	–	–	2,172
Amount due to a jointly controlled entity	*32*	238	–	–
Tax payable		1,866	6,616	1,653
Bank borrowings – due within one year	*33*	245,200	940,200	645,000
Unsecured other borrowings – due within one year	*34*	20,000	20,000	20,000
Unsecured loan notes	*35*	607,338	–	709,000
Borrowings from a group treasury company	36	422,600	–	–
		1,788,222	1,462,522	1,854,953
Net current assets		332,647	771,169	699,450
Total assets less current liabilities		4,553,452	5,416,616	5,995,585
NON-CURRENT LIABILITIES				
Bank borrowings – due after one year	*33*	619,000	923,000	1,162,192
Unsecured other borrowings – due after one year	*34*	50,345	31,812	236,155
Deferred tax liabilities	*37*	139,520	143,588	141,013
Deferred income	*38*	–	–	131,773
		808,865	1,098,400	1,671,133
		3,744,587	4,318,216	4,324,452
CAPITAL AND RESERVES				
Paid-in capital	*39*	2,657,427	3,020,152	3,020,152
Reserves		147,282	334,906	526,563
Equity attributable to owners of HNA Airport		2,804,709	3,355,058	3,546,715
Minority interests		939,878	963,158	777,737
		3,744,587	4,318,216	4,324,452

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of HNA Airport								
	Paid-in capital	Investment revaluation reserve	Other reserve	Statutory reserves	Capital contribution	Accumulated (losses) profits	Total	Minority interests	Total
	RMB'000	*RMB'000* *(note a)*	*RMB'000* *(note a)*	*RMB'000* *(note b)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	600,000	62,830	(54,978)	716	527,809	(36,326)	1,100,051	70,742	1,170,793
Profit (loss) for the year	–	–	–	–	–	43,813	43,813	(434)	43,379
Share of investment revaluation reserve of an associate	–	360,873	–	–	–	–	360,873	–	360,873
Reclassify to profit or loss upon disposal of an associate	–	(423,703)	–	–	–	–	(423,703)	–	(423,703)
Total comprehensive (expense) income for the year	–	(62,830)	–	–	–	43,813	(19,017)	(434)	(19,451)
Capitalisation of reserves upon reformation of the HNA Airport	303,287	–	–	–	(303,287)	–	–	–	–
Contribution in specie by injection of 33% equity interest of Sanya Phoenix	650,000	–	–	–	–	–	650,000	–	650,000
Cash contribution by new investors	1,104,140	–	–	–	–	–	1,104,140	–	1,104,140
Acquisition of a subsidiary *(note 40A)*	–	–	–	–	–	–	–	877,355	877,355
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	(6,041)	(6,041)
Share of other reserve of an associate	–	–	(30,465)	–	–	–	(30,465)	–	(30,465)
Release upon disposal of subsidiaries	–	–	–	(300)	–	300	–	(1,744)	(1,744)
Release upon disposal of an associate	–	–	85,443	–	–	(85,443)	–	–	–
Transfer	–	–	–	213	–	(213)	–	–	–
At 31 December 2007	2,657,427	–	–	629	224,522	(77,869)	2,804,709	939,878	3,744,587
Profit for the year and total comprehensive income for the year	–	–	–	–	–	187,624	187,624	23,280	210,904
Cash contribution by a shareholder	362,725	–	–	–	–	–	362,725	–	362,725
Transfer	–	–	–	814	–	(814)	–	–	–
At 31 December 2008	3,020,152	–	–	1,443	224,522	108,941	3,355,058	963,158	4,318,216
Profit for the year and total comprehensive income for the year	–	–	–	–	–	191,657	191,657	4,795	196,452
Transfer	–	–	–	302	–	(302)	–	–	–
Deemed disposal of a subsidiary *(note 41C)*	–	–	–	–	–	–	–	(190,216)	(190,216)
At 31 December 2009	3,020,152	–	–	1,745	224,522	300,296	3,546,715	777,737	4,324,452

Notes:

a. Investment revaluation reserve and other reserve represent share of reserves of an associate, Meilan Airport regarding the share of associate's gain on fair value changes of available-for-sale investments and deemed distribution relating to recognition of imputed interest on the long term interest-free loan advanced to 海航集團有限公司 HNA Group Co. Limited for the year ended 31 December 2007 and prior years. Meilan Airport was disposed of during the year ended 31 December 2007.

b. According to the Articles of Association of HNA Airport and its subsidiaries, HNA Airport and its subsidiaries are required to transfer 10% of the profit after tax (as determined under the accounting standards of the PRC), to the statutory reserves until the reserves reach 50% of the registered capital of the relevant group entities. Transfer of these reserves must be made before distributing dividends to equity holders. These funds can be used for the collective welfare of the employees of the companies in the PRC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax	43,452	226,138	205,667
Adjustments for:			
Allowance for doubtful debts	106	463	165
Amortisation of premium on prepaid lease payments	–	14,544	14,544
Amortisation of deferred income	–	–	(18,355)
Bank interest income	(483)	(7,276)	(9,694)
Depreciation of property, plant and equipment	18,743	100,286	119,463
Finance costs	29,922	76,805	125,599
Impairment loss reversed in respect of other receivables	–	(90,000)	–
Gain on disposal of available-for-sale investments	–	–	(51,400)
Gain on disposal of an associate	(45,579)	(6,485)	–
Gain on disposal of prepaid lease payments	(161)	–	–
Gain on disposal of subsidiaries	(3,657)	(2,852)	(1,409)
Gain on partial disposal of a subsidiary	–	(888)	–
Interest income on loan(s) to ultimate holding company/fellow subsidiaries	(556)	(38,906)	(62,127)
Interest income on finance lease receivable	–	(349)	(495)
Loss on disposal of property, plant and equipment	5	2,621	338
Release of prepaid lease payments	5,845	14,688	13,816
Share of result of a jointly controlled entity	–	(7,366)	–
Share of results of associates	(40,971)	–	(5,649)

		Year ended 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Operating cash flows before movements in working capital		6,666	281,423	330,463
Decrease in inventories		79	53,327	13
Increase in trade and other receivables		(181,293)	(60,050)	(127,579)
Decrease (increase) in amount due from an associate		7,702	–	(46)
Increase (decrease) in trade and other payables		91,877	(53,183)	92,760
Increase in amount due to an associate		–	–	2,172
Decrease in amount due to a jointly controlled entity		–	(238)	–
Cash (used in) from operations		(74,969)	221,279	297,783
Income tax paid		(37)	(6,620)	(16,662)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(75,006)	214,659	281,121
INVESTING ACTIVITIES				
Advance to fellow subsidiaries		(576,152)	(201,546)	(298,760)
Loans advanced to fellow subsidiaries		–	(140,000)	(237,000)
Decrease (increase) in deposits in a group treasury company		9,255	(190,150)	(62,593)
Disposal or deemed disposal of subsidiaries	*41*	(9,850)	(431)	(71,627)
Acquisition of property, plant and equipment		(7,873)	(211,779)	(114,955)
Repayment from (advanced to) related companies		13,930	1,015	(2,844)
Capital contributions to an associate		–	–	(15,000)
Repayment of loan advanced to ultimate holding company		–	62,000	522,000
Loan advanced to ultimate holding company		–	–	(960,549)
Repayment from ultimate holding company		–	142,051	36,305
Interest received		483	7,276	9,694
Repayment of loans advanced to fellow subsidiaries		–	135,184	58,822
Finance lease received		–	1,687	1,687
Proceeds from disposal of property, plant and equipment		588	1,662	2,294
Repayment from (advanced to) minority shareholders of subsidiaries		16,904	(25,604)	(10,758)
Acquisition of subsidiaries and business	*40*	(930,392)	14,902	–
Dividend received from a jointly controlled entity		–	6,320	–
Government grants received		3,000	–	150,128
Proceeds from disposal of prepaid lease payments		1,697	–	328
Proceeds from disposal of available-for-sale investments		858	–	9,800

		Year ended 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NET CASH USED IN INVESTING ACTIVITIES		(1,477,552)	(397,413)	(983,028)
FINANCING ACTIVITIES				
New bank and other borrowings raised		304,000	1,452,000	1,084,571
New unsecured loan notes raised		–	–	700,000
(Repayment to) advanced from fellow subsidiaries		(4,881)	290,933	19,827
Repayment of bank and other borrowings		(167,742)	(894,133)	(936,236)
Interest paid		(29,922)	(119,433)	(149,045)
Advance from ultimate holding company		502,606	91,521	66,371
Capital contributions		1,104,140	362,725	–
(Repayment to) advanced from related companies		(904)	18,404	–
Repayment of unsecured loan notes and interest		–	(607,338)	–
NET CASH FROM FINANCING ACTIVITIES		1,707,297	594,679	785,488
NET INCREASE IN CASH AND CASH EQUIVALENTS		154,739	411,925	83,581
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		23,161	177,900	589,825
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		177,900	589,825	673,406

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

HNA Airport is a limited company established and carried out its business in the PRC. The address of its registered office and principal place of business is Haihang Building, No. 29 Haixiu Road, Haikou, Hainan Province, the PRC.

At 31 December 2009, HNA Airport was held as to 51%, 24.5% and 24.5% by 海航集團有限公司 (HNA Group Co. Limited), Worldwide United Limited and Kingward Investment Limited, respectively.

Pursuant to a special resolution passed at an extraordinary general meeting held on 19 March 2007, the name of HNA Airport was changed from HNA Airport Group Co. Limited to HNA Airport Holding (Group) Co. Limited.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of HNA Airport.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the HNA Airport Group has consistently adopted IFRSs, International Accounting Standards ("IASs"), amendments and interpretations, which are effective for the accounting periods presented in the Financial Information.

At the date of this report, the International Accounting Standards Board (the ''IASB'') has issued the following new and revised standards, amendments and interpretations that have been issued but not yet effective. The HNA Airport Group has not early applied these new and revised standards, amendments and interpretations.

IFRSs (Amendments)	Amendment to IFRS 5 as part of improvements to IFRSs issued in 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from comparative IFRS 7 Disclosures for First-time Adopter[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14	Prepayments of a Minimum Funding Requirement[6]
IFRIC 17	Distribution of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 July 2010
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 January 2013

The adoption of IFRS 3 (Revised) may affect the HNA Airport Group's accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in the HNA Airport Group's ownership interest in a subsidiary.

IFRS 9 *Financial Instruments introduces* new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments, and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the HNA Airport Group's financial assets.

The directors of HNA Airport anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the Financial Information of the HNA Airport Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below.

The Financial Information of the Relevant Periods has been prepared in accordance the accounting policies set out below which comply with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Basis of consolidation

The Financial Information incorporates the financial information of HNA Airport and entities controlled by HNA Airport (its subsidiaries). Control is achieved where HNA Airport has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with those used by other members of the HNA Airport Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the HNA Airport Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of change in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the HNA Airport Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the HNA Airport Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the HNA Airport Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the HNA Airport Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 these policies.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the HNA Airport Group's share of the net assets of the associates, less any identified impairment loss. When the HNA Airport Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the HNA Airport Group's net investment in the associate), the HNA Airport Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the HNA Airport Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the HNA Airport Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the HNA Airport Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the HNA Airport Group, profits and losses are eliminated to the extent of the HNA Airport Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the HNA Airport Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the HNA Airport Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the HNA Airport Group's net investment in the jointly controlled entity), the HNA Airport Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the HNA Airport Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the HNA Airport Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the HNA Airport Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the HNA Airport Group, profits or losses are eliminated to the extent of the HNA Airport Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for good sold and services provided in the normal course of business, net of discounts and sales related taxes.

Passenger charges are recognised upon outbound passengers departing from airports.

Non-aeronautical and aeronautical revenues other than passenger charges are recognised when the related airport services are rendered.

Revenue from trading of crude oil is recognised when the cruel oil is delivered and title has passed.

Advertising fees are recognised on the straight line basis over the period of display of advertisement.

Rental income is recognised on the straight line basis over the lease periods.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including building held for use in supply of goods or services or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statements of comprehensive income in the period in which the item is derecognised.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to the profit or loss on a straight line basis over the lease terms. Land use rights which are to be amortised in the next twelve months or less are classified as current assets.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The HNA Airport Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the HNA Airport Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the HNA Airport Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight line basis over the terms of the relevant lease.

The HNA Airport Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the HNA Airport Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lifes of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the HNA Airport Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The HNA Airport Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deducible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the HNA Airport Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The HNA Airport Group's financial assets are classified into loans and receivables and available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan(s) to/amount(s) due from ultimate holding company/fellow subsidiaries/related companies/an associate/minority shareholders of subsidiaries, consideration receivable, deposits in a group treasury company and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the HNA Airport Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio beyond the credit period of 90 to 365 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the HNA Airport Group after deducting all of its liabilities. The accounting policy of HNA Airport Group's financial liabilities are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amount(s) due to ultimate holding company/ fellow subsidiaries/related companies/an associate/a jointly controlled entity, bank borrowings, unsecured other borrowings, unsecured loan notes and borrowings from a group treasury company) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by HNA Airport are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the HNA Airport Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each reporting date, the HNA Airport Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the HNA Airport Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Impairment loss of trade receivables

In determining whether there is objective evidence of impairment loss, the HNA Airport Group takes into consideration the estimation of future cash flows. The amount of the impairment loss for loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, 2008 and 2009, an impairment loss recognised on trade receivables is RMB2,038,000, RMB713,000 and RMB148,000, respectively (note 25).

Estimated impairment loss of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the HNA Airport Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, 2008 and 2009, the carrying amount of goodwill is RMB232,824,000, RMB232,824,000 and RMB232,824,000 respectively. Details of the recoverable amount calculation are disclosed in note 18.

Useful lives of property, plant and equipment

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

5. CAPITAL RISK MANAGEMENT

The HNA Airport Group manages its capital to ensure that entities in the HNA Airport Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The HNA Airport Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the HNA Airport Group consists of debt, which includes the unsecured loan notes, unsecured other borrowings, borrowings from a group treasury company and bank borrowings disclosed in notes 33 to 36, cash and cash equivalents and equity attributable to owners of HNA Airport, comprising paid-in capital and reserves.

The directors of HNA Airport review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and owner returns, taking into consideration the future capital requirements of the HNA Airport Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)	2,011,391	2,184,775	3,387,682
Available-for-sale investments	158,250	158,250	1,250
Financial liabilities			
Amortised cost	2,321,823	2,306,711	3,163,847

6b. Financial risk management objectives and polices

The HNA Airport Group's major financial instruments include trade and other receivables, loan(s) to/amount(s) due from (to) ultimate holding company/fellow subsidiaries/related companies/an associate/minority shareholders of subsidiaries/a jointly controlled entity, consideration receivable, deposits in a group treasury company, bank balances and cash, trade and other payables, unsecured loan notes, unsecured other borrowings, borrowings from a group treasury company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of the HNA Airport Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Other than the unsecured other borrowing which is denominated in United States dollars ("USD") (details are set out in note 34), the HNA Airport Group earns revenue in RMB and incurs costs in RMB which is the functional currency of the respective group entities. The directors of HNA Airport believe that the HNA Airport Group does not have significant foreign exchange exposures. However, if necessary, the HNA Airport Group will consider using forward exchange contracts to hedge against foreign currency exposures.

Sensitivity analysis

As the HNA Airport Group earns revenue in RMB and mainly incurs costs in RMB, the monetary items of HNA Airport Group are mainly denominated in RMB. The HNA Airport Group had no significant foreign exchange exposure as at 31 December 2007, 2008 and 2009 except for the USD borrowings. The management considered the exposure is insignificant and therefore, no sensitivity analysis is presented.

(ii) Interest rate risk

The HNA Airport Group's fair value interest rate risk relates primarily to its fixed rate loans to fellow subsidiaries/ultimate holding company, deposits in a group treasury company, bank borrowings, unsecured other borrowings, unsecured loan notes and borrowings from a group treasury company as disclosed in notes 27, 29, 33, 34, 35 and 36, respectively. The HNA Airport Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The HNA Airport Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings as disclosed in notes 30 and 33 respectively. The HNA Airport Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing market rate arising from the HNA Airport Group's RMB denominated bank balances and bank borrowings.

Sensitivity analysis

The HNA Airport Group is mainly subject to fair value interest rate risk as majority of its financial instruments carry interest at fixed rates. Accordingly, the impact of interest rate sensitivity to the HNA Airport Group's profit is expected to be insignificant. Hence, no sensitivity analysis is presented

Credit risk

As at 31 December 2007, 2008 and 2009, the HNA Airport Group's maximum exposure to credit risk which will cause a financial loss to the HNA Airport Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the HNA Airport Group as described in note 44.

In order to minimise the credit risk, management of the HNA Airport Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the HNA Airport Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of HNA Airport consider that the HNA Airport Group's credit risk is significantly reduced.

The HNA Airport Group has concentration risk on amount(s) due from ultimate holding company/ fellow subsidiaries, loan(s) to ultimate holding company/fellow subsidiaries, deposits in a group treasury company which represent 58%, 53% and 69% of loans and receivables as at 31 December 2007, 2008 and 2009 respectively. The ultimate holding company/fellow subsidiaries did not have any default payment experience in current or previous years. In addition, the ultimate holding company has strong financial position and the fellow subsidiaries are financially supported by the ultimate holding company. In this regard, the directors of HNA Airport consider that the HNA Airport Group's credit risk is significantly reduced.

Majority of its banks balances and cash are kept in reputable banks in the PRC and the directors of HNA Airport believe the related credit risk is not significant.

Liquidity risk

In the management of the liquidity risk, the HNA Airport Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the HNA Airport Group's operations and mitigate the effects of fluctuations in cash flows. Management of the HNA Airport Group monitors the utilisation of borrowings from time to time.

The HNA Airport Group has borrowings of RMB1,964,483,000, RMB1,915,012,000 and RMB2,772,347,000 as at 31 December 2007, 2008 and 2009, respectively, of which RMB1,295,138,000, RMB960,200,000 and RMB1,374,000,000, respectively, are repayable within one year. The successful rolling over of these borrowings will affect the liquidity of the HNA Airport Group. In the opinion of the directors of HNA, the HNA Airport Group will be able to renew the borrowings in the foreseeable future. The HNA Airport Group will closely monitor the cashflow from time to time to avoid liquidity problem.

The following table details the HNA Airport Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the HNA Airport Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average interest rate	Less than 1 year or on demand	1 year – 5 years	Total undiscounted cash flows as at 31.12.2007	Carrying amount at 31.12.2007
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2007					
Trade and other payables	–	311,526	–	311,526	311,526
Amounts due to fellow subsidiaries	–	45,576	–	45,576	45,576
Amount due to a jointly controlled entity	–	238	–	238	238
Unsecured loan notes	5.75%	633,542	–	633,542	607,338
Unsecured other borrowings	6.5%	24,572	53,617	78,189	70,345
Borrowings from a group treasury company	6.39%	449,604	–	449,604	422,600
Bank borrowings	6.33%	281,704	712,624	994,328	864,200
		1,746,762	766,241	2,513,003	2,321,823
31 December 2008					
Trade and other payables	–	283,011	–	283,011	283,011
Amount due to ultimate holding company	–	21,521	–	21,521	21,521
Amounts due to fellow subsidiaries	–	68,763	–	68,763	68,763
Amounts due to related companies	–	18,404	–	18,404	18,404
Unsecured other borrowings	6.5%	23,368	34,648	58,016	51,812
Bank borrowings	6.96%	1,042,039	1,241,280	2,283,319	1,863,200
Financial guarantee contract	–	450,000	–	450,000	–
		1,907,106	1,275,928	3,183,034	2,306,711
31 December 2009					
Trade and other payables	–	273,679	–	273,679	273,679
Amount due to ultimate holding company	–	7,343	–	7,343	7,343
Amounts due to fellow subsidiaries	–	88,590	–	88,590	88,590
Amounts due to related companies	–	19,716	–	19,716	19,716
Amount due to an associate	–	2,172	–	2,172	2,172
Unsecured loan notes	3.99%	724,361	–	724,361	709,000
Unsecured other borrowings	6.96%	37,729	252,501	290,230	256,155
Bank borrowings	6.96%	770,080	1,451,998	2,222,078	1,807,192
Financial guarantee contract	–	450,000	–	450,000	–
		2,373,670	1,704,499	4,078,169	3,163,847

The amounts included above for financial guarantee contracts are the maximum amounts the HNA Airport Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the HNA Airport Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

6c. Fair value

The fair values of the HNA Airport Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of HNA Airport consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable during the year for the provision of aeronautical and non-aeronautical services, net of discount and sales related taxes, as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Aeronautical			
Ground handling services income	6,098	88,258	107,353
Passenger charges	16,297	158,103	208,344
Aircraft movement fees and related charges	11,465	76,915	100,077
	33,860	323,276	415,774
Non-aeronautical	13,969	152,281	193,410
Sales of crude oil	–	1,039,348	–
	47,829	1,514,905	609,184

The HNA Airport Group identifies its operating segments based on the reports reviewed by the executive directors, who are the chief operating decision makers of the HNA Airport Group, that are used to allocate resources to segments and to assess their performance. The reports provide information of individual airports operated by the HNA Airport Group. The operating segments are Sanya Phoenix International Airport, Dongying Yong An Airport, Yichang Sanxia Airport, Monzhouli Xijiao Airport, Weifang Nanyuan Airport, Lanzhou Zhongchuan Airport, Dunhuang Mogao Airport, Qingyang Xifeng Airport and Jiayuguan Airport. Airports located in the same region are aggregated as one reportable segment because these airports are similar in the nature of services rendered and are operating in similar business environment.

Prior to the acquisition of Sanya Phoenix on 28 December 2007, the HNA Airport Group operated airports in the Central China and the Northern China; therefore, the HNA Airport Group has two reportable segments. Subsequent to the acquisition of Sanya Phoenix which is engaged in the airport operations in the Southern China, the HNA Airport Group has three reportable segments for the year ended 31 December 2007, 31 December 2008 and 31 December 2009. Each reportable segment derives its revenue from the airport operation.

Upon termination of the Operating Agreement (defined in note 20), Sanya Phoenix ceased the crude oil trading business.

An analysis of the HNA Airport Group's reportable segment information for its operations is as follows:

Year ended 31 December 2007

	Southern China	**Northern China**	**Central China**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'0000*	*RMB'000*
Revenue from external customers				
Aeronautical				
Ground handling services income	–	4,777	1,321	6,098
Passenger charges	–	4,096	12,201	16,297
Aircraft movement fees and related charges	–	3,176	8,289	11,465
Non-aeronautical	–	1,367	12,602	13,969
Total revenue	–	13,416	34,413	47,829
Operating expenses and cost of sales	–	(21,577)	(51,255)	(72,832)
Reportable segment loss before tax	–	(8,161)	(16,842)	(25,003)
Reportable segment assets	4,334,782	595,184	628,711	5,558,677
Reportable segment liabilities	1,637,681	39,825	238,721	1,916,227
Expenditures on non-current assets	2,600,749	363,998	6,437	2,971,184
Depreciation and amortisation	–	5,816	18,772	24,588
Interest expense	–	–	16,310	16,310
Interest income	–	154	–	154

Year ended 31 December 2008

	Southern China	Northern China	Central China	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers				
Aeronautical				
Ground handling services income	77,133	9,679	1,446	88,258
Passenger charges	111,137	35,659	11,307	158,103
Aircraft movement fees and related charges	49,453	18,146	9,316	76,915
Non-aeronautical	98,389	42,010	11,882	152,281
Sales of crude oil	1,039,348	–	–	1,039,348
Total revenue	1,375,460	105,494	33,951	1,514,905
Operating expenses and cost of sales	(1,274,815)	(93,166)	(55,283)	(1,423,264)
Reportable segment profit (loss) before tax	100,645	12,328	(21,332)	91,641
Reportable segment assets	4,549,190	720,120	696,573	5,965,889
Reportable segment liabilities	1,491,151	96,027	262,783	1,849,961
Expenditures on non-current assets	237,666	677,491	8,719	923,876
Depreciation and amortisation	69,189	41,228	19,101	129,518
Interest expense	55,976	–	15,314	71,290
Interest income	1,385	259	246	1,890

Year ended 31 December 2009

	Southern China	Northern China	Central China	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers				
Aeronautical				
Ground handling services income	88,691	15,969	2,693	107,353
Passenger charges	145,326	50,172	12,846	208,344
Aircraft movement fees and related charges	62,864	25,737	11,476	100,077
Non-aeronautical	109,429	72,657	11,324	193,410
Total revenue	406,310	164,535	38,339	609,184
Operating expenses and cost of sales	(225,335)	(130,896)	(45,304)	(401,535)
Reportable segment profit (loss) before tax	180,975	33,639	(6,965)	207,649
Reportable segment assets	5,347,769	1,149,169	691,531	7,188,469
Reportable segment liabilities	2,453,906	209,664	276,350	2,939,920
Expenditures on non-current assets	127,563	33,769	5,278	166,610
Depreciation and amortisation	91,059	48,034	8,730	147,823
Interest expense	85,464	2,484	14,235	102,183
Interest income	1,579	768	353	2,700

(a) Reconciliation of reportable segment profit before tax

Segment profit (loss) represents profit earned by each segment without allocation of central administration costs, share of results of associates and a jointly controlled entity. This is the measure reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

Reportable segment profit (loss) before tax is reconciled to profit (loss) before tax of the HNA Airport Group from its operations as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Reportable segment (loss) profit before tax	(25,003)	91,641	207,649
Share of results of an associate	40,971	–	5,649
Share of result of a jointly controlled entity	–	7,366	–
Unallocated income:			
Interest income	329	4,635	6,994
Other income	50,799	49,296	–
Unallocated expenses:			
Interest expenses	(13,612)	(5,515)	(23,416)
Gain on disposal of subsidiaries	3,657	2,852	1,410
Gain on partial disposal of a subsidiary	–	888	–
Gain on disposal of an associate	45,579	6,485	–
Gain on assignment of debt	–	90,000	–
Gain on disposal of available-for-sale investments	–	–	51,400
Restructuring expenses	(21,758)	–	–
Other expenses	(37,510)	(21,510)	(44,019)
Profit before tax	43,452	226,138	205,667

(b) Reconciliation of reportable segment assets

Segment assets represent property, plant and equipment, premium on prepaid lease payments, prepaid lease payments, goodwill, deposit paid for acquisition of property, plant and equipment, inventories and trade and other receivables which are directly attributable to the relevant reportable segment. This is the measure reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

Reportable segment assets are reconciled to total assets of the HNA Airport Group as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Reportable segment assets	5,558,677	5,965,889	7,188,469
Unallocated assets:			
Property, plant and equipment	272	347	307
Available-for-sale investments	158,250	158,250	1,250
Other receivables	380	1,385	793
Consideration receivable	187,920	–	–
Amount due from ultimate holding company	85,588	–	–
Amounts due from fellow subsidiaries	263,280	230,304	175,082
Amounts due from related companies	–	–	38
Deposit in a group treasury company	1,588	109,616	67,038
Bank balances and cash	85,719	413,377	417,561
Total assets per consolidated statements of financial position	6,341,674	6,879,138	7,850,538

(c) Reconciliation of reportable segment liabilities

Segment liabilities represent trade and other payables, bank and other borrowings which are directly attributable to the relevant reportable segment. This is the measure reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

Reportable segment liabilities are reconciled to total liabilities of the HNA Airport Group as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Reportable segment liabilities	1,916,227	1,849,961	2,939,920
Unallocated liabilities:			
Other payables	118,740	140,268	30,932
Amount due to ultimate holding company	–	21,521	7,343
Amounts due to fellow subsidiaries	–	180	6,872
Amounts due to related companies	–	5,404	6
Bank and other borrowings	422,600	400,000	400,000
Deferred tax liabilities	139,520	143,588	141,013
Total liabilities per consolidated statements of financial position	2,597,087	2,560,922	3,526,086

(d) Information about major customers

For the year ended 31 December 2008, there was a customer which accounted for over 10% of total revenue of the HNA Airport Group with revenue of RMB238,607,000. It was related to sale of crude oil.

For the years ended 31 December, 2007 and 2009, there was no customer which accounted for over 10% of total revenue.

8. OTHER INCOME

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Government subsidies for airport operations	18,375	54,021	50,735
Bank interest income	483	7,276	9,694
Exchange gain, net	5,748	–	51
Interest income on loan(s) to ultimate holding company/fellow subsidiaries	556	38,906	62,127
Interest income on finance lease receivable	–	349	495
Sundry income	4,351	9,956	10,229
Amortisation of deferred income	–	–	18,355
Management fee income	41,624	–	–
	71,137	110,508	151,686

9. RESTRUCTURING EXPENSES

The amount mainly represented professional service fee and commission paid to third parties for the group restructuring involving the reformation of HNA Airport into a Sino-Foreign Equity Joint Venture during the year ended 31 December 2007.

10. IMPAIRMENT LOSS REVERSED IN RESPECT OF OTHER RECEIVABLES

During the year ended 31 December 2008, the HNA Airport Group assigned a debt of approximately RMB109,359,000, which was fully provided for impairment loss in previous years, to a fellow subsidiary at a consideration of RMB90,000,000. In the opinion of the directors of HNA Airport, the amount owed by the debtor was recoverable based on the latest available financial information relating to the debtor before the assignment and the assignment was arranged to facilitate the cash flows of the HNA Airport Group. A reversal of impairment loss of RMB90,000,000 was recognised in profit or loss.

11. FINANCE COSTS

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank borrowings and borrowings from a group treasury company	21,797	88,383	145,677
Unsecured loan notes	–	27,162	9,000
Unsecured other borrowings	8,125	4,578	3,368
	29,922	120,123	158,045
Less: amount capitalised in property, plant and equipment	–	(43,318)	(32,446)
	29,922	76,805	125,599

12. INCOME TAX EXPENSE

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
The charge comprises:			
PRC Enterprise Income Tax	73	11,166	10,009
Underprovision in prior year	–	–	1,781
Deferred taxation *(note 37)*			
– Current year	–	(2,575)	(2,575)
– Attributable to a change in tax rate	–	6,643	–
	73	15,234	9,215

For the year ended 31 December 2007, under PRC income tax law, the entities within the HNA Airport Group located in Hainan, the PRC are subject to enterprise income tax of 15% on the taxable income as reported in their statutory financial statements which are prepared using the accounting principles and financial regulations applicable to enterprises established in the PRC. For entities located in other regions, the PRC companies are liable to pay enterprise income tax at the rate of 33% on their taxable income.

On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "new EIT Law"), which will be effective from 1 January 2008. Under the new EIT Law, all companies which currently adopt income tax rates of either 15% or 33% will be subject to the rate of 25% except for tax holidays described below.

Pursuant to the approval documents issued by relevant tax bureau, certain of the subsidiaries of HNA Airport have been granted full exemption from enterprise income tax for 5 years and a 50% reduction for a further 5 years ("Tax Holidays"). Sanya Phoenix, a principal subsidiary, has been granted full exemption from enterprise income tax for 5 years from 2006 to 2010 and a 50% reduction for a further 5 years from 2011 to 2016. Under the new EIT Law, the applicable tax rate will increase from the current preferential tax rate of 15% to 25% from 1 January 2014 after the expiry of the tax reduction period.

The tax charge for the Relevant Periods can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	43,452	226,138	205,667
Tax at the PRC Enterprise Income Tax rate of 15% for the year ended 31 December 2007 and 25% for each of the years ended 31 December 2008 and 2009	6,518	56,535	51,417
Tax effect of expenses not deductible for tax purpose	5,423	6,146	5,627
Tax effect of income not taxable for tax purpose	(7,386)	(44,024)	(25,534)
Underprovision in respect of prior years	–	–	1,781
Effect of full exemption during Tax Holidays	(421)	(5,396)	(9,806)
Tax effect of tax losses not recognised as deferred tax assets	3,999	8,343	2,683
Effect of different tax rates of subsidiaries	(1,914)	(11,136)	(14,946)
Tax effect of share of profit of an associate	(6,146)	–	(1,412)
Tax effect of share of profit of a jointly-controlled entity	–	(1,841)	–
Utilisation of tax losses previously not recognised	–	(36)	(595)
Increase in opening deferred tax liabilities resulting upon an increase in applicable tax rate	–	6,643	–
Tax charge for the year	73	15,234	9,215

Details of deferred taxation are set out in note 37.

13. PROFIT FOR THE YEAR

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year has been arrived at after charging (crediting):			
Staff costs, including directors' remuneration *(note 14)*	19,599	73,916	82,874
Salaries, wages and other allowances retirement benefit scheme contributions	1,393	7,510	8,704
Total staff costs	20,992	81,426	91,578
Allowance for doubtful debts	106	463	165
Auditor's remuneration	2,303	3,167	2,473
Depreciation of property, plant and equipment	18,743	100,286	119,463
Loss on disposal of property, plant and equipment	5	2,621	338
Exchange (gain) loss, net	(5,748)	293	(51)
Release of prepaid lease payments	5,845	14,688	13,816
Amortisation of premium on prepaid lease payments	–	14,544	14,544
Management fee paid to ultimate holding company	12,871	9,882	4,249
Share of tax of an associate (included in share of results of an associate)	16,510	–	1,910
Share of tax of a jointly controlled entity (included in share of result of a jointly controlled entity)	–	1,740	–

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid to the directors of HNA Airport for the Relevant Periods are as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Fees	–	–	–
Salaries and other allowances	437	590	279
Retirement benefit scheme contributions	73	73	25
Housing fund contributions	123	108	42
	633	771	346
Executive directors:			
張漢安, Zhang Han An	150	176	–
李雲, Li Yun	158	172	173
李先華, Li Xian Hua	–	–	–
朱衛軍, Zhu Wei Jun	–	–	–
趙亞輝, Zhao Ya Hui	–	–	–
郭亞軍, Guo Ya Jun	–	–	–
康和生, Kang He Sheng	155	172	–
蒲曉文, Pu Xiao Wen	–	–	–
劉璐, Liu Lu	–	89	–
鄭奕, Zheng Yi	–	–	–
鄭宏, Zheng Hong	170	162	173
張昀, Zhang Yun	–	–	–
John Rober Lewis	–	–	–
	633	771	346

The five highest paid individuals in the HNA Airport Group include four, four and two directors of HNA Airport for the years ended 31 December 2007, 2008 and 2009, respectively, and details of their emoluments are included above. The emoluments of the remaining one, one, three individuals are as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	109	93	273
Retirement benefit scheme contributions	12	9	37
Housing fund contributions	15	14	33
	136	116	343

Note: The emolument of each of the above employees is below HK$1,000,000 (equivalent to approximately RMB800,000).

During the Relevant Periods, no emoluments were paid by the HNA Airport Group to these five highest paid individuals (including directors and employees) as an inducement to join or upon joining the HNA Airport Group or as compensation for loss of office. In addition, no directors waived any emoluments.

15. PROFIT ATTRIBUTABLE TO OWNERS OF HNA AIRPORT

Pursuant to an agreement entered into between HNA Airport and a minority shareholder of Sanya Phoenix, as an incentive for HNA Airport to operate Sanya airport, the minority shareholder of Sanya Phoenix has agreed to assign its profit sharing entitlement of Sanya Phoenix for the period from 1 January 2008 to 31 December 2010 (the "Period") to HNA Airport. Accordingly, HNA Airport's share of results in Sanya Phoenix is 99% during the Period. As a result, the profit attributable to owners of HNA Airport was increased by approximately RMB53,747,000 and RMB70,208,000 for the years ended 31 December 2008 and 2009, respectively.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery and equipment	Leasehold improvements	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2007	591,106	53,600	–	12,094	40,757	490	698,047
Additions	806	496	–	1,696	238	4,637	7,873
Acquisition of business	16,172	1,064	–	–	10,194	–	27,430
Acquired on acquisition of subsidiaries	1,291,626	133,246	1,872	34,965	48,184	203,988	1,713,881
Reclassifications	–	–	–	892	–	(892)	–
Disposals	–	–	–	(169)	(676)	–	(845)
Disposal of subsidiaries	(61,077)	(6,537)	–	(869)	(1,545)	(361)	(70,389)
At 31 December 2007	1,838,633	181,869	1,872	48,609	97,152	207,862	2,375,997
Additions	3,278	487	98	22,367	19,306	209,600	255,136
Acquisition of business	523,651	35,275	–	10,789	23,385	37,692	630,792
Acquired on acquisition of subsidiaries	24,953	808	–	266	11,921	–	37,948
Reclassifications	205,248	4,005	–	–	–	(209,253)	–
Disposals	–	(84)	–	(16,243)	(10,552)	–	(26,879)
Disposal of subsidiaries	–	(629)	–	(1,794)	–	(574)	(2,997)
Disposal of business	(309,901)	(17,580)	–	(4,076)	(31,169)	–	(362,726)
At 31 December 2008	2,285,862	204,151	1,970	59,918	110,043	245,327	2,907,271
Additions	113,841	2,904	26,022	9,971	8,773	5,099	166,610
Reclassifications	72,468	–	–	1,325	–	(73,793)	–
Disposals	(867)	(29)	–	(695)	(9,246)	–	(10,837)
Disposal of a subsidiary	(20,895)	(51,731)	–	(17,562)	–	–	(90,188)
At 31 December 2009	2,450,409	155,295	27,992	52,957	109,570	176,733	2,972,856
ACCUMULATED DEPRECIATION							
At 1 January 2007	86,203	19,872	–	5,002	13,008	–	124,085
Provided for the year	11,126	2,889	–	784	3,944	–	18,743
Eliminated on disposals	–	–	–	(114)	(138)	–	(252)
Eliminated on disposal of subsidiaries	(3,671)	(1,592)	–	(255)	(488)	–	(6,006)
At 31 December 2007	93,658	21,169	–	5,417	16,326	–	136,570
Provided for the year	61,163	14,824	741	12,988	10,570	–	100,286
Eliminated on disposals	–	(78)	–	(15,336)	(7,182)	–	(22,596)
Eliminated on disposal of subsidiaries	–	(143)	–	(502)	–	–	(645)
At 31 December 2008	154,821	35,772	741	2,567	19,714	–	213,615
Provided for the year	77,889	12,970	1,471	14,306	12,827	–	119,463
Eliminated on disposals	(269)	(27)	–	(438)	(7,469)	–	(8,203)
Eliminated on disposal of a subsidiary	(11,896)	(1,404)	–	(1,357)	–	–	(14,657)
At 31 December 2009	220,545	47,311	2,212	15,078	25,072	–	310,218
CARRYING VALUES							
At 31 December 2007	1,744,975	160,700	1,872	43,192	80,826	207,862	2,239,427
At 31 December 2008	2,131,041	168,379	1,229	57,351	90,329	245,327	2,693,656
At 31 December 2009	2,229,864	107,984	25,780	37,879	84,498	176,633	2,662,638

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight line basis at the following rates as per annum:

Buildings and structures	15 – 40 years
Machinery and equipment	10 – 15 years
Leasehold improvements	Over the shorter of the terms of lease, or 5 years
Furniture, fixtures and equipment	6 years
Transportation equipment	10 years

All the buildings are located on land in the PRC held under medium-term lease.

The HNA Airport Group pledged buildings with a carrying amount of RMB290,651,000, RMB61,466,000 and RMB36,388,000 as at 31 December 2007, 2008 and 2009, respectively, to secure banking facilities granted to the HNA Airport Group (notes 33 and 43).

17. PREMIUM ON PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2007	–
Arising on acquisition of a subsidiary	727,240
At 31 December 2007, 2008 and 2009	727,240
AMORTISATION	
At 1 January 2007 and 31 December 2007	–
Charge for the year	14,544
At 31 December 2008	14,544
Charge for the year	14,544
At 31 December 2009	29,088
CARRYING VALUE	
At 31 December 2007	727,240
At 31 December 2008	712,696
At 31 December 2009	698,152

The amount, which arose from the acquisition of a subsidiary, Sanya Phoenix, in December 2007, represents the excess of fair value of land use rights as at the date of acquisition over the prepaid lease payment amount. It will be charged to the profit or loss on a straight line basis over the remaining lease term of 50 years.

As at 31 December 2007, 2008 and 2009, the amount with carrying amount of RMB35,187,000, RMB215,785,000 and RMB229,333,000, respectively, relates to land which has been pledged by the HNA Airport Group to secure banking facilities granted to the HNA Airport Group (notes 33 and 43).

18. GOODWILL

	RMB'000
At 1 January 2007	–
Arising on acquisition of a subsidiary	232,824
At 31 December 2007, 2008 and 2009	232,824

For the purpose of impairment testing, the goodwill has been allocated to an individual cash generating unit (the "CGU") of Sanya Phoenix. For the years ended 31 December 2007, 2008 and 2009, management of the HNA Airport Group determines that no impairment is recognised in relation to the goodwill of Sanya Phoenix.

The basis of the recoverable amounts of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 7.5% for the years ended 31 December 2007, 2008 and 2009. The CGU's cash flows beyond the 5-year period are extrapolated using a steady 4% growth rate for the years ended 31 December 2007, 2008 and 2009. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

19. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2007	292,418
Arising on acquisition of a subsidiary	494,760
Disposals during the year	(2,128)
At 31 December 2007 and 2008	785,050
Disposals during the year	(347)
At 31 December 2009	784,703
ACCUMULATED AMORTISATION	
At 1 January 2007	14,466
Provided for the year	5,845
Eliminated on disposals	(592)
At 31 December 2007	19,719
Provided for the year	14,688
At 31 December 2008	34,407
Provided for the year	13,816
Eliminated on disposals	(19)
At 31 December 2009	48,204
CARRYING VALUES	
At 31 December 2007	765,331
At 31 December 2008	750,643
At 31 December 2009	736,499

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Analysed as:			
Non-current assets	750,740	735,953	721,984
Current assets	14,591	14,690	14,515
	765,331	750,643	736,499

Prepaid lease payments represent payments on land use rights granted to the HNA Airport Group and are charged to the profit or loss a straight line basis over the lease terms of 50 years.

The HNA Airport Group pledged prepaid lease payments with a carrying amount of RMB201,959,000, RMB320,904,000 and RMB326,962,000 as at 31 December 2007, 2008 and 2009, respectively, to secure banking facilities granted to the HNA Airport Group (notes 33 and 43).

20. INTERESTS IN ASSOCIATES

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investment, at cost/carrying value	–	–	119,782
Share of post-acquisition profits and other comprehensive income	–	–	5,649
	–	–	125,431

Details of the HNA Airport Group's associates as at 31 December 2007, 2008 and 2009 are as follows:

Name of the company	Place of registration/ operation	Registered capital	Proportion of nominal value of registered capital held by the HNA Airport Group As at 31 December			Principle activities
			2007	2008	2009	
		RMB'000				
Held directly:						
Meilan Airport *(note 1)*	PRC	1,486,830	–	–	–	Operation of airport
Held indirectly:						
三亞海航地產開發有限公司 Sanya HNA Property Development Co., Limited* ("Sanya Property Development")	PRC	50,000	–	–	30%	Inactive
海南太平洋石油實業股份有限公司 Hainan Pacific Oil *(note 2)*	PRC	367,200	–	–	35.29%	Trading of crude oil
Sanya Advertising	PRC	1,000	–	30%	30%	Inactive

* *English translated name is for identification purpose only.*

Notes:

1. During the year ended 31 December 2007, the HNA Airport Group had disposed of 40.96% equity interest in Meilan Airport. See note 26 for details.

2. Pursuant to an agreement entered into in June 2006 between Sanya Phoenix and Hainan Pacific Oil, a company with 35.29% equity interests held by Sanya Phoenix carrying out sale of crude oil operations ("Operating Agreement"), Sanya Phoenix has control over the financial and operating policies of Hainan Pacific Oil up to 30 June 2012. Accordingly, Hainan Pacific Oil was regarded as a subsidiary of Sanya Phoenix and its result was therefore consolidated for year ended 31 December 2007 after Sanya Phoenix was acquired by the HNA Airport Group on 28 December 2007. Hainan Oil Pacific Co., Limited, a jointly controlled entity of Hainan Pacific Oil was accounted for as a jointly controlled entity of HNA Airport Group (see note 21).

   During the year ended 31 December 2009, Sanya Phoenix and Hainan Pacific Oil entered into a termination agreement to terminate the Operating Agreement and Sanya Phoenix ceased to control the financial and operating policies of Hainan Pacific Oil with effect from 1 January 2009. Accordingly, the result of Hainan Pacific Oil was not consolidated and Hainan Pacific Oil was accounted for as an associate under equity method.

Goodwill of RMB22,989,000 arising on acquisition of Meilan Airport in prior years was included in the cost of investment. The movement of goodwill is set out below:

	RMB'000
At 1 January 2007	22,989
Disposal of an associate	(22,989)
At 31 December 2007, 2008 and 2009	–

The summarised financial information in respect of the HNA Airport Group's associates is set out below:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	–	–	456,827
Total liabilities	–	–	(94,062)
Net assets	–	–	362,765
HNA Airport Group's share of net assets of associates	–	–	125,431

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	406,479	–	758,730
Profit for the year	100,026	–	17,767
HNA Airport Group's share of profit of associates for the year	40,971	–	5,649

The HNA Airport Group pledged the equity interest of Hainan Pacific Oil with a carrying amount of RMB104,782,000 as at 31 December 2009 to secure banking facilities granted to the HNA Airport Group (notes 33 and 43).

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Cost of investment in a jointly controlled entity, unlisted	90,130	90,130	–
Share of post-acquisition profits and other comprehensive income, net of dividend received	(3,291)	(2,245)	–
	86,839	87,885	–

Details of the HNA Airport Group's jointly controlled entity at 31 December 2007, 2008 and 2009 are as follows:

Name of the company	Place of registration/ operation	Registered capital	Proportion of nominal value of registered capital held by the HNA Airport Group As at 31 December			Principle activities
			2007	2008	2009	
		RMB'000				
海南石油太平洋有限責任公司 Hainan Oil Pacific Co. Limited ("Hainan Oil Pacific") *(note)*	PRC	185,000	40%	40%	–	Trading of crude oil

Note: Pursuant to the Operating Agreement (see note 20), Hainan Pacific Oil was regarded as a subsidiary of the HNA Airport Group after Sanya Phoenix was acquired by the HNA Airport Group on 28 December 2007. Pursuant to the articles of Hainan Oil Pacific, the shareholders of Hainan Oil Pacific have joint control over the economic activity of Hainan Oil Pacific. Hainan Oil Pacific is accounted for as a jointly controlled entity. Hainan Pacific Oil has 40% equity interest in Hainan Oil Pacific. Upon the termination of the Operating Agreement, Hainan Oil Pacific ceased to be a subsidiary of the HNA Airport Group and Hainan Oil Pacific ceased to be a jointly controlled entity to HNA Airport starting from 1 January 2009.

The summarised financial information in respect of the HNA Airport Group's interest in the jointly controlled entity which is accounted for using the equity method is set out below:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	63,654	62,244	–
Current assets	33,616	28,443	–
Current liabilities	10,431	2,802	–
Income	–	478,582	–
Expenses	–	471,216	–

22. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity securities, at cost	177,750	177,750	1,250
Less: Impairment losses recognised	(19,500)	(19,500)	–
	158,250	158,250	1,250

Particulars of the HNA Airport Group's available-for-sale investments as at 31 December 2007, 2008 and 2009 are as follows:

Name of the company	Place of registration/ operation	Registered capital	Proportion of nominal value of registered capital held by the HNA Airport Group As at 31 December			Principle activities
			2007	2008	2009	
		RMB'000				
宜昌市長壽山莊實業有限公司*(note)* Yichang Changshou Shanzhuang Co. Limited ("Changshou Shanzhuang")	PRC	59,220	32.93%	32.93%	–	Property holding
三亞鳳凰國際候機樓管理有限公司 Sanya Phoenix International Terminal Management Co. Limited	PRC	1,000	5%	5%	5%	Property management
亞太國際會議中心有限公司 International Asia Pacific Convention Co. Limited ("International Asia Pacific")	PRC	224,000	3.125%	3.125%	–	Operation of a hotel
長江租賃有限公司 Changjiang Leasing Co. Limited ("Changjiang Leasing")	PRC	1,600,000	9.375%	9.375%	–	Leasing of aircraft
三亞漢莎航空食品有限公司 Sanya Hansa Airlines Food Co. Limited	PRC	20,000	6%	6%	6%	Provision of services catering

Note: The directors of the HNA Airport decided to discontinue the operation in 2007 and the local government controlled the operation of Changshou Shanzhuang temporarily. In the opinion of the directors, the HNA Airport Group cannot exercise significant influence on the financial and operating policies of Changshou Shanzhuang and, therefore it is classified as available-for-sale investments. Full impairment loss of RMB19,500,000 were recognised for the investment as at 31 December 2007 and 2008.

During the year ended 31 December 2009, the HNA Airport Group disposed of its interests in Changshou Shanzhuang and Changjiang Leasing at a consideration of RMB18,600,000 and RMB180,000,000, respectively, to fellow subsidiaries, and International Asia Pacific at a consideration of RMB9,800,000 to an independent third party. An aggregate gain on disposal of RMB51,400,000 has been recognised in the profit or loss for the year ended 31 December 2009.

The amounts represent investments in unlisted equity securities in the PRC that offer the HNA Airport Group the opportunity for return through dividend income. They are measured at cost less impairment at the end of each reporting period. Because the investments do not have a quoted market price in an active market and the range of reasonable fair value estimate is so significant, the directors of HNA Airport are of the opinion that their fair values cannot be reliably measured.

23. FINANCE LEASE RECEIVABLE

	Minimum lease payments As at 31 December			Present value of minimum lease payments As at 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'0000*	*RMB'000*
Finance lease receivable comprise:						
Within one year	1,687	1,687	1,687	1,338	1,263	1,191
In more than one year but not more than two years	1,687	1,687	1,687	1,262	1,191	1,124
In more than two years but not more than five years	5,061	5,061	5,061	3,028	3,187	2,732
In more than five years	3,374	1,687	–	1,949	598	–
	11,809	10,122	8,435	7,577	6,239	5,047
Less: Unearned finance income	(4,232)	(3,883)	(3,388)	N/A	N/A	N/A
Present value of minimum finance lease payment receivable	7,577	6,239	5,047	7,577	6,239	5,047

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Analysed as:			
Non-current	6,239	4,976	3,856
Current	1,338	1,263	1,191
	7,577	6,239	5,047

During the year ended 31 December 2007, the HNA Airport Group has acquired finance lease receivable upon the acquisition of Sanya Phoenix. Sanya Phoenix entered into finance leasing arrangement for transportation equipment with a fellow subsidiary, 海南航空股份有限公司 Hainan Airlines Co., Limited. The terms of the finance lease are 10 years. Total capital value at the inception of the lease was RMB16,870,000.

The average effective interest rate contracted is 5.97%, 5.97% and 5.97% per annum for the years ended 31 December 2007, 2008 and 2009, respectively.

24. INVENTORIES

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Crude oil	82,375	28,864	–
Finished goods	1,591	1,780	1,767
	83,966	30,644	1,767

25. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
– outsiders	113,498	244,663	153,167
– fellow subsidiaries	173,005	24,099	115,429
– related companies	10,668	51,492	10,943
– minority shareholders of subsidiaries	16,904	21,429	–
	314,075	341,683	279,539
Less: allowance for doubtful debts	(2,038)	(713)	(148)
	312,037	340,970	279,391
Other receivables and prepayments			
– Bills receivables	16,014	30,887	–
– Other receivables	50,007	23,726	99,799
– Prepayments	11,285	8,528	4,295
	77,306	63,141	104,094
	389,343	404,111	383,485

Trade receivables mainly comprise amounts receivable from airport services rendered to airline companies. The HNA Airport Group has a policy of allowing credit period from 90 to 365 days to its trade customers. The following is an aged analysis of trade and bills receivables (net of allowance for doubtful debts at 31 December 2007, 2008 and 2009):

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	311,743	300,250	207,700
91 – 180 days	12,380	39,430	46,849
181 – 365 days	3,296	29,324	19,073
Over 365 days	632	2,853	5,769
Total trade and bills receivables	328,051	371,857	279,391

Movement in allowance for doubtful debts

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	1,606	2,038	713
Impairment losses recognised during the year	106	463	165
Acquisition of a subsidiary	326	–	–
Disposal of a subsidiary	–	–	(576)
Amounts written off as uncollectible	–	(1,788)	(154)
At end of the year	2,038	713	148

In determining the recoverability of a trade receivable, the HNA Airport Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of HNA Airport believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the HNA Airport Group's trade receivable balances are debtors with an aggregate carrying amount of approximately RMB632,000, RMB2,853,000 and RMB5,769,000 which are past due as at 31 December 2007, 2008 and 2009, respectively, for which the HNA Airport Group has not provided for impairment loss as the directors assessed that the balances will be recovered. No other receivables are past due at the end of each reporting period. The HNA Airport Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The following is an aged analysis of trade receivables which are past due but not impaired:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Over 1 year	632	2,853	5,769

26. CONSIDERATION RECEIVABLE

The amount represents cash consideration receivable from a third party for the disposal of 10% equity interest in Meilan Airport. Pursuant to a shareholders' resolution on 28 February 2007, the HNA Airport Group disposed of 10% equity interest in Meilan Airport to a third party and the business registration of Meilan Airport was updated in May 2007 to reflect the change of shareholders. On 24 December 2007, HNA Airport entered into a written agreement with the third party according to which the consideration of the 10% equity interest disposed was approximately RMB188 million, and payable within one year from the date of agreement.

In August 2008, HNA Airport signed a letter of intent with the third party to purchase back the 10% equity interest of Meilan Airport at a cash consideration of not less than the original consideration. In addition, in September 2008, the third party pledged the 10% equity interest in Meilan Airport as security for the consideration payable to HNA Airport.

In December 2008, HNA Airport, the third party and a fellow subsidiary of HNA Airport entered into an agreement that the consideration receivable was assigned to the fellow subsidiary. Accordingly, the consideration has been settled with the current account of that fellow subsidiary and the pledge of the 10% equity interest in Meilan Airport was duly released.

During the year ended 31 December 2007, the collectability of the consideration of approximately RMB188 million was uncertain and accordingly, the gain on disposal of an associate of approximately RMB6,485,000 was not recognised. Because the collectability of the consideration of RMB188 million was certain during the year ended 31 December 2008, such gain on disposal of an associate has been recognised during the year ended 31 December 2008.

In addition, during the year ended 31 December 2007, the HNA Airport Group disposed of the remaining 30.96% equity interest in Meilan Airport to 海航機場集團有限公司 HNA Airport Group Co. Limited (formerly known as 海南海航機場管理有限公司 Hainan HNA Airport Management Co. Limited), a fellow subsidiary of HNA Airport, which is a wholly-owned subsidiary of HNA Group Co. Limited, at a cash consideration of approximately RMB607 million, which resulted in gain of approximately RMB45,579,000, which was credited to the profit or loss during the year ended 31 December 2007 as gain on disposal of an associate.

27. LOAN(S) TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Fixed-rate loan receivables			
Loans to fellow subsidiaries			
Non-current	–	–	–
Current	–	10,000	214,000
	–	10,000	214,000
Loan to ultimate holding company			
Non-current	–	–	850,000
Current	604,000	542,000	50,000
	604,000	542,000	900,000

Loan receivables carry interest at a fixed rate within a range of 7.6%, 7.25% to 7.67% and 5.9% to 7.98% per annum as at 31 December 2007, 2008 and 2009, respectively.

The amounts are repayable within one year at each of the reporting periods, except for the amounts of RMB150,000,000 and RMB700,000,000 as at 31 December 2009, which are repayable in June 2011 and September 2012, respectively.

28. AMOUNT(S) DUE FROM (TO) ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES/RELATED COMPANIES/AN ASSOCIATE/MINORITY SHAREHOLDERS OF SUBSIDIARIES

(i) Amount(s) due from (to) ultimate holding company/fellow subsidiaries/an associate/minority shareholders of subsidiaries

The amounts are unsecured, interest-free and repayable on demand.

(ii) Amounts due from (to) related companies

Details of amounts due from related companies are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Subsidiary of a minority shareholder of a fellow subsidiary	2,112	1,056	5,216
Investee company	1,824	1,835	1,831
	3,936	2,891	7,047

Details of amounts due to related companies are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Subsidiary of a minority shareholder of a fellow subsidiary	–	–	19,716
Investee companies	–	18,404	–
	–	18,404	19,716

The amounts are unsecured, interest-free and repayable on demand.

29. DEPOSITS IN A GROUP TREASURY COMPANY

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Fixed deposits	68,300	177,840	304,116
Savings	53,993	134,603	70,920
	122,293	312,443	375,036

The amounts represent fixed deposits placed in 海航集團財務有限公司 HNA Group Finance Co. Limited, a company jointly controlled by HNA Group Co. Limited, acting as the treasury company for HNA Group Co. Limited and its subsidiaries. The fixed deposits carry fixed interest rates ranging from 2.78% to 3.15% per annum during the Relevant Periods for terms of either six-months or 1 year, and the savings carry interest from 0.72% to 0.81% per annum during the Relevant Periods.

