



海南美蘭國際機場股份有限公司

HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED

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

Stock Code : 0357



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CORPORATE MISSION

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



CORPORATE BACKGROUND

Hainan Meilan International Airport Company Limited (the "Meilan Airport" or the "Company") is a joint stock company incorporated in the People's Republic of China ("PRC" or "China") with limited liability on 28 December 2000. The H shares of the Company were issued and listed on the Main Board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 November 2002. On 6 November 2003, the Company was approved by the Ministry of Commerce ("MOC") of the PRC to convert into a foreign invested joint stock company.

The Company and its subsidiaries (together, the "Group") are currently engaged in both aeronautical and non-aeronautical businesses at the Haikou Meilan International Airport, Haikou, Hainan Province, the PRC. The aeronautical businesses of the Company consist of the provision of terminal facilities, ground handling services and passenger services. The non-aeronautical businesses of the Company include the leasing of commercial and retail spaces at Haikou Meilan International Airport, franchising of airport related business, advertising, car parking, cargo handling and sales of consumable goods.

Major awards of the Company in 2012 are as follows:

- Passenger handling standards are recognized by the World Health Organization
- Meilan Airport was again recognized as a "Four-star Airport" by Skytrax
- The Company was named by the National Modernization Office as a "National Modern Entity"



Corporate Information

NAME IN CHINESE

海南美蘭國際機場股份有限公司

NAME IN ENGLISH

Hainan Meilan International Airport Company Limited

CORPORATE WEBSITE

www.mlairport.com

EXECUTIVE DIRECTORS

Liang Jun, *Chairman*
 Yang Xiaobin, *General Manager*
 Yang Xuqiang, *Deputy General Manager*

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

Dong Guiguo, *Chairman*
 Zhang Shusheng
 Han Aimin

COMPANY SECRETARY

Xing Zhoujin

AUTHORISED REPRESENTATIVES

Liang Jun
 Xing Zhoujin

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Feng Da'an, *Chairman*
 Fung Ching, Simon
 Yang Xuqiang

NOMINATION COMMITTEE

Xu Bailing, *Chairman*
 Feng Da'an
 Liang Jun

Corporate Information (Continued)

STRATEGIC COMMITTEE

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

LEGAL ADDRESS AND HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER

Orrick, Herrington & Sutcliffe
 43rd Floor, Gloucester Tower, the Landmark
 15 Queen's Road Central
 Central, Hong Kong

AUDITOR

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

PRINCIPAL BANKER

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

China Everbright Bank, Yingbin Sub-branch
 56 Longkun South Road
 Haikou City
 Hainan Province, the PRC

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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 Wanchai, Hong Kong

STOCK CODE

00357

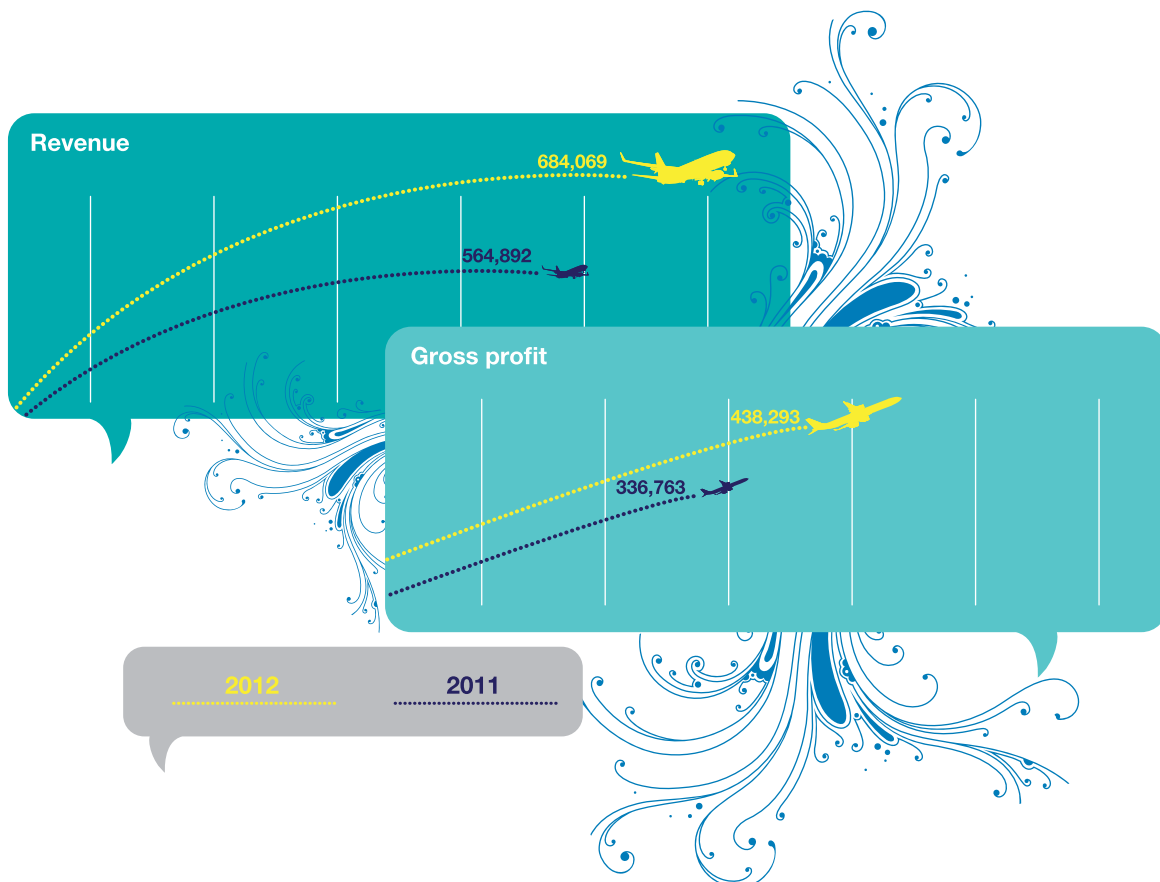


Financial Highlights

TWO-YEAR COMPARISON OF KEY FINANCIAL FIGURES

(RMB'000)

	For the year ended 31 December		
	2012	2011	Change (%)
Revenue	684,069	564,892	21.10
Gross profit	438,293	336,763	30.15
Net profit attributable to shareholders of the Company	297,963	289,778	2.82
Earnings per share — basic (RMB)	0.63	0.61	3.28
Net cash generated from operating activities	447,738	307,892	45.42
Current ratio (times)	3.83	2.26	69.47
Asset-liability ratio	36.93%	22.39%	14.54
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	467,822	405,745	15.30



Financial Highlights (Continued)

FIVE-YEAR SUMMARY OF FINANCIAL PERFORMANCE

(RMB'000)

	For the year ended 31 December				
	2012	2011	2010	2009	2008
Revenue	684,069	564,892	487,415	400,721	391,072
Net profit attributable to shareholders of the Company	297,963	289,778	238,231	182,701	186,434
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	467,822	405,745	313,633	247,805	239,708

FIVE-YEAR SUMMARY OF FINANCIAL POSITION

(RMB'000)

	For the year ended 31 December				
	2012	2011	2010	2009	2008
Total assets	3,867,245	2,855,003	2,297,967	2,073,823	1,957,032
Total liabilities	1,428,049	639,358	246,345	124,452	128,260
Shareholders' equity	2,439,196	2,215,645	2,051,622	1,949,371	1,828,772

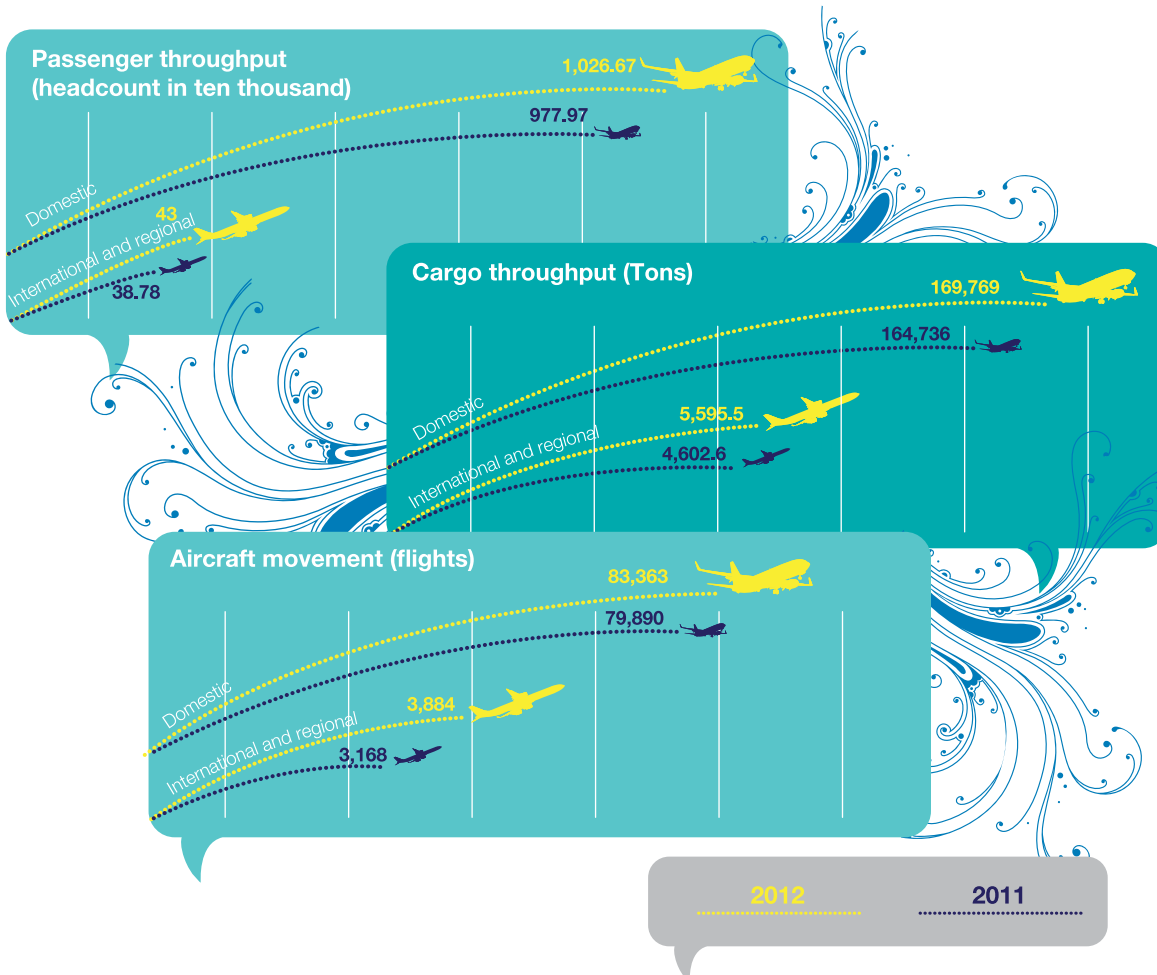


Financial Highlights (Continued)

OPERATION DATA HIGHLIGHTS

Two-year comparison of key operation data

	For the year ended 31 December		
	2012	2011	Change (%)
Passenger throughput (headcount in ten thousand)	1,069.67	1,016.75	5.20
in which: Domestic	1,026.67	977.97	4.98
International and regional	43	38.78	10.88
Aircraft movement (flights)	87,247	83,058	5.04
in which: Domestic	83,363	79,890	4.34
International and regional	3,884	3,168	22.60
Cargo throughput (tons)	175,364.5	169,338.9	3.56
in which: Domestic	169,769	164,736.3	3.06
International and regional	5,595.5	4,602.6	21.57





Meilan
Airport



Q:

Why does Meilan Airport aim to become a “five-star airport” ?



Amei:

In order to further enhance its service quality and management standard for providing quality service to the travellers, further establish the international brand image of Meilan Airport and facilitate the establishment of Hainan International Tourism Island, Meilan Airport sets its strategic goal to become a “five-star airport”.

Chairman's Statement

To all shareholders:

In 2012, the world was profoundly changed by a number of events. The challenges of the weakening economic recovery were out of our expectation. Major economies showed weak demands with dampened investment and consumption while the growth of most emerging economies slowed down. Additional liquidity released by the monetary easing policy of developed economies fuelled the volatility of the international financial markets. Growth of international trade plummeted and the commodities prices fluctuated dramatically, resulting in increasing conflicts and protectionism. Geographical political tensions increased when governments of major powers of the world changed. Political instability was further intensified by uprisings in the Middle East. Despite the unfavorable conditions such as international political unrest, global economic downturn, domestic economic restructuring and high inflation, the PRC government capitalized on its fiscal policies and prudent monetary policies to strive for steady economic growth and restructuring as well as inflation control. Adhering to its austerity principles, the government increased investment in infrastructure and curbed prices of consumer goods for mitigating inflation pressure. After a period of rapid growth, China's economy has stabilized and maintained a moderate growth.





Chairman's Statement (Continued)

During the year of 2012, capitalizing on the domestic economic recovery and the opportunity brought by the construction of Hainan International Tourism Island and further implementation of the offshore duty free policy, the Group restructured its business management to improve operation efficiency. It enhanced its profitability of non-aeronautical business while maintaining its development and marketing efforts in the aviation market. Its cost control was also tightened. All these efforts resulted in satisfactory revenue.

As at 31 December 2012, the passenger throughput of the Group has exceeded 10 million for the second consecutive year, consolidating its leading position among major airports in China. The Group also achieved its 14th year of safe operation in its history. The Group also made outstanding achievements in international brand building, business development and security management.

RESULTS

In 2012, the Group's total revenue amounted to RMB684,069,464, representing an increase of 21.10% as compared to 2011. Income from aeronautical business amounted to RMB393,846,945, representing an increase of 6% as compared to 2011. Income from non-aeronautical business amounted to RMB290,222,519, representing an increase of 50.12% as compared to 2011.

AERONAUTICAL BUSINESS OVERVIEW

In 2012, the stable economy and various favorable policies in China further stimulated the growth of both tourism and transportation industries in Hainan. Benefitting from government support, the Group formulated plans and conducted preparation work for active expansion in the aviation market in accordance with market demand and network design based on the capacity of airline companies to capitalise on the East Ring Railway and the convenient ancillaries in the vicinity. The Company successfully realized its annual transportation and production target by developing 31 new routes and achieved outstanding performance. The annual passenger throughput reached 10,696,700, representing an increase of 5.2% as compared to 2011 and the sixth consecutive year to record positive growth. Aircraft movements reached 87,247, representing an increase of 5.04% as compared to 2011. Cargo throughput reached 175,364.5 tons, representing an increase of 3.56% as compared to 2011.

NON-AERONAUTICAL BUSINESS OVERVIEW

In 2012, similar to the aeronautical business, the performance of non-aeronautical business of the Group was also outstanding. Annual revenue from the non-aeronautical business was RMB290,222,519, representing an increase of 50.12% as compared to 2011 and accounting for more than 40% (approximately 42.43%) of the Group's total revenue for the first time. Such significant growth was mainly due to the franchise operation of Haikou Meilan Airport Duty-Free Shop Co., Ltd ("Meilan Airport Offshore Duty-Free Shop") in Meilan Airport. In addition, the Group enhanced its communication with the parties with presence in the airport by offering advice to help them increase their sales revenue effectively. In 2012, the Group recorded accrued franchise fee of RMB136,888,777 and rental fee of RMB27,396,888, representing increases of 115.66% and 9.93% respectively over the previous year. Moreover, other non-aeronautical businesses such as VIP services and freight services showed improvements as well.

Chairman's Statement (Continued)

CORPORATE BONDS INTEREST

According to the announcement of the Company dated 19 March 2012, the Company completed the issuance of domestic corporate bonds with an aggregate principal amount of RMB800 million. Pursuant to the Announcement on Listing of Corporate Bonds of Hainan Meilan International Airport Company Limited in 2011 (海南美蘭國際機場股份有限公司2011年公司債券上市公告書) issued by the Company on the Shanghai Stock Exchange on 19 April 2012, the interest rate of the corporate bonds of the Company was 7.8% and the annual interest for 2012 of RMB62,400,000 was paid on 15 March 2013.

TERMINAL EXPANSION PROJECT

According to the announcement of the Company dated 12 December 2012 and the circular to shareholders dated 16 January 2013, the Company and Haikou Meilan International Airport Company Limited (the "Parent Company") entered into the Termination Agreement to terminate the Acquisition Agreement, which was executed on 26 August 2011, and entered into the Investment and Construction Agreement.

Pursuant to the Investment and Construction Agreement, the Parent Company shall continue to complete the construction of the terminal expansion project (the "Project") according to the original schedule previously agreed by the Company and the Parent Company, unless the schedule of the Project is adjusted due to the reasons beyond the control of the Company and Parent Company. The construction of the Project shall be completed on or before 31 December 2015 at the latest. The construction of the customs regulatory warehouse project and ancillary project and the special garage project and ancillary project were completed in August and September 2011, respectively. The construction of main body of the international terminal project was completed as scheduled and the interior renovation was close to completion. It is expected to be put into use in May 2013 after inspection. For the construction of the West Gallery Expansion, the tendering of main contractor of airfield ground and runway construction is in progress and the construction is expected to commence in June 2013.

The Investment and Construction Agreement will provide more flexibility for both parties thereunder to seek possible alternative ways of acquisition after the completion of the Project with a view to minimise relevant financial costs.

MEILAN AIRPORT OFFSHORE DUTY-FREE SHOP

According to the announcement of the Company dated 21 January 2013, the Company entered into a franchise agreement with Meilan Airport Offshore Duty-Free Shop, pursuant to which the Company will charge franchise fee based on the sales realized by Meilan Airport Offshore Duty-Free Shop or the fixed fee determined with reference to the area leased by Meilan Airport Offshore Duty-Free Shop from the Company, whichever is higher.

Meilan Airport Offshore Duty-Free Shop currently leases an area of approximately 3,600 square meters from the Company. It realized sales of approximately RMB380 million for 2012. During the Chinese New Year holiday from 9 to 15 February 2013, the total sales of Meilan Airport Offshore Duty-Free Shop amounted to RMB20.31 million, representing an increase of 56% as compared with that of the Chinese New Year holiday in 2012, among which, its daily sales on 15 February reached a record high of RMB4.43 million since its opening. The third phase expansion of Meilan Airport Offshore Duty-Free Shop of approximately 2,500 square metres will commence construction in 2013. The existing shops will be renovated into a high-class duty-free shopping area in the airport.



Chairman's Statement (Continued)

OUTLOOK

In 2013, the global economic situation will still be full of challenges. The economic recovery of the United States will remain slow although it avoided the fiscal cliff temporarily. The economies of the European countries will remain weak in general despite the mitigation of the European debt crisis as a result of their rescue plans and aids from the international community. There is a growing urgent demand for the emerging economies to promote the reform of economic structures and transform the economic growth pattern. In 2013, the global economy will continue to face the risk of higher inflation.

In 2013, as the overall domestic demand begins to rebound, the PRC government is expected to maintain its favourable fiscal policy and prudent monetary policy to ensure the continuity and stability of macroeconomic policy. The PRC government has determined to deepen the financial, fiscal and structural reforms in response to the challenge of the adjustment on rapid growth of overall liquidity to ensure the long-term stability of macroeconomy and the financial system. In addition, the PRC government will also enhance its hedging mechanism to cope with the risks brought by the fiscal policies of the Eurozone and the United States. It is anticipated that the economic growth in China will remain moderate in 2013.

Compared to the challenging international environment and the tamed domestic environment, the growth momentum of Hainan International Tourism Island is satisfactory. In 2013, the local government of Hainan will continue to vigorously promote its key tourism projects and fully capitalise on the development potential of its tourism industry with improved transportation facilities under the support of various favorable policies in tourist industry. It is expected that the number of domestic and overseas travellers visiting Hainan will continue to increase, laying a solid foundation for the development of Meilan Airport in 2013. In addition, the current trends of operation and sales revenue of Meilan Airport Offshore Duty-Free Shop are believed to be profitable to the Group.

The year of 2013 will be full of challenges and opportunities. The Group will adhere to its strategic development plan and promote the transformation of income model. It will actively acquire external resources and effectively carry out investment and financing. Efforts will be made to realize the Company's strategic development goals as soon as possible. It will also actively expand aeronautical and non-aeronautical businesses and strengthen assets and fund management, so as to achieve the sustainable and healthy development of Meilan Airport and strive for better performance for creating satisfactory return for all shareholders.

ENHANCING MARKET DEVELOPMENT AND IMPROVING INCOME FROM NON-AERONAUTICAL BUSINESS

In 2013, the Group will fully capitalize on the incentive policies for the aviation market issued by the local government, such as the measures of encouraging the development of the air passenger market, to continuously enhance the marketing of the civil aviation market of Haikou. It will expand the capacity and airline network of Haikou, and actively introduce airlines to build their bases in Haikou. The Group will also ally with travel agencies and airline companies to further coordinate the operations of two airports as well as the airline and railway transportation on the island. The Group will put more efforts in introducing more international airlines to open up new routes with transfer flight in Haikou by leveraging the favourable policy of opening the third, fourth and fifth aviation right of Hainan and permitting foreign airline companies to build their base in Hainan, with an ambition to build Meilan Airport as an aviation hub in southern China.

