Notes to the Financial Statements

Year ended 31 December 2004

1 Company organisation and principal activities

Hainan Meilan International Airport Company Limited (formerly "Hainan Meilan Airport Company Limited" and hereinafter 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 Company and its subsidiaries (together as the "Group") are mainly engaged in the operation of the Meilan Airport in Hainan, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

On 18 November 2002, 198,000,000 newly issued H shares of the Company and 3,700,000 existing state-owned shares (after conversion to H shares) were offered, at a premium, to the public and were subsequently traded on The Stock Exchange of Hong Kong Limited. On 9 December 2002, 25,213,000 additional H shares were issued.

On 31 July 2003, the General Administration of Civil Aviation of China (the "CAAC") granted the qualification of international airport to the Meilan Airport and it was then eligible to operate international routes. With effect from 25 March 2004, the Company's name was changed from Hainan Meilan Airport Company Limited to Hainan Meilan International Airport Company Limited.

In the opinion of the directors, the ultimate holding company is Haikou Meilan International Airport Company Limited, a company established in the PRC with limited liability.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Group accounting

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note 2(f) below for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

In the Company's financial statements, interests in subsidiaries are carried at cost less provision for impairment in value. The results of the subsidiaries' operations are accounted for to the extent of dividends received and receivable. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

2 Principal accounting policies (continued)

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The financial statements are presented in Renminbi ("RMB"), which is the measurement currency of the parent.

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(d) Property, plant and equipment

Property, plant and equipment are stated at original cost or revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the directors, less accumulated depreciation and impairment losses. In the intervening years, the directors review the carrying amounts of the property, plant and equipment and adjustment is made where there has been a material change.

Increases in the carrying amount arising on revaluation of buildings are credited to revaluation surplus reserve in the shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus reserve; all other decreases are charged to the income statement.

Depreciation is calculated on the straight-line method to write off the cost or revalued amount less accumulated impairment losses of each asset to their residual value of 3% over their estimated useful life as follows:

Buildings and improvements	15 – 40 years
Machinery and equipment	10 – 15 years
Motor vehicles	10 years
Furniture, fixtures and other equipment	6 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit from operations. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Notes to the Financial Statements

Year ended 31 December 2004

2 Principal accounting policies (continued)

(d) Property, plant and equipment (continued)

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the cost of construction, costs of plant and equipment and other direct costs plus cost of borrowings (including interest charges and exchange differences arising from foreign currency borrowings to the extent these exchange differences are regarded as an adjustment to interest costs) used to finance these projects during the period of construction or installation and testing. Assets under construction are not depreciated until such time as the relevant assets are completed and ready for their intended use.

(e) Prepaid leases

Costs of prepaid leases are recognised as an expense on the straight-line basis over the period of the lease.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life of ten years. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(g) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

(h) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

2 Principal accounting policies (continued)

(i) Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(j) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(1) The Group is the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(2) The Group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(k) Inventories

Inventories consist mainly of merchandise for resale and consumable items. Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Net realisable value of consumable items is the expected amount to be realised from use, whereas that of raw materials and merchandise for resale are the estimated selling price in the ordinary course of business, less the costs of completion and marketing and distribution expenses.

(l) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the effective interest rate.

Notes to the Financial Statements

Year ended 31 December 2004

2 Principal accounting policies (continued)

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in the current liabilities on the balance sheet.

(n) Share capital

(1) Ordinary shares with discretionary dividends are classified as equity.

(2) Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

(o) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Deferred income taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee benefits

(1) Pension obligations

For defined contribution plans, the Group participates in employee retirement schemes regarding pension benefits required under existing PRC legislation. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees. The regular contributions, which are charged to the income statement on an accrual basis, constitute net periodic costs for the year in which they are due and as such are included in staff costs. Once the contributions have been paid, the Group has no further payment obligations.

2 Principal accounting policies (continued)

(q) Employee benefits (continued)

(2) Bonus entitlements

A liability for employee benefits in the form of bonus entitlements is recognised in payroll and welfare payable when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

– there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or

– past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus entitlements are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain that reimbursement will be received if the Group settles the obligation.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenues are shown net of value-added tax, if applicable, and are recognised on the following bases:

(i) Airport fee is recognised upon receipt from outbound passengers when departing from the airport.

(ii) Aeronautical revenues other than airport fee are recognised when the related airport services are rendered.

(iii) Revenues from duty free shops and other shops, air catering, restaurants and lounges are recognised upon delivery of goods and/or when title is passed to customers, or upon rendering of services.

(iv) Rental income is recognised on the straight-line basis over the lease periods.

(v) Advertising income is recognised on the straight-line basis over the period of display of the advertisements.

(vi) Car parking fees are recognised when the parking services are rendered.

(vii) Franchise fee is recognised on the straight-line basis during the period of granting the right of operations;

(viii) Management fee is recognised when the related management services are rendered;

(ix) Tourism income is recognised when the services are rendered.

(x) Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Notes to the Financial Statements

Year ended 31 December 2004

2 Principal accounting policies (continued)

(t) Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

(u) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(v) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(w) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

(x) Comparatives

The Group previously disclosed trade receivable of RMB65,810,000 due from a related party with 'Due from related parties'. Management believes that this inclusion in 'Trade receivables, net' is a fairer presentation of the Group's activities.

The Company previously disclosed amounts due from subsidiaries of RMB1,143,000 and amounts due to subsidiaries of RMB3,562,000 with 'Investments in subsidiaries'. Management believes that their inclusion under 'Current assets' and 'Current liabilities, respectively is a fairer presentation of the activities of the Company standing alone.

3 Financial risk management

(a) Financial risk factors

The Group and the Company conduct their operations in the PRC and accordingly are subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, influence of national authorities over pricing regulation and competition in the industry.

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that purchases of certain equipment, goods and materials and payment of consulting fee are in US dollars. Dividends to shareholders holding H shares are declared in RMB and paid in Hong Kong dollars. As at 31 December 2004, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB5,187,000 (2003: RMB9,656,000) were denominated in Hong Kong dollars and US dollars. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The interest rates and terms of repayment of the bank loans of the Group and the Company are disclosed in note 20.

(iii) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of held-to-maturity investments, trade receivables, other receivables and prepayments and due from related parties. The maximum credit risk exposure in the event that other parties fail to perform their obligations under these financial instruments was approximately RMB184,751,000 and RMB224,513,000 as at 31 December 2004 and 2003 respectively.

(iv) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its construction commitments.

(b) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Notes to the Financial Statements

Year ended 31 December 2004

4 Revenues and segment information

The Group conducts its business within one business segment – the business of operating an airport and provision of related services in the PRC. As the products and services provided by the Group are all related to the operation of an airport and subject to similar business risks, no segment income statement has been prepared by the Group for the year ended 31 December 2004. The Group also operates within one geographical segment because its revenues are primarily generated and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

Analysis of revenues by category	**2004** ***RMB'000***	2003 *RMB'000*
Aeronautical:		
Passenger charges	**101,819**	84,620
Aircraft movement fees and related charges	**42,222**	38,297
Airport fee	**90,176**	71,668
Ground handling services income	**25,536**	20,254
	259,753	214,839
Non-aeronautical:		
Retailing	**21,788**	11,450
Franchise fee	**13,992**	24,493
Rental	**19,307**	15,964
Tourism	**22,165**	21,977
Advertising	**8,247**	6,192
Car parking	**5,072**	2,963
Management fee	**–**	2,472
Others	**9,701**	7,583
	100,272	93,094
Total revenues	**360,025**	307,933

5 Profit from operations

The following items have been included in arriving at profit from operations:

	2004 *RMB'000*	2003 *RMB'000*
Cost of goods sold	**11,366**	5,929
Depreciation of property, plant and equipment	**34,582**	31,313
Amortisation of prepaid leases	**2,409**	3,731
Loss on disposal of property, plant and equipment	**452**	674
Repairs and maintenance expenditure on property, plant and equipment	**6,702**	4,365
Amortisation of goodwill (included in cost of services and sale of goods)	**413**	69
Amortisation of negative goodwill (included in other gains)	**(37)**	(37)
Operating lease rentals		
– buildings	**509**	509
Trade receivables		
– (reversal)/impairment charge for bad and doubtful debts	**(2,176)**	1,876
Staff costs *(note 7)*	**33,364**	29,176
Auditors' remuneration	**2,121**	2,603

6 Interest expense

	2004 *RMB'000*	2003 *RMB'000*
Interest on bank loans		
– wholly repayable within five years	**–**	12,812
– not wholly repayable within five years	**7,496**	484
	7,496	13,296
Less: interest capitalised *(note 13)*	**(7,496)**	(1,576)
	–	11,720

Notes to the Financial Statements

Year ended 31 December 2004

7 Staff costs

	2004 RMB'000	2003 RMB'000
Wages and salaries	24,737	21,316
Pension costs – statutory pension *(note 22)*	2,784	2,717
Staff welfare	1,163	1,336
Housing fund *(note 23)*	1,587	363
Medical benefits	928	907
Other allowances and benefits	2,165	2,537
	33,364	29,176

As at 31 December 2004, the Group and the Company had 714 and 538 (2003: 568 and 410) employees respectively.