30. BANK BALANCES

Bank balances carry interest at market rates which range from 0.72% to 0.81%, 0.36% to 0.72% and 0.36% to 0.72% per annum for the years ended 31 December 2007, 2008 and 2009, respectively, and with original maturity within 3 months.

31. TRADE AND OTHER PAYABLES

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	106,088	81,103	71,687
Construction payables	99,906	66,932	81,890
Other payables and accruals	239,410	238,983	207,902
	445,404	387,018	361,479

The following is an aged analysis of trade payable at the end of reporting period:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	105,309	78,760	69,815
91 – 180 days	402	217	1,545
181 – 365 days	71	17	271
Over 365 days	306	2,109	56
	106,088	81,103	71,687

32. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Hainan Oil Pacific	238	–	–

The amount was unsecured, interest-free and repayable on demand.

33. BANK BORROWINGS

The bank borrowings are repayable as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Within one year	245,200	940,200	645,000
More than one year, but not exceeding two years	586,000	123,000	437,192
More than two years, but not more than five years	33,000	800,000	725,000
	864,200	1,863,200	1,807,192
Less: Amount due within one year shown under current liabilities	(245,200)	(940,200)	(645,000)
Amount due after one year	619,000	923,000	1,162,192

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Secured	864,200	863,200	1,117,192
Unsecured	–	1,000,000	690,000
	864,200	1,863,200	1,807,192

The exposure of the HNA Airport Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Fixed rate borrowings:			
Within one year	227,200	910,200	220,000
More than one year, but not exceeding two years	56,000	73,000	102,192
More than two years, but not more than five years	33,000	350,000	325,000
	316,200	1,333,200	647,192

In addition, the HNA Airport Group has variable-rate borrowing which carries interest at the benchmark borrowing rate of the People's Bank of China ("PBOC"). Interest is repriced in accordance with PBOC periodic announcement.

The exposure of the HNA Airport Group's variable-rate borrowings and the contractual maturity dates are as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Variable rate borrowing:			
Within one year	18,000	30,000	425,000
More than one year, but not exceeding two years	530,000	50,000	335,000
More than two years, but not more than five years	–	450,000	400,000
	548,000	530,000	1,160,000

The ranges of effective interest rates which are also equal to contracted interest rates on the HNA Airport Group's borrowings are as follows:

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Effective interest rate:			
Fixed-rate borrowings	5% to 7.65%	5% to 7.65%	5.51% to 7.65%
Variable-rate borrowing	6.84%	7.29%	5.94%

The bank borrowings as at 31 December 2007, 2008 and 2009 are secured by the following:

(a) certain prepaid lease payments, buildings, revenue from ground handling services, aircraft movement fees and related charges and passenger charges of the HNA Airport Group;

(b) equity interest held by HNA Group Co. Limited in HNA Airport;

(c) equity interest held by Sanya Phoenix in Hainan Pacific Oil; and

(d) guarantees given by 海南航空股份有限公司 Hainan Airlines Co Limited and 中國新華航空有限責任公司 Xinhua Airlines Co. Limited, both are fellow subsidiaries of HNA Airport.

34. UNSECURED OTHER BORROWINGS

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
The other borrowings are repayable as follows:			
Within twelve months	20,000	20,000	20,000
More than one year, but not exceeding two years	50,345	31,812	236,155
	70,345	51,812	256,155
Less: Amount due within twelve months shown under current liabilities	(20,000)	(20,000)	(20,000)
Amount due after twelve months	50,345	31,812	236,155

The amounts represent borrowing from 宜昌市財政局 Yichang Ministry of Finance and 新華信託股份有限公司, which are denominated in USD and RMB respectively.

As at 31 December 2007, 2008 and 2009, the unsecured other borrowings bear fixed-rate interest of 6.5%, 6.5% and 6.5% to 7.0% per annum, respectively.

35. UNSECURED LOAN NOTES

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Loan notes	600,000	–	700,000
Add: Accrued loan interest	7,338	–	9,000
	607,338	–	709,000

As at 31 December 2007, the unsecured loan notes were issued by Sanya Phoenix pursuant to the approval of The People's Bank of China. China Merchants Bank Co. Limited (招商银行股份有限公司) acted as the underwriter for the issue of the loan notes. The amount represented two unsecured loan notes denominated in RMB300,000,000 each. A RMB300,000,000 loan note carried a fixed coupon interest rate of 4.8% per annum and was repaid on 13 August 2008 and the other RMB300,000,000 loan note carried a fixed coupon interest rate of 6.7% per annum and was repaid on 11 November 2008.

As at 31 December 2009, the unsecured loan notes were issued by Sanya Phoenix pursuant to the approval of The People's Bank of China. China Everbright Bank (中國光大银行) acted as the underwriter for the issue of the loan notes. The amount represented an unsecured loan note denominated in RMB700,000,000. The loan note carried a fixed coupon interest rate of 3.99% per annum and will be matured on 26 August 2010.

36. BORROWINGS FROM A GROUP TREASURY COMPANY

The borrowings from a group treasury company are repayable as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Amount due within one year shown under current liabilities	422,600	–	–

The amounts represented borrowings from HNA Group Finance Co. Limited, a fellow subsidiary and were denominated in RMB. These borrowing were repaid during the year ended 31 December 2008.

As at 31 December 2007, the borrowings from a group treasury company carried fixed-rate interest ranging from 5.27% to 7.5% per annum and were guaranteed by HNA Group Co. Limited, HNA Airport's ultimate holding company.

37. DEFERRED TAX LIABILITIES

The following is the major deferred tax (asset) liability recognised and movement thereon during the Relevant Periods:

	Fair value adjustment on		
	Property, plant and equipment	**Prepaid lease payments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2007	–	–	–
Arising on acquisition of a subsidiary	(13,200)	152,720	139,520
At 31 December 2007	(13,200)	152,720	139,520
Effect of change in tax rate	(629)	7,272	6,643
Charge (credit) to consolidated statements of comprehensive income	623	(3,198)	(2,575)
At 31 December 2008	(13,206)	156,794	143,588
Charge (credit) to consolidated statements of comprehensive income	623	(3,198)	(2,575)
At 31 December 2009	(12,583)	153,596	141,013

The HNA Airport Group has unused tax losses of RMB162 million, RMB196 million and RMB77 million available as at 31 December 2007, 2008 and 2009, respectively, for offset against future profits. During the year end 31 December 2009, Hainan Pacific Oil ceased to be a subsidiary and Sanya Property Management was de-registered, the associated tax loss of RMB121,080,000 and RMB6,495,000 would not be carried forward, respectively. No deferred tax asset has been recognised of such losses due to the unpredictability of future profit streams. Losses may be carried forward for 5 years from their respective year of originating.

38. DEFERRED INCOME

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	–	–	–
Government grants during the year	–	–	150,128
Amortised to consolidated statements of comprehensive income	–	–	(18,355)
At the end of the year	–	–	131,773

During the year ended 31 December 2009, Sanya Phoenix and Yichang Sanxia received government subsidies of RMB112,060,000 and RMB13,068,000, respectively, in relation to the construction of airport facilities. In addition, Sanya Phoenix received government subsidy of RMB25,000,000 in relation to the expenses incurred for aviation safety. The amounts have been treated as deferred income and will be transferred to income over the useful lives of the relevant assets or to match with related expenses.

39. PAID-IN CAPITAL

	RMB'000	*US$'000*
Registered capital:		
At 1 January 2007	600,000	–
Conversion of RMB600 million into US$ equivalent	(600,000)	78,950
Increase in registered capital	–	329,250
At 31 December 2007, 2008 and 2009	–	408,200

On 30 October 2007, the Company was reformed as a Sino-foreign Equity Joint Venture. The registered capital was increased from RMB600,000,000 to US$408,200,000.

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
HNA Group Co. Limited	208,200	208,200	208,200
Worldwide United Limited	100,000	100,000	100,000
Kingward Investment Limited *(note)*	50,000	100,000	100,000
	358,200	408,200	408,200

Note: On 17 January 2008, Kingward Investment Limited contributed additional US$50 million as paid-in capital.

	US$'000	*RMB'000* **equivalent**
At 1 January 2007	78,950	600,000
Capitalisation of reserves upon reformation of HNA Airport	41,520	303,287
Contribution in specie by injection of 33% equity interest of Sanya Phoenix *(note 40A(i))*	87,730	650,000
Cash contribution	150,000	1,104,140
At 31 December 2007	358,200	2,657,427
Cash contribution	50,000	362,725
At 31 December 2008 and 2009	408,200	3,020,152

40. ACQUISITION OF SUBSIDIARIES AND BUSINESS

A. For The Year Ended 31 December 2007

(i) Acquisition of Sanya Phoenix

On 28 December, 2007, the HNA Airport Group has acquired 67% equity interest in Sanya Phoenix from the ultimate holding company for a total consideration of approximately RMB1,650,000,000 in which RMB1,000,000,000 was satisfied by cash and RMB650,000,000 (represents 33% equity interest of Sanya Phoenix) was contributed by the ultimate holding company as paid-in capital of HNA Airport. Sanya Phoenix is engaged in the operation of airport in Sanya, Hainan Province, the PRC. This acquisition has been accounted for using the purchase method. Details of the net assets acquired are summarised below:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	1,441,480	(62,895)	1,378,585
Deposit paid for acquisition of property, plant and equipment	19,246	–	19,246
Prepaid lease payments	494,760	–	494,760
Premium on prepaid lease payments	–	727,240	727,240
Investment in a jointly controlled entity	86,839	–	86,839
Available-for-sale investments	158,200	–	158,200
Finance lease receivable	7,577	–	7,577
Inventories	83,501	–	83,501
Trade and other receivables	141,971	–	141,971
Loan to ultimate holding company	604,000	–	604,000
Amount due from ultimate holding company	19	–	19
Amounts due from fellow subsidiaries	148,855	–	148,855
Amounts due from related companies	11,999	–	11,999
Amount due from a minority shareholder of a subsidiary	16,904	–	16,904
Deposits in a group treasury company	114,449	–	114,449
Bank balances and cash	69,608	–	69,608
Trade and other payables	(286,467)	–	(286,467)
Amounts due to fellow subsidiaries	(18,889)	–	(18,889)
Amounts due to related companies	(560)	–	(560)
Amount due to a jointly controlled entity	(238)	–	(238)
Tax liabilities	(10)	–	(10)
Unsecured loan notes	(607,338)	–	(607,338)
Secured bank borrowings	(716,200)	–	(716,200)
Deferred tax liabilities	–	(139,520)	(139,520)

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	*RMB'000*	*RMB'000*
	1,769,706	524,825	2,294,531
Minority interests			(877,355)
Goodwill			232,824
			1,650,000
Satisfied by:			
Credited as paid-in capital			650,000
Cash consideration			1,000,000
			1,650,000
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,000,000)
Bank balances and cash acquired			69,608
			(930,392)

The goodwill arising on the acquisition of Sanya Phoenix is attributable to the anticipated profitability of the airport operation and related businesses of this company.

The fair value of the assets acquired have been determined by professional valuations.

(ii) Acquisition of airports in Gansu Province

On 11 November 2006, HNA Airport entered into an agreement with State-owned Assets Supervision and Administration Commission of the People's Government in Gansu Province ("Gansu SASAC") and Meilan Airport. Pursuant to the agreement, HNA Airport agreed to acquire 100% equity interest in Gansu Airport Group Co. Limited ("Gansu Airport Group") at a cash consideration of approximately RMB930,350,000 subject to adjustments; and in turn Gansu SASAC will use the whole proceeds to inject in Meilan Airport. The directors were of the opinion at that time that the agreement was subject to completion of various legal procedures and therefore was not accounted for as acquisition during the year ended 31 December 2006.

On 1 December 2007, HNA Airport transferred the right to acquire 100% equity interest in Gansu Airport Group to 海南海航機場管理有限責任公司 Hainan HNA Airport Management Co. Limited ("Hainan HNA"), a fellow subsidiary of HNA Airport, for approximately RMB931,688,000. Gansu Airport Group then became a wholly-owned subsidiary of Hainan HNA. Gansu Airport Group was engaged in the operation of airports in Gansu Province (甘肅省), including Jiayuguan, Lanzhou, Dunhuang and Qingyang and other related businesses.

Subsequently, Gansu Airport Group transferred certain assets and liabilities (except runways and other non-core business related assets and liabilities) of three airports in Lanzhou, Dunhuang and Qingyang, previously operated by branches of Gansu Airport Group to three newly incorporated wholly-owned subsidiaries of Gansu Airport Group. These three companies, namely Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng were established for the sole purpose of taking over the operation of airports in Lanzhou, Dunhuang and Qingyang and the related assets and liabilities and have registered capital of RMB50,000,000, RMB10,000,000 and RMB10,000,000, respectively.

On 25 December 2007, HNA Airport entered into agreements with Gansu Airport Group to acquire the entire equity interest in these three companies at cash consideration of RMB50,000,000, RMB10,000,000 and RMB10,000,000, respectively. On the same date, HNA Airport entered into an agreement with Gansu Airport Group to acquire the net assets of Jiayuguan airport, which was previously operated by a branch of Gansu Airport Group, at a cash consideration of RMB30,626,000. Effectively, HNA Airport acquired the core business of the four airports from Gansu Airport Group at a total cash consideration payable by the HNA Airport Group of RMB100,626,000 (including amounts due by the three companies to Gansu Airport Group of RMB305,000,000 in aggregate, which was recorded in the books of Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng).

Subsequent to the above acquisition, the business retained by Gansu Airport Group include the ownership and maintenance of runway in the four airports and other related non-core businesses. Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng and HNA Airport have entered into agreements with Gansu Airport Group in respect of the use of runway. Pursuant to the agreements, Gansu Airport Group is entitled to receive 25% of aircraft movement fees, passenger charges and basic ground handling service fee collected from the airline customers in consideration for the usage by the HNA Airport Group of the runway and provision of the runway facilities and services. This acquisition has been accounted for using the purchase method. Details of the net assets acquired are summarised below:

	Acquiree's carrying amount and fair value of net assets acquired				
	Acquisition of business	Acquisition of subsidiaries			
	Jiayuguan airport	Lanzhou Zhongchuan	Dunhuang Mogao	Qingyang Xifeng	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	27,430	269,527	53,626	12,143	362,726
Inventories	–	42	–	–	42
Trade and other receivables	3,500	41,648	4,604	959	50,711
Trade and other payables	(304)	(3,485)	(962)	(3,102)	(7,853)
Amount due to a fellow subsidiary	–	(257,732)	(47,268)	–	(305,000)
	30,626	50,000	10,000	10,000	100,626
Satisfied by:					
Included in amount due to ultimate holding company					70,000
Included in amount due to a fellow subsidiary					30,626
					100,626

The above acquisitions contributed insignificantly to the HNA Airport Group's profit and cash flow for the period between the date of acquisition and 31 December 2007.

If the acquisitions had been completed on 1 January 2007, the HNA Airport Group's revenue for the year ended 31 December 2007 would have been increased to approximately RMB388.1 million in aggregate, and profit for the year ended 31 December 2007 would have been increased to a profit of approximately RMB152.8 million in aggregate. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the HNA Airport Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

B. For The Year Ended 31 December 2008

Acquisition of airports in Gansu Province

Subsequent to the acquisitions on 25 December 2007 described in note 40A(ii), HNA Airport entered into agreements with Gansu Airport Group to dispose of the net assets of four airports in Lanzhou, Dunhuang, Qingyang and Jiayuguan at the original considerations of approximately RMB50,000,000, RMB10,000,000, RMB10,000,000 and RMB30,626,000, respectively, as described in note 40A(ii). The disposal was completed on 1 January 2008. Because the net assets were disposed of at the original considerations of the acquisitions in December 2007, therefore, no gain or loss on disposal is recognised in the Financial Information for the year ended 31 December 2008.

Subsequent to such disposals, Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng continued to use the runway and provision of runway facilities and services pursuant to the agreements described in note 40A(ii). In addition, Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng entered into agreements with Gansu Airport Group, whereby Gansu Airport is entitled to receive a fixed monthly rental in consideration for the usage by the HNA Airport Group of certain property, plant and equipment.

On 30 June 2008, Gansu Airport Group transferred the assets of three airports in Lanzhou, Dunhuang and Qingyang and certain investments in Lanzhou, to Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng for a consideration of RMB523,289,000, RMB68,511,000 and RMB13,169,000, respectively, as capital injections. The assets injected include (i) assets transferred to Gansu Airport Group on 1 January 2008, (ii) additional assets transferred from Gansu Airport Group, and (iii) investments in three companies. Three companies, namely Gansu Advertising, Gansu Services and Gansu Transportation, which provide auxiliary services to Lanzhou airport, also became subsidiaries of Lanzhou Zhongchuan. On the same date immediately after the completion of such capital injections, HNA Airport entered into agreements with Gansu Airport Group to acquire the additional equity interests arising from the above mentioned capital injections in Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng at a consideration of RMB523,289,000, RMB68,511,000 and RMB13,170,000, respectively. Accordingly, HNA Airport acquired the core business of Lanzhou airport, Dunhuang airport and Qingyang airport from Gansu Airport Group and holds 100% equity interest in Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang Xifeng. This transaction has been accounted for as acquisition of business.

On 30 October 2008, Gansu Airport Group transferred the assets of airport in Jiayuguan to a newly incorporated wholly-owned subsidiary of Gansu Airport Group in the PRC for a consideration of RMB38,310,000 as capital injection. The newly incorporated subsidiary, namely Jiayuguan Airport was established for the sole purpose of taking over the operation of airport in Jiayuguan. On the same date immediately after the completion of such capital injection, HNA Airport entered into an agreement with Gansu Airport Group to acquire 100% equity interest in Jiayuguan Airport for a consideration of RMB38,310,000. This transaction has been accounted for as acquisition of subsidiary.

These acquisitions were accounted for using the purchase method. The net assets acquired in the transactions are as follows:

	Acquisition of businesses			Acquisition of subsidiaries					
	Lanzhou Zhongchuan's carrying amount before combination	Dunhuang Mogao's carrying amount before combination	Qingyang Xifeng's carrying amount before combination	Jiayuguan Airport's carrying amount before combination	Gansu Advertising's carrying amount before combination	Gansu Services's carrying amount before combination	Gansu Transportation's carrying amount before combination	Fair value adjustment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	533,329	75,342	22,121	36,500	175	91	1,182	–	668,740
Inventories	–	–	–	–	–	–	86	–	86
Amounts due from fellow subsidiaries	27,369	3,169	1,049	1,810	–	–	–	–	33,397
Trade and other receivables	–	–	–	–	1,657	4,247	380	–	6,284
Bank balances and cash	–	–	–	–	1,242	5,786	7,874	–	14,902
Trade and other payables	–	–	–	–	(2,243)	(4,363)	(3,319)	–	(9,925)
Tax payable	–	–	–	–	(204)	–	–	–	(204)
Amount due to a fellow subsidiary	(50,000)	(10,000)	(10,000)	–	–	–	–	–	(70,000)
	510,698	68,511	13,170	38,310	627	5,761	6,203	–	643,280
Satisfied by:									
Included in amount due to a fellow subsidiary – Gansu Airport Group									643,280
Net cash inflow arising on acquisition									
Bank balances and cash acquired									14,902

Lanzhou Zhongchuan and Gansu Transportation contributed on aggregate of RMB19 million and RMB0.1 million, respectively, to the HNA Airport Group's profit for the period between the dates of acquisitions and 31 December 2008.

Net losses of approximately RMB3.8 million, RMB1 million, RMB0.4 million, RMB0.2 million and RMB0.1 million were reported by Dunhuang Mogao, Qingyang Xifeng, Jiayuguan Airport, Gansu Advertising and Gansu Services resulted, respectively, and included in the HNA Airport Group's profit for the period between the dates of acquisitions and 31 December 2008.

If the acquisition had been completed on 1 January 2008, it would have insignificant impact to the HNA Airport Group's revenue and profit for the year ended 31 December 2008. Pursuant to the agreements described in note 40A(ii), HNA Airport continued to use the runway and provision of the runway facilities and services of the four airports for the period between 1 January 2008 and the date of completion of the transactions. The HNA Airport Group's revenue, operating expenses and profit have included the results of the four airports under this arrangement.

The fair value of the assets acquired have been determined by professional valuations.

41. DISPOSAL OR DEEMED DISPOSAL OF BUSINESS AND SUBSIDIARIES

A. For The Year Ended 31 December 2007

HNA Airport previously held 90% equity interest in Weifang Nanyuan. In August 2007, the HNA Airport Group acquired the remaining 10% equity interest in Weifang Nanyuan from HNA Group Co. Limited at a cash consideration of RMB11,950,000. Weifang Nanyuan then became a wholly-owned subsidiary of HNA Airport. Subsequently, HNA Airport disposed of the entire 100% equity interest in Weifang Nanyuan to 海航機場集團有限公司 HNA Airport Group Co. Limited, a fellow subsidiary of HNA Airport, for a cash consideration of approximately RMB69,980,000, resulting in a gain on disposal of approximately RMB3,397,000.

In addition, in September 2007, the HNA Airport Group disposed of its entire 51% equity interest in Yichang Sanxia Catering to Hainan HNA for a cash consideration of approximately RMB1,739,000. This disposal results in a gain of approximately RMB260,000.

The aggregate net assets of subsidiaries disposed of were as follows:

	Weifang Nanyuan	**Yichang Sanxia Catering**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Net assets disposed of:			
Property, plant and equipment	63,366	1,017	64,383
Inventories	44	90	134
Trade and other receivables	5,317	653	5,970
Amounts due from fellow subsidiaries	3,662	1,103	4,765
Amounts due from related companies	586	–	586
Amounts due from associates	18	–	18
Deposits in a group treasury company	196	–	196
Bank balances and cash	9,111	739	9,850
Trade and other payables	(4,570)	(330)	(4,900)
Amount due to ultimate holding company	(138)	–	(138)
Amount due to a fellow subsidiary	(759)	–	(759)
Tax liabilities	–	(49)	(49)
Borrowings from a group treasury company	(7,000)	–	(7,000)
Deferred income	(3,250)	–	(3,250)

	Weifang Nanyuan	Yichang Sanxia Catering	Total
	RMB'000	*RMB'000*	*RMB'000*
	66,583	3,223	69,806
Minority interests	–	(1,744)	(1,744)
Gain on disposal	3,397	260	3,657
Total consideration	69,980	1,739	71,719
Satisfied by:			
Included in amount due from a fellow subsidiary	69,980	1,739	71,719
Net cash outflow arising on disposal:			
Bank balances and cash	(9,111)	(739)	(9,850)

During the year ended 31 December 2007, Weifang Nanyuan and Yichang Sanxia Catering contributed RMB6,192,000 to the HNA Airport Group's revenue and a loss of RMB313,000 to the HNA Airport Group. The cash flow contributed or utilised by the subsidiaries was insignificant.

B. For The Year Ended 31 December 2008

(i) Disposal of Airports in Gansu Province

On 1 January 2008, the net assets of Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng and Jiayuguan airport acquired in December 2007 were disposed to Gansu Airport Group, see details in note 40B.

(ii) Disposal of subsidiaries of Sanya Phoenix

On 30 November 2008, the HNA Airport Group disposed of its 100% equity interest in Sanya Services and 70% Sanya Advertising to Hainan HNA for a cash consideration of approximately RMB17,200,000 and RMB700,000, respectively. Subsequent to such disposals, Sanya Advertising became an associate of the HNA Airport Group. These disposals resulted in a gain of approximately RMB2,852,000.

Sanya Services holds 10% of equity interest in Sanya Property Management, whereas Sanya Phoenix holds remaining 90% of equity interest in Sanya Property Management. Sanya Property Management was a wholly owned subsidiary of the HNA Airport Group before the disposal of Sanya Services. Upon the disposal of Sanya Services, the HNA Airport Group's equity interest in Sanya Property Management was reduced to 90%. A gain of approximately RMB888,000 was recognised as gain on disposal of partial interest of a subsidiary.

For the year ended 31 December 2008, details of the aggregate net assets disposed in respect of the disposal of the above business and subsidiaries are summarised below:

	Carrying amount of subsidiaries and net assets disposed						
	Disposal of business				Disposal of subsidiaries		
	Jiayuguan airport	Lanzhou Zhongchuan airport	Dunhuang Mogao airport	Qingyang Xifeng airport	Sanya Services	Sanya Advertising	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net assets disposed of							
Property, plant and equipment	27,430	269,527	53,626	12,143	548	1,804	365,078
Available-for-sale investments	–	–	–	–	500	–	500
Inventories	–	42	–	–	39	–	81
Trade and other receivables	3,500	41,648	4,604	959	780	–	51,491
Amounts due from fellow subsidiaries	–	–	–	–	13,826	–	13,826
Amount due from a related company	–	–	–	–	30	–	30
Bank balances and cash	–	–	–	–	82	349	431
Trade and other payables	(304)	(3,485)	(962)	(3,102)	(428)	(362)	(8,643)
Amount due to a fellow subsidiary	–	(257,732)	(47,268)	–	–	(2,120)	(307,120)
							115,674
Gain on disposal							2,852
Total consideration							118,526
Satisfied by:							
Set off with amount due to ultimate holding company							70,000
Set off with amount due to a fellow subsidiary							30,626
Included in amount due from a fellow subsidiary							17,900
							118,526
Net cash outflow arising on disposal: Bank balances and cash	–	–	–	–	(82)	(349)	(431)

During the year ended 31 December 2008, the above disposed subsidiaries contributed insignificantly to the HNA Airport Group's revenue and profit to the HNA Airport Group. The cash flow contributed or utilised by the subsidiaries was insignificant.

C. For The Year Ended 31 December 2009

(i) Deemed disposal of Hainan Pacific Oil

As set out in note 20, Hainan Pacific Oil ceased to be a subsidiary. Hainan Pacific Oil was accounted as an associate of the HNA Airport Group.

The net assets of Hainan Pacific Oil at the date of becoming an associate were as follows:

	RMB'000
Net assets deemed disposal of:	
Property, plant and equipments	75,531
Interest in a jointly controlled entity	87,885
Inventories	28,864
Trade and other receivables	148,040
Bank balances and cash	71,340
Trade and other payables	(116,603)
Tax payable	(59)
	294,998
Minority interests	(190,216)
Reclassified to interest in an associate	(104,782)
Total consideration	–
Net cash outflow arising on disposal:	
Bank balances and cash	(71,340)

No gain or loss arisen from the deemed disposal of Hainan Pacific Oil.

(ii) Deregistration of Sanya Property Management

	RMB'000
Net assets written of:	
Bank balances and cash	287
Trade and other payables	(1,696)
	(1,409)
Total consideration	–
Net cash outflow arising on disposal:	
Bank balances and cash	(287)

During the year ended 31 December 2009, Sanya Property Management was de-registered. A gain of deregistration of RMB1,409,000 is recognised.

42. MAJOR NON-CASH TRANSACTIONS

During each of the Relevant Periods, the HNA Airport Group has the following major non-cash transactions:

(i) During the year ended 31 December 2008, the consideration receivable of approximately RMB187,920,000 was transferred to the current account of a fellow subsidiary as described in note 26.

(ii) The consideration of the acquisition of subsidiaries and business of approximately RMB100,626,000 and RMB643,280,000 were unpaid and included in the balances with ultimate holding company/a fellow subsidiary as described in notes 40A and 40B during the year ended 31 December 2007 and 2008 respectively.

(iii) The proceeds from disposal of business and subsidiaries of approximately RMB71,790,000 and RMB118,526,000 were unpaid and included in the balances with ultimate holding company/a fellow subsidiary as described in note 41B during the year ended 31 December 2007 and 2008 respectively.

(iv) The consideration receivable of RMB90,000,000 from the assignment of debt was unpaid and included in the current account with a fellow subsidiary during the year ended 31 December 2008 as described in note 10.

(v) During the year ended 31 December 2009, the aggregate proceeds from disposal of available-for-sale investments of Changshou Shanzhuang and Changjiang Leasing of approximately RMB198,600,000 were unpaid and included in the balance with fellow subsidiary as described in note 22.

43. PLEDGE OF ASSETS

At the end of each reporting period, certain of the HNA Airport Group's assets have been pledged to secure the banking facilities granted to the HNA Airport Group. The aggregate carrying amounts of the assets of the HNA Airport Group pledged to the banks are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Premium on prepaid lease payments	35,187	215,785	229,333
Prepaid lease payments	201,959	320,904	326,962
Property, plant and equipment	290,651	61,466	36,388
Investment in an associate	–	–	104,782
	527,797	598,155	697,465

44. CONTINGENT LIABILITIES

The HNA Airport Group issued financial guarantees to banks in respect of banking facilities granted to fellow subsidiaries. The aggregate amounts that could be required to be paid if the guarantees were called upon in entirety amounted to RMB450,000,000 and RMB450,000,000, of which RMB450,000,000 and RMB450,000,000 has been utilised by the fellow subsidiaries as at 31 December 2008 and 2009, respectively. In the opinion of the directors, the fair value of financial guarantee contract is insignificant at initial recognition.

45. OPERATING LEASES

As lessee

Minimum lease payments paid under operating leases was RMB278,000, RMB15,503,000, and RMB1,639,000 for each of the years ended 31 December 2007, 2008 and 2009, respectively.

At the end of each reporting period, the HNA Airport Group did not have any contractual lease commitment.

As lessor

Property rental earned was RMB2,526,000, RMB14,135,000, and RMB14,626,000 for each of the years ended 31 December 2007, 2008 and 2009, respectively.

At the end of each reporting period, the HNA Airport Group had contracted with tenants for the following future minimum lease payments, which fall due:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,813	4,782	6,324
In the second to fifth year inclusive	564	4,083	1,274
	2,377	8,865	7,598

Leases are negotiated and rentals are fixed for an average terms of three years.

46. CAPITAL COMMITMENTS

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment	168,039	103,650	184,727

47. RETIREMENT BENEFITS SCHEME

All of the HNA Airport Group's full-time employees, who are permanent PRC citizens, are covered by a state-sponsored scheme and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The HNA Airport Group and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the HNA Airport Group with respect to the retirement scheme is to make the required contributions under the scheme. The contributions are charged to profit or loss as they became payable in accordance with the rules of the central pension scheme and housing fund.

48. RELATED PARTY TRANSACTIONS

(a) Apart from details of the balances with related parties disclosed in the consolidated statements of financial position and notes 28, 29, 33 and 37, the HNA Airport Group also entered into the following transactions with related parties:

Name of related parties	Relationship	Nature of transaction	Year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000
HNA Group Co. Limited	Ultimate holding company	Management fee paid	12,871	9,882	–
		Interest income received	556	33,032	36,305
海南航空股份有限公司 Hainan Airlines Co. Limited	Fellow subsidiary	Income from the provision of aeronautical services	10,899	48,097	65,833
		Income from sales of crude oil	–	97,443	126,968
天津航空有限責任公司	Fellow subsidiary	Income from the provision of aeronautical services	–	3,416	1,717
海航置業控股(集團)有限公司	Fellow subsidiary	Interest income received	–	–	25,094
濰坊南苑機場有限責任公司 Weifang Nanyuan Airport Co. Limited	Fellow subsidiary	Interest income received	–	681	510
海航旅業控股集團有限公司	Fellow subsidiary	Interest income received	–	–	191
海航機場控股(管理)有限公司	Fellow subsidiary	Interest income received	–	9	27
北京金鹿公務機有限公司 Beijing Golden Deer Jet Co. Limited	Fellow subsidiary	Income from the provision of aeronautical services	7,512	614	43
		Income from sales of crude oil	–	968	–
Gansu Airport Group	Fellow subsidiary	Management fee income	8,120	–	–
Meilan Airport	Fellow subsidiary	Management fee income	17,720	–	–
		Interest income received	–	5,184	–
金鹿航空公司*(note a)*	Related company	Income from the provision of aeronautical services	–	22,030	32,922
		Income from sales of crude oil	–	120,869	–
HNA Group Finance Co. Limited	Fellow subsidiary	Interest expense	11,572	–	6,452
中國航空油料集團有限公司 *(note c)*	Related company	Purchase of crude oil	–	815,965	–
海航航空食品控股公司	Fellow subsidiary	Disposal of prepaid lease payment	–	–	328
Sanya Phoenix *(note b)*	Fellow subsidiary	Management fee income	15,204	–	–

notes:

a. The company is a jointly controlled entity of HNA Group Co. Limited, HNA Airport's ultimate holding company.

b. Subsequent to the acquisition disclosed in note 40A(i), Sanya Phoenix became a subsidiary of HNA Airport Group.

c. The company is one of the shareholders of Hainan Pacific Oil, an associate of the HNA Airport Group.

(b) The HNA Airport Group issued financial guarantees to banks in respect of banking facilities granted to fellow subsidiaries (see note 44).

The ultimate holding company of HNA Airport issued financial guarantees to banks amounting to RMB600,000,000 and RMB205,000,000 at 31 December 2008 and 2009, respectively, in respect of banking facilities granted to the HNA Airport Group. No financial guarantee was issued by the ultimate holding company to banks in respect of banking facilities granted to the HNA Airport Group at 31 December 2007.

(c) Acquisitions of subsidiaries and business

(i) For the year ended 31 December 2007

During the year ended 31 December 2007, the HNA Airport Group has acquired 67% equity interest in Sanya Phoenix from the ultimate holding company for a consideration of approximately RMB1,650,000,000, details of the acquisition are set out in note 40A(i).

On 25 December 2007, HNA Airport entered into agreements with Gansu Airport Group, a fellow subsidiary of HNA Airport, to acquire the entire equity interest Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng for a cash consideration of RMB50,000,000, RMB10,000,000 and RMB10,000,000, respectively. In addition, on 25 December 2007, HNA Airport also entered into an agreement with Gansu Airport Group to acquire the net assets related to Jiayuguan airport, which was previously operated by a branch of Gansu Airport Group, for a cash consideration of RMB30,626,000, details of these acquisitions are set out in note 40A.

(ii) For the year ended 31 December 2008

On 30 June 2008, HNA Airport entered into agreements with Gansu Airport Group, a fellow subsidiary of HNA Airport, to acquire the additional equity interests in Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng after certain capital injections into these three subsidiaries by Gansu Airport Group for a consideration of RMB523,289,000, RMB68,511,000 and RMB13,170,000, respectively, details of the acquisition are set out in note 40B.

(d) Disposals of business and subsidiaries

(i) For the year ended 31 December 2007

During the year ended 31 December 2007, HNA Airport disposed of the entire 100% equity interest in Weifang Nanyuan to HNA Airport Group Co. Limited, a fellow subsidiary of HNA Airport, for a cash consideration of approximately RMB69,980,000, details of the acquisition are set out in note 41A.

(ii) For the year ended 31 December 2008

On 1 January 2008, HNA Airport entered into agreements with Gansu Airport Group, a fellow subsidiary of HNA Airport, to dispose of related assets of Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng and Jiayuguan airport at the original considerations of approximately RMB50,000,000, RMB10,000,000, RMB10,000,000 and RMB30,626,000, respectively, as described in note 40A(ii), details of the disposal are set out in note 40B.

On 30 November 2008, the HNA Airport Group disposed of its 100% equity interest in Sanya Services and Sanya Advertising equity interest in 70% equity interest in Sanya Advertising to Hainan HNA, a fellow subsidiary of HNA Airport, for a cash consideration of approximately RMB17,200,000 and RMB700,000, respectively, details of the disposal are set out in note 41B(ii).

(e) Disposals of available-for-sale investments

On 30 April 2009, HNA Airport entered into an agreement with HNA Airport Group Co. Limited, a fellow subsidiary of HNA Airport, to dispose its 32.93% interest in Changzhou Shanzhuang at consideration of RMB18,600,000 (see note 22).

On 30 May 2009, HNA Airport entered into an agreement with HNA Airport Group Co. Limited, a fellow subsidiary of HNA Airport, to dispose its 9.375% interest in Changjiang Leasing at consideration of RMB180,000,000 (see note 22).

(f) Others

The consideration receivable of RMB188 million receivable on disposal of Meilan Airport was assigned to a fellow subsidiary as described in note 26.

During the year ended 31 December 2008, a debt was assigned to a fellow subsidiary at a consideration of RMB90,000,000 as described in note 10.

(g) Compensation of key management personnel

All members of key management are directors of HNA Airport. Details of their remuneration are disclosed in note 14.

B. SUBSEQUENT EVENTS

Subsequent to the end of reporting period, the HNA Airport Group had received an aggregate amount of RMB198,600,000 from fellow subsidiaries in respect of the proceed from disposal of available-for-sale investments.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the HNA Airport Group, HNA Airport or any of the companies comprising the HNA Airport Group have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE HNA AIRPORT

For the year ended 31 December 2009

Overview

The HNA Airport is a limited company legally established and validly existing in the PRC with a registered capital of US$408.2 million and paid-in capital of US$408.2 million.

The HNA Airport is principally engaged in airport investment, operation management and ground services relating to air transportation, including owning and operating Sanya Phoenix Airport. The HNA Airport, being the holding company of eight airports, is one of the major airport management groups in the PRC.

Aeronautical operation

Revenue from external customers arising from the aeronautical operation reached approximately RMB415.8 million, which accounted for approximately 68.3% of the Group's revenue for the year ended on 31 December 2009.

Non-aeronautical operation

Revenue from external customers arising from the non-aeronautical operation reached approximately RMB193.4 million, which accounted for approximately 31.7% of the Group's revenue for the year ended on 31 December 2009.

Liquidity, financial resources and capital structure

The HNA Airport Group manages its capital to ensure that entities in the HNA Airport Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The HNA Airport Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the HNA Airport Group consists of debt, which includes the unsecured loan notes, unsecured other borrowings, borrowings from a group treasury company and bank borrowings, cash and cash equivalents and equity attributable to owners of HNA Airport, comprising paid-in capital and reserves.

The directors of HNA Airport review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and owner returns, taking into consideration the future capital requirements of the HNA Airport Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

As at 31 December 2009, HNA Airport had cash and bank balances of approximately RMB673.4 million, which are primarily denominated in Renminbi and total bank and other borrowings of RMB2,772.3 million, which are all borrowed of variable interest rates includes bank borrowings, unsecured other borrowings and loan notes. HNA Airport's bank and other borrowings were primarily denominated in Renminbi and the United States Dollars. Out of the total and other borrowing of RMB2,772.3 million, RMB 1,374.0 million are due within one year and RMB1,398.3 million are due over on year. The HNA Airport Group's fair value interest rate risk relates primarily to its fixed rate loans to fellow subsidiaries/ultimate holding company, deposits in a group treasury company, bank borrowings, unsecured other borrowings, unsecured loan notes and borrowings from a group treasury company respectively. The HNA Airport Group is also exposed to cash flow interest rate risk in relation to variable rate bank balances and bank borrowings respectively. The HNA Airport Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing market rate arising from the HNA Airport Group's RMB denominated bank balances and bank borrowings. The HNA Airport Group is mainly subject to fair value interest rate risk as majority of its financial instruments carry interest at fixed rates. Accordingly, the impact of interest rate sensitivity to the HNA Airport Group's profit is expected to be insignificant.

The gearing ratio, which is calculated on the basis of total liabilities over the total assets of the HNA Airport, is 44.9% as at 31 December 2009. The net current assets amount, which is calculated as the difference between current assets and current liabilities, is RMB699.5 million as at 31 December 2009.

Foreign exchange exposure

The HNA Airport earns revenue in RMB and incurs cost in RMB which is the functional currency of the respective group entities. As such, the Directors believe that the HNA Airport does not have significant foreign exchange exposures. To minimize possible foreign currency fluctuation, the HNA Airport will consider using foreiga exchange forward contracts to hedge against foreign currency exposure, if necessary in the future.

Pledge of assets

As at 31 December 2009, the assets, including the premium on prepaid lease payment, prepaid lease payments, property plant and equipments and investment in an associate amounting to RMB 697.5 million have been pledged to secure the banking facilities granted to HNA Airport.

Capital commitment

As at 31 December 2009 the HNA Airport had capital commitment of RMB184.7 million in respect of acquisition of property, plant and equipment, which were contracted for but not provided for in the consolidated financial statements.

Contingent liabilities

As at 31 December 2009, the HNA Airport issued financial guarantees to banks in respect of banking facilities granted to fellow subsidiaries. The aggregate amounts that could be required to be paid if the guarantees were called upon in entirety amounted to RMB 450,000,000, of which RMB450,000,000 has been utilized by the fellow subsidiaries.

Material acquisition and disposals of subsidiaries and associated companies

During the year ended 31 December 2009, the Group had pledged the equity interests of Hainan Pacific Oil to secure the bank borrowings and the Hainan Pacific Oil ceased to be a subsidiary and was accounted as an associate of the HNA Airport. Besides, Sanya Property Management was deregistered during the year ended 31 December 2009.

Significant investment held

The HNA Airport did not hold any significant investment during the year ended 31 December 2009.

Employment information

As at 31 December 2009, the HNA Airport had about 3,837 employees in total.

For the year ended on 31 December 2008

Aeronautical operation

Revenue from external customers arising from the aeronautical operation reached approximately RMB323.3 million, which accounted for approximately 21.3% of the Group's revenue for the year ended on 31 December 2008.

Non-aeronautical operation

Revenue from external customers arising from the non-aeronautical operation, including the sale of crude oil, reached approximately RMB1191.6 million, which accounted for approximately 78.7 % of the Group's revenue for the year ended on 31 December 2008.

Liquidity, financial resources and capital structure

The HNA Airport Group manages its capital to ensure that entities in the HNA Airport Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The HNA Airport Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the HNA Airport Group consists of debt, which includes the unsecured loan notes, unsecured other borrowings, borrowings from a group treasury company and bank borrowings, cash and cash equivalents and equity attributable to owners of HNA Airport, comprising paid-in capital and reserves.

The directors of HNA Airport review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and owner returns, taking into consideration the future capital requirements of the HNA Airport Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

As at 31 December 2008, the HNA Airport had cash and bank balances of approximately RMB589.8 million, which is primarily denominated in Renminbi and total bank and other borrowings, which includes bank borrowings and unsecured other borrowings of RMB1,915.0 million which are all borrowed at variable interest rate. Out of the total bank borrowings and unsecured other borrowings of RMB1,915.0 million, RMB960.2 million are due within one year and RMB954.8 million are due over one year. The HNA Airport's bank and other borrowings were primarily denominated in Renminbi and the United States Dollars.

The gearing ratio, which is calculated on the basis of total liabilities over the total assets of the HNA Airport, is 37.2% as at 31 December 2008. The net current assets amount, which is calculated as the difference between current assets and current liabilities, is RMB771.1 million as at 31 December 2008.

Foreign exchange exposure

The HNA Airport earns revenue in RMB and incurs cost in RMB which is the functional currency of the respective group entities. As such, the Directors believe that the HNA Airport does not have significant foreign exchange exposures. To minimize possible foreign currency fluctuation, the HNA Airport will consider using foreign exchange forward contracts to hedge against foreign currency exposure, if necessary in the future.

Pledge of assets

As at 31 December 2008, the assets, including the premium on prepaid lease payments, prepaid lease payments and property, plant and equipment amounting to RMB598.2 million have been pledged to secure the banking facilities granted to HNA Airport.

Capital commitment

As at 31 December 2008, the HNA Airport had capital commitment amounting to RMB103.7 million in respect of acquisition of property, plant and equipment, which were contracted for but not provided for in the consolidated financial statements.

Contingent liabilities

As at 31 December 2008, the HNA Airport issued financial guarantees to banks in respect of banking facilities granted to fellow subsidiaries. The aggregate amounts that could be required to be paid if the guarantees were called upon in entirety amounted to RMB450,000,000, of which RMB450,000,000 has been utilized by the fellow subsidiaries.

Material acquisition and disposals of subsidiaries and associated companies

During the year ended 31 December 2008, the Group had entered into agreements with the Gansu Airport Group Co. Limited to dispose of the new assets of four airports in Lanzhou, Dunhuang, Qingyang and Jiayuguan at the original considerations of approximately RMB50,000,000, RMB10,000,000 and RMB30,626,000 respectively. This disposal was completed on 1 January 2008. No gain or loss is recognized as the net assets were disposed of at the original considerations of acquisitions.

On June 2008, the HNA Airport entered into agreements with Gansu Airport Group Co. Limited to acquire the additional equity interests arising from the capital injections in Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng at a consideration of RMB523,289,000, RMB68,511,000 and RMB$13,170,000 respectively. Accordingly, HNA Airport acquired the core business of Lanzhou airport, Dunhang airport and Qingyang airport from Gansu Airport Group Co. Limited and holds 100% equity interests in Lanzhou Zhongchuan, Dunhuang Mogao, Qingyang Xifeng.

On October 2008, the HNA Airport entered into an agreement with Gansu Airport Group Co. Limited to acquire 100% equity interest in Jiayuguan Airport for a consideration of RMB38,310,000.

On November 2008, the HNA Airport disposed of its 100% equity interest in Sanya Services and 70% of Sanya Advertising to Hainan HNA for a cash consideration of approximately RMB17,200,000 and RMB700,000 respectively.

Significant investment held

The HNA Airport did not hold any significant investment during the year ended 31 December 2008.

Employment information

As at 31 December 2008, the HNA Airport had about 3,922 employees in total.

For the year ended on 31 December 2007

Aeronautical operation

Revenue from external customers arising from the aeronautical operation reached approximately RMB33.86 million, which accounted for approximately 70.7% of the Group's revenue for the year ended on 31 December 2007.

Non-aeronautical operation

Revenue from external customers arising from the non-aeronautical operation, reached approximately RMB14.0 million, which accounted for approximately 29.3% of the Group's revenue for the year ended on 31 December 2008.

Liquidity, financial resources and capital structure

The HNA Airport Group manages its capital to ensure that entities in the HNA Airport Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The HNA Airport Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the HNA Airport Group consists of debt, which includes the unsecured loan notes, unsecured other borrowings, borrowings from a group treasury company and bank borrowings, cash and cash equivalents and equity attributable to owners of HNA Airport, comprising paid-in capital and reserves.

The directors of HNA Airport review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and owner returns, taking into consideration the future capital requirements of the HNA Airport Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

As at 31 December 2007, the HNA Airport had cash and bank balances of approximately RMB177.9 million, which is primarily denominated in Renminbi and total bank and other borrowings, which includes bank borrowings and unsecured other borrowings of RMB1,964.5 million which are all borrowed at variable interest rate. Out of the total bank borrowings and unsecured other borrowings of RMB1,964.5 million, RMB1,295.1 million are due within one year and RMB669.4 million are due over one year. HNA Airport's bank and other borrowings were primarily denominated in Renminbi and the United States Dollars.

The gearing ratio, which is calculated on the basis of total liabilities over the total assets of the HNA Airport, is 41.0% as at 31 December 2007. The net current assets amount, which is calculated as the difference between current assets and current liabilities, is RMB332.6 million as at 31 December 2007.

Foreign exchange exposure

HNA Airport earns revenue in RMB and incurs cost in RMB which is the functional currency of the respective group entities. As such, the Directors believe that the HNA Airport does not have significant foreign exchange exposures. To minimize possible foreign currency fluctuation, the HNA Airport will consider using foreign exchange forward contracts to hedge against foreign currency exposure, if necessary in the future.

Pledge of assets

As at 31 December 2007, the assets, including the premium on prepaid lease payments, prepaid lease payments and property, plant and equipment amounting to RMB527.8 million have been pledged to secure the banking facilities granted to HNA Airport.

Capital commitment

As at 31 December 2007, the HNA Airport had capital commitment amounting to RMB168.0 million in respect of acquisition of property, plant and equipment, which were contracted for but not provided for in the consolidated financial statements.

Contingent liabilities

As at 31 December 2007, the Group did not have any contingent liabilities.

Material acquisition and disposals of subsidiaries and associated companies

On 28 December 2007, the HNA Airport had acquired 67% equity interests in Sanya Phoenix from the ultimate holding company for a total consideration of approximately RMB1,650,000,000 which RMB1,000,000,000 was satisfied by cash and RMB650,000,000 was contributed by the ultimate holding company as paid-in capital of HNA Airport.

On 1 December 2007, the HNA Airport transferred the right to acquire 100% equity interest in Gansu Airport Group Co. Limited to Hainan HNA Airport Management Co. Limited, a fellow subsidiary of HNA Airport for approximately RMB931,688,000. Gansu Airport Group Co. Limited then became a wholly-owned subsidiary of Hainan HNA.

On 25 December 2007, the HNA Airport entered into agreements with Gansu Airport Group Co. Limited to acquire the entire equity interest in Lanzhou Zhongchuan, Dunhuang Mogao and Qingyang at a cash consideration of RMB50,000,000, RMB 10,000,000 and RMB 10,000,000 respectively. On the same date, HNA Airport entered into an agreement with Gansu Airport Group Co. Limited to acquire the net assets of Jiayuguan airport, which was previously operated by Gansu Airport Group Co. Limited at a cash consideration of RMB30,626,000.

The HNA Airport previously held 90% equity interest in Weifang Nanyuan. In August 2007, the HNA Airport Group acquired the remaining 10% equity interest in Weifang Nanyuan from HNA Group Co. Limited at a cash consideration of RMB11,950,000. Weifang Nanyuan then became a wholly-owned subsidiary of HNA Airport. Subsequently, HNA Airport disposed of the entire 100% equity interest in Weifang Nanyuan to HNA Airport Group Co., Limited, a fellow subsidiary of HNA Airport for a cash consideration of approximately RMB69,980,000, resulting in a gain on disposal of approximately RMB3,397,000.

In September 2007, the HNA Airport disposed of its entire 51% equity interest in Yichang Sanxia Catering to Hainan HNA for a cash consideration of approximately RMB1,739,000. This disposal results in a gain of approximately RMB260,000.

Significant investment held

The HNA Airport did not hold any significant investment during the year ended 31 December 2007.

Employment information

As at 31 December 2007, the HNA Airport had about 3,950 employees in total.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following are unaudited pro forma balance sheet, income statement and cash flow statement of the Enlarged Group (collectively referred to as the "Unaudited Pro Forma Financial Information"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the acquisition of certain equity interests in HNA Airport Holding (Group) Company Ltd ("HNA Airport") in the following scenarios, as if it had taken place on 31 December 2009 for the unaudited pro forma balance sheet and on 1 January 2009 for the unaudited pro forma income statement and cash flow statement.

I. Acquisition of a total of 54.5% equity interest in HNA Airport.

II. Acquisition of only 24.5% equity interest in HNA Airport.

III. Acquisition of only 30% equity interest in HNA Airport.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, financial results and cash flows of the Enlarged Group had the acquisition been completed on the dates stated above or at any future date.

(A) Unaudited Pro Forma Balance Sheet and net tangible assets of the Enlarged Group

i. *Assuming an acquisition of a total of 54.5% equity interest in HNA Airport*

	Consolidated balance sheet of the Group as at 31 December 2009	Consolidated balance sheet of HNA Airport as at 31 December 2009	Pro forma adjustments					Unaudited pro forma balance sheet of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	*Note 2(f)*	
ASSETS								
Non-current assets								
Land use rights	153,622	–	1,434,651			794,899		2,383,172
Property, plant and equipment	959,344	2,662,638				120,536		3,742,518
Investment in associates	30,875	125,431						156,306
Finance lease receivable – due after one year	–	3,856						3,856
Loan to HNA Group and its affiliated companies – due after one year	–	850,000						850,000
Available-for-sale investments	–	1,250						1,250
Goodwill	–	232,824				(118,008)		114,816
Premium on prepaid lease payments	–	698,152	(698,152)					–
Prepaid lease payments – non-current portion	–	721,984	(721,984)					–
	1,143,841	5,296,135						7,251,918
Current assets								
Inventories	11	1,767						1,778
Trade receivables	179,883	–	279,391					459,274
Other receivables and prepayments	14,229	–	945,097					959,326
Income tax recoverable	4,864	–						4,864
Time deposits	160,000	–	375,036					535,036
Cash and cash equivalents	588,678	–	673,406	1,605,180	1,000,000	(2,231,114)	(9,000)	1,627,150
Loans to HNA Group and its affiliated companies – due within one year	–	264,000						264,000
Finance lease receivable – due within one year	–	1,191						1,191
Deposits in a group treasury company	–	375,036	(375,036)					–
Bank balances and cash	–	673,406	(673,406)					–
Trade and other receivables	–	383,485	(383,485)					–
Prepaid lease payments – current portion	–	14,515	(14,515)					–
Amounts due from minority shareholders of subsidiaries	–	36,362	(36,362)					–
Amount due from an associate	–	46	(46)					–
Amounts due from HNA Group and its affiliated companies	–	804,595	(804,595)					–
	947,665	2,554,403						3,852,619
Total assets	2,091,506	7,850,538						11,104,537

	Consolidated balance sheet of the Group as at 31 December 2009	Consolidated balance sheet of HNA Airport as at 31 December 2009	Pro forma adjustments					Unaudited pro forma balance sheet of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	*Note 2(f)*	
EQUITY								
Capital and reserves attributable to equity holders of the Company								
Share capital	1,100,250	3,020,152		1,605,180		(3,020,152)		2,705,430
Other reserves	177,559	226,267				(226,267)		177,559
Retained earnings	684,315	300,296				(300,296)	(6,750)	677,565
	1,962,124	3,546,715						3,560,554
Minority interests	599	777,737				1,890,645		2,668,981
Total equity	1,962,723	4,324,452						6,229,535
LIABILITIES								
Non-current liabilities								
Bank and other borrowings	8,000	–	1,398,347		1,000,000			2,406,347
Deferred income tax liabilities	9,666	141,013				222,383	(2,250)	370,812
Deferred income – government grants	3,000	131,773						134,773
Bank borrowings – due after one year	–	1,162,192	(1,162,192)					–
Unsecured other borrowings – due after one year	–	236,155	(236,155)					–
	20,666	1,671,133						2,911,932
Current liabilities								
Trade and other payables	104,117	361,479	117,821					583,417
Bank and other borrowings	4,000	–	1,374,000					1,378,000
Current income tax liabilities	–	1,653						1,653
Amount due to an associate	–	2,172	(2,172)					–
Amount due to HNA Group and its affiliated companies	–	115,649	(115,649)					–
Bank borrowings - due within one year	–	645,000	(645,000)					–
Unsecured other borrowings due within one year	–	20,000	(20,000)					–
Unsecured loan notes	–	709,000	(709,000)					–
	108,117	1,854,953						1,963,070
Total liabilities	128,783	3,526,086						4,875,002
Total equity and liabilities	2,091,506	7,850,538						11,104,537

Unaudited pro forma net tangible assets:

	RMB'000
Unaudited pro forma net tangible assets of the Enlarged Group attributable to the equity holders of the Company *(note 3)*	3,445,738
	RMB
Unaudited pro forma adjusted net tangible asset value of the Enlarged Group per Share *(note 4)*	5.12

Notes to this unaudited pro forma balance sheet:

1 The balances are extracted from the consolidated balance sheet of the Group as at 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 Pursuant to the HNA Group Agreement and the Kingward Agreement, HNA Group and Kingward agreed to sell 30% and 24.5% of their equity interests in HNA Airport to the Company at a consideration of RMB1,211,000,000 and RMB1,020,114,000 including consideration of US$145 million (approximately RMB988,900,000) and tax borne by the Company for Kingward estimated at RMB31,214,000 respectively. The Company intends to finance the consideration of the acquisition of the 30% equity interest in HNA Airport of RMB1,211,000,000 by the net proceeds from the proposed A Share Issue; and to finance the consideration of the acquisition of the 24.5% equity interest in HNA Airport of RMB1,020,114,000 by borrowings.

The following pro forma adjustments are to reflect the effect of the acquisition:

(a) The balances are extracted from the consolidated balance sheet of HNA Airport as at 31 December 2009 as set out in the accountant's report in Appendix II.

(b) Reclassification of the balances of HNA Airport to conform to the current presentation of the Group.

(c) The adjustment represents the estimated net proceeds from the proposed A Share Issue assuming the offer price is RMB8.63 per Share, being the RMB equivalent closing price of the H Share on 25 March 2010, the date of announcement of the Company for the acquisition.

(d) The adjustment represents the borrowing of RMB1,000,000,000.

(e) Upon Completion, the identifiable assets and liabilities of HNA Airport will be accounted for in the consolidated financial statements of the Group at fair value using the purchase method of accounting. For the purpose of this unaudited pro forma balance sheet, the Directors have estimated the fair values of the identifiable assets and liabilities of HNA Airport as at 31 December 2009 with reference to the valuation reports issued by Vigers Appraisal & Consulting Limited. The adjustments represent:

(i) the total consideration for the acquisitions of 54.5% equity interests in HNA Airport of RMB2,231,114,000;

(ii) the recognition of fair value adjustments on certain land use rights and property, plant and equipment of HNA Airport of approximately RMB794,899,000 and RMB120,536,000 respectively;

(iii) the recognition of the deferred tax liabilities of RMB222,383,000 arising from the fair value adjustments on certain assets of HNA Airport as described in Note 2(e)(ii) above;

(iv) the elimination of goodwill of RMB232,824,000 recognised in HNA Airport's consolidated balance sheet and the recognition of the goodwill of RMB114,816,000 arising from the acquisition of 54.5% equity interests in HNA Airport;

(v) the elimination of the issued share capital, other reserves and retained earnings of HNA Airport of RMB3,020,152,000, RMB226,267,000 and RMB300,296,000 respectively; and

(vi) the recognition of 45.5% minority interests in HNA Airport of approximately RMB1,890,645,000 upon the acquisition.