Chairman's Statement (Continued)

As the operation of Meilan Airport Offshore Duty-Free Shop is maturing, the proportion of the non-aeronautical revenue of the Group is likely to further increase. In 2013, the Group will continue to improve the supervising model of Meilan Airport Offshore Duty-Free Shop and assist Hainan DFS Retail Company Limited ("DFS"), which has a business presence at the airport, to adjust its development mode. The Group will also expand its VIP services, formulate business plans for the newly built international terminal and strengthen the procedures for acquiring high-quality commercial projects. Moreover, the Group will formulate business plans for the terminal buildings, especially with focus on the planning, monitoring and management of Meilan Airport Offshore Duty-Free Shop. These efforts will enhance the profitability and overall business image of Meilan Airport, increase sales revenue of Meilan Airport and contribute to the fulfillment of five-star standard of Meilan Airport.

INCREASING PROFITABILITY BY RAISING REVENUE AND REDUCING EXPENDITURE

The Group has always attached great importance to comprehensively optimizing its budget through cost controls in management and operations. It has achieved remarkable results, and the operating costs were under effective control under the high pressure of inflation and continuous growth of transportation volume. In 2013, the Company will further enforce its budget control to reduce costs and integrate resources to increase its profitability. Furthermore, grasping the opportunities arising from the government policy to boost domestic demand and the establishment of Hainan International Tourism Island, the Company will actively apply to the government for various preferential treatments, favorable policies and grants to create a favorable external environment for the development of the Group.

IMPROVING INFRASTRUCTURE CONSTRUCTION AND SERVICES TO ESTABLISH A FIVE-STAR AIRPORT

In 2013, based on the facilities and ancillary equipment standards required for SKYTRAX five-star airport, the Group will urge the construction unit to accelerate the construction of the expansion of West Gallery (extension to the west) and the renovation and expansion of current terminal buildings to further improve the existing infrastructure and create a more comfortable waiting environment for travelers.

Adhering to its customer-oriented principle, the Group will continue its service innovation based on the concept of Star Meilan and Warm Service and provide active, caring and well-managed services instead of traditional passive, procedural and facial services. The Meilan Airport mascot design collection was completed on 5 December 2012, and Amei and Alan were selected as the mascots of Meilan Airport for enhancing its brand awareness and image. The Group commenced the establishment of becoming a SKYTRAX five-star airport in 2012. In 2013, based on the standard of Singapore Changi Airport, one of the three SKYTRAX five-star airports in the world, the Group will analyze its current status, locate its disparity, promote its service system establishment, absorb the advanced service models and experiences of domestic and international airports, strengthen its service awareness, enhance its service and security skills, further improve its service quality and continue to promote the brand building of SKYTRAX and ASQ (Airport Service Quality) so as to become a SKYTRAX five-star airport in the near future.



Chairman's Statement (Continued)

ACKNOWLEDGEMENT

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

Liang Jun

Chairman

Hainan Province, the PRC

19 March 2013

Q:

What is the
“new service concept”
for Meilan Airport ?



Alan:

“Star Meilan and Warm Service”. Committed to providing customized services to tourists, Meilan Airport offers unique services of five-star standard.



Management Discussion and Analysis

BUSINESS AND REVENUE REVIEW

Civil Aviation Industry in China

Despite sluggish global economy and international aviation market, the major transportation indices reflected that the civil aviation industry in China maintained its steady and rapid growth. In 2012, the civil aviation industry in China saw a number of favorable policies and developments.

- On 12 November 2012, the European Commission proposed to withhold the carbon emission tax levied on flights into and out of EU countries unilaterally imposed by the EU;
- The issue of the Opinions of the State Council on Promoting the Development of the Civil Aviation Industry (國務院關於促進民航業發展的若干意見) encouraged local governments to develop the civil aviation transportation industry. The civil aviation industry will play an important role in the economic restructuring of China;
- Voluntary release (主動釋放) of temporary flight routes was adopted for trial. Temporary flight routes are voluntarily released by the air force for civil use. Civil aviation control authorities and airlines do not need to apply for flight routes as previously required. The civil aviation control authorities and airlines will be informed of the availability of temporary routes a day before. They will also be immediately informed of the changes in the availability of temporary routes so that they can flexibly manage and arrange flights to improve efficiency;
- On 11 December 2012, the Provisional Administrative Measures for General Aviation Development Fund (通用航空發展專項資金管理暫行辦法), the first general aviation industry subsidy policy of China, was promulgated and implemented.

The Company will closely monitor the development of the civil aviation industry in China and carefully study government policies with a view to secure additional throughput from airlines to further consolidate the position of Meilan Airport among major airports in China. The Company will maintain the safe operation of the airport while expanding its operations.



Management Discussion and Analysis (Continued)

Tourism Industry in Hainan

The tourism industry in Hainan maintained steady growth in 2012. The number of domestic and foreign tourists stayed overnight in Hainan amounted to 33.20 million, representing an increase of 10.63% over the previous year. The total income from the tourism industry amounted to RMB37.9 billion, representing an increase of 17% over the previous year. Apart from the auspices of the offshore duty free policy, the outstanding performance of the tourism industry was also driven by well-known economic, sports and cultural events held in Hainan, such as Boao Forum for Asia (博鰲亞洲論壇), the eighth meeting of Pan-Pearl River Delta Corporation (第八屆泛珠大會), Sino-Russian Tourism Conference (中俄旅遊企業交流大會), “Aloha Cup” Hainan International Regatta (「阿羅哈杯」環海南島國際帆船賽), Hainan International Cycling Race (環海南島國際公路自行車賽), Volvo Ocean Race (沃爾沃環球帆船賽), “Greater China Bridge Tournament” (二岸四地橋牌邀請賽), Hainan Riyue Bay International Surfing Festival (海南日月灣國際衝浪節), Snooker Hainan World Open (斯諾克海南世界公開賽), Beach Volleyball World Tour (Sanya) (世界沙灘排球巡迴賽三亞公開賽) and Hainan Danzhou Super Grand Master Chess Tournament (中國海南儋州國際象棋特級大師超霸賽). The flourished tourism in Hainan was also attributable to the efforts of the local government. In 2012, representatives of Hainan government visited many cities in China and abroad to promote the tourism of Hainan. It also formulated policies to promote the development of the tourism industry, including the “12th Five-year Plan for Development of the Tourism Industry in Hainan” (海南省旅遊業發展「十二五」規劃) and the “Projects under the 12th Five-year Plan for Development of the Tourism Industry in Hainan” (海南省旅遊業發展「十二五」規劃項目). The tourism in Hainan will grow rapidly upon completion of a large tropical rainforest park, Paracel National Marine Park (西沙海洋國家公園), wetland park, zafari park, space park, ocean park, movie theme park, amusement park and “Airbus” sightseeing facilities. The 2013–2020 Development Plan of the Tourism Industry of China (國民旅遊休閒綱要 (2013–2020年)) issued in February 2012 is an important political support to the development of the tourism industry.

Key Tourism Projects in Hainan

In 2012, Hainan government closely monitored the progress of major tourism projects to make sure that they can be completed on schedule. Construction of the first phase of Hainan International Tourism Island in Li’an district of Lingshui has commenced in April 2012. Completion of the first phase of the International Tourism Island will facilitate the development of the ocean park, South China Sea museum, auto theme park, cruise terminal and will attract cruise tourism. The upper structure of the large outlet shopping mall in Wanning has been completed and is currently under renovation. The mall will commence operation in 2013. The planning and financing for Changying Hainan Century City (長影海南世紀城) in Haikou were completed, and development will commence in 2013. Upon completion, it will be a world-class movie theme park integrated with entertainment, filming, commercial and leisure functions. Some major tourism projects, such as Mission Hills, Huayi Brothers, Feng XiaoGang Movie-themed Town in Haikou (海口觀瀾湖華誼馮小剛電影公社) and Hainan Tropical Wildlife Park and Botanic Garden, have commenced or will commence construction soon. The above major tourism projects will be new attractions in Hainan and will promote the general development of tourism industry across Hainan. Currently, most of the tourist attractions concentrated in the southern part of Hainan.

Management Discussion and Analysis (Continued)

Offshore Duty Free

The offshore duty free policy of Hainan attracted many offshore and foreign visitors. In 2012, the number of offshore duty free products sold in Hainan was approximately 3.52 million with total sales of approximately RMB2,367 million, and the total number of customers was approximately 1.06 million. On 1 November 2012, the Ministry of Finance published the Policy Adjustment to Offshore Duty Free Purchases of Hainan (財政部關於調整海南離島旅客免稅購物政策的公告) to modify the restrictions on the value and types of products of duty free purchases. The policy adjustment has promoted duty free sales. Total sales of two offshore duty free stores in Haikou and Sanya for November and December in 2012, the two months after the policy adjustment, were RMB560 million. The total number of customers exceeded 0.20 million, and the spend per customer and average daily sales increased by 33% and 85% respectively as compared with those before adjustment.

The International Duty Free Shopping and Entertainment City (國際免稅購物娛樂城), one of the major pioneer projects in the first phase of Hainan International Tourism Island, will be the world's largest duty free shopping center upon completion as planned. The basic structure of Haitang Bay International Duty Free Shopping Mall (海棠灣國際免稅購物中心), the world's largest duty free complex currently under construction, will be completed in 2013. Construction of the large duty free shopping and entertainment center in the ocean park in Lingshui was in progress as scheduled. The construction of a large duty free store in Haikou City was scheduled to commence in 2013. The development of duty free operation in Hainan is in full swing. The strategic landscape of duty free operation will be further expanded and will have synergy effects to boost the robust growth of tourist consumption and the contribution of Hainan as an International Tourism Island.

Transportation on the Island

In respect of railways, the passenger carrying capacity of Hainan East Ring Railway with a total length of 308 km was further enhanced. According to statistics, as for the West Ring Railway with a total length of 342.3 km, land acquisition and relocation have commenced in the first half of 2012. The construction of the section from Sanya Phoenix International Airport to Sanya of the West Ring Railway commenced in the second half of 2012 and will be completed by 2014. The preliminary planning of the section from Sanya Phoenix International Airport to Haikou has been approved by the Ministry of Railways, and the engineering, land acquisition and relocation are underway.

In 2012, the investment in the development of highways in Hainan was RMB6.82 billion, representing an increase of 43% as compared with the previous year. The grid-shaped highway network connecting Haikou, Tunchang, Wuzhishan, Baoting, Sanya, Yangpu, Danzhou, Qiongzong and Wanning, a project under the "12th Five-year Plan" in Hainan, was in progress as scheduled. A section of the central highway connecting Haikou to Tunchang was opened to traffic on 29 December 2012. The construction of the section connecting Tunchang to Qiongzong commenced in May 2012 and will be opened to traffic in 2015. Upon completion, the central highway will become the main transportation route connecting the counties and cities in central Hainan. According to the Development Plan of Hainan Tourism Highway (海南省旅遊公路發展規劃), a highway network of 1,100 km will be constructed in Hainan during the period of "12th Five-year" and "13th Five-year", and the total investment will be RMB18 billion. The construction of tourism highway connecting Shimeiwan in Wanning and Dahuajiao, the first tourism highway in China, commenced in December 2012.



Management Discussion and Analysis (Continued)

In respect of aviation, preliminary works for the relocation of Sanya Phoenix International Airport, including site selection and land planning, commenced in the first half of 2012. The project has been submitted to the National Development and Reform Commission for approval and was included in the development plan for integrated transportation system under the “12th Five-year Plan” of Hainan. Furthermore, the feasibility report on Boao airport in Qionghai was approved by the National Development and Reform Commission on 31 December 2012, and the land acquisition for construction has been completed. Construction will commence in May 2013 and will be completed by the end of 2015.

Advantages of Haikou Aviation Market

Haikou and its surrounding cities have abundant cultural and natural resources, including forts in World War II, monument of Hainan (南海諸島工程紀念碑), the monument to Hainan’s heroes of liberation (解放海南島英雄紀念碑) and marine museum. Coupled with their natural landscape and pleasant climate, they are very suitable for the development of tourism industry. Haikou cooperated with eight neighboring cities and counties to introduce a tourist campaign known as “Wandering in Qiongbai” (徜徉瓊北) to promote the tourism of Haikou and its surrounding areas. The growth of the tourism industry in north Hainan was relatively fast. In 2012, the number of overnight tourists in Haikou amounted to 9.529 million, representing an increase of 12.7% as compared with the previous year. Total revenue from tourism for 2012 was RMB10.157 billion, representing an increase of 22.3% as compared with the previous year. The growth of convention and exhibition tourism in Haikou remained strong. In 2012, there were 205 major convention and exhibition activities and 4,150 meetings held in Haikou, with 314,000 attendants. Haikou is close to major tourist spots. It takes 40 minutes and 20 minutes from Meilan Airport to Wenchang Space Center (文昌航天發射中心) and Space Theme Park (航天主題公園) by road and high-speed rail respectively. Mission Hills Resort is just 20 kilometers away from Meilan Airport. The resort accommodates the Mission Hills, Huayi Brothers, Feng XiaoGang Movie-Themed Town and an international complex of Lan Kwai Fong and regularly holds international golf tournaments. The Resort is only 1.5 hours of driving distance away from Chengmai, Qionghai and Wenchang where many tourist attractions are located.

Hainan is one of the regions in China that has the most open airspace. Foreign airlines are granted air freedom rights, including the third, fourth and fifth freedom rights, and right of stopover. Foreign airlines are also allowed to set up operation bases in Hainan. Various policies favorable to the tourism industry have been introduced to Hainan. Local governments of Hainan and Haikou have adopted policies to attract flights. Visa requirement is waived by Hainan government for visitors from certain countries. Visiting yachts are generally welcomed. International and domestic visitors are increasingly attracted by the offshore duty free policy. It is believed that the duty-free shopping business in Haikou will further grow.

Aeronautical Business Overview

In 2012, under the promotion of the auspices of the policies of the aviation industry, such as the Provisional Measures on Special Capital Management of General Aviation Development (通用航空發展專項資金管理暫行辦法) and Opinions on Promoting the Development of the Civil Aviation Industry issued by the State Council (國務院關於促進民航業發展的若干意見), the Group grasped the favorable opportunity brought by the construction of Hainan International Tourism Island, formulated marketing plans for different markets and expanded its aviation market through various measures and channels. In 2012, Meilan Airport successfully established a number of new aviation routes, including Haikou-Hefei-Tianjin, Haikou-Luoyang-Tianjin, Haikou-Chongqing-Xiangfan, Haikou-Xi’an-Baotou, Haikou-Wuhan-Xiangfan, Haikou-Nanning-Shantou, Haikou-Kaohsiung and Haikou-Singapore-Perth. The aviation route network originating from Haikou was further optimised.

Management Discussion and Analysis (Continued)

As for international aviation, Firefly and Far Eastern Air Transport became the international air carriers of Meilan Airport in 2012, and the following new aviation routes were launched: Haikou-Kaohsiung, Haikou-Singapore-Perth, Taiyuan-Haikou-Singapore and Haikou-Kuala Lumpur. It is an important development for Meilan Airport to become an aviation hub in Southeast Asia. The international (regional) transportation volume of the Group reached a record high and the total international and regional passenger throughput was 430,000 people (person-time), representing an increase of approximately 10.88% as compared to that of the previous year.

Details of the aviation traffic throughput of 2012 and comparison figures of 2011 are set out below:

	2012	2011	Change (%)
Passenger throughput (headcount in ten thousand)	1,069.67	1,016.75	5.20
In which: Domestic	1,026.67	977.97	4.98
International and regional	43.00	38.78	10.88
Aircraft movement (flights)	87,247.00	83,058.00	5.04
In which: Domestic	83,363.00	79,890.00	4.34
International and regional	3,884.00	3,168.00	22.60
Cargo throughput (Tons)	175,364.50	169,338.90	3.56
In which: Domestic	169,769.00	164,736.30	3.06
International and regional	5,595.50	4,602.60	21.57

The Group's revenue from aeronautical business for 2012 was RMB393,846,945, representing an increase of approximately 6.00% as compared to that of the corresponding period of 2011. A breakdown of the Group's revenue is as follows:

	Amount (RMB)	Change over 2011 (%)
Passenger service charges	159,726,149	4.85
Airport Fee	124,448,235	4.71
Aircraft movement fees and related charges	53,978,284	4.26
Ground handling service income	55,694,277	14.61
Total revenue from aeronautical business	393,846,945	6.00



Management Discussion and Analysis (Continued)

Airport fee represents civil airport construction fee and Civil Aviation Development Fund. Pursuant to the Provisional Measures for the Collection, Use and Management of the Civil Aviation Development Fund (民航發展基金徵收使用管理暫行辦法), promulgated by the Ministry of Finance of the PRC, the former airport construction fee and Civil Aviation Infrastructure Construction fund have been collectively replaced by the Civil Aviation Development Fund since 1 April 2012, which will be implemented until 31 December 2015. According to the Notice Regarding the Grant of Subsidy of Civil Aviation Development Fund to Haikou Meilan Airport Co., Ltd. (關於下達海口美蘭機場股份公司民航發展基金補貼的通知) issued by Civil Aviation Administration of China (“CAAC”) on 11 April 2012, the previous subsidies of airport construction fee refund granted to the Group have been changed to the subsidies of Civil Aviation Development Fund correspondingly. The charge rates of the Airport Fee were regulated by CAAC. Given the same nature and refund method of both subsidies, and as the Group did not receive any notice from relevant authorities regarding any change of the charge rates of the Airport Fee applicable to the Group and the actual refund rate of the airport construction fee was 48% since 2008, the Group has recognised the refund of Civil Aviation Development Fund at a rate of 48% according to the best estimates made by the management. The Group has received the refund in full from CAAC based on such percentage as at the end of the year.

Non-Aeronautical Business Overview

In 2012, the performance of non-aeronautical business of the Group was as good as that of the aeronautical business. Driven by favourable factors such as the continuing growth in transportation volume and the operation of Meilan Airport Offshore Duty-Free Shop and through enhancing marketing, further exploring potential resources and actively expanding new business, the non-aeronautical business for 2012 increased significantly with a revenue of RMB290,222,519, representing an increase of 50.12% as compared to that of the corresponding period of 2011.

	Amount (RMB)	Change over 2011 (%)
Franchise income	136,888,777	115.66
Freight and packing income	63,184,677	11.93
Rental income	27,396,888	9.93
VIP room income	31,691,201	21.78
Parking income	10,216,059	26.31
Others	20,844,917	45.04
Total revenue from non-aeronautical businesses	290,222,519	50.12

Franchise Income

In 2012, the franchise income of the Group amounted to RMB136,888,777, representing an increase of 115.66% as compared to that of the previous year, which was mainly attributable to the franchise income from Meilan Airport Offshore Duty-Free Shop which commenced operation on 21 December 2011.

Management Discussion and Analysis (Continued)

Freight and Packing Income

In 2012, the aggregated freight income of the Group amounted to RMB63,184,677, representing an increase of 11.93% as compared with that of the previous year, which was mainly attributable to the gradual recovery in seafood freights and the increase in freight income as a result of the development of the express business and international freight forwarding business and additional cargo service items of the Group.

VIP Room Income

In 2012, the VIP room service income of the Group further grew to RMB31,691,201, representing an increase of 21.78% as compared to that of the previous year and maintaining the continuous growth rate, which was mainly attributable to the increase in reception volume of the VIP service and effective increase of VIP room income through various marketing strategies such as increasing charges and adding service items since the end of 2011.

Parking Income

In 2012, parking income of the Group amounted to RMB10,216,059, representing an increase of 26.31% as compared with that of the previous year, which was mainly attributable to the increase in parking fee, together with some effective measures such as integrating the resources of the parking facilities and the addition of overnight parking spaces by the Company since the end of 2011.

FINANCIAL REVIEW

Asset Analysis

As at 31 December 2012, total assets of the Group amounted to RMB3,867,245,352, in which RMB1,315,269,732 was current assets, representing 34.01% of the total assets, and RMB2,551,975,620 was non-current assets, representing 65.99% of the total assets. Total assets increased by 35.46% as compared with 2011, which was mainly due to the issue of corporate bonds of RMB800 million in 2012 by the Company, resulting in the increase of cash at bank and on hand.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and maintain a healthy capital ratio in order to support its business and maximise shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2012, the debts of the Group were mainly bank loans and corporate bonds (hereinafter the "total borrowings"), amounting to approximately RMB1,189,199,422. Cash and cash equivalents was approximately RMB1,207,561,423. The gearing ratio of the Group was 48.75% as at 31 December 2012 (31 December 2011: 20.8%) (total borrowings/total equity).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2012, 66.70% of the Group's total borrowings were subject to fixed interest rates, while the remaining 33.30% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2012, 9.68% of the Group's bank loans will become due within one year, and the corporate bonds will become due in 2019.



