

Report of the Directors

The board of directors (the "Board") herein present their report together with the audited accounts of Hainan Meilan International Airport Company Limited ("Meilan Airport" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

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 of the 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, advertising, car parking, airport-related business franchising, tourism services, and sales of duty-free and consumable goods.

For the year ended 31 December 2003, the Group conducted its business within one business segment i.e. the business of operating an airport and provision of related services in the PRC. The Group 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 (prepared in accordance with the International Accounting Standard) for the year ended 31 December 2003, and the financial position of the Group and the Company as at 31 December 2003 are set out from page 4 to page 5 of this annual report.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 4 of this annual report.

FINAL DIVIDENDS

The Board has passed the resolution to recommend the payment of a final dividend of RMB0.143 per share totaling RMB67.67 million on or before Monday, 21 June 2004 to shareholders of the Company whose names appear on the Company's Register of Members on Friday, 16 April 2004. The implementation of the aforesaid final dividend is subject to the shareholders' approval at the annual general meeting scheduled to be held on Monday, 17 May 2004. During the year 2003, the Company's after-tax profit based on the PRC accounting standards amounted to RMB134.4 million, and the after-tax profit based on the International Accounting Standards amounted to RMB157.5 million. 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 two accounting standards. In this regard, the dividend payment for the year 2003 will be based on the after-tax profit calculated in accordance with the PRC accounting standards.

CLOSING REGISTER OF MEMBERS

The Company's Register of Members will be closed from Friday, 16 April 2004 to Monday, 17 May 2004 (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the annual general meeting and qualify for entitlement to the final 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 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Thursday, 15 April 2004 for completion of the registration of the relevant transfer.

BANK BORROWINGS

Details of the bank borrowings of the Group and the Company are set out in Note 24 to the accompanying financial statements.

FIXED ASSETS

Details of the fixed assets as at 31 December 2003 and the change in fixed assets of the Group and the Company for the year ended 31 December 2003 are set out in Note 12 to the accompanying financial statements.

TAXATION

Details of taxation of the Group and the Company for the year ended 31 December 2003 are set out in Note 7 to the accompanying financial statements.

RESERVES

Change in reserves of the Group and the Company for the year ended 31 December 2003 is set out in Note 27 to the accompanying financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2003 are set out in Note 14 to the accompanying financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group represented 24% and 53% of the total operating revenues of the Group for the year ended 31 December 2003, respectively.

The largest supplier and the five largest suppliers of the Group represented 12% and 36% of the total operating costs of the Group for the year ended 31 December 2003, respectively.

HNA Group Company Limited, beneficially owning more than 5% interest in the share capital of the Company, holds approximately 7.3% interest in Hainan Airlines Company Limited, one of the five largest customers of the Group. Mr. Chen Wenli, Chairman and Mr. Zhang Han'an, each being a Director of the Company, holds 35,640 and 20,000 staff shares, respectively, in Hainan Airlines Company Limited. Save for the foregoing, none of the Directors or their respective associates (as defined under the Rules Governing the Listing of Securities On The Stock Exchange of Hong Kong Limited ("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.

Report of the Directors

SHARE CAPITAL STRUCTURE

As at 31 December 2003, the total issued share capital of the Company was RMB473,213,000 divided into 473,213,000 shares with a par value of RMB 1.0 per share. The total issued shares of the Company comprise two parts, namely, Domestic shares and H shares and the percentage of those shares in the total issued share capital of the Company is as follows:

	<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%
Total issued shares	473,213,000	100%

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, there is sufficient public float in respect of the issued shares of the Company pursuant to the relevant requirements under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provisions 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 applicable to the Company as a joint stock limited company incorporated in the PRC. Therefore, the Company is not obliged to offer new shares, if any, to its existing shareholders on a pro-rata basis.

DISCLOSURE OF INTERESTS

As at 31 December 2003, the following persons (other than directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register of interest in shares and short positions maintained under section 336 of the Securities and Futures Ordinance ("SFO"):

LONG POSITIONS IN SHARES

Domestic shares

<i>Name of Shareholders</i>	<i>Capacity</i>	<i>Nature of interest</i>	<i>Number of ordinary shares</i>	<i>Percentage of issued domestic shares/issued share capital</i>
Haikou Meilan Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000	96.43/50.20

H Shares

Name of Shareholders	Capacity	Nature of interest	Number of ordinary shares	Percentage of issued H shares/total issued share capital
Copenhagen Airport A/S (Note 2)	Beneficial owner	Corporate	94,643,000	41.71/20.00
J.P. Morgan Chase & Co. (Note 3)	Beneficial owner	Corporate	27,961,000	12.32/5.91
Commonwealth Bank of Australia	Beneficial owner	Corporate	21,364,000	9.42/4.51
Allianz Aktiengesellschaft (Note 4)	Beneficial owner	Corporate	18,215,000	8.03/3.85

Notes:

1. Haikou Meilan Airport Company Limited is a company established in the PRC and the controlling shareholder of the Company.
2. Copenhagen Airport A/S is a public company owned by the Danish government and other private and institutional investors in and outside Denmark, and the shares of which are listed on the Copenhagen Stock Exchange.
3. Other than the 27,961,000 H shares listed above, J.P. Morgan Chase & Co. was also interested in 7,487,000 H shares that were of lending pool representing 3.3% of the total issued H shares of the Company as at 31 December, 2003.
4. The interests of Allianz Aktiengesellschaft in the Company were held through a series of associated corporations.