(f) The adjustment represents the estimated transaction costs for the acquisition of approximately RMB9,000,000 and the related tax impact of approximately of RMB2,250,000.

3 The unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 31 December 2009 is based on the unaudited pro forma consolidated net assets of the Enlarged Group attributable to the equity holders of the Company of approximately RMB3,560,554,000 with an adjustment for goodwill of the Enlarged Group of approximately RMB114,816,000.

4 The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in Notes 2 and 3 above and assuming that the acquisition and the A Share Issue were completed on 31 December 2009 and a total of 673,213,000 Shares were in issue as at 31 December 2009.

5 The fair values of the identifiable assets and liabilities of HNA Airport as at the completion date of the acquisition and the offer price of the newly issued A Shares may be different from the pro forma amounts as disclosed in this Appendix.

6 No adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

ii. Assuming an acquisition of only 24.5% equity interest in HNA Airport

	Consolidated balance sheet of the Group as at 31 December 2009	Pro forma adjustments			Unaudited pro forma balance sheet of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(b)*	
ASSETS					
Non-current assets					
Land use rights	153,622				153,622
Property, plant and equipment	959,344				959,344
Investment in associates	30,875		1,020,114	9,000	1,059,989
	1,143,841				2,172,955
Current assets					
Inventories	11				11
Trade receivables	179,883				179,883
Other receivables and prepayments	14,229				14,229
Income tax recoverable	4,864				4,864
Time deposits	160,000				160,000
Cash and cash equivalents	588,678	1,000,000	(1,020,114)	(9,000)	559,564
	947,665				918,551
Total assets	2,091,506				3,091,506
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	1,100,250				1,100,250
Other reserves	177,559				177,559
Retained earnings	684,315				684,315
	1,962,124				1,962,124
Minority interests	599				599
Total equity	1,962,723				1,962,723

	Consolidated balance sheet of the Group as at 31 December 2009	Pro forma adjustments			Unaudited pro forma balance sheet of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(b)*	
LIABILITIES					
Non-current liabilities					
Bank and other borrowings	8,000	1,000,000			1,008,000
Deferred income tax liabilities	9,666				9,666
Deferred income – government grants	3,000				3,000
	20,666				1,020,666
Current liabilities					
Trade and other payables	104,117				104,117
Bank and other borrowings	4,000				4,000
	108,117				108,117
Total liabilities	128,783				1,128,783
Total equity and liabilities	2,091,506				3,091,506

Notes to this unaudited pro forma balance sheet:

1 The balances are extracted from the consolidated balance sheet of the Group as at 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following pro forma adjustments are to reflect the effect of the acquisition of Kingward Sale Shares:

(a) The adjustment represents the borrowing of RMB1,000,000,000.

(b) The consideration for the acquisition of 24.5% equity interest in HNA Airport of RMB1,020,114,000 and the estimated transaction costs of approximately RMB9,000,000. Pursuant to the Kingward Agreement, after the acquisition, the Company could nominate one director to the board of HNA Airport and will have power to participate in the financial and operating policy decisions of HNA Airport but is not control or joint control over HNA Airport. As such HNA Airport is regarded as an associate of the Group.

3 No adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

iii. Assuming an acquisition of only 30% equity interest in HNA Airport

	Consolidated balance sheet of the Group as at 31 December 2009	Pro forma adjustments			Unaudited pro forma balance sheet of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(b)*	
ASSETS					
Non-current assets					
Land use rights	153,622				153,622
Property, plant and equipment	959,344				959,344
Investment in associates	30,875				30,875
Investment in a jointly controlled entity	–		1,211,000	9,000	1,220,000
	1,143,841				2,363,841
Current assets					
Inventories	11				11
Trade receivables	179,883				179,883
Other receivables and prepayments	14,229				14,229
Income tax recoverable	4,864				4,864
Time deposits	160,000				160,000
Cash and cash equivalents	588,678	1,605,180	(1,211,000)	(9,000)	973,858
	947,665				1,332,845
Total assets	2,091,506				3,696,686
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	1,100,250	1,605,180			2,705,430
Other reserves	177,559				177,559
Retained earnings	684,315				684,315
	1,962,124				3,567,304
Minority interests	599				599
Total equity	1,962,723				3,567,903

	Consolidated balance sheet of the Group as at 31 December 2009	Pro forma adjustments			Unaudited pro forma balance sheet of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(b)*	
LIABILITIES					
Non-current liabilities					
Bank and other borrowings	8,000				8,000
Deferred income tax liabilities	9,666				9,666
Deferred income – government grants	3,000				3,000
	20,666				20,666
Current liabilities					
Trade and other payables	104,117				104,117
Bank and other borrowings	4,000				4,000
	108,117				108,117
Total liabilities	128,783				128,783
Total equity and liabilities	2,091,506				3,696,686

Unaudited pro forma net tangible assets

	RMB'000
Unaudited pro forma net tangible assets of the Enlarged Group attributable to the equity holders of the Company *(note 3)*	3,567,304
	RMB
Unaudited pro forma adjusted net tangible asset value of the Enlarged Group per Share *(note 4)*	5.30

Notes to this unaudited pro forma balance sheet:

1 The balances are extracted from the consolidated balance sheet of the Group as at 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following pro forma adjustments are to reflect the effect of the acquisition of HNA Group Sale Shares:

(a) The adjustment represents the estimated net proceeds from the proposed A Share Issue assuming the offer price is RMB8.63 per Share, being the RMB equivalent closing price of the H Share on 25 March 2010, the date of announcement of the Company for the acquisition. Pursuant to the HNA Group Supplemental Agreement, upon full payment of the consideration for the HNA Group Sale Shares by the Company to HNA Group in accordance with the HNA Group Agreement, HNA Group agrees that the Company may nominate four directors to the board of HNA Airport and HNA Group shall recommend the same to replace the four directors nominated by HNA Group originally. According to the Article of Association of HNA Airport, the Company and the another equity holder of HNA Airport share control over HNA Airport, of which the strategic financial and operating decisions relating to the activity require the unanimous consent of the Company and the other equity holders. As such HNA Airport is regarded as a jointly controlled entity of the Group.

(b) The adjustment represents the consideration for the acquisition of 30% equity interest in HNA Airport of RMB1,211,000,000 and the estimated transaction costs of approximately RMB9,000,000.

3 The unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 31 December 2009 is based on the unaudited pro forma net assets of the Enlarged Group attributable to the equity holders of the Company of approximately RMB3,567,304,000.

4 The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in Note 2 above and assuming that the acquisition of the HNA Group Sale Shares and the A Share Issue were completed on 31 December 2009 and a total of 673,213,000 Shares were in issue as at 31 December 2009.

5 No adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

(B) Unaudited Pro Forma Income Statement of the Enlarged Group

i. Assuming an acquisition of a total of 54.5% equity interest in HNA Airport

	Consolidated income statement of the Group for the year ended 31 December 2009	Consolidated income statement of HNA Airport for the year ended 31 December 2009	Pro forma adjustments					Unaudited pro forma income statement of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	*Note 2(e)*	
Revenue:		609,184	(609,184)					–
Aeronautical	301,807	–	415,774					717,581
Non-aeronautical	98,914	–	193,410					292,324
	400,721	609,184						1,009,905
Cost of services and goods sold	(158,482)	(329,342)				(21,367)		(509,191)
Gross profit	242,239	279,842						500,714
Administrative expenses	(62,377)	(154,720)			(9,000)			(226,097)
Other gain – net	260	–	132,674					132,934
Selling and distribution costs	–	(4,000)						(4,000)
Share of results of associates	–	5,649	(5,649)					–
Other income	–	151,686	(151,686)					–
Gain on disposal of available for sale investments	–	51,400	(51,400)					–
Gain on disposal of subsidiaries	–	1,409	(1,409)					–
Operating profit	180,122	331,266						403,551
Finance income	12,328	–	71,821					84,149
Finance costs	(1,017)	(125,599)		(54,000)				(180,616)
Finance costs-net	11,311	(125,599)						(96,467)
Share of (loss)/ profit of associates	(24)	–	5,649					5,625
Profit before income tax	191,409	205,667						312,709
Income tax	(10,848)	(9,215)		5,400	2,250	3,852		(8,561)
Profit for the year	180,561	196,452						304,148
Attributable to:								
Equity holders of the Company	180,563	191,657		(48,600)	(6,750)	(14,491)	(80,611)	221,768
Minority interests	(2)	4,795				(3,024)	80,611	82,380
	180,561	196,452						304,148

	RMB'000
Unaudited pro forma profit of the Enlarged Group attributable to the equity holders of the Company	221,768
	RMB
Unaudited pro forma earnings per Share of the Enlarged Group *(note 3)*	0.33

Notes to the unaudited pro forma income statement:

1 The balances are extracted from the consolidated income statement of the Group for the year ended 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following pro forma adjustments are to reflect the effect of the acquisition:

(a) The balances are extracted from the consolidated income statement of HNA Airport for the year ended 31 December 2009 as set out in the accountant's report in Appendix II.

(b) Reclassification of the balances of HNA Airport to conform to the current presentation of the Group.

(c) The adjustment represents the estimated finance cost of approximately RMB54,000,000 for the borrowing of RMB1,000,000,000 and the related tax impact of approximately of RMB5,400,000. It is expected to have continuing effect on the Enlarged Group.

(d) The adjustment represents the estimated transactions costs for the acquisition of approximately RMB9,000,000 and the related tax impact of approximately of RMB2,250,000. It is not expected to have continuing effect on the Enlarged Group.

(e) Upon Completion, the identifiable net assets of HNA Airport will be accounted for in the consolidated financial statements of the Group at fair value using the purchase method of accounting. For the purpose of this unaudited pro forma income statement, the Directors have estimated the fair values of the net identifiable assets of HNA Airport as at 1 January 2009 with reference to the valuation reports issued by Vigers Appraisal & Consulting Limited. The adjustments represent:

(i) the additional depreciation and amortisation charge of approximately RMB21,367,000 and the related tax impact of approximately RMB3,852,000 due to the fair value adjustments on certain property, plant and equipment and land use rights of HNA Airport as at 1 January 2009. It is expected to have continuing effect on the Enlarged Group; and

(ii) the impact to the profit attributable to equity holders of the Company and the recognition of minority interest.

3 The calculation of the unaudited pro forma earnings per Share is based on the pro forma profit of the Enlarged Group attributable to the equity holders of the Company for the year ended 31 December 2009, assuming that the acquisition and the A Share Issue had been completed on 1 January 2009 and a total of 673,213,000 Shares were in issue during the entire year.

4 The fair values of the identifiable assets and liabilities of HNA Airport as at the completion date of the acquisition and the offer price of the newly issued A Shares may be different from the pro forma amounts as disclosed in this Appendix.

5 No other adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

ii. Assuming an acquisition of only 24.5% equity interest in HNA Airport

		Pro forma adjustments			
	Consolidated income statement of the Group for the year ended 31 December 2009				**Unaudited pro forma income statement of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	
Revenue					
Aeronautical	301,807				301,807
Non-aeronautical	98,914				98,914
	400,721				400,721
Cost of services and goods sold	(158,482)				(158,482)
Gross profit	242,239				242,239
Administrative expenses	(62,377)				(62,377)
Other gain – net	260				260
Operating profit	180,122				180,122
Finance income	12,328				12,328
Finance costs	(1,017)	(54,000)			(55,017)
Finance costs-net	11,311				(42,689)
Share of (loss)/profit of associates	(24)		46,956	(3,550)	43,382
Profit before income tax	191,409				180,815
Income Tax	(10,848)	5,400			(5,448)
Profit for the year	180,561				175,367
Attributable to:					
Equity holders of the Company	180,563	(48,600)	46,956	(3,550)	175,369
Minority interests	(2)				(2)
	180,561				175,367

Notes to the unaudited pro forma income statement:

1 The balances are extracted from the consolidated income statement of the Group for the year ended 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following pro forma adjustments are to reflect the effect of the acquisition of Kingward Sale Shares:

(a) The adjustment represents the estimated finance cost of approximately RMB54,000,000 for the borrowing of RMB1,000,000,000 and the related tax impact of approximately of RMB5,400,000. It is expected to have continuing effect on the Enlarged Group.

(b) The adjustment represents the estimated share of profit after tax of RMB191,657,000 attributable to the equity holders of HNA Airport, assuming the acquisition of Kingward Sale Shares had been completed on 1 January 2009. It is expected to have continuing effect on the Enlarged Group.

(c) The adjustment represents the estimated share of the additional depreciation and amortisation of RMB14,491,000, assuming the acquisition of Kingward Sales Shares had been completed on 1 January 2009. It is expected to have continuing effect on the Enlarged Group.

3 No other adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

iii. Assuming an acquisition of only 30% equity interest in HNA Airport

	Consolidated income statement of the Group for the year ended 31 December 2009	Pro forma adjustments		Unaudited pro forma income statement of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2 (a)*	*Note 2 (b)*	
Revenue				
Aeronautical	301,807			301,807
Non-aeronautical	98,914			98,914
	400,721			400,721
Cost of services and goods sold	(158,482)			(158,482)
Gross profit	242,239			242,239
Administrative expenses	(62,377)			(62,377)
Other gain – net	260			260
Operating profit	180,122			180,122
Finance income	12,328			12,328
Finance costs	(1,017)			(1,017)
Finance costs-net	11,311			11,311
Share of profit of a jointly controlled entity	–	57,497	(4,347)	53,150
Share of loss of associates	(24)			(24)
Profit before income tax	191,409			244,559
Income tax	(10,848)			(10,848)
Profit for the year	180,561			233,711
Attributable to:				
Equity holders of the Company	180,563	57,497	(4,347)	233,713
Minority interests	(2)			(2)
	180,561			233,711

	RMB'000
Unaudited pro forma profit of the Enlarged Group attributable to the equity holders of the Company	233,713
	RMB
Unaudited pro forma earnings per Share of the Enlarged Group *(note 3)*	0.35

Notes to the unaudited pro forma income statement:

1 The balances are extracted from the consolidated income statement of the Group for the year ended 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2(a) The adjustment represents the estimated share of profit after tax of RMB191,657,000 attributable the equity holders of HNA Airport, assuming the acquisition of HNA Group Sale Shares had been completed on 1 January 2009. It is expected to have continuing effect on the Enlarged Group.

2(b) The adjustment represents the estimated share of additional depreciation and amortisation of RMB14,491,000, assuming the acquisition of HNA Group Sale Shares had been completed on 1 January 2009. It is expected to have continuing effect on the Enlarged Group.

3 The calculation of the unaudited pro forma earnings per Share is based on the pro forma profit of the Enlarged Group attributable to the equity holders of the Company for the year ended 31 December 2009, assuming that acquisition of HNA Group Sale Shares and A Share Issue had been completed on 1 January 2009 and a total of 673,213,000 Shares were in issue during the entire year.

4 No other adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

(C) Unaudited Pro Forma Cash Flow Statement of the Enlarged Group

i. Assuming an acquisition of a total of 54.5% equity interest in HNA Airport

	Consolidated cash flow statement of the Group for the year ended 31 December 2009	Consolidated cash flow statement of HNA Airport for the year ended 31 December 2009	Pro forma adjustments				Unaudited pro forma cash flow statement of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	
Cash flows from operating activities							
Cash generated from operations	205,237	297,783					503,020
Interest paid	(995)	–					(995)
PRC income tax paid	(55,077)	(16,662)					(71,739)
Net cash generated from operating activities	149,165	281,121					430,286
Cash flows from investing activities							
Purchase of property, plant and equipment	(19,231)	(114,955)					(134,186)
Proceeds from disposal of property, plant and equipment	349	2,294					2,643
Interest received	12,551	9,694					22,245
Government grants received	3,000	–	150,128				153,128
Decrease/(increase) in time deposits	2,000	–	(62,593)				(60,593)
Finance lease received	–	1,687					1,687
Advance to minority shareholders of subsidiaries	–	(10,758)					(10,758)
Proceeds from disposal of available for sale investments	–	9,800					9,800
Disposal of subsidiaries	–	(71,627)					(71,627)
Capital contributions to an associate	–	(15,000)					(15,000)
Advance to HNA Group and its affiliated companies	–	(1,499,153)					(1,499,153)
Proceeds from disposal of land use rights	–	–	328				328
Repayment from loan advanced to HNA Group and its affiliated companies	–	617,127					617,127
Increase in deposits in a group treasury company	–	(62,593)	62,593				–
Proceeds from disposal of prepaid lease payments	–	328	(328)				–
Acquisition of a subsidiary, net of cash acquired	–	–				(1,650,289)	(1,650,289)
Net cash used in investing activities	(1,331)	(1,133,156)					(2,634,648)

	Consolidated cash flow statement of the Group for the year ended 31 December 2009	Consolidated cash flow statement of HNA Airport for the year ended 31 December 2009	Pro forma adjustments				Unaudited pro forma cash flow statement of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	
Cash flows from financing activities							
Repayments of borrowings	(4,000)	(936,236)					(940,236)
Dividend paid to the Company's shareholders	(62,495)	–					(62,495)
New bank and other borrowings raised	–	1,084,571	700,000		1,000,000		2,784,571
Advance from HNA Group and its affiliated companies	–	86,198					86,198
Net proceeds from A Share Issue	–	–		1,605,180			1,605,180
Interest paid	–	(149,045)			(54,000)		(203,045)
Government grants received	–	150,128	(150,128)				–
New unsecured loan notes raised	–	700,000	(700,000)				–
Net cash used in financing activities	(66,495)	935,616					3,270,173
Net increase in cash and cash equivalents	81,339	83,581					1,065,811
Cash and cash equivalents at 1 January 2009	507,339	589,825				(589,825)	507,339
Cash and cash equivalents at 31 December 2009	588,678	673,406					1,573,150

Notes to the Unaudited Pro Forma Cash Flow Statement:

1 The balances are extracted from the consolidated cash flow statement of the Group for the year ended 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following adjustments are to reflect the effect of the acquisition:

(a) The balances are extracted from the consolidated cash flow statement of HNA Airport for the year ended 31 December 2009 as set out in the accountant's report in Appendix II.

(b) Reclassification of the balances of HNA Airport to conform to the current presentation of the Group.

(c) The adjustment represents the estimated net proceeds of RMB1,605,180,000 from the proposed A Share Issue assuming the offer price is RMB8.63 per Share, being the RMB equivalent closing price of the H Share on 25 March 2010, the date of announcement of the Company for the acquisition.

(d) The adjustment represents the proceeds from borrowing of RMB1,000,000,000 and the payment of the related interest expense of RMB54,000,000. The payment of the interest expense is expected to have continuing effect on the Enlarged Group.

(e) The adjustment represents the cash outflow on acquisition of the total consideration of approximately RMB2,231,114,000 and the estimated transaction costs of approximately RMB9,000,000 netting off the cash and cash equivalent in HNA Airport acquired of approximately RMB589,825,000 and it is not expected to have continuing effect on the Enlarged Group.

3 The offer price of the A Share Issue may be different from the pro forma amounts as disclosed in this Appendix.

4 No other adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

ii. Assuming an acquisition of only 24.5% equity interest in HNA Airport

	Consolidated cash flow statement of the Group for the year ended 31 December 2009	Pro forma adjustments		Unaudited pro forma cash flow statement of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	
Cash flows from operating activities				
Cash generated from operations	205,237			205,237
Interest paid	(995)			(995)
PRC income tax paid	(55,077)			(55,077)
Net cash generated from operating activities	149,165			149,165
Cash flows from investing activities				
Purchase of property, plant and equipment	(19,231)			(19,231)
Decrease in time deposits	2,000			2,000
Proceeds from disposal of property, plant and equipment	349			349
Government grants received	3,000			3,000
Acquisition of an associate	–		(1,029,114)	(1,029,114)
Interest received	12,551			12,551
Net cash used in investing activities	(1,331)			(1,030,445)
Cash flows from financing activities				
New bank and other borrowings raised	–	1,000,000		1,000,000
Repayments of borrowings	(4,000)			(4,000)
Interest paid	–	(54,000)		(54,000)
Dividend paid to the Company's shareholders	(62,495)			(62,495)
Net cash used in financing activities	(66,495)			879,505
Net decrease in cash and cash equivalents	81,339			(1,775)
Cash and cash equivalents at 1 January 2009	507,339			507,339
Cash and cash equivalents at 31 December 2009	588,678			505,564

Notes to the Unaudited Pro Forma Cash Flow Statement:

1 The balances are extracted from the consolidated cash flow statement of the Group for the year ended 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following adjustments are to reflect the effect of the acquisition of Kingward Sale Shares:

(a) The adjustment represents the proceeds from borrowing of RMB1,000,000,000 and the payment of the related interest expense of RMB54,000,000. The payment of the interest expense is expected to have continuing effect on the Enlarged Group.

(b) The adjustment represents the payment of the total consideration of approximately RMB1,020,114,000 and the estimated transaction costs of approximately RMB9,000,000 and it is not expected to have continuing effect on the Enlarged Group.

3 No other adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

iii. Assuming an acquisition of only 30% equity interest in HNA Airport

	Consolidated cash flow statement of the Group for the year ended 31 December 2009	Pro forma adjustments		Unaudited pro forma cash flow statement of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	
Cash flows from operating activities				
Cash generated from operations	205,237			205,237
Interest paid	(995)			(995)
PRC income tax paid	(55,077)			(55,077)
Net cash generated from operating activities	149,165			149,165
Cash flows from investing activities				
Purchase of property, plant and equipment	(19,231)			(19,231)
Decrease in time deposits	2,000			2,000
Proceeds from disposal of property, plant and equipment	349			349
Government grants received	3,000			3,000
Acquisition of a jointly controlled entity	–		(1,220,000)	(1,220,000)
Interest received	12,551			12,551
Net cash used in investing activities	(1,331)			(1,221,331)
Cash flows from financing activities				
Repayments of borrowings	(4,000)			(4,000)
Net proceeds from A Share Issue	–	1,605,180		1,605,180
Dividend paid to the Company's shareholders	(62,495)			(62,495)
Net cash used in financing activities	(66,495)			1,538,685
Net increase in cash and cash equivalents	81,339			466,519
Cash and cash equivalents at 1 January 2009	507,339			507,339
Cash and cash equivalents at 31 December 2009	588,678			973,858

Notes to the Unaudited Pro Forma Cash Flow Statement:

1 The balances are extracted from the consolidated cash flow statement of the Group for the year ended 31 December 2009 as set out in the published annual report of the Company for the year ended 31 December 2009.

2 The following adjustments are to reflect the effect of the acquisition of HNA Group Sale Shares:

(a) The adjustment represents the estimated net proceeds of RMB1,605,180,000 from the proposed A Share Issue assuming the offer price is RMB8.63 per Share, being the closing price of the H Share on 25 March 2010, the date of announcement of the Company for the acquisition.

(b) The adjustment represents the payment of the total consideration of approximately RMB1,211,000,000 and the estimated transaction costs of approximately RMB9,000,000 and it is not expected to have continuing effect on the Enlarged Group.

3 The offer price of the A Share Issue may be different from the pro forma amounts as disclosed in this Appendix.

4 No other adjustments have been made to reflect any trading results or other transactions of the Group and HNA Airport entered into subsequent to 31 December 2009.

B. ACCOUNTANT'S REPORT ON THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Set out below is the text of the report on the unaudited pro forma financial information of the Enlarged Group (which is set out in Section A in Appendix III), issued by the independent reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. As stated in the section headed "Documents Available for Inspection" in Appendix IX, copy of this report on pro forma financial information is available for inspection.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED

We report on the unaudited pro forma financial information set out on pages III-1 to III-23 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 13 May 2010 (the "Circular") of Hainan Meilan International Airport Company Limited (the "Company"), in connection with the proposed acquisition (the "Proposed Acquisition") of certain equity interest in HNA Airport Holding (Group) Company Ltd. by the Company. The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the Proposed Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-23 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the consolidated balance sheet of the Group as at 31 December 2009, the consolidated income statement and cash flow statement of the Group for the year ended 31 December 2009 with the audited consolidated financial statements as set out in the published annual report of the Company for the year ended 31 December 2009, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Group as at 31 December 2009 or any future date, or

– the results and cash flows of the Group for the year ended 31 December 2009 or any future period.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 13 May 2010

A. WORKING CAPITAL

The Board is of the opinion that after taking into account the financial resources available to the Enlarged Group, including the internally generated funds, the net proceeds from the proposed issue of 200,000,000 A Shares in the PRC and available borrowing facilities provided by HNA Finance Co., Limited, a related party, the Enlarged Group would have sufficient working capital for its present requirements and for at least the next twelve months from the date of this circular.

B. INDEBTEDNESS STATEMENT

Indebtedness of the Group

At the close of business on 31 March 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding secured bank loans of RMB12,000,000 which were secured by a floating charge over the Company's revenue.

At the close of business on 31 March 2010, the Group had no contingent liabilities.

Indebtedness of HNA Airport Group

At the close of business on 31 March 2010, being the latest practicable date for the purpose of this statement prior to the printing of this circular, the HNA Airport Group had outstanding bank borrowings of approximately RMB1,730,000,000 (of which approximately RMB1,230,000,000 was secured by (a) certain prepaid lease payments, buildings, revenue from ground handling services, aircraft movement fees and related charges and passenger charges of the HNA Airport Group; (b) equity interest held by HNA Group Co. Limited in HNA Airport; (c) equity interest held by HNA Industry Holding Co. Limited in Changjiang Leasing Co. Limited; (d) equity interest held by Sanya Phoenix International Airport Co. Limited in Hainan Pacific Oil Co. Limited; and (e) guarantees given by HNA Finance Co. Limited, (a fellow subsidiary of HNA Airport) and HNA Group Co. Limited. In addition, the HNA Airport Group had outstanding, at that date, unsecured other borrowings of approximately RMB256,779,000, in which RMB200,000,000 was guaranteed by HNA Airport Group Co. Limited and unsecured loan notes of approximately RMB700,000,000.

Save as aforesaid and apart from intra-group liabilities, the HNA Airport Group did not have outstanding at the close of business on 31 March 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debenture, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

Indebtedness of the Enlarged Group

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 March 2010, the Enlarged Group did not have outstanding indebtedness, loan capital, bank overdrafts and liabilities under acceptances, debentures, mortgages, charges, acceptance credits or hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 March 2010. For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange ruling at the close of business on the Latest Practicable Date.

C. FINANCIAL INFORMATION AND PROSPECT OF THE ENLARGED GROUP

In respect of the Acquisition, as mention in the section headed "Reasons for the Acquisition" in the letter from the Board, the Acquisition will facilitate the Company's medium-long term strategy of evolving into a regional airport management company, underpin the profitability of the Company's principal operations, expand the Company's operation scale and enhance the Company's core competitive power, hence laying a solid foundation for the Company's sustainable development with an aim to expand the Company's business into other parts of the PRC from Hainan.

HNA Airport is principally engaged in airport investment, operation management and ground services relating to air transportation, including owning and operating Sanya Phoenix Airport. HNA Airport, being the holding company of eight airports, is one of the major airport management groups in the PRC.

The Acquisition will facilitate the Company to integrate the civil airport resources in Hainan Island, and thoroughly resolve the horizontal competition issue of "one island, two airports". Upon the acquisition of the equity interest in HNA Airport, the Company will indirectly hold 67% of the equity interest in Sanya Phoenix Airport, benefiting from the fast development of Sanya Phoenix Airport. The Acquisition will increase the Company's core competitiveness and popularity in the airport operation industry, ensure a broaden stream of revenue source and a relatively stable profits rate.

In light of the prospects of the HNA Airport, the Directors are of the view that the Acquisition would likely have a positive impact on the future financial performance of the Enlarged Group.

D. PROPERTY VALUATION

(i) The Group

For the purpose of the Acquisition, the properties of the Group were valued by Vigers Appraisal & Consulting Limited at RMB941.7 million as at 28 February 2010. Details of this valuation are set forth in Appendix V to this Circular.

A reconciliation of the carrying value of the Group's properties and the valuation of such properties is set forth as below:

	RMB'000
Carrying value of properties as at 31 December 2009	
– Buildings and improvements	775,629
– Land use rights	153,622
	929,251
Movement from 31 December 2009 to 28 February 2010	
Depreciation of buildings and improvements	(4,423)
Amortisation of land use rights	(580)
	(5,003)
Carrying value of properties as at 28 February 2010	924,248
Value attributable to the Group as at 28 February 2010	941,700
Net valuation surplus as at 28 February 2010	17,452

(ii) The HNA Airport Group

For the purpose of the Acquisition, the properties of the HNA Airport Group were valued by Vigers Appraisal & Consulting Limited at RMB3,745.9 million as of 28th February 2010. Details of this valuation are set forth in Appendix V to this Circular.

A reconciliation of the HNA Airport Group's property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set forth below:

	RMB'000
Carrying value of property interest as at 31st December 2009	
Property, plant and equipment – Buildings and Structures	2,229,864
Premium on prepaid lease payments	698,152
Prepaid lease payments	736,499
	3,664,515
Movement from 31st December 2009 to 28th February 2010	
Depreciation of buildings and structures	19,911
Amortisation of premium on prepaid lease payments	2,424
Release of prepaid lease payments	2,303
	24,638
Carrying value of property interests as of 28th February 2010	3,639,877
Value attributable to the HNA Airport Group as of 28th February 2010	3,745,850
Net valuation surplus as of 28th February 2010	105,973

E. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Group were made up.

The following is the texts of letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this circular, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with their valuation as at 28th February 2010 for the property interests held and to be held by the Group in the People's Republic of China.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

13th May 2010

The Directors
Hainan Meilan International Airport Company Limited
Composite Building,
Meilan International Airport,
Haikou City, Hainan Province,
the People's Republic of China

Dear Sirs,

In accordance with your instructions for us to value the property interests held and to be held by Hainan Meilan International Airport Company Limited (the "Company") and its subsidiaries (the "Group") in the People's Republic of China ("the PRC"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 28th February 2010 ("date of valuation") for the purpose of incorporation into this circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the Property Nos. 1-4, 11 and 15, which are held and to be held by the Group in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the properties and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the properties as a whole. In the valuation of the land portion, reference has been made to the standard land prices in Dongying, Yichang, Haikou and Sanya Cities and the sales evidence as available to us in the localities. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables sales. The approach is subject to adequate potential profitability of the business.

In valuing the Property Nos.: 7, 9-10, which are to be held by the Group in the PRC, we have valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables sales. The approach is subject to adequate potential profitability of the business.

In valuing Properties Nos. 5-6, 12-14, we have adopted the direct comparison approach and made reference to the recent transactions for similar premises in the proximity. Adjustments have been made for the differences in transaction dates, building age, floor area etc. between the comparable properties and the subject property.

For Property No. 8, it has been valued as fully operational hotel entities with regard to its trading accounts and rental incomes, where available, and our opinion on the future trading potential and level of turnover likely to be achieved. To these income streams, appropriate discount rates have been applied to estimate its market value.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interests at the relevant government bureaus in the PRC. We have been provided with certain extracts of title documents relating to the property interests in the PRC. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests, we have relied on the legal opinion ("the PRC legal opinion") provided by the Company's PRC legal adviser, Grandall Legal Group.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the properties and other relevant matter. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rates adopted in valuing the property interests in the PRC is HK$1: RMB 0.88. There has been no significant fluctuation in the exchange rates for the currency against Hong Kong Dollars between that date and the date of this letter.

For the purpose of compliance with Rule 11.3 of the Code on Takeovers and Mergers and as advised by the Company, the potential tax liabilities which may arise from the sale of the properties include: (i) PRC business tax (5% of sales revenue), (ii) PRC land appreciation tax (30% – 60% of the net appreciation amount) and (iii) PRC corporate income tax (25%) for the properties in the PRC.

It is unlikely that such tax liability will be crystallized in the recent future as the Group has no intension to dispose of or transfer the relevant property interests. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability.

We enclose herewith the summary of valuation together with the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor (GP)
MRICS MHKIS MSc(e-com)
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty three years' experience in undertaking valuations of properties in Hong Kong and has over sixteen years' experience in valuations of properties in the PRC. Raymond has joined Vigers in 1989.

SUMMARY OF VALUATION

Property		Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
Group I – Property interest held by the Group in the PRC for self-occupation				
1.	The lands and buildings of Hainan Meilan International Airport, Haikou City, Hainan Province, the PRC	RMB941,700,000 (equivalent to approximately HK$1,070,100,000)	100%	RMB941,700,000 (equivalent to approximately HK$1,070,100,000)
Group II – Property interests to be held by the Group in the PRC for self-occupation				
2.	The lands and buildings of Dongying Yongan Airport, Dongying City, Shandong Province, the PRC	RMB330,800,000 (equivalent to approximately HK$375,900,000)	49.05%	RMB162,260,000 (equivalent to approximately HK$184,390,000)
3.	The lands and buildings of Yichang Sanxia Airport, Residence Committee, Huanglong Temple, Xiaoting District, Yichang City, Hubei Province, the PRC	RMB860,900,000 (equivalent to approximately HK$978,300,000)	49.05%	RMB422,270,000 (equivalent to approximately HK$479,850,000)
4.	The land and buildings, Huoshankou, Anfusi Town, Zhijiang City, Yichang City, Hubei Province, the PRC	RMB5,500,000 (equivalent to approximately HK$6,250,000)	49.05%	RMB2,700,000 (equivalent to approximately HK$3,070,000)
5.	Blocks 5-1, 5-2, 5-3, 5-4 and 5-5, No. 5 Wulin Road, Wujiagang District, Yichang City, Hubei Province, the PRC	RMB4,200,000 (equivalent to approximately HK$4,800,000)	49.05%	RMB2,060,000 (equivalent to approximately HK$2,340,000)
6.	Two units on Level 1 and Level 3, No. 44 Hongxing Road, Xiling District, Yichang City, Hubei Province, the PRC	RMB1,450,000 (equivalent to approximately HK$1,600,000)	49.05%	RMB710,000 (equivalent to approximately HK$810,000)

Property		Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
7.	The buildings and structures of Lanzhou Zhongchuan Airport, Xicao Village, Yongdeng Town, Lanzhou City, Gansu Province, the PRC	No commercial value	54.5%	Nil
8.	HNA Hotel, Konggang Lanzhou, No. 399 Jiayuguan Road West, Chengguan District, Lanzhou City, Gansu Province, the PRC	No commercial value	54.5%	Nil
9.	The buildings and structures of Dunhuang Mogao Airport, Mogao Town, Dunhuang City, Gansu Province, the PRC	No commercial value	54.5%	Nil
10.	The buildings and structures of Jiayuguan Airport, Xincheng Town, Jiayuguan City, Gansu Province, the PRC	No commercial value	54.5%	Nil
11.	The lands and buildings of Sanya Fenghuang Airport, Tongjing Village, Fenghuang Town, Sanya City, Hainan Province, the PRC	RMB2,423,300,000 (equivalent to approximately HK$2,753,750,000)	36.515%	RMB884,870,000 (equivalent to approximately HK$1,005,530,000)
12.	Various units, Donghe Road West, Hedong District, Sanya City, Hainan Province, the PRC	RMB96,400,000 (equivalent to approximately HK$109,500,000)	36.515%	RMB35,200,000 (equivalent to approximately HK$40,000,000)
13.	Various units, Jinjiling Street, Sanya City, Hainan Province, the PRC	RMB20,700,000 (equivalent to approximately HK$23,500,000)	36.515%	RMB7,560,000 (equivalent to approximately HK$8,590,000)

Property		Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
14.	Various units of Yaxi Building, No. 12 Haifu Road, Meilan District, Haikou City, Hainan Province, the PRC	RMB2,600,000 (equivalent to approximately HK$3,000,000)	36.515%	RMB950,000) (equivalent to approximately HK$1,080,000)
15	The buildings and structures of Qingyang Airport, Xifeng District, Qingyang City, Gansu Province, the PRC	No commercial value	54.5%	Nil
	Sub-total	**RMB3,745,850,000**		**RMB1,518,580,000**
		(equivalent to approximately HK$4,256,650,000)		**(equivalent to approximately HK$1,725,660,000)**
	Grand-total	**RMB4,687,550,000**		**RMB2,460,280,000**
		(equivalent to approximately HK$5,326,760,000)		**(equivalent to approximately HK$2,795,770,000)**

VALUATION CERTIFICATE

Group I – Property interest held by the Group in the PRC for self-occupation

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
1.	The lands and buildings of Hainan Meilan International Airport, Haikou City, Hainan Province, the PRC	The property comprises various parcels of land together with various buildings and structures completed in between 1999 to 2006 erected thereon. The total site area and total gross floor area of the property are approximately 757,672.177 sq.m. and 132,609.71 sq.m. respectively. The land use rights were granted for terms of 50 years an 70 years with the latest expiry date on 25th April 2069 for transportation and airport uses.	The property at present is occupied and operated by the Group for airport use.	RMB941,700,000 (equivalent to approximately HK$1,070,100,000)	100%	RMB941,700,000 (equivalent to approximately HK$1,070,100,000)

Notes:

1. According to 13 State-owned Land Use Rights Certificates, the land use rights of the property with a total site area of approximately 757,672.177 sq.m. were granted to Hainan Meilan International Airport Company Limited for terms of 50 years and 70 years with the latest expiry date on 25th April 2069 for transportation and airport uses. The particulars are as follows:

No.	**Site Area** *(sq.m.)*	**State-owned Land Use Rights Certificate** *(Document No.)*	**Tenure expiry date**	**Use**
1.	54,183.14	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0148	5th September 2049	Transportation
2.	14,000	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0149	5th September 2049	Transportation
3.	35,604.92	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0150	5th September 2049	Transportation
4.	23,700.115	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0151	5th September 2049	Transportation
5.	163,237.29	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0152	5th September 2049	Transportation
6.	3,597.08	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0153	5th September 2049	Transportation
7.	40,000.705	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0154	5th September 2049	Transportation
8.	16,119.937	Qiong Shan Ji Guo Yong (2002) Zi No. 08-0155	5th September 2049	Transportation
9.	192,360.06	Hai Kou Shi Guo Yong (2004) Zi No. 000938	25th April 2069	Airport
10.	80,000.13	Hai Kou Shi Guo Yong (2004) Zi No. 000939	25th April 2069	Airport
11.	117,639.9	Hai Kou Shi Guo Yong (2004) Zi No. 000940	25th April 2069	Airport
12.	11,728.81	Hai Kou Shi Guo Yong (2009) No. 009765	26th March 2069	Airport
13.	5,500.09	Hai Kou Shi Guo Yong (2009) No. 009768	26th March 2069	Airport
Total	**757,672.177**			

2. According to 10 Building Ownership Certificates, the ownership of 10 buildings with a total gross floor area of approximately 122,750.11 sq.m. are vested in Hainan Meilan International Airport Company Limited. The particulars is as follows:

No.	**Building Name**	**Approximate Gross Floor Area** *(sq.m.)*	**No. of storey**	**Year of completion**	**Building Ownership Certificate** *(Document No.)*
1	Emergency Centre	1,209.13	1	1999	Qiong Shan Shi Fang Quan Zheng Mei Lan Gong Zi No. 00001
2	Pump Station	257.28	1	1999	Qiong Shan Shi Fang Quan Zheng Mei Lan Gong Zi No. 00002
3	Training Tower	73.38	4	1999	Qiong Shan Shi Fang Quan Zheng Mei Lan Gong Zi No. 00003
4	Fire-resistance Centre	3,577.25	2	1999	Qiong Shan Shi Fang Quan Zheng Mei Lan Gong Zi No. 00004
5	Logistic Centre	4,337.27	2	1999	Qiong Shan Shi Fang Quan Zheng Mei Lan Gong Zi No. 00005
6	Terminal	60,296	4	1999	Qiong Shan Shi Fang Quan Zheng Mei Lan Gong Zi No. 00006
7	Extension of Terminal Phase II	42,060.63	4	2006	Hai Kou Shi Fang Quan Zheng Hai Fang Zi No. HK228746
8	Checking and Quarantine Building	3,396.51	5	2004	Hai Kou Shi Fang Quan Zheng Hai Fang Zi No. HK228750
9	Customs Building	3,771.33	5	2004	Hai Kou Shi Fang Quan Zheng Hai Fang Zi No. HK228748
10	Checking Building	3,771.33	5	2004	Hai Kou Shi Fang Quan Zheng Hai Fang Zi No. HK228747
Total		**122,750.11**			

3. According to the information provided by the Group, there are 3 buildings with a total gross floor area of approximately 9,859.6 sq.m. erected thereon without Building Ownership Certificates. The particulars are as follows:

No.	Building Name	Approximate Gross Floor Area *(sq.m.)*	No. of storey	Year of completion
1	New Office Building	4,382.8	3	2006
2	Materials Warehouse	1,094	1	2004
3	Composite Building	4,382.8	3	2008
Total		**9,859.6**		

4. We have ascribed no commercial value to the buildings stated in Note 3 due to the absence of the relevant Building Ownership Certificates, hence they are not freely transferrable in the market. However, for indicative purpose, the depreciated replacement cost of these buildings is RMB12,800,000 (equivalent to approximately HK$14,550,000) assuming these portions of the property have obtained the relevant title documents vested in Hainan Meilan International Airport Company Limited and they are freely transferrable in the market.

5. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Hainan Meilan International Airport Company Limited is entitled to transfer, lease and mortgage the land use rights stated in Note 1 and Buildings stated in Note 2;

   (b) Hainan Meilan International Airport Company Limited is entitled to transfer, lease and mortgage the buildings stated in Note 3 once the relevant Building Ownership Certificates were obtained; and

   (c) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

Group II – Property interests to be held by the Group in the PRC for self-occupation

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
2.	The lands and buildings of Dongying Yongan Airport, Dongying City, Shandong Province, the PRC	The property comprises various parcel of land together with 37 single to 6-storey buildings and structures completed in between 1985 and 2001 erected thereon. The total site area and total gross floor area of the property are approximately 2,503,667.4 sq.m. and 10,686.94 s.q.m. respectively. The land use rights of the property were granted for a term expiring on 7th June 2054 for transportation uses.	The property at present is operated as airport.	RMB330,800,000 (equivalent to approximately HK$375,900,000)	49.05%	RMB162,260,000 (equivalent to approximately HK$184,390,000)

Notes:

1. According to ten State-owned Land Use Rights Certificates (Document Nos.: Dong Guo Yong (2004) Zi Nos. 239 to 248), the land use rights of the property with a total site area of approximately 2,470,258.5 sq.m. has been granted to Dongying Yong. An Airport Co., Ltd. for a term expiring on 7th June 2054 for transportation uses.

2. According to the information provided by the Group, there are two land parcels with a total site area of approximately 33,408.9 sq.m. have not obtained the State-owned Land Use Rights Certificates with the expiry date on 7th June 2054 for transportation use.

3. Pursuant to two Building Ownership Certificates (Document Nos.: Dong Ying Shi Fang Quan Zheng Fei Ji Chang Zi No. 0002 and Fang Quan Zheng Ken Fang Zi No. YX3552), the ownership of 47 buildings with a total gross floor area of approximately 11,018.51 sq.m. is vested in Dongying Yong. An Airport Co., Ltd.. According to the information provided by the Group, 10 buildings with a total gross floor area of approximately 331.57 sq.m. were demolished. Thus, the total gross floor area of the property is approximately 10,686.94 sq.m.

4. We have ascribed no commercial value to the land parcels stated in Note 2 due to the absence of State-owned Land Use Rights Certificates, hence they are not freely transferrable in the market. However, for indicative purpose, the market value of these two land parcels as at the date of valuation is RMB1,400,000 (equivalent to approximately HK$1,590,000, the Market Value in existing state attributable to the Group after Completion is RMB690,000 (equivalent to approximately HK$780,000)) assuming they have obtained the State-owned Land Use Rights Certificates and are freely transferrable in the market.

5. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Dongying Yong. An Airport Co., Ltd. is entitled to transfer, lease and mortgage the land parcels stated in Note 1 and Buildings in Note 3 in the market;

   (b) Dongying Yong. An Airport Co., Ltd. is entitled to transfer, lease and mortgage the land parcels stated in Note 2 once the relevant State-owned Land Use Rights Certificates were obtained; and

   (c) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
3.	The lands and buildings of Yichang Sanxia Airport, Residence Committee, Huanglong Temple, Xiaoting District, Yichang City, Hubei Province, the PRC	The property comprises 17 parcels of land together with various single to 4-storey buildings completed in between 1995 and 2006 erected thereon. The total site area and gross floor area of the property are approximately 2,638,717.67 sq.m. and 40,792.78 sq.m. respectively. The land use rights of the property were granted for a term expiring on 25th June 2054 for airport uses.	The property at present is operated as airport. Portion of the property is under construction.	RMB860,900,000 (equivalent to approximately HK$978,300,000)	49.05%	RMB422,270,000 (equivalent to approximately HK$479,850,000)

Notes:

1. Pursuant to various State-owned Land Use Rights Certificates (Document Nos.: Yi Shi Guo Yong (2004) Nos. 190114001, 190114003-1, 190114007, 190114009, 190114010, 190114011, 190114012, 190114014-1, 190114014-2, 190114017, 190114018, 190114022, 190114023, 190114028, 190114030, 190114031 and 190114037), the land use rights of the property with a total site area of approximately 2,638,717.67 sq.m. has been granted to Yichang Sanxia Airport Company Limited for a term expiring on 25th June 2054 for airport uses.

2. Pursuant to 35 Building Ownership Certificates, the ownership of various single to 4-storey buildings with a total gross floor area of approximately 37,212.78 sq.m. is vested in Yichang Sanxia Airport Company Limited.

3. As advised, there are 3 buildings with a total gross floor area of approximately 3,580 sq.m. erected thereon without Building Ownership Certificates.

4. We have ascribed no commercial value to the buildings stated in Note 3 due to the absence of the Building Ownership Certificates, hence they are not freely transferrable in the market. However, for indicative purpose, the depreciated replacement cost of these buildings as at the date of valuation is RMB3,000,000 (equivalent to approximately HK$3,410,000, the depreciated replacement cost in existing state attributable to the Group after Completion is RMB1,470,000 (equivalent to approximately HK$1,670,000)) assuming they have obtained the relevant legal documents and are freely transferrable in the market.

5. As advised by the Group, the total development cost of the construction in progress is RMB7,352,285.06 and as at the date of valuation, the total cost incurred is RMB6,725,247.42.

6. The estimated capital value of the property after completion of the development based on the existing development information provided and the estimated development cost to be incurred is RMB872,000,000 (equivalent to approximately HK$990,900,000, the estimated capital value of the property after completion of the development attributable to the Group after Completion is RMB427,720,000 (equivalent to approximately HK$486,050,000)) by assuming all relevant title documents were obtained and hence the property will be entitled to be transferred, leased and mortgaged in the market.

7. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Yichang Sanxia Airport Company Limited is entitled to transfer, lease and mortgage the land parcels stated in Note 1 and Buildings in Note 2 in the market;

   (b) Yichang Sanxia Airport Company Limited is entitled to transfer, lease and mortgage the buildings stated in Note 3 unless the relevant Building Ownership Certificates were obtained; and

   (c) As advised by the Group, portion of the land parcels under the State-owned Land Use Rights Certificates (Document Nos.: Yi Shi Guo Yong (2004) Nos.: 190114003-1, 190114007, 190114012, 190114018, 190114023, 190114028, 190114031, 190114030 and 190114037) are subject to a mortgage in favour of Agricultural Bank of China – Sanxia Xiaoting Branch.

   Portion of the land parcel under the State-owned Land Use Rights Certificate (Document No.: 19114001) and portion of buildings under the Building Ownership Certificates (Document Nos.: Yi Shi Fang Quan Zheng Xiaoting Zi Nos.: 0161255, 0161257, 0161258, 0161259, 0161261, 0161262, 0161265, 0161266, 0161267, 0161268, 0161269, 0161270, 0161278, 0161281, 0161282, 0161283, 0161285, 0161287 and 0161288) are subject to a mortgage in favour of Agricultural Bank of China – Sha Yu Branch.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
4.	The land and buildings, Huoshankou, Anfusi Town, Zhijiang City, Yichang City, Hubei Province, the PRC	The property comprises a parcel of land together with 4 single storey buildings and structures completed in about 2004 erected thereon. The site area and total gross floor area of the property are 920 sq.m. and 184.77 sq.m. respectively. The land use rights of the property were granted for a term expiring on 25th June 2054 for airport use.	The property at present is occupied as ancillary facilities for airport use.	RMB5,500,000 (equivalent to approximately HK$6,250,000)	49.05%	RMB2,700,000 (equivalent to approximately HK$3,070,000)

Notes:

1. According to a State-owned Land Use Rights Certificate (Document No.: Zhi Jiang Guo Yong (2004) Zi No. 010109), the land use rights of the property with a site area of approximately 920 sq.m. were granted to Yichang Sanxia Airport Company Limited for a term expiring on 25th June 2054 for airport use.

2. Pursuant to four Building Ownership Certificates (Document Nos.: Zhi Jiang Fang Quan Zheng An Fu Si Zi Nos. 1100979 to 1100982), the ownership of the building portion of the property with a total gross floor area of approximately 184.77 sq.m. is vested in Yichang Sanxia Airport Company Limited.

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Yichang Sanxia Airport Company Limited is entitled to transfer, lease and mortgage the property in the market; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
5.	The lands and buildings, No. 5 Wulin Road, Wujiagang District, Yichang City, Hubei Province, the PRC	The property comprises five 7-storey buildings completed in 1995 erected thereon. The total gross floor area of the property is approximately 2,092.9 sq.m.. The land use rights of the property were granted for terms expiring on 25th June 2044 for commercial uses and 25th June 2074 for residential uses.	The property at present is occupied for dormitory uses.	RMB4,200,000 (equivalent to approximately HK$4,800,000)	49.05%	RMB2,060,000 (equivalent to approximately HK$2,340,000)

Notes:

1. Pursuant to four State-owned Land Use Rights Certificates (Document Nos.: Yi Shi Guo Yong (2004) Nos. 180101010-1 to 180101010-4), the land use rights of the property with a total site area of approximately 320.58 sq.m. were granted to Yichang Sanxia Airport Company Limited for terms expiring on 25th June 2044 for commercial uses and 25th June 2074 for residential uses. The particulars are as follows:

Lot No.	Site Area *(sq.m.)*	Use	Tenure expiry date	State-owned Land Use Rights Certificate *(Document No.)*
180101010-1	262.95	Commercial	25th June 2044	Yi Shi Guo Yong (2004) No. 180101010-1
180101010-2	20.38	Residential	25th June 2074	Yi Shi Guo Yong (2004) No. 180101010-2
180101010-3	19.66	Residential	25th June 2074	Yi Shi Guo Yong (2004) No. 180101010-3
180101010-4	17.59	Residential	25th June 2074	Yi Shi Guo Yong (2004) No. 180101010-4
Total	**320.58**			

2. According to five Building Ownership Certificates (Document Nos.: Yi Shi Fang Quan Zheng Wu Jia Zi Nos. 0161252, 0161254, 0161259, 0161260 and 0161296), the ownership of five buildings with a total gross floor area of approximately 2,092.9 sq.m. is vested in Yichang Sanxia Airport Company Limited. The particulars are as follows:

Block No.	**Approximate Gross Floor Area** (sq.m.)	**No. of storey**	**Year of completion**	**Building Ownership Certificate** *(Document No.)*
5-1	541.03	7	1995	Yi Shi Fang Quan Zheng Wu Jia Zi No. 0161259
5-2	451.32	7	1995	Yi Shi Fang Quan Zheng Wu Jia Zi No. 0161260
5-3	537.79	7	1995	Yi Shi Fang Quan Zheng Wu Jia Zi No. 0161254
5-4	451.23	7	1995	Yi Shi Fang Quan Zheng Wu Jia Zi No. 0161252
5-5	111.53	7	1995	Yi Shi Fang Quan Zheng Wu Jia Zi No. 0161296
Total	**2,092.9**			

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

(a) Yichang Sanxia Airport Company Limited is entitled to transfer, lease and mortgage the property in the market; and

(b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
6.	Two units on Level 1 and Level 3, No. 44 Hongxing Road, Xiling District, Yichang City, Hubei Province, the PRC	The property comprises an office unit on Level 1 and a residential unit on Level 3 of a 9-storey composite building completed in 1994. The total gross floor area of the property is approximately 327.01 sq.m. The property has been granted with a land use right for a term expiring on 25th June 2054 for commercial uses.	The property at present is occupied for retail and dormitory uses.	RMB1,450,000 (equivalent to approximately HK$1,600,000)	49.05%	RMB710,000 (equivalent to approximately HK$810,000)

Notes:

1. Pursuant to a Building Ownership Certificate (Document No.: Yi Shi Fang Quan Zheng Xi Ling Qu Zi No. 0260981), the ownership of the property with a total gross floor area of approximately 327.01 sq.m. is vested in Yichang Sanxia Airport Company Limited. The particulars are as follows:

Unit	**Level**	**Approximate Gross Floor Area** *(sq.m.)*	**Use**
000102	1	196.45	Office
040302	3	130.56	Residential
Total		**327.01**	

2. Pursuant to a State-owned Land Use Rights Certificate (Document No.: Yi Shi Guo Yong (2004) No. 090305123), the land use rights of the property with a site area of approximately 136.5 sq.m. were granted to Yichang Sanxia Airport Company Limited for a term expiring on 25th June 2054 for commercial uses.

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Yichang Sanxia Airport Company Limited is entitled to transfer, lease and mortgage the property in the market; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010
7.	The buildings and structures of Lanzhou Zhongchuan Airport, Xicao Village, Yongdeng Town, Lanzhou City, Gansu Province, the PRC	The property comprises various single to 5-storey buildings and structures completed in between 1969 and 2009 erected thereon. The total gross floor area of the property is approximately 99,424.55 sq.m.	The property at present is occupied and operated for airport uses.	No commercial value

Notes:

1. According to various Building Ownership Certificates, the ownership of the building portion of the property with a total gross floor area of approximately 69,519.35 sq.m. is vested in Lanzhou Zhongchuan Airport Management Company Limited.

2. As advised by the Group, there are 31 buildings with a total gross floor area of approximately 29,905.2 sq.m. completed in between 1969 and 2001 erected thereon without Building Ownership Certificates.

3. We have ascribed no commercial value to the property due to the property cannot be transferred in the market freely without the land use rights solely. For indicative purpose, the depreciated replacement cost of these buildings and structures as at the date of valuation is RMB377,500,000 (equivalent to approximately HK$428,980,000), the depreciated replacement cost in existing state attributable to the Group after Completion is RMB205,740,000 (equivalent to approximately HK$233,800,000) assuming they are freely transferrable in the market without any restrictions.

4. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Lanzhou Zhongchuan Airport Management Company Limited is the current registered owner of the buildings stated in Note 1, however, the buildings cannot be transferred solely without land parcels underneath. Thus, the property is not freely transferrable in the market; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010
8.	HNA Hotel, Konggang Lanzhou, No. 399 Jiayuguan Road West, Chengguan District, Lanzhou City, Gansu Province, the PRC	The property comprises a 17-storey hotel completed in about 2007. The total gross floor area of the property is approximately 16,757 sq.m. accommodating 108 guestrooms.	The property at present is operated as hotel.	No commercial value

Notes:

1. We have ascribed no commercial value to the property due to the absence of the relevant title documents, hence it is not freely transferrable in the market. However, for indicative purpose, the market value of the property as at the date of valuation is RMB91,300,000 (equivalent to approximately HK$103,750,000), the depreciated replacement cost in existing state attributable to the Group after Completion is RMB49,760,000 (equivalent to approximately HK$56,550,000) assuming the property is entitled to transfer, lease and mortgage in the market.

2. The room rates and occupancy rate of the property provided by the Group are in the reasonable level in the locality.

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Lanzhou Zhongchuan Airport Management Company Limited is not entitled to transfer, lease and mortgage the property due to the absence of the relevant title documents; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010
9.	The buildings and structures of Dunhuang Mogao Airport, Mogao Town, Dunhuang City, Gansu Province, the PRC	The property comprises three single to 3-storey buildings and structures completed in about 2008. The total gross floor area of the property is approximately 8,352.36 sq.m.	The property at present is operated as airport.	No commercial value

Notes:

1. Pursuant to a Building Ownership Certificate (Document No.: Dun Fang Quan Zheng Guo You (Zi Guan Chan) Zi No. 20678-2), the ownership of the property with a total gross floor area of approximately 8,352.36 sq.m. is vested in Dunhuang Mogao Airport Management Company Limited.