Management Discussion and Analysis (Continued)

As at 31 December 2012, the Group's total borrowings were denominated in Renminbi and US dollars, among which borrowings in US dollars represented approximately 33.3% of the total borrowings, while cash and cash equivalents mainly denominated in Renminbi, and in a small amount of US dollars, which represented approximately 0.2% of the total amount.

Cost Analysis

In 2012, the operating cost of the Group was RMB221,370,584, representing an increase of RMB11,656,258 or 5.56% as compared with 2011. The administrative expense of the Group amounted to RMB78,053,227, representing an increase of RMB9,654,547 or 14.12% as compared with 2011. The reasons for the increase in costs and expenses are as follows:

- (1) increase in salary resulted in the increase in staff cost by RMB8,499,589;
- (2) brand building activities of the Company in 2012, higher power consumption for expanded air conditioning coverage in the terminals and higher charging rates for utilities in 2012 resulted in the increase in utilities by RMB3,983,182;
- (3) since 2012, aircraft movement fees were centrally settled at the Civil Aviation Settlement Center (民航清算中心) and a handling fee of RMB2,992,785 was paid in 2012.

In 2012, the financial expenses of the Group were RMB50,166,226, representing an increase of RMB59,196,934 as compared with 2011, which was mainly due to the increase in interest expenses resulting from the issue of RMB800 million corporate bonds by the Company in 2012 and the drastic decrease in US dollars exchange gain in 2012 as compared with 2011.

In 2012, the total business tax and surcharges of the Group amounted to RMB24,405,747, representing an increase of RMB5,990,949 or 32.53% as compared with 2011, which was mainly due to the increase in sales revenue of the Group.

Cash Flow

In 2012, the Group recorded a net cash inflow from operating activities of RMB447,737,570, representing an increase of 45.42% as compared with 2011, which was mainly due to the increase in operating income of our Group for the year of 2012.

In 2012, the Group's net cash outflow from investment activities was RMB232,965,098, which was mainly due to the partial payment for the investment and construction fee of the terminal expansion project of the Parent Company.

In 2012, the Group's net cash inflow from financing activities was RMB625,854,950, which was mainly attributable to the issue of corporate bonds of RMB800 million by the Company during the year of 2012.

Management Discussion and Analysis (Continued)

Pledge of the Group's Assets

The Group obtained a long-term borrowing of USD72,500,000 from China Development Bank. Such borrowing was pledged by 24.5% equity interests in Hainan Airlines Airport Holding Group Company Limited ("HNA Airport") held by the Group. As at 31 December 2012, the balance of such outstanding borrowing was USD62,993,475 (approximately equivalent to RMB395,945,487).

In addition, a long-term borrowing of RMB128,000,000 from China Development Bank by the Group was pledged by the operating income. As at 31 December 2012, the balance of such outstanding borrowing was RMB2,000,000.

Accounts receivable

As at 31 December 2012, the accounts receivables and other receivables of the Group amounted to RMB99,770,059, representing a decrease of 32.96% as compared with the corresponding period of the previous year.

Details of the accounts receivables and other receivables of the Group are set out in Note 5(2) and Note 5(4) to the financial statements. Details of the accounts receivables and the policy for impairment of accounts receivables are set out in Note 2(10) to the financial statements.

Asset-liability Ratio

As at 31 December 2012, the current assets, total assets, current liabilities and total liabilities of the Group amounted to RMB1,315,269,732, RMB3,867,245,352, RMB343,219,015 and RMB1,428,049,437 respectively. The asset-liability ratio (total liabilities/total assets) of the Group was 36.93%, representing an increase of 14.54% over the previous year. This was mainly attributable to the issue of corporate bonds of RMB800 million by the Company in 2012, resulting in the increase of liabilities.

Foreign Exchange Exposure Risks

The Group's businesses are principally denominated in RMB, except that part of the aeronautical revenues, purchase of certain equipment and consultation fee are denominated in US dollars or HK dollars. The dividends payable to holders of H shares are denominated in RMB and paid in HK dollars. According to the arrangement for the acquisition of 24.5% equity interest in HNA Airport, the Group is obliged to repay the principal and interest of the loan of USD62,993,475 provided by China Development Bank in connection with the equity acquisition. Consequently, the fluctuation of the exchange rate of RMB against US dollars will affect the Group's financial results. The Group has not entered into any forward rate contract to hedge its exposure to foreign exchange risk.

Interest Rate Risks

The Group is obliged to repay the principal and interests of the bank borrowings of USD62,993,475 and RMB2,000,000 provided by China Development Bank. Changes in relevant Libor (London Interbank Offered Rate) and interest rate adjustments by the PBOC will affect the interest expense and results of the Group.



Management Discussion and Analysis (Continued)

Financial Instruments

As at 31 December 2012, financial instruments of the Group mainly comprised bank borrowings, bond issuance, cash and bank deposits. The purpose of these 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 excluding prepayment, accounts payable excluding statutory liabilities.

Contingent Liabilities

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities.

Purchase, Sale or Redemption of Shares

As at 31 December 2012, neither the Group nor the Company had purchased, sold or redeemed any of the Shares.

Employment, Training and Development

For the year ended 31 December 2012, the Group had a total of 563 employees, representing an increase of 98 employees over the previous year. The increase was mainly attributable to the merger of departments of the Group in order to optimize the operation and the recruitment of production support staff for the Company in order to fulfill the support requirement. With the manpower structure remaining unchanged, the Group re-organised various departments to enhance the efficiency of human resources allocation. The Group provided sufficient technical training for its staff based on the requirements of their positions to improve their quality. A total of 194 courses under the training schemes were completed with the participation of 4,904 staff (person-time). Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Retirement Plan

The Company and its subsidiaries have participated in the employee retirement scheme operated by the local government of the PRC. The PRC government shall be responsible for the pension of the retired employees. The Group has to make contribution at the rate of 20% of the salaries of its employees with permanent residence in the PRC. For the year ended 31 December 2012, the contribution for the pension made by the Group amounted to RMB4,833,520 (2011: RMB3,864,629).

Other Information

In 2012, the Group had no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules.

Q:

What makes Meilan Airport successful in achieving its 14th year of safe operation in its history

Security Check

Security Check

Alan:

Adhering to our principle of “Safety, Prevention and Consolidated Management”, we have established an emergency alert mechanism and organized various training programmes on safety skills and emergency drills.

Corporate Governance Report

The Company is committed to complying with all the rules prescribed by the China Securities Regulatory Commission and the Stock Exchange, as well as requirements of other regulatory bodies. The Company has adopted a code on corporate governance practices on terms no less exacting than the standard of the Code on Corporate Governance Practices (the “Code on Corporate Governance”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which came into effect in January 2005, as amended from time to time. Other than the follows, during the period from 1 January 2012 to 31 March 2012, the Company complied with the code provisions of the former Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules; and during the period from 1 April 2012 to 31 December 2012, the Company complied with the code provisions of the revised Corporate Governance Code (the “CG Code”).

According to Code Provision A.2.1, the duties of chairman of the Board and chief executive shall be separated and performed by different individuals. The Company set up separate positions for chairman of the Board and chief executive and clearly defined the roles between these two positions to ensure their independence, accountability and performance.

Mr. Liang Jun served as the Chairman and Chief Executive of the Company in 2012. The Board considers that the deviation from the code provision is appropriate due to the fact that the strong and consistent leadership of Mr. Liang Jun as the Chairman and Chief Executive can ensure the Group’s efficient operation. The Board also considers that the the roles of Chairman and Chief Executive being concurrently held by the same person at present will not hamper the balance of power and authority between the Board and the management of the Company. There are four independent non-executive directors in the Board with adequate independence and the balance of power and authority has been reflected in the efficient operations of the Board which comprises highly experienced individuals. In addition, most members of the sub-committees (i.e. the audit committee, nomination committee, remuneration committee and strategic committee) of the Board are independent non-executive directors. However, the Board will review the composition from time to time and promptly adopt corresponding measures as and when necessary.



Corporate Governance Report (Continued)

GOVERNANCE STRUCTURE

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



The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with Code Provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

DIRECTORS' SECURITIES TRANSACTIONS

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

Corporate Governance Report (Continued)

BOARD OF DIRECTORS

Composition of the Board

As at 31 December 2012, the Board of the Company comprised eleven directors:

Chairman

Mr. Liang Jun (re-appointed on 12 December 2012)

Vice Chairman

Mr. Hu Wentai (re-appointed on 23 August 2012)

Executive Directors

Mr. Liang Jun (re-appointed on 29 May 2012, re-elected as Chairman on 12 December 2012)

Mr. Liu Lu (duly appointed on 20 August 2012)

Ms. Xing Xihong (duly appointed on 12 October 2009)

Non-executive Directors

Mr. Hu Wentai (re-appointed on 29 May 2012, re-appointed as Vice Chairman on 23 August 2012)

Mr. Zhang Han'an (re-appointed on 26 July 2010)

Mr. Chan Nap Kee, Joseph (re-appointed on 15 October 2010)

Mr. Yan Xiang (re-appointed on 15 October 2010)

Independent non-executive Directors

Mr. Xu Bailing (re-appointed on 15 October 2010)

Mr. Fung Ching, Simon (re-appointed on 15 October 2010)

Mr. George F. Meng (re-appointed on 15 October 2010)

Mr. Feng Da'an (duly appointed on 26 July 2010)

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

There is no relationship among the Directors that is discloseable.

The Board acknowledges its responsibility for the preparation of the annual accounts.



Corporate Governance Report (Continued)

PERFORMANCE ASSESSMENT

The Board believes that regular assessment of its performance is important and beneficial to improving its operations. In 2012, the Board conducted assessment on its performance.

BOARD MEETINGS

- The Board had held 6 meetings during as at 31 December 2012. (From 11th Board meeting of the 4th term to 16th Board meeting of the 4th term)
- The attendance records of the Directors in the Board meetings and the general meetings

Name of Director	Independent Non-executive Director	Number of Board meetings in the year	Attendance in person	Attendance by audio or video conferencing	Attendance by proxy	Absence	Not attending any meeting in person for two consecutive times	Attendance of the general meeting
Liang Jun	No	6	6	0	0	0	No	100%
Liu Lu	No	2	2	0	0	0	No	100%
Dong Zhanbin (former)	No	4	4	0	0	0	No	100%
Xing Xihong	No	6	5	1	0	0	No	100%
Hu Wentai	No	6	5	1	0	0	No	100%
Zhang Han'an	No	6	5	1	0	0	No	100%
Chan Nap Kee, Joseph	No	6	5	1	0	0	No	100%
Yan Xiang	No	6	6	0	0	0	No	100%
Xu Bailing	Yes	6	6	0	0	0	No	100%
Fung Ching, Simon	Yes	6	5	1	0	0	No	100%
George F. Meng	Yes	6	6	0	0	0	No	100%
Feng Da'an	Yes	6	5	1	0	0	No	100%

Note: The 15th meeting of the fourth session of the Board of the Company was held on 23 August 2012 at which Mr. Liu Lu attended as director for the first time in place of Mr. Dong Zhanbin, a retired director.

Corporate Governance Report (Continued)

TRAINING AND DEVELOPMENT FOR DIRECTORS

The continuous development and training of directors aim to ensure the satisfactory performance of directors. The company secretary shall regularly despatch information on training courses to interested directors. The Company encourages all directors to attend relevant training courses at the expense of the Company.

On 22 August 2012, the Company organized a 10-hour “Continuous Due Diligence and Compliance Training for Directors” covering topics including the Listing Rules in respect of corporate governance and internal control as well as their latest amendments. It aimed at strengthening the understanding of the Directors, Supervisors and senior management on the laws and regulations as well as concepts and practices of corporate governance in Hong Kong so as to facilitate systematic operation and enhance corporate governance and internal control standards of the Company.

AUTHORITY AND PRACTICE OF THE BOARD

Details of terms of reference of the Board and the management and the respective areas to exercise their authority are set out in the articles of association of the Company:

The Board is accountable to the shareholders’ general meeting and shall exercise the following duties and powers:

1. to convene general meetings and report to the shareholders;
2. to carry out the resolutions of the general meetings;
3. to decide on the operational plan and investment plan of the Company;
4. to formulate the Company’s annual financial budget and final accounts;
5. to formulate plans for profit distribution and recovery of losses;
6. to formulate plans for increases in or reductions of the Company’s registered capital, the issue of corporate bonds and other securities and the listing of the Company;
7. to prepare plans for merger, division, dissolution and reorganization of the Company;
8. to determine the internal management structure of the Company;



Corporate Governance Report (Continued)

9. to appoint or dismiss the Company's general manager and secretary to the Board on recommendation of the chairman of the board; and to appoint or dismiss deputy general managers and other senior officers of the Company and determine their remuneration on recommendation of the general manager;
10. to formulate the Company's basic management system;
11. to formulate proposals for amendment of the articles of association of the Company;
12. to formulate proposals for major acquisitions or disposals of the Company;
13. to propose the appointment or dismissal of external auditors for approval by the shareholders' general meeting; and
14. other powers conferred under the articles of association of the Company and by the general meeting.

The Board has established the audit committee, nomination committee, remuneration committee and strategic committee. Each of these committees has established its own written terms of reference and operates effectively on this basis.

The general management can decide the following matters:

1. to supervise the management of production and business operations, and organize the implementation of the resolutions of the Board;
2. to coordinate the implementation of the Company's annual business and investment plans;
3. to formulate plans for the establishment of the Company's internal management structure;
4. to formulate the basic administration system of the Company;
5. to formulate the basic rules of the Company;
6. to recommend the appointment and dismissal of vice general managers and other senior officers (include financial officers) of the Company;
7. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the Board) ; and
8. to exercise other powers conferred under the articles of association of the Company and by the Board.

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

Corporate Governance Report (Continued)

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The chairman is responsible for development direction and effective running of the Board, and ensuring the Board acts in the best interests of the Company.

The general manager is accountable to the Board, and is delegated with the responsibility for running the Company's business and implementing the resolutions of the Board.

On 12 December 2012, Mr. Liang Jun, chairman of the board, was appointed to act concurrently as the general manager of the Company. On 19 March 2013, Mr. Liang Jun ceased to act as the general manager of the Company and Mr. Yang Xiaobin was appointed as the general manager of the Company. The duties and responsibilities of the chairman and the general manager are explicitly divided in accordance with the articles of association of the Company.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

As at 31 December 2012, the Company had four Non-executive Directors, namely Mr. Hu Wentai, Mr. Zhang Han'an, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang, and four Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Fung Ching, Simon, Mr. George F. Meng and Mr. Feng Da'an.

Mr. Hu Wentai's current term of appointment is from 29 May 2012 to 28 May 2015;

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

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

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

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

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

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

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



Corporate Governance Report (Continued)

COMPANY SECRETARY

All directors have access to the advice and services of the company secretary (Mr. Xing Zhouji). The company secretary shall report to the Chairman on the corporate governance of the Board and shall be responsible for ensuring the compliance with relevant Board procedures and facilitating the communication among directors, shareholders and the management. As at 31 December 2012, the company secretary received over 15 hours of professional training for skill and knowledge updates.

INSURANCE ARRANGEMENT

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

INTERNAL CONTROLS

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

The Company has formulated and implemented the Articles of Association, Rules of the Shareholders' General Meeting, Rules of Board Meeting, Rules of Meeting of Supervisory Committee, Internal Control on Connected Transaction, Code of Conduct of the Staff of Meilan Airport, Registration of Insider, Corporate Governance Responsibilities of Directors, Terms of Reference of the Audit Committee, Terms of Reference of Compensation Committee and Terms of Reference of Nomination Committee in accordance with the Company Law, Securities Law, Guidelines on Internal Control of Listing Companies. The Company has also devised systems for the management of contract, fixed assets and tender process. Internal financial control on accounting activities, audit procedures, treasury management and budget control are established. Internal control on safety is also in place.

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

The Board of the Company has carried out self-assessment on internal control of 2012 based on its timeliness and applicability, and no material deficiencies have been identified in the design or execution of the internal control system. The Company will continue to improve and establish a sound and effective internal control system.

Corporate Governance Report (Continued)

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

As of 31 December 2012, the Compensation Committee of the Company had conducted a meeting on 27 March 2012 to determine the remuneration of directors for 2011 and the proposed remuneration package of directors for 2012.

Directors' remuneration policy for 2012: The Chairman and Executive Directors shall have an allowance of RMB70,000 each, Non-executive Directors shall have an allowance of RMB50,000 each; Independent Non-executive Directors shall have an allowance of RMB100,000 each. In addition to the aforesaid allowance, Executive Directors who are also the Company's staff are also entitled to receive respective salaries according to their respective positions taken on a full-time basis in the Company. The remuneration policies were approved by the Board and general meeting prior to the Company's listing. These policies are subject to review and approval in the annual general meeting of each year.

Payment of performance bonus and other incentive bonuses is based on actual financial results achieved by the Company, such that at most two percent of consolidated net profit for the previous financial year as audited by the auditors would be allocated and paid-out to Directors, Supervisors and members of senior management.

MEETING ATTENDANCE:

The remuneration committee held one meeting during the year. The attendance of the meeting held by the remuneration committee during the year ended 31 December 2012 is as follows:

Member of the remuneration committee	Attendance of meeting held by the remuneration committee during the year ended 31 December 2012
Mr. Feng Da'an	100%
Mr. Fung Ching, Simon	100%
Ms. Xing Xihong	100%



Corporate Governance Report (Continued)

NOMINATION OF DIRECTORS

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

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

As of 31 December 2012, the 6th meeting of the 4th session of Nomination Committee of the Company was held on 27 March 2012 to propose the re-appointment Mr. Hu Wentai as non-executive director and deputy chairman of the Company; to recommend the appointment of Ms. Xiong Yan as chief financial officer of the Company in place of Ms. Xing Xihong; and to amend the terms of reference of Nomination Committee. The 7th meeting of the 4th session of Nomination Committee was held on 4 May 2012 to propose the re-appointment of Mr. Liang Jun as executive director and chairman of the Company. The 8th meeting of the 4th session of Nomination Committee was held on 27 June 2012 to nominate Mr. Liu Lu for appointment of executive director, general manager and chairman of the Company and to nominate Mr. Liang Jun for appointment of deputy chairman of the Company. The 9th meeting of the 4th session of Nomination Committee was held on 11 December 2012 to recommend the appointment of Mr. Liang Jun as chairman and general manager and to recommend the appointment of Mr. Yang Xiaobin and Mr. Yang Xuqiang as directors in place of Mr. Liu Lu and Ms. Xing Xihong. The nomination was made in accordance with the nomination policy of the Company and against the objective criteria, with due regard for the benefits of diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service). It had also taken into account their respective contributions to the Board and their firm commitment to their roles.

MEETING ATTENDANCE OF THE NOMINATION COMMITTEE:

The nomination committee held four meetings during the year. The attendance of the meetings held by the nomination committee during the year ended 31 December 2012 is as follows:

Member of the nomination committee	Attendance of meetings held by the nomination committee during the year ended 31 December 2012
Mr. Xu Bailing	100%
Mr. Feng Da'an	100%
Mr. Liang Jun	100%

Corporate Governance Report (Continued)

REMUNERATION OF AUDITORS

The remuneration of auditors for the year ended 31 December 2012 was RMB2,306,048.

Of which, audit service charges and non-audit service charges amounted to RMB2,136,048 and RMB170,000 respectively.

AUDIT COMMITTEE

An audit committee has been set up by the Company. It is a sub-committee under the Board. For the year ended 31 December 2012, the audit committee is comprised of three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Fung Ching, Simon and Mr. George F. Meng with Mr. Xu Bailing as the chairman.

As of 31 December 2012, the Audit Committee of the Company had conducted two meetings.

During the first meeting of the Audit Committee in 2012, the 2011 annual report and auditors' report were reviewed. The Audit Committee had also determined the re-appointment of auditors and their remuneration, the audit method of 2012 interim report, the amendments to the terms of reference of the Audit Committee and the 2011 Audit Committee report.

During the second meeting of the Audit Committee in 2012, the 2012 interim report, auditors' report of 2011 interim results and Audit Committee report on 2012 interim results were reviewed.

The audit committee suggested the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as auditors of the Company in 2013.

MEETING ATTENDANCE OF THE AUDIT COMMITTEE:

The audit committee held two meetings during the year. The attendance of the meetings held by the audit committee during the year ended 31 December 2012 is as follows:

Member of the audit committee	Attendance of meetings held by the audit committee during the year ended 31 December 2012
Mr. Xu Bailing	100%
Mr. Fung Ching, Simon	100%
Mr. George F. Meng	100%



Corporate Governance Report (Continued)

SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT

During 2012, none of the senior management held any shareholding interests in the Company.

AMENDMENTS OF THE ARTICLES OF ASSOCIATION

During 2012, two rounds of major amendments of the articles of association of the Company have been made as follows:

In the first round of amendment, about 60 articles were amended to improve the precision of wordings to cope with changes in the conditions of the Company. The amendments were approved by the annual general meeting on 29 May 2012. The revised articles were announced on 11 April 2012 on the Stock Exchange.

The second round of amendment is as follows:

Article 93

Original:

The Company shall have a board of directors of 11 members, including a chairman and a deputy chairman.

Not less than half of the directors shall be external directors (who do not hold offices in the Company) and not less than one third of the directors shall be independent non-executive directors (who are independent to shareholders and do not hold offices in the Company).

Amended:

The Company shall have a board of directors of 11 members, including a chairman and two deputy chairmen.

Not less than half of the directors shall be external directors (who do not hold offices in the Company) and not less than one third of the directors shall be independent non-executive directors (who are independent to shareholders and do not hold offices in the Company).

The amendment was approved by the extraordinary general meeting on 20 August 2012. The revised articles were announced on 9 July 2012 on the Stock Exchange.

Corporate Governance Report (Continued)

COMMUNICATIONS WITH SHAREHOLDERS

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

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

Shareholders or investors may make enquiries and offer suggestions through the following channels:

Telephone no: 0898-65762081

Address: Office of the Board of Directors, Office Building of Meilan International Airport,
Meilan District, Haikou City, Hainan Province, the PRC

Postal code: 571126

SHAREHOLDERS' RIGHTS

To ensure better protection of shareholders' interests, the articles of association of the Company set out the requirements for shareholders to request an extraordinary general meeting or class meeting to be convened: When two or more shareholders holding in aggregate more than ten percent (10%) (including the ten percent (10%)) of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and submit to the Board to convene an extraordinary general meeting or class meeting with an agenda of the meeting. An extraordinary general meeting or class meeting is required to be held as soon as practicable upon receipt by the Board of such written request.

During the year ended 31 December 2012, the Board did not receive any request from shareholders to convene an extraordinary general meeting.



Corporate Governance Report (Continued)

INVESTORS' RELATIONS

1. Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Report of the Directors in the 2012 annual report;
2. As at 31 December 2012, 226,913,000 H shares of the Company were held by the public;
3. The Company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors and maintained active communications with investors and fund managers and securities analyst and media. The Company will publish the key operation data on a weekly and monthly basis and report the Company's latest development in relevant media and at the Company's website by means of press releases and announcements in a timely manner.

By the order of the Board

Liang Jun

Chairman

Hainan Province, the PRC

19 March 2013

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Liang Jun, aged 50, has a master degree in business administration. From October 1991 to January 1999, Mr. Liang served as the general manager of Hainan Airlines Co., Ltd. Sanya Branch, Ningbo Base and acted as its chief representative in Shanghai. He was appointed as the chairman of HNA Hotel Management Group in February 1999, executive vice president of HNA Group Co., Ltd. in March 2001. From August 2003 to March 2006, he served as the chief executive officer, vice president and president of HNA Hotel Holdings Ltd. Mr. Liang became the president and general manager of HNA International Hotel Ltd. in April 2006, and also the president and chief executive officer of HNA Food Holdings Ltd., general manager of Hainan Airlines Food Company Limited, and became the vice president of HNA Hotels & Resorts Ltd. and HNA Hotel Holdings Ltd. in March 2007 and deputy chairman and chief executive officer of HNA Airport Group Company Limited in February 2012. Mr. Liang has extensive experience in corporate management. Mr. Liang was re-appointed as the executive director of the Company on 29 May 2012 and appointed as the chairman and general manager of the Company on 12 December 2012. He has also served as a member of the nomination committee and the strategic committee of the Board of the Company.

Mr. Yang Xiaobin, aged 42, obtained his bachelor degree in law from Jiangsu University in 2009. Mr. Yang has extensive experience in civil aviation. He worked for Qingan Aerospace Equipment Company (慶安宇航設備公司), a state-owned company, from October 1992 to February 1994, and was the secretary of the deputy chief executive and control room safety officer of Haikou Meilan International Airport Company Limited from December 2000 to October 2002, the control room safety officer of the Company from June 2003 to September 2004, and safety supervisor of the operation safety office of the Company from September 2004 to May 2007, the control room deputy general manager of the Company from July 2007 to December 2008, the general manager (operation) of HNA Airport Group Company Limited from December 2008 to August 2009, the chairman of Yichang Three Gorges Airport Co., Ltd. from September 2009 to September 2011, the deputy general manager of the Company from September 2011 to 18 March 2013 and the general manager of the Company from 19 March 2013.

Mr. Yang Xuqiang, aged 45, obtained his master degree in business administration from Capital University of Economy and Business in 2000. Mr. Yang has extensive experience in civil aviation and business administration. He was the freight supervisor of CAAC Haikou Administration from January 1988 to October 1992, the deputy manager (freight), deputy manager (ticket) and supervisor (accounts) of CAAC Hainan Administration from October 1992 to March 1999, the departure hall ticket officer and coordinator and the project financial control department manager and deputy manager of supplies department of Haikou Meilan International Airport Company Limited from March 1999 to February 2004, the deputy manager of the business development department of the Company from February 2004 to April 2004, the deputy business manager and general operation manager of HNA Airport Group Company Limited from April 2004 to May 2008, the general manager of Hainan Luckyway Charter Co., Ltd. (海南幸運國旅包機有限公司) from May 2008 to December 2008, the general manager of the control room of the Company from December 2008 to May 2011, the general manager of Xinhua Airport Terminal Services Co., Ltd. (新華空港機場服務有限公司) from May 2011 to May 2012 and the deputy general manager of the Company from May 2012.



Directors, Supervisors and Senior Management (Continued)

NON-EXECUTIVE DIRECTORS

Mr. Hu Wentai, aged 57, was appointed as a Non-executive Director and Vice Chairman of the Company in May 2012. He has also served a member of the strategic committee of the Board of the Company. Mr. Hu Wentai joined HNA Group in June 2000, working as the general manager of Hainan Henghe Property Management Company Limited, the executive vice president of Haikou Meilan Airport Company Limited. Since Mr. Hu joined the Company in 2002, he has held a number of senior positions in the Company, including the chief operating officer and vice president of the Company. In February 2006, he was also the chairman of Haikou New City Area Construction Development Company Limited and the deputy general manager of Beijing HNA Realty Group Company Limited. Mr. Hu Wentai has extensive experience in the area of airport management and project construction.

Mr. Zhang Han'an, aged 67, was re-appointed as a Non-executive Director of the Company in July 2010. Mr. Zhang has over 20 years of experience in military aviation in the PRC. From August 1998 to August 2002, Mr. Zhang acted as the vice general manager and later the general manager for our parent company. He joined the Company in December 2000 as the executive director and general manager. He resigned from the office of general manager of the Company and became a Non-executive Director of the Company in January 2004.

Mr. Chan Nap Kee, Joseph, aged 52, was reappointed as Non-executive Director of the Company in October 2010. Mr. Chan acquired his master's degree from the University of Strathclyde in the major of International Marketing and a diploma from Peking University in China Investment and Trade Study. He holds licenses of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under Chapter 571 of Hong Kong Securities and Futures Ordinance respectively. Mr. Chan has nearly 25 years management experience in banking, investment banking and asset investment. Mr. Chan was the deputy general manager of Credit Agricole Bank from 1986 to 1994, where he was also in charge of China business. From 1992 to 1994, he was also the co-head of Credit Agricole Asset Management South East Asia Limited. From 1994 to now, Mr. Chan has been a founding partner of Oriental Patron Financial Group. He is also an executive director of Oriental Patron Asia Ltd. and Oriental Patron Securities Limited. Mr. Chan was appointed as an executive Director of Kaisun Energy Group Limited (Stock Code: 8203, a company listed in the GEM board of the Stock Exchange) in September 2008 and is the Chairman of that group. Mr. Chan was appointed as a non-executive director of North Asia Strategic Holdings Limited on 19 February 2013.

Mr. Yan Xiang, aged 49, was re-appointed as Non-executive Director of the Company in October 2010. Mr. Yan graduated from Peking University, where he received a bachelor's degree in Economics and a master's degree in Economics. From January 1988 to August 1991, he had been a teaching assistant and lecturer in Economics at Peking University. After August 1991, he was a research fellow with the Research Center of the People's Government of Hainan Province, the general manager of Hainan Securities Exchange Center and the president of Hainan Securities Company Limited. He had been a director of Zhongfu Industrial Co., Ltd. and an independent director of China United Travel Company Limited. Mr. Yan is the Chairman of the China Region of the Oriental Patron Financial Group and the President of the Oriental Patron Resources Investment Limited. Mr. Yan had been the executor director of Hainan Development Promotion Association, committee member of Experts Committee in Research of National Debts and Futures and committee member of Credit Assessment Experts Committee of China Credit Securities Assessment Limited.

Directors, Supervisors and Senior Management (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bailing, aged 79, was re-appointed as an Independent Non-executive Director of the Company in October 2010. He has also served as the chairman of the audit committee and the nomination committee and a member of the strategic committee of the Board of the Company. Mr. Xu was the representative of the Fourth and Fifth National People's Congress and a member of the Ninth Chinese People's Political Consultative Conference. Mr. Xu had worked for the Civil Aviation Beijing Administrative Bureau since 1954, holding various positions such as pilot, supervisor and captain and was appointed Deputy Head and Head of Department in January 1977 and June 1979 respectively. Mr. Xu was then appointed as the vice director of CAAC in December 1986 and then as the general manager of Air China in March 1988. He was appointed as a consultant of CAAC in August 1993.

Mr. Fung Ching, Simon, aged 44, was re-appointed as an Independent Non-executive Directors of the Company in October 2010. He has also served as the chairman of the strategic committee and a member of the audit committee and remuneration committee. Mr. Fung graduated from the Queensland University of Technology in Australia with a bachelor's degree, majoring in accountancy. Mr. Fung is a Hong Kong resident. He is a fellow member of the CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Fung worked in PricewaterhouseCoopers between 1994 and 2004, and he served as the chief financial officer and secretary to the board of directors of Baoye Group Company Limited (寶業集團股份有限公司) (stock code: 02355.HK) between 2004 and 2010. Mr. Fung joined Greentown China Holdings Limited (綠城中國控股有限公司) (stock code: 3900.HK) in August 2010 and served as the chief financial officer and company secretary. Mr. Fung has over 8 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for a PRC company listed in Hong Kong, and has 10 years of experience in auditing, accounting and business advisory with a "Big-4" international accounting firm. Mr. Fung is currently a non-executive director of Baoye Group Company Limited.

Mr. George F. Meng, aged 69, was re-appointed as an Independent Non-Executive Director of the Company in October 2010. He has also served as a member of the audit committee of the Board of the Company. Mr. Meng graduated from Civil Aviation University of China in 1966, where he studied radio communication and English language. In 1972, he entered into Tianjin Foreign Studies University for further study of English language. From 1984 to 1991, he once studied FAA Aircraft Dispatcher Training Course sponsored by Aviation Training Services, Long Island, New York, Advanced Training in Aviation Course with Ansett Airlines, and MBA course at Oklahoma City University. During the years of 1966 to 1988, Mr. Meng served various positions including Radio Station Master of Communication Department of CAAC Chengdu Administration, Dean of the Technical English Department of Civil Aviation University of China, and Deputy Director of CAAC Training Center. After 1991, he was a director and the general manager of China Resource Ltd., USA. From 2000 to now, Mr. Meng is the president of Soaring Eagle Industrial LLC., USA. Since September 2010, he has been the principal of Northern New Jersey Huaxia Chinese School (non-profit organization). He has served as the general manager (United States) of Hua Ling Consultant Inc. in Toronto, Canada since January 2012.



Directors, Supervisors and Senior Management (Continued)

Mr. Feng Da'an, aged 66, was appointed as an Independent Non-Executive Director of the Company on 26 July 2010. He has also served as the chairman of the remuneration committee and a member of the nomination committee and strategic committee of the Board of the Company. Mr. Feng graduated from the Industrial and Civil Construction Specialty of Lanzhou University of Technology in December 1981. From January 1982 to October 1990, he served various positions as ordinary official, department chief, specialized sub-branch president and vice president of China Construction Bank, Gansu Branch. In October 1990, he began serving as a vice president of China Construction Bank, Hainan Branch. In July 1995, he began serving as a deputy director of the Securities Administration Office of Hainan Province. He served as deputy director general and director general of the Local Taxation Bureau of Hainan Province from August 1998 to December 2007, and retired in December 2007. At present, Mr. Feng serves as independent director of three listed companies, namely Beijing Hualian Hypermarket Co., Ltd. (A share code: 600361), Sundiro Holding Co., Ltd. (A share code: 000571) and Hainan Dadonghai Tourism Centre (Holdings) Co., Ltd. (A share code: 000613).

SUPERVISORS

Mr. Dong Guiguo, aged 50, was re-appointed as a supervisor of the Company on 29 May 2012 and has served as the chairman of the Supervisory Committee. Mr. Dong graduated from Civil Aviation University of China majoring in aircraft engine. He has pursued further studies in China Europe International Business School. He is an aviation engineer and accountant. Mr. Dong has worked at civil aviation maintenance base in Beijing, Beijing Aircraft Maintenance Engineering Co., Ltd., HNA Group Purchase Management Department, HNA Group Airport Management Department and HNA Airport Group Company Limited. Since October 2000, he has respectively served as deputy manager of the aviation material and equipment procurement center of the procurement department of HNA Group, deputy general manager of airport management department of HNA Group, general manager of Haikou Meilan International Airport Company Limited, executive chairman's assistant, general manager of the finance department and general manager of the project management department of HNA Airport Group Company Limited and vice chairman, vice president and chief financial officer of HNA Airport Group. Mr. Dong was appointed as a Director of the Company from March 2006 to October 2008 and become the Financial Officer of the Company in December 2006. He was appointed as the Chief Financial Director of the Company in April 2007. In December 2008, he resigned from the Company. Currently, Mr. Dong is the vice president of 海航實業控股(集團)有限公司 and the chairman of HNA Airport Group Company Limited. He has extensive experience in civil aviation and finance.

Mr. Zhang Shusheng, aged 76, is a senior reporter. He was re-appointed as an Independent Supervisor of the Company in June 2007. He is a graduate of the Department of Chinese, Lan Zhou University majoring in Han Literature. He once worked for Gansu Daily and the People's Daily. In June 1994, he was transferred to China Civil Aviation News working as the chief editor and Party branch secretary and was responsible for the management of China Civil Aviation News. He has been the vice-chairman of Gansu Province Journalist Association, the president of the Association for Resident Correspondent in Gansu Province, the managing director of China Press Cultural Advancement Association and the director of China Civil Aviation Association. He has been working as a consultant of China Civil Aviation News since March 1999.

Directors, Supervisors and Senior Management (Continued)

Mr. Han Aimin, aged 42, graduated from Beijing Business College (北京商學院) in 1995. He was appointed as the staff representative supervisor of the Company on 23 August 2011. He joined the Company in November 2008. From July 1995 to June 2004, Mr. Han worked at the freight department of Hainan Airlines Co., Ltd. He served as the vice general manager of Haikou freight center of the marketing department of Hainan Airlines Co., Ltd. from June 2004 to March 2007. He was the general manager of the freight company under Hainan Meilan International Airport Company Limited from November 2008 to December 2009, and the general manager of Hainan Meilan International Airport Cargo Co., Ltd. from January 2009 to September 2010. He has been the general manager of the business development department of the Company since September 2010.

SENIOR MANAGEMENT

Mr. Zhang Peihua, aged 41, is a certified public accountant of the PRC and has a master degree in accounting. Mr. Zhang was the accountant of the Hainan branch of China Construction Bank from July 1994 to January 1995, the chief accountant of Hainan International Finance Company Limited (海南國際財務有限公司) from February 1995 to June 2000, the deputy manager of the budget control office and supervisor of the financial control office of Hainan Airlines Co., Ltd. from September 2000 to August 2003, the assistant to chief accountant, chief financial officer and chief information officer of Xi'an Minsheng Group Co., Ltd. (西安民生集團股份有限公司) from August 2003 to September 2005, the deputy general manager of financial control department of Chang'an Airlines Co., Ltd. (長安航空有限責任公司) from August 2005 to March 2006, the general manager of the financial control department of HNA Hotel Holdings Ltd. from March 2006 to November 2007, the chief financial officer and general manager of the financial control department of Yangtze River Real Estate Group Company Limited (揚子江地產集團有限公司) from February 2006 to September 2007, the general manager of the financial control department of Grand China Logistics Holding (Group) Company Limited (大新華物流控股(集團)有限公司) from August 2007 to February 2009, the chief financial officer and general manager of the financial control department of Grand China Shipping (YanTai) Co., Ltd. (大新華輪船(煙台)有限公司) from February 2009 to December 2009, the chief financial officer of Hainan Zhuxin Investment Co., Ltd. (海南築信投資股份有限公司) from December 2009 to August 2010, the chief financial officer of HNA Realty Group Company Limited from August 2010 to December 2011 and the chief financial officer of HNA International Tourism Island Development and Construction (Group) Company Limited (海航國際旅遊島開發建設(集團)有限公司) from March 2011 to March 2012. He has been the chief financial officer of HNA Airport Group Company Limited since February 2012, the chief financial officer of the Company since 23 August 2012 and the deputy general manager and chief financial officer of the Company concurrently since 19 March 2013.



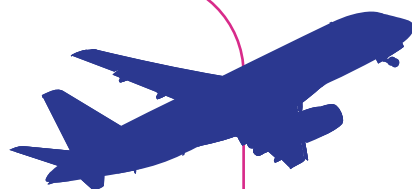
Directors, Supervisors and Senior Management (Continued)

Mr. Wu Jian, aged 36, was appointed deputy general manager of the Company on 19 March 2013. Mr. Wu graduated from the computer science department of Civil Aviation University of China and is a assistant engineer. He was the manager of the service support department, manager of the operation department, general manager of the IT department and the assistant to the executive officer of Hainan Airlines Aviation Information System Co., Ltd., the general manager of the operation department of HNA Airport Group Company Limited, deputy general manager of the airport operation department of HNA Infrastructure Industry Group Limited, the manager of the IT office of airport management department of 海航實業控股(集團)有限公司. He has extensive experience in the implementation of airport IT system and intelligent system.

COMPANY SECRETARY

Mr. Xing Zhoujin, aged 47, was appointed as Company Secretary on 25 August 2009. Mr. Xing graduated from the Anhui Normal University majoring in financial management. He also has a bachelor degree in laws and a title of economist. Mr. Xing has been the personnel and office director of Sanya Phoenix International Airport and Haikou Meilan International Airport. He is engaged in the management and operation of Hainan Meilan International Airport Company Limited since 2002 and fully participated in the listing of H shares of Hainan Meilan International Airport Company Limited and worked as a board secretary of the parent company Haikou Meilan International Airport Company Limited. He has also been responsible for handling the results disclosure and daily operation of the Board of the Company after its listing.

Q:



What are the advantages of Meilan Airport Offshore Duty-Free Shop ?



Amei:

Meilan Airport Offshore Duty-Free Shop is the first airport offshore duty-free shop in China. It offers over ten thousand international renowned brand products and immediate transaction services for offshore customers to enjoy one-stop shopping service.



Report of the Directors

The Board has approved to present their report together with the audited financial statements of Hainan Meilan International Airport Company Limited (“Meilan International Airport” or the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of terminal facilities, ground handling services and passenger services. Its non-aeronautical businesses include commercial and retail spaces leasing at the Haikou Meilan International Airport, airport-related business franchising, advertising space leasing, car parking business, cargo handling services and sales of consumable goods.

For the year ended 31 December 2012, the Company conducted its business within one business segment, i.e. the operation of an airport and provision of related services in the PRC. The Company also operated within one geographical segment and its revenues are primarily generated from its assets located in the PRC. Accordingly, no geographical segment data is presented.

OPERATING RESULTS AND FINANCIAL POSITION

The Group’s operating results for the year ended 31 December 2012 was prepared in accordance with the Accounting Standards for Business Enterprises, Company Ordinance of Hong Kong and applicable disclosure requirements of the relevant stock exchanges, and the financial positions of the Group and the Company as at 31 December 2012 are set out in page 65 to page 132 of this annual report.

FINAL DIVIDEND

The Board has passed the resolution to recommend the payment of a final dividend on or before Friday, 26 July 2013 of RMB0.138 per share (tax inclusive) to shareholders of the Company whose names appear on the Company’s Register of Members on Friday, 7 June 2013 (“2012 Final Dividend”). 2012 Final Dividend shall be subject to the approval by shareholders at the forthcoming annual general meeting to be held by the Company on Monday, 27 May 2013.

According to the Enterprise Income Tax Law of the People’s Republic of China, which took effect on 1 January 2008, and its implementation rules and the relevant interpretation by tax authorities in the PRC, when a company makes distribution to non-resident enterprise shareholders whose names appear on the H-share register of the company, such company is required to withhold and pay on behalf of such shareholders an enterprise income tax at a rate of 10% in general (except as required otherwise by the laws, regulations and tax treaties regarding tax revenue). Any shares registered in the name of a non-individual shareholder, including HKSCC Nominees Limited, other nominee or trustee, or other organisation and group, are deemed as shares held by non-resident enterprise shareholders. As such, the dividends that such shareholder is entitled to are subject to the enterprise income tax.



Report of the Directors (Continued)

The Company will strictly comply with the laws and/or requirements of relevant government departments, and will withhold and pay the enterprise income tax on behalf of its non-resident enterprise shareholders whose names appear on the H-share register of the Company on the record date. The Company will take no responsibility and will not deal with any requests in relation to any delay or error in ascertaining the identities of shareholders, nor will the Company handle any disputes arising from the arrangement of withholding tax. However, the Company may provide assistance to the extent of its ability.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Friday, 26 April 2013 to Monday, 27 May 2013, during which no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting of the Company, shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 25 April 2013.

The Company's Register of Members will be closed from Tuesday, 4 June 2013 to Friday, 7 June 2013, during which time no transfer of shares will be registered. In order to qualify for the entitlement of 2012 Final Dividend, shareholders must deliver their instruments of transfer, accompanied by the relevant share certificates and forms of transfer, to the Company's Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 3 June 2013. The Company will pay the final dividend on or before 26 July 2013 upon the approval of the annual general meeting.

BANK BORROWINGS

Details of the bank borrowings of the Group and the Company are set out in Note 5(18–19) to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the property, plant and equipment as at 31 December 2012 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2012 are set out in Note 5(7) to the financial statements.

TAXATION

Details of taxation of the Group and the Company (including all tax preferences) for the year ended 31 December 2012 are set out in Note 5(14) and Note 5(32) to the financial statements.

RESERVES

Change in reserves of the Group and the Company for the year ended 31 December 2012 is set out in Note 5(22–24) to the financial statements.

Report of the Directors (Continued)

DISTRIBUTABLE RESERVES

As at 31 December 2012, the balance of capital reserve and statutory reserve of the Company amounted to approximately RMB699,650,702 and approximately RMB246,394,231, respectively, which were determined in accordance with the Company Law of the PRC and China's accounting standards and regulations. In addition, pursuant to the Articles of Association, the Company's retained profits of approximately RMB1,002,287,324 may be distributed as dividends.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2012 are set out in Note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the top five largest customers of the Group represented 15.76% and 41.55% of the total sales of the Group for the year ended 31 December 2012, respectively.

The largest supplier and the top five largest suppliers of the Group represented 8.09% and 23.65% of the total operating costs of the Group for the year ended 31 December 2012, respectively.

The Company entered into relevant transactions with the Parent Company, details of which are set out in the section headed "Connected Transaction" below.

Save as disclosed above, during the year ended 31 December 2012, none of the Directors, their contact person or, to the knowledge of the Directors, any shareholders holding more than 5% of the share capital of the Company were interested in the top five largest customers or suppliers of the Group.

SHARE CAPITAL STRUCTURE

As at 31 December 2012, the total number of issued share capital of the Company was 473,213,000 as follows:

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



Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, so far as known to the directors, supervisors or chief executive of the Company, the following persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”), or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital, or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO:

LONG POSITION IN SHARES

Domestic shares

Name of Shareholders	Identity	Type of shares	Number of ordinary shares	Percentage of domestic shares issued	Percentage of total issued share capital
Haikou Meilan International Airport Company Limited	Beneficial Owner	Corporate	237,500,000 (L)	96.43%	50.19%

H Share

Name of Shareholders	Type of interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Zhang Gaobo (Note 2)	Interest of controlled corporations	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Zhang Zhiping (Note 2)	Interest of controlled corporations	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporations	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporations	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial interest	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
UBS AG (Note 3)	Person having a security interest in shares and interest of controlled corporations	29,352,400 (L)	12.94%	6.20%
Utilico Emerging Markets Utilities Limited (Note 4)	Investment manager	11,629,000 (L)	5.12%	2.46%
ARC Capital Holdings Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
ARC Capital Partners Limited (Note 5)	Investment manager	98,365,500 (L)	43.35%	20.79%

Report of the Directors (Continued)

Name of Shareholders	Type of interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Pacific Alliance Asia Opportunity Fund L.P (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Equity Partners Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Asset Management Limited (Note 5)	Investment manager	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Holdings Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Investment Management Limited (Note 5)	Interest of controlled corporations	98,365,500 (L)	43.35%	20.79%
Walden Ventures Limited (Note 5)	Beneficial owner and person having a security interest in shares	98,365,500 (L)	43.35%	20.79%

Notes:

- Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
- Zhang Gaobo was holding 49% interest in Oriental Patron Financial Group Limited. Zhang Zhiping was holding 51% interest in Oriental Patron Financial Group Limited. Oriental Patron Financial Group Limited was holding 95% interest in Oriental Patron Financial Services Group Limited. Oriental Patron Resources Investment Limited was wholly-owned by Oriental Patron Financial Services Group Limited.
- Among the 29,352,400 shares in the Company, UBS AG was deemed to hold 141,000 shares through its securities interests in those shares and was deemed to have equity interests in 29,207,400 shares (UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd were wholly-owned by UBS AG, and beneficially held 20,497,400 shares, 4,695,000 shares and 4,015,000 shares in the Company, respectively).
- Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.
- Pacific Alliance Group Holdings Limited held 99.17% interests in Pacific Alliance Group Limited, which in turn held 90% interests in Pacific Alliance Investment Management Limited.

Pacific Alliance Investment Management Limited held 61.8% interests in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited held 100% interests in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 98,365,500 shares in its capacity as investment manager. ARC Capital Holdings Limited is a corporation controlled by ARC Capital Partners Limited for the purpose of Part XV of the SFO. ARC Capital Holdings Limited held 46.67% interests in Walden Ventures Limited, which in turn held 43.35% interest in H shares of the Company. In addition, Walden Ventures Limited held 32,788,500 H shares of the Company by virtue of its security interests in those shares, and held 65,577,000 H shares of the Company as beneficial owner.

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

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



Report of the Directors (Continued)

Save as disclosed above, as at 31 December 2012, so far as is known to the directors, supervisors and chief executive of the Company, no other person (not being a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

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

As at 31 December 2012, no directors, supervisors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules ("Model Code").

THE CONNECTED TRANSACTION

The airport composite services agreement of Haikou Meilan International Airport Co., Ltd. was entered into on 1 January 2011 in which the commencement and expiry dates are on 1 January 2011 and 31 December 2013, respectively. The service fees in 2012 was RMB18,460,854.

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

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

Report of the Directors (Continued)

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

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

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

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

1. The financial services agreement of HNA Group Finance was entered into on 25 May 2010 of which the commencement and expiry dates are 25 May 2010 and 25 May 2013. For the year 2012, the daily maximum deposits placed with HNA Group Finance did not exceeded RMB450,000,000.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Liang Jun	(re-appointed on 29 May 2012)
Mr. Yang Xiaobin	(duly appointed on 4 March 2013)
Mr. Yang Xuqiang	(duly appointed on 4 March 2013)

Non-executive Directors

Mr. Hu Wentai	(re-appointed on 29 May 2012)
Mr. Zhang Han’an	(re-appointed on 26 July 2010)
Mr. Chan Nap Kee, Joseph	(re-appointed on 15 October 2010)
Mr. Yan Xiang	(re-appointed on 15 October 2010)



Report of the Directors (Continued)

Independent non-executive Directors

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

Supervisors

Mr. Dong Guiguo	(re-appointed on 29 May 2012)
Ms. Zhang Shusheng	(re-appointed on 26 July 2010)
Mr. Han Aimin	(duly appointed on 23 August 2011)

The Directors and Supervisors who have resigned as at the date of this report for 2012 are as follows:

Mr. Liu Lu	(duly resigned on 4 March 2013)
Ms. Xing Xi Hong	(duly resigned on 4 March 2013)

Brief biographical details of the Directors and Supervisors of the Company are set out on page 44 to page 48 of this annual report. There is no relationship among the Directors that is discloseable under the Listing Rules.

Each of the Directors and Supervisors had entered into a service contract with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract with the Group which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the reported period, none of the Directors or Supervisors of the Company had any material interests (whether directly or indirectly) in any contracts of significance entered into by the Company or its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or Supervisors holds any interests in any competing businesses against the Company or any of its jointly-controlled entities or subsidiaries for the year ended 31 December 2012.

Report of the Directors (Continued)

REMUNERATION OF DIRECTORS AND SUPERVISORS

Pursuant to the service contracts entered into between the Company and Directors and Supervisors and the resolution passed at the general meeting, for the year 2012, the allowance paid to the Chairman of the Board and Executive Directors of the Company was RMB70,000 per person; the allowance paid to the Non-executive Director was RMB50,000 per person; the allowance paid to the Independent Non-executive Directors was RMB100,000 per person; and the allowance paid to the Supervisors was RMB20,000 per person. Apart from Executive Directors and Supervisor of Staff Representative, other Directors and Supervisors are not entitled to receive any other remuneration from the Company. In addition to the aforesaid allowance, the Executive Directors and Supervisor of Staff Representative are entitled to receive salaries in respect of their respective positions taken on a full-time basis in the Company. Details of the remuneration of Directors and Supervisors are set out in Note 7(5e) to the financial statements.

THE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the reporting period were either Directors or senior executives of the Company. Details of their remuneration are set out in Note 7(5f) to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company and there is no similar restriction against such rights under the relevant PRC law that is applicable to the Company as a joint stock limited company incorporated in the PRC. Therefore, the Company is not required to offer new shares, if any, to its existing shareholders on a pro-rata basis.

TRANSACTIONS IN ITS SECURITIES

As of 31 December 2012, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company had no redeemable securities as at 31 December 2012.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

The Group had no entrusted deposits and overdue time deposits as at 31 December 2012.

MATERIAL LITIGATION OR ARBITRATION

The Group had no material litigation or arbitration as at 31 December 2012.



Report of the Directors (Continued)

AUDITORS

As at 31 December 2012, the financial statements of the Group prepared in accordance with the PRC Accounting Principles and Policies were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company. According to the requirements of the 98th amendment to the Listing Rules, PRC companies listed in Hong Kong are allowed to prepare their financial statements in accordance with the PRC Accounting Principles. Since 2011, the Group has engaged PricewaterhouseCoopers Zhong Tian CPAs Limited Company to perform audit for the financial statements prepared by the Group in accordance with the China Standards on Auditing. Specific resolutions in relation to the above issue will be presented in the annual general meeting.

AUDIT COMMITTEE

The Company established an audit committee on 24 September 2002. The audit committee consists of three members, all of whom are Independent Non-executive Directors. Mr. Xu Bailing, an Independent Non-executive Director, is the chairman.

FIVE YEAR FINANCIAL SUMMARY

A table of the operating results, assets and liabilities of the Group for the last five financial years is set out on page 6.

PUBLIC FLOAT REQUIREMENT

As at the date of publication, from the public information held by the Company and to the knowledge of the directors, the public float was 226,913,000 H shares, representing 47.95% of the total share capital of the Company, which is in compliance with the minimum public float requirement pursuant to Rules 8.08 of the Listing Rules.

By the order of the Board

Liang Jun

Chairman

Hainan Province, the PRC
19 March 2013

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2012, the Supervisory Committee of the Company and its members have duly performed its duties in an honest and stringent manner and have undertaken various activities in an active and prudent manner to protect the interests of the Company and its shareholders in accordance with the provisions of the Company Law of the PRC (the “Company Law”) and the Company’s Articles of Association (the “Articles”).

The major activities of the Supervisory Committee during 2011 were as follows:

1. Attending meetings of the Board of Directors, and monitoring the decision making process of the Board of Directors in terms of regulatory compliance, legality and managerial system;
2. Attending meetings at the office of the Chairman of the Board, participating in important activities of the Company in the ordinary course of business, and monitoring the daily operation and management by the Chairman and other senior officers and providing constructive suggestions thereto; and
3. Reviewing the financial statements of the Company on a regular basis and the vouchers and accounts of the Company on an ad-hoc basis.

Having made the above efforts, the Supervisory Committee is of the view that the Directors, Chairman and other senior officers of the Company have diligently performed their obligations under the Articles and the resolutions passed in general meeting by the shareholders of the Company, honestly discharged their official function and acted in the interests of the Company and its shareholders as a whole without prejudice to the interests of any individual shareholder or employee of the Company. The Supervisory Committee further confirms that the management of the Company has provided leadership to the staff in operation management and market expansion, under which satisfactory results were achieved. The accounts of income and expenses have been well maintained, and the audit activities and financial management have been in compliance with the relevant rules and regulations.

Prior to the forthcoming annual general meeting of the Company, the Supervisory Committee has carefully reviewed the audited report and financial statements of the Company prepared by PricewaterhouseCoopers Zhong Tian CPAs Limited Company. It has also reviewed the Directors’ report and profit distribution proposal to be presented to the shareholders. The Supervisory Committee is of the view that the above reports give a true and fair view of the operating and financial position of the Company for the period under review. It further confirms that the above reports and proposals are prepared in compliance with the relevant laws and regulations and the Articles.

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

By Order of the Supervisory Committee

Dong Guiguo

Chairman of the Supervisory Committee

Hainan Province, the PRC

19 March 2013



Auditor's Report



普华永道

PwC ZT Shen Zi (2013) No. 10061
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To the Shareholders of
Hainan Meilan International Airport Company Limited,

We have audited the accompanying financial statements of Hainan Meilan International Airport Company Limited (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Auditor's Report (Continued)



普华永道

PwC ZT Shen Zi (2013) No. 10061
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OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai , the People's Republic of China
19 March 2013



Consolidated and Company's Balance Sheets

As at 31 December 2012

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

	Note(s)	31 December 2012 Consolidated	31 December 2011 Consolidated	31 December 2012 Company	31 December 2011 Company
ASSETS					
Current assets					
Cash at bank and on hand	5(1),10(1)	1,207,561,423	366,887,159	1,199,935,519	322,579,699
Accounts receivable	5(2),10(2)	96,799,948	145,125,372	93,389,312	138,163,766
Advances to suppliers	5(3)	2,331,951	6,076,495	2,097,679	5,286,661
Other receivables	5(4),10(3)	2,970,111	3,696,823	6,955,133	35,724,084
Interest receivable		5,557,907	1,793,832	5,557,907	1,793,832
Inventories		16,401	26,172	16,401	26,172
Other current assets	5(5)	31,991	1,293,397	—	117,534
Total current assets		1,315,269,732	524,899,250	1,307,951,951	503,691,748
Non-current Assets					
Long-term equity investments	5(6),10(4)	1,100,807,482	1,068,164,742	1,112,235,307	1,087,698,578
Fixed assets	5(7),10(5)	858,272,009	885,230,061	855,323,649	883,960,266
Construction in progress	5(8),10(6)	1,400,000	—	1,400,000	—
Intangible assets	5(9),10(7)	144,075,524	147,238,713	144,075,524	147,238,713
Long-term prepaid expenses		4,186,725	5,686,823	4,186,725	5,686,823
Deferred tax assets	5(10)	3,872,680	4,421,740	3,872,680	4,421,740
Other non-current assets	5(3),7(7)	439,361,200	219,361,200	439,361,200	219,361,200
Total non-current assets		2,551,975,620	2,330,103,279	2,560,455,085	2,348,367,320
Total assets		3,867,245,352	2,855,002,529	3,868,407,036	2,852,059,068

Consolidated and Company's Balance Sheets (Continued)

As at 31 December 2012

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

	Note(s)	31 December 2012 Consolidated	31 December 2011 Consolidated	31 December 2012 Company	31 December 2011 Company
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable	5(11),10(8)	7,247,254	17,575,257	7,247,254	17,051,068
Advances from customers	5(12)	15,086,286	8,885,537	15,024,385	8,823,636
Employee benefits payable	5(13)	50,912,367	51,683,674	48,014,815	46,313,764
Taxes payable	5(14)	19,987,066	11,967,808	18,198,034	11,654,593
Interest payable	5(15)	52,695,667	3,508,354	52,695,667	3,508,354
Dividends payable	5(16)	666,000	666,000	666,000	666,000
Other payables	5(17)	81,485,375	75,885,685	108,514,578	92,960,683
Current portion of non-current liabilities	5(18)	115,139,000	61,858,550	115,139,000	61,858,550
Total current liabilities		343,219,015	232,030,865	365,499,733	242,836,648
Non-current liabilities					
Long-term borrowings	5(18)	282,806,487	398,956,700	282,806,487	398,956,700
Bonds payable	5(19)	791,253,935	—	791,253,935	—
Other non-current liabilities	5(20)	10,770,000	8,370,000	10,770,000	8,370,000
Total non-current liabilities		1,084,830,422	407,326,700	1,084,830,422	407,326,700
Total liabilities		1,428,049,437	639,357,565	1,450,330,155	650,163,348
Shareholders' equity					
Share capital	5(21)	473,213,000	473,213,000	473,213,000	473,213,000
Capital surplus	5(22)	699,650,702	699,484,654	699,650,702	699,484,654
Surplus reserve	5(23)	246,394,231	216,748,099	246,394,231	216,748,099
Undistributed profits	5(24)	1,003,637,763	815,766,996	998,818,948	812,449,967
Total capital and reserves attributable to shareholders of the Company		2,422,895,696	2,205,212,749	2,418,076,881	2,201,895,720
Minority interest	5(25)	16,300,219	10,432,215	—	—
Total shareholders' equity		2,439,195,915	2,215,644,964	2,418,076,881	2,201,895,720
Total liabilities and shareholders' equity		3,867,245,352	2,855,002,529	3,868,407,036	2,852,059,068

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Zhang Peihua

Person in charge of accounting department:
Lin Xiaosai



Consolidated and Company's Income Statements

For the year ended 31 December 2012

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

	Note(s)	2012 Consolidated	2011 Consolidated	2012 Company	2011 Company
Revenue	5(26),10(9)	684,069,464	564,892,282	608,969,001	497,659,598
Less: Operating costs	5(26)	(221,370,584)	(209,714,326)	(173,122,386)	(164,937,736)
Taxes and surcharges	5(27)	(24,405,747)	(18,414,798)	(21,299,381)	(15,746,903)
General and administrative expenses	5(26)	(78,053,227)	(68,398,680)	(69,393,623)	(60,093,744)
Financial expenses — net	5(28),10(10)	(50,166,226)	9,030,708	(50,183,124)	8,589,969
Reversal of/(Provision of) asset					
Add: Impairment losses	5(29)	1,146,194	(377,217)	1,146,194	(377,217)
Investment income	5(30),10(11)	33,143,811	25,574,988	36,669,681	28,124,988
Including: Share of profit of an associate		32,476,692	25,574,988	32,476,692	25,574,988
Operating profit		344,363,685	302,592,957	332,786,362	293,218,955
Add: Non-operating income	5(31),10(12)	2,781,516	27,582,799	2,781,516	27,521,526
Less: Non-operating expenses		(387,577)	(647,219)	(164,963)	(636,832)
Including: Loss on disposal of non-current assets		(139,282)	(612,832)	(139,282)	(612,832)
Total profit		346,757,624	329,528,537	335,402,915	320,103,649
Less: Income tax expenses	5(32),10(13)	(43,240,623)	(35,287,735)	(38,941,592)	(32,551,786)
Net profit		303,517,001	294,240,802	296,461,323	287,551,863
Attributable to shareholders of the Company		297,963,109	289,778,081	296,461,323	287,551,863
Minority interest		5,553,892	4,462,721	—	—
Earnings per share					
Basic earnings per share	5(33)	0.63	0.61	N/A	N/A
Diluted earnings per share	5(33)	0.63	0.61	N/A	N/A
Other comprehensive income	5(6)	166,048	—	166,048	—
Total comprehensive income		303,683,049	294,240,802	296,627,371	287,551,863
Attributable to shareholders of the Company		298,129,157	289,778,081	296,627,371	287,551,863
Minority interest		5,553,892	4,462,721	—	—
Dividends	5(34)	145,749,604	70,981,950	145,749,604	70,981,950

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

Legal representative:

Liang Jun

Person in charge of accounting function:

Zhang Peihua

Person in charge of accounting department:

Lin Xiaosai

Consolidated and Company's Cash Flow Statements

For the year ended 31 December 2012

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

	Note(s)	2012 Consolidated	2011 Consolidated	2012 Company	2011 Company
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		739,741,831	612,064,711	661,090,398	548,337,571
Refund of taxes and surcharges		568,000	362,000	568,000	362,000
Cash received relating to other operating activities		113,692,273	119,203,928	158,075,833	113,171,366
Sub-total of cash inflows		854,002,104	731,630,639	819,734,231	661,870,937
Cash paid for goods and services		(118,422,636)	(123,719,975)	(64,566,670)	(76,856,087)
Cash paid to and on behalf of employees		(69,310,965)	(56,648,595)	(51,243,301)	(43,452,260)
Payments of taxes and surcharges		(64,990,804)	(51,679,725)	(60,446,173)	(44,822,001)
Cash paid relating to other operating activities		(153,540,129)	(191,690,064)	(151,772,165)	(187,410,500)
Sub-total of cash outflows		(406,264,534)	(423,738,359)	(328,028,309)	(352,540,848)
Net cash flows from operating activities	5(35),10(14)	447,737,570	307,892,280	491,705,922	309,330,089
Cash flows from investing activities					
Cash received from investment income		—	—	4,080,000	2,550,000
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		267,305	3,461,662	275,468	3,394,362
Cash received from disposal of a subsidiary		10,595,274	—	13,319,000	—
Cash received from other investment activities		3,000,000	3,000,000	3,000,000	3,000,000
Sub-total of cash inflows		13,862,579	6,461,662	20,674,468	8,944,362
Cash paid to acquire fixed assets and intangible assets		(242,473,627)	(236,417,264)	(251,157,888)	(235,383,662)
Net cash paid for acquisition of subsidiaries and other business units		—	(980,870,950)	(5,100,000)	(980,870,950)
Cash paid relating to other investing activities		(4,354,050)	—	(4,354,050)	—
Sub-total of cash outflows		(246,827,677)	(1,217,288,214)	(260,611,938)	(1,216,254,612)
Net cash flows from investing activities		(232,965,098)	(1,210,826,552)	(239,937,470)	(1,207,310,250)



Consolidated and Company's Cash Flow Statements (Continued)

For the year ended 31 December 2012

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

Note(s)	2012 Consolidated	2011 Consolidated	2012 Company	2011 Company
Cash flows from financing activities				
Cash received from capital contributions	4,900,000	—	—	—
Cash received from capital contributions by minority shareholders of subsidiaries	4,900,000	—	—	—
Cash received from borrowings	—	456,815,250	—	456,815,250
Cash received from issuing bonds	790,400,000	—	790,400,000	—
Sub-total of cash inflows	795,300,000	456,815,250	790,400,000	456,815,250
Cash repayments of borrowings	(66,646,002)	(4,000,000)	(66,646,002)	(4,000,000)
Cash payments for distribution of dividends or profits and interest expenses	(102,601,407)	(143,413,586)	(98,015,517)	(140,963,586)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries	(3,920,000)	(2,450,000)	—	—
Cash payments for other financing activities	(197,641)	—	(197,641)	—
Sub-total of cash outflows	(169,445,050)	(147,413,586)	(164,859,160)	(144,963,586)
Net cash flows from financing activities	625,854,950	309,401,664	625,540,840	311,851,664
Effect of foreign exchange rate changes on cash and cash equivalents	46,842	(133,587)	46,528	(133,587)
Net (decrease)/increase in cash and cash equivalents	840,674,264	(593,666,195)	877,355,820	(586,262,084)
Add: Cash and cash equivalents at beginning of the year	366,887,159	960,553,354	322,579,699	908,841,783
Cash and cash equivalents at end of the year	1,207,561,423	366,887,159	1,199,935,519	322,579,699

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Zhang Peihua

Person in charge of accounting department:
Lin Xiaosai

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2012

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

	Attributable to shareholders of the Company					Minority interest	Total share holders' equity
	Share capital	Capital Reserves	Surplus Reserves	Undistributed profits			
	Note(s)	5(21)	5(22)	5(23)	5(24)		
Balances at 1 January 2011		473,213,000	699,484,654	187,992,913	682,511,611	8,419,494	2,051,621,672
Net profit of the year		—	—	—	289,778,081	4,462,721	294,240,802
Surplus reserves		—	—	28,755,186	(28,755,186)	—	—
Profit distributed to shareholders		—	—	—	(127,767,510)	(2,450,000)	(130,217,510)
Balances at 31 December 2011		473,213,000	699,484,654	216,748,099	815,766,996	10,432,215	2,215,644,964
Balances at 1 January 2012		473,213,000	699,484,654	216,748,099	815,766,996	10,432,215	2,215,644,964
Disposal of a subsidiary	4(3)	—	—	—	—	(665,888)	(665,888)
Net profit of the year		—	—	—	297,963,109	5,553,892	303,517,001
Other comprehensive income							
— share of other comprehensive income of an associate		—	166,048	—	—	—	166,048
Surplus reserves		—	—	29,646,132	(29,646,132)	—	—
Capital Injected by minority shareholders		—	—	—	—	4,900,000	4,900,000
Profit distributed to shareholders	5(24)	—	—	—	(80,446,210)	(3,920,000)	(84,366,210)
Balances at 31 December 2012		473,213,000	699,650,702	246,394,231	1,003,637,763	16,300,219	2,439,195,915

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Zhang Peihua

Person in charge of accounting department:
Lin Xiaosai



Company's Statement of Changes in Shareholders' Equity

For the year ended 31 December 2012

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

	Note(s)	Share capital	Capital Reserves	Surplus Reserves 5(23)	Undistributed profits 5(24)	Total share holders' equity
Balances at 1 January 2011		473,213,000	699,484,654	187,992,913	681,420,800	2,042,111,367
Net profit of the year		—	—	—	287,551,863	287,551,863
Surplus reserves		—	—	28,755,186	(28,755,186)	—
Profit distributed to shareholders		—	—	—	(127,767,510)	(127,767,510)
Balances at 31 December 2011		473,213,000	699,484,654	216,748,099	812,449,967	2,201,895,720
Balances at 1 January 2012		473,213,000	699,484,654	216,748,099	812,449,967	2,201,895,720
Net profit of the year		—	—	—	296,461,323	296,461,323
Other comprehensive income						
— share of other comprehensive income of an associate		—	166,048	—	—	166,048
Surplus reserves		—	—	29,646,132	(29,646,132)	—
Profit distributed to shareholders	5(24)	—	—	—	(80,446,210)	(80,446,210)
Balances at 31 December 2012		473,213,000	699,650,702	246,394,231	998,818,948	2,418,076,881

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

Legal representative:
Liang Jun

Person in charge of accounting function:
Zhang Peihua

Person in charge of accounting department:
Lin Xiaosai

Notes to Financial Statements

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

1 GENERAL INFORMATION

Hainan Meilan International Airport Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 28 December 2000. The legal address and head office is at Haikou City, Hainan Province, the PRC. The Company’s H-shares have been listed on The Stock Exchange of Hong Kong Limited since 18 November 2002. The Company and its subsidiaries (collectively the “Group”) are mainly engaged in the operation of the Meilan Airport in Hainan Province, the PRC (the “Meilan Airport”) and certain ancillary commercial businesses. The parent company and the ultimate holding company of the Company is Haikou Meilan Airport Co., Ltd. (“Haikou Meilan”), a state-owned enterprise established in the PRC with limited liability.

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of preparation

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

2.2 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2012 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Consolidated and the Company as of 31 December 2012 and of their financial performance, cash flows and other information for the year then ended.

2.3 Accounting year

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

2.4 Recording currency

The recording currency is Renminbi (RMB).

2.5 Business Combinations

(a) Business combinations involving enterprises under common control

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

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.5 Business Combinations (Continued)

- (b) Business combinations involving enterprises not under common control

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

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

2.6 Preparation of consolidated financial statements

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

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

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

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

2.7 Cash and cash equivalents

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

2.8 Foreign currency translation

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

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

2.8 Foreign currency translation (Continued)

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

2.9 Financial instrument

(a) Financial assets

(i) *Classification of financial assets*

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

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

(ii) *Recognition and measurement*

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

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

(iii) *Impairment of financial assets*

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

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

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

2.9 Financial instrument (Continued)

(a) Financial assets (Continued)

(iv) *Derecognition of financial assets*

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

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

(b) Financial liabilities

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

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

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

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

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

2.10 Receivables

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

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.10 Receivables (Continued)

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

2.11 Inventories

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

2.12 Long-term equity investments

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

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

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

(a) Determining initial investment cost

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

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

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

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

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

2.12 Long-term equity investments (Continued)

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

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

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

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

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

(d) Impairment of long-term equity investments

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

2.13 Fixed assets

(a) Recognition and initial measurement of fixed assets

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

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

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

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

2.13 Fixed assets (Continued)

(b) Depreciation method of fixed assets

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

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

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

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

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

(d) Fixed assets disposal

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

2.14 Construction in progress ("CIP")

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.15 Borrowing costs

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

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

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

2.16 Intangible assets

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

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

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

2.17 Long-term prepaid expenses

Long-term prepaid expenses mainly include the expenditure have been incurred but should be recognized as expenses over more than one year in the current and subsequent period. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

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

2.18 Impairment of long-term assets

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

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

2.19 Employee benefits

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

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

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

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

2.20 Dividend distribution

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

2.21 Revenue recognition

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.21 Revenue recognition (Continued)

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

- (a) Rending of services
 - Services have been provided;
 - It is probable that the economic benefits associated with the transaction will flow to the Group; and
 - the relevant amount of revenue and costs can be measured reliably
- (b) Sales of goods
 - The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - It is probable that the economic benefits associated with the transaction will flow to the Group; and
 - The relevant amount of revenue and costs can be measured reliably.
- (c) Transfer of asset use rights

Interest income is recognized based on the time that other parties occupy cash of the Group using the effective interest method. Revenue from operating lease is recognized on a straight-line basis over the lease term.
- (d) Airport Fee

Airport fee represents Civil airport construction fee and Civil Aviation Development Fund (the “Airport Fee”) which are recognised when the related services are rendered to the outbound passengers departing from the airport. The charge rates of the Airport Fee are regulated by relevant authorities. Revenues are recognised according to the authorised charge rates attributable to the Company collected from outbound passengers

2.22 Government Grants

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

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

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.22 Government Grants (Continued)

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

2.23 Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

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

2.24 Lease

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.25 Segment information

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

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

2.26 Critical accounting estimates and judgments

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

Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) *Fixed assets*

The Group’s management determines the estimated useful lives and related depreciation charges for its fixed assets. This estimate is made based on management’s experience in operating airport and the conditions of the fixed assets. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charges where useful lives are shorter than previously estimated lives.

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

(b) *Impairment of financial assets*

Whenever events or changes in circumstances indicate that the carrying amounts of financial assets may not be recoverable, the Group will test whether financial assets have suffered any impairment in accordance with the accounting policies stated in Note 2.9. In making its judgment, the Group considers information from a variety of sources including discounted cash flow projections based on reliable estimates of future cash flows and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

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

2.26 Critical accounting estimates and judgments (Continued)

Critical accounting estimates and key assumptions (Continued)

(c) *Airport fee return rates*

Pursuant to the Measures for the Collection, Use and Management of the Civil Aviation Development Fund (民航發展基金徵收使用管理暫行辦法), promulgated by the Ministry of Finance of the PRC, the airport construction fee and Civil Aviation Infrastructure Construction fund have collectively replaced by the Civil Aviation Development Fund since 1 April 2012., which will be implemented until 31 December 2015.

According to the notice about the subsidy of Civil Aviation Development Fund issued by Civil Aviation Administration of China (“CAAC”) on 11 April 2012, the previous subsidies of airport construction fee refund granted to the Group has been changed to the subsidies of Civil Aviation Development Fund correspondingly. As the charge rates of the Airport Fee were regulated by relevant authorities and the nature and refund method of both subsidies are basically the same, what’s more, the Company did not receive any notice from relevant authorities for the updated charge rates attributable to the Company on the Airport Fee collected from outbound passengers during the year, and the actual refund rate of the airport construction fee was 48% since 2008, the Group has, according to the best estimates made by the management, recognised the refund percentage of Civil Aviation Development Fund as 48%.

3 TAXATION

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

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	25%
Business tax	Taxable turnover amount	3% or 5%
City maintenance and construction tax	Business tax paid	5% or 7%
Surcharge for education	Business tax paid	3%
Local surcharge for education	Business tax paid	2%

(2) Preferential tax treatments and approval document

According to “Measures for tax preference on investment issued by the People’s Government of Hainan Province”, the group’s applicable CIT rate is 15% being a sino-foreign invested enterprise.

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

Pursuant to the approval document (Hai Guo Shui Han [2008] No.13) issued by Haikou State Tax Bureau on 2 February 2008, the Company was entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013. Therefore, the applicable tax rate for the Company in 2012 is 12.5% (2011: 12%). The applicable tax rate for Company’s subsidiaries in 2012 is 25% (2011: 24%).



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

4 BUSINESS COMBINATION AND CONSOLIDATION

(1) Subsidiaries

Subsidiaries obtained through incorporation

	Type of subsidiaries	Place of registration	Principal activities	Paid up Capital RMB'000	Interest held (%)	Voting rights (%)	Whether consolidate the financial statements or not
Haikou Meilan International Airport Advertising Co., Ltd. ("Meilan Advertising")	subsidiary	Haikou	Provision of advertising services	1,000	Directly 95 Indirectly 4.75	100	Yes
Haikou Meilan International Airport Duty Free Shop Ltd. ("Meilan Duty free shop")	subsidiary	Haikou	Retail sales	1,000	95	100	Yes
Hainan Meilan International Airport Cargo Co., Ltd. ("Meilan Cargo")*	subsidiary	Haikou	Provision of cargo service	20,000	51	60	Yes

* In 2012, the Company and Baixiang Logistic Company Limited ("Baixiang Logistic") paid the subsequent contribution to Meilan Cargo of RMB5,100,000 and RMB4,900,000 respectively according to the contribution agreement. After the contribution, the paid-up share capital of Meilan Cargo has become RMB20,000,000, which is consistent with the registered capital, and the shareholding proportions of the Company and Baixiang Logistic was the same as before. Business registration has been updated accordingly.

(2) Entities excluded from the consolidation scope in the current year

	Net assets on disposal date	Net profit earned from the beginning of the year to the disposal date
Hainan Meilan International Airport Travelling Co., Ltd. ("Meilan Travelling")	13,317,769	—

Meilan Travelling is excluded from the consolidation scope in the current year due to loss of control resulted from disposal of equity interests (note 4(3), note 10(4)).

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

4 BUSINESS COMBINATION AND CONSOLIDATION (Continued)

(3) Disposal of subsidiaries due to loss of control caused by disposal of equity interest

	Disposal date	Recognition of profit or loss
Meilan Travelling	1 January 2012	Calculated as described in Note 4(3)(iii)

The Company originally held 95% of the equity interest and 100% of the voting rights in Meilan Travelling, which is incorporated in Haikou, People's Republic of China, and it is mainly engaged in domestic tourism business, including agency of transportation, sightseeing, accommodation, catering services and airport shuttle bus services etc.

Pursuant to the agreement of *Share Rights Transfer Agreement of Hainan Meilan International Airport Travelling Co., Ltd* signed on the date of 16 December 2011 between the Company, Haikou Meilan and Grand China Aviation Ground Service Co., Ltd ("Grand China"), the Company and Haikou Meilan transferred the 95% and 5% shares of interest which were held by them respectively on Meilan Travelling to Grand China at a consideration of RMB14,020,000. The consideration for the 95% share of the Company was RMB13,319,000. The change of business registration was completed in January 2012.

(i) The proceeds and cash flows from the disposal are as follows:

	Amount
Proceeds from disposal	13,319,000
Cash received from disposal	13,319,000
Less: cash held by Meilan Travelling	(2,723,726)
Net cash received from disposal	10,595,274

(ii) Net assets of Meilan Travelling are as follows:

	1 January 2012
Current assets	22,395,041
Non-current assets	95,414
Current liabilities	(9,172,686)
Total	13,317,769



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

4 BUSINESS COMBINATION AND CONSOLIDATION (Continued)

(3) Disposal of subsidiaries due to loss of control caused by disposal of equity interest (Continued)

(iii) The calculation of profit or loss on disposal is as follows:

	Amount
Proceeds from disposal	13,319,000
Less: The Company's share of Meilan Travelling's net asset	(12,651,881)
Including: Net assets of Meilan Travelling at the disposal date	(13,317,769)
Minority interests of Meilan Travelling	665,888
Investment income generated from disposal	667,119

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2012	31 December 2011
Cash on hand	106,603	47,476
Cash at bank	1,207,454,820	366,839,683
	1,207,561,423	366,887,159

(2) Accounts receivable

	31 December 2012	31 December 2011
Accounts receivable by nature		
— from aeronautical services	76,642,082	122,708,420
— from non-aeronautical services	23,735,303	27,140,583
	100,377,385	149,849,003
Less: provision for bad debts	(3,577,437)	(4,723,631)
	96,799,948	145,125,372

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

	31 December 2012	31 December 2011
Accounts receivable by customers		
— from third parties	74,018,098	60,870,152
Less: provision for bad debts	(3,577,437)	(4,723,631)
	70,440,661	56,146,521
— from related parties	26,359,287	88,978,851
	96,799,948	145,125,372

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

As at 31 December 2012, the ageing of accounts receivable is analysed below:

	31 December 2012	31 December 2011
Within 90 days	66,058,342	88,419,162
91 to 180 days	6,812,630	10,473,887
181 to 365 days	15,255,325	33,044,367
Over 365 days	12,251,088	17,911,587
	100,377,385	149,849,003

As at 31 December 2012, the Group performed impairment test on accounts receivable from third parties with the specific identification method. Based on which amount equalling to RMB21,801,229 (31 December 2011: RMB250,000) has been identified as past due but not impaired. The ageing analysis of these trade receivables is as follows:

	31 December 2012	31 December 2011
91 to 180 days	3,016,040	—
181 to 365 days	13,317,158	—
Over 365 days	5,468,031	250,000
	21,801,229	250,000



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

The balance within 365 days related to a number of customers for whom there is no recent history of default, which could expect to be recovered within one year. Those above 365 days has been entrusted to CAAC Settlement Center for recovery, and the management has proposed to recover the account receivable with airlines subsidies which should be paid for the corresponding clients, with whom the management is discussing the payment scheme.

As at 31 December 2012, accounts receivable from related parties of RMB7,901,089 (31 December 2011: RMB53,443,522) are past due but not impaired. The ageing analysis of these trade receivables is as follows:

	31 December 2012	31 December 2011
91 to 180 days	2,833,814	8,398,905
181 to 365 days	1,553,786	30,402,952
Over 365 days	3,513,489	14,641,665
	7,901,089	53,443,522

The balance within 365 days related to a number of related parties for whom there is no recent history of default, which could expect to be recovered within one year. Those above 365 days were under discussion of the repayment between the Company and the related parties.

The impairment of Account receivables is as follows:

	31 December 2011	Addition	Reductions		31 December 2012
			Reversals	Written off	
Provision for bad debts	4,723,631	—	(1,146,194)	—	3,577,437

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Advances to suppliers

	31 December 2012	31 December 2011
Advances to suppliers	441,693,151	225,437,695
Less: Advances to Haikou Meilan related to the investment agreement disclosed in other non-current assets	(439,361,200)	(219,361,200)
	2,331,951	6,076,495

The ageing of advances to suppliers is analysed below:

	31 December 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	222,331,951	50.34	225,298,132	99.94
1 to 2 years	219,361,200	49.66	139,563	0.06
	441,693,151	100	225,437,695	100

As at 31 December 2012, the balance of advance to Haikou Meilan related to the investment agreement is RMB439,361,200 (31 December 2011: RMB219,361,200), please refer to note 7 (7).

(4) Other receivables

The ageing of other receivables is analysed below:

	31 December 2012	31 December 2011
Within 90 days	300,266	930,189
91 to 180 days	1,074,491	157,723
181 to 365 days	205,372	189,344
Over 365 days	1,389,982	2,419,567
	2,970,111	3,696,823



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other current assets

	31 December 2012	31 December 2011
Prepayment of Enterprise Income tax	30,196	1,175,863
Prepayment of other taxes	1,795	117,534
	31,991	1,293,397

(6) Long-term equity investments

Associates — Unlisted companies

	31 December 2011	Share of other comprehensive income — public demolition compensation	Share of profit of investees under equity method	31 December 2012	Interest Held (%)	Voting Rights
Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng")	30,874,651	—	—	30,874,651	30	1/3
Hainan Airlines Airport Holding Group Company Limited ("HNA Airport")	1,037,290,091	166,048	32,476,692	1,069,932,831	24.5	1/7
	1,068,164,742	166,048	32,476,692	1,100,807,482		

No significant restrictions on the long term equity investments.

	31 December 2012			2012	
	Total assets	Total liabilities	Net assets	Revenue	Net profits
Associates —					
Haikou Decheng	914,105,940	811,190,437	102,915,503	—	—
HNA Airport	13,378,656,240	7,479,888,902	5,898,767,338	995,296,419	182,822,455

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and others	Total
Cost					
31 December 2011	960,449,729	215,598,361	92,477,089	61,494,131	1,330,019,310
Transfer from CIP	8,151,458	1,778,155	—	—	9,929,613
Other additions	—	883,738	9,162,800	4,409,625	14,456,163
Disposals of a subsidiary	—	—	(109,198)	(250,721)	(359,919)
Other disposal	—	—	(1,274,282)	(881,668)	(2,155,950)
31 December 2012	968,601,187	218,260,254	100,256,409	64,771,367	1,351,889,217
Accumulated Depreciation					
31 December 2011	(234,176,343)	(115,194,416)	(52,971,479)	(42,447,011)	(444,789,249)
Depreciation charged	(25,221,139)	(16,289,316)	(5,815,200)	(3,818,863)	(51,144,518)
Disposal of subsidiary	—	—	94,642	169,863	264,505
Other decreases	—	—	1,165,313	886,741	2,052,054
31 December 2012	(259,397,482)	(131,483,732)	(57,526,724)	(45,209,270)	(493,617,208)
Net book value					
31 December 2012	709,203,705	86,776,522	42,729,685	19,562,097	858,272,009
31 December 2011	726,273,386	100,403,945	39,505,610	19,047,120	885,230,061

Depreciation expenses of RMB50,516,015 and RMB628,503 were charged in operating costs and general and administrative expenses in the current year (for the year of 2011, the amounts are: RMB55,799,363 and RMB563,847).



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Construction in progress

	31 December 2011	Increase in current year	Transfer to fixed assets in current year	31 December 2012
Parking lane renovation	—	2,382,194	(2,382,194)	—
Restroom renovation	—	5,836,300	(5,836,300)	—
Airport broadcasting system renovation	—	1,400,000	—	1,400,000
Others	—	1,711,119	(1,711,119)	—
	—	11,329,613	(9,929,613)	1,400,000

(9) Intangible assets

	Land use right
Cost	
31 December 2011 and 31 December 2012	179,637,283
Accumulated amortisation	
31 December 2011	(32,398,570)
Amortisation in current year	(3,163,189)
31 December 2012	(35,561,759)
Net book amount	
31 December 2012	144,075,524
31 December 2011	147,238,713

Amortisation expenses of RMB3,163,189 (for the year of 2011: RMB3,163,189) were charged in operating costs in current year.

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Intangible assets (Continued)

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

	31 December 2012	31 December 2011
Inside Mainland China—		
between 10 to 50 years	59,844,117	61,454,272
over 50 years	84,231,407	85,784,441
	144,075,524	147,238,713

(10) Deferred tax assets

	31 December 2012		31 December 2011	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for asset impairment	447,180	3,577,437	590,454	4,723,631
Accrued termination costs	1,166,880	6,375,492	1,528,494	8,104,854
Accrued bonus for directors, supervisors and key management	2,258,620	18,068,956	2,302,792	18,422,334
	3,872,680	28,021,885	4,421,740	31,250,819

As at 31 December 2012, no deferred tax liabilities existed (31 December 2011: nil).

(11) Accounts payable

The ageing of accounts payable is analysed below:

	31 December 2012	31 December 2011
Within 90 days	5,152,321	12,297,551
91 to 180 days	316,553	745,955
Over 180 days	1,778,380	4,531,751
	7,247,254	17,575,257



Notes to Financial Statements (Continued)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Advances from customers

	31 December 2012	31 December 2011
User fees of VIP room	4,682,250	5,756,564
Airport fee	4,550,141	—
Transfer fund of land use rights	3,128,973	3,128,973
Landing fees	2,724,922	—
	15,086,286	8,885,537

(13) Employee benefits payable

	31 December 2011	Additions	Reductions	31 December 2012
Wages and salaries, bonuses, allowances and subsidies	38,332,678	52,926,828	(49,163,851)	42,095,655
Staff welfare	—	1,854,616	(1,854,616)	—
Social security contributions	—	7,475,197	(7,474,622)	575
Including:				
Basic pensions	—	4,833,520	(4,833,520)	—
Medical insurance	—	1,910,023	(1,910,023)	—
Unemployment insurance	—	436,783	(436,783)	—
Work injury insurance	—	156,172	(156,172)	—
Maternity insurance	—	138,699	(138,124)	575
Housing funds	359,809	3,178,794	(3,007,036)	531,567
Labor union and employee education funds	3,290,084	1,335,720	(3,766,106)	859,698
Termination costs	9,701,103	—	(2,276,231)	7,424,872
	51,683,674	66,771,155	(67,542,462)	50,912,367

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Taxes payable

	31 December 2012	31 December 2011
Corporate income tax payable	11,037,359	5,538,122
Business tax payable	6,245,380	3,825,557
Real estate tax payable	2,170,700	1,499,488
Individual income tax payable	97,545	370,950
Others	436,082	733,691
	19,987,066	11,967,808

(15) Interest payable

	31 December 2012	31 December 2011
Interest of long-term borrowings with periodic payments of interest and principal	2,949,000	3,508,354
Interest of corporate bonds	49,746,667	—
	52,695,667	3,508,354

(16) Dividends payable

	2012	2011
Dividends payable of ordinary shares at the beginning of the year	666,000	666,000
Add: Dividends payable of ordinary shares in current year (Note 5(24))	80,446,210	127,767,510
Less: Dividends and withholding tax paid in current year	(80,446,210)	(127,767,510)
Dividends payable of ordinary shares at the end of the year	666,000	666,000



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Other payables

	31 December 2012	31 December 2011
Airport ground services payable collected on behalf	18,648,934	30,481,334
Construction and quality deposit payables	24,536,724	11,056,019
Deposit guarantees	11,408,455	10,536,355
Plant and other equipment repairs expenses	6,085,105	6,419,698
Airlines subsidy payables	4,700,000	5,531,976
Others	16,106,157	11,860,303
	81,485,375	75,885,685

(18) Long-term borrowings

	31 December 2012	31 December 2011
Secured borrowings	397,945,487	460,815,250
Less: current portion of long-term borrowings	(115,139,000)	(61,858,550)
	282,806,487	398,956,700

As at 31 December 2012, the weighted average interest rate of long-term borrowings is 3.73% (31 December 2011: 3.74%).

As at 31 December 2012, bank borrowings of USD62,993,475, equivalent to RMB395,945,487 (31 December 2011: USD72,500,000, equivalent to RMB456,815,250) are secured by the 24.5% interest of HNA Airport held by the Group. Interest is payable every quarter and the principal is due for repayment on installment before 26 January 2016.

As at 31 December 2012, bank borrowings of RMB2,000,000 (31 December 2011: RMB4,000,000) are secured by the Group's operating revenue. Interest is payable every quarter and the principal is due for repayment on 17 June 2013.

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Bonds payable

	31 December 2011	Issuance in current year	Issuance expenses in current year	Amortization in current year	31 December 2012
Long term corporate bonds	—	800,000,000	(9,600,000)	853,935	791,253,935

Related information is as follows:

	Par value	Issuance date	Maturity	Issuance amount
Corporate bonds	800,000,000	13 March 2012	7 years	800,000,000

Interest accrued of the bonds is analysed as follows:

	31 December 2011	Interest accrued in current year	Interest paid in current year	31 December 2012
Bonds payable	—	49,746,667	—	49,746,667

Under No. [2011] 2082 approved by China Securities Regulatory Commission ("CSRC"), the Company issued corporate bonds with a total amount of RMB800,000,000 and duration of 7 years on 13 March 2012. Interest of the bonds is annually paid on 15 March and calculated by the simple interest method, and the interest rate is 7.8% annually.

(20) Other non-current liabilities

	2012	2011
Government grants relevant to assets		
— Fire alarm system subsidiaries		
31 December 2011	8,370,000	5,800,000
Addition	3,000,000	3,000,000
Amortisation	(600,000)	(430,000)
31 December 2012	10,770,000	8,370,000

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Share capital

	31 December 2012 and 31 December 2011 (Number of shares)	31 December 2012 and 31 December 2011 (RMB)
Shares held by domestic legal entities		
Haikou Meilan	237,500,000	237,500,000
HNA Group company Limited ("HNA Group")	3,512,500	3,512,500
Hainan Airlines Company Limited ("Hainan Airlines")	5,287,500	5,287,500
Shares held by foreign investors	226,913,000	226,913,000
	473,213,000	473,213,000

(22) Capital reserve

	31 December 2012	31 December 2011
Capital premium	598,983,655	598,983,655
Other capital reserve	100,500,999	100,500,999
Public demolition compensation of an associate	166,048	—
	699,650,702	699,484,654

(23) Surplus reserve

	31 December 2011	Additions	Reductions	31 December 2012
Statutory surplus reserve	216,748,099	29,646,132	—	246,394,231

	31 December 2010	Additions	Reductions	31 December 2011
Statutory surplus reserve	187,992,913	28,755,186	—	216,748,099

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Surplus reserve (Continued)

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities. The appropriate statutory surplus reserve of the Group for the current year is RMB29,646,132 (for the year of 2011: RMB28,755,186).

(24) Undistributed profits

As at 31 December 2012, included in the undistributed profits, RMB1,350,439 is subsidiaries' surplus reserve attributable to the Company (31 December 2011: RMB1,713,868), of which RMB578,308 is appropriated for the current year (2011: RMB465,679).

In accordance with the resolution at the Board of Directors' meeting dated on 24 October 2012, an interim cash dividend in the amount of RMB0.17 per share was paid to the shareholders, amounting to RMB80,446,210 (2011: paid 2010 annual cash dividend and 2011 interim cash dividend in the amount of RMB127,767,510). Please refer to Note 5(16).

(25) Minority interests

Minority equity attributable to the minority shareholders of the subsidiaries

Subsidiaries	Minority	31 December 2012	31 December 2011
Meilan Cargo	Baixiang Logistic	16,381,082	9,844,788
Meilan Advertising	Haikou Meilan	2,062	3,929
Meilan Duty Free Shop	Haikou Meilan	(82,925)	(82,390)
Meilan Travelling	Haikou Meilan	—	665,888
		16,300,219	10,432,215



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2012	2011
Revenue		
<i>Aeronautical:</i>		
Passenger charges	159,726,149	152,339,324
Airport fee*	124,448,235	118,851,803
Aircraft movement fees and related charges	53,978,284	51,773,603
Ground handling services income	55,694,277	48,596,120
	393,846,945	371,560,850
<i>Non-aeronautical:</i>		
Franchise fee	136,888,777	63,473,770
Freight and packing	63,184,677	56,452,294
Rental	27,396,888	24,922,743
VIP room charge	31,691,201	26,023,343
Car parking	10,216,059	8,087,793
Others	20,844,917	14,371,489
	290,222,519	193,331,432
	684,069,464	564,892,282

* Airport Fee represents civil airport construction fee and Civil Aviation Development Fund. According to the Interim Measures for the Collection, Use and Management of the Civil Aviation Development Fund (《民航發展基金徵收使用管理暫行辦法》) promulgated by the Ministry of Finance and effective on 1 April 2012, Civil Aviation Development Fund is charged to passengers and the rate of charges remains the same as the former airport construction fee. Meanwhile, the former airport construction fee was abolished correspondingly.

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

	2012	2011
Employee benefit expenses	66,771,155	58,271,566
Depreciation of fixed assets	51,144,518	56,363,210
Airport and logistic composite services fee	46,292,222	44,633,537
Packaging materials expenses	26,182,067	24,249,886
Utilities	23,806,717	19,823,535
Repairs and maintenance	11,906,261	20,062,384
Other taxes	7,444,049	7,012,190
Airlines subsidies expenses	4,071,134	5,531,976
Amortisation of land use rights	3,163,189	3,163,189
Handling fees of CAAC Settlement Center	2,992,785	—
Audit fee	2,136,048	1,860,240
Other fees related to CPA firm	170,000	—
Travelling expenses	2,027,786	4,371,297

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Tax and surcharges

	2012	2011
Business tax	21,844,970	16,442,371
City maintenance and construction tax	1,472,595	1,103,313
Educational surcharge	1,088,182	869,114
	24,405,747	18,414,798

(28) Financial expenses/(income) – net

	2012	2011
Interest expenses	66,756,621	16,689,910
Including: Bank borrowings	17,009,954	16,689,910
Corporate bonds	49,746,667	—
Less: Interest income	(19,240,059)	(7,352,348)
Exchange gains	(600,078)	(21,326,125)
Amortisation of financial charges	2,354,033	1,555,601
Others	895,709	1,402,254
	50,166,226	(9,030,708)

Interest expenses are analysed by the repayment terms of bank borrowings and bonds payable as follows:

	31 December 2012		31 December 2011	
	Bank borrowings	Bonds payable	Bank borrowings	Bonds payable
Wholly repayable within five years	17,009,954	—	16,689,910	—
Not wholly repayable within five years	—	49,746,667	—	—
	17,009,954	49,746,667	16,689,910	—

(29) Reversal of/(Provision of) asset impairment losses

	2012	2011
Reversal of/(Provision of) bad debts of account receivable	1,146,194	(377,217)



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Investment income

	2012	2011
Disposal of equity interest — Meilan Travelling	667,119	—
Share of profit of investees under equity method — HNA Airport	32,476,692	25,574,988
	33,143,811	25,574,988

No significant restrictions on the repatriation of investment income.

Investment incomes from non-listed companies in 2012 amount to RMB33,143,811 in the Group (2011: RMB25,574,988).

(31) Non-operating income

	2012	2011
Gains on initial recognition of long-term investment on HNA Airport	—	26,490,103
Government grants	2,168,000	792,000
Gains on disposal of fixed assets	302,689	261,000
Others	310,827	39,696
	2,781,516	27,582,799

(32) Income tax expenses

	2012	2011
Current income tax	42,691,563	36,537,598
Deferred income tax	549,060	(1,249,863)
	43,240,623	35,287,735

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Income tax expenses (Continued)

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

	2012	2011
Total profit	346,757,624	329,528,537
Income tax expenses calculated at applicable tax rates	86,689,406	79,698,848
Effect of tax incentive	(41,925,364)	(32,551,786)
Income not subject to tax	(3,622,913)	(12,495,622)
Costs and expenses not deductible for tax purposes	1,602,494	662,212
Tax losses for which no deferred tax assets was recognised	—	(25,917)
Under provision in previous year	497,000	—
	43,240,623	35,287,735

(33) Earnings per share

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

	2012	2011
Profit attributable to ordinary shareholders of the Company (RMB)	297,963,109	289,778,081
Weighted average number of outstanding ordinary shares of the Company (share)	473,213,000	473,213,000
Basic earnings per share (RMB)	0.63	0.61

- (b) Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2012 (2011: nil), diluted earnings per share equal to basic earnings per share.



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Dividends

	2012	2011
2012 interim dividend paid of RMB0.17 per share (2011: RMB0.15 per share)	80,446,210	70,981,950
Proposed to distribute 2012 final dividend of RMB0.138 per share (2011: nil)	65,303,394	—
2010 final dividend paid of RMB0.12 per share	—	56,785,560
	145,749,604	127,767,510

In 2012, an interim cash dividend in the amount of RMB0.17 per share was paid to the shareholders (2011: paid 2010 annual cash dividend in the amount of RMB0.12 per share and 2011 interim cash dividend in the amount of RMB0.15 per share), amounting to RMB80,446,210 (2011: paid 2010 annual cash dividend in the amount of RMB56,785,560 and 2011 interim cash dividend in the amount of RMB70,981,950).

The Board proposed to distribute a final cash dividend of RMB0.138 per share for 2012, totaling RMB65,303,394 (2011: nil) at the coming annual general meeting for shareholders' approval. These financial statements do not reflect this dividend payable.

(35) Supplementary information to the consolidated cash flow statement

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

	2012	2011
Net profit	303,517,001	294,240,802
Add: (Reversal)/Provisions of asset impairment	(1,146,194)	377,217
Depreciation of fixed assets	51,144,518	56,363,210
Amortisation of intangible assets	3,163,189	3,163,189
(Gains)/Losses on disposal of fixed assets	(302,689)	351,832
Financial (expense)/income	68,510,576	(3,080,614)
Investment income	(33,143,811)	(25,574,988)
Gain on acquisition of HNA Airport 24.5% shares	—	(26,490,103)
Decrease/(increase) in deferred tax assets	549,060	(1,249,863)
Decrease/(increase) in inventories	9,771	(380)
Decrease in operating receivables	33,882,531	97,304,421
Increase/(decrease) in operating payables	21,553,618	(87,512,443)
Net cash flows from operating activities	447,737,570	307,892,280

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Supplementary information to the consolidated cash flow statement (Continued)

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

	2012	2011
Cash and cash equivalents at end of the year	1,207,561,423	366,887,159
Less: cash equivalents at beginning of the year	(366,887,159)	(960,553,354)
Net increase/(decrease) in cash and cash equivalents	840,674,264	(593,666,195)

(c) Cash paid relating to other operating activities

	2012	2011
Payment of Ground Service Fee collected on behalf of Haikou Meilan	123,870,555	175,479,123
Payment of travel expenses and other expenses	29,669,574	16,210,941
	153,540,129	191,690,064

6 SEGMENT INFORMATION

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

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



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company:

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

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

	31 December 2012 and 31 December 2011
Haikou Meilan	2,028,913,102

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

	31 December 2012 and 31 December 2011	
	% interest held	% voting rights
Haikou Meilan	50.19	50.19

(2) Information of subsidiaries

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

(3) Information of associates

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(4) Information of other related parties:

	Relationship with the Group
HNA Group	Has significant influence of Haikou Meilan
Hainan Developing Holding Company Limited ("Hainan Developing")	Has significant influence of Haikou Meilan
Hainan Airlines	Under control of Hainan Developing
Hainan Airlines Food Company Co. Ltd. ("Hainan Food")	Under control of HNA Group
Hainan Island Opal Property Management Co., Ltd ("Island Opal")	Under control of HNA Group
Beijing Capital Airlines Co. Ltd. ("Capital Airlines")	Under control of HNA Group
HNA Group Finance Co., Ltd ("HNA Group Finance")	Under control of HNA Group
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Under control of HNA Group
Luckyway International Travel Service Co. Ltd. ("Luckyway")	Under control of HNA Group
HNA Safe Car Rental Co. Ltd. ("HNA Safe")	Under control of HNA Group
Tianjin Airlines Co., Ltd. ("Tianjin Airlines")	Under control of HNA Group
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Under control of HNA Group
Western Airlines Co., Ltd. ("Western Airlines")	Under control of HNA Group
Grand China	Under control of HNA Group
Meilan Travelling	Under control of HNA Group

(5) Significant related party transactions

(a) Pricing policies

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

(b) Purchases of goods and services

	2012	2011
Hainan Airlines	26,182,067	24,249,886
Haikou Meilan	18,460,854	18,639,841
HNA Group	16,635,595	15,093,390
Island Opal	11,820,950	10,912,550
HNAAIS	3,495,292	1,348,061
Grand China	3,466,227	9,203,819
	80,060,985	79,447,547



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions (Continued)

(c) Rendering of services

	2012	2011
Hainan Airlines	107,832,499	113,728,992
Capital Airlines	22,644,494	16,267,959
Tianjin Airlines	8,108,798	8,017,313
HNA China Duty Free	5,228,498	4,693,944
Meilan Travelling	4,000,000	—
Western Airlines	3,494,447	2,221,399
Hainan Food	684,545	991,257
Luckyway	—	6,527,760
Others	408,468	14,373,352
	152,401,749	166,821,976

(d) Fees collected on behalf of a related party

	2012	2011
Ground Service Fee collected on behalf of Haikou Meilan	112,088,484	111,739,522

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions (Continued)

- (e) Key management personnel's emoluments
Key management personnel includes Executive directors, Non-executive directors, President, Vice president, Company Secretary, Chief Financial Officer and Supervisors.

Key management personnel's emoluments for the year ended 31 December 2012 are as follows:

Name	Remuneration	Salary and allowance	Pension	Total
Liang Jun	70,000	202,400	15,916	288,316
Liu Lu	28,342	32,750	2,203	63,295
Dong Zhanbin	41,658	164,400	11,509	217,567
Xing Xihong	70,000	42,000	4,653	116,653
Hu Wentai	50,000	216,650	15,916	282,566
Zhang Han'an	50,000	—	—	50,000
Chan Nap Kee, Joseph	50,000	—	—	50,000
Yan Xiang	50,000	—	—	50,000
Xu Bailing	100,000	—	—	100,000
Feng Da'an	100,000	—	—	100,000
Fung Ching, Simon	100,000	—	—	100,000
George F. Meng	100,000	—	—	100,000
Yang Xuqiang	—	102,600	9,711	112,311
Yang Xiaobin	—	169,212	15,915	185,127
Xing Zhoujin	30,000	136,350	15,915	182,265
Zhang Peihua	—	101,650	6,609	108,259
Dong Guiguo	20,000	—	—	20,000
Zhang Shusheng	20,000	—	—	20,000
Han Aimin	20,000	137,450	15,916	173,366



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Significant related party transactions (Continued)

- (e) Key management personnel's emoluments (Continued)

Key management personnel's emoluments for the year ended 31 December 2011 are as follows:

Name	Remuneration	Salary and allowance	Pension	Total
Zhao Yahui	4,834	18,083	—	22,917
Xing Xihong	70,000	168,000	16,787	254,787
Liang Jun	70,000	264,000	16,787	350,787
Zhang Han'an	50,000	—	—	50,000
Chan Nap Kee, Joseph	50,000	—	—	50,000
Yan Xiang	50,000	—	—	50,000
Hu Wentai	50,000	217,000	16,787	283,787
Xu Bailing	100,000	—	—	100,000
Fung Ching, Simon	100,000	—	—	100,000
Dong Zhanbin	65,166	245,000	16,787	326,953
George F. Meng	100,000	—	—	100,000
Feng Da'an	100,000	—	—	100,000
Yang Xiaobin	—	105,000	10,552	115,552
Liu Jiyao	—	192,000	3,740	195,740
Xing Zhoujin	30,000	118,800	16,786	165,586
Dong Guiguo	20,000	—	—	20,000
Zhang Shusheng	20,000	—	—	20,000
Han Aimin	7,120	47,775	7,694	62,589
Zeng Xuemei	12,880	—	—	12,880

As at 31 December 2012, the Directors, Supervisors and Company Secretary nominated by the holders of domestic shares of the Company to hold positions in the Company have submitted written declarations to the Company, stating that they voluntarily waive their remuneration for the year of 2011, including Mr. Zhao Yahui, Mr. Liang Jun, Mr. Dong Zhanbin, Ms. Xing Xihong, Mr. Hu Wentai, Mr. Zhang Han'an, Mr. Xing Zhoujin, Mr. Dong Guiguo, Mr. Han Aimin and Ms. Zeng Xuemei waived their remuneration for the year of 2011.

