

OUR DEAREST
SHAREHOLDERS,
SENIOR MANAGEMENT
AND STAFF, PLEASE
ACCEPT OUR
HEARTFELT GRATITUDE
FOR YOUR TRUST
AND SUPPORT WHICH
MAKE A TREMENDOUS
DIFFERENCE FOR
OUR DEVELOPMENT.





REPORT OF THE DIRECTORS

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The directors herein present their first report together with the audited accounts of Meilan Airport and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2002.

GROUP REORGANISATION

The Company was established on 28 December 2000 by the Parent Company, HNA Group, Hainan Airline, China Southern Airlines and Central South Aviation Development in the PRC as a joint stock limited company under the PRC Company Law. Through a group reorganisation and assets swap (as described more fully in the paragraphs headed “Restructuring” in Appendix X of the prospectus of the Company in connection with its H Shares issue dated 6 November 2002), the Company’s H Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 18 November 2002.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

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

For the year ended 31 December 2002, the Company conducted its business within one business segment i.e. the business of operating an airport and provision of related services in the PRC. The Company also operated within one geographical segment and its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

OPERATING RESULTS AND FINANCIAL POSITION

The Group’s operating results for the year ended 31 December 2002 and the financial position of the Company and the Group as at 31 December 2002 are set out from page 42 to page 92 of this annual report.

DIVIDENDS

Subject to the approval by the annual general meeting (“Annual General Meeting” or “AGM”) of the Company, the Board recommends the payment of a final dividend of RMB0.181 per share totalling RMB85.65 million. The aforesaid general meeting is scheduled to be held on Friday, 9 May 2003 to seek, inter alia, shareholders’ approval on such payment of final dividend. In the events that such approval by shareholders of the Company is obtained, the final dividend will be paid on or before Friday, 20 June 2003 to shareholders of the Company whose names appear on the register of shareholders on Wednesday, 9 April 2003.

During the year 2002, the Company’s after-tax profit based on the PRC accounting standards amounted to RMB142,972,000, which was lower than that of RMB157,216,000 based on the International Accounting Standards. Pursuant to the stipulations of the Articles of Association of the Company, the Company’s dividend distribution for the relevant accounting year should be based on the lower of the after-tax profit calculated in accordance with the aforesaid



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two accounting standards. In this regard, the dividend payment for the year 2002 will be based on the after-tax profit calculated in accordance with the PRC accounting standards.

The Company's Register of Members will be closed from Wednesday, 9 April 2003 to Friday, 9 May 2003 (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the AGM and qualify for entitlement to the 2002 dividend referred to above must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited, located at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Tuesday, 8 April 2003.

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

TAXATION

Details of taxation of the Group and the Company for the year ended 31 December 2002 are set out in Note 7 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group represented 23% and 44% of the total operating revenues of the Group for the year ended 31 December 2002, respectively.

The largest supplier and the five largest suppliers of the Group represented 14% and 26% of the total operating costs of the Group for the year ended 31 December 2002, respectively.

Mr. Chen Wenli, Chairman and Mr. Zhang Han'an, Director of the Company, holds 35,640 and 23,970 staff shares, respectively, in Hainan Airlines. Save for the foregoing, none of the Directors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or shareholders who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company, has any interests in any of such suppliers or customers.

SHARE/PAID-IN CAPITAL

Details of the movements in share/paid-in capital of the Company are set out in Note 25 to the financial statements.

CAPITAL STRUCTURE

The total number of outstanding shares of the Company as at 31 December 2002 was 473,213,000 shares. The share capital structure is as follows:

<i>Class of shares</i>	<i>Number of shares</i>	<i>Percentage in total issued share capital</i>
Domestic shares	246,300,000	52%
H Shares	226,913,000	48%

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As at 31 December 2002, the shareholders having an interest of 10% or more in the respective class of share capital of the Company as registered in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong (“SDI Ordinance”) are listed as follows :

<i>Name of shareholders</i>	<i>Class of shares held</i>	<i>Number of shares held</i>	<i>Percentage in</i>	
			<i>the respective class of share capital</i>	<i>Percentage in total issued share capital</i>
Haikou Meilan Airport Co. Ltd	Domestic shares	237,500,000	96.43%	50.19%
Copenhagen Airport A/S	H Shares	94,643,000	41.71%	20.00%