8 Directors' senior executives' and supervisors' emoluments

	2004 RMB'000	2003 RMB'000
Directors' and supervisors' emoluments		
Fees	655	644
Salaries and other benefits	217	310
Bonuses	266	256
Retirement scheme contributions	27	70
	1,165	1,280

Directors' fee disclosed above included RMB236,000 (2003: RMB160,000) paid to independent non-executive directors.

For the years ended 31 December 2004 and 2003, the annual emoluments paid to each of the directors, supervisors and the five highest-paid employees fell within the band from RMB nil to RMB1 million.

No directors waived or agreed to waive any emoluments during the year.

Five highest-paid employees included three directors (2003: five directors), whose emoluments have been included in the above disclosure. Details of emoluments of another two highest-paid employees (2003: nil) were:

	2004 RMB'000	2003 RMB'000
Basic salaries and allowances	90	–
Bonuses	132	–
Retirement scheme contributions	21	–
	243	–

During the year, no emolument was paid to the five directors, supervisors and any of the five highest-paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.

9 Taxation

Enterprise income tax

Hong Kong profits tax has not been provided as the Group had no estimated assessable profits arising in Hong Kong during the year (2003: Nil). Taxation in the income statement represents provision for PRC enterprise income tax.

The difference between the annual taxation charge in the consolidated income statement and the amount which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:

	2004	2003
	RMB'000	*RMB'000*
Profit before taxation	**185,666**	154,563
Tax calculated at a tax rate of 15% (2003: 15%)	**27,850**	23,184
Effect of tax holidays	**(28,231)**	(26,198)
Effect of current year losses of subsidiaries	**108**	106
Investment income not subject to income tax	**(28)**	(81)
Expenses not deductible for tax purposes	**334**	3,149
Tax charge	**33**	160

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (2003: 15%) on the taxable income as reported in their statutory accounts which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

Pursuant to the approval documents issued by Hainan Qiongshan State Tax Bureau, the Company has been granted full exemption from enterprise income tax from 2000 to 2004 and a 50% reduction from 2005 to 2009.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB332,000 (2003: RMB223,000) in respect of the tax losses of the Group's subsidiaries as at 31 December 2004 of approximately RMB2,285,000 (2003: RMB1,541,000). Losses amounting to RMB814,000, RMB727,000 and RMB744,000 expire in 2007, 2008 and 2009 respectively.

Except for the tax losses carry-forwards as referred to in the preceding paragraph, there are no other material deferred income tax assets not recognised.

Business taxes

The Group is subject to business taxes on its service revenues at the following rates:

Aeronautical revenues	3% of service revenue
Non-aeronautical revenues	5% of rental income, advertising income, car parking fee income and repairs and maintenance service income

Value-Added Tax ("VAT")

VAT is levied at general rate of 4% on the selling price of goods and services.

Notes to the Financial Statements

Year ended 31 December 2004

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB186,888,000 (2003: RMB157,503,000).

11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Profit attributable to shareholders (RMB'000)	**185,677**	152,608
Weighted average number of ordinary shares in issue (in thousands)	**473,213**	473,213
Basic earnings per share (RMB per share)	**39 cents**	32 cents

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2004 and 2003.

12 Dividends

	2004	2003
	RMB'000	*RMB'000*
Interim, paid, of RMB10.4 cents (2003: RMB2.7 cents) per ordinary share	**49,214**	12,777
Final, proposed, of RMB7.4 cents (2003: RMB14.3 cents) per ordinary share	**35,018**	67,669
	84,232	80,446

At the Board of Directors' meeting held on 22 March 2005, the directors of the Company proposed a final dividend of RMB7.4 cents per ordinary share. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31 December 2005.

13 Property, plant and equipment

Movements in property, plant and equipment of the Group were:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	2004 Total	2003 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost or valuation							
At beginning of year	624,968	77,871	39,364	17,142	771	**760,116**	700,844
Additions	9,693	1,359	6,086	2,770	157,782	**177,690**	64,329
Transfer	1,499	–	–	26	(1,525)	**–**	–
Disposals	–	–	(1,063)	(24)	–	**(1,087)**	(1,057)
Reclassification	–	–	(306)	306	–	**–**	–
Government grant	–	–	–	–	–	**–**	(4,000)
At end of year	636,160	79,230	44,081	20,220	157,028	**936,719**	760,116
Accumulated depreciation							
At beginning of year	19,519	9,508	7,892	5,733	–	**42,652**	11,690
Charge for the year	16,960	7,797	7,142	2,683	–	**34,582**	31,313
Disposals	–	–	(612)	(23)	–	**(635)**	(351)
Reclassification	–	–	(74)	74	–	**–**	–
At end of year	36,479	17,305	14,348	8,467	–	**76,599**	42,652
Net book value							
At end of year	599,681	61,925	29,733	11,753	157,028	**860,120**	717,464
At beginning of year	605,449	68,363	31,472	11,409	771	**717,464**	689,154

Had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation, the carrying amounts of each class would have been:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	2004 Total	2003 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost	675,135	99,906	55,331	24,756	157,028	**1,012,156**	835,554
Accumulated depreciation	109,056	40,671	25,807	13,334	–	**188,868**	157,096
	566,079	59,235	29,524	11,422	157,028	**823,288**	678,458

Notes to the Financial Statements

Year ended 31 December 2004

13 Property, plant and equipment (continued)

Movements in property, plant and equipment of the Company were:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	2004 Total	2003 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost or valuation							
At beginning of year	624,968	77,871	38,849	12,738	745	**755,171**	697,060
Additions	9,693	1,359	6,086	2,565	157,782	**177,485**	63,008
Transfer	1,499	–	–	–	(1,499)	**–**	–
Disposals	–	–	(1,063)	(24)	–	**(1,087)**	(897)
Government grant	–	–	–	–	–	**–**	(4,000)
At end of year	636,160	79,230	43,872	15,279	157,028	**931,569**	755,171
Accumulated depreciation							
At beginning of year	19,519	9,508	7,738	3,553	–	**40,318**	10,120
Charge for the year	16,960	7,797	6,968	1,840	–	**33,565**	30,447
Disposals	–	–	(612)	(23)	–	**(635)**	(249)
At end of year	36,479	17,305	14,094	5,370	–	**73,248**	40,318
Net book value							
At end of year	599,681	61,925	29,778	9,909	157,028	**858,321**	714,853
At beginning of year	605,449	68,363	31,111	9,185	745	**714,853**	686,940

Had the property, plant and equipment of the Company been carried at historical cost less accumulated depreciation, the carrying amounts of each class would have been:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	2004 Total	2003 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost	675,135	99,906	55,122	19,816	157,028	**1,007,007**	830,609
Accumulated depreciation	109,056	40,671	25,781	12,344	–	**187,852**	157,096
	566,079	59,235	29,341	7,472	157,028	**819,155**	673,513

13 Property, plant and equipment (continued)

Leased assets included in the above table, where the Group is a lessor, comprise buildings leased to third parties under operating leases:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Cost	**26,072**	26,072
Accumulated depreciation	**1,606**	918
Net book value	**24,466**	25,154

An valuation of the property, plant and equipment of the Group was performed at 31 August 2002 by Vigers Hong Kong Ltd., independent professionally qualified surveyors, for the purpose of the listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited. Except for the valuation of property which was based on a combination of the open market value and depreciated replacement cost, the valuation of the remaining plant and equipment was based on the open market method. The depreciated replacement cost approach considers the costs to reproduce or replace in new condition the property appraised, in accordance with current construction costs for similar property in the locality, less depreciation whether arising from physical, functional or economic causes. The valuer assumed that the buildings and assets under construction will be used for the purposes for which they are presently used and did not consider alternative uses. A net valuation surplus of approximately RMB41,449,000 resulted from the revaluation, net off deferred income tax liabilities of RMB4,968,000, was recorded in the note 27.

In the opinion of directors, the fair value of the property, plant and equipment is not materially different from their carrying amount as at 31 December 2004.

Interest expenses capitalised to assets under construction for the year ended 31 December 2004 amounted to RMB7,496,000 (2003: RMB1,576,000) *(note 6)*. Total accumulated interest expenses capitalised to assets under construction as at 31 December 2004 is RMB9,072,000 (2003: RMB1,576,000).

14 Prepaid leases

As at 31 December 2004, the prepaid leases represent land use rights and comprised:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Cost	**179,499**	175,260
Accumulated amortisation	**9,368**	6,959
Net	**170,131**	168,301

The land use rights are amortised on the straight-line basis over the terms of 50 to 70 years.

As at 31 December 2004, the legal formalities for the transfer of title of certain land use rights amounting to RMB4,239,000 (2003: RMB94,380,000) were still in progress.

