

Chairman's Statement

To all shareholders,

2004 marked a year of stable development. Meilan Airport successfully established its corporate image of a pivot regional airport via a "people-oriented and internationalised" brand positioning. The Group is dedicated to becoming a regional international airport management company.

During the year under review, the Group captured the opportunities arising from the opening of aviation rights in Hainan province and achieved its annual target by embracing its development philosophy of "integrity, performance and innovation" as well as its "proactive and dedicated" corporate culture. As the realisation of six consecutive years of safe operation since its open, the Group recorded a passengers throughput over 7 million in its sixth year. Capitalised on the edge brought forth by the opening of aviation rights, the Group proactively promoted and attracted foreign airlines to develop routes that via Haikou Meilan International Airport, endeavored to becoming a pivot of regional international airport and expanding its business network. In addition, the Group attained remarkable progress in both external and internal development. Externally, the Group continued to explore international and domestic routes to increase revenue base of its aeronautical business, while implementing regulated services to



Opening of aviation rights will bring opportunities to the Group

Chen Wenli
Chairman



establish innovative services system. Also, the Group introduced the internationally renowned company, Select Service Partner (“SSP”) for airport, catering and beverages services, and Duty Free Shoppers Hong Kong Limited (“DFS”) for airport retail services, so as to increase the revenue proportion of its non-aeronautical business. Internally, the Group also focused on enhancing corporate governance structure, establishing modernised airport management system and transforming from an operational enterprise to a management enterprise to strengthen profitability.

To cater for increasing number of passengers and cargoes throughput, the Group commenced the construction of phase II in the beginning of 2004. Currently, the core construction of the passenger terminal building has completed and undergone examination, and is expected to put into operation in the second quarter of 2005.

In 2004, Hainan Meilan International Airport was accredited the “Customer Satisfaction Quality” award again in “2004 Passenger Evaluation of Civil Aviation Survey” conducted by Civil Aviation Association of China in the group of airports with a capacity of 3-10 million passengers throughput. Meilan Airport has obtained such award for three consecutive years, together with a number of accreditations, effectively strengthened the attractiveness and competitiveness of Hainan Meilan International Airport.

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Results

In 2004, the Group's turnover reached RMB 360.03 million, representing an increase of 16.9% over that of last year. Revenue from the aeronautical business increased by 21% as compared to last year, reaching RMB 259.75 million. Revenue from non-aeronautical business amounted to RMB 100.27 million, recorded an increase of 7.7% as compared with that of last year. Net profit attributable to shareholders amounted to RMB 185.68 million, representing a persisting increase of 21.7%.

Operation Review

In 2004, the Group met its annual target successfully. In respect of aeronautical business, total aircraft movement reached 68,282 (of which transportation airport movements were 61,435) for the year, representing an increase of 6.5% as compared to previous year. Passengers throughput reached 7.48 million, posting a persisting increase of 24.4%. Cargoes throughput reached 98,482.5 tones, which was increased by 21.0% over that of previous year. During the international summit "Annual Bo'ao Forum for Asia" (BOA) and the National Congress of the Communist Party of China of Hainan Province and National Committee of Hainan Province attending conference held in Beijing, Hainan Meilan International Airport provided impeccable and quality services and received tremendous recognition and praise from the honorable domestic and international guests.



Outlook

Benefited from the robust economic growth in China, the accelerating restructuring and development of domestic aviation industry and the flourishing tourism in Hainan province, the Group achieved significant growth in operation performance as compared to previous years.

Looking ahead for 2005, the Group will implement a series of effective measures to enhance its progress in business expansion and business growth, with the view of rewarding our shareholders with impressive returns.

Proactive Exploration of International Routes to Become a Quality International Airport

Benefited from the preferential policies provided by the General Administration of Civil Aviation of China and the Hainan Provincial Government in respect of the opening of aviation rights in Hainan province, Hainan Meilan International Airport has developed a total of 9 international/regional routes, together with 3 new international airlines (Thailand Puhket Airline, Malaysia Airlines and Asiana Airlines) opened routes to Haikou. In 2005, Meilan Airport will continue to embrace the philosophy of "integrity, performance and innovation" and persist in the implementation of brand strategy to enhance the domestic route distribution and expedite international route expansion. By introducing new international airlines, exploring new international and domestic routes and providing quality services in accordance with international standards, the Group is committed to establishing a reputable international corporate image and becoming a prominent brand of international airport.

Scheduled Completion of Phase II Expansion Which Is Expected To Commence Operation By Mid 2005

By the end of 2004, the core construction of the Company's phase II expansion plan (including new passenger terminal building and apron) was completed and progressed to the installation and refurbishment stage as scheduled. It is expected to complete all construction work and put into operation by mid 2005. The timely completion of phase II expansion plan will establish a solid foundation for the Group to expand operation scale, enhance efficiency, satisfy the demand of increasing number of tourists and propel future development.

Comprehensive Business Training For Improving Staff Performance

In 2004, in capturing the opportunities brought forth by the opening of the aviation rights and the increasing challenges ahead as an international airport, the Group has placed more emphasis on staff training and provided a number of diversified training courses which attained impressive achievements. Training courses included foreign languages, knowledge of aviation rights, customs of international flights, value-added services, sales and ticketing services for international passengers and knowledge of international ports. In addition, the Group also provided harmonious work environment and organised entertainment activities to improve staff remuneration and welfare. In 2005, the Group will continue to offer diversified training such as language courses, technical skill training, security training and quality training so as to enhance the quality and service standards of its workforce.

Management System Reform Enhances Security And Service Quality

In 2005, the Group will further expedite management system reform, continue to introduce and learn from international advanced management model and acquaint to establish a competitive human resource management system with immense development potential, so as to enhance overall security and service quality.

Acknowledgment

On behalf of the Board and the management of Meilan Airport, I would like to express my heartfelt gratitude to our business partners, clients and shareholders for their continuous support. Beside, I would like to thank our fellow staff members for their dedication and contribution to the Group. With our intimate cooperation, let us join hands to achieve our ultimate goal of becoming a regional airport management company.

Chen Wenli

Chairman

Hainan Province, the PRC

22 March 2005