USE OF PROCEEDS FROM ISSUE OF H SHARE

For the year ended 31 December 2002, the net proceeds from issuance of H Shares, which is approximately RMB780.86 million, were used as follows :

- Construction fee of a customs and inspection joint operation building was approximately RMB8.03 million;
- Prepayment on equipment and materials for the airport and terminal areas expansion project was RMB20 million;
- Prepayment on project management fees, tendering and contracting fees for the airport and terminal areas expansion project was RMB30 million;
- Prepayment for the construction cost of the improvement of the information system in the passenger terminal was RMB25 million; and
- Payment to the Parent Company for the acquisition of land use rights for the construction of Phase II of the Hainan Meilan Airport was RMB94.38 million.

The remaining balance of the net proceeds is placed with creditworthy commercial banks.

SUBSIDIARIES

Details of the Company’s major subsidiaries as at 31 December 2002 are set out in Note 14 to the financial statements.

CONNECTED TRANSACTION

The connected transactions between the Company and the relevant connected parties for the year ended 31 December 2002 were disclosed in Note 8 to the financial statements.

SERVICE CONTRACTS, INTERESTS IN SHARE CAPITAL AND CONTRACTS OF DIRECTORS AND SUPERVISORS

For the year ended 31 December 2002, the Board consists of seven Directors, two of whom are independent non-executive Directors. The Directors are elected at the inaugural meeting and meetings of the shareholders of the Company each for a term of three years, renewable upon re-election and re-appointment.



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On 24 February 2003, an extraordinary general meeting has held and resolutions were passed in respect of, inter alia, the appointment of each of Mr. Kristian Bjorneboe and Mr. Kjeld Binger as a director of the Company.

For the year ended 31 December 2002, the Supervisory Committee consists of three Supervisors, two of whom are shareholders' representatives who are elected, and may be removed, by the shareholders in a general meeting and one of whom is a representative of the employees and shall be elected and removed by employees. The term of service of the Supervisors is three years, renewable upon re-election and re-appointment.

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

Executive Directors

Chen Wenli	<i>(appointed on 21 December 2000)</i>
Zhang Han'an	<i>(appointed on 21 December 2000)</i>
Liu Lu	<i>(appointed on 19 July 2002)</i>
Kristian Bjorneboe	<i>(appointed on 24 February 2003)</i>

Non-executive Directors

Li Xianhua	<i>(appointed on 21 December 2000)</i>
Jing Xingxiang	<i>(appointed on 21 December 2000)</i>
Kjeld Binger	<i>(appointed on 24 February 2003)</i>

Independent non-executive Directors

Xu Boling	<i>(appointed on 30 June 2001)</i>
Meng Jianqiang	<i>(appointed on 19 July 2002)</i>

Supervisors

Zhang Cong	<i>(appointed on 21 December 2000)</i>
Zheng Hong	<i>(appointed on 21 December 2000)</i>
Zeng Xuemei	<i>(appointed on 19 July 2002)</i>

Brief biographical details of the Directors and Supervisors are set out on page 22 to page 27 of this annual report. Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years.

None of the Directors, Supervisors or their respective spouses or children under 18 held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights to subscribe for shares in or debentures of the Company.

During the reported period, none of the Directors or Supervisors of the Company has any material interests in any contracts entered into by the Company or its subsidiaries.

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REMUNERATION OF DIRECTORS AND SUPERVISORS

For the year ended 31 December 2002, the aggregate amount of remuneration paid to the executive Directors and the non-executive Directors of the Company was approximately RMB327,000 and RMB87,000 respectively. The aggregate amount of remuneration paid to Supervisors was approximately RMB50,000. The pension schemes of the executive Directors, non-executive Directors and Supervisors have been incorporated into the employee pension scheme of the Company. Details are set out in Note 5 to the financial statements.

THE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the reported period were either Directors or Supervisors of the Company. Details of their remuneration are set out in Note 5 to the financial statements.

PRE-EMPTIVE RIGHTS

The Articles of Association of the Company and the PRC laws do not contain any provisions for the creation of any pre-emptive rights which could oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

TRANSACTIONS IN ITS SECURITIES

For the year ended 31 December 2002, the Group did not issue or grant any convertible securities, options, warrants or other similar rights. Besides, as at 31 December 2002, the Group did not have any redeemable securities.

RETIREMENT SCHEME

Details of the retirement scheme are set out in Note 11 to the financial statements. For the year ended 31 December 2002, the retirement insurance premium charged to the income statement of the Group was RMB1.56 million (2001 : RMB0.73 million)

STAFF ACCOMMODATION

The Group does not own any quarters for staff accommodation nor operate any scheme for the provision of staff accommodation. The Group and its staff are required to make contributions to the government at a prescribed percentage of the salaries of the relevant staff to a housing reserve fund. Apart from such contributions, the Group is under no liability for the provision of housing or housing benefit to its staff. For the year 2002, the housing reserve fund paid by the Group amounted to about RMB0.31 million.

FIXED ASSETS

The fixed assets as at 31 December 2002 and the change in fixed assets of the Group and the Company for the year ended 31 December 2002 are set out in Note 12 to the financial statements.

TOTAL ASSETS

As at 31 December 2002, the total assets of the Group determined in accordance with International Accounting Standards was approximately RMB1,744.50 million.



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RESERVES

Change in reserves of the Company and the Group for the year ended 31 December 2002 is set out in Note 26 to the financial statements.

DISTRIBUTABLE RESERVES

In accordance with the relevant laws and regulations in the PRC, the profits available for distribution are based on the statutory financial statements of the Company. As at 31 December 2002, the distributable profits of the Company amounted to RMB138.96 million.

DEPOSITS, LOANS AND CAPITALISATION OF INTEREST

Details of loans of the Company for the year ended 31 December 2002 are set out in Note 19 and Note 22 to the financial statements. The deposits of the Company are placed with creditworthy commercial banks.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

There was no amendments to the Articles of Association of the Company (the "Articles") which was summarised in the prospectus of the Company in respect of the H Shares issue dated 6 November 2002 during the period from the Listing of the Company on the Hong Kong Stock Exchange to the end of 2002.

On 24 February 2003, an extraordinary general meeting was held and resolutions were passed in respect of amendments to the Articles. Article 17, Article 20 and Article 93 of the Articles were deleted and replaced in their entirety by the following articles, respectively :

Article 17 The Company's share capital comprises 473,213,000 ordinary shares. Among them, 246,300,000 shares are domestic shares, accounting for 52.05 per cent of the total amount of the Company's issued ordinary shares. These shares are held by the promoters as follows: 237,500,000 shares by Haikou Meilan Airport Company Limited, 5,287,500 by Hainan Airline Company Limited, 3,512,500 by HNA Group Company Limited. Foreign shares are 226,913,000 shares, which are held by shareholders of overseas listed foreign shares, accounting for about 47.95 per cent of the total amount of the Company's issued ordinary shares.

Article 20 The Company's registered capital will be adjusted to RMB473,213,000. The Company shall register with the administration for industry and commerce accordingly the amount of registered capital, and send the document to the department in charge of company examination and approval authorised by the State Council and the institution in charge of securities administration in the State Council for record keeping.

Article 93 The Company shall have a board of directors consisting of nine directors, including one chairman, one vice chairman and two independent non-executive directors.

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AUDITORS

The financial statements of the Group prepared in accordance with the PRC Accounting Principles and those prepared in accordance with International Accounting Standards were audited by Hainan Congxin Certified Public Accountant and Ernst & Young Certified Public Accountants, respectively. The two firms, who retire and being eligible, offer themselves for re-appointment. Resolutions concerning the re-appointment of the two firms will be submitted for consideration at the Annual General Meeting of 2002.

AUDIT COMMITTEE

The Company established an audit committee on 24 September 2002 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As of 31 December 2002, the audit committee has two members, Mr. Xu Boling and Mr. Meng Jianqiang, the two independent non-executive Directors of the Company.

CODE OF BEST PRACTICE

For the year ended 31 December 2002, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

By order of the Board

Chen Weni

Chairman

Hainan Province, the PRC

19 March 2003