This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the H Shares.

THE COMPANY

The Company, a joint stock company incorporated in the PRC with limited liability, was established on 28th December, 2000 to operate the Meilan Airport.

Occupying approximately 560 hectares of land, the Meilan Airport is located in the southeast of Haikou, the capital city of Hainan Province, PRC and approximately 25 kilometres away from the city centre of Haikou. The Meilan Airport commenced commercial operation on 25th May, 1999 and was ranked the eighth largest airport in China in terms of passenger throughput, the ninth largest in terms of aircraft movements and the thirteenth largest in terms of cargo throughput in 2001, according to CAAC Journal 2002. During 2001, passenger departures and arrivals at the Meilan Airport reached approximately 5.08 million and aircraft takeoffs and landings reached approximately 53,800.

The Meilan Airport has one runway, one Terminal and one cargo centre. The runway has been constructed in accordance with ICAO category 4E standards and is capable of accommodating landing and takeoff of Boeing 747-400 aircraft, the largest commercial airliner. The Terminal has an annual handling capacity of approximately six million passenger arrivals and departures. The cargo centre has an annual capacity of approximately 54,000 tonnes of cargo.

The Group is engaged in both aeronautical and non-aeronautical businesses at the Meilan Airport. The Group's aeronautical business consists of the provision of airfield services, through a revenue sharing arrangement with Parent Company, and the provision of terminal facilities, ground handling services, passenger and cargo handling services. Its non-aeronautical business includes leasing of commercial and retail spaces at the Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods.

For each of the three years ended 31st December 2001, the total operating revenues of the Group were approximately RMB80.5 million, RMB161.6 million and RMB185.0 million, respectively. For the five months ended 31st May, 2002, the total operating revenues were approximately RMB118.5 million. Please refer to the sections headed "Business" and "Financial Information" for further information.

HISTORY AND DEVELOPMENT

The construction of the Meilan Airport commenced in November 1996 initially by Meilan International, a company established and wholly-owned by HAC, and was completed in February 1999.

Parent Company was established on 25th August, 1998 by its promoters, namely Central South Bureau, Hainan Airlines, Hainan International Trust and Investment Company Limited and Aviation Oil, with a registered capital of RMB600 million and took over the development and construction of the Meilan Airport from Meilan International. Each of Central South Bureau, Hainan

Airlines, Hainan International Trust and Investment Company Limited and Aviation Oil held 50.0%, 33.4%, 8.3% and 8.3% equity interest in Parent Company, respectively. On 8th August, 2000, the registered capital of Parent Company was increased to RMB1,350 million through further capital injection. Immediately following such further capital injection, the shareholders of Parent Company were Hainan Airlines, HNA Group, Central South Bureau, Hainan Asset Bureau, China Southern Airlines and Aviation Oil and their shareholdings in Parent Company were approximately 30.0%, 28.1%, 22.2%, 8.6%, 7.4% and 3.7% respectively. In December 2000, the 8.6% stake held by Hainan Asset Bureau was allocated to Golden City pursuant to a directive issued by Hainan Asset Bureau (Qiong Guo Zi Wei [2000] No. 6).

In preparation for the Offering and the listing of H Shares on the Stock Exchange, the Company was established on 28th December, 2000 by Parent Company, HNA Group, Hainan Airlines, China Southern Airlines and Central South Aviation Development. Parent Company owns 95% of the Company, and has satisfied its capital contribution by injecting into the Company the Terminal, aprons, aircraft connection bridges, ground traffic control centre, fire fighting centre, emergency centre and certain other assets, while Hainan Airlines, HNA Group, China Southern Airlines and Central South Aviation Development respectively injected capital of approximately RMB6.9 million, RMB4.6 million, RMB1.2 million and RMB3.6 million into the Company in cash and own approximately 2.1%, 1.4%, 0.4% and 1.1% of the share capital of the Company, respectively. The value of the net assets injected by Parent Company amounted to RMB310.2 million, according to the valuation performed by Hainan Asset Valuation Company as described in its valuation report dated 8th November, 2000.

To enhance efficiency and integration of its business operations, Parent Company and the Company entered into an Asset Swap Agreement pursuant to which the Company purchased four assets which were valued by an independent PRC valuation at approximately RMB78.1 million from Parent Company and sold three assets at a book value of approximately RMB28.4 million to Parent Company. Among the four assets purchased, 60.0% of the registered capital in Meilan Travelling and 95.0% of the registered capital of DFG were sold to the Company for cash consideration only, while the consideration for the remaining assets were settled by a combination of cash and assets sold to Parent Company. The Company has agreed to settle the aggregate purchase price difference in the amount of approximately RMB49.7 million by three cash instalment payments within 12 months from the date of the Asset Swap Agreement.

The businesses that are retained by Parent Company include the ownership and maintenance of the runway. Pursuant to the Agreement on Runway, Parent Company has agreed to, among others, maintain the runway in accordance with the applicable regulatory and industrial standards and continually hold the airport permit and maintain the validity thereof for a term of 20 years. Parent Company has also granted to the Company an option to acquire the runway from Parent Company in future. Please refer to the sections "Business — Restructuring of the Group" and "Business — Connected Transactions — Agreement on Runway" of this prospectus for more details on the arrangements regarding the runway.

Further details of the Restructuring are set out in the section headed "Restructuring of the Group" in the "Business" section of this prospectus.