2. We have ascribed no commercial value to the property due to the absence of the relevant State-owned Land Use Rights Certificate for the land parcels where the property erected, buildings and structures cannot be disposed solely without the land parcels, hence the property is not freely transferrable in the market. However, for indicative purpose, the depreciated replacement cost of the property as at the date of valuation is RMB63,600,000 (equivalent to approximately HK$72,270,000), the depreciated replacement cost in existing state attributable to the Group after Completion is RMB34,660,000 (equivalent to approximately HK$39,390,000) assuming the property is entitled to transfer, lease and mortgage in the market.

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Dunhuang Mogao Airport Management Company Limited is not entitled to transfer, lease and mortgage the property due to the absence of the State-owned Land Use Rights Certificates; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010
10.	The buildings and structures of Jiayuguan Airport, Xincheng Town, Jiayuguan City, Gansu Province, the PRC	The property comprises three single to 2-storey buildings and structures completed in between 1995 and 2006 erected thereon. The total gross floor area of the property is approximately 3,588.14 sq.m. The land use rights of the property is granted by allocation.	The property at present is operated as airport.	No commercial value

Notes:

1. Pursuant to a Building Ownership Certificate (Document No.: Jia Yu Guan Shi Fang Quan Zheng Jia Shi Zi No. 000247), the ownership of the property with a total gross floor area of approximately 3,588.14 sq.m. is vested in Jiayuguan Airport Management Company Limited.

   As stated in the aforesaid Building Ownership Certificate, the land parcel is an allocated land.

2. We have ascribed no commercial value to the property due to the land parcel of the property is an allocated land, buildings and structures cannot be disposed solely without the land parcels, hence the property is not freely transferrable in the market. However, for indicative purpose, the depreciated replacement cost of the property as at the date of valuation is RMB27,300,000 (equivalent to approximately HK$31,020,000), the depreciated replacement cost in existing state attributable to the Group after Completion is RMB14,880,000 (equivalent to approximately HK$16,910,000) assuming the property is entitled to transfer, lease and mortgage in the market.

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Jiayuguan Airport Management Company Limited is not entitled to transfer, lease and mortgage the property due to the land parcel is an allocated land; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
11.	The lands and buildings of Sanya Fenghuang Airport, Tongjing Village, Fenghuang Town, Sanya City, Hainan Province, the PRC	The property comprises various parcel of land together with various single to 7-storey buildings and structures completed in between 1994 and 2008 erected thereon. The total site area and total gross floor area of the property are approximately 4,681,237.21 sq.m. and 105,705.65 sq.m. respectively. Portion of the land use rights of the property were granted for various terms with the latest expiry date on 25th August 2064 for Airport and ancillary uses and allocated for green land uses.	The property at present is occupied and operated for airport uses. Portion of the property is under construction.	RMB2,423,300,000 (equivalent to approximately HK$2,753,750,000)	36.515%	RMB884,870,000 (equivalent to approximately HK$1,005,530,000)

Notes:

1. Pursuant to 62 Real Estate Ownership Certificates and advised by the Group, portion of the land use rights of the property with a total site area of approximately 4,223,752.77 sq.m. were granted to Sanya Phoenix International Airport Co., Limited for various terms with the latest expiry date on 25th August 2064 for Airport and ancillary uses. As advised by the Group, the actual total site area of this portion of the land use rights of the property is approximately 4,178,802.67 sq.m.

2. Pursuant to 12 Real Estate Ownership Certificates, portion of the land use rights of the property with a total site area of approximately 502,434.54 sq.m. were allocated to Sanya Phoenix International Airport Co., Limited for green land use.

3. According to 34 Real Estate Ownership Certificates, the ownership of 34 buildings with a total gross floor area of approximately 77,281 sq.m. is vested in Sanya Phoenix International Airport Co., Limited. However, according to the information provided by the Group, 3 buildings under the Real Estate Ownership Certificates (Document Nos.: San Tu Fang (2004) No: 2364, San Tu Fang (2005) Nos.: 1950 and 1951) with a total gross floor area of approximately 3,362.56 sq.m. were demolished, thus the total gross floor area of these buildings is approximately 73,918.44 sq.m.

4. According to the information provided by the Group, there are 5 buildings erected thereon without Building Ownership Certificates with a total gross floor area of approximately 31,787.21 sq.m.

5. In arriving of our valuation, we have ascribed no commercial value to the buildings portion stated in Note 4 due to their absence of the relevant title document and hence they are not freely transferrable in the market. However, for indicative purpose, the depreciated replacement cost of buildings stated in Note 4 is RMB227,700,000 (equivalent to approximately HK$258,750,000), the depreciated replacement cost in existing state attributable to the Group after Completion is RMB83,140,000 (equivalent to approximately HK$94,480,000) by assuming they are entitled to transfer, lease and mortgage in the market.

6. As advised by the Group, the total development cost of the construction in progress is RMB1,020,867,588.88 and as at the date of valuation, the total cost incurred is RMB233,291,043.93.

7. The estimated capital value of the property after completion of the development based on the existing development information provided and the estimated development cost to be incurred is RMB3,774,000,000 (equivalent to approximately HK$4,288,600,000), the estimated capital value of the property after completion of the development attributable to the Group after Completion is RMB1,378,080,000 (equivalent to approximately HK$1,566,000,000) by assuming all relevant title documents were obtained and hence the property will be entitled to be transferred, leased and mortgaged in the market.

8. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Sanya Phoenix International Airport Co., Limited is entitled to transfer, lease and mortgage the land parcels stated in Note 1 and buildings stated in Note 3;

   (b) Sanya Phoenix International Airport Co., Limited is entitled to transfer, lease and mortgage the land parcels stated in Note 2 unless the nature of the land have been converted into State-owned Lands and have obtained the Real Estate Ownership Rights Certificates held by Sanya Phoenix International Airport Co., Limited;

   (c) Sanya Phoenix International Airport Co., Limited is entitled to transfer, lease and mortgage the buildings stated in Note 4 once the relevant Real Estate Ownership Certificates have been obtained; and

(d) As advised by the Group, portion of the property under the Real Estate Ownership Certificates are subject to mortgages, the particulars are as follows:

Real Estate Ownership Certificates *(Document Nos.)*	**Mortgagees**
San Tu Fang (2009) Zi No. 02490, San Tu Fang (2004) Zi Nos.: 2353, 2354, 2358, 2361 and 2362	Agricultural Bank of China – Hainan Province Branch
San Tu Fang (2008) Zi No. 0860	China Minsheng Banking Corp. Ltd.
San Tu Fang (2005) Zi No. 1098	Agricultural Bank of China
San Tu Fang (2005) Zi No. 1100	China Development Bank – Hainan Province Branch
San Tu Fang (2005) Zi Nos. 1101 and 1946	Shenzhen Development Bank – Haikou Branch (Haifu Branch)
San Tu Fang (2003) Nos.: 2333, 2338, 2342, 2335, San Tu Fang (2004) Nos.: 2356, 2884 and San Tu Fang (2005) Nos.: 1944, 1945 and 1962	Industrial and Commercial Bank of China (Hainan Province Branch)
San Tu Fang (2004) Zi No. 0132	Shanghai Pudong Development Bank – Guangzhou Jincheng Branch
San Tu Fang (2004) Zi Nos.: 1659, 1660 and 1666	Bank of Communications (Sanya Branch)
San Tu Fang (2004) Zi No. 1661 and No. 1664, San Tu Fang (2005) Zi Nos. 1948 and 1949	Ping An Bank Company Limited

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
12.	Various units, Donghe Road West, Hedong District, Sanya City, Hainan Province, the PRC	The property comprises the whole of 5 blocks of multi-storey buildings completed in about 2005. The total gross floor area of the property is approximately 19,285.7 sq.m.. The land use rights of the property were granted for a term of 70 years expiring on 27th November 2071 for residential uses.	The property at present is occupied for dormitory uses.	RMB96,400,000 (equivalent to approximately HK$109,500,000)	36.515%	RMB35,200,000 (equivalent to approximately HK$40,000,000)

Notes:

1. According to 5 Real Estate Ownership Certificates, the land use rights of the property with a total site area of approximately 10,009.06 sq.m. have been granted to Sanya Phoenix International Airport Co., Limited for a term of 70 years expiring on 27th November 2071 for residential use.

   As stated in the afore-said Real Estate Ownership Certificates, the ownership of the property with a total gross floor area of approximately 19,285.7 sq.m. is vested in Sanya Phoenix International Airport Co., Limited.

2. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Sanya Phoenix International Airport Co., Limited is entitled to transfer, lease and mortgage the property in the market; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
13.	Various units, Jinjiling Street, Sanya City, Hainan Province, the PRC	The property comprises various units of various multi-storey buildings completed in about 2005. The total gross floor area of the property is approximately 5,166.49 sq.m. The land use rights of the property were granted for a term expiring on 25th January 2061 for residential use.	The property at present is occupied for dormitory uses.	RMB20,700,000 (equivalent to approximately HK$23,500,000)	36.515%	RMB7,560,000 (equivalent to approximately HK$8,590,000)

Notes:

1. According to six Real Estate Ownership Certificates, the ownership of the property with a total gross floor area of approximately 5,166.49 sq.m. is vested in Sanya Phoenix International Airport Co., Limited.

   As stated in the afore-said Real Estate Ownership Certificates, the land use rights of the property were granted for a term expiring on 25th January 2061 for residential use.

2. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Sanya Phoenix International Airport Co., Limited is entitled to transfer, lease and mortgage the property in the market; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010	Interest attributable to the Group after Completion	Market Value in existing state attributable to the Group after Completion
14.	Various units of Yaxi Building, No. 12 Haifu Road, Meilan District, Haikou City, Hainan Province, the PRC	The property comprises 6 units on Level 9 of a 9-storey building completed in about 2004. The total gross floor area of the property is approximately 876.52 sq.m.	The property at present is occupied for dormitory uses.	RMB2,600,000 (equivalent to approximately HK$3,000,000)	36.515%	RMB950,000) (equivalent to approximately HK$1,080,000)

Notes:

1. According to three Real Estate Ownership Certificates, the ownership of the property with a total gross floor area of approximately 876.52 sq.m. is vested in Sanya Phoenix International Airport Co., Limited.

2. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) Sanya Phoenix International Airport Co., Limited is entitled to transfer, lease and mortgage the property in the market; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 28th February 2010
15.	The buildings and structures of Qingyang Airport, Xifeng District, Qingyang City, Gansu Province, the PRC	The property comprises various buildings and structures completed in between 1984 and 2005. The total gross floor area of the property is approximately 2,798.3 sq.m.	The property at present is occupied as airport.	No commercial value

Notes:

1. As advised by the Group, the property comprises 5 buildings with a total gross floor area of approximately 2,798.3 sq.m. without Building Ownership Certificates completed in between 1984 and 2005.

2. We have ascribed no commercial value to the property due to the absence of the relevant title document and the property cannot be freely transferrable solely without land use rights. However, for indicative purpose, the depreciated replacement cost of the property as at the date of valuation is RMB21,200,000 (equivalent to approximately HK$24,100,000), the depreciated replacement cost in existing state attributable to the Group after Completion is RMB11,550,000 (equivalent to approximately HK$13,130,000) assuming it is freely transferrable in the market.

3. In arriving of our valuation, we have been provided with the PRC Legal Opinion issued by the Group's PRC Legal Adviser, Grandall Legal Group, inter alia, as follows:

   (a) The property is not freely transferrable unless the relevant title documents for land and building portions have been obtained; and

   (b) As advised by the Group, the property is free from any mortgages, charges and other legal encumbrances which may cause adverse effects on the ownership of the property.

HNA AIRPORT HOLDING (GROUP) COMPANY LTD

TOTAL SHAREHOLDERS EQUITY VALUE

BUSINESS VALUATION REPORT

JING LI XIN PING BAO ZI [2010] NO. 005

BEIJING LIXIN ASSETS APPRAISAL COMPANY LIMITED

25 MARCH 2010

Valuation report declaration regarding the total shareholders equity value of HNA Airport Holding (Group) Company Ltd using the asset-based approach

We, Beijing Lixin Assets Appraisal Company Limited and the undersigned certified practising valuers, hereby declare the following statements regarding the valuation report of the total shareholders equity value of HNA Airport Holding (Group) Company Ltd using the asset-based approach that:

1. To the knowledge of the certified practising valuers, all the information contained in the report represents an objective reflection of facts.

2. None of the certified practising valuers have any present or prospective interest in the subject of the report, or any personal interest or bias with respect to the appraisal requestor or any parties involved.

3. Our analyses and conclusions contained in the report were developed on an independent, objective and fair basis and subject only to the assumptions and qualifications set forth hereunder.

4. The valuation conclusions shall be valid for a year from the valuation reference date as specified herein. Users of the valuation report are advised to exercise their discretion to determine its validity based on the asset conditions and market changes since the valuation reference date.

5. Both the certified practising valuers and the appraiser have the practising qualifications and relevant professional experience required for the valuation assignment as requested.

6. The certified practising valuers themselves and their assistants have conducted on-site inspection of the subject of the report.

7. The purpose of the asset valuation conducted by the certified practising valuers is to assess the value of the subject and express professional opinions thereon. In no events shall we be liable for any decisions made by the requestor and the valuation conclusions shall not be relied upon as a guarantee of the realizable value of the subject.

8. It shall be the responsibility of the certified practising valuers to assess the value of the subject and express professional opinions in conformity with the applicable laws, regulations and standards for the appraisal of assets, while it shall be the responsibility of the requestor and parties involved to make available all necessary information and ensure the authenticity, validity and completeness of such information provided as well as the proper use of the report.

9. The scope of the valuation is determined by the requestor and we express no opinion with respect to the title to the subject. The purpose of the asset valuation conducted by the certified practising valuers is to assess the value of the subject and express professional opinions thereon. For this purpose, we have performed necessary review, however without any form of assurance, of the legal title to the subject.

10. Unless otherwise specified by the requestor and the appraisee, the appraiser or valuers assume no responsibility for the existence of any defect with respect to the requestor and the appraisee which we have no knowledge of having duly undertaken the valuation process and may affect our valuation conclusions.

11. The valuation report shall be used only for the purpose specified herein. The undersigned certified practising valuers and the appraiser accept no responsibility for the consequences arising from any improper use thereof.

PRC Certified Practising Valuer: (Chen Lei)

PRC Certified Practising Valuer: (Liu Haoyu)

Beijing Lixin Assets Appraisal Company Limited
25 March 2010

Summary of the asset valuation report regarding the total shareholders equity value of HNA Airport Holding (Group) Company Ltd using the asset-based approach

Beijing Lixin Assets Appraisal Company Limited has been engaged by the Hainan Meilan International Airport Company Limited to fairly reflect the market value of the total shareholders equity value of HNA Airport Holding (Group) Company Ltd as at 31st December 2009 (of which the land use rights have been valued by another professional appraiser) in connection with the proposed acquisition of equity interests by the appraisal requestor.

As at 31st December 2009 (i.e. the valuation reference date), the total book value of the audited assets of HNA Airport Holding (Group) Company Ltd amounted to RMB3,592,818,500, including current assets of RMB604,495,600, long-term equity investment of RMB2,988,016,400 of current assets and fixed assets of RMB306,500. Liabilities amounted to RMB408,790,700 and net assets amounted to RMB3,184,027,800.

For the purpose of the appraisal, the value type of the subject of valuation refers to the market value on a going-concern basis.

Under the PRC requirements of asset valuation, in adherence to the principles of independence, impartiality, scientism and objectivity, and in accordance with the necessary valuation procedures, our valuers have conducted an on-site inspection, market investigation and enquiry in relation to the assets and liabilities subject to the appraisal and the asset-based approach is adopted to value the total shareholders equity value of HNA Airport Holding (Group) Company Ltd within the scope of valuation.

Under the asset-based approach, the total book value of assets before appraisal amounted to RMB3,592,818,500 and the appraised value amounted to RMB4,484,436,200, representing an appreciation of RMB891,617,700 or 24.82%; total book value of liabilities amounted to RMB408,790,700 and the appraised value amounted to RMB408,790,700; whereas total book value of net assets amounted to RMB3,184,027,800 and the appraised value amounted to RMB4,075,645,500, representing an appreciation of RMB891,617,700 or 28%. *(Note 1)*

The valuation results shall be valid for a year from the valuation reference date. Re-assessment of the asset appraisal shall be carried out after a year.

Users of the valuation report are advised to take into account of the effects of the Special Notes in the report on the conclusions of the valuation.

Note 1: The book value of assets, liabilities and net assets is different from the audited financial in Appendix II as the audit report used in the valuation report is the report issued by the PRC accountants in accordance with the PRC Accounting Standards which is referred to in page VI-10 of the Circular.

The above is an extract from the Asset Valuation Report. Please refer to the full text of the Asset Valuation Report for more details in relation to the items in the report.

Legal representative of the appraiser (Lin Mei)

PRC Certified Practising Valuer (Chen Lei)

PRC Certified Practising Valuer: (Liu Haoyu)

Beijing Lixin Assets Appraisal Company Limited
25th March 2010

Asset valuation report regarding the total shareholders equity value of HNA Airport Holding (Group) Company Ltd Jing Li Xin Ping Bao Zi [2010] No. 005

I. INTRODUCTION

Beijing Lixin Assets Appraisal Company Limited has been engaged by the Hainan Meilan International Airport Company Limited to value the market value of the total shareholders equity value of HNA Airport Holding (Group) Company Ltd as at 31 December 2009 in connection with the proposed acquisition of equity interests by the appraisal requestor pursuant to the relevant PRC laws and regulations and asset valuation standards and asset valuation principles using the asset-based approach and in accordance with the necessary valuation procedures. Details of the asset valuation are hereby reported as follows.

II. OVERVIEW OF APPRAISAL REQUESTOR AND APPRAISEE

1. Appraisal requestor

Company name:	Hainan Meilan International Airport Company Limited
Registered address:	Meilan Airport Office Building, Meilan District, Haikou
Legal representative:	Zhao Yahui
Registered capital:	RMB473,213,000
Business nature:	Joint-stock company limited (sino-foreign joint venture)
Business scope:	To provide aircraft transportation, passenger services and ground handling services for domestic and foreign airlines as well as transfer and transit passengers; lease aviation business spaces and commercial and office properties in the terminals ad provide a wide range of services; build and operate aeronautical and auxiliary properties and facilities in the airport; provide cargo warehousing, packaging, handling and transport services; provide jet fuel, hardware, electric appliance, electronic products and communication devices, grocery, textile, arts and crafts, aviation food, local products and other food as well as magazines. (Special licenses needed for any business activities requiring administrative permit)

2. Appraisee

Company name:	HNA Airport Holding (Group) Company Ltd
Registered address:	HNA Development Building, No. 29 Haixiu Road, Haikou
Legal representative:	Zheng Hong
Registered capital:	USD408,200,000
Business nature:	limited liability company (joint venture between Taiwan, Hong Kong, Macau and PRC)
Business scope:	To engage in airport operation and management as well as ground handling services in relation to the domestic and foreign air transport; airport investment, construction and reconstruction; warehousing, domestic and foreign trade, technology cooperation, consultancy and services for domestic and foreign air transport business as well as investment and operation of industries and sectors as allowed by the authority.

HNA Airport Holding (Group) Company Ltd ("HNA Airport Group"), the appraisee, was formed jointly by the Hainan Airlines Group Company Limited ("HNA Group") and Changjiang Leasing Company Limited ("Changjiang Leasing") in October 2003 and registered with and issued by the Hainan Administration for Industry and Commerce the Corporate Business License (No. 4600001010056) on 31 October 2003. Of the registered capital of RMB600m, HNA Group contributed RMB400m or 66.67% and Changjiang Leasing contributed RMB200m or 33.33%.

According to the PRC Mofcom's approval [2007] No. 2004 which authorized HNA Airport Group to introduce foreign capital and change its business nature into a Sino-foreign joint venture in addition to the HNA Airport Group's shareholder meeting resolution [2007] No. 30 and amended articles of association, the Company increased its registered capital by USD329.25m to USD408.20m and changed its shareholder base to HNA Group which contributed USD208.20m or 51%, Kingward Investment Limited which contributed USD100m or 24.5% and Worldwide United Limited which contributed USD100m or 24.5%. Upon such changes, the Company received a new Corporate Business License (No. 460000400002014) with its legal representative changed to Zheng Hong.

As at the valuation reference date, HNA Airport Holding (Group) Company Ltd had an investment portfolio comprised of 90% interest in Yichang Three Gorges Airport Co. Ltd., 67% interest in Manzhouli Xijiao Airport Co. Ltd, 90% interest in Dongying YongAn Airport Co. Ltd., 5% interest in Sanya Phoenix Airport International Terminal Authority Co. Ltd., 67% interest in Sanya Phoenix International Airport Co. Ltd., 100% interest in Lanzhou Zhongchuan Airport Management Co. Ltd., 100% interest in Dunhuang Mogao Airport Management Co. Ltd., 100% interest in Qingyang Xifeng Airport Management Co. Ltd. and 100% interest in Jiayuguan Airport Management Co. Ltd.

3. Financial and operating conditions of the Company in the preceding three years

As at the valuation reference date, HNA Airport Group had a book value of total assets equivalent to RMB3,592,818,500, including current assets of RMB604,495,600, long-term equity investment of RMB2,988,016,400 and fixed assets of RMB306,500. Liabilities amounted to RMB408,790,700 and net assets amounted to RMB3,184,027,800.

HNA Airport Group recorded nil revenue, profit before tax of -RMB13,107,000 and net profit of -RMB13,107,000 in FY2007; revenue of RMB18,353,300, profit before tax of -RMB2,765,700 and net profit of -RMB2,765,700 in FY2008; and revenue of RMB10,551,900, profit before tax of -RMB24,500,600 and net profit of -RMB24,500,600 in FY2009. *(Note 2)*

Key accounting policies adopted by the HNA Airport Group:

Fiscal year: starting from calendar date of 1st January and ending on 31st December;

Reporting currency: RMB;

Accounting principles: Accounting Standards for Enterprises and Accounting Principles for Enterprises as well as the supplementary rules;

Recording basis: accrual basis;

Measurement basis: historical cost;

Accounting of foreign exchange exposure: any foreign exchange exposure should be translated into RMB value for recording at the market exchange rate (central parity) as published by the People's Bank of China on the date when such exposure occurs;

Note 2: The revenue and profits is different from the audited financial in Appendix II as the audit report used in the valuation report is the report issued by the PRC accountants in accordance with the PRC Accounting Standards which is referred to in page VI-10 of the Circular.

Accounting of inventory:	inventory breaks down into raw materials, finished goods, work-in-progress and low value consumables, which is measured at actual cost under the perpetual inventory system;
Measurement of fixed assets and depreciation policy:	fixed assets are measured at actual cost and depreciated using the straight line method. The depreciation rate should be determined for each type of fixed assets based on its original value and estimated useful life less the residual value;

Revenue recognition principle

Sale of goods: revenue should be recognized when 1). the Company has transferred to the buyer the risks and rewards of ownership; 2) the Company retains neither managerial involvement nor effective control over the goods sold; 3) the amount of revenue or sufficient evidence of sale is received; 4) the cost incurred in respect of the sale of goods can be measured reliably.

Rendering of services: revenue should be recognized: 1) at the time of completion of the services if the provision of such services is started and completed within the same fiscal year; 2) at the balance sheet date using the percentage of completion method if the provision of such services is started and completed in different fiscal years and the outcome of a transaction involving the rendering of services can be estimated reliably.

Government grants: revenue should be recognized when there is reasonable assurance that the Company will comply with the conditions attached and that the grants will be received. Government grants related to assets should be treated as deferred income and recognized as income on a systematic and rational basis over the useful life of the related asset.

Accounting of income tax: balance sheet liability method.

The financial statements prepared by the HNA Airport Group as at 31st December 2009, or the valuation date, have been audited by ShineWing CPA Limited with the audit report No. 2009A7039 produced.

4. Relationship of the appraisal requestor and appraisee

It is an affiliated relationship between the appraisal requestor Hainan Meilan International Airport Company Limited and the appraisee HNA Airport Holding (Group) Company Ltd.

5. Users of the report other than the appraisal requestor and appraisee:

Based on the communication, consultation and confirmation with the requestor with respect to the user of the report, the report shall be only used by the appraisal requestor, Hainan Meilan International Airport Company Limited to the exclusion of any other party.

III. PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to fairly reflect the market value of the total shareholders equity value of HNA Airport Holding (Group) Company Ltd as at the valuation reference date in connection with the proposed acquisition of equity interests by the appraisal requestor and to provide professional opinions thereupon.

IV. VALUATION SUBJECT AND VALUATION SCOPE

The primary subject of the valuation is the total shareholder equity value of HNA Airport Holding (Group) Company Ltd. The scope of the valuation covers all kinds of assets including fixed, current and intangible assets (of which land usage right is to be valued by Hainan Zhengli Land Valuation Company Limited) as well as relevant liabilities owned by HNA Airport Holding (Group) Company Ltd and its long-term investees for the purpose of production, operation and management.

Before the valuation, HNA Airport Group recorded a book value of total assets of RMB3,592,818,500, including current assets of RMB604,495,600, long-term equity investment of RMB2,988,016,400 and fixed assets of RMB306,500. Liabilities amounted to RMB408,790,700 and net assets amounted to RMB3,184,027,800.

The subject assets included in the valuation are consistent with those as specified by the engagement of the appraisal. Such assets owned by the HNA Airport Holding (Group) Company Ltd and its long-term investees are diversely located in Haikou, and Sanya Phoenix International Airport, Yichang Three Gorges Airport, Manzhouli Xijiao Airport, Dongying YongAn Airport, Lanzhou Zhongchuan Airport, Dunhuang Mogao Airport, Qingyang Xifeng Airport and Jiayuguan Airport etc.

V. VALUE TYPE AND DEFINITION

Typically there are two alternative types of value sought by a business valuation, the market value and non-market value.

For the purpose of the appraisal, the subject is valued at the market value on a going-concern basis.

Market value is the estimated amount that is most likely to be realized for which an asset should exchange on the valuation reference date under its best use between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted prudently, knowledgeably and without compulsion and the estimated amount of an arms-length transaction conducted by the valuation subject on normal terms on the valuation reference date.

VI. VALUATION REFERENCE DATE

The valuation reference date is 31st December 2009.

In order to ensure the validity of our valuation results and achieve the purpose of the valuation to the fullest extent possible, we have consulted with the requestor with respect to the nature of the business activity for which our appraisal is provided and finally the valuation date has been fixed by the requestor at 31st December 2009.

Given that our appraisal was started from 16 January 2010, we believe the determination of such reference date date should not affect the objectivity and authenticity of the valuation results or cause any adverse effects to the achievement of the purpose of the appraisal.

The prices adopted in the valuation are all based on the effective price references as at the valuation date.

VII. VALUATION BASIS

The laws and regulations of countries, local governments and relevant departments being followed in our valuation process as well as the documentation being referred to in the valuation are mainly as follows:

1. Activities

1) Asset Appraisal Engagement Letter entered into between the requestor and the Beijing Lixin Assets Appraisal Company Limited;

2. Laws and regulations

1) Order No. 91 ***Regulations for the State-owned Assets Valuation*** issued by the State Council;

2) (1992) Circular No. 36 ***Detailed Rules for Implementing the Regulations for the State-owned Assets Valuation*** issued by the former State-owned Assets Office of the SASAC;

3) (1996) No.23 ***Opinions Concerning the Standardization of Assets Valuation Operations (for Trial)*** issued by the former State-owned Assets Office of the SASAC;

4) Order No.12 ***Provisional Regulations for the State-owned Assets Valuation of Enterprises*** issued by the SASAC on 25 August 2005;

5) (2006) No.274 ***Circular on Issues Concerning the Enhancement of Regulation of the State-owned Assets Valuation of Enterprises*** issued by the SASAC

6) (2001) Order No. 14 ***Regulations Concerning Certain Issues Related to the Regulation of State-assets Valuation*** issued by the MOF;

7) (2001) No. 102 ***Circular of the General Office of the State Council on the Circulation of the MOF's Opinions on the Reform of the Administration of State-owned Assets Valuation and the Enhancement of the Supervision and Regulation of Asset Valuation*** issued by the General Office of the State Coucil;

8) Other related laws and regulations.

3. Legal title

1) Certification of legal title to the properties and supporting documents provided by the appraisee;

2) Invoices for certain equipment provided by the appraisee;

3) Certain vehicle licenses provided by the appraisee;

4) Statements and undertakings in respect of the legal title and other supporting documents and evidences provided by the appraisee.

4. Standard Basis

1) ***Code of Ethics for Asset Appraisal – General;***

2) ***Standards for Asset Appraisal – General;***

3) ***Standards for Asset Appraisal – Appraisal Report;***

4) ***Standards for Asset Appraisal – Appraisal Process;***

5) ***Standards for Asset Appraisal – Machinery and Equipment;***

6) ***Standards for Asset Appraisal – Real Estate;***

7) ***Standards for Asset Appraisal – Intangible Assets.***

8) (2003) N0. 18 ***Guidelines for the Certified Practising Valuers on the Review of Legal Title of the Appraisal Subject*** issued by the Chinese Institute of Certified Public Accountants;

9) (2004) No. 134 ***Guidelines for Business Valuation (for Trial)*** issued by the China Appraisal Society.

5. **Price references**

1) ***Standards Concerning the Assessment of Housing Completeness Grading*** issued by the Ministry of Housing and Urban-Rural Development (MOHURD);

2) (2002) No.394 ***Circular on Regulations Concerning the Financial Management of Capital Construction*** issued by the Ministry of Finance (MOF);

3) (2007) No.670 ***Circular on Regulations Concerning the Management of Construction Supervision and Relevant Service Fees*** issued by the National Development and Reform Commission (NDRC) and the MOF;

4) (2002) No.1980 ***Circular on Provisional Regulations Concerning the Management of Tender Agent Fees*** issued by the State Development Planning Commission (SDPC);

5) (2002) No.10 ***Circular on Regulations Concerning the Management of Engineering Survey and Design Fees*** issued by the SDPC and the MOHURD;

6) Price information and data acquired by the valuers through market research and inquiry;

7) ***Price List for China Mechanical and Electrical Products*** compiled by the CFLP's Committee of Government and Enterprise's Purchasing in association with the China Mechanical Equipment and Complete Engineering Association;

8) ***Handbook of Useful Data and Parameters for Asset Appraisal***;

9) Assets checklist, documents relating to the finance, accounting and operation, construction and installation contracts and agreements, purchase and installation contracts, agreements and invoices of large-scale equipment provided by the appraisee;

10) Project construction and settlement materials, external cost audit data and local market update of buildings and properties where the appraisee resides;

11) Laws, regulations, rules and policies promulgated by the state and local government where the appraisee and its assets reside;

12) Materials relating to the latest estimate and budget norms of construction and installation projects published by the authority of local government where the appraisee resides;

13) ***Standards for Land Premium*** where the appraisee resides;

14) Statistics published by the National Bureau of Statistics and local bureau of statistics;

15) Other information obtained by the valuers through INTERNET search;

16) Information recorded, collected and collated by the valuers through on-site inspection; and

17) Other information related to the valuation.

VIII. VALUATION METHODOLOGY

As required by the Guidelines for Business Valuation (for Trial), the certified practicing valuers should perform the business valuation by employing a single or multiple asset valuation methodologies as they think proper based on the conditions of the subject of the appraisal, value type and information collection and the applicability of the 3 major valuation methods including income, market and cost approaches.

In asset appraisal, the market approach refers to the valuation concept to determine the value of a valuation subject with reference to the comparable assets which have been traded in the marketplace. Currently, as there is no such active trading market in China, the market approach is not applicable in connection with the valuation due to the absence of comparable market references.

In asset appraisal, the income approach refers to the valuation concept to determine the value of a valuation subject through capitalization of estimated income or discounted method.

The income approach is a type of asset valuation methodologies used to determine the assets value of a subject by assessing the value of its projected benefits and discounting it into current value. The application of such methodology is in actual fact the process of discounting or capitalizing the projected benefits of the subject. There are two preconditions to the application of the income approach. (1) The projected benefits of a single asset or the overall assets of a subject are able to be assessed in terms of money; (2) the risks borne by the assets owner are also able to be assessed in terms of money.

Calculation formula of the income approach is:

$$P = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} + \frac{F}{r(1+r)^n} + B$$

Of which:

P – Appraisal value;

r – Discount rate;

n – Life of benefits (period of benefits);

F_i – Amount not equivalent to the value of projected benefits in the coming i period of benefits;

F – Amount equivalent to the value of projected benefits;

B – Other non-core assets

As shown in the financial statements furnished by HNA Airport Group, the Group reported continuous operating losses for FY2007, FY2008 and FY009 with uncertain and unstable historical data for the projection of future income. Lanzhou Zhongchuan Airport Management Company Limited, Qingyang Xifeng Airport Management Company Limited and Dunhuang Mogao Airport Management Company Limited were founded in late 2007 while Jiayuguan Airport Management Company Limited were founded in late 2008, each with a short period of track record less than 1 year or 2 years. Qingyang Xifeng Airport Management Company Limited, Dunhuang Mogao Airport Management Company Limited and Jiayuguan Airport Management Company Limited made losses in both FY2008 and FY2009, with uncertain and unstable historical data for the projection of future income while the Dongying YongAn Airport Company Limited, Yichang Three Gorges Airport Company Limited and Manzhouli Xijiao Airport Company Limited, despite the positive operating income from the local government subsidies as agreed, made losses continuously from FY2006 until the valuation date, also without certain and stable future income stream as the agreement between the company and local government was typically entered into with a term of three years. As per the 5 regulations released by the MOF and CAAC since November 2007 regarding the levy and use of airport construction fee, the airport construction fee is required to be treated as capital surplus or non-recurring income which may result in a significant decline in the revenue of airport. Based on the understanding and review of above factors as well as relevant laws and regulations, the valuers believe the income approach is not applicable to the overall valuation given the high uncertainty and instability associated with the projection of future income of the appraisee.

The asset-based approach in enterprise valuation, also known as the cost approach, refers to the concept used to determine the value of a subject on the basis of a reasonable evaluation of the overall asset and liability items of the enterprise.

The cost approach is a type of methodologies which uses asset replacement cost as the basis to determine replacement value. It refers to the method used to determine the assets value of a subject by deducting its overall consumption value from its current replacement cost. This methodology is based on the following concepts. (1) The value of an asset is dependent on its cost; (2) the value of an asset changes in accordance with its own movements and the changes in other factors.

The specific valuation of various assets using the asset-based approach (cost approach) is as follows:

1. Current assets

Current assets, including currency funds, accounts receivable, other receivables, prepayments, interest receivable, inventory and other current assets, are mainly assessed by the replacement cost approach.

1) Currency funds

Include cash and bank deposit. We performed a verification of the cash owned by HNA Airport Group and its long-term investees on the day of on-site valuation and found that all of the cash were deposited in the finance departments. Together with the finance personnel, we also monitored the checking of cash inventory of the subject using roll-down method on the day of on-site valuation. Meanwhile, we verified the cash journal, bank deposit journal as well as relevant bills and reconciliation statements and obtained the letter of inquiry for main deposit accounts. The appraisal value of the valuation is determined at the verified book value.

2) Accounts receivable and other receivables

In this valuation, receivables include other receivables and account receivable of HNA Airport Group and its long-term investees. Valuers started from the verification of the reported receivables against the general ledger and subsidiary ledgers and then reviewed the timing, subject matter, amount, business activities of each item as well as the management of such receivables, with external confirmations undertaken for large sum items. Based on the verification of adjusted book value, the appraisal value is determined at the recoverable amount of each item.

As required by the Accounting Standards for Business Enterprises, the appraisal value of any bad debt provision is zero.

3) Prepayments

Prepayments are mainly referred to as the money prepaid by HNA Airport Group and its long-term investees for the purchase of goods. Valuers performed a verification of the accounting record and carried out the checking of information such as original documents and relevant contracts as well as the verification of transactions in respect of the authenticity, accounts receivable age, business contents, amount and other items. Based on the verified result, the appraisal value is determined at the value of corresponding tangible assets and equities that can be recovered.

4) Inventory

Inventory mainly includes raw materials, low value consumables and finished goods (commodity stocks) of the long-term investees of HNA Airport Group.

(1) Raw materials

Include the primary materials and supplementary materials used by the long-term investees of HNA Airport Group for the purpose of the production, operation and management. We performed a sampling verification in respect of the count, purchase price and related expenses. Most materials were recently purchased without significant changes in the market selling prices and booked with a complete and reasonable cost structure. For the raw materials recorded at the actual cost with a book value virtually consistent with the market prices, the appraisal value is determined at the book value.

(2) Low value consumables

Include the office furniture, small electric appliances, tools and spare parts used and retained by the long-term investees of HNA Airport Group. Low value consumables are booked at the actual cost and amortized in one lump-sum when they are taken for use according to the accounting policies, although some actually were not. Based on the list of low value consumables provided by the owner, we performed a sampling checking and review of the prevailing market prices and newness rate. For the purpose of the appraisal, the appraisal value is determined at the book value for low value consumables recently purchased and presently in use, and by the degree of newness for those purchased long ago.

(3) Commodity stocks

Include the food, tea, tobacco and liquor, local products and other groceries sold in the airport stores by the long-term investees of HNA Airport Group, Yichang Three Gorges Airport Company Limited. According to the appraisee the commodity stocks are booked at the actual purchase cost. We performed a verification of the count and specifications of the goods other than the quality check and also reviewed the accounting methods and procedures of the costs. As the costs are found to be booked with a complete and reasonable structure, the appraisal value is determined at the book value.

2. Non-current assets

(1) Held to maturity investment:

Includes entrust loans provided by the long-term investees of HNA Airport Group, specifically the Yichang Three Gorges Airport Company Limited, Sanya Phoenix International Airport Company Limited and Lanzhou Zhongchuan Airport Management Company Limited, through the HNA Group Finance Company Limited, to HNA Group Company Limited. Valuers started from the verification of the reported held-to-maturity investment against the general ledger and subsidiary ledgers and then reviewed the investment date, maturity date, interest rate and interest calculation as prescribed in the loan contracts. As the held-to-maturity investment is found to be properly calculated and accurately recorded, the appraisal value is determined at the verified book value.

(2) Long term equity investment

Includes the investments of HNA Airport Group in 9 wholly-owned, controlled and invested subsidiaries, specifically 90% interest in Yichang Three Gorges Airport Co. Ltd., 67% interest in Manzhouli Xijiao Airport Co. Ltd, 90% interest in Dongying YongAn Airport Co. Ltd., 5% interest in Sanya Phoenix Airport International Terminal Authority Co. Ltd., 67% interest in Sanya Phoenix International Airport Co. Ltd., 100% interest in Lanzhou Zhongchuan Airport Management Co. Ltd., 100% interest in Dunhuang Mogao Airport Management Co. Ltd., 100% interest in Qingyang Xifeng Airport Management

Co. Ltd. and 100% interest in Jiayuguan Airport Management Co. Ltd.; investments of Lanzhou Zhongchuan Airport Management Company Limited in 3 wholly-owned subsidiaries, specifically 100% interest in Gansu Airport Advertising Company, 100% interest in Gansu Civil Aviation Transportation Co. Limited and 100% interest in Gansu Airport Transportation service Co. Limited; and investments of Sanya Phoenix International Airport Company Limited in 6 wholly-owned, controlled and invested subsidiaries, specifically 51% interest in Sanya Phoenix International Airport Logistics Co. Limited, 35.29% interest in Hainan Pacific Oil Company Limited, 6% interest in Sanya Hansa Airlines Food Company Limited, 100% interest in Sanya Phoenix Airport Kuajie Hotel Co. Limited, 30% interest in Sanya HNA Property Development Company Limited and 30% interest in Sanya Aviation Advertising Company Limited.

We performed a valuation of the total assets and liabilities owned by the subsidiaries wholly owned or controlled by the HNA Airport Holdings (Group) Company Limited and then determined the value of its long-term equity investment by adding up the appraisal value of the net assets of each subsidiary proportionate to the percentage of ownership.

For the investments of the subsidiaries of the HNA Airport Holdings (Group) Company Limited in the granddaughter companies, we determined the value of their long-term equity investments by adding up the value of the net assets of each portfolio company, as disclosed in the financial statements provided by such company as at the valuation date, proportionate to the percentage of ownership based on the review of the investment agreements, capital verification reports and capital contribution documents.

(3) Fixed assets

The fixed assets subject to the appraisal include the registered office of the HNA Airport Holdings (Group) Company Limited and the fixed assets of its 8 wholly-owned or controlled subsidiaries, specifically Yichang Three Gorges Airport Co. Ltd., Dongying YongAn Airport Co. Ltd., Sanya Phoenix International Airport Co. Ltd., Lanzhou Zhongchuan Airport Management Co. Ltd., Dunhuang Mogao Airport Management Co. Ltd., 1 Qingyang Xifeng Airport Management Co. Ltd., Jiayuguan Airport Management Co. Ltd. and Manzhouli Xijiao Airport Company Limited. Based on the asset checklist reported by the appraisee and as required by the appraisal, we broke down the subject assets into buildings, structures, drainage pipes, machinery equipment, vehicles, electronic equipment and other equipment. Valuers made field trips to contact and communicate with key employees of the appraisee extensively, review the breakdown of fixed assets and accounts of projects and equipment and gain a comprehensive understanding of the purchase and construction, operation and use of the subject fixed assets from both a historical and present perspective. Valuers made field trips to contact and communicate with key employees of the appraisee extensively, and review large amounts of pre-end accounts relating to the infrastructure construction and equipment records. After the site visit, we used primarily the replacement cost approach to derive the appraisal value based on a careful collation, analysis and calculation of the information and data collected through site inspection and collation, analysis and calculation of the information and data collected.

1) Buildings and constructions

For Phoenix Airport, Three Gorges Airport, YongAn Airport, Zhongchuan Airport, Dunhuang Airport, Qingyang Airport and Jiayuguan Airport, the buildings, constructions and structures located within the airport are valued using the replacement cost approach on a going-concern basis and in adherence to the principles of scientism and substitution.

Calculation formula under the replacement cost approach:

$$P=B\times A\times(1+K)\times(1+i)\times C$$

where: P – appraisal value of buildings;

A – area or construction work quantity of buildings;

B – construction cost per square meter;

K – buildings surcharge (%) *(Note 3)*

i – capital cost (%) (i.e. loan interest rate);

C – Newness rate (%)

(i) Determination of the construction cost of buildings

For the purpose of the appraisal, the construction cost is determined using budget restatement and comparables approach depending on the completeness of the materials available.

(a) Budget restatement

Under the budget restatement approach, the construction cost is determined based on the local prevailing cost standards for construction and installation projects and cost related documents. The estimation process is as follows: i. to calculate the construction work quantity for each individual item and integral part based on the field survey by the valuers; ii. to compute the unit cost by category based on the prevailing standards and arrive at the standard direct cost; iii. to calculate various charges and materials price differentials in sequence; and iv. to finally determine the construction cost of the project and the construction cost per square meter.

Note 3: Building surcharge is an integral part of the value of the building, and the surcharge rate shall be promulgated by the relevant authority.

(b) Comparables

Under the comparables approach, the construction cost of the subject property is derived by carefully comparing such to the comparable typical project in terms of each individual item and integral part and making proper adjustments for any differences there may be. The key to the approach is the accuracy of the construction cost per square meter of the comparable project. For the purpose of the valuation, the construction cost per square meter is determined based on that of a typical project as derived from the budgeting (settlement) approach.

(ii) Basis for other fees *(Note 4)*

Include the pre-construction fees and other charges listed as follows:

(a) Basis for other fees of Sanya Phoenix Airport:

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	2.3678%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.0612%
3	Quality control	[1993] No. 149	construction cost	0.7%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	1.44%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	0.4344%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.0859%
	Total		construction cost	4.46%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Hainan Finance [2008] No. 910	GFA	RMB10/m^2
	Total		GFA	RMB10/m^2

Note 4: Other fees refer to building surcharge.

(b) Basis for other fees of Yichang Three Gorges Airport:

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	2.525%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.093%
3	Quality control	[1993] No. 149	construction cost	0.07%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	1.652%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	0.75%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.133%
	Total		construction cost	5.223%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Hubei Finance [2005] No.12	GFA	RMB8/m^2
	Total		GFA	RMB8/m^2

(c) Basis for other fees of Dongying YongAn Airport:

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	3.0623%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.311%
3	Quality control	[1993] No. 149	construction cost	0.07%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	2.202%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	1.105%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.2105%
	Total		construction cost	6.96%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Shandong Finance [2004] No. 9	GFA	RMB10/m^2
	Total		GFA	RMB10/m^2

(d) Basis for other fees of Lanzhou Zhongchuan Airport:

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	2.525%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.093%
3	Quality control	[1993] No. 149	construction cost	0.07%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	1.652%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	0.75%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.133%
	Total		construction cost	5.223%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Gansu Government Office [2009] No. 103	GFA	RMB8/m^2
	Total		GFA	RMB8/m^2

(e) Dunhuang Mogao Airport

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	3.17%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.324%
3	Quality control	[1993] No. 149	construction cost	0.07%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	2.24%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	1.1176%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.188%
	Total		construction cost	7.04%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Gansu Government Office [2009] No. 103	GFA	RMB8/m^2
	Total		GFA	RMB8/m^2

(f) Qingyang Xifeng Airport

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	3.5347%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.4874%
3	Quality control	[1993] No. 149	construction cost	0.07%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	2.675%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	1.335%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.27%
	Total		construction cost	8.37%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Gansu Government Office [2009] No. 103	GFA	RMB8/m^2
	Total		GFA	RMB8/m^2

(g) Jiayuguan Airport

Items based on the construction cost

No.	Item	Cost standards	Basis	Rate %
1	Survey and design	(2002) No. 10 issued by SDPC and MOHURD	construction cost	3.54757%
2	Tender and bidding	(2002) No. 1980 issed by SDPC and MOHURD	construction cost	0.4598%
3	Quality control	[1993] No. 149	construction cost	0.07%
4	Supervision	[2007] No. 670 issued by NDRC	construction cost	2.618%
5	Management	[2002] No. 394 issued by MOF and MOHURD	construction cost	1. 307%
6	Feasibility study	Provisional Standards for the Pre-construction Consultancy Fees issued by NDRC	construction cost	0.2134%
	Total		construction cost	8.14%

Items based on the GFA

No.	Item	Cost standards	Basis	Rate
1	Special fund for new wall body materials	Gansu Government Office [2009] No. 103	GFA	RMB8/m^2
	Total		GFA	RMB8/m^2

(h) The capital cost is based on the interest rate of bank loans as at the valuation reference date, i.e. 5.4% p.a. for loans with a term from 1 to 3 years and the construction period ranging from 1.5 to 3 years reasonably determined depending on the investment size of individual project, in particular 3 years for Phoenix Airport, 2 years for Three Gorges Airport, 1.5 years for YongAn Airport, 2 years for Zhongchuan Airport, 1.5 years for Dunhuang Airport, 1.5 years for Qingyang Airport and 1.5 years for Jiayuguan Airport. Using half of the reasonably determined construction period, the capital cost is computed as follows:

Phoenix Airport: $(1+5.4\%)^{1.5}-1=8.2\%$

Three Gorges Airport: $(1+5.4\%)^{1}-1=5.4\%$

YongAn Airport: $(1+5.4\%)^{0.75}-1=4.02\%$

Zhongchuan Airport: $(1+5.4\%)^{1}-1=5.4\%$

Dunhuang Airport: $(1+5.4\%)^{0.75}-1=4.02\%$

Qingyang Airport: $(1+5.4\%)^{0.75}-1=4.02\%$

Jiayuguan Airport: $(1+5.4\%)^{0.75}-1=4.02\%$

(iii) Determination of newness rate

The newness rate is determined based on the sum of differently weighted newness rate estimated using useful life and damage condition rating method respectively.

(a) Useful life

Calculation formula: Newness rate 1= remaining service life/(effective age+ remaining service life) × 100%

(b) Damage condition rating

The newness rate is based on the sum of differently weighted newness rate estimated for structures, decoration and equipment according to the rating of each integral part and individual item derived from on-site inspection. The calculation formula is as follows:

Newness rate 2 = newness rate for structures × G + newness rate for decoration × S + newness rate for equipment × B

where: G, S and B represents the rating-based weight for structures, decoration and equipment respectively.

The overall newness rate is the sum of the newness rate estimated using each of the 2 methods multiplied by a different weight.

In addition, for certain properties of Phoenix Airport and Three Gorges Airport which are located in the city area, the market approach is used to determine the appraisal value given the active trading of such properties. Under such approach, the subject property is valued by comparing such to each of the comparable properties recently sold on the market with similar conditions and locations to identify the differences in timing, trading, location and ad-hoc factors and make proper adjustments accordingly to the trading prices of the comparables followed by an overall analysis.

2) *Machinery, electronic and other equipment*

Equipment subject to the appraisal includes primarily the productive and management machinery equipment currently in use by the appraisee. Valuers started with a checking and verification against the fixed assets sub-ledger and checklist and then assessed the value of subject equipment using the replacement cost approach.

(i) Determination of appraisal value

Appraisal value = Total replacement cost × newness rate

(ii) Determination of total replacement cost

A. Determination of total replacement cost of purchased equipment:

a. For any purchased equipment with similar equipment still being produced and sold on the market, the total replacement cost is determined based on the purchase price of the equipment as at the valuation date plus reasonable freight cost, installation and commissioning expenses as well as the capital cost and fees reasonably incurred during the installation and commissioning for large-scale equipment;

b. For any purchased equipment which is no longer produced or sold but with similar substitute being produced and sold on the market, the total replacement cost is determined based on the purchase price of the substitute as at the valuation date plus reasonable freight cost, installation and commissioning expenses as well as the capital cost and fees reasonably incurred during the installation and commissioning for large-scale equipment, while taking into account the economic and functional depreciation of the original equipment;

c. For any purchased equipment which is no longer produced or sold and has no substitute being produced or sold on the market, the total replacement cost is restored by making proper adjustment to the original value of subject equipment using price index-linked method;

d. For any imported machinery equipment, import taxes and fees reasonably payable are incorporated as well.

B. Self-manufactured equipment: The total replacement cost is determined based on the purchase price of the raw materials and supplementary materials consumed during the manufacturing as at the valuation date, labor cost, freight expenses as well as the SG&A and finance expenses to be allocated, plus reasonable installation and commissioning expenses, capital cost reasonably incurred during the manufacturing of large-scale equipment, reasonable profit and other fees as necessary.

(iii) Determination of newness rate

The newness rate is determined applying both of the useful life and observation method. Under the useful life method, the newness rate is calculated as follows:

$$\text{Newness rate} = \left(1 - \frac{\text{effective age}}{\text{expected useful life}}\right) \times 100\%$$

$$= \frac{\text{remaining service life}}{\text{effective age} + \text{remaining service life}} \times 100\%$$

where, the effective age and remaining service life are determined based on the intensity of effective use, maintenance, overhaul record, upgrade, idleness, technical progress, quality of products processed and appearance of the equipment.

3) *Vehicles*

The vehicles subject to the appraisal include the vehicles currently in use by the appraisee, including airport specialty vehicles and other business vehicles. Valuers started with a checking and verification against the assets sub-ledger and checklist and then assessed the value of subject vehicles using the replacement cost approach.

(i) Determination of appraisal value

Appraisal value = Total replacement cost × newness rate

(ii) Determination of total replacement cost

The total replacement of the vehicles is determined based on the prevailing market price of the similar vehicles as at the valuation date plus any taxes and fees as imposed by the local authority where the subject resides.

Total replacement cost = purchase price of vehicles + purchase surcharges+ license and other expenses

(iii) Determination of newness rate

For the purpose of the appraisal, the newness rate is determined using both of the useful life and technical evaluation method. In particular, a comprehensive analysis is performed on the age, mileage life and the evaluation results of the appearance and performance of the vehicles.

(4) Projects under construction

The projects under construction subject to the appraisal include the green-field and brown-field civil works under construction of Yichang Three Gorges Airport Company Limited and Sanya Phoenix International Airport Company Limited.

Based on the asset list reported by the appaisee, valuers made field trips to contact and communicate with key employees of the appaisee extensively and review all the relevant accounts. After the site visit, we performed a careful collation and analysis of the information and data collected.

During on-site inspection, it has come to the knowledge of the valuers that the project under construction of Sanya Phoenix International Airport Company Limited – Command, located at Jinjiling Road of Sanya with a book value of RMB7,196,213.50, was a residential project developed for the housing of employees in collaboration with a property developer in Guangdong in 1993 and has been suspended for more than a decade as an unfinished project. As neither the development partner nor the physical project can be found and the asset impairment has been provisioned by the Sanya Phoenix International Airport Company Limited in full amount, the project and its impairment provisioning are both valued at zero.

Based on our analysis, we believe that other than the project under construction of Sanya Phoenix International Airport Company Limited – Command, the book value of projects under construction is an accurate reflection of the value of such assets and therefore the verified book value is recognized as the appraisal value.

(5) Intangible assets

The intangible assets subject to the appraisal include the land use right owned by Yichang Three Gorges Airport Company Limited, Sanya Phoenix International Airport Company Limited and Dongying YongAn Airport Company Limited as well as the management and office software applied in the airport by Sanya Phoenix International Airport Company Limited.

Since the requestor has engaged other professional appraiser to value the land use right, we have only been asked to incorporate the appraisal results of the land use right. For any details of such appraisal, please refer to the land valuation report [2010] No. D103, 104 and 105 produced by Hainan Zhengli Land Appraisal Company Limited.

The software subject to the appraisal include the management and office software developed by third parties according to the specific business process of airport. Valuers performed a review of the purchase contracts, original book entry certification and user book of the software and made an inquiry of the features of such software to understand its use and composition. Given the difficulties to find similar and comparable products for the customized software, the appraisal value is determined based on the amortized value over its economic service life.

(6) Long-term deferred expenses

The long-term deferred expenses subject to the appraisal include the repair and reconstruction expenses for roof and runway as well as the software upgrade and fuel expenses of the associates of Hainan Airline Airport Holdings (Group) Company Limited, particularly Yichang Three Gorges Airport Company Limited, Sanya Phoenix International Airport Company Limited and Dongying YongAn Airport Company Limited.

Valuers started with the reconciliation between the general ledger, sub-ledger, financial statements and assets checklist, then reviewed relevant accounts and made inquiries to confirm the content, nature, original value, elapsed amortization, remaining amortization, outstanding title and creation of new assets and title, and finally determined the appraisal value of the long-term deferred expenses based on the value of the assets and title surviving after achievement of the purpose of appraisal without overlap with other subject of appraisal. Where the value of outstanding assets or title is difficult to calculate accurately, the appraisal value is determined based on the verified book value. For any long-term deferred expenses without any outstanding assets and title to relate to, or any long-term deferred expenses which have already been incorporated in other type of assets, the appraisal value is determined at zero.

(7) Deferred income tax assets

The deferred income tax assets subject to the appraisal include the deferred income tax assets recognized for the purpose of bad debt provisioning as at the valuation date by the associates of Hainan Airline Airport Holdings (Group) Company Limited, particularly Dunhuang Mogao Airport Management Company Limited, Qingyang Xifeng Airport Management Company Limited and Lanzhou Zhongchuan Airport Management Company Limited. Since the provisioning for bad debt write-down under the receivables has been valued as zero for the purpose of the appraisal, the deferred income tax assets are also valued as zero correspondingly. The book value of deferred income tax assets arising from bad debt provision due to reversal of over provision for prior years is recognized as the appraisal value.

3. Liabilities

Liabilities break down into current liabilities and non-current liabilities, which include short-term borrowing, accounts payable, deposit received, other payables, payroll payable, taxes payable, non-current liabilities due within 1 year, long-term borrowing and bonds payable.

We performed a careful review of the liabilities through the reconciliation between the general ledger, sub-ledgers, financial statements and assets checklist and verification of the timing and payment record with appropriate reclassification made to items as needed, followed by a sampling inspection of original certification by requesting any contracts, agreements, invoices and accounting basis to evidence the authenticity and accuracy of the liabilities in addition to an external confirmation for certain significant items, and finally determined the appraisal value based on the verified adjusted book value.

IX. PROCESS AND STATUS OF THE IMPLEMENTATION OF VALUATION PROCEDURES

For the purpose of the acquisition of the equity interest in HNA Airport Group, upon contact with our company, the appraisal requestor decided to entrust the asset valuation to our company. Upon receipt of the assignment, based on clear valuation purposes, we underwent a preliminary understanding of the basic information of the appraisee including the nature of corresponding economic behaviour of the valuation and the composition of assets subject to valuation. We reached agreement with the requestor on the valuation reference date and conducted a rough projection of the volume of work based on the subject and scope of valuation as determined by the purpose of valuation for the drafting of an initial work program, followed by the conclusion of an assets valuation engagement letter. Meanwhile, based on the conditions captured, we provided the appraisee with declaration documents required in assets valuation and made instructions on the checking of assets and the completion of relevant forms. Upon completion of the above mentioned preparatory work, we arranged valuers to enter the valuation scene on 16th January 2010 who started off on-site inspection, assets verification and information validation, signaling the official implementation of valuation work.

Based on the national regulations and standards concerning assets valuation as well as the generally recognized valuation principles, we conducted an assessment of the overall assets and liabilities within the scope of valuation. In the valuation process, we strictly followed the working principles of independence, objectivity, scientific nature and professionalism as well as the operating principles of continuous in-use, public market, substitute and others, emphasizing the scientific nature of the valuation procedures, the impartiality of price standards, the realistic nature of confirmation on the state of assets, hence reaching a scientific, fair and objective conclusion on the fair value of the appraisee as at the valuation reference date. We divide the whole valuation job such as selection of valuation method, collection of market data, evaluation of estimates, summarization of valuation results, preparation of valuation report and three-level internal review, into four stages of implementation: preliminary preparation, on-site valuation, valuation summary and submission of report.

X. VALUATION ASSUMPTIONS

The appraisal conclusions of the reporting assets are subject to the following assumptions and restriction conditions. If these assumptions and conditions are not reasonably satisfied, the valuation results of the report will be subject to changes of various magnitudes.

1. For the establishment of the report, economic activities are assumed to be in line with relevant provisions of the national laws and regulations. The duties of valuers and valuation institutions are to deliver a professional judgment on the value of assets as mentioned in the report for the purpose of the valuation and do not involve any judgment made on the part of valuers and valuation institutions regarding economic activities in corresponding with the purpose of the valuation.

2. The valuation work, to a very large extent, relies on the relevant information as provided by the appraisal requestor and the appraisee. Hence, the prerequisite for the valuation work is the authenticity and legality of relevant legal documents and valuation data such as relevant documents on the economic activities, assets ownership documents and certificates, assets assessment declaration forms and accounting documents as provided by the appraisal requestor and the appraisee.

3. For the establishment of the report, all the subject assets are assumed to be in use presently and continuously later on.

4. We assume that all assets subject to valuation are in the course of transaction and valued by valuers through market simulation based on the trading conditions of the assets subject to valuation.

5. We assume that the buyer and seller involved in the transaction of assets being traded or to be traded at the market are in equal positions and that both parties have the opportunity and time to obtain adequate market data for making a rational judgment on the functions, purpose, transaction price and other items of the assets.

6. No major change is assumed to occur in the existing national macroeconomic situation.

7. No major change is assumed to occur in the socio-economic environment that the company is situated and the policies being implemented such as tax system and tax rate.

8. The future management team of the company is assumed to be diligent and will continue to maintain the current business management model. The valuation is based solely on the current management capabilities as at the standard date, with no consideration given to the future possibility of an expansion of management capabilities resulting from situations concerning the management, business strategies, additional investments and others.

9. No major change is assumed to take place in the accounting policies and methods of the appraisee.

10. Implications of the inflation factor are not taken into account in the valuation.

11. No major negative impact on the company is assumed to be resulted from other force majeure and unforeseen factors.

XI. CONCLUSIONS

Following the asset valuation methods and process described above, we concluded the market value of the shareholder total equity of HNA Airport Group which is involved in the requestor's proposed implementation of stake acquisition as at 31st December 2009 as below:

For total assets, the book value amounted to RMB3,592,818,500 and the appraised value amounted to RMB4,484,436,200, representing an appreciation of RMB891,617,700, or 24.85%; for liabilities, the book value amounted to RMB4,087,90,700 and the appraised value amounted to RMB408,790,700; for net assets, the book value amounted to RMB3,184,027,800 and appraised value amounted to RMB4,075,645,500, representing an appreciation of RMB891,617,700 or 28%.

Summary of the Asset Valuation Results

In RMB'0000

Item		Book value	Appraised value	Appreciation	Appreciation %
Total current assets	*1*	60,449.56	60,449.56		
Total non-current assets	*2*	298,832.29	387,994.06	89,161.77	29.84
Long-term equity investment	*3*	298,801.64	387,965.33	99,163.69	29.84
Fixed assets	*4*	30.65	28.73	-1.92	-6.26
Total assets	*7*	359,281.85	448,443.62	89,161.77	24.82
Total current liabilities	*8*	879.07	879.07		
Total non-current liabilities		40,000.00	40,000.00		
Total liabilities	*9*	40,879.07	40,879.07		
Net assets	*10*	318,402.78	407,564.55	89,161.77	28

Comments on the appraisal appreciation/depreciation

For the long-term equity investment, the appraisal appreciation primarily results from the appreciation of appraisal value of assets owned by the controlled subsidiaries net of the depreciation thereof.

For certain buildings and constructions of long-term equity investees, the appraisal depreciation is due to the lower existing price of the buildings and constructions than such appraised value as the appraised value upon restructuring is taken as the book value of the assets of long-term investees.

For the equipment of associates, the appraisal depreciation is associated with the lower replacement cost as at the valuation reference date of most equipments purchased in early 1990s as a result of the technological progress, increasingly lower manufacturing costs and hence lower the purchase prices.

For the intangible assets – land use right of associates, the appraisal appreciation results from the low acquisition cost of certain land parcels subject to the appraisal and the higher land premium driven by the recent policy changes, market dynamics and improvement of infrastructure. For specific conditions of the land value-added tax, please refer to the details of the land valuation report "(Haian) Zhengli (2010) No. D103, 104 and 105" issued by Hainan Zhengli Land Valuation Company Limited.

Balancing above factors, we have derived a net appraisal appreciation for total assets.

XII. SPECIAL NOTES

1. The scope of the valuation is determined by the requestor and we have conducted due diligence and recommended necessary adjustments to the owners of such assets with respect to assets with unclear classifications.

2. The purpose of the asset valuation conducted by the certified practising valuers is to assess the value of the subject and express professional opinions thereon. It would exceed the scope of practice for certified practising valuers to recognize or express any opinion on the legal title of the subject.

3. Certain properties of Yichang Three Gorges Airport Company Limted and Sanya Phoenix International Airport Company subject to the appraisal have been pledged or charged as at the valuation date.

4. The land use right certificate has not been received for certain land parcels to which buildings, constructions and structures are attached of Lanzhou Zhongchuan Airport Management Company Limited, Dunhuang Mogao Airport Management Company Limited, Qingyang Xifeng Airport Management Company Limited and Jiayuguan Airport Management Company Limited subject to the appraisal.

5. For the item of "land acquisition cost for integrated logistics support" and "acquisition cost for land exchanged with CSA and newly acquired land" under the projects under construction of Sanya Phoenix International Airport Company Limited, the title to the land and property has been secured on 2nd March 2010 with certificates (2010) No.02428, 02429 issued for a land area of 164,286.34 square meters and 59,479.03 square meters

respectively, both acquired by means of grant for the purpose of airport and located in the Wanmu Base in Yanglan Community, Phoenix Town of Sanya. For the item of "airport apron expansion project", the title to the land and property has been secured on 2nd March 2010 with certificates (2010) No.02427, 02430 issued for a land area of 71,525.27 square meters and 129,677.30 square meters respectively, both acquired by means of grant for the purpose of airport and located in the Meicun District, Phoenix Town of Sanya.

6. The requestor has engaged other professional appraiser to value and produce appraisal report on the land use right held by Yichang Three Gorges Airport Company Limited, Sanya Phoenix International Airport Company Limited and Dongying YongAn Airport Company Limited and we have only been asked to incorporate the appraisal results of the land use right for the purpose of the appraisal.

7. Our conclusions are intended to reflect on an objective and fair basis the asset value of the appraisee as at the valuation date of 31st December 2009 and we assume no responsibilities for any significant changes to the value of such assets after the valuation date.

8. For the purpose of the appraisal, we have conducted a comprehensive inspection of the primary equipment, key equipment of each system and all the separable equipment allowing for an on-site inspection. Our opinions are formed only based on the on-site inspection as well as the operating record and repair report furnished by the appraisee without applying any testing instruments.

9. Our conclusions should no longer be relied upon directly in the event of any incurrence of damage or loss caused by force majeure to the value of subject assets after the valuation date.

10. We have taken no account of any potential taxes and duties in connection with the changes in the value of subject assets after the purpose of the appraisal is fulfilled.

11. The asset valuation report is solely accountable to the requirements of the report itself in line with the valuation standards and the valuation conclusion of the report should not be treated as a guarantee of the potential price of the appraisee. It is not accountable to the asset pricing policy of the requestor. User of the report is reminded for a reasonable understanding and appropriate usage of the report as well as one's own assumption of any decision-making responsibility resulting from the report.

12. Despite that valuers have undergone at their best an intensive understanding of the professional knowledge involved in the valuation project, they are not experts or professionals for industries involved in the project and that the conclusion of the valuation obtained through the full effort and diligence of the valuers may still be subject to the limitations and implications of the level of professional knowledge and practice capability.

13. For other defective items present at the requestor and the appraisee which may affect the conclusion of the valuation, under the condition where the items are not being specially explained by both parties and are still not made known to the valuers after the implementation of the valuation procedures, the valuation institutions and valuers are not liable for relevant responsibilities.

14. The asset valuation report is solely limited to users of the valuation for the purpose of the valuation. The requestor has the usage right of the report and valuation institutions are not allowed to provide it freely to others or release it to the public prior to the approval of the requestor.

Our valuation results may be affected by the existence of aforesaid factors.

XIII. LEGAL EFFECT

1. The Asset Valuation Report shall take effect as at the valuation reference date as stated therein and shall be used for the valuation purpose as stated only.

2. The Asset Valuation Report may only use used by the users as stated therein, unless otherwise as stated in the laws and regulations.

3. Save as otherwise provided by the laws and regulations and agreement between the parties, the contents of the valuation report shall not be extracted, referred to or disclosed to the public without consent from the appraiser.

4. The report is valid for use for a year, i.e. from 31st December 2009 to 30th December 2010 and the Asset Valuation Report shall not be used after the valid use period.

5. The Asset Valuation Report shall take legal effect in accordance with the laws and regulations once signed by the appraiser and the certified practising valuers.

6. The Asset Valuation Report may be used officially after obtaining the approval from the competent property valuation authority after their review or filing in accordance with the prevailing PRC laws (if required).

7. The right of interpretation of the Asset Valuation Report shall be vested in the appraiser, save as otherwise as stated in the laws and regulations.

XIV. SUBMISSION DATE

25th March 2010

Legal representative of the appraiser: (Lin Mei)

PRC Certified Practising Valuer: (Chen Lei)

PRC Certified Practising Valuer: (Liu Haoyu)

Beijing Lixin Assets Appraisal Company Limited
25th March 2010

In light of the A Share Issue and pursuant to the statutory requirements of the PRC laws and regulations, the Company proposes to make the amendments to the relevant provisions of the Articles of Association.

Please note that the Articles are written in Chinese. The English version is an unofficial translation and is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The amendments to the Articles of Association are set out below:–

PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

The board of directors proposes to add the followings as Article 4 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The registered capital of the Company is RMB473,213,000."

The board of directors proposes that Article 6 of the original Articles of Association

"The contents of the Articles of Association were drafted mainly on the basis of the "Company Law," and the "Mandatory Provisions in the Articles of Association for Companies Listing Outside China" (hereinafter called "Mandatory Provisions") (Securities Commission Decree No. [1994]21) as prescribed by the department in charge of company examination and approval authorised by the State Council and the China Securities Regulatory Commission on the 27th August, 1994, the "Suggestions for Supplementary Amendments to the Articles of Association for Companies Listed in Hong Kong" (CSRC Notice No. [1995]1) issued by the Overseas Listing Department of the China Securities Regulatory Commission and the State Ministry for Restructuring and Production on the 3rd April, 1995, and "Regarding the Promulgation of 'Guidelines for the Articles of Association of Listed Companies' Notice" issued by the China Securities Regulatory Commission on the 26th October, 1997. Any amendment to the "Mandatory Provisions" shall be passed by a special resolution by the shareholders' general meeting in accordance with Article 78 of in the Articles of Association."

shall be amended as Article 7

"The contents of the Articles of Association were drafted mainly on the basis of the "Company Law," and the "Mandatory Provisions in the Articles of Association for Companies Listing Outside China" (hereinafter called "Mandatory Provisions") (Securities Commission Decree No. [1994]21) as prescribed by the department in charge of company examination and approval authorised by the State Council and the China Securities Regulatory Commission on the 27th August, 1994, the "Suggestions for Supplementary Amendments to the Articles of Association for Companies Listed in Hong Kong" (CSRC Notice No. [1995]1) issued by the Overseas Listing Department of the China Securities Regulatory Commission and the State Ministry for Restructuring and Production on the 3rd April, 1995, and "Guidelines for the Articles of Association of Listed Companies (2006 Amendments)" issued by the China Securities Regulatory Commission on the 22nd March, 2006. Any amendment to the "Mandatory Provisions" shall be passed by a special resolution by the shareholders' general meeting in accordance with Article 102 of the Articles of Association."

The board of directors proposes that Article 7 of the original Articles of Association

"The Articles of Association shall have binding effect on the Company, and its shareholders, directors, supervisors, general manager, assistance general manager, and other senior management personnel. Such persons shall be entitled to claim rights regarding the affairs of the Company according to the Articles of Association.

The shareholders may bring legal actions against the Company according to the Articles of Association; the Company may bring legal actions against the shareholders according to the Articles of Association; the shareholders may bring legal actions against the shareholders; the shareholders may bring legal actions against the directors, supervisors, general manager and other senior management personnel according to the Articles of Association.

Such legal actions include applying to the court for legal actions and applying for arbitration with the arbitration board."

shall be amended as Article 8

"The Articles of Association shall have binding effect on the Company, and its shareholders, directors, supervisors, general manager, assistant general manager, and other senior management personnel. Such persons shall be entitled to claim rights regarding the affairs of the Company according to the Articles of Association.

Other senior management personnel of the Articles of Association refer to the assistant general manager, secretary to the board of directors and chief financial officer of the Company.

The shareholders may bring legal actions against the Company according to the Articles of Association; the Company may bring legal actions against the shareholders according to the Articles of Association; the shareholders may bring legal actions against the shareholders; the shareholders may bring legal actions against the directors, supervisors, general manager and other senior management personnel according to the Articles of Association.

Such legal actions include applying to the court for legal actions and applying for arbitration with the arbitration board."

The board of directors proposes that Article 13 of the original Articles of Association

"All shares issued by the Company are par shares and each share has par value of RMB1.00."

shall be amended as Article 14

"The Company's share issue is based on the principles of openness, fairness and impartiality. Each share of the same category shall have equal rights. Each share of the same category issued at the same time shall have the same issue terms and price. The same price shall be paid for each of the Shares subscribed for by any entity or individual.

At present, all shares issued by the Company are par shares and each share has par value of RMB1.00."

The board of directors proposes that Article 21 of the original Articles of Association

"As for the operation and development requirements, the Company may increase its capital in accordance with the related articles in the Company's Articles of Association.

The Company may increase its capital by the following means:

(1) Issuing new shares to non-designated investors;

(2) Placing new shares to existing shareholders;

(3) Issuing new shares to existing shareholders, and

(4) Adopting other means permitted by laws and administrative regulations.

When issuing new shares to increase capital, the Company shall adhere to the procedures of relevant State laws and administrative regulations, after obtaining internal approval in accordance with the Company's Articles of Association."

shall be amended as Article 22

"As for the operation and development requirements, the Company may increase its capital in accordance with the related articles in the Company's Articles of Association.

The Company may increase its capital by the following means:

(1) Public offering of shares;

(2) Non-public offering of shares;

(3) Issuing new shares to existing shareholders;

(4) Transferring capital reserves into share capital; and

(5) Adopting other means permitted by laws and administrative regulations.

When issuing new shares to increase capital, the Company shall adhere to the procedures of relevant State laws and administrative regulations, after obtaining internal approval in accordance with the Company's Articles of Association."

The board of directors proposes that Article 24 of the original Articles of Association

"All the issue or transfer of overseas listed foreign shares shall be registered and maintained according to Article 41 in the register of overseas listed foreign shares shareholders of the listing stock exchange."

shall be amended as Article 25

"All the issue or transfer of overseas listed foreign shares shall be registered and maintained according to Article 47 in the register of overseas listed foreign shares shareholders of the listing stock exchange."

The board of directors proposes that Chapter 4 of the original Articles of Association

"Capital Reduction and Share Repurchase"

Shall be amended as

"Capital Reduction and Share Repurchase and Transfer"

The board of directors proposes that Article 30 of the original Articles of Association

"The Company may repurchase its issued shares, after passing the procedures as stipulated in the Articles of Association and receiving the approval of the relevant supervisory authorities in the State Council, under the following conditions:

(1) Canceling shares for the reduction of the Company's capital;

(2) Merging with other companies which hold the Company's shares; and

(3) Other conditions permitted by laws and administrative regulations.

shall be amended as Article 31

"The Company may repurchase its issued shares, after passing the procedures as stipulated in the Articles of Association and receiving the approval of the relevant supervisory authorities in the State Council, under the following conditions:

(1) Canceling shares for the reduction of the Company's capital;

(2) Merging with other companies which hold the Company's shares;

(3) Distributing shares to the Company's employees as incentive;

(4) Where shareholders request the Company to repurchase their shares given dissent to the resolutions concerning the Company's merger or division passed in the shareholders' general meeting; and

(5) Other conditions permitted by laws and administrative regulations.

Other than the above-mentioned conditions, the Company does not undertake any trading of shares of the Company."

The board of directors proposes that Article 31 of the original Articles of Association

"After receiving the approval of the relevant supervisory authorities in the State Council, the Company may repurchase its shares by one of the following methods:

(1) Repurchasing shares from all shareholders on a pro-rata basis;

(2) Repurchasing shares by public trading on the stock exchange; or

(3) Repurchasing shares by agreement outside the stock exchange."

shall be amended as Article 32

"After receiving the approval of the relevant supervisory authorities in the State Council, the Company may repurchase its shares by one of the following methods:

(1) Repurchasing shares from all shareholders on a pro-rata basis;

(2) Repurchasing shares by centralised bidding in the stock exchange; or

(3) Repurchasing shares by agreement outside the stock exchange."

The board of directors proposes to add the followings as Article 34 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The shares acquired by the Company for distribution to its employees as incentive shall not exceed 5% of the Company's total outstanding shares. The fund used in the acquisition of shares shall be disbursed from the Company's profits after tax. The acquired shares shall be transferred to the employees within one year."

The board of directors proposes to add the followings as Article 37 of the Articles of Association:

"The shares of the Company are transferable in accordance with laws."

The board of directors proposes to add the followings as Article 38 of the Articles of Association:

"The Company does not accept its shares to be the subject of pledge."

The board of directors proposes to add the followings as Article 39 of the Articles of Association:

"The shares of the Company held by promoters shall not be transferred within one year from the day of establishment of the Company. The shares issued by the Company prior to its public offering of shares shall not be transferred within one year from the day of listing of the Company at the stock exchange.

The Company's directors, supervisors and senior management personnel shall report to the Company the number of shares held by them in the Company and the changes in their shareholdings. During the period of appointment, they shall not transfer over 25% of the total number of shares held by them in the Company each year. The shares held by them in the Company shall not be transferred within one year from the day of listing of the Company at the stock exchange. The above-mentioned personnel shall not transfer the shares held by them in the Company within six months from separation."

The board of directors proposes to add the followings as Article 40 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The proceeds generated from selling of the Company's shares within six months from the day of purchase or from the purchase of the Company's shares within six months from the day of selling by the Company's directors, supervisors, senior management personnel or shareholders holding over 5% of the Company's shares are attributable to the Company and shall be revoked by the board of directors of the Company. However, in the event of a securities company holds over 5% of the Company's shares as a result of its underwriting of the untaken shares of a stock offering, the sales of such shares is not subject to the six-month time restriction.

In the event when the board of directors of the Company does not act in accordance with the provisions of the previous paragraph, shareholders have the right to request the board of directors to take action within thirty (30) days. In the event when the board of directors of the Company fails to take action within the above-mentioned period, shareholders have the right to take legal action at the people's courts directly in their own names on behalf of the Company.

In the event when the board of directors of the Company does not act in accordance with the provisions of the first paragraph, the responsible directors are jointly and severally liable according to the laws."

The board of directors proposes that Article 46 of the original Articles of Association

"The board of directors shall fix a date for the confirmation of share ownership, when the company convenes the shareholders' general meeting, distributes dividends, conducts audit, or carries out other activities requiring the confirmation of share ownership. At the end of the date of confirmation, the shareholders in the register shall be the Company's shareholders."

shall be amended as Article 52

"The board of directors shall fix a date for the registration of share ownership, when the company convenes the shareholders' general meeting, distributes dividends, conducts audit, or carries out other activities requiring the confirmation of share ownership. At the close of trading at the date of registration, the shareholders in the register shall be the Company's shareholders."

The board of directors proposes that Article 52 of the original Articles of Association

"Common share shareholders have the following rights:

(1) Receive dividends and other kinds of distribution according to the number of shares held;

(2) Attend or appoint nominees to attend shareholders' general meetings, and exercise voting rights;

(3) Supervise the Company's business operating activities; propose suggestions or make inquiries;

(4) Transfer shares according to the laws, administrative regulations and the Articles of Association;

(5) Receive the following information according to the Articles of Association, including:

1 Receive the Articles of Association after payment of subscription monies;

2 After payment of reasonable fees, obtain the right to inquire and photocopy:

i. The register of shareholders of all classes.

ii. Personal information of the Company's directors, supervisors, general manager and other senior management personnel, including:

(a) Present and past names including alias;

(b) Principal address (residential);

(c) Nationality;

(d) Major job position and all other part-time positions, duties; and

(e) Personal identity document and its number;

iii. Condition of share capital;

iv. From the previous accounting year the total face value, quantities, highest and lowest prices of every class of shares repurchased by the Company, and report of all the expenses paid by the Company therefor; and

v. Minutes of shareholders' general meetings.

(6) Share in the distribution of surplus assets according to the number of shares held when the Company is being terminated or liquidated; and

(7) Other rights conferred by laws, administrative regulations and the Articles of Association."

shall be amended as Article 58

"Common share shareholders have the following rights:

(1) Receive dividends and other kinds of distribution according to the number of shares held;

(2) Request, convene, preside, attend or appoint nominees to attend shareholders' general meetings according to the laws, and exercise voting rights;

(3) Supervise the Company's business operating activities; propose suggestions or make inquiries;

(4) Transfer or offer shares held by them as gifts or pledge according to the laws, administrative regulations and the Articles of Association;

(5) Receive the following information according to the Articles of Association, including:

1 Receive the Articles of Association after payment of subscription monies;

2 After payment of reasonable fees, obtain the right to inquire and photocopy:

i. The register of shareholders of all classes.

ii. Personal information of the Company's directors, supervisors, general manager and other senior management personnel, including:

(a) Present and past names including alias;

(b) Principal address (residential);

(c) Nationality;

(d) Major job position and all other part-time positions, duties; and

(e) Personal identity document and its number;

iii. Condition of share capital;

iv. From the previous accounting year the total face value, quantities, highest and lowest prices of every class of shares repurchased by the Company, and report of all the expenses paid by the Company therefor;

v. Minutes of shareholders' general meetings and resolutions of the board of directors' meetings and the board of supervisors' meetings;

vi. financial reports; and

vii. counterfoils of corporate bonds.

(6) Share in the distribution of surplus assets according to the number of shares held when the Company is being terminated or liquidated;

(7) For shareholders who raise objection to resolutions concerning the Company's merger or division passed in the shareholders' general meeting, the right to request the Company to repurchase the shares held by them; and

(8) Other rights conferred by laws, administrative regulations and the Articles of Association."

The board of directors proposes to add the followings as Article 59 of the Articles of Association:

"Shareholders requesting to access to or obtain the information described in the previous article shall provide the Company with written proofs of the type and quantity of the shares of the Company held by them. The Company shall provide the information in accordance with the request of the shareholders upon verification of the shareholder's identity."

The board of directors proposes to add the followings as Article 60 of the Articles of Association:

"In the event when the contents of the resolution of the shareholders' general meeting or the board of directors' meeting of the Company violates the laws or administrative regulations, shareholders have the right to request the people's courts to determine it as invalid.

In the event when the convening or voting procedures of the shareholders' general meeting or the board of directors' meeting violates the laws, administrative regulations or the Articles of Association; or the contents of the resolution violates the Articles of Association, shareholders have the right to request for the revocation by the people's courts within sixty (60) days from the day of resolution."

The board of directors proposes to add the followings as Article 61 of the Articles of Association:

"In the event when directors and senior management personnel violates the laws, administrative regulations or the provisions of the Articles of Association during the performance of duty and causes losses to the Company, shareholders independently or jointly holding over 1% of the Company's shares for over 180 consecutive days have the right to request to the board of supervisors in writing for legal action at the people's courts. In the event when the board of supervisors violates the laws, administrative regulations or the provisions of the Articles of Association during the performance of duty and causes losses to the Company, shareholders may request to the board of directors in writing for legal action at the people's courts.

In the event when the board of supervisors declines to take legal action upon receipt of the written request or has not taken action within thirty days from the day of receipt of the written request or has not taken immediate action despite urgent conditions which would cause irreparable damages to the benefits of the Company, shareholders mentioned in the provisions of the previous paragraph have the right to take legal action at the people's courts directly in their own names on behalf of the Company.

In the event when other parties infringe the legitimate rights and interests of the Company and cause losses to the Company, shareholders mentioned in the provisions of the first paragraph of this Article may take legal action at the people's courts in accordance with the provisions of the previous two paragraphs."

The board of directors proposes to add the followings as Article 62 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"In the event when directors and senior management personnel violates the laws, administrative regulations or the provisions of the Articles of Association and bring damages to the interests of the shareholders, shareholders may file lawsuit with the people's courts."

The board of directors proposes that Article 53 of the original Articles of Association

"Common share shareholders bear the following obligations:

(1) Abide by the Articles of Association;

(2) Pay subscription money for the shares of a particular class subscribed; and

(3) Other necessary obligations imposed by laws, administrative regulations and the Articles of Association.

Apart from the conditions agreed by the share purchasers at the time of purchase, shareholders do not bear any obligation regarding the share capital imposed afterwards."

shall be amended as Article 63

"Common share shareholders bear the following obligations:

(1) Abide by the laws, regulations and the Articles of Association;

(2) Pay subscription money for the shares of a particular class subscribed;

(3) No abuse of the shareholder's rights to damage the benefits of the Company or other shareholders and no abuse of the independent legal status of the Company and the limited liability of shareholder to damage the interests of the creditors of the Company;

The shareholder of the Company who abuses the shareholder's rights and causes damages to the interests of the Company and other shareholders shall be liable for compensation according to the laws.

The shareholder of the Company who abuses the independent legal status of the Company and the limited liability of shareholder to avoid debts and causes serious damages to the interests of the creditors of the Company shall be jointly and severally liable for the debts of the Company.

(4) Other necessary obligations imposed by laws, administrative regulations and the Articles of Association.

Apart from the conditions agreed by the share purchasers at the time of purchase, shareholders do not bear any obligation regarding the share capital imposed afterwards."

The board of directors proposes to add the followings as Article 65 of the Articles of Association:

"Shareholders holding over 5% of the Company's voting shares and having their shares pledged shall report to the Company in writing on the day of occurrence of the pledge."

The board of directors proposes to add the followings as Article 66 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The controlling shareholders and the actual controlling person of the Company shall not use one's relationship to damage the interests of the Company. The party in violation of the provision and has caused losses to the Company shall be liable for compensation.

The controlling shareholder and the actual controlling person of the Company have fiduciary duty towards the Company and the public shareholders of the Company. The controlling shareholder shall exercise the investor's rights in strict accordance with the laws. That person shall not use methods such as profit allocation, asset restructuring, external investment, fund impropriation and loan guarantee to damage the legitimate rights and interests of the Company and the public shareholders of the Company as well as to make use of one's controlling position to damage the benefits of the Company and the public shareholders of the Company."

The board of directors proposes that Article 57 of the original Articles of Association

"The shareholders' general meeting exercises the following powers:

(1) To decide on the Company's operating policies and investment plans;

(2) To elect or remove directors, and decide on matters relating to the remuneration of directors;

(3) To elect or remove supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;

(4) To examine and approve reports of the board of directors;

(5) To examine and approve reports of the supervisory committee;

(6) To examine and approve the Company's proposed annual financial budget and final accounts;

(7) To examine and approve the Company's proposals for profit distribution and for recovery of losses;

(8) To decide on any increase or reduction in the Company's registered capital;

(9) To decide on merger, division, dissolution or liquidation and other matters of the Company;

(10) To decide on the issue of bonds by the Company;

(11) To decide on the appointment, dismissal or discontinued appointment of auditors;

(12) To amend the Articles of Association of the Company;

(13) To examine any proposals put forward by shareholders holding five percent (5%) (containing (5%)) or above or above of the voting rights; and

(14) To decide on any other matters to be decided by the shareholders' general meeting according to the laws, administrative regulations and the Articles of Association."

shall be amended as Article 69

"The shareholders' general meeting exercises the following powers:

(1) To decide on the Company's operating policies and investment plans;

(2) To elect or remove directors, and decide on matters relating to the remuneration of directors;

(3) To elect or remove supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;

(4) To review and approve reports of the board of directors;

(5) To review and approve reports of the supervisory committee;

(6) To review and approve the Company's proposed annual financial budget and final accounts;

(7) To review and approve the Company's proposals for profit distribution and for recovery of losses;

(8) To decide on any increase or reduction in the Company's registered capital;

(9) To decide on merger, division, dissolution or liquidation and other matters of the Company;

(10) To decide on the issue of bonds by the Company;

(11) To decide on the appointment, dismissal or discontinued appointment of auditors;

(12) To amend the Articles of Association of the Company;

(13) To decide on the appointment and dismissal of auditors;

(14) To review and approve guarantee items as stipulated in Article 41;

(15) To review purchases and disposals of major assets made by the Company in a year which exceed 30% of the latest total audited assets of the Company;

(16) To review and approve changes in the use of fund-raising proceeds;

(17) To review equity incentive plans;

(18) To review any proposals put forward by shareholders holding three percent (3%) (containing (3%)) or above of the voting rights; and

(19) To decide on any other matters to be decided by the shareholders' general meeting according to the laws, administrative regulations and the Articles of Association."

The board of directors proposes to add the followings as Article 71 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The following outward guarantees of the Company must be reviewed for approval at the shareholders' general meeting.

(1) Any guarantees provided after the total amount of outward guarantees of the Company and its controlling subsidiaries reaching or exceeding 50% of the latest net audited assets of the Company;

(2) Any guarantees provided after the total amount of the Company's outward guarantees reaching or exceeding 30% of the latest total audited assets of the Company;

(3) Any guarantees provided to guaranteed party with asset liability ratio of over 70%;

(4) Any guarantees with single amount exceeding 10% of the latest net audited assets of the Company;

(5) Any guarantees provided to shareholders, the actual controlling person and the related parties of that person; or

(6) Any guarantees with annual amount exceeding 50% of the latest net audited assets of the Company and an absolute amount of over RMB50 million.

The board of directors proposes that Article 59 of the original Articles of Association

"Shareholders' general meetings can be classified into annual general meetings and extraordinary general meetings. Shareholders' general meetings are convened by the board of directors. Annual general meetings are held once a year and shall be held within six (6) months after the end of the previous financial year.

Extraordinary shareholders' general meetings are required to be held within two months after the occurrence of any of the following events:

(1) The number of directors is less than the number provided for in the "Company Law" or less than two-thirds (2/3) of the number specified in the Company's Articles of Association;

(2) The aggregate losses of the Company which are not made up reach one-third of the Company's total share capital;

(3) A request in writing by shareholders holding ten percent (10%) (containing ten percent (10%)) or more of the Company's voting rights; or

(4) When deemed necessary by the board of directors or requested by the supervisory committee;"

shall be amended as Article 72

"Shareholders' general meetings can be classified into annual general meetings and extraordinary general meetings. Shareholders' general meetings are convened by the board of directors. Annual general meetings are held once a year and shall be held within six (6) months after the end of the previous financial year.

Extraordinary shareholders' general meetings are required to be held within two months after the occurrence of any of the following events:

(1) The number of directors is less than the number provided for in the "Company Law" or less than two-thirds (2/3) of the number specified in the Company's Articles of Association;

(2) The aggregate losses of the Company which are not made up reach one-third of the Company's total share capital;

(3) A request in writing by shareholders holding ten percent (10%) (containing ten percent (10%)) or more of the Company's voting rights; or

(4) When deemed necessary by the board of directors or requested by the supervisory committee;"

The board of directors proposes to add the followings as Article 74 of the Articles of Association:

"The Company convenes its shareholders' general meeting at the registered address of the Company.

A venue shall be set for the shareholders' general meeting which shall be convened in form of onsite meeting. The Company shall also provide networks or other formats for the facilitation of shareholders' participation in the shareholders' general meeting. Shareholders who participate in the shareholders' general meeting through the above-mentioned means are regarded as attendees."

The board of directors proposes to add the followings as Article 75 of the Articles of Association:

"When the Company convenes its shareholders' general meeting, it shall hire lawyers to provide specific legal opinion and public notice on the following issues:

(1) Whether the convening and chairing procedures of the meeting are in accordance with the laws, administrative regulations and the Articles of Association or not;

(2) Whether the qualifications of the attendees and the convener are legally valid or not;

(3) Whether the voting procedures and results of the meeting are legally valid or not; and

(4) Legal opinion on other related issues requested by the Company.

The board of directors proposes that Article 61 of the original Articles of Association

"When the Company convenes the annual general meeting, shareholders holding five percent (5%) or more of the Company's total shares with voting rights are entitled to propose in writing to the Company any new resolutions to be considered at that meeting, which if within the powers of the shareholders' general meeting, are required to be added to the agenda of that meeting."

shall be amended as Article 76

"When the Company convenes the annual general meeting, shareholders holding three percent (3%) or more of the Company's total shares with voting rights are entitled to propose in writing to the Company any new resolutions to be considered at that meeting, which if within the powers of the shareholders' general meeting, are required to be added to the agenda of that meeting."

The board of directors proposes that Article 63 of the original Articles of Association

"A notice of the shareholders' meeting shall meet the following requirements:

(1) In written form;

(2) Specify the date, venue and time of the meeting;

(3) State the matters to be considered;

(4) Provide sufficient information and explanation to shareholders for matters to be considered to enable them to make informed decisions. This principle includes (but not limited to) providing the relevant transaction conditions and contracts (if applicable) of the agreements when the Company proposes merger, repurchase of shares, restructuring of share capital or other restructuring, and providing serious explanation of the causes and consequences;

(5) When any director, supervisor, general manager or other senior management personnel has great conflict of interest with the matters to be discussed in the meeting, he shall disclose the nature and seriousness of the conflict of interest. If the matters to be considered shall affect that director, supervisor, general manager or other senior management personnel as shareholder differently from other classes of shareholders, explanation is necessary for clarifying the differences;

(6) Contain the entire text of any special resolution to be considered and passed at the shareholders' general meeting;

(7) Explain in clear wording that shareholders with the rights to attend and vote in the shareholders' general meeting have the right to appoint one or more than one proxies to attend and vote. Such a proxy needs not be a shareholder; and

(8) State the time and place for delivery of the proxy appointment letter."

shall be amended as Article 78

"A notice of the shareholders' meeting shall meet the following requirements:

(1) In written form;

(2) Specify the date, venue and time of the meeting;

(3) State the matters to be considered;

(4) Provide sufficient information and explanation to shareholders for matters to be considered to enable them to make informed decisions. This principle includes (but not limited to) providing the relevant transaction conditions and contracts (if applicable) of the agreements when the Company proposes merger, repurchase of shares, restructuring of share capital or other restructuring, and providing serious explanation of the causes and consequences;

(5) When any director, supervisor, general manager or other senior management personnel has great conflict of interest with the matters to be discussed in the meeting, he shall disclose the nature and seriousness of the conflict of interest. If the matters to be considered shall affect that director, supervisor, general manager or other senior management personnel as shareholder differently from other classes of shareholders, explanation is necessary for clarifying the differences;

(6) Contain the entire text of any special resolution to be considered and passed at the shareholders' general meeting;

(7) Explain in clear wording that shareholders with the rights to attend and vote in the shareholders' general meeting have the right to appoint one or more than one proxies to attend and vote. Such a proxy needs not be a shareholder; and

(8) State the time and place for delivery of the proxy appointment letter;

(9) State the date of registration of share ownership for shareholders with rights to attend the shareholders' general meeting; and

(10) State the name and telephone number of the permanent contact person for meeting affairs.

In the notice and supplementary notice of the shareholders' general meeting, all specific contents of all proposals shall be fully and completely disclosed. Items which require the opinions of the independent directors for discussion shall disclose the opinions of the independent directors and their grounds at the same time of the issue of the notice or supplementary notice of the shareholders' general meeting.

In the event when the shareholders' general meeting is convened by means of networks or other formats, the voting time and procedures for the networks or other formats shall be clearly stated in the notice of the shareholders' general meeting. The starting time of voting of the shareholders' general meeting for networks or other formats shall not be earlier than 3:00 pm of the day prior to the date of the onsite shareholders' general meeting and later than 9:30 am of the date of the onsite shareholders' general meeting while the finishing time shall not be earlier than 3:00 pm of the date of the onsite shareholders' general meeting.

If the A shares of the Company are listed, the interval between the date of registration of A shares ownership and the date of the meeting shall not exceed seven (7) working days. Once the date of registration of A shares ownership is confirmed, no change is allowed."

The board of directors proposes to add the followings as Article 82 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"In the event of attending the meeting in person, an individual shareholder shall bring one's identity card or other valid certificates, proofs or securities account card which can show one's identity. In the event of appointing a proxy to attend, valid personal identity certificates and the shareholder's power of attorney shall be furnished.

A corporate shareholder shall appoint a legal representative or a proxy of the legal representative to attend the meeting. In the event when the legal representative attends the meeting, personal identity card and valid proofs capable of showing the eligibility of the legal representative shall be furnished. In the event when the proxy of the legal representative attends the meeting, the proxy shall show one's identity card and the power of attorney furnished by the legal representative of the corporate shareholder according to the laws."

The board of directors proposes that Article 67 of the original Articles of Association

"A shareholder shall appoint his proxy in writing, to be signed by the appointer or by the proxy appointed in writing. If the appointer is a legal person, the appointment letter should be stamped with the company's legal stamp, or signed by the directors or the proxy appointed officially or the person authorised by the board of directors. The written form shall state the number of shares the proxy represents."

shall be amended as Article 83

"A shareholder shall appoint his proxy in writing, to be signed by the appointer or by the proxy appointed in writing. If the appointer is a legal person, the appointment letter should be stamped with the company's legal stamp, or signed by the director or the proxy appointed officially or the person authorised by the board of directors. The written form shall state the name of the proxy, the presence or absence of voting rights, the date of issue and the period of validity of the power of attorney and the number of shares the proxy represents."

The board of directors proposes to add the followings as Article 87 of the Articles of Association:

"The register of the attendees of the meeting shall be prepared by the Company. The register shall state items such as the name of the attendee (or the name of unit), identity card number, residential address, the number of voting shares held or represented and the name of the appointer (or the name of unit)."

The board of directors proposes to add the followings as Article 88 of the Articles of Association:

"The convener and the lawyer hired by the Company shall jointly verify the legality of the qualifications of the shareholders and register the names of the shareholders (or the names of units) and the number of their voting shares held in accordance with the shareholder registry provided by the securities registration and clearing institutions. The registration of the meeting shall be terminated prior to the moderator's announcement of the number of shareholders and proxies present onsite and their total number of voting shares held."

The board of directors proposes to add the followings as Article 89 of the Articles of Association:

"When a shareholders' general meeting is convened, all directors, supervisors and secretaries of the board of directors of the Company shall attend the meeting while managers and other senior management personnel shall be present at the meeting as observers."

The board of directors proposes to add the followings as Article 90 of the Articles of Association:

"The shareholders' general meeting shall be convened by the chairman. When the chairman cannot or fails to perform the duty, the meeting shall be convened by the vice chairman (in the case when the Company has two or more vice chairmen, the meeting shall be convened by the vice chairman elected by more than half of the directors). When the vice chairman cannot or fails to perform the duty, the meeting shall be convened by a director elected by more than half of the directors.

The shareholders' general meeting called upon by the supervisors themselves shall be convened by the chairman of the board of supervisors. When the chairman of the board of supervisors cannot or fails to perform the duty, the meeting shall be convened by the vice chairman of the board of supervisors. When the vice chairman of the board of supervisors cannot or fails to perform the duty, the meeting shall be convened by a supervisor elected by more than half of the supervisors.

The shareholders' general meeting called upon by the shareholders themselves shall be convened by a representative elected by the convener.

In the event when the chairman of the meeting violates the meeting procedures during the course of the meeting leading to the discontinuation of the meeting, upon the consent of more than half of the shareholders with voting rights present onsite, the meeting may elect a person to be the chairman of the meeting to continue with the meeting."

The board of directors proposes to add the followings as Article 91 of the Articles of Association:

"The Company shall formulate the rules of procedures of the shareholders' general meeting specifying its convening and voting procedures, including notice, registration, review of proposal, voting, counting, announcement of voting result, formation of resolution, minutes and signatures as well as public announcement together with the authorization principles (contents of authorization shall be specified clearly) of the shareholders' general meeting towards the board of directors. The rules of procedures of the shareholders' general meeting shall be the attachment of the Articles of Association which shall be drafted by the board of directors and approved at the shareholders' general meeting."

The board of directors proposes to add the followings as Article 92 of the Articles of Association:

"At the annual general meeting, the boards of directors and supervisors shall each issue a report of their work in the past year to the shareholders. Each independent director shall also make a work report."

The board of directors proposes to add the followings as Article 93 of the Articles of Association:

"Directors, supervisors and senior management personnel shall provide explanations to the queries and recommendations of shareholders at the shareholders' general meeting."

The board of directors proposes to add the followings as Article 94 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The chairman of the meeting shall announce the number of shareholders and proxies present onsite and their total number of voting shares held prior to voting. The number of shareholders and proxies present onsite and their total number of voting shares held are based on the registration of the meeting."

The board of directors proposes that Article 72 of the original Articles of Association

"When shareholders (including proxies) vote in shareholders' general meetings by exercising their voting rights in accordance with the number of shares held, they have one vote for each share held.

Where any shareholder is, pursuant to the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

shall be amended as Article 96

"When shareholders (including proxies) vote in shareholders' general meetings by exercising their voting rights in accordance with the number of shares held, they have one vote for each share held. The shares of the Company held by the Company have no voting rights and such portion of shares is excluded in the calculation of the total number of voting shares of the shareholders' general meeting.

The board of directors, independent directors and shareholders meeting the conditions of the relevant provisions may collect shareholders' voting rights.

Where any shareholder is, pursuant to the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

The board of directors proposes that Article 77 of the original Articles of Association

"The following matters shall be approved by ordinary resolution in the shareholders' general meeting:

(1) Report of the board of directors and the supervisory committee;

(2) Proposals for profit distribution and for recovery of losses prepared by the board of directors;

(3) Termination of, and remuneration and payment of remuneration for members of the board of directors and the supervisory committee;

(4) The Company's proposed annual financial budget, final accounts, balance sheet, profit and loss statement and other financial reports; and

(5) Matters other than those to be passed by special resolution according to the laws, administrative regulations and the Articles of Association."

shall be amended as Article 101

"The following matters shall be approved by ordinary resolution in the shareholders' general meeting:

(1) Report of the board of directors and the supervisory committee;

(2) Proposals for profit distribution and for recovery of losses prepared by the board of directors;

(3) Termination of, and remuneration and payment of remuneration for members of the board of directors and the supervisory committee;

(4) The Company's proposed annual report, annual financial budget, final accounts, balance sheet, profit and loss statement and other financial reports; and

(5) Matters other than those to be passed by special resolution according to the laws, administrative regulations and the Articles of Association."

The board of directors proposes that Article 78 of the original Articles of Association

"The following matters shall be approved by special resolution in the shareholders' general meeting:

(1) To increase, or decrease the company's share capital, issue any class of shares, warrants or other similar securities;

(2) To issue company bonds;

(3) To decide on division, merger, dissolution or liquidation of the Company;

(4) To amend the Company's Articles of Association; and

(5) Other matters of material importance to the Company which the shareholders' general meeting has decided, by ordinary resolution, should be approved by special resolution.

(6) Any other matters required to be approved by special resolution under the requirements of the Listing Rules."

shall be amended as Article 102

"The following matters shall be approved by special resolution in the shareholders' general meeting:

(1) To increase, or decrease the Company's share capital, issue any class of shares, warrants or other similar securities;

(2) To issue company bonds;

(3) To decide on division, merger, dissolution or liquidation of the Company;

(4) To amend the Company's Articles of Association; and

(5) To decide on the Company's purchase and disposal of major assets or the provision of guarantees which exceed 30% of the latest total audited assets of the Company in a year;

(6) To decide on equity incentive plans;

(7) Other matters of material importance to the Company which the shareholders' general meeting has decided, by ordinary resolution, should be approved by special resolution; and

(8) Any other matters required to be approved by special resolution under the requirments of the Listing Rules."

The board of directors proposes that Article 79 of the original Articles of Association

"Shareholders seeking to convene an extraordinary or class shareholders' meeting shall follow the following procedures:

(1) Two or more shareholders holding ten percent (10%) or more of voting shares in the proposed meeting may sign one or several written requests with similar content and format to request the board of directors to convene an extraordinary general meeting or class shareholders' meeting and list the resolutions to be considered. After receipt of such written request, the board of directors shall convene the extraordinary general meeting or class shareholders' meeting as soon as possible. The amount of shareholding is calculated on the date of the shareholders making the written request.

(2) If the board of directors does not send out notices for convening the requested meeting after thirty (30) days of receipt of the above notice, the shareholders making the request may convene a meeting themselves within four months after the board's receipt of the notice. The procedures of convening the meeting shall closely follow that of the general meeting convened by the board of directors.

The reasonable expenses incurred by the shareholders who convene the meeting themselves because the board of directors fails to do so shall be borne by the Company, and to be deducted from the money due to the negligent director."

shall be amended as Article 103

"Shareholders seeking to convene an extraordinary or class shareholders' meeting shall follow the following procedures:

(1) Two or more shareholders holding ten percent (10%) or more of voting shares in the proposed meeting may sign one or several written requests with similar content and format to request the board of directors to convene an extraordinary general meeting or class shareholders' meeting and list the resolutions to be considered. The board of directors shall give its feedback in writing regarding its agreement or disagreement towards the convocation of the meeting within ten (10) days upon receipt of such written request. The amount of shareholding is calculated on the date of the shareholders making the written request.

In the event when the board of directors agrees to convene the extraordinary general meeting, the board shall send out the notice of shareholders' meeting within five (5) days after the board's resolution. The changes made to the original request in the notices shall be agreed by the relevant shareholders.

(2) If the board of directors does not send out notices for convening the requested meeting within ten (10) days upon the receipt of the above written notice or does not agree to convene the extraordinary general meeting, shareholders independently or jointly holding 10% or more of the Company's shares have the right to make suggestion to the board of supervisors for convening the meeting and such request shall be made to the board of supervisors in writing. In the event when the board of supervisors agrees to convene the extraordinary general meeting, the board shall send out the notice of shareholders' meeting within five (5) days upon receipt of the request. The changes made to the original proposal in the notices shall be agreed by the relevant shareholders.

In the event when the board of supervisors fails to send out the shareholders' meeting notices within the specified period, the board shall be regarded as not convening and holding the shareholders' meeting. Shareholders independently or jointly holding 10% or more of the Company's shares for a consecutive period of over ninety (90) days may convene and chair the meeting themselves. The convening procedures shall be the same with the convening procedures of shareholders' meeting by the board of directors wherever possible."

The board of directors proposes that Article 80 of the original Articles of Association

"General meetings shall be convened and chaired by the chairman of the board of directors. When the chairman cannot or fails to perform the duty, the meeting shall be convened by the vice chairman. When the vice chairman cannot or fails to perform the duty, the meeting shall be convened by a director elected by more than half of the directors and the elected director shall at the same time play the role of chairman of the meeting. If a director could not be elected to convene the meeting and play the role of chairman of the meeting by more than half of the directors, the shareholders attending the meeting may elect the chairman. If for any reason, the shareholders cannot elect a chairman, the shareholder (including proxy) attending the meeting with the most number of voting shares shall be the chairman.

In the event when the board of directors cannot or fails to perform the duty for convening the meeting, the board of supervisors shall act timely to convene and chair the meeting. In the event when the board of supervisors cannot convene and chair the meeting, shareholders independently or jointly holding 10% or more of the Company's shares for a consecutive period of ninety (90) days or above may convene and chair the meeting themselves."

shall be amended as Article 104

"In the event when the board of directors cannot or fails to perform the duty for convening the meeting, the board of supervisors shall act timely to convene and chair the meeting. In the event when the board of supervisors cannot convene and chair the meeting, shareholders independently or jointly holding 10% or more of the Company's shares for a consecutive period of ninety (90) days or above may convene and chair the meeting themselves."

The board of directors proposes to add the followings as Article 105 of the Articles of Association:

> "Independent directors have the right to make suggestion to the board of directors for convening the extraordinary general meeting. In regard to such request, the board of directors shall give its feedback in writing regarding its agreement or disagreement towards the convocation of the meeting within ten (10) days upon receipt of the request in accordance with the laws, administrative regulations and the provisions of the Articles of Association.
>
> In the event when the board of directors agrees to convene the extraordinary general meeting, the board shall send out the notice of shareholders' meeting within five (5) days after the board's resolution. In the event when the board of directors does not agree to convene the meeting, the board shall state its reasons and make public announcements."

The board of directors proposes to add the followings as Article 106 of the Articles of Association:

> "The board of supervisors has the right to make suggestion in writing to the board of directors for convening the extraordinary general meeting. The board of directors shall give its feedback in writing regarding its agreement or disagreement towards the convocation of the meeting within ten (10) days upon receipt of the request in accordance with the laws, administrative regulations and the provisions of the Articles of Association.

In the event when the board of directors agrees to convene the extraordinary general meeting, the board shall send out meeting notices within five (5) days after the board's resolution. The changes made to the original proposal in the notices shall be agreed by the board of supervisors.

In the event when the board of directors does not agree to convene the extraordinary general meeting or fails to give its feedback within ten (10) days upon receipt of the proposal, the board shall be regarded as incapable of performing or not performing its duties to convene the meeting. The board of supervisors may convene and chair the meeting themselves."

The board of directors proposes to add the followings as Article 107 of the Articles of Association:

"In the event when the board of supervisors or the shareholders decide to convene the meeting themselves, they shall notify the board of directors in writing and report to the local CSRC's agencies and the stock exchange.

The proportion of shares held by the convening shareholder shall not be less than 10% prior to the announcement of the meeting's resolutions.

The convening shareholder shall submit supporting materials to the local CSRC's agencies and the stock exchange at the time of the dispatch of the shareholders' meeting notices and the announcement of the meeting's resolutions."

The board of directors proposes to add the followings as Article 108 of the Articles of Association:

"In regard to the meeting convened by the board of supervisors or shareholders themselves, the board of directors and the board's secretary shall coordinate and provide the register of shareholders as of the day of share ownership registration."

The board of directors proposes to add the followings as Article 109 of the Articles of Association:

"The Company shall be responsible for the expenses incurred in meetings convened by the board of supervisors or shareholders themselves."

The board of directors proposes to add the followings as Article 110 of the Articles of Association:

"When the meeting reviews items related to connected transactions, the related shareholders shall not participate in the voting and the number of voting shares represented by them shall be excluded in the calculation of the total number of voting shares. The announcement of the meeting's resolutions shall fully disclose the voting status of unrelated shareholders."

The board of directors proposes to add the followings as Article 111 of the Articles of Association:

> "Under the premise of ensuring a legal and valid meeting, the Company shall facilitate the participation of the shareholders in the meeting through various methods and means including the provision of modern information technologies such as a voting platform in the form of networks."

The board of directors proposes to add the followings as Article 112 of the Articles of Association:

> "Other than the extraordinary situations such as the Company is in a crisis, the Company shall not conclude agreements with any party other than the directors, managers or other senior management personnel in which the entire or important operations of the Company shall be transferred to such party for management unless otherwise approved by special resolution at the meeting."

The board of directors proposes to add the followings as Article 113 of the Articles of Association:

> "The list of director and supervisor candidates shall be submitted to the meeting for voting in form of proposal."

When the meeting votes to elect directors and supervisors, it may implement cumulative voting system in accordance with the provisions of the Articles of Association or the resolutions of the meeting.

The cumulative voting system mentioned in the previous paragraph refers to the method in which each share possesses voting rights of the same quantity with the number of directors or supervisors to be elected by the meeting and that the voting rights of the shareholders may be collectively used. The board of directors shall make announcements on the resumes and basic information of the director and supervisor candidates to the shareholders."

The board of directors proposes to add the followings as Article 114 of the Articles of Association:

> "Apart from the cumulative voting system, the meeting shall vote on all proposals item by item. In the event when there are different proposals for the same matter, voting shall be carried out in accordance to the chronological order of the submission of the proposals. Other than the extraordinary reasons such as force majeure causing termination of the meeting or the inability to make any resolutions, the meeting shall not set aside or disregard any proposal for voting."

The board of directors proposes to add the followings as Article 115 of the Articles of Association:

"When the meeting reviews the proposals, no amendment of proposal shall be made. Otherwise, the relevant changes shall be regarded as a new proposal which cannot be submitted to the current meeting for voting."

The board of directors proposes to add the followings as Article 116 of the Articles of Association:

"The same voting right can only choose one type of voting methods among onsite, network or other formats. In the event of duplication of voting of the same voting right, the first vote shall prevail."

The board of directors propose to add the followings as Article 117 of the Articles of Association:

"The meeting shall vote by open ballot."

The board of directors proposes to add the followings as Article 118 of the Articles of Association:

"Prior to voting on proposals, the meeting shall elect two representatives of the shareholders to participate in the counting and scrutinising of voting. In the event when the review items are related to the interests of the shareholders, the relevant shareholders and proxies shall not participate in the counting and scrutinising of voting.

When the meeting carry out voting on the proposals, the lawyers and representatives of the shareholders and supervisors shall be jointly responsible for the counting and scrutinising of votes and shall announce the voting results at the site. The voting result of the resolutions shall be recorded in the minutes of the meeting.

Listed corporate shareholders or proxies voting through the networks or other methods have the right to check their own voting results by means of the corresponding voting systems."

The board of directors propose to add the followings as Article 119 of the Articles of Association:

"The finishing time of the meeting shall not be earlier than that of the networks or other formats. The chairman of the meeting shall announce the voting information and result of each proposal and shall decide whether the proposal is approved or not based on the voting result.

Prior to the official announcement of the voting result, all relevant parties involved in the onsite, network and other voting formats of the meeting such as the listed company, the tellers, the scrutineers, the major shareholders and the network service provider have the obligation of confidentiality on the voting information."

The board of directors propose to add the followings as Article 120 of the Articles of Association:

> "The shareholders attending the shareholders' general meeting shall deliver one of the following opinions on the proposals: agree, object or abstain.

Unfilled, misfiled, unidentifiable and uncast votes shall all be regarded as the voters' abstention from voting and the voting results of their shares held shall be treated as "abstention"."

The board of directors propose to add the followings as Article 121 of the Articles of Association:

"If the chairman of the meeting has any doubt about the voting result of a resolution, he may request a vote count. If the chairman of the meeting has not carried out any vote count and the shareholders or their proxies disagree with the result announced by the chairman, they have the right to request a vote count immediately after the announcement. The chairman shall immediately carry out the vote count as per request."

The board of directors propose to add the followings as Article 122 of the Articles of Association:

> "The announcement of the meeting's resolutions shall be timely made. The announcement shall state clearly the number of shareholders and proxies attended, the total number of shares with voting rights, its proportion to the Company's total voting shares, the voting methods, the voting result of each proposal and the specific contents of each resolution passed."

The board of directors propose to add the followings as Article 123 of the Articles of Association:

"Special note shall be made in the announcement of the meeting's resolutions in regard to unapproved proposals or resolutions of the previous meetings being altered in the current meeting."

The board of directors propose to add the followings as Article 124 of the Articles of Association:

"When the meeting approves proposals on the election of directors and supervisors, the time of appointment of the newly-appointed directors and supervisors shall be the time of approval of the proposals at the meeting."

The board of directors propose to add the followings as Article 125 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"When the meeting approves proposals relating to cash dividends, bonus shares or the transfer of capital reserves into capital, the Company shall implement specific proposals within two months upon completion of the meeting."

The board of directors proposes that Article 81 of the original Articles of Association

"The chairman of the meeting shall decide whether the resolutions are approved or not. His decision is final and shall be announced in the meeting and recorded in the minutes of the meeting."

shall be amended as Article 126

"The chairman of the meeting shall announce whether the resolutions are approved or not. The result shall be announced in the meeting and recorded in the minutes of the meeting."