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

In 2012, all the five individuals whose emoluments were the highest in the Group for the year are key management personnel (including three directors), whose emoluments are reflected in the analysis presented above (2011: five key management personnel, including four directors).

- (g) Interest Income

	2012	2011
HNA Group Finance	13,196,971	5,351,907

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

Notes to Financial Statements (Continued)

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Significant receivables from and payables to related parties

(a) Cash at bank

	31 December 2012	31 December 2011
HNA Group Finance	422,874,660	150,447,515

(b) Accounts receivable

	31 December 2012	31 December 2011
Capital Airlines	9,882,856	17,423,698
Hainan Airlines	5,469,005	31,155,928
Meilan Travelling	3,000,000	—
Tianjin Airlines	2,119,818	8,788,928
HNA China Duty Free	1,944,162	682,915
Hainan Food	1,486,469	1,123,228
Western Airlines	565,326	768,821
HNA Safe	80,000	380,000
HNA Group	29,176	38,026
Luckyway	—	6,682,409
Others	1,782,475	21,934,898
	26,359,287	88,978,851



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

(c) Advances to suppliers

	31 December 2012	31 December 2011
Haikou Meilan (Note 7(7))	439,361,200	219,361,200
Others	—	148,739
	439,361,200	219,509,939

(d) Other receivables

	31 December 2012	31 December 2011
Hainan Airlines	818,564	458,559
Others	164,008	731,239
	982,572	1,189,798

(e) Interest receivable

	31 December 2012	31 December 2011
HNA Group Finance	5,197,468	867,699

(f) Accounts payable

	31 December 2012	31 December 2011
Island Opal	2,453,473	1,041,934
Grand China	—	2,711,526
Others	—	473,964
	2,453,473	4,227,424

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

(g) Other payables

	31 December 2012	31 December 2011
Haikou Meilan	18,648,934	30,481,334
Meilan Travelling	3,906,541	—
Luckyway	—	1,000,000
Island Opal	1,126,134	637,654
Others	902,493	822,119
	24,584,102	32,941,107

(h) Advances from customers

	31 December 2012	31 December 2011
Haikou Meilan (Note 7(7))	3,128,973	3,128,973
HNA China Duty Free	61,901	61,901
	3,190,874	3,190,874

(i) Directors' emolument payable

	31 December 2012	31 December 2011
Directors' emolument	2,002,095	1,579,934



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(7) Significant commitments in relation to related parties

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

Transfer of assets

	31 December 2012	31 December 2011
Land Use Right Transfer Agreement and Terminal and its Ancillary Project Acquisition Agreement with Haikou Meilan		
— Receivable of Land Use Right Transfer from Haikou Meilan (note a-1)	(28,160,761)	(28,160,761)
— Payable of Terminal and its Ancillary Project acquisition to Haikou Meilan (note a-2)	587,318,800	877,444,800
	559,158,039	849,284,039

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

(a-1) Pursuant to the Land Use Right Transfer Agreement, in order to facilitate the construction of the Project and the obtaining of relevant property ownership certificate(s) as a whole by Haikou Meilan, the Company will transfer the land use right of the land with a site area of 125 acres at a consideration of RMB31,289,734. As at 31 December 2012, the company has received a deposit of the consideration amounting to RMB3,128,973 from Haikou Meilan (31 December 2011: RMB3,128,973).

(a-2) Pursuant to the Terminal and its Ancillary Project Acquisition Agreement, Haikou Meilan agreed to sell all assets comprising the project upon completion of construction of the project, including but not limited to, the land use rights of the project, and all buildings, equipment, facilities and other related assets comprising the project upon completion of construction of the project, at a consideration of RMB1,096,806,000. On 12 December 2012, the Company terminated the Terminal and its Ancillary Project Acquisition Agreement and re-signed an investment agreement for the construction on the project with Haikou Meilan. According to the investment agreement, total investment amount of the project was changed to RMB1,026,680,000, including the estimated construction cost of RMB876,500,000 and land use rights at the price of RMB150,180,000. The construction of the project will be completed no later than 31 December 2015. The above resolution has been approved by the special general meeting of shareholders held on 4 March 2013.

As at 31 December 2012, the Company has paid RMB439,361,200 related to the investment agreement to Haikou Meilan (31 December 2011: RMB219,361,200) (Note 5 (3)).

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

8 FINANCIAL INSTRUMENT AND RISK

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

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to mitigate the foreign exchange risk. During 2012 and 2011, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2012 and 2011, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2012		Total
	USD	Other	
Financial assets denominated in foreign currency –			
Cash at bank and on hand	2,420,282	34,998	2,455,280
Financial liabilities denominated in foreign currency –			
Long-term borrowings	395,945,487	–	395,945,487
	31 December 2011		Total
	USD	Other	
Financial assets denominated in foreign currency –			
Cash at bank and on hand	2,481,217	34,251	2,515,468
Financial liabilities denominated in foreign currency –			
Long-term borrowings	456,815,250	–	456,815,250

As at 31 December 2012, if the currency had weakened/strengthened by 10 % against the USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB34,433,455 (31 December 2011: RMB39,981,395) lower/higher for various financial assets and liabilities denominated in USD.



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings and bonds payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2012, the Group's long-term interest bearing borrowings with floating rates were mainly USD-denominated bank loans, amounting to USD62,993,475, equivalent to RMB395,945,487 (31 December 2011: USD72,500,000, equivalent to RMB456,815,250). (Note 5(18)).

Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's finance department at its headquarters continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. The Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2012, the Group did not enter into any interest rate swap agreements.

For the year ended 31 December 2012, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately USD204,975, equivalent to RMB1,288,369 (2011: USD236,339, equivalent to RMB1,489,151).

(2) Credit risk

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

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

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

(3) Liquidity risk

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

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

	31 December 2012				Total
	Within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years	
Financial assets					
Cash at bank and on hand	1,207,561,423	—	—	—	1,207,561,423
Accounts receivable	96,799,948	—	—	—	96,799,948
Other receivables	2,970,111	—	—	—	2,970,111
Interest receivable	5,557,907	—	—	—	5,557,907
	1,312,889,389	—	—	—	1,312,889,389
Financial liabilities					
Accounts payable	7,247,254	—	—	—	7,247,254
Other payables	81,485,375	—	—	—	81,485,375
Interest payable	52,695,667	—	—	—	52,695,667
Bonds payable	—	—	—	800,000,000	800,000,000
Long-term borrowings	115,139,000	113,139,000	169,667,487	—	397,945,487
Interest payable for long-term borrowings and bonds in the future	74,283,445	70,012,622	190,727,891	75,053,333	410,077,291
	330,850,741	183,151,622	360,395,378	875,053,333	1,749,451,074



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2011				Total
	Within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years	
Financial assets					
Cash at bank and on hand	366,887,159	—	—	—	366,887,159
Accounts receivable	145,125,372	—	—	—	145,125,372
Interest receivable	1,793,832	—	—	—	1,793,832
Other receivables	3,696,823	—	—	—	3,696,823
	517,503,186	—	—	—	517,503,186
Financial liabilities					
Accounts payable	17,575,257	—	—	—	17,575,257
Other payables	75,885,685	—	—	—	75,885,685
Interest payable	3,508,354	—	—	—	3,508,354
Long-term borrowings	61,858,550	115,416,200	283,540,500	—	460,815,250
Interest payable for long-term borrowings in the future	16,061,474	11,860,114	9,360,498	—	37,282,086
	174,889,320	127,276,314	292,900,998	—	595,066,632

Bank borrowings and bonds payable are analysed by repayment terms as follows:

	31 December 2012		31 December 2011	
	Bank borrowings	Bonds payable	Bank borrowings	Bonds payable
Wholly repayable within five years – borrowings and interests	423,918,445	—	498,097,336	—
Wholly repayable within five years – bonds and interests	—	361,746,667	—	—
Not wholly repayable within five years – bonds and interests	—	875,053,333	—	—
	423,918,445	1,236,800,000	498,097,336	—

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(4) Fair value

Financial instruments not measured at fair value

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

Except for financial liabilities listed below, the carrying amount of the other financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

	31 December 2012		31 December 2011	
	Book value	Fair value	Book value	Fair value
Financial liabilities –				
bonds payable	791,253,935	831,920,000	–	–

The fair value of bonds payable in an active market is determined at the quoted price in the active market. The fair value of the Corporate bonds of the Company in this year is determined to the quoted prices of Shanghai Stock Exchange in the last trading day prior to 31 December 2012. The fair value of long-term borrowings not quoted in an active market is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms.

9 COMMITMENTS

Capital commitments

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

	31 December 2012	31 December 2011
Land use rights, buildings, machinery and equipment related to the investment agreement with Haikou Meilan	587,318,800	877,444,800



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2012	31 December 2011
Cash on hand	76,551	16,630
Cash at bank	1,199,858,968	322,563,069
	1,199,935,519	322,579,699

(2) Accounts receivable

	31 December 2012	31 December 2011
Accounts receivables		
— from aeronautical services	76,642,083	122,708,420
— from non-aeronautical services	20,324,666	20,178,977
	96,966,749	142,887,397
Less: provision for bad debts	(3,577,437)	(4,723,631)
	93,389,312	138,163,766
	31 December 2012	31 December 2011
Accounts receivable by customers		
— from third parties	73,553,469	60,620,152
Less: provision for bad debts	(3,577,437)	(4,723,631)
	69,976,032	55,896,521
— from related parties	23,413,280	82,267,245
	93,389,312	138,163,766

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

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

The ageing of accounts receivable is analysed below:

	31 December 2012	31 December 2011
Within 90 days	65,843,712	87,426,157
91 to 180 days	6,812,630	8,101,253
181 to 365 days	15,255,325	32,904,461
Over 365 days	9,055,082	14,455,526
	96,966,749	142,887,397

As at 31 December 2012, the Management of the Company performed impairment test on accounts receivable from third parties with the specific identification method; Based on which amount equalling to RMB21,551,229 (31 December 2011: Nil) has been identified as past due but not impaired. The ageing analysis of these account receivables is as follows:

	31 December 2012	31 December 2011
91 to 180 days	3,016,040	—
181 to 365 days	13,317,158	—
Over 365 days	5,218,031	—
	21,551,229	—

The balance within 365 days relate to a number of customers for whom there is no recent history of default, which could expect to be recovered within one year. Those above 365 days has been entrusted to CAAC Settlement Center for recovery, and the management has proposed to recover the account receivable with airlines subsidies which should be paid for the corresponding clients, with whom the management is discussing the payment scheme.



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

As at 31 December 2012, accounts receivable from related parties amounting to RMB4,955,083 (31 December 2011: RMB47,474,921) is past due but not impaired. The ageing of these accounts receivable is as follows:

	31 December 2012	31 December 2011
91 to 180 days	2,833,814	6,026,270
181 to 365 days	1,553,786	30,263,047
Over 365 days	567,483	11,185,604
	4,955,083	47,474,921

The balance within 365 days relate to a number of customers for whom there is no recent history of default, which could expect to be recovered within one year. Those above 365 days were under discussion of the repayment between the Company and the related parties.

	31 December 2011	Additions	Reversal Reductions	Written off	31 December 2012
Provision for bad debts	4,723,631	—	(1,146,194)	—	3,577,437

(3) Other receivables

	31 December 2012	31 December 2011
Franchise fee from intragroup companies	4,566,018	3,866,018
Packaging fee for Meilan Cargo	—	21,288,699
Others	2,389,115	10,569,367
	6,955,133	35,724,084

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

The ageing of other receivables is analysed below:

	31 December 2012	31 December 2011
Within 90 days	300,266	14,779,950
91 to 180 days	3,075,031	7,158,938
181 to 365 days	205,372	7,525,267
Over 365 days	3,374,464	6,259,929
	6,955,133	35,724,084

(4) Long-term equity investments

	31 December 2012	31 December 2011
Subsidiaries (a)		
— Unlisted companies	11,427,825	19,533,836
Associates (b)		
— Unlisted companies	1,100,807,482	1,068,164,742
	1,112,235,307	1,087,698,578

(a) Subsidiaries

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012	Interest Held (%)	Voting Rights (%)
Meilan Advertising	950,000	—	—	950,000	95	100
Meilan Duty Free Shop	277,825	—	—	277,825	95	100
Meilan Traveling	13,206,011	—	(13,206,011)	—	—	—
Meilan Cargo	5,100,000	5,100,000	—	10,200,000	51	60
	19,533,836	5,100,000	(13,206,011)	11,427,825		



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

(All amounts in Renminbi (“RMB”) unless otherwise stated)

10 NOTES TO THE COMPANY’S FINANCIAL STATEMENTS (Continued)

(4) Long-term equity investments (Continued)

(b) Associates

	31 December 2011	Share of other comprehensive income — public demolition compensation	Share of profit of investees under equity method	31 December 2012	Interest Held (%)	Voting Rights
Haikou Decheng	30,874,651	—	—	30,874,651	30	1/3
HNA — Airport	1,037,290,091	166,048	32,476,692	1,069,932,831	24.5	1/7
	1,068,164,742	166,048	32,476,692	1,100,807,482		

No significant restrictions on the long term equity investments.

(5) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and others	Total
Cost					
31 December 2011	960,449,729	215,598,361	91,468,961	56,495,034	1,324,012,085
Transfer from CIP	8,151,458	1,778,155	—	—	9,929,613
Additions	—	883,738	8,882,800	2,628,763	12,395,301
Disposals	—	—	(1,274,282)	(881,669)	(2,155,951)
31 December 2012	968,601,187	218,260,254	99,077,479	58,242,128	1,344,181,048
Accumulated depreciation					
31 December 2011	(234,176,343)	(115,194,416)	(52,808,714)	(37,872,346)	(440,051,819)
Depreciation	(25,221,139)	(16,289,316)	(5,718,950)	(3,620,066)	(50,849,471)
Disposals	—	—	1,165,313	878,578	2,043,891
31 December 2012	(259,397,482)	(131,483,732)	(57,362,351)	(40,613,834)	(488,857,399)
Net book value					
31 December 2012	709,203,705	86,776,522	41,715,128	17,628,294	855,323,649
31 December 2011	726,273,386	100,403,945	38,660,247	18,622,688	883,960,266

A depreciation expense of RMB50,245,415 and RMB 604,056 was charged in operating costs and general and administrative expenses in 2012 (for the year of 2011, the amounts are: RMB 55,588,197 and RMB561,484).

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(6) Construction in progress

	31 December 2011	Increase in current year	Transfer to fix assets in current year	31 December 2012
Parking lane renovation	—	2,382,194	(2,382,194)	—
Restroom renovation	—	5,836,300	(5,836,300)	—
Airport broadcasting system renovation	—	1,400,000	—	1,400,000
Others	—	1,711,119	(1,711,119)	—
	—	11,329,613	(9,929,613)	1,400,000

(7) Intangible assets

	Land use right
Cost	
31 December 2011 and 31 December 2012	179,637,283
Accumulated amortisation	
31 December 2011	(32,398,570)
Amortisation in current year	(3,163,189)
31 December 2012	(35,561,759)
Net book amount	
31 December 2012	144,075,524
31 December 2011	147,238,713

Amortisation expenses of RMB3,163,189 (for the year of 2011: RMB3,163,189) were charged in cost of sales in the current year.



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(7) Intangible assets (Continued)

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

	31 December 2012	31 December 2011
Inside Mainland China —		
between 10 to 50 years	59,844,117	61,454,272
over 50 years	84,231,407	85,784,441
	144,075,524	147,238,713

(8) Accounts payable

The ageing of accounts payable is analysed below:

	31 December 2012	31 December 2011
Within 90 days	5,152,321	11,812,445
91 to 180 days	316,553	745,955
Over 180 days	1,778,380	4,492,668
	7,247,254	17,051,068

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(9) Revenue

	2012	2011
Aeronautical:		
Passenger charges	159,726,149	152,339,324
Airport fee	124,448,235	118,851,803
Aircraft movement fees and related charges	53,978,284	51,773,603
Ground handling services income	40,837,490	34,815,730
	378,990,158	357,780,460
Non-aeronautical:		
Franchise fee	136,888,777	63,473,770
Rental	30,396,888	27,922,743
VIP room charge	31,691,201	26,023,343
Car parking	10,216,059	8,087,793
Others	20,785,918	14,371,489
	229,978,843	139,879,138
	608,969,001	497,659,598

(10) Financial expenses/(income) – net

	2012	2011
Interest expenses	66,756,621	16,689,910
Including: Bank borrowings	17,009,954	16,689,910
Corporate bonds	49,746,667	—
Less: interest income	(19,071,645)	(6,878,732)
Exchange gains or losses	(600,393)	(21,332,691)
Amortisation of financial charges	2,354,033	1,555,601
Others	744,508	1,375,943
	50,183,124	(8,589,969)



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(10) Financial expenses/(income) – net (Continued)

Interest expenses are analysed by the repayment terms of bank and bonds payable as follows:

	31 December 2012		31 December 2011	
	Bank borrowings	Bonds payable	Bank borrowings	Bonds payable
Wholly repayable within five years	17,009,954	—	16,689,910	—
Not wholly repayable within five years	—	49,746,667	—	—
	17,009,954	49,746,667	16,689,910	—

(11) Investment income

	2012	2011
Share of profit of investees under equity method — HNA Airport	32,476,692	25,574,988
Share of profit of investees under cost method — Meilan Cargo	4,080,000	2,550,000
Disposal of equity interest — Meilan Travelling	112,989	—
	36,669,681	28,124,988

No significant restrictions on the repatriation of investment income.

(12) Non-operating income

	2012	2011
Gains on initial recognition of long-term investment on HNA Airport	—	26,490,103
Government grants	2,168,000	792,000
Gains on disposal of fixed assets	302,689	200,000
Others	310,827	39,423
	2,781,516	27,521,526

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(13) Income tax expenses

	2012	2011
Current income tax	38,392,532	33,801,649
Deferred income tax	(549,060)	(1,249,863)
	38,941,592	32,551,786

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

	2012	2011
Total profit	335,402,915	320,103,649
Income tax expenses calculated at applicable tax rates	83,850,729	76,824,875
Effect of tax incentive	(41,925,364)	(32,551,786)
Income not subject to tax	(4,569,586)	(12,495,622)
Expenses not deductible for tax purposes	1,585,813	774,319
Income tax expenses	38,941,592	32,551,786

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

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

	2012	2011
Net profit	296,461,323	287,551,863
Add: (Reversal of)/Provisions for asset impairment	(1,146,194)	377,217
Depreciation of fixed assets	50,849,471	56,149,681
Amortisation of intangible assets	3,163,189	3,163,189
(Gains)/loss on disposal of fixed assets	(302,689)	412,832
Financial expense/(income)	68,707,901	(3,087,180)
Investment income	(36,669,681)	(28,124,988)
Gain on acquisition of HNA Airport 24.5% shares (note 5(26))	—	(26,490,103)
Decrease/(increase) in deferred tax assets	549,060	(1,249,863)
Decrease/(increase) in inventories	9,771	(380)
Decrease in operating receivables	73,583,760	96,433,722
Increase/(decrease) in operating payables	36,500,011	(75,805,901)
Net cash flows from operating activities	491,705,922	309,330,089



Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

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

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

	2012	2011
Cash and cash equivalents at end of the year	1,199,935,519	322,579,699
Less: cash and cash equivalents at beginning of the year	(322,579,699)	(908,841,783)
Net increase/(decrease) in cash and cash equivalents	877,355,820	(586,262,084)

(c) Cash paid relating to other operating activities

	2012	2011
Payment of Ground Service Fee collected on behalf of Haikou Meilan	123,870,555	175,479,123
Payment of travel expenses and so on	27,901,610	11,931,377
	151,772,165	187,410,500

11 NET CURRENT ASSETS

	The Group	
	31 December 2012	31 December 2011
Current assets	1,315,269,732	524,899,250
Less: Current liabilities	(343,219,015)	(232,030,865)
Net current assets	972,050,717	292,868,385

	The Company	
	31 December 2012	31 December 2011
Current assets	1,307,951,951	503,691,748
Less: Current liabilities	(365,499,733)	(242,836,648)
Net current assets	942,452,218	260,855,100

Notes to Financial Statements (Continued)

For the year ended 31 December 2012

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

12 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	31 December 2012	31 December 2011
Total assets	3,867,245,352	2,855,002,529
Less: Current liabilities	(343,219,015)	(232,030,865)
Total assets less current liabilities	3,524,026,337	2,622,971,664

	The Company	
	31 December 2012	31 December 2011
Total asset	3,868,407,036	2,852,059,068
Less: Current liability	(365,499,733)	(242,836,648)
Total asset less current liability	3,502,907,303	2,609,222,420