RELATIONSHIP WITH THE STRATEGIC INVESTOR

Overview

Copenhagen Airports A/S, the Strategic Investor, is one of Europe's listed airport companies, with a market capitalisation of approximately DKK4,659 million (US$621.0 million) as at the Latest Practicable Date. The Strategic Investor has interests in 13 airports, with a total passenger throughput of over 33 million passengers per annum, in Denmark, Norway, Mexico and the United Kingdom. The largest of these airports is Copenhagen Airport in Denmark, which has a passenger throughput of over 18 million passengers per annum. Copenhagen Airport is the intercontinental hub for SAS (Scandinavian Airlines), one of the European hubs for the Star Alliance airline group and the North-European hub for DHL. Copenhagen Airport won the IATA "Best Airport in the World Award" in both 2000 and 2002 and has also previously been rated as Europe's best airport. It has been ranked highest in such areas as airport-related infrastructure, customer service and shopping and dining facilities.

The Strategic Investor has conditionally agreed to subscribe for the Strategic Placing Shares through the Strategic Placing Underwriter pursuant to the Strategic Investment Agreement. Further details of the Strategic Placing are set out in the sections headed "Business — Relationship with the Strategic Investor" and "Structure of the Offering — The Strategic Placing" of this prospectus.

Shareholders' Agreement

Under the Shareholders' Agreement, the Strategic Investor, Parent Company and HNA Group have agreed on, amongst other things, certain issues relating to the following:

(a) Board representation;

(b) Board reserved matters;

(c) Restrictions on further acquisition of Shares;

(d) Restrictions on disposal of Shares;

(e) Non-competition undertakings; and

(f) Co-investment rights.

Further details of the Shareholders' Agreement are set out under the section headed "Business — Relationship with the Strategic Investor" of this prospectus.

Technical Services Agreement

The Company and CADI have entered into the Technical Services Agreement for the provision by CADI to the Group of certain technical and advisory services in respect of the long-term management and development of the Meilan Airport. Details of the Technical Services Agreement are set out under the section headed "Business — Relationship with the Strategic Investor" of this prospectus.

BUSINESS STRATEGY AND STRENGTHS

Business Strategy

The Group's strategy is to focus on Haikou's unique position as the provincial capital and the main gateway to Hainan, the "Hawaii of China", and includes the following specific elements:

Prepare for anticipated increase in air traffic demand. According to Booz Allen Hamilton, the independent air traffic consultant, air traffic in terms of passenger throughput at the Meilan Airport is expected to increase by approximately 10.2% and 9.2% annually from 2001 to 2006 and from 2001 to 2011, respectively (please see Appendix V to this prospectus). To take advantage of the expected increase in air traffic, the Group plans to expand its current operating facilities. The current plan includes expanding the Terminal by approximately 30,000 m^2 and the apron area by approximately 280,000 m^2, adding 20 aircraft parking stands and eight air bridges.

Capitalise on its management expertise to create an airport management brand name and manage other airports. The management of the Group has considerable experience in operating airports and believes such experience can be utilised to the Group's benefit. The Group intends to build up its reputation as a premier airport management group in the PRC. The Sanya Management Contract in relation to the management of the Sanya Airport was signed with SPIA on 23rd August, 2002. Pursuant to this contract, the Group is responsible for the day-to-day management of the Sanya Airport, including its operations, finance, accounting, administration and investment activities, for five years commencing from 1st August, 2002. Please refer to the section headed "Business — Sanya Management Contract" of this prospectus.

Increase operation efficiency. The Group plans to improve its overall operating and financial performance and to carefully control its operating costs. By benchmarking its operating and financial performance metrics against those of leading international airport operators, the Group intends to identify and eliminate inefficiencies in its airport operations.

Increase non-aeronautical revenues. For each of the three years ended 31st December, 2001 and the five months ended 31st May, 2002, revenues from non-aeronautical businesses of the Group represented approximately 28.6%, 26.1%, 28.1% and 19.1% of the Group's total revenue. The Group plans to expand its non-aeronautical business in the areas of tourist services, franchising, sales of goods at the Terminal and other non-aeronautical activities. The Directors believe that the anticipated international airport status and expected higher number of international flights utilising the Meilan Airport will contribute to the continued growth of the Group's non-aeronautical operations.

Increase cargo throughput. The cargo throughput in 2001 increased by 3.6% over 2000. The growth of cargo throughput in the first five months of 2002 was 9.3% over the corresponding period of 2001. The Directors believe that cargo throughput at the Meilan Airport will grow significantly in the next several years. The Group plans to build a new cargo centre with a floor area of approximately 30,000 m^2, and a cargo apron with a total area of approximately 50,000 m^2.

Benefit from the Company's relationship with Hainan Airlines. Hainan Airlines, one of the Promoters of the Company, has its home base in the Meilan Airport. It is the fourth largest airline group in China in terms of total traffic tonne kilometers assuming completion of the airlines consolidation announced by CAAC in October 2002. Benefiting from this special relationship, the two companies can create synergies through resources sharing in the operations of the Meilan Airport and concerted marketing efforts in promoting Hainan Province as a popular tourist destination.

Obtain international airport status. The Group is seeking to obtain international airport status for the Meilan Airport from CAAC. To obtain such status, the Group must fulfil certain requirements relating to infrastructure and custom and inspection capacities. The Directors believe that, once the international airport status is obtained, international flights at the Meilan Airport and related revenues of the Group will increase, as the status of international airport will simplify the approval and operational process for airlines to set up international routes to and from the Meilan Airport. In anticipation of obtaining such status, a custom and inspection joint operation building located adjacent to the Terminal is under construction and expected to be completed by the end of 2002. The Directors believe that international airport status will, subject to further inspection before approval, be approved before the end of 2002.

The Group's Strengths

The Directors believe that the Group's operations benefit from the following factors:

Rapid growth of China's economy and air traffic. The demand for airport services is driven primarily by the volume of air traffic. Air traffic volume has been growing rapidly in China due to its strong economic and real income growth, increased mobility and rising popularity of tourism in the past 20 years. The Directors expect that more disposable income of the domestic population will be spent on travelling.

Strong growth of the tourism industry in Hainan. Hainan is the only tropical province in China. The well-known beaches and other tourist attractions have made Hainan Island one of the top tourist destinations in China attracting both domestic and international visitors. Currently the majority of visitors to Hainan are from domestic locations in China. In 2001, there were 11.3 million person-visits to Hainan Island, 10.8 million of which were generated by domestic travellers. Revenue from domestic tourism in 2001 amounted to RMB7,910 million, a 13.8% increase compared to that of 2000, while revenue from foreign tourism amounted to US$106 million, a decrease of 2.6% over the previous year. The top five sources of regional and international visitors are Hong Kong,Taiwan, Macau, Korea and Japan. Due to the relative ease of travel to Hainan for PRC residents, compared to foreign destinations where visa and other requirements pertain, Booz Allen Hamilton recently forecasted a substantial increase in domestic air passenger arrivals in Hainan in the near future. See Appendix V to this prospectus.

Aviation — a sensible transport solution for Hainan Island. Hainan Island is the largest tropical island of China with a population of approximately 7.7 million and a GDP of approximately RMB56.7 billion in 2001. Demands for air travel are increasing along with Hainan's popularity as a resort destination. Currently, the only other mode of transportation linking Hainan Island with the mainland is sea transportation. Aviation is a sensible transport solution for connecting the island with the rest of China.

Haikou — the main gateway to Hainan. As the capital city, Haikou is the centre of economic, cultural and political activities of Hainan Province. The Meilan Airport, situated approximately 25 kilometres from the city centre of Haikou, is well positioned to capture the economic benefits of Haikou's status. It is a gateway airport for people travelling to and from Hainan Province.

Market oriented management team. The management team has been involved in the management of Parent Company and the Group since the inception of the Meilan Airport. The Group has adopted a flexible management structure focusing on performance rather than seniority. The management comprises a number of young professionals who are familiar with modern corporate management style. This is complemented by the senior management team of the Group which has considerable experience in the civil aviation industry in China, including China's leading airlines, airports and the aviation regulators.

In 2001, out of all the airports in China, the Meilan Airport, along with Nanjing Lukou International Airport, Xiamen International Airport, Wuhan Tianhe Airport and Zhenzhou Xinchen International Airport, won the national-level "Consumer Satisfaction Award" organised by CAAC.

Good location, well-maintained runway and advanced facilities. The terrain where the Meilan Airport is located is flat and wide, making it a suitable site for an airport. There is adequate land supply for future expansion. The runway of the Meilan Airport was designed according to ICAO category 4E standards. It is 3,600-metre long, 44% longer than the ICAO specification of 2,500 metres as the required length for accommodating the maximum gross weight takeoff requirements of Boeing 747-400 aircraft. The runway's precision instrument markings, lighting and taxiways are all constructed according to ICAO category 4E standards. The category II precision instrument landing system at the west approach (the primary approach used by the majority of flights) provides for aircraft operations with 30-metre decision height and visibility distance of 400-metre while the category I precision instrument landing system at the east approach provides for 60-metre decision height and 800-metre visibility distance.

The Meilan Airport is also equipped with a flight information system and an automatic baggage handling system. An evaluation of these facilities is contained in the engineering consultants' report, a summary of which is set out in Appendix VI to this prospectus. Apart from these facilities, the Meilan Airport also has radar systems for air traffic control and weather monitoring, an aircraft repair and maintenance hangar and aviation fuel supply facilities.

Limited direct competition. The Meilan Airport is the primary airport serving Hainan Island. As such, the Group's core operations, namely the provision of airport services, face limited direct competition. The only other civil airport on Hainan is the Sanya Airport, which had a passenger throughput of nearly 1 million in 2001, representing approximately 20% of that of the Meilan Airport in the same period. The Company entered into the Sanya Management Contract on 23rd August, 2002 with SPIA under which the Company manages the Sanya Airport and receives management fees set at 1.5% of the annual operating revenue of the Sanya Airport and other compensations based on the improvement to the profitability of the Sanya Airport. Most of the Group's non-aeronautical operations, such as operating the duty-free shop and the car park, advertising and commercial leasing, do not face any direct competition.

Stable customer base. The revenues of the Group depend on the air traffic to and from Haikou, Hainan. Various airlines have established flights to and from Haikou. The Directors do not believe that the Group's prospects depend on the presence of any particular airline customer other than the Hainan Airlines and China Southern Airlines. With the projected growth in air traffic in and out of Hainan Province, the existing airline customers, including Hainan Airlines, China Southern Airlines and other major airlines in China, are expected to continue their presence at the Meilan Airport.