Notes to the Financial Statements

Year ended 31 December 2004

15 Goodwill and negative goodwill

The amount of goodwill and negative goodwill, capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries are as follows:

	The Group			
	Goodwill		Negative goodwill	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
At beginning and end of year	**4,132**	4,132	**(260)**	(260)
Accumulated amortisation				
At beginning of year	**(69)**	–	**58**	21
Amortisation for the year	**(413)**	(69)	**37**	37
At end of year	**(482)**	(69)	**95**	58
Net book amount				
At end of year	**3,650**	4,063	**(165)**	(202)

16 Investments in subsidiaries

(a) Details of investments in subsidiaries are as follows:

	The Company	
	2004	2003
	RMB'000	*RMB'000*
Unlisted shares, at cost	**18,094**	18,094

As at 31 December 2004, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability company and operating in the PRC:

Name	Place and date of establishment	Percentage of equity interest held by the Company Directly	Indirectly	Amount of Issued and fully paid capital *RMB'000*	Principal activities
Hainan Meilan International Airport Advertising Co., Ltd.	PRC 8 June 1999	95	4.75	1,000	Provision of advertising services
Hainan Meilan International Airport Travelling Co., Ltd.	PRC 13 November 2001	95	–	11,000	Provision of tourism services
Hainan Meilan Duty Free Shop Limited	PRC 11 May 1999	95	–	1,000	Duty free shop

(b) The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

17 Trade receivables, net

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from third parties	**32,172**	31,556	**31,615**	30,777
Less: provision for impairment	**(2,215)**	(4,391)	**(2,186)**	(4,319)
	29,957	27,165	**29,429**	26,458
Trade receivables from related parties *(note 31(b))*	**105,419**	82,184	**105,419**	82,184
Airport fee receivable *(note 19(i))*	**29,040**	–	**29,040**	–
	164,416	109,349	**163,888**	108,642

At 31 December 2004, the ageing analysis of the trade receivables from third parties was as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**22,375**	21,474	**22,358**	21,128
Over 90 days but within 180 days	**5,906**	2,795	**5,604**	2,641
Over 180 days but within 365 days	**972**	1,804	**814**	1,748
Over 365 days	**704**	1,092	**653**	941
	29,957	27,165	**29,429**	26,458

The credit terms given to trade customers are determined on individual basis with the normal credit period from 3 to 6 months.

At 31 December 2004, the ageing analysis of the trade receivables from related parties was as follows:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Within 90 days	**53,416**	48,076
Over 90 days but within 180 days	**24,461**	28,647
Over 180 days but within 365 days	**25,043**	5,427
Over 365 days	**2,499**	34
	105,419	82,184

The credit terms given to related parties are determined on individual basis with the normal credit period from 3 to 6 months.

Trade receivables from related parties included amount due from Hainan Airlines Company Limited of RMB79,004,000, of which RMB63,000,000 was settled in January 2005.

Airport fee receivable is aged within 180 days.

Notes to the Financial Statements

Year ended 31 December 2004

18 Time deposits and cash and cash equivalents

(a) Time deposits

At 31 December 2004, the Group and the Company had two deposits (2003: two deposits) placed with Xiamen International Bank amounting to RMB81,614,000 (2003: RMB80,000,000) and one deposit (2003: Nil) placed with China Merchants Bank, Shenzhen Shatoujiao Branch amounting to RMB20,000,000. The deposits placed with Xiamen International Bank earn interest at 1.89% per annum and have maturity date of 20 April 2005 and the deposit places with China Merchants Bank, Shenzhen Shatoujiao Branch earns interest at 1.98% per annum and has maturity date of 22 April 2005.

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**379,976**	213,704	**354,994**	201,930
Short term bank deposits	**–**	200,000	**–**	200,000
	379,976	413,704	**354,994**	401,930

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits of 2003 are made for varying period of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short deposit rates.

19 Trade and other payables

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**4,699**	2,225	**1,355**	–
Other payables	**52,867**	52,440	**46,635**	46,688
Deposit received	**1,281**	1,452	**1,281**	1,452
Airport fee payable *(note (i))*	**–**	7,867	**–**	7,867
Due to related parties *(note 31(b))*	**42,365**	11,690	**41,486**	10,810
	101,212	75,674	**90,757**	66,817

As at 31 December 2004 and 2003, all trade payables were aged within one year.

Note (i): In previous years, the Company was required to collect on behalf of the CAAC the civil airport management and construction fee (the "Airport Fee"), subject to certain exemptions, from each outbound passenger (RMB50 per domestic passenger and RMB70 per international passenger), CAAC refunded 50% of the fee collected to the Company as revenue. Tourism development fund (RMB20 per passenger) was collected together with the Airport Fee from each outbound international passenger on behalf of and payable to the PRC government after deducting certain handling charges. Effective from 1 September 2004, the Airport Fee and the tourism development fund are collected by CAAC directly. CAAC will pay 50% of the Airport Fee to the Company as revenue.

20 Long-term bank loans

As at 31 December 2004, all of the bank borrowings were borrowed by the Group and the Company to finance the construction of the airport terminal, the related premises and facilities and were guaranteed by a floating charge over the Company's revenues.

As at 31 December 2004, loans of RMB128,000,000 (2003: RMB128,000,000) denominated in RMB bear interest at commercial rates 5.76% per annum (2003: 5.76% per annum) with maturities through 2013 (2003: through 2013).

The Group's and Company's bank borrowings were repayable as follows:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Within one year	**25,000**	–
In the second year	**50,000**	25,000
In the third to fifth year	**41,000**	87,000
After five years	**12,000**	16,000
	128,000	128,000
Less: Current portion of long-term bank loans included in current liabilities	**(25,000)**	–
	103,000	128,000

21 Deferred income tax liabilities

The deferred income tax liabilities arising from the difference between the depreciation and amortisation for accounting purpose and the depreciation and amortisation for tax purpose of the following assets:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Prepaid leases	**6,535**	6,535
Property, plant and equipment	**4,968**	4,968
	11,503	11,503
Deferred income tax liabilities to be recovered:		
– after more than 12 months	**11,262**	11,503
– within 12 months	**241**	–
	11,503	11,503

22 Pensions

All of the Group's full-time employees, who are permanent PRC citizens, are covered by a state-sponsored pension scheme and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the state-sponsored retirement plan at a rate of 20% of the employees' salaries in 2004 and 2003.

The Group provides no other retirement benefits than those described above.

Notes to the Financial Statements

Year ended 31 December 2004

23 Housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 15% (2003: 5%) of the specified salary amount of its full-time employees, who are permanent PRC citizens. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2004, the Group's contribution to the housing fund was approximately RMB1,587,000 (2003: RMB363,000).

As at 31 December 2004 and 2003, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

24 Financial assets and financial liabilities

The carrying amounts of the Group's and the Company's long-term bank loans at 31 December 2004 approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

The fair value of cash and cash equivalents, held-to-maturity investments, trade receivables, other receivables, amounts due from and to related parties, trade payables, other payables and current portion of long-term bank loans are not materially different from their carrying amounts.

Fair value estimates are made at specific point in time and are based on relevant market information. This estimate is subjective in nature and involves uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

25 Commitments

Capital commitments

Capital expenditure in respect of buildings and improvements at the balance sheet date is as follows:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Contracted but not provided for	**77,105**	3,520
Authorised but not contracted for	**198,259**	434,015
	275,364	437,535

Operating lease commitments – where the Group and the Company are the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
Not later than 1 year	**646**	910
Later than 1 year but not later than 5 years	**509**	1,019
	1,155	1,929

25 Commitments (continued)

Operating lease commitments – where the Group and the Company are the lessor

The future minimum lease payment receivables under non-cancellable operating leases for buildings are as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**5,681**	9,293	**1,937**	6,593
Later than 1 year but not later than 5 years	**693**	1,494	**268**	1,397
	6,374	10,787	**2,205**	7,990

On 24 September 2004, the Company entered into an agreement with Duty Free Shoppers Hong Kong Limited ("DFS") to rent the commercial area inside the terminal centre of the Meilan Airport to DFS for rental income based on the departing passengers throughput and for a concession fee based on the sales revenue generated by DFS for a period of 10 years from the date DFS shall pay the rental charge and concession fee to the Company. DFS is expected to commence its operations in the Meilan Airport in mid 2005.

26 Share capital

	Number of shares	Ordinary shares
	(thousands)	*RMB'000*
Domestic shares of RMB1 each, fully paid	246,300	246,300
H shares of RMB1 each, fully paid	226,913	226,913
At beginning and end of year	473,213	473,213

27 Revaluation surplus

This relates to surplus on the revaluation of property, plant and equipment of the Group and the Company.

	The Group and the Company	
	2004	2003
	RMB'000	*RMB'000*
At beginning and end of year	**36,481**	36,481

28 Statutory reserves

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, when distributing the net profit of each year, the Company shall set aside 10% of its profit after taxation (based on the Company's local statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% for the statutory public welfare fund. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees. Titles to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Notes to the Financial Statements

Year ended 31 December 2004

29 Minority interests

	The Group	
	2004	2003
	RMB'000	*RMB'000*
At beginning of year	**1,072**	6,679
Purchase of additional interests in a subsidiary	**–**	(5,668)
Share of net (loss)/profit of subsidiaries	**(44)**	1,795
Dividend paid	**–**	(1,734)
At end of year	**1,028**	1,072

30 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to cash generated from operations

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Profit before taxation	**185,666**	154,563
Adjustments for:		
Interest expense	**–**	11,720
Interest income	**(4,849)**	(5,930)
Depreciation and amortisation	**36,991**	35,044
Amortisation of goodwill	**413**	69
Amortisation of negative goodwill	**(37)**	(37)
Loss on sale of property, plant and equipment	**452**	674
(Reversal of)/impairment charge of provision for bad and doubtful debts	**(2,176)**	1,876
Investment income	**–**	(3,670)
(Increase)/decrease in receivables and prepayments	**(49,660)**	4,692
Increase in trade and other payables	**24,500**	702
Increase in inventories	**(1,021)**	(556)
Cash generated from operations	**190,279**	199,147

(b) In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Net book amount	**452**	706
Loss on sale of property, plant and equipment	**(452)**	(674)
Proceeds from sale of property, plant and equipment	**–**	32

31 Related party transactions

The Company is controlled by Haikou Meilan International Airport Co., Ltd (the "Parent Company") established in the PRC which owns 50% of the Company's shares. Copenhagen Airports A/S ("CPHA") owns 20% of the Company's shares. Hainan Airlines Company Limited ("Hainan Airlines") and HNA Group Co., Ltd. ("HNA Group") owns 1.2% and 0.8%, respectively, of the Company's shares. The remaining 28% of the shares are widely held.

(a) The following is a summary of significant transactions of the Group carried out with related parties in the ordinary course of business during the year:

Name of related party	Relationship with the Company	Nature of transactions	*Notes*	The Group 2004 *RMB'000*	2003 *RMB'000*
Revenues:					
Yangzijiang Air Express Company Limited (Yangzijiang Air Express")	Subsidiary of HNA Group	Income from franchise fee for the operation of the cargo centre	*(i)*	**9,900**	18,000
Hainan Airlines Food Company Limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	*(ii)*	**2,078**	4,380
Hainan Airlines	Shareholder	Income for the provision of customary airport ground services	*(iii)*	**75,037**	65,539
		Rental income for the leasing of office and commercial space	*(iv)*	**5,839**	5,831
Southern Airlines	Promoter	Income for the provision of customary airport ground services	*(iii)*	**38,957**	41,496
		Rental income for the leasing of office and commercial space	*(iv)*	**6,294**	5,906
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	*(iii)*	**2,498**	1,619
Expenses:					
Haikou Meilan International Airport Co. Ltd.	Parent company	Airport composite services charged by the Parent Company	*(v)*	**11,222**	9,900
		Rental expense paid for the leasing of office and commercial space	*(vi)*	**509**	509
HNA Group	Shareholder	Logistic composite services charged by HNA Group	*(vii)*	**9,500**	6,500
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	*(viii)*	**6,011**	4,146
Sharing of customary airport ground services income:					
Haikou Meilan International Airport Co. Ltd.	Parent Company	Sharing of customary airport ground services income by the Parent Company	*(ix)*	**46,905**	41,350

Notes to the Financial Statements

Year ended 31 December 2004

31 Related party transactions (continued)

(i) In accordance with an agreement between the Company and Yangzijiang Air Express dated 17 December 2004, Yangzijiang Air Express would pay an annual franchise fee of RMB9,900,000 to the Company for operating the cargo centre of the Company as well as rights to utilise the facilities of the cargo centre with retrospective effect on 1 January 2004.

(ii) In accordance with an agreement between the Company and Hainan Food dated 17 December 2004, Hainan Food is granted a right to provide on-board catering services to airlines. The franchise fee is RMB2,078,000 for the year ended 31 December 2004.

(iii) The Company provided customary airport ground services including landing facilities, basic ground handling services, cargo storage and handling, passenger and baggage security check services and other related services to Hainan Airlines and other airlines at rates prescribed by the CAAC.

(iv) The Company leased office, commercial areas, premises, airport counters and an aircraft hangar to Hainan Airlines and other airlines. The rental charges were agreed between the Company and the airlines.

(v) According to a revised airport composite services agreement dated 25 October 2002, the Parent Company has agreed to provide the following services to the Group:

(a) provision of security guard service;
(b) cleaning and landscaping;
(c) sewage and refuse processing;
(d) power and energy supply and equipment maintenance; and
(e) passenger and luggage security inspection.

The term of the revised airport composite services agreement is for three years commencing on 1 January 2002 and is renewable upon the mutual agreement of the parties thereto.

(vi) The Company and the Parent Company entered into an office lease agreement dated 25 October 2002, the Company agreed to rent from the Parent Company office premises for a term of five years at an annual rental of RMB509,000 with effect from 1 January 2002.

(vii) Pursuant to a logistic composite service agreement dated 25 October 2002, HNA Group agreed to provide and procure its subsidiaries to provide to the Company logistic services including (a) staff training; (b) staff shuttle bus services; (c) staff cafeteria services; (d) vehicle maintenance; and (e) appliance procurement with effect from 1 January 2002.

The charges for these services are determined as follows: item (a), at the cost of providing such services shared among the HNA Group, the Company and other relevant companies on a pro rata basis by reference to employee headcount; items (b) and (c) at a fixed price with reference to the relevant cost per employee headcount; and items (d) and (e) at the cost of providing such services plus a 5% and a 1% mark-up as management fees, respectively.

(viii) Pursuant to the technical service agreement dated 16 September 2002 and amended on 30 October 2002 between the Company and CPHI. CPHI has agreed to provide certain technical and consultancy services in respect of the long-term management and development of Meilan Airport.

The Company is required to pay fees to CPHI which consist of a fixed fee component and a performance-related component. The fixed fee component is calculated by reference to the number of consultant-days used in providing the technical and consultancy services. The performance-related component is calculated by reference to the Company's actual earnings before interest, tax, depreciation and amortisation.

31 Related party transactions (continued)

(ix) As directed by the circular (Zong Ju Cai Han No. [2002] 77) issued by the CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company that both parties will share, on the ratio of 75% to the Company and 25% to the Parent Company, the aircraft movement fees for all airlines, passenger charges for domestic airlines and the basic ground handling fees for Hong Kong, Macau and foreign airlines in connection with the airport terminal services and runway services provided to the Group's customers by the Company and the Parent Company, respectively. The Group will collect such fees on behalf of the Parent Company and assumes no liabilities in respect of a default of payment by the airline customers. The Group has accounted for its share of 75% of the aeronautical fees in its consolidated income statement as revenue.

The above transaction with related parties was entered into in accordance with the terms as set out in the agreements governing the transactions or as mutually agreed between the parties.

(x) The Company's Parent Company has guaranteed the payments of balances due from Hainan Da Lung Enterprise Co., Ltd. to the Group amounting to RMB8,230,000 (2003: RMB13,230,000).

(xi) During the year ended 31 December 2004, Hainan Airlines obtained control over the management of Sanya Phoenix International Airport Company Limited ("SPIA") and as a result, SPIA became a related party of the Company.

In August 2002, the Company entered into a management contract with SPIA to manage Sanya Airport with management fees set at 1.5% of revenue plus 5% of the reduction in net losses when SPIA remains loss making or 10% of the profit before tax when SPIA starts to generate net profits. During 2004, the two parties agreed to rescind the aforesaid agreement with effect from 1 January 2004 retrospectively.

(b) As at 31 December 2004, balances with related parties comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties:				
Hainan Airlines *(note i)*	**79,004**	49,752	**79,004**	49,752
Southern Airlines	**15,492**	15,163	**15,492**	15,163
Hainan Food	**2,625**	3,493	**2,625**	3,493
Yangzijiang Air Express	**5,477**	12,565	**5,477**	12,565
SPIA	**2,499**	–	**2,499**	–
Xiamen Airlines	**322**	1,211	**322**	1,211
	105,419	82,184	**105,419**	82,184
Other receivables from related parties:				
Hainan Da Lung Enterprise Co., Ltd. *(note ii)*	**8,230**	13,230	**8,230**	13,230
Parent Company	**823**	1,654	**–**	–
HNA Group	**–**	309	**–**	309
SPIA	**67**	–	**67**	–
Others	**711**	311	**711**	212
	9,831	15,504	**9,008**	13,751
	115,250	97,688	**114,427**	95,935

Notes to the Financial Statements

Year ended 31 December 2004

31 Related party transactions (continued)

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payable to related parties:				
Parent Company	**36,352**	7,341	**35,473**	6,463
CPHI	**6,011**	4,146	**6,011**	4,146
Others	**2**	203	**2**	201
	42,365	11,690	**41,486**	10,810

Note:

(i) An amount of RMB63,000,000 was settled in January 2005.

(ii) On 10 December 2002, the Company entered into a procurement agreement with Hainan Da Lung Enterprise Co., Ltd., a subsidiary of the Parent Company, under which Hainan Da Lung Enterprise Co., Ltd. would purchase equipment amounting to RMB20,000,000 for the apron of Meilan Airport on behalf of the Company. The Company made full payment to Hainan Da Lung Enterprise Co., Ltd. in December 2002 in accordance with the contract terms. The balance is guaranteed by the Parent Company. During the year, Hainan Da Lung Enterprise Co., Ltd. paid an amount of RMB5,000,000 on behalf on the Company.

32 Approval of financial statements

The financial statements were approved by the Board of Directors on 22 March 2005.