LONG POSITIONS IN UNDERLYING SHARES

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

SHORT POSITIONS IN SHARES

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

SHORT POSITIONS IN UNDERLYING SHARES

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2003, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Report of the Directors

USE OF PROCEEDS FROM ISSUE OF H SHARES

- Approximately RMB94.38 million was applied as payment to the parent company of the Company for the acquisition of land use rights for the construction of Phase II expansion of the Meilan airport;
- Approximately RMB50.07 million was applied as cost for the expansion of the apron and terminal areas of the airport; and
- Approximately RMB12.6 million was applied to the construction of an international customs and inspection joint operation building for passenger and cargo transportation.

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

SHORT TERM INVESTMENTS

In May 2003, the Company entered into a designated investment agreement with Xiangcai Securities Company Limited, pursuant to which Xiangcai Securities Company Limited was engaged by the Company to invest on behalf of the Company a total amount of RMB200,000,000 on short-term investment portfolios comprising government bonds and other money market instruments traded on recognized securities exchanges in the PRC. The term of the agreement was six months (from 23 May 2002 to 23 November 2003). Xiangcai Securities Company Limited guaranteed the Company an annual return rate of not less than 2.5%. The aforesaid agreement was terminated upon expiration and the Company was repaid the total principal of the investment plus an investment return of RMB2.36 million.

In July 2003, the Company entered into another designated investment agreement with Xiangcai Securities Company Limited, pursuant to which Xiangcai Securities Company Limited was engaged by the Company to invest on behalf of the Company a total amount of RMB100,000,000 on short-term investment portfolios comprising government bonds and other money market instruments traded on recognized securities exchanges in the PRC. The term of the agreement was six months (from 7 July 2003 to 7 January 2004). Xiangcai Securities Company Limited guaranteed the Company an annual return rate of not less than 2.5%. The aforesaid agreement was terminated upon expiration and the Company was repaid the total principal of the investment plus an investment return of RMB1.26 million.

ACQUISITION OF EQUITY INTEREST IN HAINAN MEILAN AIRPORT TRAVELLING COMPANY LIMITED

With effect from 15 October 2003, the Company acquired an additional 35% equity interest in Hainan Meilan Airport Travelling Company Limited from Haikou Meilan Airport Company Limited for a cash consideration of RMB9,800,000 based on the valuation report prepared by Hainan Zhong Li Xin Asset Valuation Company Limited and dated 31 July 2003.

CONNECTED TRANSACTIONS

The connected transactions between the Company and the relevant connected parties for the year ended 31 December 2003 were disclosed in Note 8 to the accompanying financial statements. Except for the foregoing, the Company has also been providing customary airport ground services including landing facilities, basic ground handling services, cargo and passenger handling services and other related services to China Southern Airlines Company Limited, a promoter of the Company, at rates prescribed by the Civil Aviation Administration of China since the inception of the Company. The total income generated from provision of such services by the Company in 2003 was RMB 47,402,000 (2002: RMB 38,223,000).

The connected transactions between the Company and the relevant connected parties for the year ended 31 December 2003 comprise (i) ongoing connected transactions which have been granted waiver by The Stock Exchange of Hong Kong Ltd. ("SEHK") from complying with the relevant disclosure/shareholder approval requirements under the Listing Rules ("Waiver") by the time the Company was listed and disclosed in the relevant prospectus ("Ongoing Connected Transactions"); and (ii) one-off connected transaction which was incurred in 2003 and disclosure of which was made pursuant to the relevant requirements under the Listing Rules.

With respect to the Ongoing Connected Transactions, the Directors (including the Independent Non-executive Directors) are of the opinion that those transactions:

- (a) were entered into by the relevant members of the Group in the ordinary and usual course of their business;
- (b) were conducted either on normal commercial terms, or where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company as a whole are concerned;
- (c) were entered into either (i) in accordance with the terms of the agreements governing such transactions in all substantial aspects or (ii) where there is no such agreements, on terms no less favorable than those available to or from independent third parties; and
- (d) the annual aggregate amount in respect of each type of the transactions in 2003 did not exceed the specified amount or specified percentage which were set up as the cap for the granting of the Waiver by the SEHK

The International Auditor of the Company has confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Ongoing Connected Transactions that:

- (a) the Ongoing Connected Transactions have received the approval of the board of directors of the Company;
- (b) the Ongoing Connected Transactions are in accordance with the pricing policies as stated in the Company's annual report;
- (c) the Ongoing Connected Transactions have been entered into in accordance with the terms of the agreements governing the transactions except for the extension of credit periods and waiver of penalty interest that the Company was otherwise entitled to charge under certain governing agreements. The Directors have advised that they consider such an extension of credit period and the waiver of penalty interest arose in the ordinary course of business of the Company and was common to the manner in which all customers who have a long-term relationship with the Company were treated; and
- (d) the Ongoing Connected Transactions have been conducted within the cap amounts, as specified in the conditional waiver letter of the Stock Exchange dated 5 November 2002.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2003, none of the Directors or Supervisors or Chief Executives had any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be recorded in the register of the Company required to be kept under section 352 of the SFO. None of the Directors, Supervisors, Chief Executives or their spouses or their children under 18 is entitled to subscribe for the shares or debentures of the Company or the members of the Group.

