

Report of the Directors

The Board of Directors (the "Board") herein presents their report together with the audited financial statements 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 2004.

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, passenger and cargo handling services. Its non-aeronautical businesses include commercial and retail spaces leasing at the Hainan Meilan Airport, airport-related business franchising, advertising space leasing, car parking business, tourism services, and sales of duty-free and consumable goods.

For the year ended 31 December 2004, 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 Financial Reporting Standards) for the year ended 31 December 2004, and the financial positions of the Group and the Company as at 31 December 2004 are set out from page 31 to page 33 of this annual report.

Final Dividend

The Board has passed the resolution to recommend the payment of a final dividend on or before 28 June 2005 (Tuesday) of RMB7.4 cents per share during the AGM to be held on 10 May 2005 (Tuesday) to shareholders of the Company whose names appear on the Company's Register of Members on 9 April 2005 (Saturday).

During the year 2004, the Company's audited after-tax profit based on the PRC accounting rules and regulations amounted to RMB168.53 million, and the audited after-tax profit based on the International Financial Reporting Standards amounted to RMB186.88 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 2004 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 9 April 2005 (Saturday) to 9 May 2005 (Monday) (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 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 8 April 2005 (Friday) 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 20 to the accompanying financial statements.

Fixed Assets

Details of the fixed assets as at 31 December 2004 and the change in fixed assets of the Group and the Company for the year ended 31 December 2004 are set out in Note 13 to the accompanying financial statements.

Taxation

Details of taxation of the Group and the Company for the year ended 31 December 2004 are set out in Note 9 to the accompanying financial statements.

Reserves

Change in reserves of the Group and the Company for the year ended 31 December 2004 is set out in Note 28 to the accompanying financial statements. Distributable reserves of the Company as at 31 December 2004, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to RMB215,892,000 (2003: RMB138,516,000).

Donations

Charitable and other donations made by the Group during the year amounted to RMB130,000 (2003: Nil).

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2004 are set out in Note 16 to the accompanying financial statements.

Major customers and suppliers

The largest customer and the five largest customers of the Group represented 22 % and 43% of the total operating revenues of the Group for the year ended 31 December 2004, respectively.

The largest supplier and the five largest suppliers of the Group represented 11 % and 25 % of the total operating costs of the Group for the year ended 31 December 2004, respectively.

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 ("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 Capital Structure

As at 31 December 2004, the total issued share of the Company was 473, 213, 000 shares. The percentage of the total shares is as follows:

	<i>Number of shares</i>	<i>Percentage in total issued</i>
Domestic shares	246,300,000	52%
H shares	226,913,000	48%
Total issued share	473,213,000	100%

Disclosure of interests

As at 31 December 2004, 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 shares</i>	<i>Ordinary shares capacity</i>	<i>Percentage of issued domestic shares/total issued shares</i>
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000	96.43/50.20

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H shares

<i>Name of Shareholders</i>	<i>Capacity</i>	<i>Nature of shares</i>	<i>No. of Ordinary shares (Note 3)</i>	<i>Percentage of total H shares in issue (%)</i>	<i>Date of latest disclosure (DD/MM/YY)</i>
Copenhagen Airport A/S (Note 2)	Beneficial owner	Corporate	94,643,000	41.71 (L)	12/31/2004
Allianz Aktiengesellschaft	Beneficial owner	Corporate	21,012,000 (L)	9.26 (L)	13/09/2004
Morgan Stanley	Beneficial owner	Corporate	19,331,000 (L) 1,714,000 (S)	8.52 (L) 0.76 (S)	29/12/2004
J.P. Morgan Chase & Co.	Beneficial owner	Corporate	18,033,000 (L) 10,171,000 (P)	7.95 (L) 4.48 (P)	16/09/2004
Commonwealth Bank of Australia	Beneficial owner	Corporate	14,372,000 (L)	6.33 (L)	24/03/2004

Note:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is 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. L = Long Position, S = Short Position, P = Lending Pool

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 2004, 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.

Use of proceeds from issue of H shares (since IPO)

- Approximately an accumulated amount of 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 an accumulated amount of RMB50.07 million was applied as cost for the expansion of the apron and terminal areas of the airport; and
- Approximately an accumulated amount of RMB15.50 million was applied to the construction of an international customs and inspection joint operation building for passenger and cargo transportation.
- Approximately an accumulated amount of RMB155.00 million was applied to the construction of Phase II of the terminal.

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

Connected Transactions

Related party transactions entered by the Group during the year ended 31 December 2004 which constitute connected transactions (the "Connected Transactions") under the Listing Rules, are disclosed in note 31 to the accompanying financial statements.

With respect to the Connected Transactions, the Independent Non-Executive Directors are of the opinion that those Connected Transactions:

- a) fall into the category of daily operation of the Company;
- b) were conducted on normal commercial terms, and
- c) were conducted in accordance with the clauses in the agreement governing such transactions except for those as referred to at (c) and (d) below. The clauses are fair and reasonable, and of the shareholders interests.

The international auditor of the company has performed agreed-upon procedures and reported to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Connected Transactions that:

- a) the Connected Transactions have been approved by the Board of Directors of the Company;
- b) the Connected Transactions are in accordance with the pricing policies as disclosed in the section of "Connected Transactions" of Directors' Report in the 2004 Annual Report;
- c) the Connected Transactions have been entered into in accordance with the terms of the relevant 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;
- d) the following Connected Transactions have exceeded the cap amounts specified in the conditional waiver letter of The Stock Exchange of Hong Kong Limited dated 5 November 2002:
 - the 2004 annual ground handling services with Hainan Airlines Company Limited amounted to RMB75 million, which exceeded the relevant cap amount of RMB70 million, as specified in the conditional waiver letter of The Stock Exchange of Hong Kong Limited;
 - the 2004 annual logistic composite services with HNA Group Company Limited amounted to RMB9.5 million, which exceeded the relevant cap amount of RMB6.5 million, as specified in the conditional waiver letter of The Stock Exchange of Hong Kong Limited.

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The Management of the Company consider that in clause c) 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 the Connected Transactions in clause d) which exceeded the relevant cap amounts were conducted in the ordinary course of business of the Company, the Company is applying to The Stock Exchange of Hong Kong Limited for exemption and preparing for the relevant announcement. The approval from the independent shareholders has also been applied.

Directors', supervisors' and chief executives' interests and short positions

As at 31 December 2004, 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

As at 31 December 2004, the Board Meeting of the Company comprises nine directors.

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 Bailing	(re-appointed on 30 June 2004)
Xie Zhuang	(appointed on 19 January 2004)
Simon Fung Ching	(appointed on 11 October 2004)

Supervisors

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

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, 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 2004.

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 8 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 senior executives of the Company. Details of their remuneration are set out in Note 8 to the accompanying 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 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.

Transactions in its securities

For the year ended 31 December 2004, 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 2004.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2004.

Auditors

The financial statements of the Group prepared in accordance with PRC accounting rules and regulations and those prepared in accordance with International Financial Reporting Standards were audited by Hainan Congxin Certified Public Accountant and PricewaterhouseCoopers, respectively. They retire and, being eligible, offer themselves for re-appointment. Resolutions to re-appoint these two firms will be submitted at the forthcoming annual general meeting of 2004.

Ernst & Young were auditors of the Company in the two financial years ended 31 December 2002 and 2003.

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Audit Committee

The Company established an audit committee on 24 September 2002. The audit committee consists of three members who are also Independent Non-executive Directors. Mr. XuBailing, is the chairman.

Compliance with the Code of Best Practice

For the year ended 31 December 2004, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

To comply with the requirements from Appendix 23 of the Listing Rules, the Company will incorporate "Corporate Governance Report" in its interim report and annual report starting from 2005 interim report.

Compliance with Model Code for Securities Transactions by Directors of Listed Issues

Most of the directors of the Company are citizens of the mainland of the PRC and are restricted in the H shares transactions by the domestic laws. Therefore, the Company does not adopt any regulation under Model Code; none of the directors of the Company are not, for any part of the accounting period contained in the interim report, in compliance with the Model Code.

Five Year Financial Summary

A table of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4.

On behalf of the Board

Chen Wenli

Chairman

Hainan Province, the PRC
22 March 2005