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

Annual Report 09

Contents

Corporate Mission

To be a successful regional airport management company in China, and offer 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 Hainan Meilan International Airport, Haikou, Hainan Province, the 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, franchising of airport related business, advertising, car parking, tourism services and sales of duty-free and consumable goods.

The Company's notable corporate achievements in 2009 are as follows:

- Awarded with "National Modern Unit" by the Cultural Commission of the central government;

- 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;

- Awarded with "The National Passenger Satisfaction Enterprise" by China Association for Quality and National User Committee;

- Awarded with "Top 10 Energy Saving and Emission Reduction Enterprise in Hainan Province" by China Association for Energy Saving and Department of Land and Resource of Hainan Province;

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
Zhao Yahui, Chairman
Liang Jun
Xing Xihong

NON-EXECUTIVE DIRECTORS
Hu Wentai, Vice Chairman
Zhang Han'an
Chan Nap Kee, Joseph
Yan Xiang

INDEPENDENT NON-EXECUTIVE DIRECTORS
Xu Bailing
Xie Zhuang
Fung Ching, Simon
George F. Meng

SUPERVISORS
Dong Guiguo, Chairman
Zhang Shusheng
Zeng Xuemei

COMPANY SECRETARY
Xing Zhoujin

AUTHORISED REPRESENTATIVES
Zhao Yahui
Xing Zhoujin

AUDIT COMMITTEE
Xu Bailing, Chairman
Xie Zhuang
Fung Ching, Simon

REMUNERATION COMMITTEE
Xie Zhuang, Chairman
Fung Ching, Simon
Xing Xihong

NOMINATION COMMITTEE
Xu Bailing, Chairman
Xie Zhuang
Liang Jun

STRATEGIC COMMITTEE
Fung Ching, Simon, Chairman
Xu Bailing
Xie Zhuang
Liang Jun
Hu Wentai

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H SHARE REGISTRAR AND TRANSFER OFFICE
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STOCK CODE
00357

Financial Highlights

Two-Year Comparison of Key Financial Figures

For the year ended 31 December
(RMB'000)

	2009	2008	Change (%)
Turnover	**400,721**	391,072	2.47%
Gross Profit	**242,239**	242,116	0.05%
Net profit attributable to shareholders	**180,563**	186,434	-3.15%
Earnings per share – basic (RMB)	**0.38**	0.39	-2.56%
Net operating cash flows	**149,165**	231,296	-35.51%
Current ratio (times)	**8.77**	7.16	22.49%
Gearing ratio	**6.16%**	6.72%	-8.33%
EBITDA	**247,805**	239,708	3.38%

Five-Year Summary of Financial Performance

For the year ended 31 December
(RMB'000)

	2009	2008	2007	2006	2005
Turnover	**400,721**	391,072	344,391	334,375	334,844
EBITDA	**247,805**	239,708	233,872	183,215	198,750
Financial income – net	**11,311**	15,557	3,585	238	4,494

Five-Year Summary of Financial Position

For the year ended 31 December

	2009	2008	2007	2006	2005
Total assets (RMB'000)	**2,091,506**	1,977,061	1,836,576	1,870,351	1,717,267
Total liabilities (RMB'000)	**128,783**	132,799	145,092	207,496	177,390
Equity (RMB'000)	**1,962,723**	1,844,262	1,691,484	1,662,855	1,539,877

Chairman's Statement

To all shareholders,

2009 not only marked the 60th anniversary of the founding of the People's Republic of China, but was also a truly extraordinary year in China's way to development. During the year, through the implementation of a series of appropriate measures, the country has overcome the international financial crisis and the great pressure brought about by the global economic downturn to achieve a stable and relatively rapid growth. The PRC government formulated and announced a development plan for 10 economic regions and restoration programs for 11 industries, with substantial amount being injected to the economy with a view to improve people's lives. This year, the PRC government has also announced its carbon emission reduction target, showing its determination and willingness to take up the moral responsibility to the global environment as one of the largest countries in the world. In a bid to prevent the outbreak of the H1N1 influenza epidemic in China, the government has taken several controlling measures, which have efficiently avoided the disease from further spreading. The amazing 60th anniversary military parade that attracted the eyesight of the whole world has exhibited to all peoples our achievements in building a modern national defense and army, not only enhancing the country's confidence and its position in the world arena, more importantly, it showed to the world our unshakable will to uphold world peace.

During the year under review, the Group made special efforts in exploring and marketing in aviation market in line with the strategy of "focusing on aviation market". In face of such a complicated and changing market environment, the Group has been adhering to its strategies of "thorough rationalization in responding to challenges and full capitalization of opportunities to achieve ever-winning results". In addition, the Group has taken moves to strengthen the optimization of its management structure, including cost saving, capitalizing market opportunities actively, exploring both the passenger and cargo transportation markets, speeding up of the reform of management system and toning up in cost control. All these resulted in good financial revenue achieved last year. Despite the international financial crisis and the diverging effect from the Sanya Phoenix International Airport, the Group still managed to attain three of its major operating indicators kept growing steadily, with both the Group's core competitiveness and capability to withstand market risks further improved, laying a firm base for the sustainable and healthy development of the Group. The Group also laid great stress on production safety, and continued to achieve its 11th year of safe operation in the Group's history. We were also honored with a number of major awards, including the award of "Outstanding Enterprise of the National Safety and Health Cup Competition" jointly granted by the State Administration of Work Safety and All China Federation of Trade Unions, as well as the "National Modern Unit" award by the Cultural Commission of the central government, based on which we steadily built our reputable corporate image.

RESULTS

In 2009, the Group's total revenue amounted to RMB400,721,000, representing an increase of 2.47% over the previous year. Income from aeronautical business amounted to RMB301,807,000, representing an increase of 3.10% over the previous year. Income from non-aeronautical business amounted to RMB98,914,000, representing an increase of 0.59% over the previous year. Net profit attributable to shareholders amounted to RMB180,563,000, representing a decrease of 3.15% over the previous year.

Aeronautical Business Overview

In the first half of 2009, in view of the changes of the market trend, the Group has formulated different marketing proposals to cope with market demand and the capacity and network planning of different airlines. This has benefited our Group by exploring new market opportunities and helped to ease the pressure in volume of passengers brought by the financial crisis, and the effect was quite satisfying. In the second half of 2009, the H1N1 flu epidemic spread through the country, beating the Group's transportation business to some extent. The Group thus implemented a series of multi-channel market exploring measures in the aviation market, with a view to minimize those negative effects to our business. Despite this, as for the aeronautical business, the Group still achieved good performance, seen from the year-on-year growth achieved in all of our operating indicators. The annual total aircraft movements reached 69,128, representing an increase of 4.09% over the previous year. Passenger throughput reached 8.391 million, representing an increase of 2.06% over the previous year. Cargo throughput reached 137,819.6 tons, representing an increase of 4.70% over the previous year.

Chairman's Statement

OUTLOOK

In 2010, as the effect of the financial crisis is fading out, it is hoped that the economic environment in Europe, Japan and the U.S. will start to turnaround, and the country's economy will see continuous upward movement leveraging on its retrieval which started in 2009. As the full effect of the RMB1.18 trillion stimulating plan being seen in 2010, it is expected that domestic demand in the PRC will continue to grow. We expect the operating environment in the industry will have improvements and the production level in the aviation market will start to revive under such marco-economic measures taken by the central government in China's aviation market. In the meantime, as the proposal of establishing Hainan as an "International Tourism Island" has been approved by the Chinese government, we believe this program will foster a new round of construction boom in Hainan, and this will benefit the region's aviation industry by bringing in new opportunities. However, in view of the financial crisis and the uncertainties to global economic development, the upward moving and volatile oil price trend, and the uncertain development prospect of the H1N1 flu epidemic, the Group is facing both challenges and opportunities ahead in 2010. Riding on the preferential measures under the central government's plan of building Hainan as an international tourism island, the Group firmly sticks to its focus in efficiency, its market-oriented policy, its direction of reform and actively pursues for the government supports on policies and funding. We will also insist on a comprehensive and multi-channel market development strategy and strengthen the structural reform of our management, so as to build a management model in line with our scientific development and to enhance our ability to encounter market risks. Besides, the Group will speed up the pace of our corporate expansion by exploring merger and acquisition or other restructuring opportunities. All these are aiming to achieve the healthy and rapid development of Meilan Airport and to pursue satisfactory results for our shareholders.

Chairman's Statement

STRENGTHENING MARKET DEVELOPMENT TO CAPTURE THE "INTERNATIONAL TOURISM ISLAND" OPPORTUNITY

In 2009, the Group's effort in exploring the aviation market has seen rewarding results, and the three main operating indicators continue to move upward. In the year of 2010, the Group has taken moves to strengthen the coordination with local government to fully capitalize on the encouraging policies under the "International Tourism Island" program. Such moves include enhancing attractiveness of the aviation market in Haikou and actively introducing airlines to build their bases there, with an aim to expand the capacity and open new routes in the Haikou market. On the other hand, we will continue to seek for effective cooperation for charter flights, and will ally with travel agencies and airlines to offer charter flight service. As the "International Tourism Island" program has been upgraded to a national strategy, we will ride on this opportunity by putting more efforts in exploring new international flight routes and introducing more foreign airlines to open up new routes that make transfer flight in Haikou to other cities all over the countries, in a bid to build Meilan Airport as the southern gateway of China. As part of the Group's expansion plan, on 25 March 2010, the Company has entered into agreements to acquire 54.5% equity interests in HNA Airport Holding (Group) Co., Ltd., which are still subject to approval of the coming General Meeting.

SEEKING FOR PREFERENTIAL TREATMENTS AND COST SAVING

In 2009, one of our focuses was to study the national preferential policies' criteria and strive to be benefited from the supporting policies and funding from the government, so as to create a good external environment for our corporate development. We have fully implemented budget optimization in both our management and operation, and resulted in remarkable achievements. In 2010, the Company will further enforce its budget control to reduce costs, and enhance

its incentive system and integrate resources to increase its profitability. Furthermore, while making proper arrangement for the refund of the airport construction fees, the Company will capture the opportunity, where the government is advocating for cooperation between banks and enterprises in order to boost domestic demand and promote economic growth, to apply for various preferential treatments to create a favorable external environment for the development of the Company.

OUR MISSION

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

Xing Xihong | Fung Ching, Simon | Xie Zhuang | Hu Wentai | Zhang Han'an | Zhao Yahui | Xu Bailing | George F. Meng | Liang Jun | Chan Nap Kee, Joseph | Yan Xiang

ACCELERATING MANAGEMENT TRANSFORMATION AND ENHANCING MANAGEMENT STRUCTURE OPTIMIZATION

In 2009, following the outsourcing of airport advertising business, as well as cabin and terminal building cleaning business, the Group has successfully outsourced car parking business and planned to set up an independent joint venture cargo company, so as to further optimize our business process and organization structure. In 2010, the Group will, in addition to speeding up outsourcing of various non-aeronautical businesses, accelerate the transformation of its management model and explore the feasibility of outsourcing its aeronautical business, foster reformation of our operation model, endeavor to bring breakthrough to the airport management ecology in the region, so as to enhance our core competitive strengths and establish a management mechanism that will promote our development and ensure sustainable profitability. At the same time, we will focus on our employees' training, enhance appraisal and disposition of employees who are not competent for their jobs, and take measures to streamline our workforce and reduce labor cost, with an aim to optimize our business process and employees' quality structure and improve our efficiency in human resource management.

PROVIDING INNOVATIVE SERVICES WITH AN ON-GOING EFFORT TO IMPROVE SERVICE QUALITY

In 2009, the Group, together with Sanya Phoenix International Airport, jointly introduced various services with special characteristics like the "Free Traveling in Hainan (海島任我行)" program. The effect of this program was satisfactory and won public recognition. In 2009, we received several awards for our management, safety and quality of service. Besides, in a bid to participate in the World's Best Airport Service Award or Best Improvement Award organized by the Airports Council International (ACI) and to apply for admission to the Airport Service Quality (ASQ) program, we have been actively reforming our operating systems. For the year of 2010, we will continue to build our service system, participate in the appraisal of the World Best Airport campaign, introduce advanced service models and experience at home and abroad, accelerate the replacement and reformation of service hardware, strengthen our service awareness, improve servicing skills and service quality, so as to establish an integrated mechanism for promoting airport service quality.

ACKNOWLEDGEMENT

On behalf of our Board of Directors and the management of the Group, 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.

Zhao Yahui
Chairman

Hainan Province, the PRC
25 March 2010

Management Discussion and Analysis

BUSINESS REVIEW

Civil Aviation Industry in the PRC

During the year of 2009, while the international aviation industry was battered by the financial crisis, the Chinese aviation industry has seen prosperous development. According to the information released by the International Air Transport Association, demand for air transportation service in the international market recorded the most serious setback and operators in the industry were loss making in general. As opposed to its foreign counterparts, the aviation industry in China recorded a profit of RMB12.2 billion in total, representing an increase of RMB38.2 billion from loss making condition in 2008.

As a transportation enterprise, rapid retrieval of the economy has fuelled market demand and laid a good foundation for the aviation industry to revive. In response to the international financial crisis, Civil Aviation Administration of China (CAAC) promulgated a series of measures aiming to maintain continuous growth of the industry, among which most were directly and indirectly benefiting the country's airlines. Moreover, with the capital injection by the PRC government to rescue the state-owned airlines, all of Air China, China Southern and China Eastern have seen increase in their profitability. Leveraging on the low base figures recorded in 2008, the responding measures implemented by the government and the industry players, roll-out of cross-strait direct flights in 2009, as well as the pegging mechanism between fuel surcharge of internal routes and domestic fuel price, China's aviation industry was the world's first market to walk out from the shadow and achieved rapid growth.

Looking into 2010, development prospect of China's aviation industry is expected to be promising: the PRC government will put great efforts in developing air transportation and general aviation; CAAC will promulgate incentive policies that in line with the country's outward economic model, accelerate the building of the international grand passageway, enhance the capacity of international routes, and introduce and encourage the opening up of more remote long-haul flight routes. Still, as an extension of the development trend of 2009, in addition to the H1N1 flu epidemic, there are some other uncertainties in the market as follows, casting shadow on the development of the air transportation industry in 2010:

Firstly, the international oil price trend. As the world's economy restores, the international oil price returned to an upward trend in mid-2009. If oil price continues to surge and break USD 100 again, it will strike the international aviation industry seriously.

Secondly, appreciation of Renminbi. Although appreciation in Renminbi will be favorable to airlines which major liabilities are denominated in US dollar, it exerts great pressure on development of the air transportation industry. In the future, appreciation in Renminbi will bring high level of pressure to the development of export and import trade of China, together with those trade protection measures implemented by some countries to promote their own economic development, it will likely to affect China's external trade position very seriously, and thus the development of international flight market. Indeed, international flight is the weakest link of China's airlines, and they will face great pressure if demand drops.

Thirdly, concerns about inflation. With the implementation of the government's 4 trillion economic stimulating plan in 2009 to "pull domestic demand", market becomes more concern about inflation. Under the expectation of inflation, the government restated that it will continue the policies in 2009, but there are some signs of moderate contraction. Some specialists forecast that, in 2010, the People's Bank of China will increase its deposit rate. This will be harmful to airlines with high debt level.

Fourthly, effect of the high-speed railway. Construction of the "Four Vertical and Four Horizontal" Passenger Line will speed up in 2010. Major transits will be located in Beijing, Shanghai, Shenyang, Zhengzhou, Wuhan, Changsha, Chongqing and Guangzhou, all of which are tier-one cities in China with developed economies, and are the main markets for air transportation. In China, due to relatively low level of disposal income of the residents, people tend to be more price-oriented and less sensitive to traveling time in choosing mode of transportation. Some airlines have introduced the "Air Express" product in anticipation of the challenges brought by the high-speed railway, which has helped to increase their volume of passengers in short term, however from the view of profit, it is not considered as a sustainable business because of cost control. In the future, whether they should exit from or reform this business model will in no doubt have enormous effect to the development progress of the domestic airlines.

Despite all these, the series of macro-economic reforming policies and the new trend of international cooperation have provided the domestic aviation industry with the opportunities of rapid development in 2010. On 1 December 2009, the State Council announced the "Opinion on Speeding up the Development of the Tourism", expressly stating the reforms and liberating measures to boost the tourism industry, which includes optimizing the spending environment of tourism industry, diversification of tourism products, and increasing government spending in the industry. On 31 December 2009, the State Council further promulgated "Certain Opinions on Promoting the Establishment of Hainan as an International Tourism Island", with an aim to strategically position Hainan Province as the pilot region for innovative reforms of the country's tourism industry, a world first-class resort and vacation destination, a national model of ecological and cultural industry development, an important platform for international economic cooperation and cultural exchange, the South China Sea resources development and service base and a national tropical modern agricultural base, and have stated several development targets. Such policies will have significant impact on the economic development of China. With all these reforms, it is expected that focus of the PRC air transportation market will be shifted to the ASEAN countries and the coastal region in South China in 2010.

Establishment of the International Tourism Island in Hainan

On 31 December 2009, the "Certain Opinions on Promoting the Establishment of Hainan as an International Tourism Island" were duly approved, marking the policy of developing Hainan to an international tourism island as a state strategy. In face of such a good chance, Hainan will ride on its unique geographical position as an island and its advantage in resources to deepen liberation of its tourism industry and promote internationalization of its tourism services, in an attempt to build a vacation destination of high competitiveness in the international market.

According to the "Plan of Constructing an International Tourism Island in Hainan" promulgated by the Hainan provincial government, upon approval of the plan, new developments in Hainan's tourism industry in respect of visa-free entry, aviation rights and internationalization of tourism services will come out soon, which may include the following.

1. Implementation of the Visa-free Visit Policy

For the policy of "15 days visa-free visit for foreign tourists over five people applicable to 21 countries", it is pursuing to expand the applicable area to 26 countries and the limit of "foreign tourists over five people" to "foreign tourists over two people". It is also in the course of considering several new markets in northern Europe and central Asia with great market potential for extending its policy of visa-free visit to Hainan. Other policies under consideration include extending the 15 days visa-free visit period to 30 days; for domestic tourists, the relevant authority is pursuing to be competent for handling their departures and arrivals from and to ASEAN countries.

2. *Full Implementation of the Policy of Liberation of Aviation Rights*

Such moves include full implementation of the third and the fourth aviation rights, acceleration of the process of exploring sources of tourist; opening up of international routes in potential markets; consolidation and addition of new routes and new flights to Japan, Korea and Russia; striving for the opening up of new routes to the U.S. and northern Europe; finalization of the fifth aviation right; leveraging on the policy of "gateway in the south and window in the north" to develop Hainan into a regional tourism hub in the Southeast Asia market.

3. *More Efforts in Developing International Tourism Market*

Such moves include more efforts to be put into promotion of tourism; enhance the cooperation between the media agencies of the central government with the media in Europe, the U.S., Hong Kong, Macau and Taiwan, capitalizing on the advantage of the tourism channels for planning, packaging and promotion of the overall image of Hainan's tourism; strategically participate in major international tourism exhibitions, make more use of innovative promotion methods to carry out high quality, distinguishing and focusing tourism promotions, so as to upgrade the packaging and promotion of a new Hainan-characterized tourism; consolidate the markets in Hong Kong, Macau and Taiwan, further expand the markets in Japan, Korea, Southeast Asia and Russia, and explore long-haul markets in Europe, Australia and North America; open up new international and regional routes. We aim to increase to 60 international and regional routes and 50 airlines in 5 years; and to complete the construction of the Bo'ao Airport during the Eleventh Five Year Plan.

4. *Introduction of Renowned Foreign Travel Agencies*

Such moves include introduction of 20 renowned foreign travel agencies with sources of customers and routes from major markets like Russia, Korea and Japan, with a view to accelerate our integration with international tourism markets; encourage renowned foreign travel agencies to set up new travel agencies jointly or independently, so as to attract more foreign customers.

5. *Establishment of Investment and Financing Systems Tailored for the Development of an International Tourism Island*

This includes establishment of development fund for Hainan's tourism to support important projects and network of infrastructure; integration and optimization of resources to foster and promote the listing of tourism resources; exploration of the feasibility of the issue of special tourism zone bonds and integration of existing lottery resources, so as to set up new financing channels for the tourism industry; utilization of existing servicing network of the financial institutions to establish foreign exchange service points and permit small amount of free foreign exchange in the market.

In line with the international practice, we invite large-scale domestic and foreign duty-free operators to establish tourism duty-free chain stores; and speed up the progress of the opening of duty-free shops in the city in addition to the duty-free shops located at the airport.

The ultimate goal of the construction of the Hainan International Tourism Island is to build Hainan into "an environmental-friendly, civilized and harmonious island with beautiful scenery, unique cultures, modern and liberalized society". This will be achieved in two phrases in the next ten years: it is expected that by 2015, the level of marketalization and internationalization of management, marketing, service and product development in the tourism industry will be enhanced significantly; in addition, it is expected by 2020, tourism service facilities, operation management and level of service will be fully in compliance with the international tourism industry standards, building a world-class resort and vacation island in Hainan.

According to the plan, Hainan Island will endeavor to promote golf industry in the northern area, add cruise routes for "South China Sea Tour" and "Hainan Tour" international passenger liners in the southern area, construct China's sunny seashore in the eastern area, launch the construction project of a national park in the central area, and carry out industrial tourism consistent with international standards in the western area. The Province will deepen the development of marine tourism programs to create water sports centers, speed up the construction of yacht docks and construct a world-class yacht base in China. The Province will also introduce world-renowned large-scale recreational projects to enrich its tourism culture, expedite the development of healthy and leisure tourism by constructing a group of large-scale, high-ranked and unique traditional Chinese medicinal health care and rehabilitation centers, and further develop tourism products like international business tourism as well as convention and exhibition tourism. In the end, Hainan will be constructed into "One Island", namely the world-class resort island, with "Two Ports", referring to the world-class mother port for international cruise lines and another port as a world-class yachts hub, and will become "Three Centers", that is the world-renowned first-class convention and exhibition center, recreational center and rehabilitation center in Asia.

East Ring Railway

The Hainan East Ring Railway will link Haikou city at the north end of the province, through Wanchang, Qionghai (Bo'ao), Wanning and Lingshui Li Autonomous County, to Sanya in the south. The construction has started in September 2007 and the main construction works and over half of its ancillary works were completed in general and it is scheduled to put into operation in the fourth quarter of 2010. Upon completion, it will take only 90 minutes by rail to travel from Haikou to Sanya, more than half of the time saved. By then, travelers not only can experience the new idea of "one-day Hainan trip" with the East Ring Railway, they can also view the great natural and cultural sceneries along the Donghai sealine.