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

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

Executive Directors

Wang Zhen	(appointed on 9 May 2003)
Huang Qiu	(appointed on 9 May 2003)
Kristian Bjorneboe	(appointed on 24 February 2003)

Non-executive Directors

Chen Wenli	(re-appointed on 19 January 2004)
Zhang Han'an	(re-appointed on 19 January 2004)
Kjeld Binger	(appointed on 24 February 2003)

Independent non-executive Directors

Xu Boling	(appointed on 30 June 2001)
Meng Jianqiang	(appointed on 19 July 2002)
Xie Zhuang	(appointed on 19 January 2004)

Supervisors

Zhang Cong	(re-appointed on 19 January 2004)
Zhang Shusheng	(appointed on 19 January 2004)
Zeng Xuemei	(appointed on 19 July 2002)

Report of the Directors

Brief biographical details of the Directors and Supervisors are set out on page 17 to page 19 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 or Supervisors has an unexpired contract with the Company or its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory compensation. There being no provision in the Company's Articles of Association for retirement of Directors by rotation.

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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and 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 2003.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, the remuneration paid to the Chairman and Executive Director of the Company was RMB70,000 per person; the remuneration paid to the Non-executive Director was RMB50,000 per person; the remuneration paid to the Independent Non-executive Director was RMB80,000 per person; and the remuneration paid to Supervisor was RMB20,000 per person. Save for Executive Directors and Supervisors representing staff, none of the Directors or Supervisors is entitled to any other remunerations of the Company. Save as the aforesaid benefits, the Executive Directors and Supervisors who are also Company's staff are also entitled to receive salaries in respect of their respective positions taken on full-time basis in the Company. Details of the remuneration of Directors and Supervisors are set out in Note 5 to the accompanying 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 accompanying financial statements.

TRANSACTIONS IN ITS SECURITIES

For the year ended 31 December 2003, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company has not redeemed any of its share capital during the year.

ENTRUSTED DEPOSITS AND OVERDUE FIXED DEPOSITS

The Group had no entrusted deposits and overdue fixed deposits as at 31 December 2003.

MATERIAL LITIGATION OR ARBITRATION

The Group had no material litigation or arbitration as at 31 December 2003.

AMENDMENTS OF THE ARTICLES OF ASSOCIATION

Pursuant to the special resolutions passed at an extraordinary general meeting held on 19 January 2004, the Articles of Association of the Company were amended by deletion of the entirety of Articles 2, 11, 93, 113 and 185 and replacement by the following articles respectively:

Article 2:

The Company's registered name in Chinese: 海南美蘭國際機場股份有限公司

The English name of the Company: Hainan Meilan International Airport Company Limited

Article 11:

The business scope of the Company shall be based on the items approved by the company registration authorities.

The business scope of the Company includes: the provision of transit and ground transportation services to domestic and foreign air transportation companies and transit passengers, the leasing of the aviation commercial area, business and commercial premises within the departure tower and the provision of integrated services, the construction and operation of aviation facilities within the airport and the ancillary buildings thereto, the provision of cargo storage, packing, loading and unloading and transportation services, and the sale of aviation fuel, hardware, electronic products and communication equipments, general merchandise, textiles, handicraft, aircraft meal, non-staple food, local products, other food and magazines to airlines or passengers within the airport.

Article 93:

The board of directors of the Company shall comprise of nine directors, including one chairman and three independent non-executive directors.

Article 113:

The supervisory committee shall comprise of two external supervisors and one staff representative. The external supervisors shall be elected and dismissed by shareholders at general meeting. The staff representative shall be elected and dismissed by the trade union of the company by ballot.

Article 185:

Unless otherwise provided, any notice or report as required or permitted to be issued or delivered by the Company in the form of public announcement shall be advertised in English in one leading English language newspaper and in Chinese in one leading Chinese language newspaper in Hong Kong.

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 are retiring and being eligible for re-appointment, 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 2003.

AUDIT COMMITTEE

The Company established an audit committee on 24 September 2002 in compliance with the Code of Best Practice as set out in the Listing Rules. The audit committee consists of five members including three Independent Non-executive Directors and two Non-executive Directors. The Chairman of the committee is Mr. Xu Boling, an Independent Non-executive Director of the Company. Two meetings were held by the Audit Committee in 2003, and one was held on 29 March 2004 to review the Group's annual results announcement and annual report.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

For the year ended 31 December 2003, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules.