海南美蘭國際機場股份有限公司

HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code : 0357)

RAISING TO

New Horizons

Annual Report 2007

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Corporate Mission

To be a successful regional airport management company in China, offering quality and safe airport services.

Corporate Background

Hainan Meilan International Airport Company Limited (the "Meilan Airport" or the "Company") is a joint stock company incorporated in the People's Republic of China ("PRC" or "China") with limited liability on 28 December 2000. The H shares of the Company were issued and listed on the Main Board ("Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 November 2002. On 6 November 2003, the Company was approved by the Ministry of Commerce ("MOC") of the PRC to convert into a foreign invested joint stock company.

The Company and its subsidiaries (together, the "Group") are currently engaged in both aeronautical and non-aeronautical businesses at the Haikou Meilan International Airport, Haikou, Hainan Province, PRC. The aeronautical businesses of the Company consist of the provision of terminal facilities, ground handling services and passenger and cargo handling services. The non-aeronautical businesses of the Company include leasing of commercial and retail spaces at Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods.

The Company's notable corporate achievements in 2007 are as follows:

- Awarded with "Chinese User Satisfaction Ding" by China Association for Quality;
- Awarded with "Golden Bottle Cup" of 2007 Safety Protection by the General Administration of Civil Aviation of China;
- Awarded with "Best Shopping Services-Airport" by Civil Aviation Administration of China, the Civil Aviation Association Committee;
- Accredited the title of "Outstanding Enterprise of the National Safety and Health Cup Competition" by the State Administration of Work Safety and All China Federation of Trade Unions State;
- Awarded with "2007 The National Passenger Satisfaction Enterprise" by China Association for Quality.

Corporate Information

Name in Chinese
海南美蘭國際機場股份有限公司

Name in English
Hainan Meilan International Airport Company Limited

Corporate Website:
www.mlairport.com

Executive Directors
Zhang Cong, *Chairman*
Dong Zhanbin
Dong Guiguo
Bai Yan

Non-executive Directors
Zhang Han'an
Chan Nap Kee, Joseph
Yan Xiang

Independent Non-executive Directors
Xu Bailing
Xie Zhuang
Fung Ching, Simon
George F. Meng

Supervisors
Chen Kewen
Zhang Shusheng
Zeng Xuemei

Company Secretary
Bai Yan

Authorised Representatives
Zhang Cong
Bai Yan

Audit Committee
Xu Bailing
Xie Zhuang
Fung Ching, Simon

Remuneration Committee
Xie Zhuang
Fung Ching, Simon
Dong Guiguo

Legal Address and Head Office
Meilan Airport Complex
Haikou City
Hainan Province, PRC

Place of Business in Hong Kong
28/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wan Chai, Hong Kong

Legal Adviser
Coudert Brothers in association with
Orrick, Herrington & Sutcliffe LLP
39/F, Gloucester Tower
The Landmark
15 Queen's Road, Central
Hong Kong

International Auditors
PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

PRC Auditors
Hainan Congxin
Certified Public Accountants
Unit 1202, CMEC Building
Guomao Avenue
Hainan Province, PRC
Post code: 571100

Principal Banker
China Everbright Bank,
Yingbin Sub-branch
56 Longkun South Road,
Haikou City,
Hainan Province, PRC

H Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong

Stock Code
357

Financial Highlights

(To be shown in table form)

Two-Year Comparison of Key Financial Figures

For the year ended 31 December

(RMB'000)

	2007	*2006*	*Change (%)*
Turnover	344,391	334,375	3.0
Gross profit	222,624	196,840	13.1
Net profit attributable to shareholders	138,777	122,976	12.8
Earnings per share – basic and diluted (RMB)	0.29	0.26	11.5
Net operating cash flow	272,696	173,860	56.8
Current ratio (Times)	4.59	3.78	21.4
Debt/Equity ratio (%)	7.9%	11.1%	-28.8
EBITDA	233,872	183,215	27.6

Five-Year Summary of Financial Performance

For the year ended 31 December

(RMB'000)

	2007	*2006*	*2005*	*2004*	*2003*
Turnover	344,391	334,375	334,844	360,025	307,933
EBITDA	233,872	183,215	198,750	222,701	191,434
Finance income/(costs) – net	3,585	238	4,494	4,849	(5,790)

Five-Year Summary of Financial Position

As at 31 December

(RMB'000)

	2007	*2006*	*2005*	*2004*	*2003*
Total assets	1,836,576	1,870,351	1,717,267	1,703,951	1,610,696
Total liabilities	145,092	207,496	177,390	240,720	216,215
Shareholders' equity	1,691,484	1,662,855	1,539,877	1,462,203	1,393,409

RASING TO

New Horizons

To be a successful regional airport management company in China, offering quality and safe airport services.

Zhang Cong *Chairman*

Chairman's Statement

To all shareholders,

2007 was an important year for the Group after initiating its strategic transformation. During the year under review, the Group fully devoted to the strategic approach of "Year of Transformation". With the "Revenue/Expense Scissor" objective in mind, we carried out proactive measures which include improving cost control, achieving low-cost operation and professional business running. We strived to achieve production safety, strengthened our organization management and technology innovation, developed actively both the passenger and cargo transportation markets and performed in-depth reformation of our management system. With these measures, we enhanced our corporate core competitive strengths and result a sound environment with harmonized rapid development.

During the year under review, with increasing fierce competition in the aviation market, the active implementation of various measures by the Group in developing our market in all directions and at all levels had successfully attracted many domestic and foreign low-cost airlines. Moreover, the Group also achieved excellent performances in customer services, management quality and operations safety, During the year, we passed the audit review regarding aviation security carried out by Civil Aviation Administration of China and had continued to achieve its 9th year of safety operation in the Group's history. We were also being honored with two important awards: the "Golden Bottle Cup" award presented by Civil Aviation Administration in respect of safety operation and quality management; and the "Chinese User Satisfaction Ding" presented by China Association of Quality. The above awards are in recognition of our endeavors in achieving our corporate mission of "offering quality and safe airport services".



Results

In 2007, the Group's total revenue amounted RMB344,391,000, representing an increase of 3.0% over last year. Income from aeronautical business amounted to RMB251,798,000, representing an increase of 9.1% over last year. Income from non-aeronautical business amounted to RMB92,593,000, representing a decrease of 10.6% over last year. Net profit attributable to shareholders amounted RMB138,777,000, representing an increase of 12.8% over last year.

Operation Review

In 2007, domestic airlines continued to adjust their capacities, to grasp tourist market share from the top three aviation hubs, laying the foundation to vie with one another in the passenger market for the 2008 Olympics. The rapid growth of Sanya Phoenix International Airport had brought diffluent impact on the passenger flow and adversely affected the transportation operation business of the Group. The Group actively adjusted its transportation operation business to cope with the competition in aviation market and its operation began to show signs of improvements. As for the aeronautical business, annual total aircraft movements reached 60,579 (of which 56,872 being transportation cargo movements), though representing a decrease of 1.9% (however, transportation cargo movements increased by 4.9%) over last year. Passenger throughput reached 7.265 million, representing an increase of 9% over last year. Cargo throughput reached 111,451.9 tones, representing an increase of 14.1% over last year. Besides, with the opening up policy of aviation rights in Hainan Province, the bottleneck breakthrough had led the Group in achieving a robust increase in annual international and regional passenger throughput and aircraft movements of 338,300 and 3,198, representing an increase of 24.7% and 12.9% respectively.

Future Outlook

Although in 2007, the Group withstood the fierce competitive pressure of the aviation market and had achieved steady growth in its transportation production business targets. Looking forward to the next year, the Group shall rationalize budget management comprehensively, speed up the transformation from being operation-oriented into management-oriented. At the same time, our Group also enhanced its measures in increasing income and decreasing expenditure, strived for developing both the domestic and international aviation markets and further achieved low-cost operation and professional business running. We aim at establishing a sound international brand image and devoting ourselves in delivering much better operating results to our shareholders.

Leveraging on excellent external environments in expanding our development in aviation market

In 2007, the domestic aviation market competitive severely. In developing aviation routes, we actively provided source of customer market analyses for airlines and assisted them in developing their aviation routes. We also put a lot of efforts in introducing low-cost airlines for the airport, promoted the development of the aviation market. In 2008, the Group will leverage on the breakthrough of the bottleneck situation for the aviation rights in Hainan, continuing to have in-depth development in both its domestic and foreign aviation markets. We will take advantage of the opportunities brought by the large-scale promotion activities of Hainan Province in celebrating its 20th anniversary of establishment of Hainan province and strengthening its tourism industry as well as both the domestic and foreign media promotion of Meilan Airport, to attract more tourists visited Hainan, and to increase the market share of Meilan airport.

Changing our cost-saving mentality and implement budgetary control

In 2007, the Group adopted strict cost control towards those less significant aspects of operation and had fully implemented budget optimization. This had resulted remarkable achievements in cost control. In 2008, the Company will promote the "profit oriented" budgetary management model in full force and peg the interests and rewards of individuals with that of the production cost of the Company, diligently encouraging adopting proactive attitude of all of our staff in cost savings, for the purposes of reduce operating costs effectively.

Establishing service brand and continue to improve service quality

Since our Group's establishment, it has adopted a principle of "Sincere, friendly, accurate and beautiful" for its service business. In 2007, the Group received many awards in terms of its airport management, safety and service quality. In 2008, the Group will continue to maintain a high quality of service, and we shall devote ourselves in enhancing service management, speeding up the innovation of service items and solidifying our achievement as an international hygienic airport, and actively participating in various international competitions, striving for escalating our international awareness and influence of Meilan Airport.

People-oriented and optimization of human resources

In 2007, in order to unify our responsibilities, authorities and rights, the Company optimized its internal organization structure. During this year, the Group had also improved the treatment for our production and technical positions, which in turn, further improved staff satisfaction, stimulated and improved management efficiency and work results of the Group directly. In 2008, the Group will continue to reinforce on-job training of our staff to improve the staff quality and service standards. At the same time, the Group will recruit more qualified professionals to get ready for the continuing development of Meilan Airport.

Acknowledgement

On behalf of our Board of Directors 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
31 March 2008

Civil Aviation Industry in the PRC

Following the continuous rapid economic development in China, the demand for civil, aviation transportation prospers through time and China has become the world's second largest civil operating aviation market. The scale of civil aviation transportation has reached its unprecedented growth. In 2007, both civil aviation transportation turnover and passenger transportation throughput had still sustained many years of double digit growth. With the objective of establishing an overall fairly prosperous community, the future civilian living standard will become more and more affluent, regional gaps among urban and sub-urban areas narrowed and social consumption demand exuberant day by day. Corporations and civilians will gradually demand more efficient transportation arrangements and civil aviation transportation will inevitably become the choice of speedy domestic and international traffic transportation. China's aviation industry is gradually becoming a rising industry, with steps moving forward to be more cost effective, more competitive and more secured.

Albeit the overall rapid development of China aviation industry, as an important mode of civil transportation, the sub-route aviation transportation in China has tremendous market potential for development and is becoming the new economic focus for growth where non-hub airports are also benefiting from this. With gradual changes in demand towards efficiency brought about by the potential demand of sub-route airlines, the Civil Aviation Administration of China had also indicated the further study of perfecting relevant policies, adjusts the zealous in various aspects and greatly supports the development of sub-route aviation industry. By taking reference from the development trends of foreign developed countries and regional civil aviation industry, it is expected that through active development in diversified services, such as developing sub-route airplane manufacturing industry business, construction of light aircraft airports or private airports, expanding the setup of sub-route aviation capabilities, the domestic aviation industry will propound new initiatives. The self-research and development and manufacture of downstream industry of ARJ21 Airplane model by China Aviation Industry Group had implied that China aviation industry had proudly moved itself towards a new arena.

The "Reform Implementation Proposal of Civil Airport Fee Charge" came into effect as from 1 March 2008. The proposal standardizes the fee items of civil airport as aeronautical business fee items, non-aeronautical major business fee items and non-aeronautical business other fee items and government directives were issued for non-aeronautical major business fee items. It regulates the airport fee item management and gradually moves towards to international standard. The proposal facilitates the development of aviation market and leads to the optimized deployment of resources in aviation industry through pricing mechanism. It achieves the redistribution of interests among airport and airline companies and ignites changes in airport non-aeronautical business operating model and improves its operational efficiency.

In 2007, through active promotion and co-ordination by Meilan Airport, augmented by the full support by local government, the aviation route issue of Hainan aviation rights had been solved. During the year, The international route network of Hainan had achieved the objective of "opening to the south and north", which means establishing a channel from the sky over the Hainan peninsula to connect the international routes of Nanhai and Beibu Wan and releasing part of the northern routes to foreign airlines. The new network will shorten the international voyage entering and exiting Hainan Island, in particular the voyages of South-east Asia international routes.

Tourism industry in Hainan Province

After over ten years of stride over development, Hainan Island has become a world famous tourism and leisure resort. In 2007, the tourism market of Hainan Island had undergone tremendous adjustments which see the initial formation of its leisure and relaxation style in the island. Through the successful hosting of cultural and sport activities such as China Happiness Stanza, Miss World Contest and Round-the-Island Bike Tournament, Hainan Island's wonderful "healthy and sunny" image has gradually become overwhelmingly popular. The objective of establishing as an "International Tourism Island" will continue and efforts to be spent in escalating the awareness of Hainan Province, particularly in Haikou City. This, in turn, will bring to Hainan sound economic results in its developing tourism business.

The new festive holiday adjustment plan and paid holiday leave system of the Mainland came into effect as from 1 January 2008. The new plan adjusts the long "Labour Holiday" from seven days to three days and at the same time, adding three traditional important festivals as statutory holidays, namely Ching Ming, Dragon Boat and Mid-autumn. It will generate potential consumer needs for Hainan tourist industry during the low tourist summer season and results a flourish cycle of "booming in peak seasons and healthy in low seasons", and will eventually facilitate the prosperity of aviation market.

Business Review

Overview of Aeronautical Business

In 2007, by actively adjusting its strategy and stabilising the development of its principal aeronautical business, the Group had strongly implemented the "Leaping Out and Inviting To Come" market development strategy. It had expanded the attractiveness of the aeronautical and tourism market of Haikou, strengthened the communication and co-ordination with local government, and by leveraging the support from the government, it had turnaround the disadvantage position of Haikou tourism market of being side-lined. By gradually developing the tourism industry, it had facilitated the development of its aeronautical market. The innovative market development approach and rationalized service protection workflow, coupled with the actual conditions of Hainan aeronautical market, had helped to formulate a more competitive market strategy focusing in attracting low-cost airlines; and thereby effectively compensating and suppressing the diffluent impact brought about by Sanya Phoenix International Airport and Guangdong-Hainan Railway. Hence, the Group achieved an overall increase in its production operation during this year.

Optimistic Exploitation of International Routes

Since the opening up of Hainan's aviation rights, in regard to the opening of international and regional aviation routes, the Group had always been devoted in conducting effective discussions with various international airlines and had openly established the intentions to co-operate. In 2007, the growth trend of both the international and regional aviation routes of Hainan Meilan International Airport remained strong. During the year, for the first time, the Group had successfully introduced Air company "Atlant-Soyuz" Incorporated to open charter flights between Moscow and Haikou. As of today, we already have 11 domestic and foreign airlines that have opened 12 international/regional aviation routes departing from/arriving at Hainan Meilan International Airport. Those routes cover the cities like Moscow, Hong Kong, Macau, Seoul, Singapore, Bangkok, Kuala Lumpur, Osaka, Pusan, Fukuoka, Tokyo, and the route between Tokyo and Haikou is a new route opened by Japan Airlines in 2007.

In 2007, the Group had successfully host the Asian New Aviation Route Conference whereby Haikou had become the first city in China to host this aviation route conference at international level. Leveraging on this, the Group had enhanced its communications with international airlines and had demonstrated sound Group image and escalated our international awareness and attract more foreign airlines to open aviation routes to Haikou.

Aviation traffic throughput for 2007 and the comparison figures for last year are set out below:

	2007	*2006*	*Change (%)*
Aircraft movement	**60,579**	**61,738**	**-1.9**
In which: Domestic	57,381	58,905	-2.6
Hong Kong/Macau	1,810	1,646	10.0
International	1,388	1,187	16.9
In which: Transportation cargo movements	56,872	54,219	4.9
Passenger Throughput (Headcount in ten thousands)	**726.5**	**666.8**	**9.0**
In which: Domestic	692.7	639.7	8.3
Hong Kong/Macau	17.3	13.1	32.1
International	16.5	14.0	17.9
Cargo Throughput (Tons)	**111,451.9**	**97,641.3**	**14.1**
In which: Domestic	106,742.9	93,775.2	13.8
Hong Kong/Macau	2,243.8	1,614.6	39.0
International	2,465.2	2,251.5	9.5

The number of international flights had increased significantly which is mainly due to the opening up of the Third, Fourth and Fifth Aviation Rights and the strong policy support by both the Civil Aviation Administration of China and the Hainan Provincial Government. At the same time, the Group had adequately adjusted its market development strategy and actively participating in the development of international aviation route activities.

The Group's revenue from aviation business for 2007 was RMB251,798,000, representing an increase of 9.1% over last year. Details of which are as follows:

	Amount (RMB'000)	*Change over last year (%)*
Passenger charges	91,540	2.8
Aircraft movement fees and related charges	41,099	0.1
Airport fees	88,411	9.7
Ground handling service income	30,748	52.6
Total revenue from aeronautical businesses	**251,798**	**9.1**

Overview of Non-Aeronautical Business

In 2007, in line with the concept of "operating resources utilisation in line with market demand and future development", the Company actively explored the operating model for non-aeronautical business and had established and optimised its business development model to suit the development requirements of the airport. By actively promoting business outsourcing, stable results were achieved in the non-aeronautical business. The non-aeronautical revenue was RMB92,593,000, representing a decrease of 10.6% over last year. The main reason is that the airport travel agency has implemented the franchised operation by the end of 2006 and retail of duty-free products has implemented the franchised operation in the second half of 2007, thus the income statistical standards has changed. However, the advertising revenues, the new additional freight and the commercial operation of VIP Lounge all have achieved encouraging results. Details of which are as follows:

	Amount (RMB'000)	*Change over last year (%)*
Retailing	8,057	-15.3
Franchise fee	24,158	-13.0
Rental	17,273	-3.7
Freight	9,665	N/A
Advertising	14,035	16.9
Car parking	4,939	-3.2
Others	14,466	33.9
Total revenue from non-aeronautical businesses	**92,593**	**-10.6**

Advertising Business

In 2007, the Group advertising revenue remains steady growth. For the year ended 31 December 2007, revenue from advertising business reached RMB14,035,000, representing an increase of approximately 16.9% over 2006, another unprecedented high.

Freight

In March 2007, the Group took back the cargo business and ran it all by itself, which resulted in the freight concession income decreased but the cargo revenue increased. For the year ended 31 December 2007, freight income from cargo centre was RMB9,665,000, become a pillar of Meilan Airport's non-aeronautical business, but the freight concession income in the concessionaire services revenue reduced RMB5,000,000 compared to the same period.

VIP service Revenue

In 2007, the Group increased the market development advocacy of the passengers' source for the VIP lounge, and achieved encouraging results. For the year ended 31 December 2007, income from VIP service was RMB5,426,000, representing an increase of 187.3% over last year, become additional highlight in non-aeronautical revenues of Meilan Airport in 2007.

Financial Review

Asset Analysis

As at 31 December 2007, the total assets of the Group amounted to RMB1,836,576,000, representing a decrease of 1.8% over last year.

Cost Analysis

In 2007, total operating costs of the Group were RMB121,767,000, representing a decrease of RMB15,768,000 or dropped by 11.5% in comparison with that last year. Administrative expenses were RMB47,202,000, representing a decrease of RMB14,326,000 or dropped by 23.3% in comparison with that last year. The main reason for the decrease in annual operating costs is the refund of business tax and levies on airport fee by the tax authorities and the reinforcement on cost control by the Group. The main reason for the decrease in administrative expenses is the termination of the technical services under the Copenhagen agreement which has reduced the technical service fee.

Cash Flow

For the year ended 31 December 2007, the Group's net cash inflow from operating activities was RMB272,696,000, representing an increase of 56.8% over last year. This was mainly due to the recovery of companies operating and the collection of accounts receivable. During the year, the Group's net cash outflow for investing activities was RMB111,854,000, which was mainly due to the increase of time deposits.

Pledge of the Group's Assets

The Group pledged its rights to revenues, including the rights of the airport fee to secure a long-term bank loan of RMB25,000,000 from China Development Bank.

Gearing Ratio

As at 31 December 2007, current assets of the Group were approximately RMB666,320,000, total assets were approximately RMB1,836,576,000, current liabilities were approximately RMB117,899,000 and total liabilities were approximately RMB145,092,000. The gearing ratio (total liabilities/total assets) of the Group was 7.9%, representing a decrease of 3.2% over last year. The main reason was the repayment of bank loan. The reduces of principal resulted in a total debt reduction.

Foreign Exchange Exposure

The Group's businesses are principally conducted in RMB, except that limited aeronautical revenues are in US dollars. Dividends to shareholders holding H Shares are declared and paid in Hong Kong dollars. As at 31 December 2007, if RMB had weakened/ strengthened by 10% against the US dollars with all other variables held constant, post-tax profit for the year would have been RMB754,000 (2006: RMB166,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated cash and cash equivalent, trade receivables. Given the fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations, the Group has not entered into any forward rate contract to hedge its exposure of foreign exchange risk.

Financial Instruments

As at 31 December 2007, financial instruments of the Group mainly comprised bank loans, cash and bank deposits. The purpose of those financial instruments is to finance the Group's operations. Besides, the Group had other financial instruments in relation to daily operations, such as accounts receivable and accounts payable.

Contingent Liability

As at 31 December 2007, the Group or the Company did not have any significant contingent liability.

Employment, Training and Development

As at 31 December 2007, the Group had a total of 760 employees, representing an increase of 84 employees over last year. The increase was mainly attributable to the resumption of the operation of Meilan Airport Cargo Centre to the Company, the employees of which were hired by the Group. Total staff costs accounted for approximately 12.6% of total turnover, representing an increase of 21.4% over last year. The main reason for the increase of staff cost was due to the increase in staff and the staff wages. The Group determined its training schemes for the year based on the needs of the positions of its employees, in order to provide technical training for its staff and raise the staff's quality. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and its related combination on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Retirement Pension

The Company and its subsidiaries have participated in the employee retirement scheme operated by the relevant local government of the PRC. The PRC Government shall be responsible for the pension of the retired employees. The Group has to make contribution at a rate of 20% of the salary of the employees with permanent residence in the PRC. For the year ended 31 December 2007, the contribution for the pension amounted to approximately RMB4,196,000 (2006: RMB4,000,000).

Income Tax

On 16 March 2007, the National People's Congress of the People's Republic of China approved the Corporate Income Tax Law of the People's Republic of China ("the New CIT Law"), which takes effect from 1 January 2008. Pursuant to the New CIT Law, the corporate income tax rate applicable to the Company will be gradually increased from 15% to 25% in a 5-year period from 2008 to 2012, namely 18% applicable in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and the years thereafter.

Pursuant to the approval document (Qiong Shan Guo Shui Han [2002] No.11) issued by Hainan Province Qiongshan State Tax Bureau in 2002, the Company was entitled to the exemption of CIT from 2000 to 2004, and 50% deduction of CIT from 2005 to 2009 (the "Original CIT Holiday").

Pursuant to the approval document (Hai Guo Shui Han [2008] No.13) issued by Haikou State Tax Bureau on 2 February 2008, the CIT holiday of the Company was revised. Under the revised CIT holiday (the "Revised CIT Holiday"), the Company was entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013.

In view of changes in tax holiday, the Company was required to pay the exempted CIT totalling RMB63,679,000 for the years from 2001 to 2003 and was entitled to a refund of CIT totalling RMB19,865,000 for the years from 2005 to 2006. Under the revised CIT holiday, the applicable CIT rates to the Company from 2008 to 2013 will be 0%, 10%, 11%, 12%, 12.5% and 12.5% respectively. Comparing to the CIT rates from 2008 to 2013 under the original CIT holiday, which were 9%, 10%, 22%, 24%, 25% and 25% respectively, the Company will save its future income tax expenses.

Other Information

In 2007, the Group had no material change in other information in relation to those matters set out in paragraph 32 of Appendix 16 in the Listing Rules.

Corporate Governance Practices

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Stock Exchange, as well as requirements of other regulatory bodies. The Company has adopted a code on corporate governance practices on terms no less exacting than the standard of the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code of Corporate Governance") which came into effect in January 2005. During the year ended 31 December 2007, the Company had complied with the Code of Corporate Governance and met with all governance and disclosure requirements. The Company will strive for continuously enhancing its corporate governance standard and transparency to shareholders.

Directors' Securities Transactions

The Company has adopted a code for securities transactions by the directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the directors of the Company (the "Directors"), all of the Directors have complied with the required standard set out in the Model Code regarding directors' securities transaction during the time of the accounting period.

Board of Directors

Composition of the Board

As at 31 December 2007, the Board of the Company comprised eleven directors:

Chairman

Mr. Zhang Cong	(duly appointed on 27 January 2006)

Executive Directors

Mr. Dong Zhanbin	(duly appointed on 5 February 2007)
Mr. Dong Guiguo	(duly appointed on 25 May 2006)
Mr. Bai Yan	(duly appointed on 15 October 2007)

Non-executive Directors

Mr. Zhang Han'an	(re-appointed on 7 June 2007)
Mr. Chan Nap Kee, Joseph	(duly appointed on 15 October 2007)
Mr. Yan Xiang	(duly appointed on 15 October 2007)

Independent non-executive Directors

Mr. Xu Bailing	(re-appointed on 3 August 2007)
Mr. Xie Zhuang	(re-appointed on 7 June 2007)
Mr. Fung Ching, Simon	(re-appointed on 15 October 2007)
Mr. George F. Meng	(duly appointed on 15 October 2007)

The Company has received annual confirmation letters regarding the independence of each Independent Non-executive Director and we believe each of the Independent Non-executive Director is independent from the Company.

There is no relationship among the Directors that is discloseable.

Board meetings

1. The Board had held 6 meetings during the year ended 31 December 2007.

2. The attendance records of the Board meetings are set out below:

	2nd term, 18th meeting	*1st term, 3rd meeting*	*2nd term, 3rd meeting*	*3rd term, 3rd meeting*	*3rd term, 4th meeting*	*3rd term, 5th meeting*
Zhang Cong	√	√	√	√	√	√
Dong Zhanbin	√	√	√	√	√	√
Dong Guiguo	√	√	√	√	√	√
Gunnar Moller *(Note 1)*	√	√	–	–	–	–
Bai Yan *(Note 2)*	–	–	–	–	–	–
Zhang Han'an	√	√	√	√	√	√
Kjeld Binger *(Note 3)*	√	–	–	–	–	–
Chan Nap Kee, Joseph *(Note 2)*	–	–	–	–	–	–
Yan Xiang *(Note 2)*	–	–	–	–	–	–
Xu Bailing	√	√	√	√	√	√
Xie Zhuang	√	√	√	√	√	√
Feng Zheng	√	√	√	√	√	√
George F. Meng *(Note 2)*	–	–	–	–	–	–

Note 1: On 5 June 2007, Mr. Gunnar Moller resigned as a director of the Company and the 2nd Board meeting of the 3rd term was held on 13 June 2007.

Note 2: Mr. Bai Yan, Mr. Chan Nap Kee, Joseph, Mr. Yan Xiang, and Mr. George F. Meng were appointed as directors of the Company on 15 October 2007, and the 5th Board meeting of the 3rd term was held on 18 September 2007.

Note 3: On 27 March 2007, Mr. Kjeld Binger resigned as a director of the Company and the 1st Board meeting of the 3rd term was held on 10 April 2007.

Authority and practice of the Board

Details of terms of reference of the Board and the management and the respective areas to exercise their authority are set out in the articles of association of the Company.

The Board is accountable to the shareholders' general meeting, and exercises the following powers:

1. to convene general meetings and report to the shareholder;

2. to carry out the resolutions of the general meetings;

3. to decide on the operational plan and investment plan of the Company;

4. to formulate the Company's proposed annual financial budget and final accounts;

5. to formulate plans for profit distribution and recovery of losses;

6. to formulate plans for increases in or reductions of the Company's registered capital and the issue of corporate bonds;

7. to prepare plans for merger, division and dissolution of the Company;

8. to decide on the set up of the Company's internal management structure;

9. to appoint or dismiss the Company's general manager and pursuant to the general manager's nominations to appoint or dismiss the vice general managers and other senior officers of the Company (including financial officers) and decide upon their remuneration;

10. to formulate the Company's basic management system;

11. to formulate proposals for amendment of the articles of association of the Company;

12. to formulate proposals for major acquisitions or disposals of the Company; and

13. to exercise other powers conferred under the articles of association of the Company and by the general meeting.

The Board has established the remuneration committee and audit committee. Each of these committees has established its own written terms of reference and operates effectively on this basis. Pursuant to the review results of the Board of Directors on 31 March 2008, a nomination committee and a strategic committee will be established , subject to the approval at the general meeting of the Company to be held on 30 May 2008.

The general management can decide the following matters:

1. to supervise the management of production and business operations, and organize the implementation of the resolutions of the Board;

2. to coordinate the implementation of the Company's annual business and investment plans;

3. to formulate plans for the establishment of the Company's internal management structure;

4. to formulate the basic administration system of the Company;

5. to formulate the basic rules of the Company;

6. to recommend the appointment and dismissal of vice managers and other senior officers (include financial officers) of the Company;

7. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the Board); and

8. to exercise other powers conferred under the articles of association of the Company and by the Board.

Both the Board and the management act in strict compliance with relevant requirements of the Company Law, the Company's articles of association and the Listing Rules.

Chairman of the Board and General Manager

The chairman is responsible for development direction and effective running of the Board, and ensuring the Board acts in the best interests of the Company.

The general manager is accountable to the Board, and is delegated with the responsibility for running the Company's business and implementing the resolutions of the Board.

The chairman and general manager of the Company are Mr. Zhang Cong and Mr. Dong Zhanbin respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

Non-executive Directors and Independent Non-executive Directors

For the year ended 31 December 2007, the Company had three Non-executive Directors, namely Mr. Zhang Han'an, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang, and four Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching, Simon and Mr. George F. Meng.

Mr. Kjeld Binger had subsequently resigned as non-executive director on 27 March 2007.

Mr. Zhang Han'an's current term of appointment is from 7 June 2007 to 6 June 2010;

Mr. Chan Nap Kee, Joseph's current term of appointment is from 15 October 2007 to 14 October 2010;

Mr. Yan Xiang's current term of appointment is from 15 October 2007 to 14 October 2010;

Mr. Xu Bailing's current term of appointment is from 3 August 2007 to 2 August 2010;

Mr. Xie Zhuang's current term of appointment is from 7 June 2007 to 6 June 2010;

Mr. Fung Ching, Simon's current term of appointment is from 15 October 2007 to 14 October 2010.

Mr. George F. Meng's current term of appointment is from 15 October 2007 to 14 October 2010.

Remuneration of Directors, Supervisors and senior management

A remuneration committee has been set up by the Company. It is a sub-committee under the Board and is responsible for giving advice to the Board regarding the overall remuneration policies of Directors, Supervisors and senior management of the Company. In general, the Group determines the remuneration of the directors and senior management staff based on their experience and contributions to the development of the Group.

Formation of remuneration committee: Mr. Xie Zhuang, an Independent Non-executive Director, is the chairman. The other members of the remuneration committee are Mr. Fung Ching, Simon, an Independent Non-executive Director, and Mr. Dong Guiguo, an Executive Director and Chief Financial Director of the Company.

For the year ended 31 December 2007, the Company held one meeting of the remuneration committee on 10 April 2007. During that meeting, director's remuneration for 2006 and directors' remuneration policy for 2007 had been determined.

Remuneration policy for 2007: The Chairman and Executive Directors shall have an allowance of RMB70,000 each, Non-executive Directors shall have an allowance of RMB50,000 each; Independent Non-executive Directors shall have an allowance of RMB100,000 each. In addition to the aforesaid allowance, Executive Directors who are also Company's staff are also entitled to receive respective salaries according to their respective positions taken on a full-time basis in the Company. The remuneration policies were approved by the Board and general meeting prior to the Company's listing. These policies are subject to review and approval in the annual general meeting of each year.

Payment of performance bonus and other incentive bonuses is based on actual financial results achieved by the Company, such that at most two per cent of consolidated net profit for previous financial year as audited by international auditors would be allocated and paid-out to Directors, Supervisors and members of senior management.

Nomination of Directors

The Company does not have a nomination committee at present. Pursuant to the review results of the Board of Directors on 31 March 2008, a nomination committee will be established, subject to the approval at the general meeting of the Company to be held on 30 May 2008.

The Board had adopted a nomination procedure and process during the year, according to which a qualified shareholders group may nominate a candidate for directorship and put the nomination forward to the Board for voting. If more than a half of the Directors have voted for the nomination, the nomination would then be put forward in a general meeting as an ordinary resolution for shareholders to approve.

Criteria for Director selection and nomination are as follows:

1) the candidate shall meet the conditions for a listed company director as required by the PRC Company Law, Securities Law and the Listing Rules;

2) the candidate shall meet the requirements as prescribed in the Company's articles of association;

3) the candidate shall be regarded as having a high moral standard and relevant professional expertise, and being able to act in good faith, prudence and diligence, and to avoid any material and potential conflict of interest or of role with the Company.

A Director shall hold office for a term of 3 years, and shall then be eligible for re-election and, if re-elected, his/her tenure may continue thereafter for another term.

For the year ended 31 December 2007, Mr. Bai Yan had been appointed as Executive Directors, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang had been appointed as Non-executive Directors, Mr. George F. Meng had been appointed as Independent Non-executive Director, Mr. Zhang Han'an had been re-appointed as Non-executive Director, Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Fung Zheng, Simon had been re-appointed as Independent Non-executive Directors. The selection, nomination and appointment of Mr. Bai Yan, Mr. Zhang Han'an, Mr. Chan Nap Kee, Joseph, Mr. Yan Xiang, Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Zheng, Simon and Mr. George F. Meng were in compliance with the Director nomination criteria mentioned above.

Remuneration of Auditors

During the year ended 31 December 2007, the external auditors of the Company had not provided any non-audit service to the Company. Proposed auditors' remuneration to be paid by the Company would come into effect only after discussion in the audit committee and review of the Board and further approval granted in a general meeting. The remuneration of auditors for the year ended 31 December 2007 was RMB2,420,000.

Audit Committee

An audit committee has been set up by the Company. It is a sub-committee under the Board. The duties of the audit committee are to review the appointment of external auditors, to determine audit fees, to monitor the work of auditors, to review the relevant report regarding the Company's internal control system. The audit committee is comprised of three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Feng Zheng, Simon with Mr. Xu Bailing as the chairman.

For the year ended 31 December 2007, the audit committee had held two meetings; all of the three committee members had attended these meetings.

The audit committee had reviewed the 2006 annual report, auditor's report, the report on re-appointment of the accounting firm and determination of their remuneration in the first meeting of 2007. The audit committee had reviewed the 2007 interim report in the second meeting of 2007.

The audit committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company in 2008.

Shareholding interests of senior management

During the year, none of the senior management held any shareholding interests in the Company.

Shareholders' rights

To ensure better protection of shareholders' interests, the articles of association of the Company set out the requirements for shareholders to request a special general meeting to be convened: When two or more shareholders holding in aggregate more than ten per cent (10%) (including the ten per cent (10%)) of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and submit to the Board to convene a special general meeting with an agenda of the meeting. A special general meeting is required to be held as soon as practicable upon receipt by the Board of such written request.

During the year ended 31 December 2007, the Board did not receive any request from shareholders to convene a special general meeting.

Investors' relations

1. Clause 93 of the 2007 articles of association of the Company had been amended from "The board of directors of the Company shall be comprised of nine directors, including one chairman, three independent non-executive directors" to "The board of directors of the Company shall be comprised of eleven directors, including one chairman, four independent non-executive directors";

2. Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Report of the Directors in the 2007 annual report;

3. As at 31 December 2007, 226,913,000 H shares of the Company were held by the public;

4. The company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors. The financial public relations firm will answer the queries brought by investors and maintain active communications with investors and fund managers. The company will publish the key operation data on a monthly basis and report the Company's latest development in relevant media and at the Company's website by means of press releases and announcements.

By the order of the Board
Zhang Cong
Chairman

Hainan Province, the PRC
31 March 2008

Directors, Supervisors and Senior Management

Executive Directors

Mr. Zhang Cong, aged 48, joined us in January 2006 and was appointed as a Director and the Chairman of the Board of the Company. Mr. Zhang Cong graduated from the Civil Aviation University of China in 1990 with a degree in English literature. From May 1997 to December 2001, he worked in the human resources department of Hainan Airlines, in turn, as the general manager's assistant, vice general manager and the general manager of the department. Thereafter, Mr. Zhang had taken on the positions as the general manager of the project development and management department and the senior assistant to the chief executive officer in HNA Group. Mr. Zhang was appointed as the chairman of the supervisory committee in December 2000 and was reappointed in January 2004. Mr. Zhang Cong tendered his resignation from his position as a supervisor and the chairman of the supervisory committee of the Company upon his appointment as a Director of the Company.

Mr. Dong Zhanbin, aged 56, jointed the Company in November 2006 and was appointed as Chief Executive officer of the Company in December 2006. He was appointed as a Director of the Company in February 2007. He was appointed as General Manager of the Company in April 2007. Mr. Dong graduated from Party Cadet College of Guangxi Autonomous Region in 1986 with a major in politics. Mr. Dong has over 37 years of experience in the management and administration of civil aviation industry. From 1970 to 1989, Mr. Dong served as the associate director of Control Center of Civil Aviation Administration of China ("CAAC") Guangzhou Administration, the chief of Flight Operation Division and the head of Air Traffic Control Center of CAAC Guangxi Administration, and was then promoted to deputy director of CAAC Hainan Administration in 1994. Since August 1998, Mr. Dong has held a number of senior management positions in HNA Group, including the vice general manager of Haikou Meilan Airport Company Limited, the vice executive president of HNA Airport Group Company Limited, and the general manager, the vice chairman and the chairman of Yichang Three Gorges Airport Co., Ltd..

Mr. Dong Guiguo, aged 45, joined us in March 2006 and was appointed as a Director of the Company and as our Chief Financial Officer in December 2006. He was appointed as the Chief Financial Director of the Company in April 2007. Mr. Dong graduated from Civil Aviation University of China majoring in aircraft engineering. He has pursued further studies in China Europe International Business School. He is an aviation engineer and accountant. Mr. Dong has worked at civil aviation maintenance base in Beijing, Beijing Aircraft Maintenance Engineering Co., Ltd.. HNA Group Purchase Management Department, HNA Group Airport Management Department, HNA Airport Group Co., Ltd.. Since October 2000, he has respectively served as supervisor of the aviation material and equipment procurement center of the procurement department of HNA Group, deputy general manager of airport management department of HNA Group, general manager of Haikou Meilan International Airport Co., Ltd., executive chairman's assistant, general manager of the finance department and general manager of the project management department of HNA Airport Group Company Limited, all of which presented his track records in the fields of civil aviation and finance.

Mr. Bai Yan, aged 32, was re-appointed as Company Secretary in April 2007 and was appointed as an Executive Director of the Company in October 2007. Mr. Bai graduated from the Economics Department of Northwestern University. From July 1997 to March 2002, he worked in the Securities Department of Hainan Airlines Company Limited. In October 2000, Mr. Bai was assigned to assist in the establishment of the Company and the related restructuring. He joined the Company in April 2002 as Company Secretary responsible for managing H share issue and listing process matters. He has also been responsible for handling the results disclosure and daily operation of the Board of Directors of the Company after its listing.

Non-executive Directors

Mr. Zhang Han'an, aged 62, was re-appointed as a Non-executive Director of the Company in June 2007. Mr. Zhang has over 20 years of experience in military aviation in the PRC. From August 1998 to August 2002, Mr. Zhang acted as the vice general manager and later a general manager for our parent company. He joined the Company in December 2000 as Executive Director and General Manager. He resigned from the office of general manager of the Company and became a Non-executive Director of the Company in January 2004.

Mr. Chan Nap Kee, Joseph, aged 47, was appointed as a Non-executive Director of the Company in October 2007. Mr. Chan received his master's degree from the University of Strachclyde in the major of International Marketing and a diploma from Peking University in China Investment and Trade Study. He holds licenses respectively of Type 1 (dealing in securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under Hong Kong Securities and Futures Ordinance. Mr. Chan was the deputy manager of Credit Agricole Bank from 1986 to 1994, where he was also in charge of China business. From 1992 to 1994, he was also the co-head of Credit Agricole Asset Management South East Asia Limited. From 1994 to now, Mr. Chan has been an executive director of Oriental Patron Financial Group. Mr. Chan has more than twenty years of experience in commercial and investment banking, and asset management.

Mr. Yan Xiang, aged 44, was appointed as a Non-executive Director of the Company in October 2007. Mr. Yan is now an independent director of China United Travel Company Limited, a company listed on Shanghai Stock Exchange. Mr. Yan graduated from Peking University, where he received a bachelor's degree in Economics and a master's degree in Management and Legal Study. From January 1988 to August 1991, he had been a teaching assistant and lecturer in Economics at Peking University. After August 1991, he was a research fellow with the Research Center of the People's Government of Hainan Province, the general manager of Hainan Securities Exchange Center and the president of Hainan Securities Company Limited. From January 2002 to now, Mr. Yan has been the executive director of Oriental Patron Investment Consulting (Shenzhen) Limited. Mr. Yan had been the executor director of Hainan Development Promotion Association, committee member of Experts Committee in Research of National Debts And Futures and committee member of Credit Assessment Experts Committee of China Credit Securities Limited assessment.

Independent Non-executive Directors

Mr. Xu Bailing, aged 75, Mr. Xu appointed as a Non-executive Director of the Company in June 2001, appointed as a Non-executive Directors of the Company in June 2004 and was re-appointed as an Independent Non-executive Director of the Company in August 2007. Mr. Xu was the representative of the Fourth and Fifth National People's Congress and a member of the Ninth Chinese People's Political Consultative Conference. Mr. had worked for the Civil Aviation Beijing Administrative Bureau since 1954 holding various positions such as pilot, inspector and captain and was appointed as the vice chief and chief of division in January 1977 and June 1979 respectively. Mr. Xu was then appointed as the vice director of CAAC in December 1986 and then as the chief executive officer of Air China in March 1988. He was appointed as a consultant of CAAC in August 1993.

Mr. Xie Zhuang, aged 54, was re-appointed as an Independent Non-executive Director of the Company in June 2007. Mr. Xie graduated from the Faculty of Law, Xi Nan College of Politics and Law and obtained a bachelor's degree in law. In December 1984, he was the vice presiding judge of the High Court (Civil Division) of Sichuan Province. In November 1986, he became the vice presiding judge of the High Court (Economic Division) of Sichuan Province, as well as the vice director of the Trademark Committee of Sichuan Province's Industrial Property Rights Research Association. In October 1989, Mr. Xie became a postgraduate student of the Faculty of Law, Beijing University and attained a master's degree in law. After graduation, he became the vice presiding judge of the Higher People's Court (Economic Division) of Sichuan Province. In February 1993, he was transferred to the Intermediate People's Court of Haikou City and has successively taken up such posts as Judicial Committee member, the presiding judge of Real Estate Division and the vice presiding judge and presiding judge of First Economic Division. In 1998, he was honored with the title of Level 4 Senior Judge of the PRC. Mr. Xie was appointed as a Non-executive Directors of the Company in January 2004.

Mr. Fung Ching Simon, aged 39, appointed as an Independent Non-executive Directors of the Company in October 2004 and was re-appointed as an Independent Non-Executive Director of the Company in October 2007. Mr. Fung is the chief financial officer of Baoye Group Company Limited, an H-share company listed on the Main board of the Hong Kong Stock Exchange Company Limited. Prior to that, Mr. Fung had over 10 years of experience in auditing, accounting and business advisory with one of the "Big Fours" international accounting firms. Mr. Fung graduated from the Queensland University of Technology, Australia and obtained a bachelor's degree in Accountancy. Mr. Fung is a Hong Kong resident. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia.

Mr. George F. Meng, aged 64, was appointed as an Independent Non-Executive Director of the Company in October 2007. Mr. Meng graduated from China Civil Aviation Institute in 1966, where he studied radio communication and English language. In 1972, he entered into Tianjin Foreign Studies University for further study of English language. From 1984 to 1991, he once studied FAA Aircraft Dispatcher Training Course sponsored by Aviation Training Services, Long Island, New York, Advanced Training in Aviation Course with Ansett Airlines, and MBA course at Oklahoma City University. During the years of 1966 to 1988, Mr. Meng served various positions including Radio Station Master of Communication Department of Chengdu Administrative Bureau of General Administration of Civil Aviation of China, Dean of the Technical English Department of China Civil Aviation Institute, and Deputy Director of CAAC Training Center. After 1991, he was a director and the general manager of China Resource Ltd., USA. From 2000 to now, Mr. Meng is the president of Soaring Eagle Industrial LLC., USA.

Supervisors

Mr. Chen Kewen, aged 47, was appointed as a supervisor and the chairman of the supervisory committee of the Company in January 2006. Mr. Chen graduated from the Civil Aviation University of China in 1982 and joined the CAAC, Heilongjiang branch as the chief of the quality inspection office in the same year. In 1990, Mr. Chen became the vice manager of the planning and development department of Dalian International Airport. Mr. Chen was awarded a master degree in management science and engineering by Dalian Zhoushuizi University of Technology in 2000. Since 2001, Mr. Chen has been acting as the general manager of the strategy development department of HNA Group.

Mr. Zhang Shusheng, aged 71, is a senior reporter. He was re-appointed as an Independent Supervisor of the Company in June 2007. He is a graduate of the Faculty of Chinese, Lan Zhou University majoring in Han Literature. He once worked for Gansu Daily and the People's Daily. In June 1994, he was transferred to China Civil Aviation News working as the chief editor and Party branch secretary and was responsible for the management of China Civil Aviation News. He has been the vice-chairman of Gansu Province Journalist Association, the president of the Association for Resident Correspondent in Gansu Province, the managing director of China Press Cultural Advancement Association and the director of China Civil Aviation Association. He has been working as a consultant of China Civil Aviation News since March 1999.

Ms. Zeng Xuemei, aged 38, was re-appointed as a Supervisor of the Company in July 2005. Ms. Zeng graduated with a degree in biochemistry in Qiong Zhou University in 1991. From May 1994 to December 2000, she acted as the secretary in the human resources training centre, aviation department and senior officer of staff duty office of Hainan Airlines Company Limited. Ms. Zeng worked in the administrative office of HNA Group from May 2000 to September 2000. She then worked in the administrative office of Haikou Meilan Airport Company Limited from September 2000 to December 2000. She joined the Company in July 2002 and was appointed as a Supervisor. Ms. Zeng is currently the administrative officer of the Company, responsible for filing and database management.

Senior Management

Mr. Hu Wentai, aged 52, was re-appointed as vice general manager of the Company in April 2007. Mr. Hu graduated with a diploma from Navy Institute of Logistic in 1979. He joined the Company in August 2000. He was appointed as the vice general manager of the Company in December 2000 and was re-appointed for the same position in 2004. He was also appointed as Chief Operation Officer (COO) of the Company in July 2004.

Mr. Wei Chang Rong, aged 49, joined the Company on 4 April 2004 and was appointed as vice general manager of the Company and CHO of the Company in July 2004 and was re-appointed as vice general manager of the Company in April 2007. Mr. Wei graduated from No. 16 Aviation Institute of China Liberation Army Air Force with a degree in Aviation in 1979. He was the General Manager of Operation Support Department, Cabin and Ground Service Department in Hainan Airlines Co., Ltd..

Mr. Qiu Guo Liang, aged 33, was appointed as deputy general manager of the Company in August 2007. Mr. Qiu Guo Liang graduated from Nanjing Aviation Aeronautical University with professional background, holder of FAA Licence. He had been working as assistant to manager of Flight Planning Office, Operation Control Center, Production Operation Center of Hainan Airlines Co., Ltd., shift supervisor, deputy supervisor, deputy manager of Operation Control Department. He joined the Company in March 2004 and had been the manager of Control Center, assistant to chief operating officer and has a lot of working experienced in aviation management.

Company Secretary

Mr. Bai Yan, aged 32, was re-appointed as Company Secretary in April 2007 and was appointed as an Executive Director of the Company in October 2007. Mr. Bai graduated from the Economics Department of Northwestern University. From July 1997 to March 2002, he worked in the Securities Department of Hainan Airlines Company Limited. In October 2000, Mr. Bai was assigned to assist in the establishment of the Company and the related restructuring. He joined the Company in April 2002 as Company Secretary responsible for managing H share issue and listing process matters. He has also been responsible for handling the results disclosure and daily operation of the Board of Directors of the Company after its listing.

The Board of Directors is pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2007.

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 2007, 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 2007, and the financial positions of the Group and the Company as at 31 December 2007 are set out from page 41 to page 90 of this annual report.

Final Dividend

The Board has passed the resolution to recommend the payment of a final dividend on or before 27 June 2008 (Friday) of HKD8 cents per share totalling HKD37,857,000, equivalent to RMB35,449,000, during the Annual General Meeting to be held on 30 May 2008 (Friday) to shareholders of the Company whose names appear on the Company's Register of Members on 1 May 2008 (Thursday).

In 2007, the Company had a domestic audited profit after tax of RMB127,752,000 and an international audited profit after tax of RMB138,752,000. Pursuant to the requirements of Memorandum and Articles of Association and the Listing Rules, in appropriating the dividends of respective accounting year, the basis of distribution is the lower of the two above profit after tax figures in that financial statement shall prevail. Therefore, the 2007 dividend to be distributed shall adopt the audited profit based on domestic accounting standards.

Closure of Register of Members

The Company's Register of Members will be closed from 1 May 2008 (Thursday) to 30 May 2008 (Friday) (both days inclusive), during which time no transfer of shares will be registered. To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the annual general meeting, shareholders 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 30 April 2008 (Wednesday) 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 14 to the accompanying financial statements.

Property, Plant and Equipment

Details of the property, plant and equipment as at 31 December 2007 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2007 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 2007 are set out in Note 21 to the accompanying financial statements.

Reserves

Change in reserves of the Group and the Company for the year ended 31 December 2007 is set out in Note 13 to the accompanying financial statements.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2007 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 21.9% and 46.9% of the total operating revenues of the Group for the year ended 31 December 2007, respectively. The largest supplier and the top five largest suppliers of the Group represented 15.2% and 22.4% of the total operating costs of the Group for the year ended 31 December 2007, respectively.

Haikou Meilan International Airport Company Limited, the parent company of the Company, holds 12.22% of the shares in Hainan Airline Company Limited. Zhang Han'an, a director, holds 20,000 employee shares of Hainan Airline Company Limited. Save as above, none of the Directors, Supervisors, their respective associates (within the meaning of Listing Rules) of the Company or those shareholders, who or which to the knowledge of the Directors hold 5.0% or more of the share capital of the Company, has any interest in any of the Group's major customers and suppliers.

Share Capital Structure

As at 31 December 2007, the total issued shares of the Company was 473, 213, 000 in number, consisting of:

	Number of shares	*Percentage in total issued shares*
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 2007, 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	*Identity*	*Type of shares*	*Number of shares*	*Percentage of issued domestic shares*	*Percentage of issued share capital*
Haikou Meilan International Airport Company Limited *(Note 1)*	Beneficial owner	Corporate	237,500,000	96.43%	50.19%

H shares

Name of Shareholder	*Types of interest*	*Number of ordinary shares (Notes 5)*	*Percentage of issued shares*	*Percentage of total issued share capital*
Zhang Gaobo *(Note 2)*	Interest in controlled corporation	94,643,000 (L)	41.71%	20.00%
Zhang Zhiping *(Note 2)*	Interest in controlled corporation	94,643,000 (L)	41.71%	20.00%
Million West Limited *(Note 2)*	Interest in controlled corporation	94,643,000 (L)	41.71%	20.00%
Best Future International Limited *(Note 2)*	Interest in controlled corporation	94,643,000 (L)	41.71%	20.00%
Oriental Patron Holdings Limited *(Note 2)*	Interest in controlled corporation	94,643,000 (L)	41.71%	20.00%
Oriental Patron Financial Services Group Limited *(Note 2)*	Interest in controlled corporation	94,643,000 (L)	41.71%	20.00%

Name of Shareholder	*Types of interest*	*Number of ordinary shares (Notes 5)*		*Percentage of issued shares*	*Percentage of total issued share capital*
Oriental Patron Resources Investment Limited *(Note 2)*	Beneficiary interest	94,643,000	(L)	41.71%	20.00%
UBS AG *(Note 3)*	Beneficiary interest, guaranteed interest and interest in controlled corporation	29,679,400 413,000	(L) (S)	13.08% 0.18%	6.27% 0.09%
ChinaRock Capital Management Limited *(Note 4)*	Investment Manager	114,118,000	(L)	6.22%	2.98%
Farallon Capital Management LLC *(Note 4)*	Investment Consultant	114,118,000	(L)	6.22%	2.98%
Utilico Emerging Markets Utilities Limited *(Note 5)*	Investment manager	11,629,000	(L)	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. *Please refer to the announcement of the Company dated 5 June 2007, which is regarding a large transaction of selling 94,643,000 H Shares (being all of shareholdings of the Company held) ("Sales Shares") to independent purchasers at a price of HK$5.75 per Sales Share, carried out and completed at The Hong Kong Stock Exchange Company Limited ("Stock Exchange") by Copenhagen Airport A/S. Upon completion, Copenhagen A/S ceased to be the shareholder of the Company. The Sales Shares were acquired by Oriental Patron Resources Investment Limited.*

   Zhang Gaobo holds 90% interest of Million West Limited. Zhang Zhiping holds 89% interests of Best Future International Limited. Each of Million West Limited and Best Future International Limited holds 50% interest of Oriental Patron Holdings Limited. Oriental Patron Holdings Limited holds 95% interest of Oriental Patron Financial Services Group Limited. The interest of Oriental Patron Resources Investment Limited is wholly-owned by Oriental Patron Financial Services Group Limited.
3. *Of the 29,483,400 Shares of the Company, as a beneficial owner, UBS AG holds 623,714 Shares and is deemed to have equity interest in the 28,859,686 Shares (UBS AG wholly owns UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd and UBS Securities LLC.,, and those companies beneficiary own 16,827,686 Shares, 4,414,000 Shares, 6,377,000 Shares and 413,000 Shares of the Company respectively. In addition, UBS AG is deemed to hold the short position of 413,000 Shares of the Company (UBS AG wholly owns UBS Securities LLC and UBS Securities LLC beneficially owns the 413,000 Shares).*
4. *As the capacities of being investment consultants, ChinaRock Capital Management Limited and Farallon Capital Management LLC are deemed to hold the equity interest of 114,118,000 Shares of the Company (ChinaRock Capital Management Limited and Farallon Capital Management LLC wholly own Farallon Capital Partners, L.P., Farallon Capital Institutional Partners III, L.P., Tinicum Partners, L.P., Farallon Capital Offshore Investors II, L.P. and Farallon Capital Offshore Investors, Inc., and those companies beneficially own 2,044,500 Shares, 1,619,300 Shares, 160,400 Shares, 85,400 Shares, 91,000 Shares, 2,950,300 Shares and 7,167,100 Shares of the Company respectively).*
5. *Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.*
6. *(L) and (S) represent long position and short position respectively.*

Save as disclosed above, as at 31 December 2007 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 2007, 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):

	Name of associated corporation	*Type of interest*	*Number of shares*
Zhang Han'an (Non-executive Director)	Hainan Airlines Company Limited *(Note)*	Beneficiary owned	20,000

Note: Hainan Airlines Company Limited, one of the promoters of the Company, is a stock company incorporated in PRC with limited liabilities.

Save as disclosed above, as at 31 December 2007, 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 recorded in the register to be kept by the Company pursuant to section 352 of the SFO or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Connected Transactions

Details of the continuing connected transactions among the connected parties of the Group and the Company during the year ended 31 December 2007 are set out in Note 29 to the accompanying financial statements. The transactions with connected parties mentioned in Note 29 constitute the connected transactions of the Company.

The Transactions

1. The airport ground services agreement of Hainan Airlines was entered on 5 January 2005 in which the commencement and expiry dates are on 1 January 2005 and 31 December 2007 respectively. The customary airport ground services income received in 2007 was RMB65,801,000.

2. The airport complex tenancy agreement of Hainan Airlines was entered on 17 May 2006 in which the commencement and expiry dates are on 1 January 2006 and 31 December 2008 respectively. The rental income received in 2007 was RMB8,253,000.

3. The business transfer agreement of Hainan Airlines was entered on 26 August 2005 in which the commencement and expiry dates are on 1 January 2005 and 31 December 2007 respectively. The franchise fee income of the cargo center received in 2007 was RMB1,000,000.

4. The airport ground services agreement of China Southern Airlines was entered on 1 February 2005 in which the commencement and expiry dates are on 1 January 2005 and 31 December 2007 respectively. The airport ground services income received in 2007 was RMB40,377,000.

5. The airport complex tenancy agreement of China Southern Airlines was entered on 17 May 2006 in which the commencement and expiry dates are on 1 April 2006 and 31 March 2009 respectively. The rental income received in 2007 was RMB7,030,000.

6. The airport ground services agreement of Xiamen Airlines was entered on 1 February 2005 in which the commencement and expiry dates are on 1 January 2005 and 31 December 2007 respectively. The airport ground services income received in 2007 was RMB2,642,000.

7. The catering services agreement of Hainan Food was entered on 5 January 2005 in which the commencement and expiry dates are on 1 April 2005 and 31 December 2007 respectively. The franchised catering income received in 2007 was RMB2,294,000.

8. The franchised business agreement of Luckyway was entered on 22 September 2006 in which the commencement and expiry dates are on 1 October 2006 and 31 December 2008 respectively. The tourism franchised income received in 2007 was RMB3,813,000.

9. The customary airport ground services agreement of Hong Kong Airlines was entered on 2 March 2007 in which the commencement and expiry dates are on 28 November 2006 and 27 November 2009 respectively. The airport ground services income received in 2007 was RMB2,477,000.

10. The franchised business agreement of HNA China Duty Free was entered on 22 June 2007 in which the commencement and expiry dates are on 22 June 2007 and 21 June 2010 respectively. The duty free franchised income received in 2007 was RMB1,555,000.

11. The airport composite services agreement of Haikou Meilan International Airport Co., Ltd. was entered on 5 January 2005 in which the commencement and expiry dates are on 1 January 2005 and 31 December 2007 respectively. The service fees paid in 2007 was RMB15,814,000.

12. The customary composite services agreement of HNA Group was entered on 26 August 2005 in which the commencement and expiry dates are on 1 January 2005 and 31 December 2007 respectively. The service fees paid in 2007 was RMB10,928,000.

13. The information system management agreement of HNAAIS was entered on 17 May 2006 in which the commencement and expiry dates are 1 January 2006 and 31 December 2008 respectively. The service fees paid in 2007 was RMB2,120,000.

14. For the financial services agreement made by 8th October, 2007 and the financial services supplemental agreement made by 6th November, 2007, the started and ended dates respectively were 8th October, 2007 and 7th October, 2010. For the year 2007, the maximum daily deposits of the company put in the Group's Finance Company were not more than RMB450,000,000.

With respect to the Continuing 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.

For the purpose of Rule 14.38 of the Listing Rules, the auditors of the Company, PricewaterhouseCoopers, have performed certain agreed-upon procedures on the above continuing connected transactions (the "Transactions") in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and reported as below:

(1) the Transactions received the approval of the Board;

(2) in relation to those Transactions involving provisions of goods and services by the Group (for the samples selected), their pricing was in accordance with the pricing policies of the Group;

(3) the Transactions (for the samples selected) were carried out in accordance with the terms of the relevant agreements governing the transactions; and

(4) the accumulated amounts of the Transactions did not exceed the relevant annual caps.

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	(duly appointed on 27 January 2006)
Mr. Dong Zhanbin	(duly appointed on 5 February 2007)
Mr. Dong Guiguo	(duly appointed on 25 May 2006)
Mr. Bai Yan	(duly appointed on 15 October 2007)

Non-executive Directors

Mr. Zhang Han'an	(re-appointed on 7 June 2007)
Mr. Chan Nap Kee, Joseph	(duly appointed on 15 October 2007)
Mr. Yan Xiang	(duly appointed on 15 October 2007)

Independent non-executive Directors

Mr. Xu Bailing	(re-appointed on 3 August 2007)
Mr. Xie Zhuang	(re-appointed on 7 June 2007)
Mr. Fung Ching, Simon	(re-appointed on 15 October 2007)
Mr. George F. Meng	(duly appointed on 15 October 2007)

The Company has received annual confirmation letters of each Independent Non-executive Director regarding his independent position, and we believe each of the Independent Non-executive Director is Independent from the Company.

Supervisors

Mr. Chen Kewen	(duly appointed on 27 January 2006)
Mr. Zhang Shusheng	(re-appointed on 7 June 2007)
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 5 February 2007)
Mr. Gunnar Moller	(resigned on 5 June 2007)

Non-executive Directors

Mr. Kjeld Binger	(resigned on 27 March 2007)

Brief biographical details of the Directors and Supervisors of the Company are set out on page 22 to page 25 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 (within the meaning of 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 subsidiaries for the year ended 31 December 2007.

Remuneration of directors and supervisors

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, for the year 2007, the allowance paid to the Chairman of the board and Executive Directors of the Company was RMB70,000 per person; the allowance paid to the Non-executive Director was RMB50,000 per person; the allowance paid to the Independent Non-executive Directors was RMB100,000 per person; and the allowance paid to the Supervisors was RMB20,000 per person. Apart from Executive Directors and Supervisor of Staff Representative, other Directors and Supervisors are not entitled to receive any other remuneration from the Company. In addition to the aforesaid remuneration, for Executive Directors and Supervisor of Staff Representative who are also Company's staff are entitled to receive salaries in respect of their respective positions taken on a full-time basis in the Company. Details of the remuneration of Directors and Supervisors are set out in Note 19 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, they are Mr. Zhang Cong, Mr. Dong Zhanbin, Mr. Dong Guiguo, Mr. Gunnar Moller and Mr. Hu Wentai. Details of their remuneration are set out in Note 19 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 required 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 2007, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company did not redeem any of its share capital as at 31 December 2007.

Entrusted deposits and overdue fixed deposits

The Group had no entrusted deposits and overdue fixed deposits as at 31 December 2007.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2007.

Auditors

Approved by the shareholders at the extraordinary general meeting held on 10 March 2008, CongXin has resigned as domestic auditor of the Company in 2007. Now it changed to Zhongzhun Auditor Certified Public Accountant. 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 Zhongzhun 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.

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. Xu Bailing, 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 represents 47.95% of the total issued share capital of the Company which is in compliance with the public float minimum requirement pursuant to 8.08 of the Listing Rules.

By the order of the Board
Zhang Cong
Chairman of the Board

Hainan Province, the PRC
31 March 2008

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2007, the Supervisory Committee of the Company and its members have duly performed its duties in an honest and stringent manner and have undertaken various activities in an active and prudent manner to protect the interests of the Company and its shareholders in accordance with the provisions of the Company law of the PRC (the "Company Law") and the Company's Articles of Association (the "Articles").

The major activities of the Supervisory Committee during 2007 were as follows:

1. Attending meetings of the Board of Directors, and monitoring the decision making process of the Board of Directors in terms of regulatory compliance, legality and managerial system;

2. Attending meetings at the office of the Chairman of the Board, participating in important activities of the Company in the ordinary course of business, and monitoring the daily operation and management by the Chairman and other senior officers and providing constructive suggestions thereto; and

3. Review the financial statements of the Company on a regular basis and the vouchers and accounts of the Company on an ad-hoc basis.

Having made the above efforts, the Supervisory Committee is of the view that the Directors, Chairman and other senior officers of the Company have diligently implemented their obligations under the Articles and the resolutions passed in general meeting by the shareholders of the Company, honestly discharged their official function and acted in the interests of the Company and its shareholders as a whole without prejudice to the interests of any individual shareholders or employee of the Company. The Supervisory Committee further confirms that the management of the Company has provided leadership to the staff in operation management and market expansion, under which satisfactory results were achieved. The accounts of income and expenses have been well maintained and the audit activities and financial management have been in compliance with the relevant rules and regulations.

Prior to the forthcoming annual general meeting of the Company, the Supervisory Committee has carefully reviewed the audited reports and financial statements of the Company prepared by the PRC and international auditors of the Company. It has also reviewed the Directors' report and profit distribution proposal to be presented to the shareholders. The Supervisory Committee is of the view that the above reports give a true and fair view of the operating and financial position of the Company for the period under review. It further confirms that the above reports and proposals are prepared in compliance with the relevant laws and regulations and the articles of association of the Company.

We would continue to monitor the Company, its Directors and the management in an effective manner, and to protect the interests of all our shareholders and the Company in its best endeavor.

By order of the Supervisory Committee
Chen Kewen
Chairman of the Supervisory Committee

Hainan Province, the PRC
31 March 2008

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Annual General Meeting") of Hainan Meilan International Airport Company Limited (the "Company") will be held on 30 May 2008 (Friday), 10:00 a.m. at the meeting room of the Company on 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People's Republic of China (the "PRC") to consider and, if thought fit, to pass the following resolutions:

By way of ordinary resolutions:

1. To consider and approve the working report of the Board of Directors of the Company for the year ended 31 December 2007;

2. To consider and approve the working report of the Supervisory Committee of the Company for the year ended 31 December 2007;

3. To consider and approve the audited financial statements of the Company as at and for the year ended 31 December 2007;

4. To consider and approve the final dividend distribution plan of the Company for the year ended 31 December 2007;

5. To consider and approve the re-appointment of PricewaterhouseCoopers (certified public accountants in Hong Kong) and ZhongZhun CPAs (registered accountants in the PRC (excluding Hong Kong)) as the Company's international and domestic auditors for the year ending 31 December 2008 respectively, to hold office until the conclusion of the next annual general meeting, and to determine their remunerations;

6. To consider and approve the annual remuneration proposal for the Company's Directors and Supervisors for the year ending 31 December 2008;

7. To consider and approve the resolution of setting up the Board Nomination Committee of the Company;

8. To consider and approve the resolution of setting up the Board Strategic Committee of the Company;

9. To consider and approve the re-appointment of Ms. Zeng Xuemei as supervisor of the Company;

10. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent or more of the shares carrying the right to vote at such meeting.

By way of extraordinary resolutions:

11. To consider and approve the resolution of amending the respective provisions of the Articles of Association;

12. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent or more of the shares carrying the right to vote at such meeting.

By order of the Board
Bai Yan
Company Secretary

Hainan Province, the PRC
14 April 2008

Notes:

(A) Holders of the Company's overseas listed shares ("H shares") whose names appear on the Company's H Share register which is maintained by Computershare Hong Kong Investor Services Limited at the close of business on 30 April 2008 (Wednesday) are entitled to attend and vote at the Annual General Meeting (or any adjournment thereof).

(B) Holders of H Shares of the company who intend to attend the Annual General Meeting, must complete and return the reply slips for attending the Annual General Meeting to the Secretary Office to the Board of Directors of the Company no later than 9 May 2008 (Friday).

Shareholders can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the Board of Directors of the Company are as follows:

Meilan Airport Complex
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney duly authorised in writing. If the instrument appointing a proxy is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. Instrument appointing a proxy of any holder of H Shares (being a body corporate) must be affixed with the corporate seal of such holder of H Shares or duly signed by the chairman of its board of directors or by its authorised attorney. For holders of H Shares, the power of attorney or other documents of authorisation and the proxy form must be delivered to the Company no less than 24 hours before the time appointed for the holding of the Annual General Meeting in order for such documents to be valid.

(D) The H Share register of the Company will be closed from 1 May 2008 (Thursday) to 30 May 2008 (Friday) (both days inclusive), during which time no transfer of H Shares will be registered. Transferees of H Shares who wish to attend and vote in the Annual General Meeting must deliver all share transfer documents including (the duly stamped instruments of transfer and the relevant share certificate(s)), to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on 30 April 2008 (Wednesday) for completion of the registration of the relevant transfer.

The address of Computershare Hong Kong Investor Services Limited is as follows:

Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(E) The 2007 final dividend will be distributed on or before 27 June 2008 (Friday) to those shareholders whose names are registered in the Company's Register of members on 1 May 2008 (Thursday).

(F) The Annual General Meeting is expected to last not more than one day. Shareholders or proxies attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.

(G) In the year 2008, the company will still hire the PricewaterhouseCoopers (certified public accountants) and Zhongzhun Certified Public Accountant (China (not including Hong Kong) Registered Accountants) as the international and domestic auditors of the Company respectively in 2008 financial year until the end of the next Annual General Meeting of shareholders. To take Zhongzhun Certified Public Accountant as internal auditor, the remuneration is RMB250,000 per year; the remuneration for the PricewaterhouseCoopers as international auditors identified by the ways the interim financial audit report in the year 2008 takes, if it takes audit ways, the remuneration will be RMB2,000,000 per year; if it takes examine ways, the remuneration will be RMB1,550,000 per year.

(H) For the year 2007, the allowance paid to the Chairman of the board ,Executive Directors, supervisors and the company secretary was: the allowance paid to the Chairman of the board and Executive Directors was RMB70,000 per person; the allowance paid to the Non-executive Director was RMB50,000 per person; the allowance paid to the Independent Non-executive Directors was RMB100,000 per person; the allowance paid to the supervisors was RMB20,000 per person; the allowance paid to the company secretary was RMB30,000 per person.

(I) The Nomination Committee is comprised of two independent non-executive directors, Mr. Xu Bailing and Mr. Xie Zhuang, and one executive director, Mr. Dong Zhanbin with Mr. Xu Bailing, an independent non-executive director acting as chairman.

The responsibilities of the Nomination Committee are:

1. to make recommendations to the Board of Directors in respect of the size and composition of the Board of Directors in accordance with the business activities, assets size and shareholding structure;

2. to make recommendations to the Board of Directors in respect of studying the selection criteria and procedures of directors, supervisors, chief executive officer and other senior management staff in accordance with the laws and regulations;

3. to openly identify eligible candidates for the positions of directors, supervisors, chief executive officer and other senior management staff;

4. to review the candidates for the positions of directors, supervisors, chief executive officer and other senior management staff and to make recommendations;

5. to deal with other matters authorized by the Board of Directors.

(J) The Strategic Committee is comprised of three independent non-executive directors, Mr. Fung Ching, Simon, Mr. Xu Bailing and Mr. Xie Zhuang, and two executive directors, Mr. Dong Zhanbin and Mr. Dong Guiguo with Mr. Fung Ching, Simon, an independent non-executive director acting as chairman. The principal responsibilities of the Strategic Committee are:

1. to study the long-term development strategic plan of the Company and to make recommendations;

2. to study the significant investment financing proposal which is subject to the approval of the Board of Directors as provided in the "Articles of Association" and to make recommendations;

3. to study the operation of significant funding and asset operating project which is subject to the approval of the Board of Directors as provided in the "Articles of Association" and to make recommendations;

4. to study those significant events that will affect the development of the Company and to make recommendations;

5. to review the implementation of the above matters;

6. to deal with other matters authorized by the Board of Directors.

(K) The brief biographies of the directors of the Company is set out as follows:

Ms. Zeng Xuemei, aged 38, was re-appointed as a Supervisor of the Company in July 2005. Ms. Zeng graduated from Qiong Zhou University in 1991. From May 1994 to December 2000, she acted as the secretary in the human resources training centre, aviation department and senior officer of staff duty office of Hainan Airlines Company Limited. Ms. Zeng worked in the administrative office of HNA Group from May 2000 to September 2000. She then worked in the administrative office of Haikou Meilan Airport Company Limited from September 2000 to December 2000. Ms. Zeng is currently the administrative officer of the Company, responsible for filing and database management.

(L) Delete the existing articles of 3, 8 and 107 of the Articles of Association of the Company and replaced by the followings:

Article 3

Company address:	Meilan Airport Complex, Haikou City, Hainan Province, PRC
Postal Code:	571126
Telephone number:	(86-898) 65762009
Facsimile number:	(86-898) 65762010

Article 8

The Company can invest in other companies with limited liability or joint-stock companies with limited liability and its obligations are limited to the amount of capital contributed to the investee company.

Subject to the approval of the enterprise review and approval authority authorized by State Council, the Company can operate the aforesaid holding company under sub-section 2 of Article 12 of Company Law according to the needs of its operating management.

The holding subsidiaries of the Company are Haikou Meilan Airport Advertising Co., Ltd., Hainan Meilan International Airport Traveling Co., Ltd., and Hainan Meilan Duty Free Shop Limited in which the Company holds 95%, 95% and 95% of their equity interests respectively.

Article 107

The Company shall have one (1) general manager and several assistant general managers, engaged and disengaged by the Board of Directors, for a term of three years and are eligible for renewal.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
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Facsimile (852) 2810 9888
www.pwchk.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Hainan Meinan International Airport Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 90, which comprise the consolidated and company balance sheets as of 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2008

Consolidated balance sheet and balance sheet

		The Group		The Company	
		31 December	31 December	**31 December**	31 December
		2007	2006	**2007**	2006
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	*6*	**160,456**	163,710	**160,456**	163,710
Property, plant and equipment	*7*	**1,009,800**	1,089,832	**1,008,694**	1,088,334
Investments in subsidiaries	*8(a)*	**–**	–	**18,094**	18,094
		1,170,256	1,253,542	**1,187,244**	1,270,138
Current assets					
Inventories		**49**	3,716	**45**	45
Trade receivables	*10*	**123,320**	193,813	**118,583**	192,483
Other receivables and prepayments		**12,362**	11,322	**10,175**	10,375
Due from subsidiaries	*8(b)*	**–**	–	**16,172**	10,874
Time deposits	*11(a)*	**167,401**	85,918	**167,401**	85,918
Cash and cash equivalents	*11(b)*	**363,188**	322,040	**350,088**	314,161
		666,320	616,809	**662,464**	613,856
Total assets		**1,836,576**	1,870,351	**1,849,708**	1,883,994
EQUITY					
Capital and reserves attributable to the Company's shareholders					
Share capital	*12*	**1,100,250**	1,100,250	**1,100,250**	1,100,250
Other reserves	*13*	**143,383**	149,528	**142,758**	148,903
Retained earnings		**447,276**	412,477	**454,377**	419,607
		1,690,909	1,662,255	**1,697,385**	1,668,760
Minority interest		**575**	600	**–**	–
Total equity		**1,691,484**	1,662,855	**1,697,385**	1,668,760

Consolidated balance sheet and balance sheet

		The Group		The Company	
		31 December 2007	31 December 2006	**31 December 2007**	31 December 2006
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
LIABILITIES					
Non-current liabilities					
Borrowings-secured	*14*	**16,000**	25,000	**16,000**	25,000
Deferred income tax liabilities	*15*	**11,193**	11,021	**11,193**	11,021
Deferred income	*16*	**–**	8,459	**–**	8,459
		27,193	44,480	**27,193**	44,480
Current liabilities					
Trade and other payables	*17*	**67,579**	134,907	**61,533**	128,953
Due to subsidiaries	*8(b)*	**–**	–	**13,355**	13,801
Current income tax liabilities		**41,320**	109	**41,242**	–
Borrowings-secured	*14*	**9,000**	28,000	**9,000**	28,000
		117,899	163,016	**125,130**	170,754
Total liabilities		**145,092**	207,496	**152,323**	215,234
Total equity and liabilities		**1,836,576**	1,870,351	**1,849,708**	1,883,994
Net current assets		**548,421**	453,793	**537,334**	443,102
Total assets less current liabilities		**1,718,677**	1,707,335	**1,724,578**	1,713,240

The notes on pages 46 to 90 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhanbin
Director and General Manager

Dong Guiguo
Director and Chief Financial Director

Consolidated income statement

	Note	2007 RMB'000	2006 RMB'000
		Year ended 31 December	
Revenue			
Aeronautical	*5*	**251,798**	230,756
Non-aeronautical	*5*	**92,593**	103,619
		344,391	334,375
Cost of services and sales	*18*	**(121,767)**	(137,535)
Gross profit		**222,624**	196,840
Selling and distribution costs	*18*	**(226)**	(2,731)
Administrative expenses	*18*	**(47,202)**	(61,528)
Other gains-net		**279**	257
Operating profit		**175,475**	132,838
Finance income		**6,554**	4,111
Finance costs		**(2,969)**	(3,873)
Finance income-net	*20*	**3,585**	238
Profit before income tax		**179,060**	133,076
Income tax expense	*21*	**(40,308)**	(10,098)
Profit for the year		**138,752**	122,978
Attributable to:			
Shareholders of the Company	*22*	**138,777**	122,976
Minority interest		**(25)**	2
		138,752	122,978
		RMB	*RMB*
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic and diluted	*23*	**29 cents**	26 cents
		RMB'000	*RMB'000*
Dividends	*24*	**127,143**	–

The notes on pages 46 to 90 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhanbin
Director and General Manager

Dong Guiguo
Director and Chief Financial Director

Consolidated statement of changes in equity

		Attributable to shareholders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Minority interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2006		1,100,250	137,223	301,806	1,539,279	598	1,539,877
Profit for the year		–	–	122,976	122,976	2	122,978
Transfer to statutory reserves		–	12,305	(12,305)	–	–	–
Balance as at 31 December 2006		1,100,250	149,528	412,477	1,662,255	600	1,662,855
Balance as at 1 January 2007		1,100,250	149,528	412,477	1,662,255	600	1,662,855
Profit for the year		–	–	138,777	138,777	(25)	138,752
2007 interim dividend paid	*24*	–	–	(91,694)	(91,694)	–	(91,694)
Revaluation – net of deferred income tax liabilities	*13*	–	(18,429)	–	(18,429)	–	(18,429)
Depreciation transfer	*13*	–	(511)	511	–	–	–
Transfer to statutory reserves	*13*	–	12,795	(12,795)	–	–	–
Balance as at 31 December 2007		1,100,250	143,383	447,276	1,690,909	575	1,691,484

The notes on pages 46 to 90 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhaubin
Director and General Manager

Dong Guigong
Director and Chief Financial Director

Consolidated cash flow statement

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	27	**284,129**	188,773
Interest paid		**(2,969)**	(3,873)
Income tax paid		**(8,464)**	(11,040)
Net cash generated from operating activities		**272,696**	173,860
Cash flows from investing activities			
Purchase of property, plant and equipment		**(37,744)**	(49,889)
Increase in time deposits		**(81,483)**	(1,450)
Proceeds from sales of property, plant and equipment		**819**	–
Interest received		**6,554**	4,111
Net cash used in investing activities		**(111,854)**	(47,228)
Cash flows from financing activities			
Repayments of borrowings		**(28,000)**	(50,000)
Dividend paid to the Company's shareholders		**(91,694)**	–
Net cash used in financing activities		**(119,694)**	(50,000)
Net increase in cash and cash equivalents		**41,148**	76,632
Cash and cash equivalents at beginning of the year		**322,040**	245,408
Cash and cash equivalents at end of the year	*11*	**363,188**	322,040

The notes on pages 46 to 90 are an integral part of these consolidated financial statements.

On behalf of the Board

Dong Zhaubin
Director and General Manager

Dong Guigong
Director and Chief Financial Director

1 General information

Hainan Meilan International Airport Company Limited (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. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 18 November 2002. The Company and its subsidiaries (collectively the "Group") are mainly engaged in the operation of the Meilan Airport in Hainan, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

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

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2008.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(i) Standard and interpretation effective in 2007

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- IFRIC – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Interpretations to existing standards effective in 2007 but not relevant for the Group's operations

The following interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRIC – Int 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies';
- IFRIC – Int 8, 'Scope of IFRS 2';
- IFRIC – Int 9, 'Re-assessment of embedded derivatives'.

(iii) Standard, interpretations and amendment to existing standards that are not yet effective and have not been early adopted by the Group

The following standard, interpretations and amendment to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted it:

- IFRS 8, 'Operating segments' (effective from 1 January 2009). This interpretation does not have any significant impact on the Group's financial statement because the Group conducts its business within one business segment and its revenues are primarily generated and assets are located in the PRC.
- IFRIC – Int 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The Group will apply IFRIC – Int 12, but it is not expected to have any significant impact on the Group's financial statements.
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009, but is not expected to result in substantial impact on the Group's accounting policies because the Group is already applying the capitalisation option on the borrowing costs for qualifying assets.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods but are not relevant for the Group's operations:

- IFRIC – Int 11, 'IFRS 2 – Group and treasury share transactions', effective for accounting periods beginning on or after 1 March 2007. IFRIC – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements. It is not relevant for the Group's operations because none of the Group's companies have such transactions.

- IFRIC – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- IFRIC – Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC – Int 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC – Int 14 is not relevant to the Group's operations because none of the Group's companies have such transactions.

- IAS 32 and IAS 1 Amendments 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. It is not relevant for the Group's operations because none of the Group's companies have such transactions.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (Continued)

- IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. It is not relevant for the Group's operations because none of the Group's companies have such transactions.

- IFRS 3 (Revised) 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. It is not relevant for the Group's operations because none of the Group's companies have such transactions.

2 Summary of significant accounting policies (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment in value (see Note 2(g)). The results of the subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

(e) 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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of certain property, plant and equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from "other reserves" to retained earnings.

Depreciation is calculated on the straight-line method to allocate their cost or revalued amount to their residual values 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2 Summary of significant accounting policies (Continued)

(e) Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other gains – net, in the income statement. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

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.

(f) Land use right

Costs of land use rights are recognised as expenses on a straight-line basis over the lease period of the land use rights of 40 to 70 years.

(g) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

Financial assets represent loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables, other receivables and prepayments, time deposits, cash and cash equivalents. (see Note 2(k) and 2(l)). Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. Impairment testing of trade and other receivables is described in Note 2(k).

2 Summary of significant accounting policies (Continued)

(i) Operating leases

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

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.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(m) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

(o) Borrowings

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

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.

Borrowing costs incurred for the construction of any qualifying asset 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.

(p) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2 Summary of significant accounting policies (Continued)

(r) Employee benefits

(i) Pension obligations

The Group participates in defined contribution plans. The defined contribution plans are employee retirement plans regarding pension benefits required under the existing PRC legislations. 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 benefits expenses. The Group has no legal or constructive obligations to pay further contributions.

(ii) 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.

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues are recognised as follows:

(i) Airport fee is recognised upon outbound passengers 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.

2 Summary of significant accounting policies (Continued)

(s) Revenue recognition (Continued)

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

(ix) Freight 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.

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

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 in the PRC. 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 is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities in foreign operations.

The Group's businesses are principally conducted in RMB, except that limited aeronautical revenues are in US dollars. Dividends to shareholders holding H Shares are declared and paid in Hong Kong dollars. As at 31 December 2007, if RMB had weakened/strengthened by 10% against the US dollars with all other variables held constant, post-tax profit for the year would have been RMB754,000 (2006: RMB166,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollars-denominated cash and cash equivalent, trade receivables. Given the fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations, the Group has not entered into any forward exchange contract to hedge its exposure of foreign exchange risk.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) Interest rate risk

As the Group has no significant interest-bearing assets (other than cash and cash equivalents), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. During 2007 and 2006, the Group's borrowings at variable rates were denominated in RMB.

At 31 December 2007, if interest rates on RMB denominated borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB41,000 (2006: RMB387,000) lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalent and deposits with banks and financial institutions (a related party), as well as credit exposures to customers, including airport fee receivables of RMB27,192,000 from Ministry of Finance ("MOF"). The Group has policy that limit the amount of credit exposure to any financial institution. It has policies in place to ensure that services are made to customers with an appropriate credit history. The extent of the Group's credit exposure is presented by the aggregated balance of cash and cash equivalents, time deposits and trade and other receivables. Credit risk arising from balances with related parties, including HNA Group Finance Co., Ltd. ("HNA Group Finance") and Hainan Airlines Company Limited ("Hainan Airlines") is closely monitored by management, after taking into consideration of their respective financial positions, profitability and repayment history. These transactions had been approved by top management. No default in payment or overdue history has been noted in respect of their transactions. No credit limit was exceeded during the reporting period, and management does not expect any losses from non-performance by the counterparties aforementioned.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iv) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities that will be settled on a gross basis into relevant maturity Groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*
Group:				
As at 31 December 2007				
Bank borrowings	10,120	5,056	13,380	–
Trade and other payables	67,579	–	–	–
Total	77,699	5,056	13,380	–
As at 31 December 2006				
Bank borrowings	29,589	10,328	14,001	4,117
Trade and other payables	134,907	–	–	–
Total	164,496	10,328	14,001	4,117
Company:				
As at 31 December 2007				
Bank borrowings	10,120	5,056	13,380	–
Trade and other payables	61,533	–	–	–
Total	71,653	5,056	13,380	–
As at 31 December 2006				
Bank borrowings	29,589	10,328	14,001	4,117
Trade and other payables	128,953	–	–	–
Total	158,542	10,328	14,001	4,117

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, time deposits, trade receivables, other receivables and prepayments and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The carrying values less a reasonable impairment provision for financial assets and liabilities with a maturity of less than one year are approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3 Financial risk management (Continued)

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets.

During 2007, the Group's strategy was to maintain a gearing ratio below the average asset-liability ratio of the industry (2007: 50%). The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	RMB'000	*RMB'000*
Total liabilities	**145,092**	207,496
Total assets	**1,836,576**	1,870,351
Gearing ratio	**8%**	11%

4 Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is made based on management's experience in operating airport and the conditions of the property, plant and equipment. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Were the useful lives differ by 10% from management's estimates, the depreciation expense will increase by RMB3,906,000 or decrease by RMB3,196,000 in the future periods.

Management determines the residual values of its property, plant and equipment based on all relevant factors (including the use of the current scrap value in an active market as a reference value) at each measurement date.

4 Critical accounting estimates and judgment (Continued)

(b) Impairment of trade receivables

Whenever events or changes in circumstances indicate that the carrying amounts of trade receivables may not be recoverable, the Group will test whether trade receivables have suffered any impairment in accordance with the accounting policies stated in Note 2(h). In making its judgment, the Group considers information from a variety of sources including:

i) Recent prices of similar receivables in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

ii) Discounted cash flow projections based on reliable estimates of future cash flows and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on recent prices of receivables is not available, the fair value of receivable is determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

5 Revenue 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 operations of an airport and are subject to similar business risks, no segment income statement has been prepared by the Group for the year ended 31 December 2007. The Group also operates within one geographical segment because its revenues are primarily generated from and its assets are located in the PRC. Accordingly, no geographical segment information is presented.

Analysis of revenues by category	**2007** *RMB'000*	2006 *RMB'000*
Aeronautical:		
Passenger charges	**91,540**	89,005
Aircraft movement fees and related charges	**41,099**	41,044
Airport fee	**88,411**	80,564
Ground handling services income	**30,748**	20,143
	251,798	230,756
Non-aeronautical:		
Retailing	**8,057**	9,509
Franchise fee	**24,158**	27,769
Rental	**17,273**	17,942
Tourism	**–**	20,485
Freight	**9,665**	–
Advertising	**14,035**	12,008
Car parking	**4,939**	5,101
Others	**14,466**	10,805
	92,593	103,619
Total revenues	**344,391**	334,375

6 Land use rights

The interests of the Group and the Company in land use rights represent prepaid operating lease payments for land use rights. The movement of the land use rights is as follows:

	The Group and the Company
	RMB'000
As at 1 January 2006	
Cost	179,499
Accumulated amortisation	(12,678)
Net book amount	166,821
Year ended 31 December 2006	
Opening net book amount	166,821
Amortisation	(3,111)
Closing net book amount	163,710
As at 31 December 2006	
Cost	179,499
Accumulated amortisation	(15,789)
Net book amount	163,710
Year ended 31 December 2007	
Opening net book amount	163,710
Amortisation	(3,254)
Closing net book amount	160,456
As at 31 December 2007	
Cost	179,499
Accumulated amortisation	(19,043)
Net book amount	160,456

The net book value of land use rights are analysed as follows:

	The Group and the Company	
	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of over 50 years	**87,277**	88,671
Leases of between 10 to 50 years	**73,179**	75,039
	160,456	163,710

7 Property, plant and equipment

The Group:

	Buildings and improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	Total RMB'000
As at 1 January 2006						
Cost or valuation	638,624	79,347	44,162	22,459	337,394	1,121,986
Accumulated depreciation	(52,844)	(24,398)	(19,392)	(11,073)	–	(107,707)
Net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
Additions	276	391	3,889	849	113,321	118,726
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals	–	–	–	(16)	–	(16)
Depreciation	(22,959)	(10,773)	(5,323)	(4,102)	–	(43,157)
Closing net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
As at 1 January 2007						
Cost or valuation	993,640	144,080	48,051	49,262	5,550	1,240,583
Accumulated depreciation	(75,803)	(35,171)	(24,715)	(15,062)	–	(150,751)
Net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
Year ended 31 December 2007						
Opening net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
Additions	–	7	9,185	1,313	293	10,798
Disposals	–	–	(1,349)	(4)	–	(1,353)
Depreciation	(25,254)	(11,903)	(6,319)	(5,088)	–	(48,564)
Adjustments *(Note (a))*	(41,302)	13,535	–	6,299	–	(21,468)
Revaluation (deficit)/surplus	(25,502)	(420)	12,555	(6,078)	–	(19,445)
Closing net book amount	825,779	110,128	37,408	30,642	5,843	1,009,800
As at 31 December 2007						
Cost or valuation	832,310	112,807	39,821	36,595	5,843	1,027,376
Accumulated depreciation *(Note (b))*	(6,531)	(2,679)	(2,413)	(5,953)	–	(17,576)
Net book amount	825,779	110,128	37,408	30,642	5,843	1,009,800

If the property, plant and equipment of the Group were stated on the historical cost basis, the amounts of each class would be as follows:

	Buildings and improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	**31 December 2007 Total RMB'000**	31 December 2006 Total RMB'000
Cost	990,750	179,867	66,405	54,762	5,843	**1,297,627**	1,316,020
Accumulated depreciation	(172,817)	(71,219)	(42,292)	(24,624)	–	**(310,952)**	(262,161)
	817,933	108,648	24,113	30,138	5,843	**986,675**	1,053,859

Depreciation expenses of RMB46,989,000 (2006: RMB42,600,000) has been charged in cost of services and sales, RMB388,000 (2006: RMB421,000) in selling and distribution costs and RMB1,187,000 (2006: RMB136,000) in administrative expenses.

7 Property, plant and equipment (Continued)

The Group: (Continued)

Note (a)

As at 31 December 2006, certain property, plant and equipment belonging to the Terminal Expansion Phase II were stated at budgeted costs since final examination on completion of construction had not yet been completed. In 2007, the Company adjusted such property, plant and equipment to the final costs based on the information of final examination.

Note (b)

The accumulated depreciation at the date of revaluation was eliminated against the gross carrying amount of the assets and the net amount was restated to the revalued amount of the assets.

The Group's property, plant and equipment were last revalued on 30 September 2007 by independent valuers. Valuations were made on the basis of open market and depreciated replacement cost by Vigers Hong Kong Limited, a member of the Hong Kong Institute of Surveyors employed by the Group. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 13).

The analysis of the cost or valuation as at 31 December 2007 of the above assets is as follows:

	Buildings and improvements	**Machinery and equipment**	**Motor vehicles**	**Furniture, fixtures and other equipment**	**Assets under construction**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At cost	**–**	**7**	**5,044**	**5,845**	**5,843**	**16,739**
At valuation	**832,310**	**112,800**	**34,777**	**30,750**	**–**	**1,010,637**
	832,310	**112,807**	**39,821**	**36,595**	**5,843**	**1,027,376**

The analysis of the cost or valuation as at 31 December 2006 of the above assets is as follows:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost	432,640	66,360	11,307	39,939	5,550	555,796
At valuation	561,000	77,720	36,744	9,323	–	684,787
	993,640	144,080	48,051	49,262	5,550	1,240,583

7 Property, plant and equipment (Continued)

The Company:

	Buildings and improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	Total RMB'000
As at 1 January 2006						
Cost or valuation	638,624	79,347	43,647	17,040	337,394	1,116,052
Accumulated depreciation	(52,844)	(24,398)	(19,038)	(7,324)	–	(103,604)
Net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
Additions	276	391	3,889	705	113,321	118,582
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals	–	–	–	(16)	–	(16)
Depreciation	(22,959)	(10,773)	(5,302)	(3,646)	–	(42,680)
Closing net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
As at 1 January 2007						
Cost or valuation	993,640	144,080	47,536	43,699	5,550	1,234,505
Accumulated depreciation	(75,803)	(35,171)	(24,340)	(10,857)	–	(146,171)
Net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
Year ended 31 December 2007						
Opening net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
Additions	–	7	9,185	1,269	293	10,754
Disposals	–	–	(1,349)	(1)	–	(1,350)
Depreciation	(25,254)	(11,903)	(6,303)	(4,671)	–	(48,131)
Adjustments *(Note (a))*	(41,302)	13,535	–	6,299	–	(21,468)
Revaluation (deficit)/surplus	(25,502)	(420)	12,555	(6,078)	–	(19,445)
Closing net book amount	825,779	110,128	37,284	29,660	5,843	1,008,694
As at 31 December 2007						
Cost or valuation	832,310	112,807	39,308	31,027	5,843	1,021,295
Accumulated depreciation *(Note (b))*	(6,531)	(2,679)	(2,024)	(1,367)	–	(12,601)
Net book amount	825,779	110,128	37,284	29,660	5,843	1,008,694

7 Property, plant and equipment (Continued)

The Company: (Continued)

If the property, plant and equipment of the Company were stated on the historical cost basis, the amounts of each class would be as follows:

	Buildings and improvements	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	**31 December 2007 Total**	31 December 2006 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost	990,750	179,867	65,891	49,194	5,843	**1,291,545**	1,309,943
Accumulated depreciation	(172,817)	(71,219)	(41,902)	(20,037)	–	**(305,975)**	(257,581)
	817,933	108,648	23,989	29,157	5,843	**985,570**	1,052,362

Note (a)

As at 31 December 2006, certain property, plant and equipment belonging to the Terminal Expansion Phase II were stated at budgeted costs since final examination on completion of construction had not yet been completed. In 2007, the Company adjusted such property, plant and equipment to the final costs based on the information of final examination.

Note (b)

The accumulated depreciation at the date of revaluation was eliminated against the gross carrying amount of the assets and the net amount was restated to the revalued amount of the assets.

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

	The Group and the Company	
	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Cost	**39,125**	57,227
Accumulated depreciation	**(5,919)**	(4,751)
Net book amount	**33,206**	52,476

No interest expense was capitalised to assets under construction for the year ended 31 December 2007 (2006: RMB1,576,000).

8 Investments in and amounts due from/to subsidiaries

(a) Investments in subsidiaries

	The Company	
	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Unlisted shares, at cost	**18,094**	18,094

As at 31 December 2007, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability companies operating in the PRC:

Name	**Place of establishment and kind of legal entity**	**Principal activities and place of operations**	**Paid up capital** *RMB'000*	**Interest held** **Directly**	**Indirectly**
Hainan Meilan International Airport Advertising Co., Ltd.	PRC, limited liability company	Provision of advertising services in the PRC	1,000	95	4.75
Hainan Meilan International Airport Traveling Co., Ltd.	PRC, limited liability company	Provision of tourism services in the PRC	11,000	95	–
Hainan Meilan Duty Free Shop Limited	PRC, limited liability company	Retail sales in the PRC	1,000	95	–

(b) The amounts due from/to subsidiaries are unsecured, non-interest bearing and payable on demand. The carrying amounts approximate their fair value at the balance sheet date.

9 Financial assets by category and credit quality of the financial assets

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loans and receivables:				
Trade receivables *(Note (a))*	**123,320**	193,813	**118,583**	192,483
Other receivables and prepayments	**12,362**	11,322	**10,175**	10,375
Due from subsidiaries	**–**	–	**16,172**	10,874
Time deposits *(Note (b))*	**167,401**	85,918	**167,401**	85,918
Cash and cash equivalents *(Note (c))*	**363,188**	322,040	**350,088**	314,161
	666,271	613,093	**662,419**	613,811

(a) Trade receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Group 1	**–**	1,694	**–**	1,694
Group 2	**123,320**	192,119	**118,583**	190,789
	123,320	193,813	**118,583**	192,483

Group 1 – new customers (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Credit quality of trade receivables is disclosed in Note 10.

9 Financial assets by category and credit quality of the financial assets (Continued)

(b) Time deposits

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial institutions, unlisted*	**167,401**	65,918	**167,401**	65,918
Financial institutions, listed	**–**	20,000	**–**	20,000
	167,401	85,918	**167,401**	85,918

* *As at 31 December 2007, a time deposit of RMB100,000,000 is placed in HNA Group Finance Co., Ltd., a subsidiary of HNA Group (Note 29(c)).*

(c) Cash and cash equivalents

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial institutions, unlisted**	**173,986**	662	**173,986**	662
Financial institutions, listed	**189,202**	321,378	**176,102**	313,499
	363,188	322,040	**350,088**	314,161

** *As at 31 December 2007, a cash and cash equivalent of RMB170,105,000 is placed in HNA Group Finance Co., Ltd., a subsidiary of HNA Group (Note 29(c)).*

None of the financial assets that are fully performing has been renegotiated in the last year.

10 Trade receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from third parties *(Note (a))*	**35,453**	28,229	**32,301**	27,441
Less: provision for impairment of receivables	**(439)**	(2,425)	**–**	(2,186)
	35,014	25,804	**32,301**	25,255
Trade receivables from related parties *(Notes (b) and 29(c))*	**61,114**	87,445	**59,090**	86,664
Airport fee receivable *(Note (c))*	**27,192**	80,564	**27,192**	80,564
	123,320	193,813	**118,583**	192,483

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables. The Group does not hold any collateral as security.

(a) As at 31 December 2007, the ageing analysis of trade receivables from third parties is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**23,006**	21,934	**22,833**	21,427
91 – 180 days	**8,888**	3,643	**6,840**	3,627
181 – 365 days	**2,464**	301	**1,972**	171
Over 365 days	**1,095**	2,351	**656**	2,216
	35,453	28,229	**32,301**	27,441

The carrying amounts of trade receivables from third parties approximate their fair values.

The credit terms given to trade customers are determined on individual basis with the normal credit period ranging from 1 to 3 months.

10 Trade receivables (Continued)

(a) As at 31 December 2007, the ageing analysis of trade receivables from third parties is as follows: (Continued)

As at 31 December 2007, trade receivables of RMB439,000 (2006: RMB2,425,000) are impaired. The amount of the provision is RMB439,000 as at 31 December 2007 (2006: RMB2,425,000). The individually impaired receivables mainly relate to certain doubtful debtors. The ageing of these receivables is as follows:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
181 – 365 days	**–**	104	**–**	–
Over 365 days	**439**	2,321	**–**	2,186
	439	2,425	**–**	2,186

As at 31 December 2007, trade receivables of RMB12,008,000 (2006: RMB3,870,000) are past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
91 – 180 days	**8,888**	3,643	**6,840**	3,627
181 – 365 days	**2,464**	197	**1,972**	171
Over 365 days	**656**	30	**656**	30
	12,008	3,870	**9,468**	3,828

Movements on the provision for impairment of trade receivables are as follows:

	The Group	**The Company**
	RMB'000	*RMB'000*
Balance as at 1 January 2006	2,248	2,186
Provision for receivable impairment	177	–
Balance as at 31 December 2006	2,425	2,186
Balance as at 1 January 2007	2,425	2,186
Receivable written-off during the year as uncollectible	(1,986)	(2,186)
Balance as at 31 December 2007	439	–

The creation of provision for impaired receivables has been included in administrative expenses in the income statement *(Note 18)*.

The other classes within trade receivables do not contain impaired assets.

10 Trade receivables (Continued)

(b) As at 31 December 2007, the ageing analysis of trade receivables from related parties is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**50,109**	46,176	**50,090**	45,436
91 – 180 days	**4,923**	17,972	**4,669**	17,972
181 – 365 days	**4,024**	12,993	**2,287**	12,959
Over 365 days	**2,058**	10,304	**2,044**	10,297
	61,114	87,445	**59,090**	86,664

The carrying amounts of trade receivables from related parties approximate their fair values.

The credit terms given to related parties are determined on an individual basis with the normal credit period ranging from 1 to 3 months.

As at 31 December 2007, trade receivables from related parties of RMB11,005,000 (2006: RMB41,269,000) are past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007	2006
	RMB'000	*RMB'000*
91 – 180 days	**4,923**	17,972
181 – 365 days	**4,024**	12,993
Over 365 days	**2,058**	10,304
	11,005	41,269

(c) As at 31 December 2007, the original amount, fair value and ageing analysis of the airport fee receivable are as follows:

	The Group and the Company			
	2007		2006	
	Original amount	**Fair value**	Original amount	Fair value
	RMB'000	**RMB'000**	RMB'000	RMB'000
0 – 90 days	**27,192**	**27,192**	22,281	22,036
91 – 180 days	**–**	**–**	15,995	15,819
181 – 365 days	**–**	**–**	43,185	42,709
	27,192	**27,192**	81,461	80,564

The fair values as at 31 December 2006 are based on cash flow, discounted using an effective deposit rate of 2.25% per annum.

10 Trade receivables (Continued)

(d) The carrying amounts of the Group's and the Company's trade receivables are dominated in the following currencies:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**117,069**	191,945	**112,332**	190,615
USD	**6,251**	1,868	**6,251**	1,868
	123,320	193,813	**118,583**	192,483

11 Time deposits and cash and cash equivalents

(a) Time deposits

As at 31 December 2007, the Group and the Company had deposits that denominated in RMB, placed with certain banks and financial institutions, a related party (Note 29(c)) in the PRC. These deposits earned interest at rate ranging from 3.06% to 3.78% per annum and will be matured on 8 June 2008 and 30 June 2008, respectively.

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**79**	353	**54**	337
Cash in bank				
– RMB	**191,820**	321,206	**178,895**	313,695
– Other currencies	**1,289**	481	**1,139**	129
Short-term deposits with a related party *(Note 29(c))*				
– RMB	**170,000**	–	**170,000**	–
Total cash and cash equivalents	**363,188**	322,040	**350,088**	314,161
Maximum exposure to credit risk	**363,109**	321,687	**350,034**	313,824

12 Share capital

	2007	2006
	RMB'000	*RMB'000*
Share capital registered, issued and fully paid		
246,300,000 Domestic shares of RMB 1 each	**246,300**	246,300
226,913,000 H shares of RMB 1 each	**226,913**	226,913
	473,213	473,213
Share premium arising from group reorganisation in 2000	**69,390**	69,390
Share premium arising from new issuance net of issuing expenses	**557,647**	557,647
	627,037	627,037
	1,100,250	1,100,250

13 Other reserves

		The Group	
	Revaluation surplus	**Statutory Reserves** *(Note)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2006	36,481	100,742	137,223
Transfer from retained earnings	–	12,305	12,305
Balance at 31 December 2006	36,481	113,047	149,528
Balance at 1 January 2007	36,481	113,047	149,528
Revaluation – gross *(Note 7)*	(19,445)	–	(19,445)
Revaluation – tax *(Note 15)*	4,374	–	4,374
Effect of change in tax rate *(Note 15)*	(2,544)	–	(2,544)
Effect of change in tax holiday *(Note 15)*	(814)	–	(814)
Depreciation transfer	(511)	–	(511)
Transfer from retained earnings	–	12,795	12,795
Balance at 31 December 2007	17,541	125,842	143,383

13 Other reserves (Continued)

	Revaluation surplus	The Company Statutory Reserves *(Note)*	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2006	36,481	100,147	136,628
Transfer from retained earnings	–	12,275	12,275
Balance at 31 December 2006	36,481	112,422	148,903
Balance at 1 January 2007	36,481	112,422	148,903
Revaluation – gross *(Note 7)*	(19,445)	–	(19,445)
Revaluation – tax *(Note 15)*	4,374	–	4,374
Effect of change in tax rate *(Note 15)*	(2,544)	–	(2,544)
Effect of change in tax holiday *(Note 15)*	(814)	–	(814)
Depreciation transfer	(511)	–	(511)
Transfer from retained earnings	–	12,795	12,795
Balance at 31 December 2007	17,541	125,217	142,758

Note:

Pursuant to revised "Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by Ministry of Finance ("MOF") (Cai Qi Han [2006] No.67), 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 financial statements) for the statutory reserves. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend.

14 Borrowings – Secured

As at 31 December 2007, bank borrowings of RMB25,000,000 (2006: RMB53,000,000) used for financing the construction of airport terminal, the related premises and facilities are secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear interest at commercial rate of 7.20% per annum (2006: 6.39%), the interest will be determined yearly with reference to the market interest rates. These bank borrowings mature until 2012 (2006: 2012).

As at 31 December 2007, the bank borrowings are repayable as follows:

	The Group and the Company	
	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Within 1 year	**9,000**	28,000
Between 1 and 2 years	**4,000**	9,000
Between 3 and 5 years	**12,000**	12,000
Over 5 years	**–**	4,000
	25,000	53,000
Less: current portion of borrowings included in current liabilities	**(9,000)**	(28,000)
	16,000	25,000

The effective interest rate as at 31 December 2007 is 7.33% (2006: 6.39%).

The carrying amounts of the borrowings approximate their fair values.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	The Group and the Company	
	2007	2006
	RMB'000	*RMB'000*
One year or less	**25,000**	53,000

15 Deferred income tax liabilities

Deferred income tax liabilities arose as a result of differences in amortisation/depreciation between tax bases and accounting bases. This constitutes temporary differences, being the differences between the carrying amounts of assets in the consolidated balance sheet and its tax bases in accordance with IAS 12:

	The Group and the Company	
	2007	2006
	RMB'000	*RMB'000*
Land use rights	**6,655**	6,373
Property, plant and equipment	**4,538**	4,648
	11,193	11,021
Deferred income tax liabilities to be settled:		
– after more than 12 months	**11,193**	10,780
– within 12 months	**–**	241
	11,193	11,021

The movement on the deferred income tax liabilities is as follows:

	The Group and the Company		
	Land use rights	**Property, plant and equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2006	6,454	4,808	11,262
Credited to the income statement	(81)	(160)	(241)
As at 31 December 2006	6,373	4,648	11,021
Tax on revaluation deficit *(Note 7)*	–	(4,374)	(4,374)
Effect of change in tax rate *(Note 21)*	906	2,544	3,450
Effect of change in tax holiday *(Note 21)*	282	814	1,096
As at 31 December 2007	7,561	3,632	11,193

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 RMB781,000 (2006: RMB501,000) in respect of the tax losses of the Group's subsidiaries of approximately RMB3,125,000 as at 31 December 2007 (2006: RMB3,454,000). Tax losses amounting to RMB727,000, RMB744,000, RMB767,000, RMB402,000 and RMB485,000, will expire in 2008, 2009, 2010, 2011 and 2012 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 being recognised.

16 Deferred income

	The Group and the Company *RMB'000*
Balance as at 1 January 2006	–
Addition	9,237
Amortisation *(Note 18)*	(778)
Balance as at 31 December 2006	8,459
Addition	3,233
Reversal as change in tax holiday *(Note)*	(11,692)
Balance as at 31 December 2007	–

Note:

Pursuant to an approval document issued by Hainan Province State Tax Bureau on 27 December 2006, the Company was granted a corporate income tax (hereinafter "CIT") credit on certain qualified domestically manufactured equipment purchased in 2004 and 2005, the tax credit recognised in 2006 and 2007 represented the increment of CIT as compared with preceding years.

Pursuant to an approval document issued in February 2008, the Company was exempted from CIT for 5 years from 2004 to 2008 (Note 21). Accordingly, CIT credit recognised in 2006 and 2007 was reversed in 2007 given there was no incremental CIT in 2004 and 2005.

17 Trade and other payables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**3,376**	5,146	**2,537**	2,770
Other payables	**53,939**	108,544	**48,882**	105,116
Deposits received	**882**	1,391	**882**	1,391
Due to related parties *(Note 29(c))*	**9,382**	19,826	**9,232**	19,676
	67,579	134,907	**61,533**	128,953

17 Trade and other payables (Continued)

As at 31 December 2007, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**9,391**	16,868	**8,977**	14,736
91 – 180 days	**502**	2,803	**501**	2,785
181 – 365 days	**1,751**	3,352	**1,722**	2,976
Over 365 days	**860**	1,243	**569**	1,243
	12,504	24,266	**11,769**	21,740

18 Expenses by nature

Expenses/(income) included in cost of services and sales of goods, selling and distribution costs and administrative expenses are analysed as follows:

	2007	2006
	RMB'000	*RMB'000*
Cost of goods and services	**34,741**	44,933
Business tax and levies	**10,758**	12,285
Refund of business tax and levies *(Note)*	**(11,756)**	–
Depreciation of property, plant and equipment *(Note 7)*	**48,564**	43,157
Amortisation of land use rights *(Note 6)*	**3,254**	3,111
Employee benefit expense *(Note 19)*	**43,421**	35,761
Other taxes	**6,105**	5,975
Auditor remuneration	**2,420**	2,333
Traveling expenses	**4,838**	4,576
Consulting fees	**–**	9,030
Operating lease rentals – building	**–**	255
Amortisation of deferred income *(Note 16)*	**–**	(778)
Loss on disposal of property, plant and equipment	**534**	16
Impairment charge of trade receivables *(Note 10)*	**–**	177
Utilities and power	**16,529**	17,172
Repair and maintenance	**5,525**	5,347

Note:

Pursuant to an approval document issued by Haikou Local Tax Bureau Meilan Branch on 21 December 2007, as the airport fee revenue is not subject to business tax, the Company was entitled to a refund of business tax and levies levied on airport fee for the period from January 2002 to March 2007, amounting to RMB11,756,000.

19 Employee benefit expense

	2007	2006
	RMB'000	*RMB'000*
Wages and salaries	**32,569**	25,537
Pension costs – statutory pension *(Note 25)*	**4,196**	4,003
Staff welfare	**1,699**	1,888
Housing fund *(Note 26)*	**1,678**	1,963
Medical benefits	**1,180**	1,063
Other allowances and benefits	**2,099**	1,307
	43,421	35,761

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2007 is set out below:

	Date of appointment/ resignation	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director						
Zhang Cong	Appointed in January 2006	70	75	40	12	197
Wang Zhen	Resigned in February 2007	7	–	–	–	7
Dong Zhanbin	Appointed in February 2007	63	73	40	12	188
Dong Guiguo	Appointed in May 2006	70	64	35	12	181
Gunnar Moller	Resigned in June 2007	30	66	35	–	131
Bai Yan	Appointed in October 2007	15	10	5	2	32
Zhang Han'an	Re-appointed in June 2007	50	–	–	–	50
Kjeld Binger	Resigned in March 2007	12	–	–	–	12
Chan Nap Kee, Joseph	Appointed in October 2007	11	–	–	–	11
Yan Xiang	Appointed in October 2007	11	–	–	–	11
Xu Bailing	Re-appointed in August 2007	100	–	–	–	100
Fung Ching, Simon	Re-appointed in October 2007	100	–	–	–	100
Xie Zhuang	Re-appointed in June 2007	100	–	–	–	100
George F. Meng	Appointed in October 2007	21	–	–	–	21
Name of Supervisor						
Chen Kewen	Appointed in January 2006	20	–	–	–	20
Zhang Shusheng	Re-appointed in June 2007	20	–	–	–	20
Zeng Xuemei	Appointed in July 2005	20	–	–	–	20

19 Employee benefit expense (Continued)

(a) Directors' and Supervisors' emoluments (Continued)

The remuneration of every Director and Supervisor for the year ended 31 December 2006 is set out below:

	Date of appointment/ resignation	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director						
Zhang Cong	Appointed in January 2006	65	61	56	14	196
Wang Zhen	Appointed in May 2003	70	73	64	15	222
Huang Qiu	Resigned in May 2006	28	47	17	7	99
Dong Guiguo	Appointed in May 2006	42	32	38	9	121
Gunnar Moller	Appointed in December 2005	70	123	106	–	299
Chen Wenli	Resigned in January 2006	5	–	–	–	5
Zhang Han'an	Appointed in January 2004	50	–	–	–	50
Kjeld Binger	Appointed in February 2003	50	–	–	–	50
Xu Bailing	Appointed in June 2004	80	–	–	–	80
Fung Ching, Simon	Appointed in October 2004	80	–	–	–	80
Xie Zhuang	Appointed in January 2004	80	–	–	–	80
Name of Supervisor						
Chen Kewen	Appointed in January 2006	19	–	–	–	19
Zhang Cong	Resigned in January 2006	1	–	–	–	1
Zhang Shusheng	Appointed in January 2004	20	–	–	–	20
Zeng Xuemei	Appointed in July 2005	20	37	26	15	98

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

(b) Five highest paid individuals

The five individuals whose emoluments are the highest in the Group for the year include four (2006: four) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2006: one) individual during the year as follows:

	2007	2006
	RMB'000	*RMB'000*
Basic salaries and allowances	**77**	74
Bonuses	**43**	63
Retirement scheme contributions	**12**	15
	132	152

During the year ended 31 December 2007, no emolument was paid to the 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.

During the year ended 31 December 2007, the five highest-paid employees fell within the band from nil to RMB1 million.

20 Finance income – net

	2007	2006
	RMB'000	*RMB'000*
Finance income – bank interest	**5,656**	4,111
Finance income – others	**898**	–
Finance income	**6,554**	4,111
Interest on bank borrowings	**(2,969)**	(5,449)
Less: interest capitalised *(Note 7)*	**–**	1,576
Finance cost	**(2,969)**	(3,873)
Finance income – net	**3,585**	238

There was no interest capitalised for the year ended 31 December 2007. The capitalisation rate of borrowings was 6.39% for the year ended 31 December 2006.

21 Income tax expense

Hong Kong profits tax has not been provided for as the Group had no estimated assessable profits arising in Hong Kong during the year (2006: Nil). Taxation in the income statement represents provision for the PRC enterprise income tax.

	2007	2006
	RMB'000	*RMB'000*
Current income tax		
– outside Hong Kong	**39,120**	10,339
Deferred income tax *(Note 15)*	**1,188**	(241)
Income tax expense	**40,308**	10,098

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**179,060**	133,076
Tax calculated at a domestic rate applicable to profits in the Hainan Province	**26,859**	19,961
Effect of tax holiday	**(26,932)**	(10,001)
Effect of change in tax rate *(Note (a))*	**906**	–
Effect of change in tax holiday *(Note (b))*	**39,402**	–
Tax losses for which no deferred income tax asset was recognised	**73**	57
Expenses not deductible for tax purposes	**–**	81
Tax charge	**40,308**	10,098

21 Income tax expense (Continued)

Note (a)

The weighted average applicable tax rate is 15% (2006: 15%). Effective from 1 January 2008, the Company shall determine and pay the CIT in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the New CIT Law") as approved by the National People's Congress on 16 March 2007. Under the New CIT Law, the corporate income tax rate applicable to the Company will be gradually increased to 25% in a 5-year period from 2008 to 2012.

Note (b)

Pursuant to the approval document (Qiong Shan Guo Shui Han [2002] No.11) issued by Hainan Qiongshan State Tax Bureau in 2002, the Company was entitled to the exemption of CIT from 2000 to 2004, and 50% deduction of CIT from 2005 to 2009 (the "Original CIT Holiday").

Pursuant to the approval document (Hai Guo Shui Han [2008] No.13) issued by Haikou State Tax Bureau on 2 February 2008, the CIT holiday of the Company was revised. Under the revised CIT holiday (the "Revised CIT Holiday"), the Company was entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013. In view of changes in tax holiday, the Company was required to pay the exempted CIT for the years from 2001 to 2003 and was entitled to a refund of CIT for the years from 2005 to 2006.

22 Profit attributable to shareholders of the Company

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB138,748,000 (2006: RMB123,382,000).

23 Earnings per share

– Basic

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

	2007	2006
Profit attributable to shareholders of the Company *(RMB'000)*	**138,777**	122,976
Weighted average number of ordinary shares in issue *(thousands)*	**473,213**	473,213
Basic earnings per share *(RMB per share)*	**29 cents**	26 cents

– Diluted

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary share outstanding during the years ended 31 December 2007 and 2006.

24 Dividends

	2007 RMB'000	2006 RMB'000
Interim, paid, of HKD20 cents (2006: no dividend proposed) per share *(Note (a))*	**91,694**	–
Proposed final dividend of HKD8 cents (2006: no dividend proposed) per share *(Note (b))*	**35,449**	–
	127,143	–

Note (a)

At an Extraordinary General Meeting held on 15 October 2007, an interim dividend was declared of HKD20 cents per share, totalling HKD94,642,600 (equivalent to RMB91,694,000).

Note (b)

At a meeting held on 31 March 2008, the directors of the Company recommended a final dividend of HKD8 cents per share for the year ended 31 December 2007, totalling approximately HKD37,857,000 (equivalent to RMB35,449,000). This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

25 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 2007 and 2006.

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

26 Housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 12% (2006: 15%) of the specified salary amount of its full-time Chinese employees. 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 2007, the Group's contribution to the housing fund is approximately RMB1,678,000(2006: RMB1,963,000).

As at 31 December 2007 and 31 December 2006, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

27 Cash generated from operations

	2007	2006
	RMB'000	RMB'000
Profit before income tax	**179,060**	133,076
Adjustments for:		
– Interest income	**(6,554)**	(4,111)
– Interest expense	**2,969**	3,873
– Depreciation and amortisation	**51,818**	46,268
– Loss on disposal of property, plant and equipment	**534**	16
Change in working capital:		
– Receivables and prepayments	**69,453**	5,231
– Trade and other payables	**(16,818)**	5,386
– Inventories	**3,667**	(966)
Cash generated from operations	**284,129**	188,773

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

	2007	2006
	RMB'000	RMB'000
Net book amount *(Note 7)*	**1,353**	16
Loss on disposal of property, plant and equipment	**(534)**	(16)
Proceeds from disposal of property, plant and equipment	**819**	–

28 Commitments

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Buildings and improvements		
Contracted but not provided for	**825**	21,708
Authorised but not contracted for	**–**	566
	825	22,274

28 Commitments (Continued)

(b) Operating lease commitments – where the Group and the Company are the lessor

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**17,224**	27,258	**17,224**	16,658
Later than 1 year and not later than 5 years	**38,172**	34,029	**38,172**	30,527
Over 5 years	**282**	1,452	**282**	1,452
	55,678	62,739	**55,678**	48,637

29 Material related party transactions

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

Copenhagen Airport A/S ("CPHA") disposed all its shareholding (20%) in the Company to Oriental Patron, an independent third party, on 5 June 2007.

(a) The following is a summary of material transactions 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	*Note*	The Group 2007	2006
				RMB'000	*RMB'000*
Revenues:					
Hainan Airlines	Shareholder	Income for provision of customary airport ground services	*(i)*	**65,801**	59,762
		Rental income for leasing of offices and commercial space	*(ii)*	**8,235**	8,137
		Income from franchise fee for operations of cargo centre	*(iii)*	**1,000**	6,000
China Southern Airlines Co., Ltd. ("Southern Airlines ")	Promoter	Income for provision of customary airport ground services	*(i)*	**40,377**	36,895
		Rental income for leasing of offices and commercial space	*(ii)*	**7,030**	6,725

29 Material related party transactions (Continued)

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

Name of related party	Relationship with the Company	Nature of transactions	*Note*	The Group 2007 *RMB'000*	2006 *RMB'000*
Revenues:					
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of Southern Airlines	Income for provision of customary airport ground services	*(i)*	**2,642**	2,264
Hainan Airlines Food Company Limited ("Hainan Food")	Subsidiary of Hainan Airlines	Franchise income from catering services	*(iv)*	**2,294**	1,986
Luckyway Traveling Company Limited ("Luckyway")	Subsidiary of Hainan Airlines	Franchise income from tourism and traveling services at Meilan Airport	*(v)*	**3,813**	583
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Jointly controlled by HNA Group	Franchise income	*(x)*	**1,555**	–
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	*(vi)*	**15,814**	15,227
		Rental expense paid for the leasing of offices and commercial space	*(vii)*	**–**	255
HNA Group	Shareholder	Logistic composite services charged by HNA Group	*(viii)*	**10,928**	10,186
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Subsidiary of HNA Group	Information system maintenance service	*(ix)*	**2,120**	1,993

29 Material related party transactions (Continued)

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

Name of related party	Relationship with the Company	Nature of transactions	*Note*	The Group **2007** ***RMB'000***	2006 *RMB'000*
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	*(xi)*	**45,353**	44,312

(i) 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 General Administration of Civil Aviation of China (the "CAAC").

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

(iii) In accordance with an agreement between the Company and Hainan Airlines dated 26 August 2005, Hainan Airlines would pay a monthly franchise fee of RMB500,000 to the Company for operating cargo centre with retrospective effect on 1 January 2005. The aforementioned agreement was approved by the Extraordinary General Meeting on 4 November 2005.

In accordance with the aforementioned agreement, Hainan Airlines transferred the fixed assets for operating the cargo center to the Company on 1 March 2007. Hainan Airlines ceased to pay franchise fee to the Company after 1 March 2007.

(iv) In accordance with an agreement between the Company and Hainan Food dated 8 October 2007, Hainan Food is granted a right to provide on-board catering services to airlines. The franchise fee is calculated at a fixed price with reference to the number of passengers receiving the relevant services.

(v) Pursuant to a franchise agreement with a term from 1 October 2006 to 31 December 2008 between the Company and Luckyway dated 22 September 2006, the Company granted Luckyway of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is RMB3.5 million. Besides, 50% of the profits earned by Luckyway from its franchise operations at Meilan airport are charged by the Company.

29 Material related party transactions (Continued)

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

(vi) According to a renewed airport composite services agreement with a term of three years approved by the Extraordinary General Meeting on 12 November 2007 with retrospective effect from 1 January 2007, 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, energy supply and equipment maintenance;

(e) Passenger and luggage security inspection; and

(f) Other services required by the Company.

The charges relating to the services in items (a)-(d) are determined in accordance with the cost for the Parent Company in providing such services plus a 5% mark-up as management fee, except for item (d), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to item (e) is determined in accordance with the rate prescribed by CAAC. (f) shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus markup fee basis.

(vii) 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 retrospective effect from 1 January 2002. The contract expired in 2007.

(viii) Pursuant to a logistic composite service agreement dated 8 October 2007, HNA Group has 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; (e) commodities and appliance procurement; and (f) other services required by the Company with effect from 1 January 2008.

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.

(ix) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 17 May 2006, HNAAIS agreed to provide maintenance services for the information system of the Company with effect from 1 January 2006. The monthly service fee varies from month to month depending on the type of services rendered by HNAAIS.

29 Material related party transactions (Continued)

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

(x) Pursuant to a franchise agreement with a term from 22 June 2007 to 21 June 2010 between the Company and HNA China Duty Free dated 22 June 2007, the Company granted HNA China Duty Free the franchise to engage in retail sales of duty free goods in Meilan Airport. The total fee for each month is calculated based on the number of outbound international and regional passenger.

(xi) As directed by a circular (Zong Ju Cai Han [2002] No.77) issued by CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company whereby both parties agreed to 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 Company 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 Company has accounted for its share of 75% of the aeronautical fees in its consolidated income statement as revenue.

(b) Key management compensation

	2007	2006
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**734**	770
Bonuses	**278**	451
Retirement scheme contributions	**81**	90
	1,093	1,311

29 Material related party transactions (Continued)

(c) As at 31 December 2007, balances with related parties comprised:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties:				
Hainan Airlines	**34,503**	62,723	**32,928**	62,048
Hainan Food	**2,592**	3,435	**2,592**	3,435
Luckyway	**562**	583	**547**	583
HNA China Duty Free	**1,568**	–	**1,555**	–
Others	**21,889**	20,704	**21,468**	20,598
	61,114	87,445	**59,090**	86,664
Other receivables from related parties:				
SPIA	**103**	56	**103**	56
Luckyway	**1,402**	–	**7**	–
Others	**67**	–	**67**	–
	1,572	56	**177**	56
Time deposits with related party:				
HNA Group Finance*	**100,000**	–	**100,000**	–
Short-term deposits with related party:				
HNA Group Finance*	**170,000**	–	**170,000**	–
Current deposits with related party:				
HNA Group Finance*	**105**	–	**105**	–
	332,791	87,501	**329,372**	86,720
Payables to related parties:				
Parent Company	**7,771**	12,998	**7,621**	12,848
CPHI	**–**	6,345	**–**	6,345
Others	**1,611**	483	**1,611**	483
	9,382	19,826	**9,232**	19,676

* *In accordance with an agreement with a term from 8 October 2007 to 7 October 2010 between the Company and HNA Group Finance dated 8 October 2007, HNA Group Finance shall provide financial services to the Group, including deposit services, settlement services, loans and finance leasing services, etc. as approved by China Banking Regulatory Commission. Such services provided by HNA Group Finance to the Group are on normal commercial terms similar or even more favourble than those offered by independent third parties for the provision of comparable services in the PRC.*

Trade receivables from related parties are unsecured, interest-free and with a credit period of 1 to 3 months. Other balances due from/to related parties are unsecured, interest-free and without fixed terms of repayment, unless otherwise stated in above notes.