The board of directors propose to add the followings as Article 129 of the Articles of Association:

"The minutes of the meeting shall be provided by the shareholders' general meeting, which is the duty of the secretary to the board of directors which shall record the following:

(1) The time, venue and agenda of the meeting and the name of the convener;

(2) The names of the chairman of the meeting, directors, supervisors, managers and other senior management personnel attended or present as observers;

(3) The total number of shareholders and proxies attended and their total number of voting shares held and its proportion to the Company's outstanding shares;

(4) The review proceedings, key comments and voting results;

(5) The queries, opinions or suggestions of the shareholders and their corresponding answers and explanations;

(6) The names of lawyers, tellers and scrutineers; and

(7) Other contents to be recorded in the minutes of the meeting as required by the Articles of Association.

In regard to companies issuing both domestic shares and domestic-listed foreign shares, the minutes of the meeting shall also include:

(1) The number of voting shares held by domestic share shareholders (including proxies) and domestic-listed foreign share shareholders (including proxies) and their proportions to the Company's outstanding shares;

(2) The voting information of domestic share shareholders and domestic-listed foreign share shareholders in regard to each resolution item shall also be included in the recording of the voting results."

The board of directors propose to add the followings as Article 130 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The convener shall ensure that the minutes of the meeting are true, accurate and complete. Directors, supervisors, the board's secretary, the convener or representative and the chairman of the meeting attended shall sign on the minutes of the meeting. The minutes of the meeting shall be kept together with the sign-in book of shareholders attending the onsite meeting, proxy forms and valid voting information of the networks and other methods for a period of not less than ten (10) years."

The board of directors proposes that Article 86 of the original Articles of Association

"The Company, wishing to alter or cancel the rights of class shareholders, shall proceed only by special resolution in the shareholders' general meeting and by convening a separate meeting of affected class shareholders according to Articles 88 to 92."

shall be amended as Article 133

"The Company, wishing to alter or cancel the rights of class shareholders, shall proceed only by special resolution in the shareholders' general meeting and by convening a separate meeting of affected class shareholders according to Articles 135 to 139."

The board of directors proposes that Article 88 of the original Articles of Association

"Affected class shareholders, whether they have voting rights in the shareholders' general meeting originally or not, shall have voting rights in class meetings in matters concerning Article 87 sections 2 to 8, and 11 to 12. However, shareholders with conflict of interest shall have no voting right in class meetings.

The meaning of shareholder with conflict of interest in this article is as follows:

(1) "Shareholder with conflict of interest" is referred to the controlling shareholder as defined in Article 55 of the Articles of Association, when the Company issues repurchase offer for shares to all shareholders on pro rata basis according to Article 31 of the Articles of Association, or repurchase its shares in the open market approved by the stock exchange;

(2) "Shareholder with conflict of interest" is referred to the shareholder who is a party in the negotiation to repurchase shares outside the stock exchange according to Article 31 of the Articles of Association; or

(3) In the Company's restructuring, "shareholder with conflict of interest" is the one who bears a proportionately lower level of obligation compared with other class shareholders, or enjoying different rights from other shareholders in the same class."

shall be amended as Article 135

"Affected class shareholders, whether they have voting rights in the shareholders' general meeting originally or not, shall have voting rights in class meetings in matters concerning Article 134 sections 2 to 8, and 11 to 12. However, shareholders with conflict of interest shall have no voting right in class meetings.

The meaning of shareholder with conflict of interest in this article is as follows:

(1) "Shareholder with conflict of interest" is referred to the controlling shareholder as defined in Article 67 of the Articles of Association, when the Company issues repurchase offer for shares to all shareholders on pro rata basis according to Article 32 of the Articles of Association, or repurchase its shares in the open market approved by the stock exchange;

(2) "Shareholder with conflict of interest" is referred to the shareholder who is a party in the negotiation to repurchase shares outside the stock exchange according to Article 32 of the Articles of Association; or

(3) In the Company's restructuring, "shareholder with conflict of interest" is the one who bears a proportionately lower level of obligation compared with other class shareholders, or enjoying different rights from other shareholders in the same class.

The board of directors proposes that Article 89 of the original Articles of Association

"To be effective, resolutions of a class shareholders' meeting shall be approved by two-thirds or more of the class shareholders with voting power present at the meeting according to Article 88."

shall be amended as Article 136

"To be effective, resolutions of a class shareholders' meeting shall be approved by two-thirds or more of the class shareholders with voting power present at the meeting according to Article 135."

The board of directors proposes that Article 94 of the original Articles of Association

"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 need not hold any shares of the Company.

The chairman and the directors may hold the positions of general manager, deputy general manager and other senior management positions at the same time (except supervisors)."

shall be amended as Article 141

"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."

The board of directors propose to add the followings as Article 142 of the Articles of Association:

"Directors may tender resignation prior to the expiry of term of office. Directors shall submit a written resignation to the board of directors. The board of directors shall disclose the details within 2 days.

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."

The board of directors propose to add the followings as Article 143 of the Articles of Association:

"Directors shall complete all handover procedures to the board of directors upon the coming into effect of the resignation or expiry of term of office, its duties of diligence towards the Company and shareholders shall not be released immediately upon the end of term of office and shall remain valid within a reasonable period of time as stated in the Articles of Association."

The board of directors propose to add the followings as Article 144 of the Articles of Association:

"Unless otherwise stated in the Articles of Association or without the valid authorization from the board of directors, no director may act on behalf of the Company or the board of directors under its own name. When acting under its own name, such director shall declare its position and capacity in advance if the third party reasonably considers that such director is acting on behalf of the Company or the board of the directors."

The board of directors propose to add the followings as Article 145 of the Articles of Association:

"The director shall be liable to the loss of the Company arising from the breach of laws, administrative regulations, department rules and the Articles of Association in executing their duties."

The board of directors propose to add the followings as Article 146 of the Articles of Association:

"Independent directors shall execute their duties in accordance with the laws, administrative regulations and department rules."

The board of directors propose to add the followings as Article 147 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The chairman, vice chairman and the directors may hold the positions of general manager, deputy general manager and other senior management positions at the same time (except supervisors)."

The board of directors proposes that Article 95 of the original Articles of Association

"The board of directors is responsible to the shareholders' general meeting and exercise the following powers:

(1) to convene the shareholders' general meeting and report on its work to the meeting;

(2) to implement the resolutions of the shareholders' general meeting;

(3) to decide on the Company's business and investment plans;

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

(5) to formulate the Company's proposals for distribution of profits and recovery of losses;

(6) to formulate proposals for the increase or reduction of the Company's registered capital and the issue of corporate bonds;

(7) to prepare plans for the merger, division or dissolution of the Company;

(8) to decide on the Company's internal management structure;

(9) to appoint or dismiss the Company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general manager and other senior management personnel (including chief financial officer), and to decide on their remuneration;

(10) to formulate the Company's basic management system;

(11) to formulate the plan to amend the Articles of Association;

(12) to prepare the Company's plans for major acquisition or sale; and

(13) other powers conferred by the Articles of Association and the shareholders' general meeting.

Other than sections 6, 7 and 11 in this article, which must be approved by more than two thirds of the directors, other sections above may be approved by more than half of the directors."

shall be amended as Article 148

"The board of directors is responsible to the shareholders' general meeting and exercise the following powers:

(1) to convene the shareholders' general meeting and report on its work to the meeting;

(2) to implement the resolutions of the shareholders' general meeting;

(3) to decide on the Company's business and investment plans;

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

(5) to formulate the Company's proposals for distribution of profits and recovery of losses;

(6) to formulate proposals for the increase or reduction of the Company's registered capital and the issue of corporate bonds or other securities and their listing;

(7) to prepare plans for the merger, division or dissolution of the Company and the change of corporate form;

(8) to decide on the Company's internal management structure;

(9) to appoint or dismiss the Company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general manager and other senior management personnel (including chief financial officer), and to decide on their remuneration;

(10) to formulate the Company's basic management system;

(11) to formulate the plan to amend the Articles of Association;

(12) to prepare the Company's plans for major acquisition or sale and acquisition of shares of the Company;

(13) to determine the external investment, acquisition or sale of assets, pledge of assets, external guarantee, entrusted finance and connected transactions of the Company within the scope of authorization granted at the general shareholders' meeting;

(14) to manage the matters relating to the information disclosure of the Company;

(15) to propose the engagement or replacement of auditor of the Company at the general shareholders' meeting;

(16) to listen to the work report from the manager of the Company and review the work of the general manager; and

(17) other powers conferred by the Articles of Association and the shareholders' general meeting.

Other than sections 6, 7 and 11 in this article, which must be approved by more than two-thirds of the directors, other sections above may be approved by more than half of the directors."

The board of directors proposes to add the followings as Article 150 of the Articles of Association:

"If the transaction entered into by the Company (other than provision of guarantee) fulfills one of the following conditions, such transaction shall be proposed at the board meeting for consideration and approval:

(1) total assets in the transaction (the higher of carrying amount and appraisal value) represent more than 10% of the audited total assets of the Company in the last period;

(2) transaction amount in the transaction (including debts and expenses undertaken) represents more than 10% of the audited net assets of the Company in the last period and the absolute amount exceeds RMB10 million;

(3) profit attributable to the transaction represents more than 10% of the audited net profit of the Company in the last financial year and the absolute amount exceeds RMB1 million;

(4) operating income from the subject of the transaction (such as stake) in the last financial year represents more than 10% of the audited operating income of the Company in the last financial year and the absolute amount exceeds RMB10 million; or

(5) net profit from the subject of the transaction (such as stake) represents more than 10% of the audited net profit of the Company in the last financial year and the absolute amount exceeds RMB1 million.

If the figures of the indicators above are negative, its absolute value shall be used for measurement."

The board of directors proposes to add the followings as Article 151 of the Articles of Association:

"If the transaction entered into by the Company (other than provision of guarantee, receipt of cash assets and liabilities solely used to deduct the obligations of the listed companies) fulfills one of the following conditions, such transaction shall be proposed at the general shareholders' meeting for consideration and approval in addition to obtaining the approval from the board of directors:

(1) total assets total assets in the transaction (the higher of carrying amount and appraisal value) represent more than 50% of the audited total assets of the Company in the last period;

(2) transaction amount in the transaction (including debts and expenses undertaken) represents more than 50% of the audited net assets of the Company in the last period and the absolute amount exceeds RMB50 million;

(3) profit attributable to the transaction represents more than 50% of the audited net profit of the Company in the last financial year and the absolute amount exceeds RMB5 million;

(4) operating income from the subject of the transaction (such as stake) in the last financial year represents more than 50% of the audited operating income of the Company in the last financial year and the absolute amount exceeds RMB50 million; or

(5) net profit from the subject of the transaction (such as stake) represents more than 50% of the audited net profit of the Company in the last financial year and the absolute amount exceeds RMB5 million.

If the figures of the indicators above are negative, its absolute value shall be used for measurement."

The board of directors proposes to add the followings as Article 152 of the Articles of Association:

"In formulating the Decision-Making Rules for Connected Transactions, the authorization of decision-making for connected transactions at the board meeting and general shareholders' meeting of the Company shall be determined."

The board of directors proposes that Article 97 of the original Articles of Association

"The chairman may exercise the following powers:

(1) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;

(2) to check on the implementation of the resolutions of the board of directors;

(3) to sign the Company's securities; and

(4) to exercise other powers authorised by the board of directors.

If the chairman is unable to perform his duties, he may appoint the vice chairman to act on his behalf."

shall be amended as Article 153

"The chairman may exercise the following powers:

(1) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;

(2) to check on the implementation of the resolutions of the board of directors;

(3) to sign the Company's securities; and

(4) to exercise other powers authorised by the board of directors.

If the chairman is unable to perform his duties, he may appoint the vice chairman to act on his behalf. If there are two or more vice chairmen in the Company, the vice-chairman jointly elected by a simple majority of directors shall perform the duties; For vice-chairman who is incapable of performing his duties or fails to perform his duties, another director shall be jointly elected by a simple majority of directors to perform such duties.

The board of directors proposes that Article 98 of the original Articles of Association

"Meetings of the board of directors shall be convened at least twice a year. The chairman convenes the meeting. A notice of the meeting shall be given to all directors at least fifteen (15) days before the meeting. To consider emergency matters, a motion by two directors, or one third (1/3) or more of the directors or the general manager, may convene an extraordinary meeting of the board."

shall be amended as Article 154

"The board of directors shall convene at least two meetings each year. The board meeting shall be called by the chairman and a notice shall be despatched to all the directors and supervisors at least 15 days prior to the meeting. In case of contingencies, an extraordinary board meeting may be convened by shareholders representing one-tenth (1/10) of the voting rights or directors or supervisors representing one-third (1/3) of the voting rights. The chairman shall convene and chair the extraordinary board meeting within 10 days from the receipt of such proposal."

The board of directors proposes that Article 100 of the original Articles of Association

"The quorum for the meeting of the board of directors is half or more of the directors (including proxies) present.

Each director has one vote. A board resolution must be passed by more than half of all the directors unless otherwise stipulated in this Articles of Association. In case of a tie, the chairman has an extra vote.

When at lease a quarter (1/4) of the directors or at least two non-executive directors consider the provided information regarding the matters under discussion is not sufficient or the evidence is not clear, they may jointly suggest the adjournment of the meeting or the part under consideration. The board shall accept the suggestion.

When a director or any of his associates (as defined under the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Listing Rules")) has a conflict of interest with one of the board resolutions, he shall not be involved and shall have no vote in the resolution. When counting attendance for quorum, that director shall not be counted."

shall be amended as Article 156

"The quorum for the meeting of the board of directors is half or more of the directors (including proxies) present.

Each director has one vote. A board resolution must be passed by more than half of all the directors unless otherwise stipulated in this Articles of Association.

When at least a quarter (1/4) of the directors or at least two non-executive directors consider the provided information regarding the matters under discussion is not sufficient or the evidence is not clear, they may jointly suggest the adjournment of the meeting or the part under consideration. The board shall accept the suggestion.

When a director or any of his associates (as defined under the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Listing Rules")) has a connected relationship with the board resolutions, he shall not be involved and shall abstain from voting in respect of the resolution and shall not exercise any voting rights on behalf of other directors. When counting attendance for quorum, that director shall not be counted. Such board meeting may be held by a simple majority of non-associated directors and the board resolutions proposed at the board meeting shall be passed by a simple majority of votes represented by non-associated directors. If less then 3 non-associated directors attend that board meeting, such matter shall be proposed at the general shareholders' meeting for consideration and approval."

The board of directors proposes to add the followings as Article 158 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"If the director fails to attend the board meeting in person two times in a row and no other directors have been appointed to attend the board meeting, the board of directors shall propose a general shareholders' meeting to remove such director as his performance of duties is deemed failed."

The board of directors proposes that Article 102 of the original Articles of Association

"The board of directors shall record the resolutions passed in the meetings as minutes of the meetings. The chairman, secretary of the board and recorder attending the meetings shall sign on the minutes of the meetings. Opinions stated by independent directors shall be clearly stated in the resolutions of the board.

Directors shall bear responsibility for the resolutions passed. Participating directors, who passed resolutions that are against the laws, administrative regulations, and the Articles of Association, and whose action causes serious damages to the Company, shall be responsible for indemnity to the Company. A director can be exonerated if he can prove that he was recorded in disagreement when such resolution was passed."

shall be amended as Article 159

"The board of directors shall record the resolutions passed in the meetings as minutes of the meetings. The chairman, secretary of the board and recorder attending the meetings shall sign on the minutes of the meetings. Opinions stated by independent directors shall be clearly stated in the resolutions of the board. Minutes of the meetings of the board of directors shall be maintained and stored as records of the Company for at least 10 years.

Directors shall bear responsibility for the resolutions passed. Participating directors, who passed resolutions that are against the laws, administrative regulations, and the Articles of Association, and whose action causes serious damages to the Company, shall be responsible for indemnity to the Company. A director can be exonerated if he can prove that he was recorded in disagreement when such resolution was passed."

The board of directors proposes to add the followings as Article 160 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The minutes of the board meeting shall include the following details:

(1) date of the meeting, venue and name of the convener;

(2) name of directors attending the meeting and name of the directors (proxies) appointed to attend the board meeting;

(3) meeting agenda;

(4) key points made by the directors; and

(5) means of voting and results for each of the resolutions (results of the resolutions shall include the number of votes for, against or abstained)"

The board of directors proposes that Article 105 of the original Articles of Association

"The secretary of the board of directors is appointed by the board. He shall be a natural person possessing the requisite professional knowledge and experience. His main duties are to:

(1) ensure the Company has a complete set of constitutional documents and records;

(2) ensure the Company, in accordance with the laws, file and submit reports and documents as required to the relevant authorities;

(3) ensure the good maintenance of the register of shareholders, and those who have the right to obtain such company records can obtain such records and documents on a timely basis; and

(4) carry out other duties required by the laws, administrative regulations and the Articles of Association."

shall be amended as Article 163

"The secretary of the board of directors is appointed by the board of directors. He shall be a natural person possessing the requisite professional knowledge and experience. He shall be accountable to the Company and the board of directors. His main duties are to:

(1) take charge of the information disclosure and announcement of the Company, coordinate the matters of information disclosure of the Company, organize and formulate the administration system relating to the information disclosure of the Company and supervise the compliance of the relevant information disclosure requirements by the Company and the relevant information disclosure obligors;

(2) take charge of the administration of investor relations, coordinate the information communication with the securities regulatory authorities, investors, securities service authorities and the media;

(3) organize the board meetings and general shareholders' meetings, participate in general shareholders' meetings, board meetings, supervisory committee meetings and senior management meetings, and take charge of and sign the board meeting minutes;

(4) take charge of the confidentiality of the information disclosure of the Company and report and disclose to the stock exchange in a timely manner prior to the public announcement of material information leakage;

(5) monitor the media articles and actively clarify the truth of the media articles and assist the board of directors of the Company to respond to the queries of the stock exchange in a timely manner;

(6) organize training on the relevant laws, administrative regulations, this Article and other relevant requirements to the directors, supervisors and senior management of the Company to assist them to understand their respective duties in the course of information disclosure;

(7) remind the directors, supervisors and senior management of the Company and report to the stock exchange immediately upon informing them of their breach of the relevant laws, administrative regulations, department rules, other regulatory documents, this Article, other requirements of the stock exchange and the Articles of Association or upon the decision made by the Company that is or may be in breach of the relevant requirements;

(8) take charge of shareholding management of the Company and maintain the details of the shares of the Company held by the directors, supervisors, senior management, controlling shareholders and its directors, supervisors and senior management and disclose the change in shareholdings of the directors, supervisors and senior management of the Company; and

(9) perform other duties as stated in the laws, administrative regulations and the Articles of Association."

The board of directors proposes to add the followings as Article 166 of the Articles of Association:

"The controlling shareholders and beneficial owners of the Company shall not act as senior management of the Company if they hold non-directorship positions in the Company."

The board of directors proposes to add the followings as Article 167 of the Articles of Association:

"The general manager shall formulate the work rules of general manager and implement the same after obtaining the approval from the board of directors."

The board of directors proposes to add the followings as Article 168 of the Articles of Association: "Details of the work rules of general manager are as follows:

(1) conditions and procedures for convening the meeting of general manager and attendees;

(2) respective duties of general manager and other senior management and their division of labour;

(3) authority over the use of funds and assets of the Company and entering into of material contracts, and the reporting systems to the board of directors and the supervisory committee; and

(4) other matters that the board of directors shall consider necessary."

The board of directors proposes to add the followings as Article 169 of the Articles of Association:

"The general manager may tender resignation prior to the expiry of term of office. Details of the procedures and methods regarding the resignation of general manager shall be provided in the employment contract entered into between the general manager and the Company."

The board of directors proposes to add the followings as Article 170 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The general manager, deputy general manager, financial controller, secretary to the board of directors and financial controller are members of the senior management of the Company."

The board of directors proposes to add the followings as Article 174 of the Articles of Association:

"The senior management shall be liable to the loss of the Company arising from the breach of laws, administrative regulations, department rules and the Articles of Association in executing their duties."

The board of directors proposes to add the followings as Article 175 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The general manager in this chapter shall refer to the manager as defined in the Company Law. Other functions of the Company including general manager, president, CEO and chief executive officer shall be subject to the rights and obligations of general manager in this chapter and binding by the Articles of Association and other laws and regulations in respect of the relevant obligations of general manager."

The board of directors proposes that Article 115 of the original Articles of Association

"The supervisory committee shall convene meetings at least once a year. The chairman of the committee shall convene the meetings."

shall be amended as Article 180

"The supervisory committee shall convene meetings at least once (1) every six months. The chairman of the committee shall convene the meetings."

The board of directors proposes that Article 116 of the original Articles of Association

"The supervisory committee is responsible to the shareholders' general meeting and exercise the following powers in accordance with the law: It is to

(1) review the company's finances;

(2) supervise the directors, general manager and other senior management officers in their performance of their duties and to ascertain whether or not they have violated laws, administrative regulations or the Articles of Association

(3) require correction of those acts of directors, general manager or other senior management officers which are harmful to the Company's interests;

(4) examine the finance reports, operating reports, profit distribution proposals and other financial information to be presented by the board to the shareholders' general meeting; if in doubt, appoint certified accountants and chartered auditors in the name of the Company and to carry out audit;

(5) propose the convening of extraordinary shareholders' general meeting;

(6) deal with or take legal actions against directors on behalf of the Company; and

(7) exercise other powers conferred by the Articles of Association and the shareholders' general meeting.

Supervisors shall attend meetings of the board of directors."

shall be amended as Article 181

"The supervisory committee is responsible to the shareholders' general meeting and exercise the following powers in accordance with the law: It is to

(1) review the company's finances;

(2) supervise the directors, general manager and other senior management officers in their performance of their duties and to ascertain whether or not they have violated laws, administrative regulations or the Articles of Association;

(3) require correction of those acts of directors, general manager or other senior management officers which are harmful to the Company's interests;

(4) examine the finance reports, operating reports, profit distribution proposals and other financial information to be presented by the board to the shareholders' general meeting; if any unusual operating conditions of the Company arise, appoint certified accountants and chartered auditors in the name of the Company and to carry out audit;

(5) propose the convening of extraordinary shareholders' general meeting; convene and chair the shareholders' general meeting when the duties to convene and chair the shareholders' general meeting of the board of directors are not in compliance with the Company Law;

(6) propose resolutions at the shareholders' general meeting;

(7) review and make written audit opinion on the reports of the Company prepared regularly by the board of the directors;

(8) deal with or take legal actions against directors on behalf of the Company; and

(9) exercise other powers conferred by the Articles of Association and the shareholders' general meeting.

Supervisors shall attend meetings of the board of directors."

The board of directors proposes to add the followings as Article 183 of the Articles of Association:

"The supervisory committee shall formulate the rules of procedure for meetings of the supervisory committee, stating the rules and voting procedures of the supervisory committee to ensure the working efficiency and scientific decision making of the supervisory committee."

The board of directors proposes to add the followings as Article 184 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The supervisory committee shall record the decisions of the proposed matters in the minutes, which shall be signed by the supervisors attending the meeting.

The supervisors have the right to record some kind of explanatory notes in the minutes. Minutes of the meetings of the supervisory board shall be maintained and stored as records of the company for at least 10 years."

The board of directors proposes that Article 120 of the original Articles of Association

"Persons in any one of the following categories may not serve as directors, supervisors, general manager, or other senior management officers of the Company:

(1) persons without civil capacity or with restricted civil capacity;

(2) persons who have committed an offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and who have been sentenced to criminal punishment, where less than five (5) years have elapsed since the date of the completion of the sentence; or persons who have been deprived of their political rights due to a criminal offense, where less than five (5) years have elapsed since the date of the completion of implementation of that deprivation;

(3) persons who are former directors, factory managers, or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such a company or enterprise, where less than three (3) years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(4) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three (3) years have elapsed since the date of the revocation of the business license;

(5) persons who have a relatively large amount of debt due and outstanding;

(6) persons who are under investigation by the legal department due to a criminal offense, and the investigation has not yet been completed;

(7) persons who cannot be the leader of an enterprise under the laws and administrative regulations;

(8) non-natural person; or

(9) persons who have been convicted by the regulatory body of breach of the relevant securities regulations, and who have involved in fraud or dishonest acts; where less than five (5) years have since elapsed since the commitment of the fraudulent or dishonest act."

shall be amended as Article 187

"Persons in any one of the following categories may not serve as directors, supervisors, general manager, or other senior management officers of the Company:

(1) persons without civil capacity or with restricted civil capacity;

(2) persons who have committed an offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and who have been sentenced to criminal punishment, where less than five (5) years have elapsed since the date of the completion of the sentence; or persons who have been deprived of their political rights due to a criminal offense, where less than five years have elapsed since the date of the completion of implementation of that deprivation;

(3) persons who are former directors, factory managers, or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such a company or enterprise, where less than three (3) years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(4) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three (3) years have elapsed since the date of the revocation of the business license;

(5) persons who have a relatively large amount of debt due and outstanding;

(6) persons who are under investigation by the legal department due to a criminal offense, and the investigation has not yet been completed;

(7) persons who cannot be the leader of an enterprise under the laws and administrative regulations;

(8) non-natural person; or

(9) persons who have been convicted by the regulatory body of breach of the relevant securities regulations, who have involved in fraud or dishonest acts, and whose period of prohibition from access to market is not expired."

The board of directors proposes to add the followings as Article 189 of the Articles of Association:

"The directors, supervisors and senior management shall undertake the following faithful obligations to the Company in accordance with the laws, administrative regulations and the Articles of Association that they shall not:

(1) misuse their authority to receive briberies or other illegal income, nor misappropriate the assets of the Company;

(2) misappropriate the funds of the Company;

(3) deposit the assets or funds of the Company in the account under its individual name or under the name of other individuals;

(4) violate the requirements of the Articles of Association and make loans to others using the funds of the Company, nor provide guarantee to others by securing the assets of the Company without obtaining the approval at the general shareholders' meeting and from the board of directors;

(5) violate the requirements of the Articles of Association and enter into contracts or transactions with the Company without obtaining the approval at the general shareholders' meeting;

(6) take advantage of its authority to seek business opportunities that belong to the Company for its own or for others, nor engage in or procure others to engage in businesses similar to the Company without obtaining the approval at the general shareholders' meeting;

(7) accept nor appropriate the commission from the transaction of the Company as its own;

(8) disclose the confidentiality of the Company without authorization;

(9) prejudice the interests of the Company using its connected relationships; and

(10) other faithful obligations stated in the laws, administrative regulations, department rules and the Articles of Association.

Any income arising therefrom of the directors, supervisors and senior management in breach of the section shall be for the benefit of the Company; and they shall be liable to any loss of the Company arising therefrom."

The board of directors proposes to add the followings as Article 190 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The directors, supervisors and senior management shall undertake the following obligations of diligence to the Company in accordance with the laws, administrative regulations and the Articles of Association that they shall:

(1) exercise the rights granted by the Company in a prudent, conscientious and diligent manner to ensure that the commercial actions of the Company are in compliance with the national laws, administrative regulations and the requirements of various national economic policies and that the commercial activities are within the business scope stated in the business license;

(2) treat all shareholders fairly;

(3) understand the business, operating and management conditions of the Company in a timely manner;

(4) sign and issue a written confirmation on the regular report of the Company to ensure that the information disclosed by the Company is true, accurate and complete;

(5) provide the relevant conditions and information that is in accordance with the facts to the supervisory committee and shall not hinder the exercise of authority by the supervisory committee or the supervisors; and

(6) other obligations of diligence as stated in the laws, administrative regulations, department rules and the Articles of Association."

The board of directors proposes that Article 127 of the original Articles of Association

"The directors, supervisors, general manager, and other senior management officers of the Company may be dismissed with the knowledge of the general shareholders' meeting due to their contravention of certain responsibility from some material obligations, excepting the conditions defined in Article 54."

shall be amended as Article 196

"The directors, supervisors, general manager, and other senior management officers of the Company may be dismissed with the knowledge of the general shareholders' meeting due to their contravention of certain responsibility from some material obligations, excepting the conditions defined in Article 64."

The board of directors proposes that Article 133 of the original Articles of Association

"Loan guarantees provided in contravention of Article 131 section 1 may not be enforced on the Company, except under the following conditions:

(1) when making a loan to connected parties of directors, supervisors, general manager, or other senior management officers of the Company or the parent company, the lender is ignorant of the fact; or

(2) the surety provided by the Company has been sold legally by the lender to a purchaser in good faith."

shall be amended as Article 202

"Loan guarantees provided in contravention of Article 200 section 1 may not be enforced on the Company, except under the following conditions:

(1) when making a loan to connected parties of directors, supervisors, general manager, or other senior management officers of the Company or the parent company, the lender is ignorant of the fact; or

(2) the surety provided by the Company has been sold legally by the lender to a purchaser in good faith."

The board of directors proposes to add the followings as Article 208 of the Articles of Association:

"The Company shall implement the internal audit system and designate an audit team to supervise the internal audit of the financial income and expenses and the economic activities of the Company."

The board of directors proposes to add the followings as Article 209 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The duties of the internal audit system and the audit team shall be implemented upon obtaining the approval from the board of directors. The head of the audit team is accountable to the board of directors and shall report to the board of directors."

The board of directors proposes to add the followings as Article 211 of the Articles of Association:

"The Company shall submit the annual financial and accounting report to China Securities Regulatory Commission and the stock exchange within 4 months from each of the financial year end date; the half-yearly financial and accounting report to the authorities and stock exchanges designated by China Securities Regulatory Commission within 2 months from the date of the end of the 6 months prior to each of the financial year; and the quarterly financial and accounting report to the authorities and stock exchanges designated by China Securities Regulatory Commission within 1 month from the date of the end of the 3 months and 9 months prior to each of the financial year.

The above financial and accounting reports shall be prepared in accordance with the relevant laws, administrative regulations and department rules."

The board of directors proposes that Article 140 of the original Articles of Association

"The board of directors shall place before the shareholders at every annual general meeting such financial reports as are required by the relevant laws, administrative regulations or directives promulgated by competent local and central government authorities to be prepared by the Company."

shall be amended as Article 212

"The board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by the relevant laws, administrative regulations or directives promulgated by competent local and central government authorities to be prepared by the Company."

The board of directors proposes that Article 141 of the original Articles of Association

"The financial reports and reports of the board of directors of the Company shall be deposited at the Company for the shareholders' inspection not later than twenty (20) days before the annual general meeting. Each shareholder shall be entitled to receive the financial statements referred to in this article.

The Company shall send by prepaid mail twenty-one (21) days before the annual general meeting the above reports to each shareholder of overseas listed foreign shares. The recipients' addresses shall be in the register of shareholders."

shall be amended as Article 213

"The financial reports and reports of the board of directors of the Company shall be deposited at the Company for the shareholders' inspection not later than twenty (20) days before the annual general meeting. Each shareholder shall be entitled to receive the financial statements referred to in this article.

The Company shall send by prepaid mail twenty-one (21) days before the annual general meeting the above reports to each shareholder of overseas listed foreign shares. The recipients' addresses shall be in the register of shareholders."

The board of directors proposes to add the followings as Article 216 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The Company shall publish financial reports four times every financial year, that is, the annual financial and accounting report shall be submitted to China Securities Regulatory Commission and the stock exchange within 4 months from each of the financial year end date; the half-yearly financial and accounting report shall be submitted to the authorities and stock exchanges designated by China Securities Regulatory Commission within 2 months from the date of the end of the 6 months prior to each of the financial year; and the quarterly financial and accounting report shall be submitted to the authorities and stock exchanges designated by China Securities Regulatory Commission within 1 month from the date of the end of the 3 months and 9 months prior to each of the financial year. The above financial and accounting reports shall be prepared in accordance with the relevant laws, administrative regulations and department rules."

The board of directors proposes that Article 145 of the original Articles of Association

"Other than the legally required account books, the Company shall not maintain another set of account books."

shall be amended as Article 217

"Other than the legally required account books, the Company shall not maintain another set of account books. The assets of the Company shall not be deposited in the account under the name of any individuals."

The board of directors proposes that Article 146 of the original Articles of Association

"The distribution of the Company's profits after tax shall follow the following order:

(1) recovery of losses;

(2) provision for legal public provident fund;

(3) provision for legal public welfare fund;

(4) after approval by resolution of general shareholders' meeting, provision for provident fund as desired; and

(5) payment of ordinary share dividends.

The board of directors shall confirm the proportion of the above-mentioned provisions of this article according to relevant regulations (if any). If no regulation exists, it is suggested to have the proportion approved by the general shareholders' meeting. Before recovering for the losses, and providing legal public provident fund and public welfare fund, no distribution of share profit or any distribution by means of bonus issue is permitted."

shall be amended as Article 218

"The distribution of the Company's profits after tax shall follow the following order:

(1) recovery of losses;

(2) provision for statutory provident fund;

(3) after approval by resolution of general shareholders' meeting, provision for provident fund as desired; and

(4) payment of ordinary share dividends.

Upon the distribution of profit after tax for the year, the Company shall transfer 10% of the profit to the statutory provident fund. No transfer is required to be made if the accumulated statutory provident fund of the Company accounts for more than 50% of the registered capital of the Company.

If the statutory provident fund of the Company is insufficient to offset the prior year loss, the profit of the year shall be used to offset such loss prior to the transfer to the statutory provident fund according to the above clause.

After the transfer from profit after tax to statutory provident fund, discretionary provident fund may be withdrawn from the profit after tax upon the passing of resolution at the general shareholders' meeting.

Profit after tax net after offsetting the loss and transfer to provident fund shall be allocated in proportion of the shares held by shareholders, other than the allocation made not in proportion of the shares held as stated in the Articles of Association.

At the general shareholders' meeting, in the event that the Company is in breach of the above clause and allocate the profit to the shareholders prior to offsetting the loss and transfer to the statutory provident fund, the shareholders shall return such allocated profit in default to the Company.

The shares of the Company held by the Company are not entitled to profit allocation."

The board of directors proposes that Article 150 of the original Articles of Association

"The Company may separately or concurrently adopt the following methods to distribute share dividends:

(1) cash; and

(2) bonus shares."

shall be amended as Article 222

"The Company may separately or concurrently adopt the following methods to distribute share dividends:

(1) cash; and

(2) bonus shares.

The Company may distribute interim dividend in cash and the accumulated allocated profits in cash for the preceding three years shall be no less than 30% of the average annual distributable profit in the preceding three years."

The board of directors proposes that Article 151 of the original Articles of Association

"The Company shall declare and pay share dividends and other monies to shareholders of domestic shares in Renmenbi. Dividends shall be paid in Renmenbi within three months of announcement. The Company shall declare and pay share dividends and other monies to shareholders of overseas listed foreign shares in Renmenbi. Dividends shall be paid within three months of announcement in foreign currency. The exchange rate shall be calculated as the average closing exchange rate between Hong Kong dollars and Renmenbi published by the Bank of China for the five working days before the date of announcement of dividends or the payment date.

The foreign currency required to pay dividends to shareholders of overseas listed foreign shares shall be obtained according to the rules of relevant exchange control bodies of the State.

Upon the authorization of the general shareholders' meeting, the board of directors may decide to distribute interim cash or share dividends."

shall be amended as Article 223

"The Company shall declare and pay share dividends and other monies to shareholders of domestic shares in Renminbi. Dividends shall be paid in Renminbi within two months of announcement. The Company shall declare and pay share dividends and other monies to shareholders of overseas listed foreign shares in Renminbi. Dividends shall be paid within two months of announcement in foreign currency. The exchange rate shall be calculated as the average closing exchange rate between Hong Kong dollars and Renminbi published by the Bank of China for the five working days before the date of announcement of dividends or the payment date.

The foreign currency required to pay dividends to shareholders of overseas listed foreign shares shall be obtained according to the rules of relevant exchange control bodies of the State.

Upon the authorization of the general shareholders' meeting, the board of directors may decide to distribute interim cash or share dividends."

The board of directors proposes that Article 155 of the original Articles of Association

"The Company shall appoint independent auditors in accordance with the relevant regulations of the State to prepare the Company's annual financial report, and audit other financial reports of the Company.

The Company's first auditors may be appointed by the establishment meeting prior to the first shareholders' annual general meeting. The term of service of the first auditors shall end when the first shareholders' annual general meeting ends.

If the establishment meeting does not exercise the right in the previous paragraph, the board of directors shall exercise such a right."

shall be amended as Article 227

"The Company shall appoint independent auditors that complies with the relevant regulations of the State to audit the Company's annual financial report and other financial reports.

The Company's first auditors may be appointed by the establishment meeting prior to the first shareholders' annual general meeting. The term of service of the first auditors shall end when the first shareholders' annual general meeting ends.

If the establishment meeting does not exercise the right stated in the previous paragraph, the board of directors shall exercise such right."

The board of directors proposes that Article 156 of the original Articles of Association

"The term of service of auditors shall begin with the end of the current annual general meeting and end with the end of the next annual general meeting."

shall be amended as Article 228

"The term of service of auditors shall begin with the end of the current annual general meeting of the Company and end with the end of the next annual general meeting."

The board of directors proposes that Article 158 of the original Articles of Association

"If the auditors' position is vacant, the board of directors may appoint auditors to fill the vacancy before convening the general shareholders' meeting. However, during the period of continued vacancy, if the Company has other serving auditors, the auditors can continue their job."

shall be amended as Article 230

"If the auditors' position is vacant, a general shareholders' meeting shall be convened as soon as possible to appoint a new auditor to fill such vacancy."

The board of directors proposes that Article 168 of the original Articles of Association

"Company merger can be achieved by two means, absorption and new entity for merger.

For company merger, the involved parties shall sign the merger agreement and prepare the balance sheets and inventory of assets. The Company shall advise creditors within ten (10) days of the merger resolution, and publish in newspaper the merger notice at least three (3) times within thirty (30) days.

After the merger, liabilities and debts of the merger parties shall be borne by the merged company or by the new company established after the merger."

shall be amended as Article 240

"Company merger can be achieved by two means, absorption and new entity for merger.

For company merger, the involved parties shall sign the merger agreement and prepare the balance sheets and inventory of assets. The Company shall advise creditors within ten (10) days of the merger resolution, and publish in newspaper the merger notice at least three (3) times within thirty (30) days. The creditor may request the Company to settle the liabilities or provide the relevant guarantee within 30 days from receiving the notice or within 45 days from the announcement if the notice is not received.

After the merger, liabilities and debts of the merger parties shall be borne by the merged company or by the new company established after the merger."

The board of directors proposes that Article 169 of the original Articles of Association

"In a division, the assets shall be split in an appropriate manner.

In a company division, the involved parties shall sign the division agreement and prepare the balance sheets and inventory of assets. The Company shall advise creditors within ten (10) days of the division resolution, and publish in newspaper the division notice at least three (3) times within thirty (30) days.

The debts of the Company before division shall be borne by the companies established after division according to the agreement."

shall be amended as Article 241

"In a division, the assets shall be split in an appropriate manner.

In a company division, the involved parties shall sign the division agreement and prepare the balance sheets and inventory of assets. The Company shall advise creditors within ten (10) days of the division resolution, and publish in newspaper the division notice at least three (3) times within thirty (30) days.

The debts of the Company before division shall be borne by the companies established after division jointly and severally according to the agreement, save as otherwise agreed in writing between the Company and the creditor in respect of debt settlement before division."

The board of directors proposes that Article 171 of the original Articles of Association

"The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

(1) when the general shareholders' meeting resolves that the Company should be dissolved;

(2) when dissolution is necessary as a result of the merger or division of the Company;

(3) when the Company is declared to be insolvent according to the law because it is unable to pay its debts as they fall due; and

(4) when the Company is ordered to be closed down due to reasons of its violation of laws or administrative regulations."

shall be amended as Article 243

"The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

(1) when the general shareholders' meeting resolves that the Company should be dissolved;

(2) when dissolution is necessary as a result of the merger or division of the Company;

(3) when the Company is declared to be insolvent according to the law because it is unable to pay its debts as they fall due;

(4) when the business license is revoked, the Company is ordered to be closed down or revoked due to reasons of its violation of laws or administrative regulations;

(5) when the operating period stated in the Articles of Association is expired or other dissolution matters stated in the Articles of Association arise; and

(6) when the Company faces material difficulties in operation and management and continuous subsistence would result in material loss suffered by the shareholders where it cannot be resolved through other means, shareholders holding more than 10% of the total voting rights of the Company may request the People's Court to dissolve the Company."

The board of directors proposes that Article 172 of the original Articles of Association

"In the event when the Company is dissolved according to section (1), a liquidation team shall be established within fifteen (15) days. Its members shall be selected by the general shareholders' meeting by an ordinary resolution.

In the event when the Company is dissolved according to section (3), the People's Court shall form a liquidation team comprising of shareholders, relevant authorities and professionals in accordance with the law to proceed with the liquidation.

In the event when the Company is dissolved according to section (4), the relevant supervisory authorities shall form a liquidation team comprising shareholders, relevant authorities and professionals, to proceed with the liquidation."

shall be amended as Article 244

"In the event when the Company is dissolved according to section (1), a liquidation team shall be established within fifteen (15) days. Its members shall be selected by the general shareholders' meeting by an ordinary resolution.

In the event when the Company is dissolved according to section (3), the People's Court shall form a liquidation team comprising of shareholders, relevant authorities and professionals in accordance with the law to proceed with the liquidation.

In the event when the Company is dissolved according to sections (4) and (6), the relevant competent authorities shall form a liquidation team comprising shareholders, relevant authorities and professionals, to proceed with the liquidation.

In the event when the Company is dissolved according to section (5), the Company may be subsisted through amending the Articles of Association.

The amendment to the Articles of Association in accordance with the above clause shall be passed by two-thirds of the voting rights represented by the shareholders attending the general shareholders' meeting."

The board of directors proposes that Article 174 of the original Articles of Association

"The liquidation team shall notify creditors within ten (10) days after its establishment, and shall publish notices in newspapers at least three (3) times within sixty (60) days. The liquidation team shall register all debts.

Creditors shall submit its claim to the liquidation team within thirty (30) days upon receipt of the written notice, or within ninety (90) days of public notice if no written notice is received. When creditors submit their claims, they shall explain the relevant matters of the debt, and provide proof thereof. The liquidation team shall register the debts."

shall be amended as Article 246

"The liquidation team shall notify creditors within ten (10) days after its establishment, and shall publish notices in newspapers at least three (3) times within sixty (60) days. The liquidation team shall register all debts.

Creditors shall submit its claim to the liquidation team within thirty (30) days upon receipt of the written notice, or within forty-five (45) days of public notice if no written notice is received. When creditors submit their claims, they shall explain the relevant matters of the debt, and provide proof thereof. The liquidation team shall register the debts."

The board of directors proposes to add the followings as Article 247 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The members of liquidation team shall be exercise diligence in the performance of the liquidation obligation in accordance with the laws.

The members of the liquidation team shall not abuse their authority to receive briberies or other illegal income, nor shall they misappropriate the assets of the Company.

The members of the liquidation team shall be liable to the losses of the Company or the creditor as a result of their malicious acts or material errors."

The board of directors proposes that Article 176 of the original Articles of Association

"After processing company assets, and preparing the balance sheet and inventory of assets, the liquidation team shall formulate a liquidation plan, and report to general shareholders' meeting and to the relevant supervisory authorities for confirmation.

Liquidation expenses shall have priority to be deducted from company assets prior to repayment of debts to creditors.

After the Company is dissolved by resolution of the general shareholders' meeting, or declared bankrupt according to the law, or ordered closed, no person can handle company assets without the permission of the liquidation team.

If assets of the Company are sufficient to repay debts, company debts shall be repaid after payment of liquidation expenses, employee wages, labour insurance and taxes.

The remaining assets after distribution in the previous paragraph shall be distributed to shareholders according to the class and proportion of their shares:

(1) to pay par value of preferred shares; if money is not sufficient to pay all the preferred shares, the money shall be distributed on a pro rata basis;

(2) to distribute to the ordinary shareholders on a pro rata basis.

The Company shouldn't carry out new operating activities during the period of liquidation."

shall be amended as Article 249

"After processing company assets, and preparing the balance sheet and inventory of assets, the liquidation team shall formulate a liquidation plan, and report to general shareholders' meeting or the People's Court for confirmation.

Liquidation expenses shall have priority to be deducted from company assets prior to repayment of debts to creditors.

After the Company is dissolved by resolution of the general shareholders' meeting, or declared bankrupt according to the law, or ordered closed, no person can handle company assets without the permission of the liquidation team.

If assets of the Company are sufficient to repay debts, company debts shall be repaid after payment of liquidation expenses, employee wages, labour insurance, statutory compensation and taxes.

The remaining assets after distribution in the previous paragraph shall be distributed to shareholders according to the class and proportion of their shares:

(1) to pay par value of preferred shares; if money is not sufficient to pay all the preferred shares, the money shall be distributed on a pro rata basis;

(2) to distribute to the ordinary shareholders on a pro rata basis.

The Company shouldn't carry out new operating activities during the period of liquidation."

The board of directors proposes to add the followings as Article 251 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"If the Company is declared bankrupt in accordance with the laws, the Company shall implement liquidation in accordance with the laws in relation to bankruptcy of the enterprise."

The board of directors proposes that Article 179 of the original Articles of Association

"The Company may amend the Articles of Association in accordance with the laws, administrative regulations and the Articles of Association."

shall be amended as Article 253

"The Company shall amend the Articles of Association upon the occurrence of any of the following events:

(1) After amending the Company Law or the relevant laws and administrative regulations, the Articles of Associations are in conflict with the revised laws and administrative regulations;

(2) Any changes in the Company arise that result in inconsistencies with the matters stated in the Articles of Association; or

(3) Resolutions are passed at the general shareholders' meeting to amend the Articles of Association."

The board of directors proposes to add the followings as Article 254 of the Articles of Association:

"The board of directors shall amend the Articles of Association in accordance with the resolutions to amend the Articles of Association at the general shareholders' meeting and the opinion of approval issued by the relevant competent authorities."

The board of directors proposes to add the followings as Article 255 of the Articles of Association, and all the subsequent articles shall be renumbered accordingly:

"The amendment to the Articles of Association constitutes an information disclosure under the laws and administrative regulations and is subject to the announcement requirement."

The board of directors proposes to add the followings as Article 260 of the Articles of Association:

"The Company shall deliver the notice in the following manner:

(1) by hand;

(2) by mail;

(3) by announcement;

(4) by any other means stated in the Articles of Association."

The board of directors proposes to add the followings as Article 261 of the Articles of Association:

"If the Company delivers the notice by announcement, the notice shall be deemed served on all the relevant staff once the announcement is made."

The board of directors proposes to add the followings as Article 262 of the Articles of Association:

"The notice for convening the general shareholders' meeting of the Company shall be made in written notice."

The board of directors proposes to add the followings as Article 263 of the Articles of Association:

"The notice for convening the board meeting of the Company shall be made by cable, telex, facsimile, express mail service, registered mail or by hand."

The board of directors proposes to add the followings as Article 264 of the Articles of Association:

"If the Company delivers the notice by hand, the person on whom the notice is served shall sign (or affix the seal) on the receipt and the date of service shall be the date on which such person is served; if the Company delivers the notice of holders of A shares by mail, the date of service shall be the third working day from posting at the mail office; if the Company delivers the notice of holders of H shares by mail, the date of service shall be the date of posting; if the Company delivers the notice by announcement, the date of service shall be the date of publication of the first announcement."

The board of directors proposes to add the followings as Article 265 of the Articles of Association:

"In the event those who are entitled to receive the notice of the meeting are not served with the notice due to accident or omission or no notice is served on such persons, the meeting or the resolutions passed at the meeting shall not be null and void."

The board of directors proposes to add the followings as Article 266 of the Articles of Association:

"The websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange designated by the Company and the company website are the media for publication of company announcements and disclosure of other information required."

The board of directors proposes to add the followings as Article 269 of the Articles of Association:

"In the Articles of the Association, any reference to "at least", "within" and "at most" a number shall include that number; where as any reference to "under", "except", "less than" and "more than" a number shall exclude that number."

The board of directors proposes to add the followings as Article 271 of the Articles of Association:

"The board of the directors of the Company is responsible for the interpretation of the Articles of Association."

The board of directors proposes to add the followings as Article 272 of the Articles of Association:

"The Articles of Association shall take effect upon the passing of resolution at the general shareholders' meeting and obtaining the approval from the relevant departments."

The Rules and Procedures of Shareholders' general meetings (the "GM Rules") are written in Chinese and there is no official English translation in respect thereof. The English version is an unofficial translation and is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The proposed GM Rules are set out below:–

Rules of Procedure for the General Meeting of Hainan Meilan International Airport Company Limited

Chapter 1 General Provisions

Article 1 In order to maintain legitimate rights and interests of Hainan Meilan International Airport Company Limited (hereinafter referred to as "the Company") and its shareholders, define responsibilities and authorities of the general meeting and ensure the general meeting to operate in a regulated, efficient and steady manner and to exercise its powers in accordance with law, these Rules are formulated in accordance with the Company Law of the People's Republic of China (hereinafter referred as "the Company Law"), the Securities Law of the People's Republic of China (hereinafter referred to as "the Securities Law"), the Listing Rules of the stock exchange on which stocks of the Company are listed (including Hong Kong Exchanges and Clearing Limited and stock exchanges in Chinese mainland, hereinafter referred to as "the stock exchange") (hereinafter referred to as the "Listing Rules"), regulatory laws, administrative regulations and departmental rules for companies listed home and abroad including the Rules for the General Meeting of Listed Company, the Provisions Essential for the Articles of Associations of Companies Seeking Overseas Listing and the Guidelines for the Articles of Association of Listed Companies issued by the China Securities Regulatory Commission (hereinafter referred as "laws, regulation, rules") and the Articles of Association of Hainan Meilan International Airport Company Limited (hereinafter referred to as "the Articles of Association").

Article 2 These Rules of Procedure are applicable to the general meeting of the Company and binding on all shareholders, shareholders' authorized proxies, the Company, and its directors, supervisors and senior management (the General Manager or the Vice President and the Executive President, collectively referred to as the "General Manager"; the Vice General Manager or the Vice President and the Executive Vice President, collectively referred to as the "Vice General Manager"; the Chief Financial Officer and the Board Secretary; hereinafter collectively referred to as the "senior management") and other relevant people attending the general meeting.

Article 3 The general meeting is the highest power organ of the Company and exercises powers in accordance with provisions of the Company Law, the Listing Rules, the Rules of Procedure for the General Meeting, the Articles of Association and these Rules.

Shareholders (including shareholders' proxies, the same hereunder) exercise voting power in proportion to the number of voting shares represented by them. Each share is entitled to one vote.

Article 4 The general meeting includes annual general meetings and extraordinary general meetings; or general meetings of all shareholders and general meetings of class shareholders.

Article 5 The annual general meeting shall be convened once a year and held within six months of the end of the previous financial year. The extraordinary general meeting is convened on an irregular basis. In any of the following circumstances, the extraordinary general meeting shall be convened within two months:

1. The number of directors is less than two thirds of the number of directors specified in these Rules or in the Articles of Association;

2. Uncovered loss of the Company reaches one third of its total paid-up share capital;

3. Shareholders individually or collectively holding 10% or more of shares in the Company request such a meeting;

4. The board of directors deems it necessary;

5. The supervisory committee proposes such a meeting;

6. Other circumstances specified by laws, regulations, rules and the Articles of Association.

Article 6 Class shareholders refer to shareholders holding different class of shares. Except other class shareholders, domestic share holders and H share holders are deemed different class shareholders. Where the Company intends to change or abolish rights of class shareholders, a special resolution shall be adopted by the general meeting and the general meeting of class shareholders shall be convened in accordance with the Articles of Association. Only class shareholders may attend the general meeting of class shareholders.

Article 7 The Company shall convene the general meeting in strict accordance with relevant provisions of the laws, regulations, these Rules, and the Articles of Association to ensure that shareholders exercise their rights in accordance with the law.

The board of directors of the Company shall, in accordance with provisions on convening the general meeting set forth in the *Company Law* and other laws and regulations, organize the general meeting in a diligent and timely manner.

All directors of the Company shall assume fiduciary duty for successful convening of the general meeting and shall not prevent the general meeting from exercising its authorities.

Directors present at the meeting shall faithfully perform its duties, ensure the authenticity, accurateness and completeness of the contents of resolutions without ambiguous expression, and ensure that the general meeting is convened successfully and exercises its authorities in accordance with law.

Article 8 Any shareholder duly and validly holding shares in the Company has the right to attend the general meeting in person or by authorized proxy, and in accordance with the laws and these Rules, has the right to know, the right to speak, the right of interpellation, voting power and other rights. Shareholders and shareholders' authorized proxies present at the general meeting shall abide by the provisions of relevant laws, regulations, rules, the Articles of Association and these Rules, consciously maintain order at the meeting and shall not infringe upon legitimate rights and interests of the other shareholders.

Article 9 The Board Secretary of the Company is responsible for preparation for and organization of the convening of the general meeting.

Article 10 The general meting shall be convened in an unostentatious and simple manner, without conferring any extra benefits to shareholders (or their authorized proxies) present at the meeting.

Chapter 2 Powers of the General Meeting

Article 11 The general meeting is the highest power organ of the Company and exercises its powers in accordance with the Articles of Association.

Article 12 The general meeting shall consider issues which shall be decided by the general meeting as specified by laws, regulations, rules and the Articles of Association.

Article 13 Where necessary and reasonable, the shareholder meeting may authorize the board of directors or the Board Secretary to, within the power delegated by the general meeting, decide specific issues which are related to the resolution but not required to be decided by the general meeting.

Chapter 3 Convening Procedures of the General Meeting

Section 1 Convening of the Meeting

Article 14 Independent directors have the right to propose the board of directors to convene the extraordinary general meeting. Where independent directors request convening the extraordinary general meeting, the board of directors shall, in accordance with laws, administrative regulations and the Articles of Association, respond in writing as to whether it agrees or disagrees to convene the extraordinary general meeting within ten days of its receipt of such proposal.

Where the board of directors agrees to convene the extraordinary general meeting, it shall give the notice of the general meeting within five days of such board resolution. Where the board of directors disagrees to convene the extraordinary general meeting, it shall give its reason and make an announcement.

Article 15 The supervisory committee has the right to propose to the board of directors to convene the extraordinary general meeting, and shall submit such proposal to the board of directors in writing. The board of directors shall, in accordance with laws, administrative regulations and the Articles of Association, respond in writing as to whether it agrees or disagrees to convene the extraordinary general meeting within ten days of its receipt of such proposal.

Where the board of directors agrees to convene the extraordinary general meeting, it shall give the notice of the general meeting within five days of such board resolution. Where such notice changes the original proposal, the consent of the supervisory committee shall be obtained.

Where the board of directors disagrees to convene the extraordinary general meeting, or fails to respond to the proposal within ten days of its receipt, it shall be deemed that the board of directors is unable to or fails to perform its duty of convening the general meeting, in which case the supervisory committee may convene and chair the meeting.

Article 16 Shareholders individually or collectively holding 10% or more shares in the Company have the right to request the board of directors to convene the extraordinary general meeting, and shall submit such request to the board of directors in writing. The board of directors shall, in accordance with laws, administrative regulations and the Articles of Association, respond in writing as to whether it agrees or disagrees to convene the extraordinary general meeting within ten days of its receipt of such request.

Where the board of directors agrees to convene the extraordinary general meeting, it shall give the notice of the general meeting within five days of such board resolution. Where such notice changes the original request, the consent of relevant shareholders shall be obtained.

Where the board of directors disagrees to convene the extraordinary general meeting, or fails to respond to the request within ten days of its receipt, shareholders individually or collectively holding 10% or more shares in the Company have the right to propose the supervisory committee to convene the extraordinary general meeting and submit such request to the supervisory committee in writing.

Where the supervisory committee agrees to convene the extraordinary general meeting, it shall give the notice of the general meeting within five days of its receipt of the request. Where such notice changes the original request, the consent of relevant shareholders shall be obtained.

Where the supervisory committee fails to give the notice of the general meeting within the above time period, it shall be deemed that the supervisory committee does not convene and chair the general meeting, in which case shareholders individually or collectively holding 10% or more shares in the Company for 90 days consecutively may convene and chair the meeting.

Article 17 Where shareholders or the supervisory committee decides to call the general meeting, it shall notify the board of directors of the same in writing, and file the same with the local CSRC agency and the stock exchange.

Before announcing of the resolution of the general meeting, the shareholder who calls the meeting shall hold 10% or more shares in the Company.

Before giving the notice of the general meeting and announcing the resolution of the general meeting, the shareholder who calls the meeting shall file relevant supporting materials to the local CSRC agency and the stock exchange.

Article 18 Where shareholders or the supervisory committee decides to convene the general meeting, the board of directors and the Board Secretary shall offer assistance. The board of directors shall provide the share register of the Company.

Article 19 Where shareholders or the supervisory committee convenes the general meeting, expenses necessary for the meeting shall be borne by the Company.