Good safety record. The Meilan Airport has not had any accidents involving aircraft, nor any accident resulting in loss of life or any significant personal injury or property damage since its inception. The Directors believe that the emphasis by CAAC, SCATC and the Group on proper safety training and the staff's continued efforts in focusing on safety matters have contributed to the Meilan Airport's safety record.

High growth potential in international flights. Based on the traffic forecast by Booz Allen Hamilton (see Appendix V to this prospectus), international aircraft movement at the Meilan Airport will have on average a compound annual growth rate of 20.6% for the next 10 years. The Directors believe that the Meilan Airport will be better positioned to respond to the increasing demand when the current expansion plan of the Terminal is implemented and the new cargo centre is built.

RISK FACTORS

The Directors consider that there are certain risks involved in the operation of the Group. They can be categorised into (i) risk factors relating to the Group; (ii) risk factors relating to the PRC; and (iii) risk factors relating to the Offering. These risk factors are set out in the section headed "Risk Factors" in this prospectus as follows:

Risk relating to the Group

- The Group has a limited operating history on which prospective investors may base an investment decision
- Results of operations is dependent on factors beyond the Group's control
- Dependence on Hainan as a tourist destination
- Competition with other modes of transport to and from Hainan
- Competition with other airports
- Dependence on domestic and regional economic growth
- Customer concentration
- Operation and business interruption
- Reliance on and integration with other authorities and service providers
- Control of the Runway
- Revenue sharing with Parent Company

- Material changes to the Agreement on Runway
- Technical Services Agreement
- Natural disasters
- Construction risk
- Implementation of the Group's business strategy
- Potential conflicts of interests
- Regulation by CAAC
- Impact of consolidation and reorganisation in the PRC aviation industry
- 11th September 2001 terrorist attacks on the US
- Environmental protection
- Forecasts prepared by Booz Allen Hamilton and Parsons Brinckerhoff (Asia) Limited
- Future operating results may vary significantly from profit forecast
- Loss of tax preferences could affect net profit attributable to shareholders
- Dividends

Risk relating to the PRC

- Political and economic factors
- Foreign exchange considerations
- Legal and other regulatory considerations

Risk relating to the Offering

- Marketability and possible price volatility of shares
- Forward-looking statements
- Certain statistics from third party publications

THE OFFERING

The Offering will be fully underwritten and comprises (i) the Public Offer (initially representing approximately 10% of the total number of H Shares initially being offered under the Offering), and (ii) the International Placing (initially representing approximately 90% of the total number of H Shares initially being offered under the Offering). H Shares under the Public Offer and the International Placing will be issued at the Offer Price (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy). The Offer Price is expected to be fixed by agreement between HSBC and Oriental Patron on behalf of the Underwriters and the Company at or before 5:00 p.m. (Hong Kong time) on the Price Determination Date. If, for any reason, the Offer Price is not agreed between the Company and HSBC and Oriental Patron on behalf of the Underwriters at or before 5:00 p.m. (Hong Kong time) on 14th November, 2002, the Offering will not proceed. Investors may apply for H Shares under the Public Offer or indicate an interest for H Shares under the International Placing, but may not do both.

The Public Offer is a fully underwritten public offer (subject to agreement as to pricing and the conditions described in the section headed “Structure of the Offering — Conditions of the Offering” of this prospectus) for the subscription and purchase in Hong Kong of, initially, 20,170,000 H Shares divided equally into two pools, pool A and pool B. H Shares in pool A are for allocation to applicants who have applied for H Shares with an aggregate price (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) of HK$5 million or less and H Shares in pool B are for allocation to applicants who have applied for H Shares with an aggregate price (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) of more than HK$5 million. Applicants can only receive an allocation of H Shares from either pool A or pool B but not from both pools.

The allocation of H Shares between the Public Offer and the International Placing (excluding the Strategic Placing) is subject to adjustment. If the number of H Shares validly applied for under the Public Offer is or exceeds (i) 15 times but less than 50 times, (ii) 50 times but less than 100 times, or (iii) 100 times or more of the number of H Shares initially available under the Public Offer, then H Shares will be reallocated to the Public Offer from the International Placing (excluding the Strategic Placing), so that the total number of H Shares available under the Public Offer will be 60,510,000 H Shares (in the case of (i)), 80,680,000 H Shares (in the case of (ii)) and 100,850,000 H Shares (in the case of (iii)), representing approximately 30%, 40% and 50% respectively of the Offer Shares initially available under the Offering, respectively. In such circumstances, the additional H Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the allocations to placees under the International Placing (excluding the Strategic Placing) will be reduced accordingly. In addition, under the International Placing Agreement, the Company intends to grant to the International Placing Underwriters the Over-allotment Option, to require the Company to allot and issue up to an aggregate 25,213,000 additional H Shares at the Offer Price solely to cover over-allocations (if any) in the International Placing, within 30 days after the date of this prospectus. Further details of the structure of the Offering are set out in the section headed “Structure of the Offering” in this prospectus.

The allocation of H Shares between the Public Offer and the International Placing (excluding the Strategic Placing) as described above will not affect the Strategic Investor’s aggregate shareholding in the Company immediately following completion of the Offering.

