

Report of the Directors

The Board hereby presents their report together with the audited financial statements of the Group for the year ended 31 December 2006.

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 2006, 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 2006, and the financial positions of the Group and the Company as at 31 December 2006 are set out from page 40 to page 80 of this annual report.

Final Dividend

The majority of the Board approved the proposal of no final dividend payout in order to support the future development of the Company. The Board consequently approved the resolution by simple majority and proposed that there will be no final dividend payout for the year ended 31 December 2006.

Closure of Register of Members

The Company's Register of Members will be closed from 7 May 2007 (Monday) to 6 June 2007 (Wednesday) (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 vote in the meeting must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 4 May 2007 (Friday) for completion of the registration of the relevant transfer.

Bank Borrowings

Details of the bank borrowings of the Group and the Company for the year ended 31 December 2006 are set out in Note 13 to the accompanying financial statements.

Property, Plant and Equipment

Details of the property, plant and equipment as at 31 December 2006 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2006 are set out in Note 7 to the accompanying financial statements.

Taxation

Details of taxation of the Group (including all tax preferences) and the Company for the year ended 31 December 2006 are set out in Note 20 to the accompanying financial statements.

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Reserves

Change in reserves of the Group and the Company for the year ended 31 December 2006 is set out in Note 12 to the accompanying financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to RMB1,200,000.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2006 are set out in Note 8 to the accompanying financial statements.

Major customers and suppliers

The largest customer and the top five largest customers of the Group represented 18.2% and 40% of the total operating revenues of the Group for the year ended 31 December 2006, respectively.

The largest supplier and the top five largest suppliers of the Group represented 14.7% and 23% of the total operating costs of the Group for the year ended 31 December 2006, respectively.

Haikou Meilan International Airport Company Limited, the parent company of the Company, holds 12.22% of shares in Hainan Airline Company Limited. Save as disclosed above, none of the Directors, Supervisors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors own more than 5.0% of the share capital of the Company) has any beneficial interest in any of the Group's five largest customers and suppliers.

Share Capital Structure

As at 31 December 2006, the total issued shares of the Company was 473, 213, 000 in number, consisting of:

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

Substantial Shareholders

As at 31 December 2006, so far as known to any Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”); or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Long position in shares Domestic shares

Name of Shareholders	Type of interests	Number of shares	Percentage of domestic shares	Percentage of issued share capital
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial	237,500,000	96.43%	50.19%

H shares

Name of Shareholders	Type of interests	Number of shares	Percentage of H shares	Percentage of issued share capital
Copenhagen Airport A/S (Note 2)	Beneficial	94,643,000	41.71%	20.00%
Deutsche Bank Aktiengesellschaft (Note 3)	Beneficial and investment manager	18,724,000	8.25%	3.96%
QVT Financial GP LLC (Note 4)	Controlled corporate interest	17,893,000	7.88%	3.78%
QVT Associates GP LLC (Note 5)	Controlled corporate interest	14,969,649	6.59%	3.16%
Templeton Asset Management Limited	Investment manager	11,700,000	5.16%	2.47%
Utilico Emerging Markets Utilities Limited (Note 6)	Investment manager	11,629,000	5.12%	2.46%

Notes:

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. Deutsche Bank Aktiengesellschaft is a company listed on the Deutsche Boerse and the New York Stock Exchange.
4. QVT Financial GP LLC is the controlling shareholder of QVT Financial LP which directly held 17,893,000 H shares of the Company as investment manager, and QVT Financial GP LLC is thereby deemed to be a substantial shareholder in the shares of the Company.
5. QVT Associates GP LLC is the controlling shareholder of QVT Fund LP which directly held 14,969,649 H shares of the Company as beneficial owner, and QVT Associates GP LLC is thereby deemed to be a substantial shareholder in the shares of the Company.
6. Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.

Report of the Directors

Save as disclosed above, as at 31 December 2006 so far as is known to the Directors, Supervisors or chief executive of the Company, no other person (not being a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Directors', Supervisors' and Chief Executive's Interests in Shares

As at 31 December 2006, the interests of the Directors, Supervisors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, were as follows:

Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	<i>Name of associated corporation</i>	<i>Type of interest</i>	<i>Number of shares</i>
Zhang Han'an (Non-executive Director)	Hainan Airlines Company Limited (Note 1)	Personal	20,000

Save as disclosed above, as at 31 December 2006, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO.