Aerospace City and Tourism in Wenchang

Approximately 80 km from Haikou city, Wenchang is a city abundant in tourism resources which gives it unique potential to develop tourism. However, due to certain reasons, the development of its tourism industry is relatively lagged behind. As the construction of the state's focal project Aerospace City commences, Wenchang, with its local ecological, resources and geographical advantages supported by Haikou and led by the Aerospace City project, tourism infrastructure there will continue to improve, leading to a new round of construction tourism development and construction fever. This will help to optimize the regional landscape of Hainan's tourism and offset the existing lack of tourism resources in the northern part of Hainan. More and more business travelers are now going to Wenchang and many travel agencies are designing tourist routes in Wenchang, which are good examples.

Construction and development of Hainan into an international tourism island, together with the building of the East Ring Railway and promotion of tourism in Wenchang led by the Aerospace City project, will inevitably improve imbalance of tourism resources in Hainan, thus providing enormous opportunities for the development of the Meilan Airport.

Aeronautical Business Overview

In 2009, in response to the changing domestic and overseas market environment, the Group actively formulated marketing solutions for various markets, and seized market development opportunities by adopting differential promotion means, such as encouraging airlines to open direct routes to Haikou, successfully introducing Jetstar Asia Airways to open regular routes between Singapore and Haikou, and soliciting more domestic airlines to open new routes or increase the number of flights. In respect of international aviation routes, affected by the global epidemic of the H1N1 influenza, the tourist charter flights booked by Russian, South Korean and Japanese airlines decreased significantly throughout the year. Nonetheless, the Group had adjusted its strategy and introduced Jetstar Asia Airways to launch a route between Singapore and Haikou, which has partly offset the drop in the international passenger throughput resulting from the decrease of charter flights booked by Russian, South Korean and Japanese airlines.

Aviation traffic throughput for 2009 and comparison figures for the previous year are set out below:

	2009	2008	Change (%)
Aircraft movement	**69,128**	66,411	4.09
In which: Domestic	**66,386**	63,206	5.03
Hong Kong/Macau/Taiwan	**1,452**	1,697	-14.44
International	**1,290**	1,508	-14.46
Passenger throughput (Headcount in ten thousand)	**839.1**	822.2	2.06
In which: Domestic	**808.3**	787.2	2.68
Hong Kong/Macau/Taiwan	**15.6**	16.1	-3.11
International	**15.2**	18.9	-19.58
Cargo throughput (Tons)	**137,819.6**	131,637.9	4.70
In which: Domestic	**134,069.8**	126,948.9	5.61
Hong Kong/Macau/Taiwan	**1,867.5**	2,043	-8.59
International	**1,882.3**	2,646	-28.86

The Group's revenue from aeronautical business for 2009 was RMB301,807,000, representing an increase of 3.10% over last year. Details of which are as follows:

	Amount (RMB'000)	Change over last year (%)
Passenger charges	122,707	5.64
Aircraft movement fees and related charges	43,347	0.93
Airport fees	98,025	1.51
Ground handling service fees	37,728	1.78
Total revenue from aeronautical business	301,807	3.10

So far as the directors of the Company are aware, the airport fee levy shall cease after 31 December 2010. For the year ended 31 December 2009, the Company received 48% of the collected airport fee of the Hainan Meilan International Airport according to the notice of the related government authorities. The Company will pay due attention to any adjustment of policies related to the airport fee and will update the shareholders by announcement promptly for any changes on the latest development.

Non-Aeronautical Business Overview

In 2009, the Group leveraged on its geographical advantage as an aviation transportation hub to mitigate the impact of the economic crisis. 2009 saw the increase in non-aeronautical business thanks to the Group's great efforts in enhancing the market development advocacy for new projects, exploring new revenue drivers and expanding its freight and VIP service business. In 2009, the non-aeronautical business recorded a revenue of RMB98,914,000, representing an increase of 0.59% in comparison with that of the previous year.

	Amount (RMB'000)	Change over last year (%)
Franchise fee	44,795	0.74
Rental	15,112	-1.46
Freight	13,811	6.20
Car parking	5,562	-6.68
VIP room charge	10,254	6.31
Others	9,380	-5.41
Total revenue from non-aeronautical businesses	98,914	0.59

Franchise Fee

For the year ended 31 December 2009, the Group recorded franchise fees of RMB44,795,000, a slight increase compare to the previous year.

Freight

In 2009, the Group enhanced its management structure in a timely manner to establish the cargo business as its core non-aeronautical business, and made full efforts to facilitate expansion of the business. For the year ended 31 December 2009, income from cargo business was RMB13,811,000, representing an increase of 6.20% over last year, maintaining a high growth rate.

VIP room charge

In 2009, the Group achieved encouraging results by enhancing the development of VIP room service business and exploring new revenue drivers. The VIP room charge achieved steady rise. For the year ended 31 December 2009, income from VIP room service was RMB10,254,000, representing an increase of 6.31% over last year.

FINANCIAL REVIEW

Asset Analysis

As at 31 December 2009, total assets of the Group amounted to RMB2,091,506,000, representing an increase of 5.79% over the previous year, in which RMB947,665,000 current assets and RMB1,143,841,000, non-current asset. The increase in asset was mainly due to the increase of trade receivable, cash and cash equivalents.

Cost Analysis

In 2009, total costs of service and sales of the Group were RMB158,482,000, representing an increase of RMB9,526,000 (or 6.40%) in comparison with that of last year, which is mainly due to the increase in development cost of the aviation market. Administrative expenses were RMB62,377,000, representing a decrease of RMB10,554,000 (or 14.47%) over last year, which is mainly due to the decrease in the provision for impairment of trade receivables.

Cash Flow

For the year ended 31 December 2009, the Group's net cash inflow from operating activities was RMB149,165,000, representing a decrease of 35.51% over last year. This was mainly due to the payment of RMB55,077,000 income tax. During the year, the Group's net cash outflow from financing activities was RMB66,495,000, which mainly represented the payment of 2008 final dividends.

Pledge of the Group's Assets

As at 31 December 2009, the Group had no pledge on assets.

Gearing Ratio

As at 31 December 2009, total current assets of the Group were approximately RMB947,665,000, total assets were approximately RMB2,091,506,000, total current liabilities were approximately RMB108,117,000 and total liabilities were approximately RMB128,783,000. The gearing ratio (total liabilities/total assets) of the Group was 6.16%, representing a decrease of 0.56% over last year. The main reason was the repayment of bank borrowings, which reduced total liabilities, and increase in total assets.

Foreign Exchange Exposure

The fluctuation in the RMB exchange rate may have an impact on foreign exchange gains/ losses on translation of US dollar-denominated cash and cash equivalents and trade receivables. The Group's businesses are principally denominated in RMB, except that limited aeronautical revenues are denominated in US dollars. Dividends to H shareholders are declared in RMB and paid in Hong Kong dollars. Given the fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operation, the Group has not entered into any forward rate contract to hedge its exposure of foreign exchange risk.

Financial Instruments

As at 31 December 2009, financial instruments of the Group mainly comprised bank borrowings, 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 receivables excluding prepayment and payables excluding statutory liabilities.

Contingent Liabilities

As at 31 December 2009, neither the Group nor the Company had any significant contingent liabilities.

Purchase, Sale or Redemption of Shares

As at 31 December 2009, neither the Group nor the Company had purchased, sold or redeemed any of the Shares.

Management Discussion and Analysis

Employment, Training and Development

As at 31 December 2009, the Group had a total of 594 employees, representing a decrease of 82 employees over last year. The decrease was mainly attributable to the outsourcing of our related operations and optimization of our management structure. Total staff costs accounted for approximately 16% of total turnover (total income), representing an increase of 3% over last year. The main reason for the increase of staff costs was the increase of staff benefits. 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 upgrade the staff's quality. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages 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 the rate of 20% of the salary of its employees with permanent residence in the PRC. For the year ended 31 December 2009, the contribution for the pension amounted to approximately RMB3,564,000 (2008: RMB4,516,000).

Events after the Reporting Period

At the Board meeting held on 25 March 2010, it was resolved by the Board of Directors that the Company will acquire a total of 54.5% equity interests in HNA Airport Holding (Group) Co, Ltd. (the "Target"). The Company has entered into agreements with two vendors respectively to acquire 30% and 24.5% equity interests in the Target on 25 March 2010. The transaction under these agreements constitutes a very substantial acquisition and a connected transaction, and is still subject to approval of the coming General Meeting.

Other Information

In 2009, 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 Report

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited, 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 on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code on Corporate Governance") which came into effect in January 2005. During the year ended 31 December 2009, the Company had complied with the Code on 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 SUPERVISORS AND SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by the directors, supervisors and senior management 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 (the "Directors"), supervisors and senior management of the Company, all of the Directors, supervisors and senior management have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during any time of the accounting period covered by this report.

BOARD OF DIRECTORS

Composition of the Board

As at 31 December 2009, the Board of the Company comprised eleven directors:

Chairman	
Mr. Zhao Yahui	(duly appointed on 16 December 2008)
Vice Chairman and Non-executive Directors	
Mr. Hu Wentai	(duly appointed on 16 December 2008)
Executive Directors	
Mr. Liang Jun	(duly appointed on 25 May 2009)
Ms. Xing Xihong	(duly appointed on 12 October 2009)
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 Directors is independent from the Company.

There is no relationship among the Directors that is discloseable.

BOARD MEETINGS

1. The Board had held 7 meetings during the year ended 31 December 2009.

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

	3rd term, 13th meeting	3rd term, 14th meeting	3rd term, 15th meeting	3rd term, 16th meeting	3rd term, 17th meeting	3rd term, 18th meeting	3rd term, 19th meeting
Zhao Yahui	√	√	√	√	√	√	√
Liang Jun	–	–	√	√	√	√	√
Xing Xihong	–	–	–	√	√	√	√
Hu Wentai	√	√	√	√	–	√	√
Zhang Han'an	√	√	√	√	–	√	√
Chan Nap Kee Joseph	√	√	√	√	√	√	√
Yan Xiang	√	√	√	√	√	√	√
Xu Bailing	√	√	√	√	√	√	√
Xie Zhuang	√	√	√	√	√	√	√
Fung Ching, Simon	√	√	√	√	√	√	√
George F. Meng	√	√	√	√	√	√	√

Note: On 25 May 2009, Mr. Dong Zhanbin resigned as a director of the Company, which became effective on the same day, and Mr. Liang Jun was appointed as a director of the Company. On 12 October 2009, Mr. Bai Yan resigned as a director of the Company, which became effective on the same day, and Ms. Xing Xihong was appointed as an executive director of the Company. On 25 August 2009, the Group held the 15th Board meeting of the 3rd term, on which Director Liang Jun was present for the first time. On 30 October 2009, the Group held the 16th Board meeting of the 3rd term, on which Director Xing Xihong was present for the first time.

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 shareholders;

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 setup of the Company's internal management structure;

9. to appoint or dismiss the Company's general manager and to appoint or dismiss the vice general managers and other senior officers of the Company (including financial officers) pursuant to the general manager's nominations and determine 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 nomination committee, strategic committee, remuneration committee and audit committee. Each of these committees has established its own written terms of reference and operates effectively on this basis.

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 general 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. Zhao Yahui and Mr. Liang Jun 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 2009, the Company had four Non-executive Directors, namely Mr. Hu Wentai, 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. Hu Wentai's current term of appointment is from 16 December 2008 to 15 December 2011;

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 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.