The Strategic Placing

As part of the International Placing, the Company is offering the Strategic Placing Shares through the Strategic Placing Underwriter to the Strategic Investor pursuant to the Strategic Investment Agreement. The Strategic Placing will be underwritten by the Strategic Placing Underwriter only.

Under the Strategic Investment Agreement, the Strategic Investor will subscribe for the Strategic Placing Shares through the Strategic Placing Underwriter at a price equivalent to the Offer Price plus brokerage, SFC transaction levy and Stock Exchange trading fee, otherwise subject to and (except as set forth in this prospectus) on the same terms and conditions as are generally applicable to the International Placing. The Strategic Investor will hold approximately 20% of the enlarged issued share capital of the Company immediately after the completion of the Offering (including any exercise of the Over-allotment Option).

The Strategic Investor has undertaken to the Company, Parent Company and HNA Group that it will not dispose of any of the Strategic Placing Shares for a period of 12 months following the commencement of dealings in the H Shares on the Stock Exchange. It has also undertaken to the Company, Parent Company and HNA Group that: (a) it will not dispose of any of the Strategic Placing Shares for a period of six months following the expiry of the 12-month period after the commencement of dealings in the H Shares on the Stock Exchange without the prior written consent of the Company; (b) in the event of any disposal of any interest in the Strategic Placing Shares: (i) it will take all reasonable steps to ensure that such disposal shall be in accordance with the terms of the Strategic Investment Agreement and will not create a disorderly or false market for any class of shares of the Company; and (ii) it shall not, for so long as Parent Company shall remain as the single largest shareholder of the Company, knowingly dispose of or otherwise transfer any of such interest to any party which carries on or is engaged in carrying on airport services or any party which holds an equity interest in any airports (except where the disposal is made to professional investment funds or financial institutions whose ordinary course of business is investment in securities).

The Strategic Investor has also undertaken not to purchase or subscribe for any additional H Shares so as to increase its shareholding in the Company to more than 25% of the issued share capital of the Company without the prior written consent of the Company.

The Strategic Placing is subject to a number of conditions including:

(a) those conditions set out in the section headed “Structure of the offering — Conditions of the Offering” of this prospectus;

(b) the Strategic Investor having completed its due diligence review on the business, financial position and prospects of the Group to its satisfaction; and

(c) the total subscription price for the Strategic Placing Shares payable by the Strategic Investor not exceeding DKK500 million (equivalent to approximately RMB550 million).

HISTORICAL TRADING RECORD

The table below sets out a summary of the consolidated results of the Group for each of the three years ended 31st December, 2001 and the five months ended 31st May, 2002, based on the information included in the Accountants' Report as set out in Appendix I to this prospectus, which presents the results of the Group as if the Group had been in existence throughout the Track Record Period. The construction of the Meilan Airport was completed and the assets of Meilan Airport were ready for operation on 28th March, 1999. Prior to that time, costs and expenses of construction were capitalised. Commencing from the beginning of trial operations on 29th March, 1999, cost and expense items were recorded in the income statement; and commencing from the beginning of commercial operations on 25th May, 1999, all items of revenue, cost and expense were recorded in the income statement. The consolidated financial information has been prepared and presented in accordance with International Accounting Standards.

	Year ended 31st December,			Five months ended 31st May,
	1999(1)	2000	2001	2002
		(RMB'000)		
Revenues				
Aeronautical(2)				
Passenger charges	41,766	90,371	102,283	50,584
Airport fee	—	—	—	29,442
Ground handling services fee	10,091	18,371	20,556	10,644
Aircraft movement fees and related charges	5,642	10,661	10,198	5,138
Total aeronautical revenues	57,499	119,403	133,037	95,808
Non-aeronautical				
Leasing of commercial areas, counters and office in the Terminal	10,424	22,921	26,261	10,899
Franchise fee(3)	6,592	11,809	15,490	6,597
Advertising	3,530	5,087	4,018	2,021
Other revenues	2,437	2,423	6,195	3,162
Total non-aeronautical revenues	22,983	42,240	51,964	22,679
Total revenues	80,482	161,643	185,001	118,487

SUMMARY

	Year ended 31st December,			Five months ended 31st May,
	1999[1]	2000	2001	2002
		(RMB'000)		
Business taxes and levies	(2,931)	(5,952)	(6,819)	(4,364)
Net revenues	77,551	155,691	178,182	114,123
Operating costs				
Cost of goods and services	(6,568)	(13,384)	(13,395)	(4,751)
Depreciation and amortisation	(21,282)	(28,143)	(28,404)	(12,005)
Staff costs	(5,793)	(9,008)	(8,111)	(3,442)
Utilities and power	(4,804)	(7,183)	(7,225)	(2,688)
Repairs and maintenance	(459)	(994)	(2,006)	(355)
Other costs	(359)	(663)	(1,085)	(913)
Total operating costs	(39,265)	(59,375)	(60,226)	(24,154)
Gross profit	38,286	96,316	117,956	89,969
Administrative expenses	(8,388)	(15,157)	(12,892)	(7,451)
Profit from operating activities	29,898	81,159	105,064	82,518
Other income	—	—	—	2,528
Finance expenses, net	(22,067)	(22,966)	(17,659)	(7,666)
Profit before tax	7,831	58,193	87,405	77,380
Tax[4]	—	—	—	—
Profit after tax	7,831	58,193	87,405	77,380
Minority interests	(94)	(4)	6	(9)
Net profit attributable to shareholders	7,737	58,189	87,411	77,371
Distribution to Parent Company[5]	—	29,081	—	—
Final dividends[6]	—	—	45,000	—
EPS[7]	0.03	0.23	0.35	0.31
EBITDA[8]	51,180	109,302	133,468	97,051

(1) Construction commenced in November 1996 and commercial operations of the Meilan Airport commenced on 25th May, 1999. Accordingly, the relevant data for 1999 reflects only seven months of commercial operations and therefore is not directly comparable with those of the subsequent years.