Connected Transactions

Material and persistent related party transactions entered by the Group and the Company during the year ended 31 December 2006, all of which constitute continuing connected transactions (the "Connected Transactions") under the Listing Rules, are disclosed in note 28 to the accompanying financial statements.

With respect to the persistent 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. The clauses are fair and reasonable, and of the shareholders interests.

Based on the work done, the international auditors of the Company have confirmed 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 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 2006 Annual Report;
- (c) the Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing the Connected Transactions;
- (d) the Connected Transactions have been entered into under the cap disclosed in previous announcements.

In respect of the Connected Transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Service contracts of Directors and Supervisors

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

Executive Directors

Mr. Zhang Cong	(appointed on 27 January 2006)
Mr. Dong Zhanbin	(appointed on 5 February 2007)
Mr. Dong Guiguo	(appointed on 25 May 2006)
Mr. Gunnar Moller	(appointed on 14 December 2005)

Non-executive Directors

Mr. Zhang Han'an	(re-appointed on 19 January 2004)
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Independent non-executive Directors

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

The Company has received the annual confirmation letter on independence of each Independent Non-executive Director.

Supervisors

Mr. Chen Kewen	(appointed on 27 January 2006)
Mr. Zhang Shusheng	(appointed on 19 January 2004)
Mr. Zeng Xuemei	(re-appointed on 19 July 2005)

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

Executive Directors

Mr. Huang Qiu	(resigned on 25 May 2006)
Mr. Wang Zhen	(resigned on 5 February 2007)

Non-executive Directors

Mr. Chen Wenli	(resigned on 27 January 2006)
Mr. Kjeld Binger	(resigned on 27 March 2007)

Supervisors

Mr. Zhang Cong	(resigned on 27 January 2006)
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Report of the Directors

Brief biographical details of the Directors, Supervisors and senior management of the Company are set out on page 24 to page 26 of this annual report. There is no relationship among the Directors that is discloseable under the Listing Rules.

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract with the Group which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Supervisors' rights to acquire shares or debentures

None of the Directors, Supervisors or their respective associates (as defined under the Listing Rules) held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights or options to subscribe for shares in or debentures of the Company.

Directors' and Supervisors' interest in contracts

During the reported period, none of the Directors or Supervisors of the Company had any material interests whether direct or indirect in any contracts of significance 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 2006.

Remuneration of directors and supervisors

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, for the year 2006, the remuneration paid to the Executive Directors 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 Directors was RMB80,000 per person; and the remuneration paid to the Supervisors was RMB20,000 per person. In addition to the aforesaid remuneration, the Executive Directors 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. Save for Executive Directors who are full time staff of the Company, none of the Directors or Supervisors is entitled to any other remunerations of the Company. Details of the remuneration of Directors and Supervisors are set out in Note 18 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 18 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 is 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 2006, 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 as at 31 December 2006.

Entrusted deposits and overdue fixed deposits

The Group had no entrusted deposits and overdue fixed deposits as at 31 December 2006.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2006.

Auditors

The financial statements of the Group prepared in accordance with the PRC Accounting Principles and those prepared in accordance with International Financial Reporting Standards were audited by Hainan Congxin Certified Public Accountant and PricewaterhouseCoopers respectively. The two firms, who are retiring and being eligible for re-appointment, offer themselves for re-appointment. Resolutions concerning the re-appointment of the two firms will be submitted for consideration at the annual general meeting.

Ernst & Young were auditors of the Company in the two financial years ended 31 December 2002 and 2003. PricewaterhouseCoopers has been appointed as international auditor since 11 October 2004.

Audit Committee

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

Five year financial summary

A table of the operating results, assets and liabilities of the Group for the last five financial years is set out on page 5.

Public Float Requirement

As to the date of publication, from the public information held by the Company and the knowledge from the directors, the Public Float was 226,913,000 H shares, which contributes 47.95% to the total issued share capital of the Company. This satisfies the minimum requirement of 8.08 in the Listing Rules regarding the Public Float.

By the order of the Board

Zhang Cong

Chairman of the Board

Hainan Province, the PRC

10 April 2007