Formation of remuneration committee: Mr. Xie Zhuang, an Independent Non-executive Director, is the chairman. The other member of the remuneration committee is Mr. Fung Ching, Simon, an Independent Non-executive Director, and Ms. Xing Xihong, an Executive Director.

For the year ended 31 December 2009, the Company held one meeting of the remuneration committee on 25 March 2009. During that meeting, director's remuneration for 2008 and directors' remuneration policy for 2009 had been determined.

Remuneration policy for 2009: 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 the 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 the previous financial year as audited by international auditors would be allocated and paid-out to Directors, Supervisors and members of senior management.

As at 31 December 2009, the Company held the 4th remuneration committee meeting of the 3rd term on 14 May 2009 and considered and passed the reforms on the remuneration and benefit systems of the Company.

The remuneration and benefit systems of the Company after adjustment are comprised of wages and salaries, statutory benefits, remuneration benefits and other benefits and child benefits have been added. The position subsidies were adjusted and used to offset the "differences in wages and salaries".

The original M and B wage orders were cancelled and the A wages order was established and applicable to all cadre staff under the department general manager. The cadre management level was separated from the wages and salaries level and the original M order was retained as a standard for unified management of the cadre. The reforms on wages and salaries will combine the current individual salaries level with the position situation and carry out adjustment of the relevant salaries level in the positions in accordance with the salaries value of the reform.

NOMINATION OF DIRECTORS

A nomination committee has been set up by the Company, which is a sub-committee under the Board. 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 study the selection criteria and procedures of directors, supervisors, chief executive officer and other senior management staff in accordance with the laws and regulations, and to make recommendations to the Board of Directors in this regard;

(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.

Formation of nomination committee: Mr. Xu Bailing, an Independent Non-executive Director, is the chairman. The other members of the nomination committee are Mr. Xie Zhuang, an Independent Non-executive Director, and Mr. Liang Jun, an Executive Director.

For the year ended 31 December 2009, the Company held the 2nd nomination committee meeting of the 3rd term on 25 March 2009. During that meeting, Mr. Liang Jun was recommended to be the executive director and general manager, Mr. Hu Wentai was recommended to be the member of the strategic committee of the Company and Mr. Dong Guiguo was recommended to be the supervisor of the Company.

On 25 March 2009, Mr. Dong Zhanbin applied for resignation from his position as executive director of the Company, and Mr. Chen Kewen applied for resignation from his position as supervisor of the Company. The Company held one meeting of the nomination committee, Mr. Liang Jun was recommended to be executive director of the Company, and Mr. Dong Guiguo was recommended to be supervisor of the Company. The appointments were approved by the 2008 annual general meeting of the Company held on 25 May 2009 and are duly effective.

For the year ended 31 December 2009, the Company held the 3rd nomination committee meeting of the 3rd term on 25 March 2009. During that meeting, Ms. Xing Xihong was recommended to be executive director of the Company, Mr. Xing Zhoujin was recommended to be secretary of the board of the Company and Mr. Liang Jun was recommended to be the members of the nomination committee and strategic committee.

On 25 March 2009, Mr. Bai Yan applied for resignation from his position as executive director and secretary of the board of the Company. The Company held one meeting of the nomination committee, Ms. Xing Xihong was recommended to be executive director of the Company, and Mr. Xing Zhoujin was recommended to be secretary of the board of the Company. The appointments were approved by the 1st extraordinary general meeting of the Company held on 12 October 2009 and the 15th board meeting of the 3rd term held on 25 March 2009 respectively and are duly effective.

REMUNERATION OF AUDITORS

The remuneration of auditors for the year ended 31 December 2009 was RMB2,030,000.

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. Fung Ching, Simon with Mr. Xu Bailing as the chairman.

For the year ended 31 December 2009, the audit committee had held three meetings; all of the three committee members had attended these meetings.

The audit committee had reviewed the 2008 annual report, auditor's report, the report on re-appointment of the accounting firm and determination of their remuneration in the first meeting of 2009.

The audit committee had reviewed the 2009 interim report in the second meeting of 2009.

The audit committee had reviewed the resolution that the Company will seek opportunities for the public offering of Renminbi ordinary shares (A shares) within the PRC and listing after the signing of the agreement on the related proposed acquisition ("Proposed Public Offering of A Shares").

The audit committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company in 2010.

INTERNAL CONTROLS

The Board has overall responsibility for the Group's internal control systems and through the Audit Committee, conducts review on the effectiveness of these systems. During the year 2009, the Board of the Company had conducted a review of the Group's internal control systems, covering the financial, operational, procedural compliance and risk management functions. The process used in reviewing the effectiveness of these internal control systems includes discussion with management on risk areas identified by management. No material deficiencies had been identified so far by the Board of the Company.

Corporate Governance Report

In 2009, the Group has further enhanced the relevant systems. The Company's governance was improved considerably, with its internal control work further enhanced.

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 2009, the Board did not receive any request from shareholders to convene a special general meeting.

INVESTORS' RELATIONS

1) 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 2009 annual report;

2) As at 31 December 2009, 226,913,000 H shares of the Company were held by the public;

3) The Company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors and maintained active communications with investors and fund managers and securities analyst and media. 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
Zhao Yahui
Chairman

Hainan Province, the PRC
25 March 2010

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhao Yahui, aged 61, joined the Company in September 2008 and was appointed as the executive director and chairman of the Company in December 2008. Currently, Mr. Zhao also holds the position of chairman of Sanya Phoenix International Airport Company Limited. Mr. Zhao graduated from Air Force No. 2 Aviation University in September 1969, majoring in aviation. Since he joined HNA Group in December 1992, Mr. Zhao had worked successively as the standing deputy general manager of department of aviation affairs and the general manager of flight department of Hainan Airlines Company Limited, the standing deputy general manager of Shanxi Airlines Company Limited, the deputy general manager of Yangtze River Express Delivery Aviation Company Limited, the general manager of safety supervisory department of HNA Group, the chairman of Sanya Phoenix International Airport Company Limited and the standing executive vice president of HNA Airport Group Company Limited etc., with extensive experience in the area of airport operational management.

Mr. Liang Jun, aged 47, was appointed as the executive director of the Company in May 2009. From October 1991 to January 1999, Mr. Liang served as the general manager of Hainan Airlines Co., Ltd Sanya Branch, Ningbo Base and acted as its chief representative in Shanghai. He was appointed as the chairman of HNA Hotel Management Group in February 1999, executive vice president of HNA Group Co., Ltd in March 2001. From August 2003 to March 2006, he served as the chief executive officer, vice president and president of HNA Hotel Holdings Ltd. Mr. Liang became the president and general manager of HNA International Hotel Ltd in April 2006, and also the president and chief executive officer of HNA Food Holdings Ltd, general manager of Hainan Airlines Food Company Limited, and became the vice president of HNA Hotels & Resorts Ltd and HNA Hotel Holdings Ltd in March 2007. Mr. Liang joined the Company in March 2009 and appointed as the general manager of the Company. He has extensive experience in corporate management.

Ms. Xing Xihong, aged 41, was appointed as the chief financial officer of the Company in October 2008 and was appointed as the executive director of the Company in October 2009. During the term of office in Hainan Airport Co., Ltd., Ms. Xing Xihong held the positions of accountant in Finance and Accounting Department and vice general manager of Finance and Securities Department. In October 1997, she became the deputy director of Integrated Finance Division under Finance and Accounting Department of Haikou Meilan International Airport Company Limited. From March 1999 to February 2004, Ms. Xing successively held the positions of project director and vice general manager in Finance and Accounting Department of Haikou Meilan International Airport Company Limited. In February 2004, she joined the Company, serving as the assistant to chief financial officer, executive deputy general manager and general manager.

Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Hu Wentai, aged 54, was appointed as a Non-executive Director and Vice Chairman of the Company in December 2008. Mr. Hu joined HNA Group in June 2000, working as the general manager of Hainan Henghe Property Management Company Limited, the executive vice president of Haikou Meilan Airport Company Limited. Since Mr. Hu joined the Company in 2002, he has held a number of senior positions in the Company, including the chief operating officer and vice president of the Company. In February 2006, he was also the chairman of Haikou New City Area Construction Development Company Limited and the deputy general manager of Beijing HNA Realty Group Company Limited. Mr. Hu Wentai has extensive experience in the area of airport management and project construction.

Mr. Zhang Han'an, aged 64, 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 the general manager for our parent company. He joined the Company in December 2000 as the 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 49, was appointed as a Non-executive Director of the Company in October 2007. Mr. Chan received his master's degree from the University of Strathclyde 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 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under Hong Kong Securities and Futures Ordinance. Mr. Chan was the deputy general 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 a founding partner of Oriental Patron Financial Group. Mr. Chan has more than twenty years of experience in commercial and investment banking, and asset management. Mr. Chan was appointed as an executive Director of Kaisun Energy Group Limited (Stock Code: 8203, a company listed in the GEM board of the Stock Exchange) in September 2008 and is the Chairman of that group.

Mr. Yan Xiang, aged 46, 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. 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. He had been a director of Zhongfu Industrial Co., Ltd. Mr. Yan is the Chairman of the China Region of the Oriental Patron Financial Group and the President of the Oriental Patron Resources Investment 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 Assessment Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bailing, aged 77, was appointed as an Independent Non-executive Director of the Company in June 2001, re-appointed as an Independent Nonexecutive Directors of the Company in June 2004 and 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. Xu had worked for the Civil Aviation Beijing Administrative Bureau since 1954, holding various positions such as pilot, supervisor and captain and was appointed Deputy Head and Head of Department. Mr. Xu was then appointed as the vice director of CAAC in December 1986 and then as the president of Air China in March 1988. He was appointed as a consultant of CAAC in August 1993.

Mr. Xie Zhuang, aged 56, was re-appointed as an Independent Non-executive Director of the Company in June 2007. Mr. Xie graduated from the Department of Law, Southwest University of Political Science & 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 of the Department of Law, Peking University majoring in Economic Law and attained a master's degree in law. After graduation, he became the vice presiding judge of the High 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 presiding judge and vice president 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 an Independent Non-executive Director of the Company in January 2004.

Mr. Fung Ching, Simon, aged 41, was 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-4" 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 a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia.

Mr. George F. Meng, aged 66, was appointed as an Independent Non-Executive Director of the Company in October 2007. Mr. Meng graduated from Civil Aviation University of China 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 CAAC Chengdu Administration, Dean of the Technical English Department of Civil Aviation University of China, 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.

Directors, Supervisors and Senior Management

SUPERVISORS

Mr. Dong Guiguo, aged 47, has been a supervisor of the Company in 25 September 2009. Mr. Dong graduated from Civil Aviation University of China majoring in aircraft engine. 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 standing deputy manager 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. Mr. Dong was appointed as a Director of the Company in March 2006 and become the Financial Officer of the Company in December 2006. He was appointed as the Chief Financial Director of the Company in April 2007. In December 2008, he was resigned and quitted the Company. Currently, Mr. Dong is the vice president and Chief Financial Director of HNA Airport Group Company Limited. He has extensive work experience in civil aviation and finance.

Mr. Zhang Shusheng, aged 73, is a senior reporter. He was re-appointed as an Independent Supervisor of the Company in June 2007. He is a graduate of the Department 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 40, was re-appointed as a Supervisor of the Company in May 2008. 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 International 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. Liu Jiyao, aged 59, joined the Company in August 2008 and was appointed as deputy general manager of the Company in October 2008. Mr. Liu Jiyao has held a number of important positions in CAAC Gansu Administration. From May 2004 to August 2006, Mr. Liu worked in Gansu Airport Group Co., Ltd., in turn, as secretary of Party Committee and Discipline Inspection Commission, executive president and vice chairman. In June 2008, he was also the vice president of HNA Airport Group Company Limited.

Mr. Qiu Guo Liang, aged 35, 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 experience in aviation management.

COMPANY SECRETARY

Mr. Xing Zhoujin, aged 44, was appointed as Company Secretary in August 2009. Mr. Xing graduated from the Anhui Normal University majoring in financial management. He also has a bachelor degree in laws and a title of economist. Mr. Xing has been the personnel and office director of Sanya Phoenix International Airport and Haikou Meilan International Airport. He is engaged in the management and operation of Hainan Meilan International Airport Company Limited since 2002 and fully participated in the listing of H shares of Hainan Meilan International Airport Company Limited and worked as a board secretary of the parent company Haikou Meilan International Airport Company Limited. He has also been responsible for handling the results disclosure and daily operation of the Board of Directors of the Company after its listing.

Report of the Directors

The Board of Directors is pleased to present their report together with the audited financial statements of Hainan Meilan International Airport Company Limited ("Meilan International Airport" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

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 2009, the Company conducted its business within one business segment, i.e. the business of operating an airport and provision of related services in the PRC. The Company 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 2009, and the financial positions of the Group and the Company as at 31 December 2009 are set out from page 50 to page 108 of this annual report.

FINAL DIVIDEND

The Board has passed the resolution to recommend the payment of a final dividend on or before Monday, 2 August 2010 of RMB0.2 per share (before tax) on the annual general meeting to be held on Monday, 31 May 2010 to shareholders of the Company whose names appear on the Company's Register of Members on Saturday, 1 May 2010.

In 2009, the Company had a domestic audited profit after tax of RMB189,065,000 and an international audited profit after tax of RMB180,561,000. Pursuant to the requirements of Articles of Association and the Listing Rules, in appropriating the dividends of respective accounting year, the basis of distribution shall be the lower of the two aforesaid profit after tax stated in that financial statement. Therefore, the 2009 dividend to be distributed shall adopt the audited profit based on International Financial Reporting Standards.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Saturday, 1 May 2010 to Monday, 31 May 2010 (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 Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Friday, 30 April 2010 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 16 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the property, plant and equipment as at 31 December 2009 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2009 are set out in Note 7 to the consolidated financial statements.

TAXATION

Details of taxation of the Group and the Company (including all tax preferences) for the year ended 31 December 2009 are set out in Note 22 to the consolidated financial statements.

RESERVES

Change in reserves of the Group and the Company for the year ended 31 December 2009 is set out in Note 14 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2009 are set out in Note 8 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the top five largest customers of the Group represented 22.75% and 47.61% of the total sales of the Group for the year ended 31 December 2009, respectively.

The largest supplier and the top five largest suppliers of the Group represented 13.98% and 22.79% of the total operating costs of the Group for the year ended 31 December 2009, respectively.

None of the directors, their respective associates, or any shareholders (who to the knowledge of the directors own 5% or more of the Company's issued share capital) had any interest in any of the top five largest customers or top five largest suppliers of the Group for the year ended 31 December 2009.

SHARE CAPITAL STRUCTURE

As at 31 December 2009, the total number of issued shares of the Company was 473,213,000 as follows:

	Number of Shares	Percentage of 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 2009, so far as known to the 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 ordinary shares	Percentage of domestic issued shares (%)	Percentage of issued share capital (%)
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000	96.43	50.20

H shares

Name of Shareholder	Type of Interest	Number of shares		Approximate percentage of H shares issued	Approximate percentage of total issued share capital
Zhang Gaobo (Note 2)	Interest of controlled corporations	94,343,000	(L)	41.58%	19.94%
Zhang Zhiping (Note 2)	Interest of controlled corporations	94,343,000	(L)	41.58%	19.94%
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporations	94,343,000	(L)	41.58%	19.94%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial	94,343,000	(L)	41.58%	19.94%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporations	94,343,000	(L)	41.58%	19.94%
UBS AG (Note 3)	Beneficial owner, investment manager and interest of controlled corporations	36,192,179	(L)	15.95%	7.65%
Utilico Emerging Markets Utilities Limited (Note 4)	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. Zhang Gaobo and Zhang Zhiping were holding 49.19% and 49.92% interest, respectively, in Oriental Patron Financial Group Limited. Oriental Patron Financial Group Limited was holding a 95% interest in Oriental Patron Financial Services Group Limited, which was in turn holding 100% interests in Oriental Patron Resources Investment Limited.

3. Among the 36,192,179 shares in the Company, UBS AG was holding 225,000 shares as a beneficial owner, was deemed to hold 420,779 shares as an investment manager and was deemed to have equity interest in 35,546,400 shares (UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd were all wholly-owned by UBS AG, and were beneficially holding 21,143,400 shares, 8,321,000 shares and 6,082,000 shares in the Company, respectively).

4. Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.

5. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as at 31 December 2009 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 2009, 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 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 as set out in Appendix 10 to the Listing Rules. No Directors, Supervisors and chief executive of the Company have any interest or short position in the shares, underlying shares or debentures of the Company or 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

1. The information system management agreement of Hainan Airlines Aviation Information System Co., Ltd was entered on 16 October 2008 in which the commencement and expiry dates are 1 January 2009 and 31 December 2011 respectively.The service fees in 2009 was RMB2,028,000.

2. The franchised business agreement of Luckyway International Travel Service Co., Ltd. was entered on 16 October 2008 in which the commencement and expiry dates are on 1 January 2009 and 31 December 2011 respectively. The tourism franchised income in 2009 was RMB5,024,000.

3. 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 Group has renewed this agreement on 30 October 2009 in which the commencement and expiry dates are on 2 November 2009 and 27 November 2012. The airport ground services income in 2009 was RMB3,295,000.

4. The franchised business agreement of Hainan 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 in 2009 was RMB3,330,000.

5. The airport ground services agreement of Hainan Airlines was entered on 1 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income in 2009 was RMB80,465,000.

6. The airport ground services agreement of China Southern Airlines was entered on 1 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income in 2009 was RMB45,059,000.

7. The cargo services agency agreement of Hainan Airlines was entered on 8 October 2007 in which the commencement and expiry dates are on 8 October 2007 and 31 December 2009 respectively. The Group has renewed this agreement on 30 October 2009 in which the commencement and expiry dates are on 1 January 2010 and 31 December 2010. The customary cargo services income in 2009 was RMB4,108,000.

8. The airport ground services agreement of Xiamen Airlines was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income in 2009 was RMB3,019,000.

9. The customary composite services agreement of HNA Group was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The service fees in 2009 was RMB11,618,000.

10. The airport composite services agreement of Haikou Meilan International Airport Co., Ltd. was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The service fees in 2009 was RMB15,531,000.

11. The catering services agreement of Hainan Airlines Food Company Limited was entered on 8 October 2007 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The franchised catering income in 2009 was RMB2,720,000.

12. The financial services agreement of HNA Group Finance was entered on 8 October 2007 and the financial services supplemental agreement was entered on 6 November 2007, in which the commencement and expiry dates are on 8 October 2007 and 7 October 2010 respectively. For the year 2009, the maximum deposits placed with HNA Group Finance were RMB449,312,000 and the interest income arising from these deposits were RMB10,000,000.

13. The airport ground services agreement of Deer Air Co., Ltd. was entered on 17 April 2008 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income in 2009 was RMB2,955,000.

14. The airport ground services agreement of Tianjin Airlines Co., Ltd. (originally named as Grand China Express Airlines Co., Ltd.) was entered on 17 April 2008 in which the commencement and expiry dates are on 1 January 2008 and 31 December 2010 respectively. The customary airport ground services income in 2009 was RMB4,684,000.

15. The airport complex tenancy agreement of Hainan Airlines was entered on 16 October 2008 in which the commencement and expiry dates are on 1 March 2008 and 31 December 2010 respectively. The rental income in 2009 was RMB6,608,000.

16. The airport complex tenancy agreement of China Southern Airlines was entered on 16 October 2008 in which the commencement and expiry dates are on 1 March 2008 and 31 December 2010 respectively. The rental income in 2009 was RMB5,245,000.

17. The cleaning agreement of waiting building one of Henghe Property was entered on 16 October 2008 in which the commencement and expiry dates are 1 January 2009 and 31 December 2011 respectively. The service fees in 2009 was RMB1,615,000.

18. The cleaning agreement of waiting building two of Henghe Property was entered on 16 October 2008 in which the commencement and expiry dates are 1 January 2009 and 31 December 2011 respectively. The service fees in 2009 was RMB932,000.

19. The freight property management agreement Henghe Property was entered on 16 October 2008 in which the commencement and expiry dates are 1 January 2009 and 31 December 2011 respectively. The service fees in 2009 was RMB481,000.

20. The luggage carts and on-plane cleaning agreement of Henghe Property was entered on 16 October 2008 in which the commencement and expiry dates are 1 January 2009 and 31 December 2011 respectively. The service fees in 2009 was RMB1,793,000.

Details of the above connected transactions and the related relationship between the Company and the connected parties are available in the relevant announcements posted on the Stock Exchange or the Company's website.

With respect to the Continuing Connected Transactions, the Independent Non-Executive Directors, after having reviewed the aforesaid transactions, are of the opinion that the transactions:

(a) fall into the ordinary course of business of the Company;

(b) were conducted on normal commercial terms; and

(c) were conducted in accordance with the terms in the agreement governing such transactions. The terms are fair and reasonable, and are in the interest of the shareholders as a whole.

The International Auditors of the Company has confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Continuing Connected Transactions that:

(a) the Connected Transactions had received the approval of the Board;

(b) the Connected Transactions were made in accordance with the pricing policies of the Company;

(c) the Connected Transactions were carried out in accordance with the terms of the relevant agreements governing the transactions; and

(d) the Connected Transactions had not exceeded the relevant caps.

With respect to the Connected Transactions, the Company has complied with the disclosure requirement as set out in Chapter 14A of the Listing Rules.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Zhao Yahui	(duly appointed on 16 December 2008)
Mr. Liang Jun	(duly appointed on 25 May 2009)
Ms. Xing Xihong	(duly appointed on 12 October 2009)

Non-executive Directors

Mr. Hu Wentai	(duly appointed on 16 December 2008)
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.

Supervisors

Mr. Dong Guiguo	(duly appointed on 25 May 2009)
Mr. Zhang Shusheng	(re-appointed on 7 June 2007)
Ms. Zeng Xuemei	(re-appointed on 30 May 2008)

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

Executive Directors

Mr. Dong Zhanbin	(resigned on 25 May 2009)
Mr. Bai Yan	(resigned on 12 October 2009)

Supervisor

Mr. Chen Kewen	(resigned on 25 May 2009)

Brief biographical details of the Directors and Supervisors of the Company are set out on page 28 to page 32 of this annual report. There is no relationship among the Directors that is discloseable under the Listing Rules.

Each of the Directors and Supervisors had 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 had 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 directly or indirectly) in any contracts of significance entered into by the Company or its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or Supervisors hold any interests in any competing businesses against the Company or any of its jointly-controlled entities or subsidiaries for the year ended 31 December 2009.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Pursuant to the service contracts entered into between the Company and Directors and Supervisors and the resolution passed at the general meeting, for the year 2009, 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 allowance, the Executive Directors and Supervisor of Staff Representative 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 20 to the accompanying financial statements.

THE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the reported period were either Directors or senior executives of the Company. Details of their remuneration are set out in Note 20 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 2009, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company had no redeemable securities as at 31 December 2009.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

The Group had no entrusted deposits and overdue time deposits as at 31 December 2009.

MATERIAL LITIGATION OR ARBITRATION

The Group had no material litigation or arbitration as at 31 December 2009.

AUDITORS

The annual 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 Zon Zun Certified Public Accountants and PricewaterhouseCoopers respectively. The two firms, who are retiring and are 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 4.

PUBLIC FLOAT REQUIREMENT

As at the date of publication, from the public information held by the Company and to the knowledge of 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 Rules 8.08 of the Listing Rules.

By the order of the Board
Zhao Yahui
Chairman

Hainan Province, the PRC
25 March 2010

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2009, 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 2009 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. Reviewing 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 performed 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 shareholder 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 certified public accountants 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
Dong Guiguo
Chairman of the Supervisory Committee

Hainan Province, the PRC
25 March 2010

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 at 10:00 a.m. on 31 May 2010 (Monday) 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 2009;

2. To consider and approve the working report of the Supervisory Committee of the Company for the year ended 31 December 2009;

3. To consider and approve the audited financial statements of the Company as at and for the year ended 31 December 2009;

4. To consider and approve the final dividend distribution plan of the Company for the year ended 31 December 2009;

5. To consider and approve the re-appointment of PricewaterhouseCoopers (certified public accountants in Hong Kong) and Zon Zun Certified Public Accountants Office Limited (registered accountants in the PRC (excluding Hong Kong)) respectively as the Company's international and domestic auditors for the financial year of 2010, who will 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, Supervisors and Company Secretary for the year 2010;

7. 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:

8. 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
Xing Zhoujin
Company Secretary

Hainan Province, the PRC
9 April 2010

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 2010 (Friday) are entitled to attend and vote at the Annual General Meeting after completion of the registration in relation to the attendance of such meeting.

(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 10 May 2010 (Monday).

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 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive), during which period no transfer of H Shares will be registered. Transferees of H Shares who wish to attend the Annual General Meeting must deliver all share transfer documents and the relevant share certificate(s) to Computershare Hong Kong Investor Services Limited, by no later than 4:30 p.m. on 30 April 2010 (Friday) for completion of the registration of the relevant transfer in accordance with the articles of association of the Company.

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 2009 final dividend will be distributed on or before 2 August 2010 (Monday) to those shareholders whose names are registered in the Company's Register of members on 1 May 2010 (Saturday).

(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 2010, the Company will still engage the PricewaterhouseCoopers (certified public accountants in Hong Kong) and Zon Zun Certified Public Accountants Office Limited (registered accountants in the PRC (excluding Hong Kong)) as the international and domestic auditors of the Company respectively in 2010 financial year until the end of the next Annual General Meeting. The Company's interim financial report for 2010 intends to be examined, by which the remuneration for the PricewaterhouseCoopers as international auditors will be RMB1,550,000 per year and the remuneration for Zon Zun Certified Public Accountants Office Limited as domestic auditors will be RMB280,000 per year.

(H) For the year 2010, the allowance standard (after tax) for directors, supervisors and the company secretary was as follows: the allowance paid to the Chairman of the board and Executive Directors was RMB70,000 per person; the allowance paid to the Non-executive Directors 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.

Notice of Annual General Meeting

BOOK CLOSURE NOTICE

The H share register of the Company will be closed from 1 May 2010 (Saturday) to 31 May 2010 (Monday) (both days inclusive), during which period no transfer of H shares will be effected.

In order to be entitled to attend and vote at the Annual General Meeting (or any adjournment thereof) on 31 May 2010, share transfer documents should be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 30 April 2010 (Friday).

In order to qualify for the proposed final dividend, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 30 April 2010.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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 Meilan International Airport Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 108, which comprise the consolidated and company balance sheets as of 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 as to 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.

Independent Auditor's Report

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 2009, 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, 25 March 2010

Consolidated Balance Sheet and Balance Sheet

	Note	The Group 31 December 2009 RMB'000	The Group 31 December 2008 RMB'000	The Company 31 December 2009 RMB'000	The Company 31 December 2008 RMB'000
ASSETS					
Non-current assets					
Land use rights	6	**153,622**	156,965	**153,622**	156,965
Property, plant and equipment	7	**959,344**	995,100	**958,977**	994,428
Investments in subsidiaries	8	**–**	–	**18,094**	18,094
Investment in an associate	9	**30,875**	30,504	**30,504**	30,504
		1,143,841	1,182,569	**1,161,197**	1,199,991
Current assets					
Inventories		**11**	106	**11**	106
Trade receivables	11	**179,883**	109,236	**177,010**	105,387
Other receivables and prepayments		**14,229**	15,811	**12,108**	11,966
Current income tax recoverable		**4,864**	–	**4,864**	–
Due from subsidiaries	8(b)	**–**	–	**25,155**	22,633
Time deposits	12(a)	**160,000**	162,000	**160,000**	162,000
Cash and cash equivalents	12(b)	**588,678**	507,339	**559,000**	484,399
		947,665	794,492	**938,148**	786,491
Total assets		**2,091,506**	1,977,061	**2,099,345**	1,986,482
EQUITY					
Equity attributable to the Company's shareholders					
Share capital	13	**1,100,250**	1,100,250	**1,100,250**	1,100,250
Other reserves	14	**177,559**	160,204	**176,539**	159,579
Retained earnings	15				
– Proposed final dividend	25	**94,643**	62,580	**94,643**	62,580
– Others		**589,672**	520,627	**595,960**	526,217
		1,962,124	1,843,661	**1,967,392**	1,848,626
Minority interests		**599**	601	**–**	–
Total equity		**1,962,723**	1,844,262	**1,967,392**	1,848,626

Consolidated Balance Sheet and Balance Sheet

	Note	The Group 31 December 2009 RMB'000	The Group 31 December 2008 RMB'000	The Company 31 December 2009 RMB'000	The Company 31 December 2008 RMB'000
LIABILITIES					
Non-current liabilities					
Borrowings	16	**8,000**	12,000	**8,000**	12,000
Deferred income tax liabilities	17	**9,666**	9,775	**9,666**	9,775
Deferred income-government grants		**3,000**	–	**3,000**	–
		20,666	21,775	**20,666**	21,775
Current liabilities					
Trade and other payables	18	**104,117**	67,768	**92,527**	60,573
Due to subsidiaries	8(b)	**–**	–	**14,760**	12,331
Current income tax liabilities		**–**	39,256	**–**	39,177
Borrowings	16	**4,000**	4,000	**4,000**	4,000
		108,117	111,024	**111,287**	116,081
Total liabilities		**128,783**	132,799	**131,953**	137,856
Total equity and liabilities		**2,091,506**	1,977,061	**2,099,345**	1,986,482
Net current assets		**839,548**	683,468	**826,861**	670,410
Total assets less current liabilities		**1,983,389**	1,866,037	**1,988,058**	1,870,401

The notes on pages 56 to 108 are an integral part of these consolidated financial statements.

On behalf of the Board

Zhao Yahui
The chairman

Xing Xihong
Director

Consolidated Income Statement

		Year ended 31 December	
	Note	**2009 RMB'000**	2008 RMB'000
Revenues			
Aeronautical	5	**301,807**	292,742
Non-aeronautical	5	**98,914**	98,330
		400,721	391,072
Cost of services and sales	19	**(158,482)**	(148,956)
Gross profit		**242,239**	242,116
Administrative expenses	19	**(62,377)**	(72,931)
Other gains-net		**260**	300
Operating profit		**180,122**	169,485
Finance income		**12,328**	16,963
Finance costs		**(1,017)**	(1,406)
Finance income – net	21	**11,311**	15,557
Share of loss of an associate	9	**(24)**	–
Profit before income tax		**191,409**	185,042
Income tax expense	22	**(10,848)**	1,418
Profit for the year		**180,561**	186,460
Profit attributable to:			
Shareholders of the Company	23	**180,563**	186,434
Minority interests		**(2)**	26
		180,561	186,460
Earnings per share for profit attributable to the shareholders of the Company during the year			
– basic and diluted	24	**38 cents**	39 cents
		RMB'000	RMB'000
Dividends	25	**94,643**	62,495

The notes on pages 56 to 108 are an integral part of these consolidated financial statements.

On behalf of the Board

Zhao Yahui
The chairman

Xing Xihong
Director

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Profit for the year	**180,561**	186,460
Other comprehensive income	**–**	–
Total comprehensive income for the year	**180,561**	186,460
Attributable to:		
Shareholders of the Company	**180,563**	186,434
Minority interests	**(2)**	26
Total comprehensive income for the year	**180,561**	186,460

The notes on pages 56 to 108 are an integral part of these consolidated financial statements.

On behalf of the Board

Zhao Yahui
The chairman

Xing Xihong
Director

Consolidated Statement of Changes in Equity

	Note	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 2008		1,100,250	143,383	447,276	1,690,909	575	1,691,484
Comprehensive income:							
Profit for the year		–	–	186,434	186,434	26	186,460
Other comprehensive income:							
Depreciation transfer	14	–	(2,051)	2,051	–	–	–
Total comprehensive income for the year		–	(2,051)	188,485	186,434	26	186,460
2007 final dividends paid	25	–	–	(33,682)	(33,682)	–	(33,682)
Transfer to statutory reserves	14	–	18,872	(18,872)	–	–	–
Balance as at 31 December 2008		1,100,250	160,204	583,207	1,843,661	601	1,844,262
Balance as at 1 January 2009		1,100,250	160,204	583,207	1,843,661	601	1,844,262
Comprehensive income:							
Profit for the year		–	–	180,563	180,563	(2)	180,561
Other comprehensive income:							
Transfer upon disposal of property, plant and equipments	14	–	(87)	87	–	–	–
Depreciation transfer	14	–	(2,051)	2,051	–	–	–
Total comprehensive income for the year		–	(2,138)	182,701	180,563	(2)	180,561
2008 final dividends paid	25	–	–	(62,495)	(62,495)	–	(62,495)
Share of reserve of an associate	9	–	395	–	395	–	395
Transfer to statutory reserves	14	–	19,098	(19,098)	–	–	–
Balance as at 31 December 2009		1,100,250	177,559	684,315	1,962,124	599	1,962,723

The notes on pages 56 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Profit before income tax		**191,409**	185,042
Adjustments for:			
– Interest income		**(12,328)**	(16,963)
– Interest expense		**1,017**	1,406
– Depreciation and amortisation		**55,377**	51,868
– Impairment (reverse)/charge of trade and other receivables		**(3,524)**	14,179
– Loss on disposal of property, plant and equipment	28	**560**	93
– Share of loss of an associate		**24**	–
Changes in working capital:			
– Receivables and prepayments		**(65,764)**	(3,544)
– Trade and other payables		**38,371**	2,742
– Inventories		**95**	(57)
Cash generated from operations		**205,237**	234,766
Interest paid		**(995)**	(1,406)
Income tax paid		**(55,077)**	(2,064)
Net cash generated from operating activities		**149,165**	231,296
Cash flows from investing activities			
Capital contribution to an associate		**–**	(30,504)
Purchase of property, plant and equipment		**(19,231)**	(36,495)
Decrease in time deposits		**2,000**	5,401
Proceeds from disposal of property, plant and equipment	28	**349**	172
Government grants received		**3,000**	–
Interest received		**12,551**	16,963
Net cash used in investing activities		**(1,331)**	(44,463)
Cash flows from financing activities			
Repayments of borrowings		**(4,000)**	(9,000)
Dividends paid to the Company's shareholders		**(62,495)**	(33,682)
Net cash used in financing activities		**(66,495)**	(42,682)
Net increase in cash and cash equivalents		**81,339**	144,151
Cash and cash equivalents at beginning of year		**507,339**	363,188
Cash and cash equivalents at end of year	12	**588,678**	507,339

The notes on pages 56 to 108 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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 Province, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

The Company is majority owned by Haikou Meilan International Airport Company Limited ("Haikou Meilan"), a state-owned enterprise established in the PRC with limited liability.

The consolidated financial statements are presented in Renminbi, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2010.

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.

2.1 Basis of preparation

The consolidated financial statements of the Group 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 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.

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The Group has adopted the following new and amended IFRSs as of 1 January 2009, all of which have no impact on earnings per share:

- IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (cont'd)

Changes in accounting policy and disclosures (cont'd)

(a) New and amended standards adopted by the Group (cont'd)

- IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

- IAS 23,'Borrowing costs' (2007) (effective 1 January 2009). The new standard requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, using effective interest rate defined in IAS 39. It is the Group's accounting policy to capitalise borrowing costs directly attributable to the construction of any qualifying assets as part of the cost of the assets. The change in accounting policy had no impact on the financial statements.

- IFRS 8,'Operating segments' (effective 1 January 2009). The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the senior management lead by the general manager. The change in accounting policy had no material impact on the Group's disclosures.

- IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011). In 2009, the Group has also early adopted the amendment, which introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship, the nature and amount of any individually-significant transactions, and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (cont'd)

Changes in accounting policy and disclosures (cont'd)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRIC 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The group and company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with minority interest from 1 January 2010.

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment) 'Intangible Assets' (effective from 1 July 2009). The Group and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (cont'd)

Changes in accounting policy and disclosures (cont'd)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (cont'd)

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale' (effective from 1 January 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group and Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

- IAS 1 (amendment), 'Presentation of financial statements' (effective from 1 January 2010). The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

2.2 Consolidation

(a) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Consolidation (cont'd)

(a) Subsidiaries (cont'd)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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.

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 losses (see Note 2.7). The results of the subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Consolidation (cont'd)

(b) Associates (cont'd)

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2.7). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management lead by the general manager.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income – net'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Property, plant and equipment

Property, plant and equipment (other than assets under construction) are initially recognised at cost and subsequently measured at revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the Directors once the fair value of a revalued asset differs materially from its carrying amount, 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. 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 to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of 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 using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, 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 the end of each reporting period.

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 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within 'other gains – net', in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Property, plant and equipment (cont'd)

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 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.

2.6 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.

2.7 Impairment of investment in subsidiaries, an associate and non-financial assets

Assets that have an indefinite useful life 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 amount 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.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.8 Financial assets

Financial assets of the Group 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 end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, other receivables, time deposits, cash and cash equivalents (see Note 2.12 and 2.13).

Regular purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.10 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio; and

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Impairment of financial assets (cont'd)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.11 Inventories

Inventories represent spare parts and low value consumables, which are stated at the lower of cost and net realisable value. Cost is determined using the first in first out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.13 Cash and cash equivalents

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

2.14 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

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.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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's 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 or 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.17 Current and deferred income tax (cont'd)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associate, 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 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 Group 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.

2.19 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.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the services performed in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, 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 Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Revenue recognition (cont'd)

Revenues are recognised as follows:

(i) Airport fee is recognised upon outbound passengers departing from the airport, and the charge rates are regulated by the relevant authorities.

(ii) Aeronautical revenues, other than airport fee, including passenger charges, aircraft movement fees and related charges and ground handling services income, are recognised when the related airport services are rendered.

(iii) Franchise fee is recognised on a straight-line basis during the period of the right of operations granted.

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

(v) Freight income is recognised when the services are rendered.

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

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

(viii) VIP room income is recognised when the related services are rendered to users.

(ix) Interest income is recognised using effective interest method.

2.21 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.

2.22 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the account receivable denominated in United States Dollars ("US dollars"). Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities denominated in foreign currency.

The Group's businesses are principally conducted in RMB, except that limited aeronautical revenues are denominated in US dollars. Dividends to shareholders holding H-shares are declared in RMB and paid in Hong Kong dollars. 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.

(b) Interest rate risk

As the Group has significant interest-bearing time deposits, the Group's income and operating cash flows are substantially dependent of changes in market interest rates.

The Group's interest-rate risk arising from long-term borrowings is insignificant.

As at 31 December 2009, if interest rates on RMB denominated short-term and time deposits had been 27 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB402,000 (2008: RMB279,000) higher/lower, mainly as a result of higher/lower interest income on short-term and time deposits.

(c) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions (including RMB427,120,000 (2008: RMB448,342,000) placed in a related party, which is a financial institution), as well as credit exposures to customers. 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.

The Group has policies in place to ensure that services are made to customers with an appropriate credit history. 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.

3 FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (cont'd)

(c) Credit risk (cont'd)

Only listed or state-owned banks are accepted.

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, taking into consideration of their respective financial positions, profitability and repayment history. These transactions had been approved by management and the Company's balances placed with HNA Group Finance are kept within the limit of RMB450,000,000.

(d) 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.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000
The Group:			
As at 31 December 2009			
Bank borrowings	4,461	4,396	4,428
Trade and other payables excluding statutory liabilities	99,620	–	–
Total	104,081	4,396	4,428
As at 31 December 2008			
Bank borrowings	4,911	4,835	8,822
Trade and other payables excluding statutory liabilities	64,556	–	–
Total	69,467	4,835	8,822

3 FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (cont'd)

(d) Liquidity risk (cont'd)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
The Company:			
As at 31 December 2009			
Bank borrowings	4,461	4,396	4,428
Trade and other payables excluding statutory liabilities	88,118	–	–
Total	92,579	4,396	4,428
As at 31 December 2008			
Bank borrowings	4,911	4,835	8,822
Trade and other payables excluding statutory liabilities	57,459	–	–
Total	62,370	4,835	8,822

3.2 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 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.

3 FINANCIAL RISK MANAGEMENT (CONT'D)

3.2 Capital risk management (cont'd)

The Group's strategy is to maintain a low gearing ratio. The gearing ratios at 31 December 2009 and 2008 were as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Total liabilities	**128,783**	132,799	**131,953**	137,856
Total assets	**2,091,506**	1,977,061	**2,099,345**	1,986,482
Gearing ratio	**6%**	7%	**6%**	7%

3.3 Fair value estimation

The Group's financial assets represent loans and receivables including cash and cash equivalents, time deposits, trade receivables and other receivables and financial liabilities including trade and other payables and borrowings. The carrying amounts of the Group's financial instruments approximate their fair values due to their short maturities. The carrying values less a reasonable impairment provision for financial assets 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.

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 addressed 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 shorter than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT (CONT'D)

(a) Property, plant and equipment (cont'd)

Were the useful lives differ by 10% from management's estimates, the depreciation expense for the year would have been increased or decreased by RMB4,450,000 and RMB5,150,000 respectively.

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.

(b) Impairment of financial assets

Whenever events or changes in circumstances indicate that the carrying amounts of financial assets may not be recoverable, the Group will test whether financial assets have suffered any impairment in accordance with the accounting policies stated in Note 2.10. 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 REVENUES AND SEGMENT INFORMATION

The chief operating decision-maker of the Group has been identified as the senior management lead by the general manager. The management reviews the Group's internal reporting in order to assess performance and allocate resources. The management has determined the operating segments based on these reports.

The management considers the Group conduct its business within one business segment-the business of operating an airport and provision of related services in the PRC and the Group also operates within one geographical segment because its revenues are primarily generated from and its assets are located in the PRC.

Analysis of revenues by category	**2009 RMB'000**	2008 RMB'000
Aeronautical:		
Passenger charges	**122,707**	116,157
Aircraft movement fees and related charges	**43,347**	42,948
Airport fee (note)	**98,025**	96,567
Ground handling services income	**37,728**	37,070
	301,807	292,742
Non-aeronautical:		
Franchise fee	**44,795**	44,468
Rental	**15,112**	15,336
Freight	**13,811**	13,005
Car parking	**5,562**	5,960
VIP room charge	**10,254**	9,645
Others	**9,380**	9,916
	98,914	98,330
Total revenues	**400,721**	391,072

Note:

The charge rates of the airport fee are regulated by relevant authorities. Pursuant to the approval document (Ju Fa Ming Dian [2009] No. 2328) issued by Civil Aviation of China ("CAAC") on 17 July 2009, for the year ended 31 December 2009, the charge rates for the airport fee is 48% (2008: 48%) of total amount collected from outbound passengers when departing the airport.

6 LAND USE RIGHTS – THE GROUP AND THE COMPANY

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

	2009 RMB'000	2008 RMB'000
As at 1 January		
Cost	**179,499**	179,499
Accumulated amortisation	**(22,534)**	(19,043)
Net book amount	**156,965**	160,456
Year ended 31 December		
Opening net book amount	**156,965**	160,456
Additions	**138**	–
Amortisation	**(3,481)**	(3,491)
Closing net book amount	**153,622**	156,965
As at 31 December		
Cost	**179,637**	179,499
Accumulated amortisation	**(26,015)**	(22,534)
Net book amount	**153,622**	156,965

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

	2009 RMB'000	2008 RMB'000
Outside Hong Kong, held on:		
Leases of over 50 years	**88,129**	89,755
Leases of between 10 to 50 years	**65,493**	67,210
	153,622	156,965

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 2008						
Cost or valuation	832,310	112,807	39,821	36,595	5,843	1,027,376
Accumulated depreciation	(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
Year ended 31 December 2008						
Opening net book amount	825,779	110,128	37,408	30,642	5,843	1,009,800
Additions	4,133	583	4,695	2,562	21,969	33,942
Transfers	27,812	–	–	–	(27,812)	–
Disposals	–	–	(73)	(192)	–	(265)
Depreciation	(25,035)	(12,424)	(5,756)	(5,162)	–	(48,377)
Closing net book amount	832,689	98,287	36,274	27,850	–	995,100
As at 1 January 2009						
Cost or valuation	864,255	113,390	44,170	38,591	–	1,060,406
Accumulated depreciation	(31,566)	(15,103)	(7,896)	(10,741)	–	(65,306)
Net book amount	832,689	98,287	36,274	27,850	–	995,100
Year ended 31 December 2009						
Opening net book amount	832,689	98,287	36,274	27,850	–	995,100
Additions	–	–	9,291	942	6,816	17,049
Reclassification	(33,000)	33,000	–	–	–	–
Transfers	2,476	4,020	–	–	(6,496)	–
Disposals	–	–	(374)	(535)	–	(909)
Depreciation	(26,536)	(13,774)	(8,173)	(3,413)	–	(51,896)
Closing net book amount	775,629	121,533	37,018	24,844	320	959,344
As at 31 December 2009						
Cost or valuation	832,271	151,870	52,093	37,475	320	1,074,029
Accumulated depreciation	(56,642)	(30,337)	(15,075)	(12,631)	–	(114,685)
Net book amount	775,629	121,533	37,018	24,844	320	959,344

7 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group (cont'd)

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	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	31 December 2009 Total	31 December 2008 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	992,171	217,471	78,678	55,645	320	1,344,285	1,330,659
Accumulated depreciation	(218,864)	(97,801)	(52,352)	(33,607)	–	(402,624)	(357,728)
	773,307	119,670	26,326	22,038	320	941,661	972,931

Depreciation expenses of RMB50,564,000 (2008: RMB47,128,000) has been charged in cost of services and sales and RMB1,332,000 (2008: RMB1,249,000) in administrative expenses.

