

## We strive

to become a successful airport management company of the mainland and bring better returns to shareholders.



## Chairman's Statement



Zhang Cong *Chairman*

To all shareholders,

In 2006, the Group continued its endeavour to position itself as a “people-oriented and internationalised brand” in strict accordance with its strategic deployment for the “Year of Management and Regulation”. The Group also proactively explored new system for airport operation management, to cope with the ever challenging aviation market.

During the year under review, despite the adversities in the operating environment of the aviation market, the Group continued to strengthen its market development efforts and successfully introduced various domestic and foreign low-cost airlines. By actively exploring new system for airport operation management in accordance with our strategic deployment for the “Year of Management and Regulation”, the Group intensified its internal management reform and accelerated the business transformation from our operation-orientation to management-orientation. The Group also kept a close eye on its cost control measures by placing dual-focused strategies of income growth and cost savings, and optimised budget management comprehensively. Such cost control measures were found to be effective. The steadily improving operational quality marked the 8th year of safe operation in the Group's history. The remarkable success of its brand also allowed the Group to receive various national and provincial honours. The Phase II airport expansion of the Group has successfully passed the examination upon completion and has officially commenced operation in January 2006. The expansion provided necessary space and hardware for the pursuit of a harmonic and rapid development of Meilan Airport.

# Chairman's Statement

## Results

In 2006, the Group's total revenue decreased by 0.1% over last year to RMB334,375,000. Income from aeronautical business amounted to RMB230,756,000, representing a decrease of 7.1% as compared with that of last year. Income from non-aeronautical business amounted to RMB103,619,000, representing an increase of 19.8% over last year. Net profit attributable to shareholders dropped by 19% to RMB122,976,000.

## Operation Review

In 2006, domestic airlines continued to adjust their capacities, to grasp tourist market share from the top three aviation hubs. The switch of destination choices, consumption concepts and travelling manners of tourists, together with the commencement of operations of the Guangdong-Hainan Railway as well as the rapid growth of Sanya Phoenix International Airport, kept on bringing diffident impact on the passenger flow of Meilan Airport. Affected by the above factors, the Group's transportation production business has continued to suffer from this declining trend since the second half of 2005. As for the aeronautical business, the annual total aircraft movement reached 61,738 (of which 54,222 being transportation cargo movement), representing a decrease of 10.4% over last year. Passenger throughput reached 6.668 million, representing a decrease of 5.1% over that of last year. Besides, with the opening of aviation rights in Hainan Province, the Group achieved a robust increase in international and regional routes as well as overall cargo business. As for international and regional routes, the annual passenger throughput and aircraft movement totaled 271,000 and 2,833 respectively, which represented an increase of 18.9% and 13.5%, and marked new highlights for transportation business during the year. Cargoes throughput increased by 3.1% over last year to 97,641.1 tones.

## Future Outlook

In 2006, the Group experienced a slight decline in operation target following the downward trend in 2005 as the operating environment remained unfavorable. Nonetheless, looking forward to 2007, the Group will utilize its resources to fully develop the domestic and international aviation markets and carry on our strategies of strengthening comprehensive budget management as well as promoting income growth and cost control. Pursuing cost-effective and professional operation, the Group strives to accelerate the transformation from being operation-oriented into management-oriented so as to enhance the Group's overall profitability and achieve better operating results for the shareholders.

### Enrich measures for domestic and international routes development to increase market share

In 2006, the growth trend of international and regional aeronautical transportation volume was satisfactory while the competition in the domestic aviation market became more severe when compared with 2005. The Group timely underwent restructuring and established a principal business development and corporate reformation office, which paid regular visits to airlines and sent them with latest analysis reports of the aviation market. With reference to the advanced management experience of foreign airports, the Group introduced low-cost domestic and international airlines with a view to push forward the expansion of the aeronautical market. In 2007, the Group will endeavour to devise new measures to develop its share in the aeronautical market. The Group will actively promote Hainan Island's tourism, in particular, Haikou travelling and the Meilan Airport to mass media in domestic and international markets, and build up a comprehensive route network. Effort will also be placed on the exploration of new source of visitors from the cities with existing routes to Hainan, maintaining high level of security and service quality, so as to enlarge its share in the aeronautical market.

### **Strengthen budget management comprehensively to reduce operation cost**

In 2006, while ensuring safe operation, the Group implemented strict cost control through the embarkment of technology innovation and enhancement of equipment maintenance capability, which resulted in remarkable effects on cost control. In 2007, the Group will carry forward the budget management towards those less significant aspects of operation cost so as to fully enhance cost control measures. Through the introduction of innovative technology, promotion of self-initiative of research and development, technology uplifting and maintenance, as well as the strengthening of cost control research, it is expected that operation cost will be reduced.

### **Accelerate management transformation and actively subcontract business**

In 2006, in accordance with its operation philosophy of "operational resources utilization in line with market demand and future development, while non-operational units concentrate on production", the Group accelerated its transformation from the role of direct operation to management. The Group successfully outsourced the travelling business to Luckyway International Travel Service Co., Ltd ("Luckyway Travelling"). In 2007, the Group will carry on with the subcontracting policy for more stable revenue growth and operation efficiency maximization in accordance with our operation philosophy.

### **Continually intensify human resources reform to support corporate development**

In 2007, adhering to a people-oriented ideology, the Group will offer opportunities for its employees to utilize their talents. Employing innovative ideas towards the development and management of human resources, the Group will promote a full-scale system reform on its organizational structure, management selection and remuneration and welfare packages. The Group will also enhance on-the-job training to strengthen business qualities of senior management, fully develop talents of its staff, promote technological advancement and develop professional technicians, so as to push forward the corporate development.

### **Acknowledgement**

On behalf of our Board of Directors (the "Board") and the management of the Company, I would like to express our heartfelt gratitude to our business partners, clients and shareholders for their continuous support, as well as to our fellow staff for their dedicated efforts. We look forward to striving for our vision of becoming a successful regional airport management player with the cooperation of all of our working partners.

#### **Zhang Cong**

*Chairman*

Hainan Province, the PRC  
10 April 2007