Section 2 Proposals of the Meeting

Article 20 The proposal of the general meeting (hereinafter referred to as the "proposal") refers to texts for discussion on issues to be considered at the general meeting.

Article 21 The contents of the proposal shall fall within the scope of powers of the general meeting, have definite theme and specific issue for resolution, and comply with relevant provisions of laws, regulations, rules and the Articles of Association.

Article 22 Shareholders individually or collectively holding 3% or more of total voting shares in the Company has the right to submit extemporaneous proposal to the convener in writing ten days before the general meeting is convened.

The convener shall, within two days of its receipt of the proposal, give the notice of the general meeting and announce the contents of the extemporaneous proposal.

Except the preceding paragraph, after giving the notice of the general meeting, the convener shall not revise any proposal listed in or add any new proposal to the notice of the general meeting.

The general meeting shall not vote and resolve on any proposal which is not listed on the notice of the general meeting, or fall out of the scope of powers of the general meeting and have no definite theme and specific issue for resolution, or does not comply with relevant provisions of laws, regulations, rules and the Articles of Association.

Article 23 Where the supervisory committee or shareholders holding 10% or more of total voting shares in the Company requests to convene the general meeting, whether or not the meeting is called by the board of directors, the requestor shall be responsible for raising proposals with definite theme and specific issues for resolution.

Article 24 Before giving any notice of the board of directors related to the convening of the general meeting, the Board Secretary may invite proposals from any shareholder individually holding 10% or more of total voting shares in the Company, supervisors and independent directors, and submit them to the board of directors for review and if approved by the board of directors, submit them to the general meeting for consideration.

Article 25 The annual general meeting shall at least consider the following proposals:

1. Review the annual report of the board of directors, including investment plan and operating strategy for the next year;

2. Review the annual report of the supervisory committee;

3. Review the audited financial settlement plan of the Company for the previous year;

4. Review the profit distribution plan of the Company for the previous year;

5. Engage, dismiss, or cease the engagement of the accounting firm.

Article 26 Where the supervisory committee or shareholders individually or collectively holding 10% or more of total voting shares in the Company request to convene the extraordinary general meeting or the general meeting of class shareholders, written requirements in the same format and with the same contents may be signed in one or more counterparts to state the theme of the meeting, at the mean time, the proposals meeting requirements of these Rules may be submitted to the board of directors.

Where the proposal involves change in or abolishment of rights of any class of shareholders, the board of directors shall request the general meeting of class shareholders to consider the same.

Section 3 Notice and Change of the Meeting

Article 27 The notice of the general meeting shall be given by the convener of the meeting. Conveners of the meeting include the board of directors, the supervisory committee, and shareholders individually or collectively holding 10% or more of total voting shares in the Company for 90 days consecutively.

Article 28 The convener of the meeting shall, 45 days before the general meeting is convened (excluding the date on which the meeting is convened), give notice of the meeting in accordance with the Articles of Association, stating the time and venue of the meeting, and issues to be considered at the meeting.

Where the Company fails to give the notice of the meeting in due time, resulting that the Company fails to convene the annual general meeting within six months after the end of the previous financial year of the Company for any cause, the Company shall, as soon as possible, report the same to the stock exchange and give its reason and make an announcement.

Article 29 The notice of the general meeting of class shareholders is only required to be served to shareholders with voting power at the general meeting of class shareholders.

Article 30 The notice of the general meeting shall include the following contents:

1. Time, venue and time frame of the meeting;

2. Issues and proposals submitted to the meeting for consideration;

3. Conspicuously state as follows: All shareholders may attend the meeting in person and may authorize his/her proxy to attend and vote at the meeting in writing. The shareholder's proxy does not have to be a shareholder of the Company;

4. The record date of the shareholder entitled to attend the shareholder meeting;

5. Name and phone number of the standing contact of the meeting.

The notice and supplementary notice of the general meeting shall disclose full contents of all proposals in an adequate and complete manner. Where the issue to be discussed requires opinions from independent directors, the said opinions and reasons shall also be disclosed in the notice or supplementary notice of the general meeting.

The interval between the record date and the date of the meeting shall not be more than seven working days. The record date shall not be changed once confirmed.

Article 31 The notice of the general meeting shall comply with provisions of the Articles of Association.

Where the general meeting plans to discuss issues on election of directors and supervisors, the notice of the general meeting shall adequately disclose particulars of director candidates and supervisor candidates in accordance with requirements of the Articles of Association, including but not limited to the following:

1. Personal data including educational background, work experience and concurrent posts;

2. Whether he/she is an affiliate of the Company, or controlling shareholder and effective controller of the Company;

3. His/her shareholding in the Company;

4. Whether he/she has ever been punished by CSRC and other relevant authorities and the stock exchange.

Except for election of directors and supervisors through cumulative voting system, individual proposal shall be raised for each director candidate and each supervisor candidate.

Article 32 After the notice of the meeting is given, the convener of the meeting shall not raise any new proposal on any issue not listed in such notice.

Article 33 After the convener of the meeting gives notice of the general meeting, the general meeting shall not be brought forward or put back without cause.

Where the general meeting has to be postponed due to special reason, the convener of the meeting shall give the postponement notice at least two working days before the original date fixed for the general meeting. In the postponement notice, the convener of the meeting shall give reasons and announce the new date fixed for the general meeting.

Article 34 Where the Company postpones the general meeting, the record date of shareholders having the right to attend the general meeting specified in the original notice shall not be altered.

Article 35 The Company shall, in accordance with requirements of the stock exchange, publicize all data on the meeting on the website of the stock exchange and the website of the Company at least 21 days before the general meeting is convened.

Section 4 Registration for the Meeting

Article 36 The shareholder may attend and vote at the general meeting in person or by his/her authorized proxy. Directors, supervisors, the Board Secretary and engaged Chinese attorney shall attend the meeting, and the General Manage, the Vice General Manager, the Chief Financial Officer and the accountant and other people invited by the board of directors may also attend the meeting.

In order to maintain seriousness and normal order at the general meeting, the Company has the right to refuse any person other than the foregoing people to attend the meeting.

Article 37 The Company shall prepare the attendee roster of the general meeting which shall be signed by the attendees. The attendee roster shall indicate the following information: name of the attendee (and/or company name), identity certificate number, data confirming the shareholder identity (such as shareholder account number), number of voting shares held or represented by him/her and name of the principal (or company name).

Article 38 Shareholders and shareholders' authorized proxies shall register the following information to attend the general meeting:

1. Confirming identity of the shareholder or shareholder's authorized proxy;

2. Speech requirement and speech notes (if any);

3. Drawing voting tickets in proportion to the number of shares held or represented by the shareholder or shareholder's authorized proxy;

Article 39 The shareholder shall appoint his/her proxy in writing.

Where the power of attorney for voting is signed by another person authorized by the principal, the authority or other authorization documents under which the power of attorney is signed shall be notarized. The notarized authority or other authorization documents, and the power of attorney for voting shall be deposited at the domicile of the Company or any other place specified in the notice of the meeting.

Where the principal is a corporation, its duly authorized representative, or the person authorized by resolutions of the board of directors or other decision making organs shall attend the general meeting of the Company.

Article 40 Shareholders shall be registered to attend the general meeting. A shareholder shall provide the following documents to be registered to attend the meeting:

1. Natural person shareholders: He/she shall present his/her own identity certificate, stock account card and other data enabling the Company to confirm his/her shareholder identity. Where he/she appoints a proxy to attend the meeting, the authorized proxy shall present his/her own identity certificate, the power of attorney signed by the shareholder and data enabling the Company to confirm the shareholder identity of the principal (including but not limited to copy of identity certificate of the principal, his/her stock account card and the notarial certificate of the power of attorney).

2. Corporate shareholders: Where its duly authorized representative attend the meeting, he/she shall present his/her own identity certificate and certificate proving its qualification as the duly authorized representative, and provide stock account card and other data enabling the Company to confirm its corporate shareholder identity. Where the shareholder's authorized proxy is appointed to attend the meeting, the authorized proxy shall present his/her own identity certificate, and the power of attorney in writing duly issued by the duly authorized representative of the corporate shareholder or a notarized copy of the authorization resolution of the board of directors or other decision making organs of the corporate shareholder, and provide data enabling the Company to confirm the shareholder identity of the principal.

Article 41 The power of attorney issued by a shareholder authorizing another person to attend the shareholder meeting shall contain the following information:

1. Name of the proxy;

2. Whether the proxy has voting power;

3. Instructions on affirmative vote, dissenting vote or voting abstention on each issue on the agenda of the general meeting;

4. Whether the proxy has voting power in respect of extemporaneous proposal which may be included in the agenda of the general meeting. If the proxy has voting power, specific instruction as to what kind of voting power shall be exercised;

5. Validity period and issuance date of the power of attorney;

6. Signature or seal of the principal. In case of a corporate shareholder, its company seal shall be affixed;

7. Where the power of attorney does not give any instruction to the proxy, it shall indicate that the proxy may vote at its discretion.

Article 42 Shareholders or shareholders' authorized proxies requiring speaking at the general meeting shall be registered with the Company before the general meeting is convened. The number of people registered for speaking at the meeting shall not be more than ten. Where the limit is exceeded, preference shall be given to top ten shareholders among them in terms of the number of held shares and the shareholder holding more shares will be arranged to speak before the one holding less shares.

Section 5 Convening of the Meeting

Article 43 The Company may convene the general meeting at its domicile or the place specified in the Articles of Association.

The general meeting shall have a venue and be convened in the form of onsite meeting. The Company may, through safe, economic and convenient network or other method, provide convenience for shareholders attending the meeting. Shareholders attending the general meeting through the foregoing way shall be deemed to have attended the meeting.

Article 44 Where the Company convenes the general meeting through network or other method, it shall clearly indicate the time and procedures of voting through network or other method in the notice of the general meeting.

Voting at the general meeting through network or other method shall not begin earlier than 15:00 on the day immediately preceding the onsite general meeting and shall not begin later than 9:30 am on the same day on which the onsite general meeting is convened, and shall not end earlier than 15:00 on the same day on which the onsite general meeting is convened.

Article 45 The general meeting shall be chaired by the Chairman. Where the Chairman cannot attend and chair the meeting for cause, the meeting shall be chaired by the Vice Chairman. Where the Vice Chairman cannot or does not perform the duty either, the meeting shall be chaired by the director elected by 50% or more directors.

Where the general meeting is called by the supervisory committee, the chairman of the supervisory committee shall chair the meeting. Where the chairman of the supervisory committee cannot or does not perform the duty, the meeting shall be chaired by the vice chairman of the supervisory committee. Where the vice chairman of the supervisory committee cannot or does not perform the duty either, the meeting shall be chaired by the supervisor elected by 50% or more supervisors.

Where the general meeting is called by the shareholders, the convener shall recommend a representative to chair the meeting.

In the course of the general meeting, where meeting cannot proceed because the chairman of the meeting violates the Rules of Procedures, within the consent of 50% or more shareholders with voting power present at the general meeting, the general meeting may elect another chairman to proceed with the meeting.

Article 46 The convener and the attorney engaged by the Company shall jointly verify the legality of shareholder qualification based on the share register provided by the securities depositary and settlement institution, and register the name of the shareholder and the number of voting shares held by the shareholder. Registration for meeting shall end before the chairman of the meeting announces the number of shareholders and shareholders' proxies present at the meeting and the total number of voting shares held by them.

Article 47 Directors and supervisors shall attend the meeting; The Board Secretary shall attend the meeting to maintain order at the meeting. The General Manager, the Vice General Manager and the Chief Financial Officer shall attend the meeting without voting power.

Article 48 At the annual general meeting, the board of directors and the supervisory committee shall report their respective work in the previous year to the general meeting, and each independent director shall also report their respective work.

Article 49 After knowing that attendees comply with statutory requirements and information registered for attendees, the chairman of the meeting shall announce commencement of the meeting at the time specified in the notice, provided that the chairman may announce the same after such time in any of the following circumstances:

1. Equipment for the meeting fails, which affect normal convening of the meeting;

2. Other material cause affecting normal convening of the meeting.

Article 50 After the chairman of the meeting announces commencement of the meeting, he/she shall first announce the number of shareholders and shareholders' proxies present at the meeting and the total number of voting shares held by them. The number of shareholders and shareholders' proxies present at the meeting and the total number of voting shares held by them are subject to the information registered for the meeting. He/she shall then announce the agenda specified in the notice, and ask the attendees if they have any objection as to the order in which proposals are to be voted on.

Where the Chairman of the board of directors or the chairman of the meeting does not list the proposal of the supervisory committee or of the shareholder on the agenda of the general meeting, explanation and description shall be given at the general meeting.

No person may require consideration of any new proposal not specified in the notice of the general meeting.

Article 51 After asking the attendees if they have any objection as to the agenda of the meeting, the chairman of the meeting shall start reading the proposal or appoint other person to do the same, and describe the proposal as follows when necessary:

1. Where the proposal is raised by the board of directors, the Chairman or other person appointed by the Chairman shall describe the proposal;

2. Where the proposal is raised by the supervisory committee or by shareholders individually or collectively holding 3% or more of all voting shares in the Company, the proposer or its duly authorized representative, or the shareholder's duly authorized proxy shall describe the proposal.

Article 52 Proposals listed on the agenda of the meeting shall be discussed before voting. The general meeting shall allow reasonable time for discussion on each proposal. The chairman of the meeting shall orally ask shareholders present at the meeting whether they have completed discussion, and discussion shall be deemed to have ended if no shareholder present at the meeting has objection in respect thereof.

Article 53 Unless otherwise consent by the chairman of the meeting, each shareholder shall speak twice at most, and shall not speak more than five minutes for the first time and three minutes for the second time.

When requesting speech, the shareholder shall not interrupt the report of the reporter or the speech of other shareholders.

Article 54 Shareholders may raise interpellation to the Company at the general meeting, and directors, supervisors and senior management of the Company shall give explanation and description in response to the interpellation, to the extent that no trade secret of the Company shall be disclosed at the general meeting.

Section 6 Voting and Resolutions

Article 55 The general meeting shall make resolution for specific proposal.

Article 56 The general meeting shall not vote on issues not listed on the notice of the general meeting. When considering proposals listed on the notice, the general meeting shall not alter contents of the proposal, otherwise relevant alternation shall be deemed a new proposal which shall not be voted on at that general meeting.

Article 57 Except cumulative voting, the general meeting shall vote on proposals listed on the agenda one by one. Except the general meeting suspends or cannot make resolution due to special reasons including force majeure, no proposal shall be tabled or not voted on for any reason. In case of different proposals on the same issue, the general meeting shall vote on such proposals in the order of time when the proposal is put forth and make resolution on the issue.

Article 58 The chairman of the meeting is obligated to request the general meeting to vote on the proposal through open ballot.

Each shareholder or shareholder's authorized proxy exercises the voting power in proportion to the number of voting shares represented by him/her. Except for voting on proposals on election of directors in accordance with the Articles of Association through cumulative voting system, each share has one vote.

Article 59 Where the general meeting votes on proposals on the election of directors, the cumulative voting system shall be adopted in accordance with the Articles of Association.

Article 60 When considering proposals on election of directors and supervisors, the general meeting shall individually vote on each director candidate and each supervisor candidate.

Article 61 Resolutions of the general meeting can be divided into ordinary resolutions and special resolutions.

Where any issue requires ordinary resolution of the general meeting in accordance with the Articles of Association, the resolution shall be approved by shareholders (including shareholders' authorized proxies) holding 50% or more of all voting powers of shareholders present at the general meeting.

Where any issue requires special resolution of the general meeting in accordance with the Articles of Association, the resolution shall be approved by shareholders (including shareholders' authorized proxies) holding two thirds or more of all voting powers of shareholders present at the general meeting.

Article 62 Affected class shareholders have voting power at the general meeting of class shareholders, but interested shareholders have no voting power at the general meeting of class shareholders.

The interested shareholder referred to in the foregoing paragraph has the following meaning:

1. Where the Company offers repurchase of its shares to all shareholders at the same percentage or repurchases its shares on the stock exchange through public deals in accordance with the Articles of Association, the "interested shareholder" refers to the controlling shareholder as defined in the Articles of Association;

2. Where the Company repurchases its shares not on the stock exchange through agreement in accordance with the Articles of Association, the "interested shareholder" refers to shareholders related to the agreement.

3. For the purpose of reorganization plan of the Company, the "interested shareholder" refers to shareholders who assume liabilities at a percentage lower than that of other shareholders of the same class, or shareholders who have interests different from those of other shareholders of the same class.

Article 63 A resolution of the general meeting of class shareholders shall not be made unless approved by two thirds or more of voting shares held by shareholders present at the general meeting of class shareholders in accordance with the preceding Article.

Special procedures for voting by class shareholders shall not apply to the following circumstance: With the approval of the general meeting by special resolution, the Company separately or concurrently issue domestic shares and overseas listed foreign shares at every 12-month interval, and the number of proposed domestic shares and the number of overseas listed foreign shares does not exceed 20% of the same class of outstanding shares respectively.

Article 64 When the general meeting considers issues on related party transactions, the related shareholder shall not vote thereon, and the number of voting shares represented by the related shareholder shall not be counted when determining the total number of valid voting shares. The announcement of resolutions of the general meeting shall adequately disclose voting by non-related shareholders.

Shares in the Company held by itself have no voting power and such portion of shares shall not be taken into account when determining the total number of voting shares present at the general meeting.

Where any shareholder has to abstain from voting or has to vote for or against an issue in accordance with the Listing Rules, any vote cased by any shareholder or shareholder's authorized proxy in violation of the preceding regulation or restriction shall not be included in the voting result.

Article 65 Shareholders (including shareholders' authorized proxies) shall carefully complete the voting ticket as required and put the same into the ballot box, and in case of uncompleted or incorrectly completed voting tickets, or votes with unrecognizable handwriting or failure to cast the vote, relevant shareholder shall be deemed to have waived his/her voting power, and the number of shares represented by such shareholder shall not be included in the total number of valid votes.

Article 66 Before voting, shareholders present at the meeting shall elect two shareholder representatives to calculate and scrutinize the votes. Where the voted issue is related to the shareholder, such shareholder and relevant proxy shall not participate in calculating and scrutinizing the votes.

Where the general meeting votes on the proposal, the attorney, the shareholder representative and the supervisor representative shall jointly calculate and scrutinize the votes and count the votes and tally clerk shall sign the voting statistics document.

Listed company shareholders or their proxies who votes through the internet or other method have the right to verify his/her voting result through relevant voting system.

Article 67 The same voting power may only be exercised though either onsite voting, or internet voting or other voting method. In case of repeated voting by exercising the same voting power, the first voting result shall prevail.

Article 68 Onsite general meeting shall not close earlier than internet voting or voting through other method. The chairman of the meeting shall announce the voting status and result of each proposal, and announce whether the proposal is adopted based on the voting result.

Before official announcement of the voting result, listed companies, the tally clerk, the scrutator, majority shareholders, internet service provider and other related parties involved in onsite voting, internet voting and other voting methods for the general meeting shall keep the voting status confidential.

Article 69 The chairman of the meeting shall decide whether the resolution of the general meeting is adopted based on the tally clerk's counting result, and such decision shall be conclusive decision and shall be announced at the meeting and recorded in the minutes of the meeting.

Article 70 The Board Secretary shall maintain minutes of the general meeting which shall contain the following information:

1. Time, venue and agenda of the meeting, and name of the convener;

2. Names of the chairman of the meeting and directors, supervisors, the Board Secretary, managers and other senior management present at the meeting;

3. The number of shareholders and proxies present at the meeting, and total number of voting shares held by them and its percentage in total number of shares in the Company;

4. The course of discussion on, key points in speeches and voting result of each proposal;

5. Interpellation opinions or suggestions of shareholders and corresponding reply or description;

6. Name of the attorney, the tally clerk and the scrutator;

7. Other contents the Articles of Association require to be recorded in the minutes.

Directors, the Board Secretary, the convener or its representative, the chairman of the meeting shall sign the minutes and ensure the authenticity, accurateness and completeness of contents of the minutes. The minutes shall be kept together with the attendance register of shareholders present at the onsite meeting, the power of attorney, and valid document for internet or other voting status for a minimum of ten year.

Article 71 The board of directors of the Company shall engage a Chinese attorney with practicing qualification to attend the general meeting in accordance with law, so as to express opinions on the following issues which shall be announced together with the resolution of the general meeting:

1. Whether the calling and convening procedures of the general meeting comply with provisions of laws and regulation, the *Articles of Association*;

2. Verify the legality and validity of qualifications of attendees;

3. Verify the qualification of shareholders raising new proposal at the general meeting;

4. Verify whether voting procedures of the general meeting are legal and valid;

5. Legal opinions expressed on other relevant issues at the Company's request.

Where the extraordinary general meeting is chaired by the shareholder who requests its convening, such shareholder shall, in accordance with law, engage an attorney to express legal opinions as a witness in accordance with the above provision, and the convening procedures shall also meet requirements of relevant regulations and these Rules.

Section 7 Adjournment

Article 72 The convener shall ensure that the general meeting is held consecutively within reasonable working hours till the formation of final resolution.

Article 73 In the course of meeting, while any present shareholder has any objection as to any shareholder identity and any voting counting results and the same cannot be solved spontaneously, as a result of which the order at the meeting is affected and the meeting cannot proceed, the chairman of the meeting shall announce adjournment of the meeting.

Where the foregoing issue is solved, the chairman of the meeting shall notify shareholders of the adjourned meeting as soon as possible.

Article 74 Where, due to force majeure or other abnormal cause, the general meeting is adjourned for over one working day and cannot be convened successfully or generate any resolution, the convener shall explain to the stock exchange and make an announcement, and the convener is obliged to take necessary measures to resume the meeting as soon as possible.

Section 8 Post-Meeting Issues and Announcement

Article 75 After the general meeting, the Board Secretary shall report the minutes and resolutions of the meeting to competent regulatory authorities and make announcement on designed media in accordance with relevant laws and regulations, and rules of the securities supervisory authority under the state council and the stock exchange.

Article 76 Announcement of the resolution of the general meeting shall indicate the number of shareholders of (shareholders' authorized proxies) present at the meeting, the percentage of the total number of voting shares held (represented) by them in the total number of voting shares in the Company, voting method and the voting result of each proposal. Resolutions on proposals by the shareholder shall indicate the name of such shareholder, his/her shareholding percentage and contents of the proposal. Where the shareholder's proposal is not listed on the agenda of the general meeting, the contents of the proposal shall also be announced together with the description given by the Chairman of the board of directors or the chairman of the meeting, and the resolution of the general meeting.

Where the resolution of the meeting is not passed, or the general meeting alters the resolution of previous general meeting, the board of directors shall give description thereof in the announcement of the resolution of the general meeting.

The announcement of the resolution of the general meeting shall be publicized on designated newspapers and publications and the website of the Company.

Article 77 The attendee roster, the power of attorney, voting statistics documents, minutes, legal opinions of the attorney as a witness, announcement of the resolution and other texts shall be kept by the Board Secretary.

Article 78 Where the general meeting passes any proposal on the election of relevant directors and supervisors, the new director and supervisor shall take office in accordance with the Articles of Association.

Article 79 Where the general meeting passes any proposal on cash dividend distribution, share granting or conversion of capital reserve into share capital, the Company shall implement specific plan within two months after the general meeting closes.

Article 80 Any resolution of the general meeting of the Company in violation of laws, regulations and rules shall be invalid.

Where the convening procedures and voting method of the general meeting violate laws, regulations, rules or the Articles of Association, or contents of the resolution violate the Articles of Association, the shareholder may apply to the People's Court for cancellation of such resolution within 60 days after the resolution is generated.

Chapter 4 Supplementary Provisions

Article 81 For the purpose of these Rules, reference to "no less than" or "not over" a number shall include that number; and reference to "over", "lower than" or "more than" shall exclude that number.

Article 82 These Rules shall come into effect after being adopted by the shareholder meeting through special resolution.

Article 83 Where these Rules are to be revised, the board of directors shall prepare the revision proposal and submit it to the shareholder meeting for approval through special resolution.

Article 84 The board of directors reserves the right to explain these Rules.

Article 85 In case of any issues uncovered hereunder, or any discrepancy between these Rules and laws, regulations, rules and other relevant regulatory documents that have been issued, such laws, regulations, rules and other relevant regulatory documents shall prevail.

Hainan Meilan International Airport Company Limited

The Rules and Procedures of the Board meetings (the "Board Rules") are written in Chinese and there is no official English translation in respect thereof. The English version is an unofficial translation and is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The proposed Board Rules are set out below:–

Rules of Procedure for the Board of Directors of Hainan Meilan International Airport Company Limited

Chapter 1 General Provisions

Article 1 In order to ensure that the board of directors of Hainan Meilan International Airport Company Limited (hereinafter referred to as "the Company") to perform its duties granted by all shareholders, to ensure that the board of directors have effective discussion and make scientific, rapid and prudent decisions, and to regulate the operation procedures of the board of directors, these Rules are formulated in accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Provisions Essential for the Articles of Associations of Companies Seeking Overseas Listing and the Guidelines for the Articles of Association of Listed Companies and the Standards for Governance of Listed Companies and the Listing Rules of the stock exchange on which stocks of the Company are listed (hereinafter referred to as "the stock exchange") (hereinafter referred to as the "Listing Rules"), and other regulatory laws, administrative regulations and departmental rules for companies listed home and abroad (hereinafter referred as "laws, regulations, rules") and the Articles of Association of Hainan Meilan International Airport Company Limited (hereinafter referred to as "the Articles of Association").

Chapter 2 Powers and Authorities of the Board of Directors

Article 2 The board of directors is elected by the general meeting, reports to the general meeting and exercises its powers in accordance with the Articles of Association.

Article 3 Essential conditions for the board of directors to perform its duties:

The General Manager (the President/the Executive President, hereinafter collectively referred to as the "General Manager") shall provide directors with information and data necessary for the board of directors to make scientific, rapid and prudent decisions.

Directors may require the General Manager, or through the General Manager, require relevant department of the Company to provide information and explanation necessary for it to make scientific, rapid and prudent decisions.

Where the same is deemed necessary, independent directors may, at the expense of the Company, engage independent firms to express independent opinions as the basis for its decisions.

Article 4 The board of directors shall consider and make resolution on issues which the board of directors shall submit to the general meeting for decision as required by laws, regulations, rules and Articles of Association.

Where shareholders individually or collectively holding 3% or more of total voting shares in the Company raise extemporaneous proposal ten days before the convening of the general meeting, the board of directors shall discuss and decide whether or not to submit the same to the general meeting for consideration.

Article 5 According to provisions of the Articles of Association and powers delegated by the general meeting, within the scope of its authority, the board of directors has the right to decide issues which do not require decision by the general meeting. Powers of the board of directors include:

1. Call the general meeting, and report its work to the general meeting;

2. Implement resolutions of the general meeting;

3. Decide operating plan and investment plan of the Company;

4. Develop the annual financial budget plan and settlement plan of the Company;

5. Develop the profit distribution plan and the loss make-up plan of the Company;

6. Develop the plan for increase or decrease in registered capital, and issuance and listing of bonds or other securities of the Company;

7. Draft the plan for material acquisition, acquisition of stocks of the Company, or merger, splitting, dissolution and change in corporate form of the Company;

8. Within the power delegated by the general meeting, decide issues concerning investments to external parties, asset acquisition and disposal, asset pledge, guarantee for external parties, wealth management by third parties, and related party transactions;

9. Decide on the setting up of internal management organs of the Company;

10. Employ or remove the General Manager and the Board Secretary of the Company; Based on nomination by the General Manager, employ or remove the Vice General Manager, the Finance Chief and senior management of the Company an decide their remuneration, awards and punishments;

11. Prepare basic management rules of the Company;

12. Prepare revision plan for the Articles of Association;

13. Manage information disclosure of the Company;

14. Propose the general meeting to employ or replace the accounting firm performing audit for the Company;

15. Listen to the work report of the General Manager of the Company and inspect the work of the General Manager;

16. Other powers granted by laws, administrative regulations, departmental rules or the Articles of Association.

Issues falling out of the scope of the powers delegated by the general meeting to the board of directors shall be submitted to the general meeting for consideration.

Chapter 3 Composition and Subordinated Committees of the Board of Directors

Article 6 The board of directors consists of 11 directors, and has one Chairman, one Vice Chairman and four independent directors.

Article 7 The board of directors has the strategy, audit, nomination, remuneration and assessment and other special committees under it. Special committees study professional issues, and raise opinions and suggestion for the reference of the board of directors in its decision making.

All special committees consist of directors. Independent directors constitute the majority of the audit committee, the nomination committee, and the remuneration and assessment committee and act as the convener. The audit committee has at least one independent director who is an accounting professional.

Article 8 Main responsibilities of the strategy committee are studying long-term development strategy and material investment decisions of the Company and making suggestions thereon.

Article 9 Main responsibilities of the audit committee include:

1. Request to engage or replace external auditor;

2. Oversee internal audit system of the Company and its implementation;

3. Take charge of communication between internal auditor and external auditor;

4. Review financial information of the Company and its disclosure;

5. Inspect internal control system of the Company.

Article 10 Main responsibilities of the remuneration and assessment committee include:

1. Study standards for assessment on directors and the President, conduct assessment and make suggestions thereon;

2. Study and review policies and plans for the remuneration of directors, supervisors, the President, the Vice President, the Finance Chief and the Board Secretary.

Article 11 Main responsibilities of the nomination committee include:

1. In accordance with relevant laws and regulations, study the standards and procedures for selecting directors, supervisors, the President and other senior management and raise suggestions to the board of directors;

2. Widely identify qualified candidates of directors, supervisors, the President and other senior management;

3. Inspect candidates of directors, supervisors, the President and other senior management and make suggestions thereon.

Article 12 Special committees under the board of directors shall develop specific rules for work which shall come into effect after the approval of the board of directors.

Article 13 The special committee may engage intermediaries to express professional opinions at the expense of the Company.

Article 14 The special committee shall report to the board of directors, and the resolution of the special committee shall be submitted to the board of directors for review and decision.

Chapter 4 Board Secretary

Article 15 The Company has a Board Secretary who is a member of the senior management of the Company. The Board Secretary mainly takes charge of promoting the governance level of the Company and handling information disclosure of the Company.

Article 16 The Board Secretary shall report to the Company and the board of directors, and shall perform the following duties:

1. Handle information disclosure to outsiders, coordinate in information disclosure of the Company, organize the preparation of information disclosure management rules, and urge the Company and the person under information disclosure obligation to abide by rules related to information disclosure;

2. Take charge of investor relationship management, and coordinate information communication between the Company and securities regulatory authorities, investors, securities service institutions and media;

3. Organize preparation for the board meeting and the general meeting, attend the general meeting, the board meeting, meetings of the supervisory committee and meetings of senior management, and maintain the minutes of the board meeting and sign the same;

4. Take charge of confidentiality concerning information disclosure of the Company and in case of disclosure of unpublicized material information, promptly report the same to the stock exchange and make disclosure;

5. Pay attention to media coverage and actively verify its authenticity and urge the board of directors of the Company to timely respond to inquires from the stock exchange;

6. Organize directors, supervisors and senior management of the Company to take trainings on relevant laws and administrative regulations, and assist the foregoing people to understand their respective responsibilities for information disclosure;

7. After knowing that directors, supervisors and senior management of the Company violate laws, administrative regulations, departmental rules, other regulatory rules, these Rules, other rules of the stock exchange and the Articles of Association, or that the Company makes any decision which violates or may violates relevant regulations, remind relevant people of the same and timely report the same to CSRC and the stock exchange;

8. Take charge of equity management issues of the Company, keep data on shareholding of directors, supervisors, senior management, and the controlling shareholder and its directors, supervisors and senior management in the Company, and disclose changes in such shareholding of directors, supervisors and senior management of the Company;

9. Other duties as required by the Company Law and regulatory authorities.

Article 17 The Company sets up the office of the board of directors which handles daily affaires of the board of directors and acts as the daily function organ performing duties of the Board Secretary.

Article 18 The Company shall develop rules for the work of the Board Secretary and do well in information disclosure and investor relationship. Such rules shall come into effect after the approval of the board of directors.

Chapter 5 Board Meeting System

Article 19 The board meeting includes regular board meetings and the extraordinary board meetings.

Article 20 In any of the following circumstances, the Chairman shall issue the notice of the extraordinary board meeting within ten working days:

1. The Chairman deems it necessary;

2. One third or more directors jointly request such meeting;

3. One half or more independent directors jointly request such meeting;

4. The supervisory committee requests such meeting;

5. The General Manager requests such meeting;

6. Shareholders representing 10% or more voting powers requests such meeting;

7. Securities regulatory authorities requires such meeting;

8. Other circumstances specified in the Articles of Association of the Company.

Article 21 Where an extraordinary board meeting is requested to be convened in accordance with the preceding Article, a written request signed (sealed) by the requester shall be submitted through the office of the board of directors or directly to the Chairman. The written resolution shall indicate the following:

1. Name of the requester;

2. Reason for such request or objective cause based on which the request is raised;

3. Time or timeframe, venue and method for convening the requested meeting;

4. Definite and specific proposal;

5. Contact details of the requestor, the date of request, etc.

The proposal shall relate to issue falling within the scope of powers of the board of directors as specified in the Articles of Association of the Company, and documents related to the proposal shall also be submitted.

After its receipt of the foregoing written resolution and relevant documents, the office of the board of directors shall forward them to the Chairman on the same date. Where the Chairman believes that the proposal does not have definite and specific content or relevant documents are not adequate, he/she may require the requestor to make revision or supplement.

The Chairman shall call and chair the board meeting within ten days after its receipt of the request, or the requirement of securities regulatory authorities.

Article 22 The board meeting shall be convened at least once every three months or at least four times every year, and may be convened in the way of television or telephone conference and through facsimile.

Chapter 6 Rules of Procedure of the Board of Directors

Article 23 Proposals of the board of directors are mainly based on the following:

1. Issues proposed by the directors;

2. Issues proposed by the supervisory committee;

3. Proposals of the special committee under the board of directors;

4. Issues which requires consideration by the shareholder meeting (the general meeting) of subsidiaries and associated companies of the Company.

Article 24 The Board Secretary shall collect drafts on issues to be discussed at the meeting, and relevant person shall submit the proposal and relevant descriptive documents at least five working days before the notice of the meeting is given. After sorting out relevant documents, the Board Secretary shall list the time, venue and agenda of the board meeting and submit the same to the Chairman.

Article 25 The Chairman shall issue the notice of and call the board meeting. Where the Chairman cannot call the meeting due to special reason, the Vice Chairman shall call the meeting. Where the Vice Chairman cannot or does not perform the duties, the director recommended by 50% or more directors shall call the meeting. The convener shall issue the notice of the meeting.

Article 26 The notice of the board meeting shall be given as follows:

1. Before the board meeting is convened, the notice of the meeting shall be given to all directors, all supervisors, the General Manager, the Board Secretary and other people attending the meeting. The notice shall generally cover:

   (1) The time and venue of the meeting;

   (2) The timeframe and convening method of the meeting;

   (3) Agenda, cause, themes and meeting documents necessary for voting by directors;

   (4) The date on which the notice is given;

   (5) The convener and the chairman of the meeting, the requestor of the extraordinary meeting, and his/her written request;

(6) The requirement that directors shall attend the meeting in person or authorize another director to attend the meeting on his/her behalf;

(7) The contact and contact details.

2. The notice of the board meeting shall be give in the following way as per following requirement:

(1) The notice of the board meeting shall be delivered in person, or by fax, telex, telegram, post or mail;

(2) The board of directors shall give the notice at least 15 days before the meeting is convened;

(3) The notice shall be made in Chinese and where necessary, in English, and the Chinese version shall prevail.

Where the director has attended the meeting and has not raised the objection before or upon arrival at the meeting that he/she has not received the notice of the meeting, it shall be deemed that he/she has been given the notice of the meeting.

Article 27 After the notice of the meeting is given and before the meeting is convened, the Board Secretary shall conduct or procure communication and contact with all directors, particularly independent director, obtain their opinions or suggestions and timely forward such opinions or suggestions to the proposer to improve relevant proposals. The Board Secretary shall also timely make available data necessary for directors to supplement relevant proposal, including background information related to themes of the meeting, and other data helping the directors make scientific, rapid and prudent decisions.

Where 50% or more directors present at the meeting or two or more independent directors present at the meeting believe that such data are not sufficient or the proving is not definite, they may jointly request the board of directors to postpone the board meeting or postpone discussion of some issues to be discussed at the board meeting, which shall be adopted by the board of directors. Unless such request is raised directly at the board meeting, the Board Secretary shall, after its receipt of the written request raised jointly by relevant directors for postponing the board meeting or postponing discussing some issues at the board meeting, timely notify directors, supervisors and other attendees of the same.

Article 28 After the written notice of regular board meeting is given, in case of any change in time, venue, etc. of the meeting, or adding, changing, or cancelling the proposal of the meeting, written notice of such change shall be given three days before the original date fixed for the meeting, stating the situation and giving relevant contents of new proposal and relevant information. Where the notice is shorter than three days, the meeting shall be accordingly postponed, or convened on the original date with the consent of all directors present at the meeting.

After the written notice of the extraordinary board meeting is given, in case of any change in time, venue, etc. of the meeting or adding, changing or cancelling the proposal of the meeting, prior consent of all directors present at the meeting shall be obtained and the same shall be recorded properly.

Article 29 The board meeting shall not be convened unless 50% or more directors are present.

The director shall attend the board meeting in person, and where the director cannot attend the meeting in person for cause, he/she may authorize another director to attend the meeting on his/her behalf in writing. Such another director shall be taken into account when calculating the number of directors present at the meeting. Where the independent director cannot attend the meeting in person, he/she may authorize another independent director to attend the meeting on his/her behalf (except the board meeting which shall be attended in person).

Where the director fails to attend the board meeting in person or authorize another director to attend the meeting on his/her behalf for two times consecutively, it shall be deemed that such director cannot perform his/her duties, and the board of directors shall propose the general meeting to replace such director. Where an independent director fails to attend the board meeting for three times consecutively, the board of directors shall propose the general meeting to replace such director.

Supervisors may also attend (without voting power) the board meeting. The General Manager and the Board Secretary who is not a director shall attend (without voting power) the board meeting.

Article 30 The board meeting shall be chaired by the Chairman. Where the Chairman cannot chair the meeting, the Vice Chairman may chair the meeting. Where the Vice Chairman cannot or does not perform the duties, the director recommended by 50% or more directors may chair the meeting.

Article 31 Where the director appoint another director to attend the board meeting on his/her behalf, the power of attorney shall indicate the name of the principle and the proxy, authorized items and the principal's brief opinion on each proposal, authority granted by the principal, instruction on his/her voting intention as to each proposal, and the validity term. The principal shall affix his/her signature to the power of attorney. Where the director authorizes another director to confirm regular reports with signature, special authority shall be granted in the power of attorney.

The director so authorized shall submit the power of attorney in writing to the chairman of the meeting, and indicate that he/she attends the meeting as the authorized proxy of another director on the attendance register of the meeting.

Article 32 Authorizing another director to attend the board meeting or accepting such authorization are subject to the following restrictions:

1. When considering issues on related party transactions, a non-related director shall not authorize a related director to attend the meeting on his/her behalf, and a related director shall not accept such authorization by a non-related director;

2. An independent director shall not authorize a director other than an independent director to attend the meeting, and a director other than an independent director shall not accept such authorization by an independent director;

3. A director shall not give carte blanche to another director to attend the meeting on his/her behalf without indicating his/her personal opinions and voting intention as to the proposal, and relevant director shall not accept such carte blanche and authorization without specific authority;

4. One director shall not accept the authorization by more than two directors, and the director shall not authorize a director who has already accepted the authorization by another two directors to attend the meeting on his/her behalf.

Article 33 At the board meeting, the first thing is to reach agreement on the agenda. Where 50% or more directors present at the meeting or two or more independent directors believe that such data are not sufficient or the proving is not definite, they may jointly request the board of directors to postpone the board meeting or postpone discussion of some issues at the board meeting, which shall be adopted by the chairman of the meeting.

After directors present at the meeting reach agreement on the agenda, the meeting shall consider each proposal item by item. First, the proposer shall report or designate another person to report the work to the board of directors or give description of the proposal.

When discussing relevant plan, proposal and report, the board meeting may require the head of relevant department to attend the meeting, so as to listen for and inquire about relevant information. In case of a proposal containing unclear information or with feasibility problem, the board of directors shall require relevant department to explain, and may return the proposal without voting for the time being.

Article 34 The independent director shall express independent opinions on the following issues to the board of directors:

1. Nominating directors;

2. Loans or other funds lent by the Company to its shareholders, effective controller, and affiliated companies with the amount no less than the level for material connected party transactions (refers to the related party transaction whose total value exceeds RMB3 million Yuan or 5% of the latest audited net assets of the Company) set by the board of directors or the general meeting, and whether the Company has taken effective measures to collect such loans;

3. Appointing or removing senior management;

4. Issues which in the opinion of independent directors may impair the interests of minority shareholders;

5. Other issues specified by the Articles of Association.

Article 35 Independent directors shall express definite opinions on the above issues:

1. Consent;

2. Qualified opinion and its reason;

3. Dissent and its reason;

4. Being unable to express opinion and its obstacles.

Article 36 Where the board of directors considers proposals submitted it, all directors present at the meeting shall either vote for or against the proposal or vote abstention. The director present at the meeting shall choose one of the above three options. Where the director fails to make a choice or selects two or more options, the chairman of the meeting shall require such director to make a choice once again; if the director refuses to do the same, he/she shall be deemed to have waived such right. Where the director leaves in the middle of the meeting without coming back to make such a choice, such director shall be deemed to have waived his/her right.

The director attending the meeting on behalf of another director shall exercise his/her principal's rights within the scope of authority.

Where the director fails to attend a board meeting in person, and vote in writing or authorize a representative to attend the meeting, such director shall be deemed to have waived its voting power at such meeting.

Article 37 The board meeting shall generally make resolution on issues discussed at the meeting. The following issues are subject to the approval of two thirds or more directors:

1. Develop plan for increase or decrease in registered capital, issuance and listing of any kind of securities (including but not limited to corporate bonds) or repurchase of stocks of the Company;

2. Draft plan for merger, splitting and dissolution of the Company;

3. Decide to provide the following guarantees to outside parties:

   (1) Any guarantee provided by the Company and its subsidiaries whose aggregate does not exceed 50% of the latest audited net assets of the Company;

   (2) Any guarantee with single value not exceeding 8% of the latest audited net assets of the Company;

4. Issues on preparing the plan for revision to the Articles of Association and its appendix.

Except issues identified in the foregoing four paragraphs, other issues are subject to the approval of over 50% of all directors.

The resolution of the board of directors on related party transactions of the Company is subject to written approval of 50% or more independent directors.

Article 38 Any issue put to the board meeting shall be decided on a show of hands or by way of a poll. Each director has one vote.

Article 39 In considering related party transactions, related director shall abstain from voting:

When the board of directors of the Company considers issues on related party transactions, any director who is related to the company involved in the resolution of the board meeting shall abstain from voting, and shall not exercise the voting power on behalf of any other director either. The board meeting may be convened when over 50% of non-related directors are present. Resolution of the board meeting is subject to the approval of over 50% of non-related directors. Where less than three non-related directors are present at the board meeting, the Company shall submit the transaction to the general meeting for consideration.

Article 40 Any resolution of the board of directors which is not generated in accordance with statutory procedures or falls out of the scope of authority granted by the general meeting and the Articles of Association shall not have any legal effect.

Directors shall be liable for resolutions of the board meeting.

Where the resolution of the board meeting violates laws, regulations, rules or the Articles of Association, leading to material loss of the Company, directors voting for the resolution shall assume direct liabilities (including indemnity liability), and directors who are proved to have raised objection at the time of voting and voted against the resolution as recorded in the minutes shall be released from liabilities.

Article 41 Where the board meeting needs to make resolution on profit distribution of the Company, it may first provided the CPA with the proposed distribution plan to be submitted to the board of directors for consideration, and require the CPA to express the draft auditor' report thereon (Any financial figure other than those involving the distribution have been finalized). After making resolution on profit distribution, the board of directors shall require the CPA to issue official auditor's report, and then the board of directors shall, based on the official auditor's report issued by the CPA, make resolution on other relevant issues in the regular report.

Article 42 Detailed minutes shall be maintained for issues considered at the board meeting. The minutes of the board meeting shall contain the following information:

1. The session of the meeting, and its date, venue and convening method;

2. Information on the giving of the notice of the meeting;

3. The convener and the chairman of the meeting;

4. Information on directors' attending in person and on behalf of any other director;

5. Proposals considered by the meeting, key points in speech of each director and main opinions of each director on relevant issues, and voting intention on the proposal (subject to written feedback from the director in case of a meeting in the form of written resolution);

6. Voting method and result of each issue for resolution (voting result shall indicate the number of affirmative votes, dissenting votes or abstention votes respectively);

7. Other issues to which directors present at the meeting deem it necessary to record;

8. Signing by directors.

The Board Secretary shall carefully cause issues considered at the meeting to be recorded and sorted out. The minutes of each board meeting shall be submitted to all directors present at the meeting for review as soon as possible. In case of the minutes of an onsite meeting, any director who intends to revise or supplement such minutes shall express such opinions onsite, in which case the Board Secretary shall make such revision and supplement, and directors, the Board Secretary and the clerk present at the meeting shall sign the finalized minutes. In case of the minutes of a non-onsite meeting, any director who intends to revise or supplement such minutes shall, within one week after its receipt of the minutes, submit his/her opinions on revision to the Board Secretary in writing or through e-mail, and the Board Secretary shall finalize the minutes after collecting relevant opinions and reporting the same to the Chairman.

The Board Secretary shall, as soon as possible, send a complete copy of the minutes of the board meeting to each director for review and record purpose.

The minutes of the board meeting shall be deposited at the domicile of the Company as important file properly and permanently.

Chapter 7 Information Disclose of the Board Meeting

Article 43 The board of directors of the Company shall, in strict compliance with regulations on information disclosure issued by the stock exchange and regulatory authorities at the place where stocks of the Company are listed, disclose required issues considered by or resolutions made by the board meeting in a complete, timely and accurate manner;

Information involving major issues shall be reported to the stock exchange as soon as possible and filed with competent regulatory authorities.

Article 44 Where relevant issues on which independent directors have expressed independent opinions require disclosure, the Company shall announce such opinions. Where independent directors have different opinions and cannot reach an agreement, the board of directors shall separately disclose opinions of independent directors.

Article 45 For information related to the board meeting which shall be kept confidential, people knowing such information including directors present at the meeting, other people attending the meeting, the clerk and the service staff shall keep such information confidential, otherwise they will be held liable.

Chapter 8 Implementation of the Resolutions of the Board Meeting and Feedbacks

Article 46 Before their implementation, the following issues are subject to the consent of the board meeting and then to the approval of the general meeting:

1. Prepare annual financial plan and settlement plan of the Company;

2. Prepare the profit distribution plan and the loss make-up plan of the Company;

3. Prepare the plan for increase or decrease in registered capital, and issuance and listing of bonds or other securities of the Company and repurchase of stocks of the Company;

4. Draft plan for merger, splitting, dissolution of the Company;

5. Develop the plan for revision to the Articles of Association;

6. Propose to the general meeting to engage or replace the accounting firm performing audit for the Company;

7. Other issues specified by laws, regulations, rules or the Articles of Association.

Article 47 After the board of directors makes resolution, where the issue falls within the scope of responsibilities of the General Manager or the power delegated by the board of directors to the General Manager, the General Manager shall organize implementation of such resolution and report implementation status to the board of directors.

Article 48 The Chairman may inspect and supervise, or appoint the director to inspect and supervise, implementation status of resolutions of the meeting.

Article 49 At each board meeting, the General Manager shall submit to the meeting a written report on implementation of relevant issues specified in the resolution of the previous board meeting.

Article 50 Under the leadership of the board of directors and the Chairman, the Board Secretary shall actively track implementation of the resolution of the board of directors and timely report any important problem in implementation to the board of directors and the Chairman and raise suggestions thereon.

Chapter 9 Supplementary Provisions

Article 51 In case of any issue uncovered hereunder or any discrepancy between these Rules and laws, regulations, rules and other regulatory documents issued from time to time, such laws, regulations, rules and other regulatory documents shall prevail.

Article 52 For the purpose of these Rules, reference to "no less than" a number shall include that number; reference to "over", "lower than" or "more than" a number shall exclude that number.

Article 53 After being approved by the board of directors, these Rules and its revisions shall come into effect, subject to the approval of the general meeting by special resolution.

Article 54 The board of directors reserves the right to explain these Rules.

Hainan Meilan International Airport Company Limited

Rules of Procedure for the Supervisory Committee ("Rules") are written in Chinese, and no official English translation is available. The English version is an unofficial translation and is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The proposed Rules are set out as follows:

Hainan Meilan International Airport Company Limited

Rules of Procedure for the Supervisory Committee

Chapter 1 General Provisions

Article 1 These rules of procedure are formulated to regulate the operation of the Supervisory Committee of Hainan Meilan International Airport Company Limited ("Company") and ensure its due exercise of powers and duties conferred by the shareholders in accordance with the PRC Company Law, PRC Securities Law, Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), Mandatory Provisions for the Articles of Association of Companies Listed Overseas, Guidelines for the Articles of Association of Listed Companies and Guiding Principles on Corporate Governance of Listed Companies among other regulations for companies listed in and outside PRC as well as the Articles of Association of Hainan Meilan International Airport Company Limited ("Articles of Association").

Article 2 The Supervisory Committee shall be responsible to the shareholders' meeting and exercise is supervision over the financial situation of the Company and the rightful exercise of duties by directors, general manager, deputy general manager, chief financial officer and company secretary to protect the legal rights and interests of the Company and its shareholders.

Article 3 The Company shall take measures, as appropriate, to assure the supervisors' right of information and make timely disclosure of all the information and data necessary to facilitate the effective supervision, inspection and evaluation conducted by Supervisory Committee with respect to the financial condition and business operation of the Company.

The general manager shall, upon the request of the Supervisory Committee, submit report in respect of the signing and execution of material contracts to which the Company is a party, use of capital and the profit and loss thereof. The truthfulness of such report shall be ensured by the general manager.

Chapter 2 Composition and Executive Office of the Supervisory Committee

Article 4 The Supervisory Committee is comprised of three members, including 2 representatives of the shareholders and 1 representative of the employees, 1 of whom shall preside as the Chairman of the Supervisory Committee.

The appointment and removal of the Chairman of the Supervisory Committee shall be approved by more than two thirds of the votes of the supervisors.

Article 5 The term of office of a supervisor shall be three years and may be renewed upon expiry thereof if he/she is re-elected. The representative of the shareholders in the Supervisory Committee shall be elected and removed through a general meeting of shareholders whereas the representative of the employees in the Supervisory Committee shall be elected and removed democratically by the employees of the Company.

Article 6 A supervisor shall meet all the qualification requirements as provided by the PRC Company Law and the Articles of Association and possess relevant professional knowledge or work experience in such areas as law and accounting.

Article 7 A supervisor may resign during his/her term of office by giving written notice of such resignation to the Supervisory Committee.

Provisions in relation to the members of the Board of Directors under the Articles of Association shall also apply to the supervisors, including but not limited to the provision that should the Supervisory Committee no longer meet the quorum thereof as a result of the resignation of a supervisor, such resignation shall only become effective when the vacancy caused by his/her resignation has been filled by a duly elected supervisor.

Article 8 The Executive Office of the Supervisory Committee shall be established to carry out the regular functions for the Supervisory Committee.

Chapter 3 Powers and Duties of the Supervisory Committee

Article 9 The Supervisory Committee shall exercise its powers and duties in accordance with the Articles of Association.

A supervisor has the right to be present at the meetings of the Board of Directors.

Article 10 The Supervisory Committee shall present its report on supervision of the Company over the past year at the annual general meeting of shareholders. The report shall include the following matters:

1. Inspection of the financial situation of the Company;

2. Execution of the laws, regulations, Articles of Association and resolutions of shareholders' meeting by directors, general manager, deputy general manager, chief financial officer and company secretary;

3. Review of the performance of the directors, general manager, deputy general manager, chief financial officer and company secretary in exercising their fiduciary duties and duty of diligence, especially opinions produced by the representative of the employees;

4. Other material matters deemed reportable by the Supervisory Committee.

The Supervisory Committee may also, to the extent it deems necessary, express opinions on the proposals being reviewed by the shareholders' meeting and submit its independent report.

Article 11 The Supervisory Committee may, during exercise of its powers and duties, engage legal counsels, certified public accountants and auditors to provide professional opinions and any reasonable costs or expenses so incurred shall be borne by the Company.

The Company shall be responsible for any necessary costs or expenses incurred by the supervisors for their attendance at the meetings of the Supervisory Committee, including the travel expenses between their residences to the meeting venue and the meal and accommodation expenses during the session.

Article 12 The Chairman of the Supervisory Committee shall have the following powers and duties:

1. To convene and preside as chairman at each meeting of the Supervisory Committee;

2. To organize the discharge of duties of the Supervisory Committee;

3. To review and sign the report of the Supervisory Committee and other material documents;

4. To report to the shareholders' general meeting on behalf of the Supervisory Committee;

5. To perform other duties as stipulated by laws or the Articles of Association.

The Chairman of the Supervisory Committee, in the event of his/her inability to act, shall appoint a supervisor to exercise the powers and duties in his/her stead.

Article 13 The Supervisory Committee shall report to the Board of Directors and the Shareholders' meeting, or directly to the securities regulatory authority under the State Council and other relevant authorities on any incompliance in the finance of the Company or any acts of directors, general manager, deputy general manager, chief financial officer and company secretary in violation of laws, regulations or the Articles of Association identified during its supervision.

Article 14 A supervisor shall discharge his/her fiduciary duties and duty of diligence in compliance with the laws, regulations and the Articles of Association.

Chapter 4 Meetings of the Supervisory Committee

Article 15 The Supervisory Committee shall hold regular meetings at least once every six months and extraordinary meetings occasionally.

Article 16 An extraordinary meeting shall be convened by the Supervisory Committee within ten days under any of the following circumstances:

1. where the Chairman of the Supervisory Committee deems necessary;

2. when proposed by a supervisor;

3. when the Company has incurred or is incurring any significant asset losses to the detriment of the shareholders' interests;

4. where any acts of directors, general manager, deputy general manager, chief financial officer and company secretary in violation of laws, the regulations or the Articles of Association may cause material detriment to the Company;

5. when the shareholders' meeting or the meeting of the Board of Directors has adopted any resolution in breach of laws, regulations, rules, various regulatory requirements, the Articles of Association, shareholders' resolutions and other relevant regulations;

6. where any improper behavior of the directors and senior management personnel may cause material damage to the Company or negative influences in the market;

7. when any legal proceeding is brought by the shareholders against the Company or any of its directors, supervisors and senior management personnel;

8. when the Company or any of its directors, supervisors and senior management personnel is penalized by the securities regulatory authority or publicly condemned by the Shanghai Stock Exchange;

9. at the request of the securities regulatory authority; or

10. other circumstances as stipulated in the Articles of Association.

Article 17 Each supervisor shall be present at the meeting of the Supervisory Committee in person or, in his/her absence, by proxy appointed by such supervisor in writing among other supervisors to act on his/her behalf. The instrument of proxy shall contain the name of the proxy, matters authorized to be acted upon as well as limits and validity of such authorization and shall be signed or sealed by the authorizing supervisor.

Chapter 5 Meeting procedures of the Supervisory Committee

Article 18 The Supervisory Committee shall propose the meeting agenda according to the proposals considered at the Board of Directors and submitted by the supervisors.

Article 19 The Executive Office of the Supervisory Committee shall collect the proposals considered at the Board of Directors and submitted by the supervisors and deliver such to the Chairman of the Supervisory Committee, who shall decide at his/her discretion if any proposal should be submitted for consideration at the meeting of the Supervisory Committee.

Article 20 The Chairman of the Supervisory Committee shall call a meeting of the Supervisory Committee by signing the meeting notice. The meeting notice shall contain the meeting date, venue, duration, agenda, purpose, matters to be discussed and relevant materials, and the date of notice among others.

The meeting notice shall be sent out to the supervisors at least 10 days prior to the date of meeting to be held. A supervisor may waive his/her right to receive the notice of a meeting of the Supervisory Committee.

The meeting notice may be served by personal delivery, fax, telex, email or any other way as permitted by law.

Article 21 The Executive Office shall, from the meeting notice being sent out until the meeting being held, be responsible for or arrange the communication and contact with each supervisor to solicit the comments and suggestions from them so as to refine the proposals. Where a proposal is determined by more than 1/3 of the supervisors to lack sufficient materials or a solid ground, the Supervisory Committee shall table such proposal as requested by the supervisors.

Article 22 The Chairman shall preside at the meeting of the Supervisory Committee or, in the event of his/her inability, appoint any other supervisors to act on his/her behalf. Upon the re-election of the Supervisory Committee at the shareholders' meeting, the supervisor receiving the most votes (or the one as elected among supervisors receiving the most votes) shall preside at the meeting to elect the Chairman of the Supervisory Committee.