(2) The presentation of the historical figures throughout the Track Record Period for the following aeronautical revenues reflect the revenue sharing arrangement between the Company and Parent Company on the basis of 75% to the Company and 25% to Parent Company:

- Aircraft movement fees;
- Passenger charges; and
- Basic ground handling services fees charged to Hong Kong, Macau and foreign airlines.

(3) The franchise fees for the Track Record Period consist of the following items:

- Annual fees from Hainan Food with respect to the air catering rights at the Meilan Airport;
- Annual fees from Hainan Airlines in 1999 and 2000 and from Parent Company in 2001 and the first five months of 2002 with respect to the right to operate the cargo centre at the Meilan Airport;
- Annual fees from THIA with respect to the right to sell accident insurance policies at the Meilan Airport; and
- Fees from HLAS with respect to air ticketing operation at the Meilan Airport.

(4) The Company is entitled to an exemption from corporate income tax from 2000 to 2004, and a reduced income tax rate of 7.5% from 2005 to 2009. Please refer to subsection “Financial Information — Taxation” for details.

(5) Pursuant to a resolution of shareholders dated 29th June, 2001, the Company made a distribution to Parent Company which represented the profit after tax of the Company for the period from 1st August, 2000 to 31st December, 2000. Such profit after tax was determined in accordance with relevant PRC accounting regulations.

(6) On 19th July, 2002, the shareholders of the Company approved the distribution of a final dividend of RMB45 million for the year ended 31st December, 2001 to the then existing shareholders.

(7) The calculation of earnings per share is based on the Group’s profit attributable to shareholders for each of the three years ended 31st December, 2001 and for the five months ended 31st May, 2002 and on the 250 million shares deemed to have been in issue and issuable during the Track Record Period.

(8) EBITDA (earnings before interest, tax, depreciation and amortisation) should not be construed as an alternative to operating income or any other measure of performance or as an indicator of the Group’s operating performance, liquidity or cash flows generated by operating, investing and financing activities. The items of net income excluded EBITDA are significant components in understanding and assessing the Group’s financial performance, and the Group’s computation of EBITDA may not be comparable in other similarly titled measures of other companies. The Group has included the information concerning EBITDA because the Directors believe that it is an useful supplement to cash flow data as a measure of the Group’s performance.

The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of this prospectus, there has been no material adverse change in the financial position or prospect of the Group since 31st May, 2002 and there is no event which would materially affect the information shown in the Accountants’ Report of the Group as set out in Appendix I. The following data should be read in conjunction with the financial statements, including the notes thereto, contained elsewhere in this prospectus. Results for the five months ended 31st May, 2002 are not necessarily indicative of the Group's results for the full year.

SELECTED OPERATING DATA

The table below sets out certain operating data relating to the Group's business for the three years ended 31st December, 2001, the five months ended 31st May, 2001 and 2002 and the nine months ended 30th September, 2001 and 2002, respectively.

	Year ended 31st December,			Five months ended 31st May,		Nine months ended 30th September,	
	1999(1)	2000	2001	2001	2002	2001	2002
Passenger throughput (in thousands)							
Domestic flights	2,068.0	4,178.8	4,900.0	2,170.0	2,497.6	3,709.3	4,097.3
International flights	3.8	11.8	13.0	7.3	7.5	10.1	10.6
Hong Kong/Macau flights	130.0	172.6	166.1	67.3	58.1	125.9	106.2
Total	2,201.8	4,363.2	5,079.1	2,244.6	2,563.2	3,845.3	4,214.1
Aircraft movements							
Domestic flights	29,524	54,927	52,091	23,758	26,504	39,662	43,931
International flights	58	169	173	93	89	133	140
Hong Kong/Macau flights	1,152	1,669	1,522	657	607	1,150	1,103
Total	30,734	56,765	53,786	24,508	27,200	40,945	45,174

(1) Commercial operations of the Meilan Airport commenced on 25th May, 1999. Accordingly, the relevant data for 1999 reflects only seven months of commercial operations and therefore are not directly comparable with those of the subsequent years.

DIVIDEND POLICY

On 19th July, 2002, the shareholders of the Company approved the distribution of a final dividend of RMB45 million for the year ended 31st December, 2001 to the then existing shareholders. The dividend was financed by internal sources.

The Articles of Association permit the Company to distribute dividends or make other distributions according to an ordinary resolution of the shareholders, and prevent the Company from distributing dividends or bonuses without first making up for losses and making all tax and other payments required by law. Under the Articles of Association, the Company may, in addition to final dividend, distribute interim or special dividends in the form of cash or shares. In accordance with the Articles of Association, the distributable profits available to the Company for the purpose of profit distribution will be deemed to be the lesser of:

1. the net income determined in accordance with PRC accounting standards and regulations; and

2. the net income determined in accordance with IAS.

However, prior to payment of dividends, profits of the Company are subject to deductions such as allocations to the statutory common reserve and the statutory public welfare fund. The Company's outstanding credit facilities do not impose any restrictions on its ability to pay dividends. See the section headed "Financial Information — Liquidity and Capital Resources — Capital Resources".

Subject to the foregoing, the Company intends to make interim dividend payments in or around October of each year and final dividend payments in or around June of each year. It is the present intention of the Directors that, for each year, the interim dividend will represent approximately 25% of the total estimated dividends to be paid for the entire year (except for the financial year of 2002 for which no interim dividend will be declared) and that the sum of interim and final dividend will represent approximately 60% (for each of the financial years of 2002 and 2003) or 50% (for each subsequent financial year) of the Company's net profit attributable to shareholders before deduction of statutory reserves for the relevant financial year determined in accordance with IAS, and limited to the distributable profits available. The distribution of dividend payment will be dependent upon the Company's earnings, financial conditions, cash requirements and availability, the provisions of the PRC Company Law and other factors. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or the timing of such payment.

The Articles of Association require that cash dividends of H Shares will be declared in Renminbi and paid in Hong Kong dollars to H Shareholders. Conversion of Renminbi into Hong Kong dollars will be subject to the relevant PRC foreign exchange regulations and will be calculated at an exchange rate which will be the average of the PBOC Exchange Rate one calendar week preceding the date of declaration of dividends. If the Company does not have sufficient foreign exchange reserves to pay its Hong Kong dollars dividends, it intends to exchange its RMB funds into the required Hong Kong dollars from authorised banks or through other approved means. There is no assurance that the Company will be able to obtain Hong Kong dollar funds as needed.

FUTURE PLANS AND PROSPECTS

The Group's strategy is to maintain and capitalise on the position of Meilan Airport as the main gateway to Hainan and to seek sustainable long-term growth in its aeronautical and non-aeronautical related businesses.

For aeronautical businesses, the Group plans to expand and improve the existing facilities at the Meilan Airport, including the Terminal and apron, and to build new facilities, including a new cargo centre and cargo aircraft parking apron, a new customs and inspection joint operation building, in anticipation of future air traffic increase and the attainment of international airport status.

The Group will seek to increase its non-aeronautical business, which contributed approximately 28.6%, 26.1%, 28.1% and 19.1% of the total revenue in each of the three years ended 31st December, 2001 and the first five months of 2002. The Group will explore opportunities to further increase the advertising spaces and commercial areas for leasing at the Meilan Airport. Further, the Group will seek to increase the utilisation rate of the available advertising spaces and of commercial area in conjunction with the expected growth of passenger traffic.

In addition, the Group is committed to improving quality of service by developing more training programmes for its management and staff. The Group also plans to strengthen communications and cooperation with other governmental and business entities that operate at the Meilan Airport.

The Directors believe that the Group can capitalise on its experience in managing airport business. The Company signed a contract with SPIA on 23rd August, 2002 to manage the Sanya Airport. The Group intends to establish its reputation as a premier airport operator in the PRC.

Parent Company has granted the Company an option to acquire from Parent Company aeronautical or non-aeronautical businesses and assets owned by it from time to time. The Group plans to take advantage of such opportunities to achieve revenue and earnings growth, as well as economies in planning, procurement and services. The Group intends to fund the cost of possible acquisitions and capital expenditures with its internal resources, loan financing and possible future issues of shares.

Based on the report prepared by Booz Allen Hamilton, the air traffic by passenger throughput at the Meilan Airport is expected to increase by approximately 10.2% and 9.2% annually from 2001 to 2006 and from 2001 to 2011, respectively. See Appendix V to this prospectus. With the expansion and improvement of the Terminal and aprons, the Group expects to be able to capture the business opportunities associated with the expected air traffic increase.

REASONS FOR THE OFFERING AND THE USE OF PROCEEDS

The Directors intend to use the net proceeds of the Offering of the New H Shares to finance the Group's capital expenditure, strengthen its capital base and improve its financial position.

The net proceeds of the Offering of the New H Shares (after deduction of underwriting fees and estimated expenses payable by the Group in relation to the Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK$3.47 per H Share, being the mid-point of the Offer Price range of HK$3.15 to HK$3.79 per H Share) are estimated to be approximately HK$642.0 million (HK$727.4 million, if the Over-allotment Option is fully exercised). The Group currently intends to use the net proceeds from the Offering in the following approximate proportion:

- approximately RMB392.0 million (HK$369.4 million) for the airport expansion project. The project includes construction of approximately 30,000 m^2 of expanded Terminal area, an aircraft parking apron of approximately 280,000 m^2, 20 aircraft parking positions and eight aircraft parking positions with air bridges;

- approximately RMB198.0 million (HK$186.6 million) for the construction of a new cargo centre with a floor area of approximately 30,000 m^2 and aprons with an area of approximately 50,000 m^2 with four aircraft parking positions;

- approximately RMB70.0 million (HK$66.0 million) for the renovation of the Terminal and construction of a customs and inspection joint operation building for international passengers and cargoes; and

- the balance of RMB21.2 million (HK$20 million) is expected to be used as general working capital of the Group and for other general corporate purposes. It may be used to acquire or invest in complementary businesses or to establish joint ventures that the Group believes will complement its current or future business. However, the Group has no specific agreements or commitments at this stage relating to any material acquisition.