Article 23 No meeting shall be convened unless a quorum of over a half of the supervisors is present. In case of a refusal or neglect of any supervisor to attend the meeting which results in the lack of a quorum required for the meeting to be held, other supervisors shall report promptly to the regulatory authority.

The company secretary and the representative of securities affairs shall be present at the meeting of the Supervisory Committee.

Article 24 The chairperson of the meeting shall announce the starting of the meeting as scheduled, upon which the attending supervisors should first reach a mutual agreement on the agenda.

Where a proposal is determined by more than one third of the supervisors to lack sufficient materials or a solid ground, a request to table such proposal shall be brought and adopted by the chairperson.

Once a mutual agreement on the agenda is reached by the attending supervisors, the chairperson shall proceed with the meeting to review each individual proposal in order.

Article 25 The meeting of the Supervisory Committee may require any of the directors, general manager, deputy general manager, chief financial officer, company secretary, internal and external auditors to be present, make explanations as necessary and address the concerns raised by the Supervisory Committee when reviewing certain proposals and reports.

Article 26 For any proposals being considered at the meeting of the Supervisory Committee, each attending supervisor shall express his/her opinion of affirmation, objection or abstention.

The proxy acting on behalf of a supervisor shall exercise his/her rights to the extent of the authorization.

A supervisor failing to attend a meeting of the Supervisory Committee in person or by proxy shall be deemed as abstaining from voting on such meeting.

Article 27 Generally a resolution shall be made at the meeting of the Supervisory Committee on the matter being considered. Each supervisor shall have one vote on a poll or a show of hands. Resolutions may only be adopted by the affirmative votes of at least two thirds of total supervisors.

Article 28 The meeting the Supervisory Committee shall keep a detailed meeting minutes on the matters being discussed as an official proof for any resolutions adopted by the Supervisory Committee thereon.

Article 29 The meeting minutes of the Supervisory Committee shall include the meeting date, venue, form, name of the chairperson; dispatch of the notice; names of the attending supervisors, authorizing supervisors and the proxies; meeting agenda, key points of the speeches made by supervisors, the voting process and results for each matter resolved (which should specify the vote count of affirmation, objection or abstention).

The Executive Office of the Supervisory Committee shall assign a person to keep an accurate and well-organized record of the matters discussed at the meeting and procure a prompt delivery of the meeting minutes to all the attending supervisors for review. Each attending supervisor and the recorder shall sign on the meeting minutes and a supervisor shall have the right to include explanatory notes in the minutes in relation to his/her speech.

Article 30 The meeting minutes and resolutions of the Supervisory Committee shall be kept by the Executive Office as the key files at the registered office of the Company for at least 10 years.

Article 31 Attending supervisors shall confirm by signing on the meeting minutes. Supervisors holding different opinions on the minutes may make a written note when signing and shall, if necessary, report promptly to the regulatory authority or make a public announcement thereon.

Supervisors who neither confirm by signing nor make any written note of their different opinions, any report to the regulatory authority or any public announcement shall be deemed as giving full consent to the meeting minutes.

Chapter 6 Information Disclosure of the Meeting of the Supervisory Committee

Article 32 The Supervisory Committee shall make available all the discloseable information on matters considered or resolutions adopted at the meeting of Supervisory Committee on a timely and accurate basis in strict conformity with the requirements of the regulatory authority at the place where the shares of the Company are listed and the stock exchange.

Article 33 Attendees shall keep in strict confidence all the confidential information and shall be held liable for any unwarranted breach of confidentiality.

Chapter 7 Execution and Feedback of the Resolutions of the Supervisory Committee

Article 34 The Supervisory Committee shall adopt and propose resolutions to the Board of Directors and the shareholders' meeting for an execution organized by the Board of Directors.

Article 35 Under the leadership of the Supervisory Committee and the Chairman of the Supervisory Committee, the Executive Office of the Supervisory Committee shall follow up with the execution of the resolutions adopted and make prompt report and suggestions to the Supervisory Committee and the Chairman of the Supervisory Committee.

Article 36 For any resolution adopted by the Supervisory Committee concerning the proposal to convene an extraordinary meeting of the Board of Directors or an extraordinary meeting of the shareholders or an extraordinary proposal to be submitted at the annual general meeting of the shareholders, a written proposal containing the subject matter and all relevant information shall be lodged with the Board of Directors within a prescribed time frame. The Supervisory Committee shall ensure the full compliance of such proposal in substance with laws, regulations and the Articles of Association.

Chapter 8 Supplementary Provisions

Article 37 For the purpose of the Rules, any reference to "more than" a number includes that number.

Article 38 These Rules are formulated by the Board of Directors and shall become effective upon the approval of the shareholders' meeting.

Article 39 These Rules shall be interpreted by the Supervisory Committee.

Article 40 Where any provisions of these Rules conflict with the relevant laws, administrative rules and other regulations as promulgated from time to time, the latter shall prevail.

Hainan Meilan International Airport Company Limited

The Connected Transaction Decision Making System (the "System") are written in Chinese and there is no official English translation in respect thereof. The English version is an unofficial translation and is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The proposed System is set out below:–

Hainan Meilan International Airport Company Limited

Rules for the Decision-making of Connected Transaction

Chapter 1 General Provisions

Article 1 These Rules are formulated to ensure the fairness and reasonableness of the connected transaction as well as the smooth business operation of the Hainan Meilan International Airport Company Limited ("Company") in accordance with the PRC Company Law ("Company Law"), Guiding Principles on Corporate Governance of Listed Companies, Rules Governing the Listing of Securities on the Stock Exchange where the shares of the Company are listed ("Stock Exchange") and the Guidelines for the Internal Control of Listed Companies published by the Stock Exchange (collectively "Listing Rules"), Articles of Association of Hainan Meilan International Airport Company Limited ("Articles of Association") and other laws, administrative rules and regulations ("Laws, Rules and Regulations").

Article 2 The internal control system of connected transactions shall be established on a good faith, equal, voluntary, fair, public and arm-length basis in the interest of the Company and other non-connected parties.

Article 3 Any transaction between the Company and its connected parties shall be processed without any detriment to the legitimate interests of all shareholders, especially the minority shareholders.

Article 4 In no event shall any of the controlling shareholder, effective controller, directors, supervisors and senior management personnel make use of its connection with the Company against the interest of the Company. Any party in breach of the foregoing shall be held accountable for any losses caused by such breach to the Company.

Chapter 2 Definition of Connected Party and Connected Transaction

Article 5 Connected parties of the Company include connected legal persons and connected natural persons.

Article 6 A party shall be deemed as the connected legal person of the Company if it falls into any of the following categories:

1. parities with direct or indirect controls of the legal persons or other organizations of the Company;

2. legal persons or other organizations directly or indirectly controlled by aforesaid parties other than the Company and its controlled subsidiaries;

3. legal persons or other organizations other than the Company and its controlled subsidiaries where any connected natural persons of the Company have a direct or indirect control or serve as the director or senior management personnel;

4. legal persons or other organizations holding more than 5% interest in the Company;

5. other legal persons or other organizations deemed by the CSRC, the Stock Exchange or the Company based on the substance over form principle to have a special connection with the Company which may result in any undue influence and advantage.

Article 7 A person shall be deemed as the connected natural person of the Company if it falls into any of the following categories:

1. persons directly or indirectly holding more than 5% interest in the Company;

2. directors, supervisors and senior management personnel of the Company;

3. directors, supervisors and senior management personnel of the legal persons set forth in the Article 6 section 1;

4. family members closely related to the persons set forth in the Article 7 sections 1 and 2, including their spouses, parents, parents-in-law, siblings and their spouses, children above 18 years of age and their spouses, siblings-in-law and children's parents-in-law;

5. other natural persons deemed by the CSRC, the Stock Exchange or the Company based on the substance over form principle to have a special connection with the Company which may result in any undue influence and advantage.

Article 8 A legal person or natural person shall be deemed as the connected party of the Company should such person

1. fall into any of the categories set forth in Article 6 or Article 7 upon the taking effect of any agreement or arrangement entered into with the Company or within the next twelve months;

2. used to fall into any of the categories set forth in Article 6 or Article 7.

Article 9 The Company shall, based on the definition of connected parties prescribed by the Listing Rules of the Stock Exchange among other regulations, create a list of connected parties of the Company and develop a timely update system to ensure the truthfulness, accuracy and completeness of such list.

Article 10 The connected transaction of the Company refers to the transfer of resources or obligations between the Company or its controlled subsidiaries and the connected parties of the Company, which includes:

1. asset purchase or disposal;

2. external investment (including entrusted wealth management and entrust loans);

3. provision of financial support;

4. provision of guarantee;

5. lease or rental of assets;

6. execution of management contracts (including entrust management and contracted management);

7. donation of assets made or received;

8. restructuring of claim or debt;

9. transfer of research and development project made or received;

10. execution of licensing agreement;

11. procurement of raw materials, fuels or powers;

12. sale of products or goods;

13. rendering or receiving of services;

14. entrust or contracted sale;

15. deposits or loans with the finance company of the connected party;

16. joint investment with the connected party;

17. any agreement that may result in the transfer of resources or obligations;

18. others deemed by the Stock Exchange to constitute a connected transaction.

Chapter 3 Authority for the Decision-making of Connected Transaction

Article 11 Any decisions made on the connected transaction shall be subject to the following approval:

1. Shareholders' meeting:

   1) transactions between the Company and connected parties (except for any provision of guarantee, donation of cash assets received and pure relief of the obligations of the Company) with a value over RMB30m and more than 5% of the latest audited absolute net asset value of the Company; or transactions entered into with the same connected party or different connected parties with respect to a certain type of subject matter over any consecutive 12 months with a cumulative value more than 5% of the latest audited net asset value of the Company and over RMB30m in absolute amount;

      The same connected party referred to above includes any legal persons or other organizations under the direct or indirect control of the same legal person or organization or natural person, or that have control of interests in each other or the same connected natural person to serve as the director or senior management personnel.

   2) provision of guarantee to connected party;

      For the transactions listed above, the Company shall lodge the filings with the company secretary. Upon the review of the Board of Directors, the proposed transaction shall be submitted to the shareholders' meeting for approval before entered into.

2. Board of Directors:

   1) transactions between the Company and connected parties with a value over RMB3m and more than 0.5% of the latest audited absolute net asset value of the Company;

   2) transactions between the Company and connected natural persons with a value over RMB0.3m;

   3) transactions entered into with the same connected party or different connected parties with respect to a certain type of subject matter over any consecutive 12 months with a cumulative value exceeding such threshold as provided above requiring the approval of the Board of Directors;

   For the transactions listed above, the Company shall lodge the filings with the company secretary and seek the approval of the Board of Directors before entering into such transaction.

3. For transactions falling below such threshold as provided above requiring the approval of shareholders or Board of Directors, the Company shall follow the approval process as authorized by the Articles of Association, the shareholders' meeting and the Board of Directors.

Article 12 For any transactions between the Company and connected parties (except for any provision of guarantee, donation of cash assets received and pure relief of the obligations of the Company) with a value over RMB30m and more than 5% of the latest audited absolute net asset value of the Company; or transactions entered into with the same connected party or different connected parties with respect to a certain type of subject matter over any consecutive 12 months with a cumulative value more than 5% of the latest audited net asset value of the Company and over RMB30m in absolute amount, the independent directors shall express their opinions on the benefits of such transaction to the Company and the Company shall retain an independent financial advisor to express opinions on the fairness and reasonableness of such connected transaction to all shareholders with explanation of reasons, key assumptions and considerations.

The Company shall disclose the details on such transaction in its subsequent regular report.

Chapter 4 Submission and Preliminary Review of Connected Transaction

Article 13 The Office of the Board of Directors shall keep a close watch of various transactions entered into by the Company in light of the Rules for Contract Supervision and the Regulations for Connected Transactions. Upon identification of any connected transactions between the Company and the connected parties as defined hereunder, the Office shall collect any information on such transaction and prepare a written report for submission to the general manager, which shall contain the following matters:

1. name and address of the connected party;

2. subject matter and value of such connected transaction;

3. pricing policy and basis for such connected transaction;

4. draft agreement (contract) for such transaction;

5. other matters required to be specified.

Article 14 Any connected transaction shall be entered into on general commercial terms and priced on an arm-length basis by reference to the price offered to or by an unrelated third party on the market.

Article 15 Upon receipt of the aforesaid written report, the company secretary shall organize relevant parties (including legal counsel of the Company) to conduct a case study and preliminary review of the necessity, reasonableness and fairness of the pricing for the contemplated connected transaction pursuant to the provisions hereunder. Where the preliminary review concludes that such connected transaction is necessary and fairly priced, the general manager shall request the Office of the Board of Directors to draft and report the proposal for such transaction to the Chairman of the Board of Directors as soon as possible, so as to procure the submission to the Board of Directors for review.

Chapter 5 Review of the Board of Directors

Article 16 Upon receipt of the draft proposal, the Chairman of the Board of Directors shall immediately send out a notice of an extraordinary meeting of the Board of Directors to all the directors.

Article 17 The extraordinary meeting of the Board of Directors shall conduct a review and discussion on the necessity and reasonableness of the contemplated connected transaction. Attending directors may require the general manager (or the president, executive president, collectively "General Manager") to discuss any efforts already made to seek an unrelated third party to replace the connected party for the purpose of the contemplated transaction and make explanations on the results to the Board of Directors. Where it is determined that the contemplated connected transaction may not be replaced by a transaction with any unrelated third party or is in the best interest of the Company, the Board shall acknowledge the necessity of such connected transaction.

The Board of Directors shall take into account the following factors when determining the reasonableness of the contemplated connected transaction:

1. For any connected transaction with a subject matter to be purchased by the connected party, the Board shall find out if the Company is able to purchase or sell independently. Where the Company lacks the purchase or sales channels or is unable to receive a bargain or favorable terms thereon, or where the Company is able to reduce its production, purchase or sales costs through a purchase from or sale to the connected party, the Board of Directors shall acknowledge the reasonableness of such connected transaction, provided that such transaction shall be priced at the purchase price of the connected party plus certain share of purchase cost deemed reasonable.

2. For any connected transaction with a subject matter to be self produced by the connected party, such transaction shall be priced at the production cost of the connected party plus a reasonable profit.

3. For any connected transaction in relation to the rendering or receiving of services, agency, lease, security and guarantee, management, research and development and licensing, the Company shall obtain or ask the connected party to provide any lawful and valid pricing basis for such connected transaction.

Article 18 When reviewing the contemplated connected transaction, the Board of Directors shall make a comprehensive inquiry into the actual status of the subject matter of such transaction, including its current operation, profitability and any pledge, litigation or arbitration associated therewith.

When determining the counterparty, the Board of Directors shall review the candidates in terms of the track record, credit profile and ability to deliver and make the selection in the best interest of the Company.

Article 19 Any resolution adopted on the connected transaction shall be approved in writing by at least 1/2 of the independent directors. For any connected transaction subject to further review of the shareholders, the independent directors shall retain the professional institution to produce an independent financial advisor's report and use such as a basis to make their judgment.

Article 20 Directors holding an interest in any party involved in the proposed transaction under review shall abstain from the voting on such resolution either in person or by proxy. The meeting of the Board of Directors may only be held when more than a half of the non-interested directors are present and any resolution adopted at the meeting shall be approved by more than a half of the votes of the non-interested directors.

Where the non-interested directors who are present do not constitute a quorum of 3, the proposal shall be submitted to the shareholders' meeting for review.

Chapter 6 Review of the Shareholders' Meeting

Article 21 For any proposed connected transaction subject to the approval of the shareholders, the Board of Directors shall send out a notice of a shareholders' meeting according to the timing and procedural requirements set forth by the Company Law, Listing Rules and the Articles of Association.

Article 22 The shareholders' meeting shall review and vote on the proposal submitted by the Board of Directors on the contemplated connected transaction. Any interested shareholders shall abstain from the voting as required and their holdings of the shares shall not be counted in determining the effective votes. The Board of Directors and the legal counsel as the witness shall remind any interested shareholders of such abstention before the voting, check on such during the voting and report promptly any non-conformity identified to the regulatory authority.

Article 23 The independent directors shall express their opinions on the fairness of the proposed connected transaction.

Chapter 7 Execution of Connected Transaction

Article 24 Upon the approval of the shareholders, the Company shall enter into an agreement (contract) for the connected transaction with the connected party on an equal, voluntary, reciprocal and commercial basis with clearly defined terms and conditions. The agreement (contract) shall take effect after signing and sealing by both parties.

Article 25 Any connected parties of the Company shall take measures as necessary to abstain from the execution of any agreement with the Company involving the connected transaction.

Article 26 Where any early termination or revision of the in-force agreement or contract entered into for the connected transaction is required due to the changes in the production and operation, parties thereto shall terminate or revise the original contract by signing a supplementary agreement (or contract), which may take effect immediately or as the case may be, upon confirmation of the Board of Directors and shareholders.

Article 27 The Company shall take effective measures to prevent the connected party from intervening in the business operation of the Company by a monopoly of procurement and sales channels against the interests of the Company.

Article 28 The Company claims the ownership of its assets and shall take effective measures to prevent its shareholders and connected parties from any form of possession or appropriation of the capital, assets and other resources of the Company.

Article 29 The Company shall not grant loans directly or indirectly to the directors, supervisors and senior management personnel.

Article 30 Independent directors shall look into, on an irregular basis, any financial activities between the Company and its connected party to find out any possession or appropriation of capital, assets and other resources of the Company by its shareholders and connected parties. Upon identification of any non-conformity, independent directors shall have the right to request the Board of Directors to take appropriate measures or directly report such to the regulatory authority.

Article 31 The Board of Directors shall, after the end of every fiscal year, discuss its special audit of any financial possession by the connected party of the Company in the audit report produced by the professional accounting firm.

Chapter 8 Information Disclosure

Article 32 The Company shall make a timely disclosure of the signing, revision, termination and performance of the written agreement entered into between the Company and its connected party for the connected transaction.

Article 33 The Company shall make a timely disclosure of any connected transactions with a value over RMB0.3m between the Company and its connected natural person; and those with a value over RMB3m and more than 0.5% of the latest audited absolute net asset value of the Company between the Company and its connected legal person.

Article 34 The Company shall fully disclose the pricing basis for any connected transaction entered into.

Chapter 9 Supplementary Rules

Article 35 These Rules shall be binding on the Company and its Board of Directors, directors, Supervisory Committee, supervisors, General Manager and other senior management personnel.

Article 36 For the purpose of the Rules, any reference to "more than" or "within" a number includes that number.

Article 37 These Rules shall become effective upon the approval of the shareholder.

Article 38 These Rules shall be interpreted by the Board of Directors.

The Board of Directors
Hainan Meilan International Airport Company Limited

The Proceeds Administration Measures (the "Administration Measures") are written in Chinese and there is no official English translation in respect thereof. The English version is an unofficial translation and is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

The proposed Administration Measures are set out below:–

Appendix :

Hainan Meilan International Airport Company Limited

Rules for the Management of Fundraising Proceeds

Chapter 1 General Provisions

Article 1 These Rules are formulated to regulate the use and management of the proceeds raised by the Hainan Meilan International Airport Company Limited ("Company") and protect the maximum interest of investors in accordance with the PRC Company Law, PRC Securities Law, Regulations for the Securities Issuance of Listed Companies, Regulations for the Report of the Previous Use of Proceeds, Circular on Further Regulating the Use of the Proceeds by Listed Companies, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Shanghai Stock Exchange ("Listing Rules") among other state laws and regulations as well as the Articles of Association of Hainan Meilan International Airport Company Limited ("Articles of Association") based on the specific circumstances of the Company.

Article 2 For the purpose of the Rules, the term "fundraising proceeds" refers to the proceeds raised by the Company through public offering of securities (including the initial public offering, rights issue, follow-on offering, issuance of straight convertible bonds and convertible bonds with warrants) and private placement to the investors, to the exclusion of any proceeds raised by the Company through share incentive scheme.

Article 3 The fundraising proceeds may only be used for the stated purposes as disclosed by the Company. The Board of Directors shall develop a detailed plan for the use of proceeds to ensure the disciplined, public and transparent utilization.

Article 4 No changes shall be made to the use of proceeds stated in the prospectus or offering circular unless otherwise resolved by the Board of Directors and the shareholders' meeting, in which case such proceeds shall only be invested in the primary business operations of the Company.

Article 5 For any use of proceeds in breach of the laws, regulation, the Article of Associations and the provisions hereunder, the person held accountable shall indemnify any damages and losses caused by such breach to the Company.

Chapter 2 Deposit of Proceeds

Article 6 The proceeds raised by the Company shall be deposited in a special account ("Special Account") established by the Board of Directors for this purpose. The Special Account shall not be used for funds other than the proceeds or any other purposes.

Article 7 The Company shall, within two weeks upon receipt of the proceeds, sign an escrow agreement with the Sponsor and the commercial bank designated for the deposit of the proceeds ("Bank"), which should contain the following information among others:

1. The Company shall deposit all the proceeds raised in the Special Account;

2. The Bank shall, on a monthly basis, send a bank statement of the Special Account to the Company as well as the Sponsor;

3. The Company shall notify the Sponsor on a timely basis of any individual or cumulative withdrawal during any twelve months in excess of RMB50m and 20% of the total proceeds raised net of fees and expenses ("Net Proceeds");

4. The Sponsor may, at any time, make inquiry into the information of the Special Account at the Bank;

5. The default liabilities of the Company, the Bank and the Sponsor.

The Company shall, within 2 trading days upon the signing of the aforesaid agreement, file with the Shanghai Stock Exchange (SSE) and make public announcement thereon. In case of any early termination of the in-force agreement caused by the change of the Sponsor or the Bank or other reasons, the Company shall, within two weeks upon the termination of the agreement, enter into a new agreement with relevant parties and shall, within 2 trading days upon the signing of the new agreement, file with the SSE and make public announcement thereon.

Article 8 The Sponsor shall, upon discovering any failure of the Company and the Bank to execute the escrow agreement as agreed, report to the SSE in writing immediately after awareness of such facts.

Chapter 3 Use of Proceeds

Article 9 Upon receipt of the proceeds, the Company shall undertake the capital verification process for any changes to the registered capital and retain a qualified accounting firm to produce a capital verification report. The Board of Directors shall organize the use of proceeds according to the plan of such use committed in the prospectus or offering circular.

Article 10 Under any circumstances that would have a material impact on the planned use of the proceeds, the Company shall promptly report to the SSE and make public announcement thereon.

Article 11 In any of the following events that occur to a project funded by the proceeds ("Project"), the Company shall re-assess the feasibility and estimated profitability of the Project to decide if it should be proceeded with and disclose the progress update on the project, reasons for the non-conformity and the rectified project, if any, in its latest regular report:

1. any material changes in the market environment in relation to the Project;

2. suspension of the Project for over 1 year;

3. missing of the deadline specified by the investment plan with the completed investment less than 50% of the planned amount;

4. other non-conformities of the Project.

Article 12 The Company shall refrain from the following conducts during the use of the proceeds:

1. any uses for the purpose of financial assets held for trading and available for sale, loans, entrusted wealth management and other financial investments made directly or indirectly in the businesses engaged in the trading of marketable securities;

2. any changes to the use of proceeds by pledge, entrust loans or other roundabout means;

3. any possession or appropriation of the proceeds by the controlling shareholder, effective controller or other connected parties to seek illegitimate gains.

Article 13 Where the proceeds is intended to, as disclosed in the offering application, be used to refinance any self-funded project with a certain value of upfront investment, such refinancing shall be subject to the special audit by the accounting firm, opinions of the Sponsor and the approval of the Board of Directors of the Company. The Board of Directors shall, within 2 trading days after the completion of the refinancing, report to the SSE and make public announcement thereon. Notwithstanding the foregoing, the Company shall, in such case, follow the procedures and make the disclosure as required for any changes made to the Project.

Article 14 For any temporary use of the idle proceeds to fund the liquidity, the following requirements shall be observed:

1. the stated use of proceeds and the investment plan of the proceeds may not be changed or affected;

2. any individual funding of the liquidity may not exceed 50% of the net proceeds;

3. any individual funding of the liquidity may not last for more than 6 months;

4. any previous use of the proceeds to fund the liquidity has been returned by the due time (if applicable).

Any temporary use of the idle proceeds to fund the liquidity shall be subject to the approval of the Board of Directors and the opinions of the independent directors, the Sponsor and the Supervisory Committee. The Company shall, within 2 trading days, report to the SSE and make public announcement thereon. Any temporary use of the idle proceeds to fund the liquidity in excess of 10% of the proceeds raised shall be subject to the approval of the shareholders where the votes may be cast via the internet. The Company shall return the proceeds used to fund the liquidity to the Special Account by the due time and shall, within 2 trading days upon the return of such proceeds in full amount, report to the SSE and make public announcement thereon.

Article 15 After the completion of a Project, any proposed use of the balance of the proceeds (including interest accrued) for the purpose of any other project shall be subject to the approval of the Board of Directors and the opinions of the independent directors, the Sponsor and the Board of Directors, except for such balance of the proceeds (including interest accrued) less than RMB1m or 5% of the committed investment in the Project, in which case the use thereof shall be disclosed in the annual report.

For any use of the balance of proceeds (including interest accrued) for any purposes other than the Project (including funding of liquidity), the Company shall follow the procedures and make the disclosure as required for any changes made to the Project.

Article 16 After the completion of all the Projects, any proposed use of the balance of the proceeds (including interest incurred) in excess of 10% of net proceeds shall be subject to the approval of the Board of Directors and the shareholders' meeting as well as the opinions of the independent directors, the Sponsor and the Supervisory Committee. Any balance of the proceeds (including interest incurred) less than 10% of net proceeds shall be subject to the approval of the Board of Directors and the opinions of the independent directors, the Sponsor and the Supervisory Committee. Any balance of the proceeds (including interest incurred) less than RMB5m or 5% of net proceeds may be exempted from the aforesaid procedures provided that the use of such shall be disclosed in the latest regular report.

Chapter 4 Changes to Use of Proceeds

Article 17 Any changes made to the Project shall be approved by the Board of Directors and the shareholders' meeting, except for those made only in the venue of the Project in which case the Company shall seek the approval of the Board of Directors and within 2 trading days, report to the SSE and make public announcement on the reasons of such changes and the opinion of the Sponsor.

Article 18 Any changes to the Project shall be made only for the purpose of the primary business operations of the Company. The Company shall conduct a scientific and prudent feasibility study of the new Project to assure its market potential and profitability, effectively mitigate the investment risk and improve the efficient use of the proceeds.

Article 19 For any proposed changes to the Project, the Company shall, within 2 days upon submission to the Board of Directors for approval, report to the SSE and make public announcement on the following matters:

1. general profile of the original Project and reasons for the proposed changes;

2. general profile, feasibility study ad risk factors of the new Project;

3. investment plan of the new Project;

4. any approval received or to be received from relevant authorities for the new Project (if applicable);

5. opinions of the independent directors, the Supervisory Committee and the Sponsor on the proposed changes to the Project;

6. statement that the proposed changes to the Project shall be subject to the approval of the shareholders; and

7. other matters as required by the SSE.

For any new Project involving a connected transaction, asset purchase or external investment, the Company shall make disclosures as required by the relevant rules.

Article 20 For any changes made to the Project to acquire the assets (including interests) from the controlling shareholder or the effective controller, the Company shall ensure the effective avoidance of horizontal competition and the connected transactions.

Article 21 For any proposed transfer or swap of the Project (except for those already fully transferred or swapped during the substantial asset restructuring of the Company), the Company shall, within 2 days upon submission to the Board of Directors for approval, report to the SSE and make public announcement on the following matters:

1. reasons for the transfer or swap of the Project;

2. amount of the proceeds already invested in the Project;

3. status of the Project and benefits achieved;

4. general profile, feasibility study and risk factors of the project swapped in (if applicable);

5. price basis and benefits for the transfer or swap;

6. opinions of the independent directors, the Supervisory Committee and the Sponsor on the transfer or swap of the Project;

7. statement that the proposed changes to the Project shall be subject to the approval of the shareholders; and

8. other matters as required by the SSE.

The Company shall closely monitor the receipt and use of the transfer consideration, change of the title to the asset swapped in and its continuing operation, and make information disclosure as required.

Chapter 5 Management and Supervision of Use of Proceeds

Article 22 The Board of Directors shall conduct comprehensive inspections of the use of proceeds at least once every half year and prepare the Special Report on the Deposit and Use of the Proceeds Raised by the Company ("Special Report"). The Report shall be subject to the approval of the Board of Directors and the Supervisory Committee and the Company shall, within 2 trading days upon submission to the Board of Directors for approval, report to the SSE and make public announcement thereon.

Article 23 The Sponsor shall conduct on-site inspections of the deposit and use of proceeds at least once every half year and prepare the Special Inspection Report on the deposit and use of the proceeds raised by the Company during the year after the end of every fiscal year. The Board of Directors shall disclose in its Special Report the opinions concluded in the Special Inspection Report produced by the Sponsor.

Article 24 The Audit Committee of the Board of Directors, the Supervisory Committee or more than 1/2 of the independent directors may engage an accounting firm and other professional institutions to perform a special audit and produce a special audit report ("Accountant's Special Audit Report"), in which case the Board of Directors shall provide complete support and any necessary costs and expenses incurred shall be borne by the Company. The Board of Directors shall, within 2 trading days upon receipt of the Accountant's Special Audit Report, report to the SSE and make public announcement thereon. Where there exists any non-compliance in the management of the proceeds in the opinion of the Accountant's Special Audit Report, the Board of Directors shall also disclose such non-compliance in the deposit and use of the proceeds, any consequences or likely outcome and actions taken or to be taken.

Chapter 6 Supplementary Provisions

Article 25 These Rules shall apply to any Project effectuated through any subsidiary of the Company or any other entity controlled by the Company.

Article 26 Where any provisions of these Rules conflict with the relevant laws, administrative rules and other regulations as amended from time to time, the latter shall prevail and these Rules are subject to changes as necessary.

Article 27 These Rules shall be interpreted by The Board of Directors.

Article 28 These Rules shall become effective upon the approval of the Board of Directors and the consent of relevant authorities to the plan of proceeds.

1. STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Director's interest and short position

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

None of the Directors and their respective associates (as defined in Listing Rules) has any interest in a business, which competes or may compete with the businesses of the Company or any other conflict of interests which any such person has or may have with the Company.

None of the Directors has any material interest, directly or indirectly, in any asset which, since 31 December 2009, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest and which is significant to the Group's business, whether directly or indirectly, subsisted at the date of this Circular.

Mr. Chan Nap Kee Joseph, a non-executive Director, is a director of Oriental Patron Financial Services Group Limited. The shareholding of the Oriental Patron Financial Services Group Limited in the Company is disclosed in paragraph 3 of this section. Save as disclosed above, as at the Latest Practicable Date, no director or proposed director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as known to any of 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	Type of Interest	Number of shares	Percentage of domestic share issued %	Percentage of issued share capital %
Haikou Meilan International Airport Company Limited *(Note 1)*	Beneficial Owner	237,500,000	96.43	50.20

H shares

Name of Shareholders	Type of Interest	Number of shares	Approximate percentage of H share issued	Approximate percentage of total issued share capital
Zhang Gaobo *(Note 2)*	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Zhang Zhiping *(Note 2)*	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Financial Services Group Limited *(Note 2)*	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Resources Investment Limited *(Note 2)*	Beneficial	94,343,000 (L)	41.58%	19.94%

Name of Shareholders	Type of Interest	Number of shares	Approximate percentage of H share issued	Approximate percentage of total issued share capital
Oriental Patron Financial Group Limited *(Note 2)*	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
UBS AG *(Note 3)*	Beneficial owner, Investment manager and interest of controlled corporations	36,192,179 (L)	15.95%	7.65%
Utilico Emerging Markets Utilities Limited *(Note 4)*	Investment manager	11,629,000 (L)	5.12%	2.46%

Notes:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.

2. Zhang Gaobo and Zhang Zhiping were holding 49.19% and 49.92% interest, respectively, in Oriental Patron Financial Group Limited. Oriental Patron Financial Group Limited was holding a 95% interest in Oriental Patron Financial Services Group Limited, which was in turn holding 100% interests in Oriental Patron Resources Investment Limited.

3. Among the 36,192,179 shares in the Company, UBS AG was holding 225,000 shares as a beneficial owner, and was deemed to hold 420,779 shares and was deemed to be interested in 35,546,400 shares as an investment manager (UBS Fund Services (Luxemburg) 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 21,143,400 shares, 8,321,000 shares and 6,082,000 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. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as at the Latest Practicable Date so far as is known to the Directors, supervisors or chief executives 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.

3. MATERIAL CONTRACT

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

(a) the HNA Group Agreement

(b) the Kingward Agreement

4. SERVICE CONTRACT

None of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which can not be terminated by the Group within one (1) year without the payment of compensation other than statutory compensation.

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial position or trading prospects of the Group since 31 December 2009, the date to which the latest audited financial statements of the Group were made up.

6. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and their associates were appointed to represent the interests of the Company and/or the Group.

8. CONSENT AND EXPERT

The following are the qualifications of the professional advisers who have given opinion or advice, which is contained in this circular:

Name	Qualification
Optima Capital Limited	A corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
PricewaterhouseCoopers	Certified Public Accountants
Vigers Appraisal & Consulting Limited	Independent Property Valuer
Grandall Legal Group (Shanghai)	PRC Lawyer
Beijing Lixin Assets Appraisal Company Limited	PRC Certified Practising Valuer

Each of Optima Capital, Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Vigers Appraisal & Consulting Limited, Grandall Legal Group (Shanghai) and Beijing Lixin Assets Appraisal Company Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter and the reference to its name in the form and context in which it is included.

As at the Latest Practicable Date, Optima Capital, Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Vigers Appraisal & Consulting Limited, Grandall Legal Group (Shanghai) and Beijing Lixin Assets Appraisal Company Limited are not beneficially interested in the share capital of any member of the Group nor do they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor do they have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

(a) As at the Latest Practicable Date, the registered share capital of the Company was RMB473,213,000 divided into 473,213,000 Shares of RMB1.00 each, of which 246,300,000 Shares were Domestic Shares and 226,913,000 Shares were H Shares. All the Shares in the registered share capital had been issued and fully paid up.

(b) The secretary of the Company is Mr. Xing Zhoujin. Mr. Xing Zhoujin, age 44, an economist, has engaged in corporate governance of listed companies for years and participated in relevant trainings provided by Securities regulatory authorities at home and abroad.

(c) The registered address of the Company is at the Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC.

(d) The Hong Kong Share Registrar and Transfer Office of the Company is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular and form of proxy shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of 28/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road Wan Chai, Hong Kong for a period of 14 days from the date of this circular:

(a) the HNA Group Agreement;

(b) the Kingward Agreement;

(c) the letter of exchange with Kingward;

(d) the Articles of Association of the Company;

(e) the letter from the Independent Board Committee, the text of which is set out in this circular;

(f) the letter from Optima Capital;

(g) the Annual Report 2009 of the Company;

(h) the Accountant's Report from PricewaterhouseCoopers on the Unaudited Pro Forma Financial Information of the Enlarged Group;

(i) the Accountants' Report from Deloitte Touche Tohmatsu in respect of HNA Airport;

(j) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(k) the property valuation report issued by Vigers Appraisal & Consulting Limited;

(l) the business valuation report from Beijing Lixin Assets Appraisal Company Limited of HNA Airport together with the valuation schedule;

(m) the Legal opinion dated 25 March 2010 prepared by Grandall Legal Group (Shanghai);

(n) the HNA Group Supplemental Agreement;

(o) the written consent from the experts referred to in the paragraph headed "Consent and Experts" in this appendix; and

(p) this circular.

MEILAN AIRPORT 美兰机场

海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Hainan Meilan International Airport Company Limited (the "Company") will be held at 11:30 a.m. on 31 May 2010 (Monday) in the meeting room on 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People's Republic of China (the "PRC"), to consider and, if thought fit, approve the following resolutions (with or without amendment). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the announcement of the Company dated 6 April 2010 (the "Announcement"):

THE PROPOSED ACQUISITION

ORDINARY RESOLUTIONS

1. "**THAT** for the purpose of acquisition of 24.5% equity interest in HNA Airport Holding (Group) Company Ltd held by Kingward Investment Limited ("Kingward") ("Acquisition of Kingward Sale Shares"):

   (a) the Acquisition of Kingward Sale Shares entered into between the Company and Kingward on 25 March 2010 and any other transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

   (b) the directors be and are hereby approved, ratified and confirmed to enter into any such acquisition agreement, and authorized to approve, sign or execute all such documents, instruments and agreements and take all such steps which they may consider necessary or appropriate for the purpose of giving effect to the acquisition agreement or regarding the acquisition agreement."

* *For identification purpose only*

2. "**THAT** for the purpose of acquisition of 30% equity interest in HNA Airport Holding (Group) Company Ltd held by HNA Group Company Limited ("HNA Group") ("Acquisition of HNA Group Sale Shares"):

   (a) the Acquisition of HNA Group Sale Shares entered into between the Company and HNA Group on 25 March 2010 and any other transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

   (b) the directors be and are hereby approved, ratified and confirmed to enter into any such acquisition agreement, and authorized to approve, sign or execute all such documents, instruments and agreements and take all such steps which they may consider necessary or appropriate for the purpose of giving effect to the acquisition agreement or regarding the acquisition agreement."

PROPOSED A SHARE ISSUE SPECIAL RESOLUTIONS

3. "**THAT** A Share Issue be and is hereby approved, and issue of A Shares pursuant to the following terms and conditions with all necessary approval from the CSRC and other relevant regulatory authorities be and is hereby approved:

(1)	Type of securities to be issued:	RMB denominated ordinary shares
(2)	Number of A Shares to be issued:	200,000,000 A Shares, representing 42.6% of the existing issued share capital of the Company and approximately 29.71% of the enlarged issued share capital of the Company immediately after completion of the proposed A Share Issue, the exact number of which shall be determined by the Board as proposed to be authorized by the Shareholders at the EGM and CSMs.
(3)	Par value:	RMB1.00 each
(4)	Rights attached to A Shares:	The A Shares shall rank pari passu with the existing Domestic Shares and H Shares in all respects.
(5)	Target subscribers:	Natural persons, corporations and other institutions in the PRC which have maintained A Share holders' accounts with the Shanghai Stock Exchange or Shenzhen Stock Exchange (other than those as prohibited by the applicable PRC laws and regulations and other regulatory requirements with which the Company shall

comply). It is expected that none of the Connected Persons of the parent company or the Company will subscribe for A Shares. The Company will comply with the relevant provisions of the listing rules even if such Connected Persons do subscribe for A Shares. The Company will (subject to the applicable rules and regulations of the CSRC) issue A Shares by offline placing to book-building targets and online public offering at fixed price to public investors.

(6) Proposed place of listing: All the A Shares issued pursuant to the A Share Issue are proposed to be listed on the Shanghai Stock Exchange.

(7) Issue price and pricing process: The pricing of the A Share Issue will follow the market-driven principle. The issue price for the A Share Issue shall be determined based on the prevailing conditions of the PRC securities market at the time when the A Share Issue takes place by way of market consultation or such other methods as approved by the CSRC.

The issue price will not be lower than 90% of the average closing price of the Company's H Shares on the Hong Kong Stock Exchange during the Price Consultation Period of the A Share Issue. (Note) The issue price for the proposed A Share Issue will be determined based on the PRC securities market conditions at the time when the A Share Issue takes place and in accordance with the applicable CSRC regulations. Thus the amount to be raised from the A Share Issue cannot be ascertained as at the date of this announcement.

(8) Use of proceeds: The proceeds from the A Share Issue will be used to fund the Acquisition, and the balance (if any) will be used as general working capital.

(9) Expected timetable: The application for the A Share Issue is expected to be submitted to the CSRC after the relevant resolutions have been approved at the EGM and CSMs and all necessary materials have been obtained. The A Share Issue will be completed by the end of January 2011, subject to the market conditions and the policies promulgated by the CSRC."

Note: The Price Consultation Period commences upon the publish of《招股意向書摘要》("Summary of Share Offer Prospectus") and《發行安排及初步詢價公告》("Issue Arrangements and Preliminary Price Consultation Announcement") and it takes about nine business days to determine the issue price.

4. "**THAT** conditional upon the passing of Resolutions No. 2 and 3 and obtaining all necessary approvals of the CSRC and other relevant regulatory authorities, the proceeds from the issue of the Public A Shares be and are hereby approved to be applied as follows:

(a) to finance the Acquisition of HNA Group Sale Shares; and

(b) in the event that the proceeds from the issue of the Public A Shares are not sufficient to finance the Acquisition of HNA Group Sale Shares, the Company will complete the investments by other means. To the extent that the proceeds from the issue of the Public A Shares exceed the estimated aggregate amount of investments set out above, the surplus will be applied as general working capital."

5. "**THAT** conditional upon the passing of Resolutions No. 3 and 4 and completion of the A Share Issue:

(a) the amendments to the Articles of Association be and are hereby approved;

(b) the Rules and Procedures of Shareholders' general meetings (draft) be and are hereby approved;

(c) the Rules and Procedures of the Board meetings (draft) be and are hereby approved;

(d) the Rules and Procedures of the Supervisory Committee meetings (draft) be and are hereby approved;

(e) the Connected Transaction Decision Making System (draft) be and are hereby approved;

(f) the Proceeds Administration Measures (draft) be and are hereby approved; and

(g) the Board be and is hereby authorized to further amend the Articles of Association and carry out relevant filing procedures with the relevant authorities based on the total number of shares and share capital of the Company upon completion of the A Share Issue pursuant to the requirements of the relevant regulatory authorities."

Details on the Rules and Procedures of Shareholders' general meetings, the Rules and Procedures of the Board meetings, the Rules and Procedures of the Supervisory Committee meetings and the proposed amendments to the Articles of Association are set out in the respective appendices to the Circular to be sent to the Shareholders, and can be accessed from the website of the Hong Kong Stock Exchange (http://www.hkex.com.hk).

6. "**THAT** conditional upon the passing of Resolutions No. 3 and 5, the Board be and is hereby authorized to delegate the authority as set out in the above-mentioned Resolution No. 5 to the committee comprising Zhao Yahui, Liang Jun and Xing Xihong, all being directors of the Company, to implement and deal with the relevant matters in relation to the A Share Issue, including but not limited to the following matters:

   (a) to determine the time of issue, price range for consultation, the final issue price, the final offer size and other relevant matters in light of the market conditions pursuant to Resolution No. 3 passed at the EGM;

   (b) to revise the Articles of Association and/or Articles of Association (draft) (as the case may be) to reflect the new share capital and shareholding structure of the Company after the A Share Issue; and

   (c) to deal with other relevant matters in relation to the A Share Issue.

   This authorization shall be valid for a period of 12 months from the date of passing of the resolution."

7. "**THAT** conditional upon the passing of Resolutions No. 1, 2 and 3 and obtaining all necessary approvals of the CSRC and other relevant regulatory authorities, the distribution plan of the accumulated undistributed profits prior to the A Share Issue be and is hereby approved."

By Order of the Board
Xing Zhoujin
Company Secretary

Hainan, the PRC
12 April 2010

Notes:

A. Holders of the overseas listed foreign shares (in the form of H shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on 30 April 2010 (Friday) are entitled to attend and vote at the meeting after complying with the necessary registration procedures.

B. Holders of H shares, who intend to attend the EGM, must complete and return the reply slips for attending the EGM to the Secretary Office to the board of directors of the Company not later than 10 May 2010 (Monday).

Shareholders can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the board of directors of the Company are as follows:

Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

C. Each holder of H shares who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. The instrument appointing a proxy of any holder of H shares (being a body corporate) must be affixed with the corporate seal of such holder of H shares or duly signed by the chairman of its board of directors or by its authorized attorney. For holders of H shares of the Company, the power of attorney or other documents of authorization and the form of proxy must be lodged with the Company not less than 24 hours before the time for holding the EGM in order for such documents to be valid.

D. The share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive), during which period no transfer of Shares will be effected. Transferees of H shares, who intend to attend the EGM, must submit the duly completed share transfer documents accompanied by the relevant share certificates to Computershare Hong Kong Investor Services Limited not later than 4:30 p.m. on 30 April 2010 (Friday) in order to complete the transfer registration procedures in accordance with the Articles of Association of the Company.

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

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

E. Details of the Secretary Office to the board of directors of the Company are as follows:

Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

F. Shareholders or their proxies attending the EGM are reminded that any expenses for transportation, accommodation and meals will be incurred at their own cost.

BOOK CLOSURE NOTICE

The H share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive), during which period no transfer of H shares will be effected.

In order to be entitled to attend and vote at the AGM (or any adjournment thereof) on 31 May 2010, share transfer documents should be lodged with the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 April 2010 (Friday).

In order to be qualified for the proposed final dividend, all properly completed share transfer forms accompanied by the relevant share certificates should be lodged with the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 April 2010.

As at the date of this notice, there are eleven directors on the Board. The Board comprises of three executive directors, namely Mr. Zhao Yahui, Mr. Liang Jun and Ms. Xing Xihong, and four non-executive directors, namely Mr. Hu Wentai, Mr. Zhang Han'an, Mr. Chan Nap Kee Joseph and Mr. Yan Xiang, and four independent non-executive directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng.

海南美蘭國際機場股份有限公司

Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

NOTICE OF H SHAREHOLDERS CLASS MEETING

NOTICE IS HEREBY GIVEN that the first H shareholders class meeting in 2010 (the "H Shareholders Class Meeting") of Hainan Meilan International Airport Company Limited (the "Company") will be held at 10:30 a.m. on 31 May 2010 (Monday) in the meeting room on 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People's Republic of China (the "PRC"), to consider and, if thought fit, approve the following resolutions (with or without amendment). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the announcement of the Company dated 6 April 2010 (the "Announcement"):

PROPOSED A SHARE ISSUE

SPECIAL RESOLUTION

1. "**THAT** A Share Issue be and is hereby approved, and issue of A Shares pursuant to the following terms and conditions with all necessary approval from the CSRC and other relevant regulatory authorities be and is hereby approved:

(1)	Type of securities to be issued:	RMB denominated ordinary shares
(2)	Number of A Shares to be issued:	200,000,000 A Shares, representing 42.6% of the existing issued share capital of the Company and approximately 29.71% of the enlarged issued share capital of the Company immediately after completion of the proposed A Share Issue, the exact number of which shall be determined by the Board as proposed to be authorized by the Shareholders at the EGM and CSMs.
(3)	Par value:	RMB1.00 each
(4)	Rights attached to A Shares:	The A Shares shall rank pari passu with the existing Domestic Shares and H Shares in all respects.

* *For identification purpose only*

(5)	Target subscribers:	Natural persons, corporations and other institutions in the PRC which have maintained A Share holders' accounts with the Shanghai Stock Exchange or Shenzhen Stock Exchange (other than those as prohibited by the applicable PRC laws and regulations and other regulatory requirements with which the Company shall comply). It is expected that none of the Connected Persons of the parent company or the Company will subscribe for A Shares. The Company will comply with the relevant provisions of the listing rules even if such Connected Persons do subscribe for A Shares. The Company will (subject to the applicable rules and regulations of the CSRC) issue A Shares by offline placing to book-building targets and online public offering at fixed price to public investors.
(6)	Proposed place of listing:	All the A Shares issued pursuant to the A Share Issue are proposed to be listed on the Shanghai Stock Exchange.
(7)	Issue price and pricing process:	The pricing of the A Share Issue will follow the market-driven principle. The issue price for the A Share Issue shall be determined based on the prevailing conditions of the PRC securities market at the time when the A Share Issue takes place by way of market consultation or such other methods as approved by the CSRC. The issue price will not be lower than 90% of the average closing price of the Company's H Shares on the Hong Kong Stock Exchange during the Price Consultation Period of the A Share Issue. (Note) The issue price for the proposed A Share Issue will be determined based on the PRC securities market conditions at the time when the A Share Issue takes place and in accordance with the applicable CSRC regulations. Thus the amount to be raised from the A Share Issue cannot be ascertained as at the date of this announcement.
(8)	Use of proceeds:	The proceeds from the A Share Issue will be used to fund the Acquisition, and the balance (if any) will be used as general working capital.

(9) Expected timetable: The application for the A Share Issue is expected to be submitted to the CSRC after the relevant resolutions have been approved at the EGM and CSMs and all necessary materials have been obtained. The A Share Issue will be completed by the end of January 2011, subject to the market conditions and the policies promulgated by the CSRC."

Note: The Price Consultation Period commences upon the publish of《招股意向書摘要》("Summary of Share Offer Prospectus") and《發行安排及初步詢價公告》("Issue Arrangements and Preliminary Price Consultation Announcement") and it takes about nine business days to determine the issue price.

By Order of the Board
Xing Zhoujin
Company Secretary

Hainan, the PRC
12 April 2010

Notes:

A. Holders of the overseas listed foreign shares (in the form of H shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on 30 April 2010 (Friday) are entitled to attend and vote at the meeting after complying with the registration procedures for attending the annual general meeting.

B. Shareholders who intend to attend the H Shareholders Class Meeting, must complete and return the reply slips for attending the H Shareholders Class Meeting to the Secretary Office to the board of directors of the Company not later than 10 May 2010 (Monday).

Shareholders can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the board of directors of the Company are as follows:
Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

C. Each holder of H shares who has the right to attend and vote at the H Shareholders Class Meeting is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the H Shareholders Class Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. The instrument appointing a proxy of any holder of H shares (being a body corporate) must be affixed with the corporate seal of such holder of H shares or duly signed by the chairman of its board of directors or by its authorized attorney. For holders of H shares of the Company, the power of attorney or other documents of authorization and the form of proxy must be lodged with the Company not less than 24 hours before the time for holding the H Shareholders Class Meeting in order for such documents to be valid.

D. The share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive), during which period no transfer of Shares will be effected. Transferees of H shares, who intend to attend the H Shareholders Class Meeting, must submit the duly completed share transfer documents accompanied by the relevant share certificates to Computershare Hong Kong Investor Services Limited not later than 4:30 p.m. on 30 April 2010 (Friday) in order to complete the transfer registration procedures in accordance with the Articles of Association of the Company.

The address of Computershare Hong Kong Investor Services Limited is as follows:
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

E. Details of the Secretary Office to the board of directors of the Company are as follows:
Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

F. Shareholders or their proxies attending the H Shareholders Class Meeting are reminded that any expenses for transportation, accommodation and meals will be incurred at their own cost.

BOOK CLOSURE NOTICE

The share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive).

In order to be entitled to attend and vote at the AGM (or any adjournment thereof) on 31 May 2010, share transfer documents should be lodged with the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 April 2010 (Friday).

In order to be qualified for the proposed final dividend, all properly completed share transfer forms accompanied by the relevant share certificates should be lodged with the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 April 2010.

As at the date of this notice, there are eleven directors on the Board. The Board comprises of three executive directors, namely Mr. Zhao Yahui, Mr. Liang Jun and Ms. Xing Xihong, and four non-executive directors, namely Mr. Hu Wentai, Mr. Zhang Han'an, Mr. Chan Nap Kee Joseph and Mr. Yan Xiang, and four independent non-executive directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng.

MEILAN AIRPORT 美兰机场

海南美蘭國際機場股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

NOTICE OF DOMESTIC SHAREHOLDERS CLASS MEETING

NOTICE IS HEREBY GIVEN that the first domestic shareholders class meeting in 2010 (the "Domestic Shareholders Class Meeting") of Hainan Meilan International Airport Company Limited (the "Company") will be held at 11:00 a.m. on 31 May 2010 (Monday) in the meeting room on 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People's Republic of China (the "PRC"), to consider and, if thought fit, approve the following resolutions (with or without amendment). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the announcement of the Company dated 6 April 2010 (the "Announcement"):

PROPOSED A SHARE ISSUE

SPECIAL RESOLUTION

1. "**THAT** A Share Issue be and is hereby approved, and issue of A Shares pursuant to the following terms and conditions with all necessary approval from the CSRC and other relevant regulatory authorities be and is hereby approved:

(1)	Type of securities to be issued:	RMB denominated ordinary shares
(2)	Number of A Shares to be issued:	200,000,000 A Shares, representing 42.6% of the existing issued share capital of the Company and approximately 29.71% of the enlarged issued share capital of the Company immediately after completion of the proposed A Share Issue, the exact number of which shall be determined by the Board as proposed to be authorized by the Shareholders at the EGM and CSMs.
(3)	Par value:	RMB1.00 each

* *For identification purpose only*

(4)	Rights attached to A Shares:	The A Shares shall rank pari passu with the existing Domestic Shares and H Shares in all respects.
(5)	Target subscribers:	Natural persons, corporations and other institutions in the PRC which have maintained A Share holders' accounts with the Shanghai Stock Exchange or Shenzhen Stock Exchange (other than those as prohibited by the applicable PRC laws and regulations and other regulatory requirements with which the Company shall comply). It is expected that none of the Connected Persons of the parent company or the Company will subscribe for A Shares. The Company will comply with the relevant provisions of the listing rules even if such Connected Persons do subscribe for A Shares. The Company will (subject to the applicable rules and regulations of the CSRC) issue A Shares by offline placing to book-building targets and online public offering at fixed price to public investors.
(6)	Proposed place of listing:	All the A Shares issued pursuant to the A Share Issue are proposed to be listed on the Shanghai Stock Exchange.
(7)	Issue price and pricing process:	The pricing of the A Share Issue will follow the market-driven principle. The issue price for the A Share Issue shall be determined based on the prevailing conditions of the PRC securities market at the time when the A Share Issue takes place by way of market consultation or such other methods as approved by the CSRC. The issue price will not be lower than 90% of the average closing price of the Company's H Shares on the Hong Kong Stock Exchange during the Price Consultation Period of the A Share Issue. (Note) The issue price for the proposed A Share Issue will be determined based on the PRC securities market conditions at the time when the A Share Issue takes place

and in accordance with the applicable CSRC regulations. Thus the amount to be raised from the A Share Issue cannot be ascertained as at the date of this announcement.

(8) Use of proceeds: The proceeds from the A Share Issue will be used to fund the Acquisition, and the balance (if any) will be used as general working capital.

(9) Expected timetable: The application for the A Share Issue is expected to be submitted to the CSRC after the relevant resolutions have been approved at the EGM and CSMs and all necessary materials have been obtained. The A Share Issue will be completed by the end of January 2011, subject to the market conditions and the policies promulgated by the CSRC."

Note: The Price Consultation Period commences upon the publishment of《招股意向書摘要》("Summary of Share Offer Prospectus") and《發行安排及初步詢價公告》("Issue Arrangements and Preliminary Price Consultation Announcement") and it takes about nine business days to determine the issue price.

By Order of the Board
Xing Zhoujin
Company Secretary

Hainan, the PRC
12 April 2010

Notes:

A. Domestic shareholders of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on 30 April 2010 (Friday) are entitled to attend and vote at the meeting after complying with the necessary registration procedures.

B. Shareholders who intend to attend the Domestic Shareholders Class Meeting, must complete and return the reply slips for attending the Domestic Shareholders Class Meeting to the Secretary Office to the board of directors of the Company not later than 10 May 2010 (Monday).

Shareholders can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the board of directors of the Company are as follows:

Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

C. Each domestic shareholder who has the right to attend and vote at the Domestic Shareholders Class Meeting is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the Domestic Shareholders Class Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. The instrument appointing a proxy of any domestic shareholder (being a body corporate) must be affixed with the corporate seal of such domestic shareholder or duly signed by the chairman of its board of directors or by its authorized attorney. For domestic shareholders of the Company, the power of attorney or other documents of authorization and the form of proxy must be lodged with the Company not less than 24 hours before the time for holding the Domestic Shareholders Class Meeting in order for such documents to be valid.

D. The share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive), during which period no transfer of Shares will be effected. Transferees of domestic shares, who intend to attend the Domestic Shareholders Class Meeting, must submit the duly completed share transfer documents accompanied by the relevant share certificates to the legal address of the Company at the Office Building of Meilan Airport, Meilan District, Haikou City not later than 4:30 p.m. on 30 April 2010 (Friday) in order to complete the transfer registration procedures in accordance with the Articles of Association of the Company.

E. Details of the Secretary Office to the board of directors of the Company are as follows:

Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

F. Shareholders or their proxies attending the Domestic Shareholders Class Meeting are reminded that any expenses for transportation, accommodation and meals will be incurred at their own cost.

BOOK CLOSURE NOTICE

The share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive).

As at the date of this notice, there are eleven directors on the Board. The Board comprises of three executive directors, namely Mr. Zhao Yahui, Mr. Liang Jun and Ms. Xing Xihong, and four non-executive directors, namely Mr. Hu Wentai, Mr. Zhang Han'an, Mr. Chan Nap Kee Joseph and Mr. Yan Xiang, and four independent non-executive directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng.

海南美蘭國際機場股份有限公司

Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

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