Pending the use of the net proceeds of the Offering of the New H Shares for the purposes described above, the Group intends to place the net proceeds, to the extent permitted by relevant PRC laws and regulations, in short-term bank deposits or in money market instruments in accounts maintained with banks in the PRC. Upon approval by SAFE, the Group will be entitled to retain the net proceeds of the Offering of the New H Shares in Hong Kong dollars and convert them into United States dollars or other foreign currencies. The Group will be entitled to use such proceeds for any legitimate purpose, such as purchase of equipment from overseas (if required) in accordance with the exchange control regulations.

In the event that any part of the business plan of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or new projects and/or hold such funds in short-term deposit for so long as the Directors deem to be in the best interests of the Company and its shareholders taken as a whole.

In the event that there is any material modification to the use of proceeds as described above, the Company will issue an announcement of the change.

FORECASTS FOR THE YEAR ENDING 31ST DECEMBER, 2002

Forecast consolidated profit after tax and minority interests but before extraordinary items[(1)] . . . . not less than RMB156 million (HK$147 million)

Forecast earnings per Share

— pro forma fully diluted[(2)] . . . . RMB0.36 (HK$0.34)

— weighted average[(3)] . . . . RMB0.57 (HK$0.54)

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(1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit after tax and minority interest but before extraordinary items for the year ending 31st December, 2002, assuming that the Company had been listed on the Stock Exchange since 1st January, 2002 and a total of 448,000,000 Shares were in issue during the entire year. The estimated earnings per Share has been adjusted to take into account the interest income that would have been earned if the estimated net proceeds from the Offering were received on 1st January, 2002 on the basis of an interest rate of 0.98% per annum. It should be noted, however, that the net proceeds of the Offering will not in fact be invested to earn interest income, except as described in the section headed “Future Plans and Use of Proceeds”, please refer to the descriptions therein for the details on how the proceeds are intended to be used. These calculations assume that the Over-allotment Option will not be exercised, and the H Shares issued pursuant to the Offering were issued on 1st January, 2002 at an Offer Price of HK$3.47 per H Share (being the mid-point of the proposed Offer Price range of HK$3.15 to HK$3.79 per H Share) (excluding brokerage, the Stock Exchange trading fee and the SFC transaction levy, which are payable by applicants in the Offering).

(3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast consolidated profit after tax and minority interest but before extraordinary items and a weighted average number of 273,868,493 Shares assumed to be in issue during the year. The calculation assumes that the Over-allotment Option will not be exercised and the H Shares will be issued on 18th November, 2002.

ISSUE STATISTICS

Except where otherwise indicated, the issue statistics have been prepared on the assumption that the Over-allotment Option will not be exercised. Issue statistics shown in Hong Kong dollars and the prospective earnings of the Company projected in the prospective price/earnings multiple have been translated from Renminbi into Hong Kong dollars at the rate of HK$1.00 = RMB1.0611 being the PBOC Rate prevailing on 31st May, 2002. The per share Offer Price of HK$3.15 and of HK$3.79 for H Shares issued in the Offering does not include brokerage, Stock Exchange trading fee and the SFC transaction levy, which are payable by applicants in the Offering.

	Based on an Offer Price of HK$3.15 per H Share	**Based on an Offer Price of HK$3.79 per H Share**
Market capitalisation of H Shares	HK$635.4 million	HK$764.4 million
Price/earnings multiple based on 2002 profit forecast		
— pro forma fully diluted[(1)]	9.17 times	11.03 times
— weighted average[(2)]	5.83 times	7.02 times
Adjusted net tangible asset value per Share[(3)]	RMB2.67 (HK$2.52)	

(1) The price/earnings multiple based on 2002 profit forecast on a pro forma fully diluted basis is based on the assumed Offer Price and the forecast earnings per Share on a pro forma fully diluted basis for the year ending 31st December, 2002 calculated based on the "Bases of Preparation" set out in Appendix III to this prospectus. The calculation of the earnings per Share on a pro forma fully diluted basis is based on the forecast consolidated profit after tax and minority interests but before extraordinary items for the year ending 31st December, 2002 and assuming that the Company had been listed on the Stock Exchange since 1st January, 2002 and that a total of 448,000,000 Shares were in issue during the entire year. These calculations assume that the Over-allotment Option was not exercised.

(2) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective Offer Price of HK$3.15 and HK$3.79 per Share assuming that the Over-allotment Option is not exercised.

(3) The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in "Financial Information — Adjusted Net Tangible Assets" in this prospectus and assumes that the Over-allotment Option will not be exercised, and the H Shares issued pursuant to the Offering were issued on 1st January, 2002 at an Offer Price of HK$3.47 per H Share (being the mid-point of the proposed Offer Price range of HK$3.15 to HK$3.79 per H Share) (excluding brokerage, the Stock Exchange trading fee and the SFC transaction levy, which are payable by applicants in the Offering).

If the Over-allotment Option is exercised in full, the adjusted net tangible assets of the Company will be increased to approximately RMB1,287.8 million based on the assumed Offer Price of HK$3.47 per H Share (being the mid-point of the proposed Offer Price range of HK$3.15 to HK$3.79 per H Share) and the adjusted net tangible asset value per Share will be RMB2.72. The estimated earnings per Share on a fully diluted basis for the year ending 31st December, 2002 will be reduced to RMB0.35 per Share.