The Group's and the Company's property, plant and equipment were last revalued on 30 September 2007. 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/(deficit) net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 14).

The analysis of the cost or valuation as at 31 December 2009 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	34,421	4,610	18,238	7,604	320	65,193
At valuation	797,850	147,260	33,855	29,871	–	1,008,836
	832,271	151,870	52,093	37,475	320	1,074,029

7 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group (cont'd)

The analysis of the cost or valuation as at 31 December 2008 of the above assets is 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	Total RMB'000
At cost	31,945	590	9,393	7,841	–	49,769
At valuation	832,310	112,800	34,777	30,750	–	1,010,637
	864,255	113,390	44,170	38,591	–	1,060,406

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 2008						
Cost or valuation	832,310	112,807	39,308	31,027	5,843	1,021,295
Accumulated depreciation	(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
Year ended 31 December 2008						
Opening net book amount	825,779	110,128	37,284	29,660	5,843	1,008,694
Additions	4,133	583	4,695	2,515	21,969	33,895
Transfers	27,812	–	–	–	(27,812)	–
Disposals	–	–	(73)	(73)	–	(146)
Depreciation	(25,035)	(12,424)	(5,746)	(4,810)	–	(48,015)
Closing net book amount	832,689	98,287	36,160	27,292	–	994,428

7 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Company (cont'd)

	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 2009						
Cost or valuation	864,255	113,390	43,656	33,294	–	1,054,595
Accumulated depreciation	(31,566)	(15,103)	(7,496)	(6,002)	–	(60,167)
Net book amount	832,689	98,287	36,160	27,292	–	994,428
Year ended 31 December 2009						
Opening net book amount	832,689	98,287	36,160	27,292	–	994,428
Additions	–	–	9,291	942	6,816	17,049
Reclassification	(33,000)	33,000	–	–	–	–
Transfers	2,476	4,020	–	–	(6,496)	–
Disposals	–	–	(374)	(498)	–	(872)
Depreciation	(26,536)	(13,774)	(8,171)	(3,147)	–	(51,628)
Closing net book amount	775,629	121,533	36,906	24,589	320	958,977
As at 31 December 2009						
Cost or valuation	832,271	151,870	51,680	32,367	320	1,068,508
Accumulated depreciation	(56,642)	(30,337)	(14,774)	(7,778)	–	(109,531)
Net book amount	775,629	121,533	36,906	24,589	320	958,977

7 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Company (cont'd)

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 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 2009 Total RMB'000	31 December 2008 Total RMB'000
Cost	992,171	217,471	78,264	50,533	320	1,338,759	1,324,845
Accumulated depreciation	(218,864)	(97,801)	(52,050)	(28,750)	–	(397,465)	(352,586)
	773,307	119,670	26,214	21,783	320	941,294	972,259

The analysis of the cost or valuation as at 31 December 2009 of the above assets is 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	Total RMB'000
At cost	34,421	4,610	17,825	2,496	320	59,672
At valuation	797,850	147,260	33,855	29,871	–	1,008,836
	832,271	151,870	51,680	32,367	320	1,068,508

7 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Company (cont'd)

The analysis of the cost or valuation as at 31 December 2008 of the above assets is 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	Total RMB'000
At cost	31,945	590	8,879	2,544	–	43,958
At valuation	832,310	112,800	34,777	30,750	–	1,010,637
	864,255	113,390	43,656	33,294	–	1,054,595

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	
	2009 RMB'000	2008 RMB'000
Gross carrying amount	**32,803**	35,867
Accumulated depreciation	**(2,069)**	(1,257)
Net carrying amount	**30,734**	34,610

8 INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES – THE COMPANY

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**18,094**	18,094

(a) As at 31 December 2009, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability companies established and operating in the PRC:

Name	Principal activities	Paid up capital RMB'000	% Interest held Directly	% Interest held Indirectly
Hainan Meilan International Airport Advertising Co., Ltd.	Provision of advertising services	1,000	95	4.75
Hainan Meilan International Airport Traveling Co., Ltd.	Provision of tourism services	11,000	95	–
Haikou Meilan International Airport Duty Free Shop Limited	Retail sales	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 INVESTMENT IN AN ASSOCIATE

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
At 1 January	**30,504**	–	**30,504**	–
Establishment of an associate	**–**	30,504	**–**	30,504
Share of loss	**(24)**	–	**–**	–
Share of reserves	**395**	–	**–**	–
At 31 December	**30,875**	30,504	**30,504**	30,504

9 INVESTMENT IN AN ASSOCIATE (CONT'D)

The Group's share of the results of its associate, Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng"), and its aggregated assets and liabilities, is as follows:

Year	Assets RMB'000	Liabilities RMB'000	loss RMB'000	Interest held
2009	105,273	2,358	(80)	30%
2008	105,273	3,593	–	30%

Haikou Decheng is an unlisted limited liability established in the PRC and engaged in property development.

10 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF THE FINANCIAL ASSETS

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Loans and receivables as per balance sheet:				
Trade receivables (Note (11))	**179,883**	109,236	**177,010**	105,387
Other receivables excluding prepayments (Note (a))	**11,657**	9,779	**9,745**	5,934
Due from subsidiaries (Note (a))	**–**	–	**25,155**	22,633
Time deposits (Note (b))	**160,000**	162,000	**160,000**	162,000
Cash and cash equivalents (Note (b))	**588,678**	507,339	**559,000**	484,399
	940,218	788,354	**930,910**	780,353
Other financial liabilities at amortised cost as per balance sheet:				
Bank borrowings	**12,000**	16,000	**12,000**	16,000
Trade and other payables excluding statutory liabilities	**99,620**	64,556	**87,845**	57,361
Due to subsidiaries	**–**	–	**14,760**	12,331
	111,620	80,556	**114,605**	85,692

10 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF THE FINANCIAL ASSETS (CONT'D)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

(a) Other receivables and due from subsidiaries do not have due day.

(b) As at 31 December 2009, deposits of RMB427,120,000 (2008: RMB448,342,000) were placed with HNA Group Finance, which is a financial institution established in the PRC (Note 30(b)). Apart from the deposits placed with HNA Group Finance, all cash and cash equivalents and time deposits were deposited with PRC state-owned banks.

11 TRADE RECEIVABLES

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Trade receivables from third parties (Note (a))	**72,156**	74,635	**71,502**	74,342
Less: provision for impairment of trade receivables (Note (c))	**(11,520)**	(14,471)	**(11,143)**	(14,179)
	60,636	60,164	**60,359**	60,163
Trade receivables from related parties (Note (b) and 30(b))	**119,247**	49,072	**116,651**	45,224
	179,883	109,236	**177,010**	105,387

The carrying amounts of trade receivables approximate their fair values. 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.

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

11 TRADE RECEIVABLES (CONT'D)

(a) As at 31 December 2009, the ageing analysis of gross trade receivables from third parties is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
0-90 days	**53,778**	61,931	**53,779**	61,930
91-180 days	**6,002**	7,802	**6,002**	7,802
181-365 days	**8,932**	4,505	**8,932**	4,505
Over 365 days	**3,444**	397	**2,789**	105
	72,156	74,635	**71,502**	74,342

As at 31 December 2009, trade receivables of RMB11,548,000 (2008: RMB26,911,000) are impaired and the amount of the provision is RMB11,520,000 (2008: RMB14,471,000). The individually impaired receivables mainly relate to certain airlines companies, which are in difficult economic situations. The ageing of these receivables is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
0-90 days	**590**	18,753	**590**	18,753
91-180 days	**1,339**	5,877	**1,339**	5,877
181-365 days	**6,538**	1,884	**6,538**	1,884
Over 365 days	**3,081**	397	**2,676**	105
	11,548	26,911	**11,143**	26,619

11 TRADE RECEIVABLES (CONT'D)

(a) (cont'd)

As at 31 December 2009, certain trade receivables of RMB5,419,000 (2008: RMB2,041,000) from third parties 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	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
91-180 days	**4,662**	1,925	**4,662**	1,925
181-365 days	**394**	116	**394**	116
Over 365 days	**363**	–	**113**	–
	5,419	2,041	**5,169**	2,041

(b) As at 31 December 2009, the ageing analysis of gross trade receivables from related parties is as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
0-90 days	**52,249**	38,025	**52,248**	36,261
91-180 days	**25,249**	1,680	**25,249**	1,680
181-365 days	**38,777**	5,116	**38,777**	5,116
Over 365 days	**2,972**	4,251	**377**	2,167
	119,247	49,072	**116,651**	45,224

11 TRADE RECEIVABLES (CONT'D)

(b) (cont'd)

As at 31 December 2009, trade receivables from related parties of RMB65,027,000 (2008: RMB7,443,000) are past due but not impaired. The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
91-180 days	**24,707**	1,210	**24,707**	1,210
181-365 days	**37,348**	4,065	**37,348**	4,065
Over 365 days	**2,972**	2,168	**377**	168
	65,027	7,443	**62,432**	5,443

As of 25 March, 2010, trade receivables from related parties totaling RMB63,211,000 have been settled.

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Balance as at 1 January	**14,471**	439	**14,179**	–
Provision for receivable impairment	**85**	14,179	**–**	14,179
Receivables written-off as uncollectible	**–**	(147)	**–**	–
Provision reversed as receivables collected	**(3,036)**	–	**(3,036)**	–
Balance as at 31 December	**11,520**	14,471	**11,143**	14,179

The creation/(reversal) of provision for impaired receivables has been included in administrative expenses in the income statement.

(d) The carrying amounts of the Group's and the Company's trade receivables are mainly denominated in RMB.

12 TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Time deposits

As at 31 December 2009, the Group and the Company had deposits denominated in RMB placed with certain banks and financial institutions. The average maturity is 8 months and the carrying amount of these time deposits approximate their fair values.

	The Group and the Company	
	2009	2008
	RMB'000	RMB'000
Time deposits with related party	**100,000**	100,000
Time deposits with third parties	**60,000**	62,000
Total time deposits	**160,000**	162,000
Maximum exposure to credit risk	**160,000**	162,000

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**80**	122	**38**	116
Cash in bank				
Current deposits with related party	**42,120**	88,342	**32,184**	88,342
Short-term deposits with related party	**285,000**	260,000	**285,000**	260,000
Deposits with third parties	**261,478**	158,875	**241,778**	135,941
	588,598	507,217	**558,962**	484,283
Total cash and cash equivalents	**588,678**	507,339	**559,000**	484,399
Maximum exposure to credit risk	**588,598**	507,217	**558,962**	484,283

Carrying amounts of the Group and the Company's time deposits, cash and cash equivalents are mainly denominated in RMB.

Notes to the Consolidated Financial Statements

13 SHARE CAPITAL

	2009 RMB'000	2008 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	**557,647**	557,647
	627,037	627,037
	1,100,250	1,100,250

14 OTHER RESERVES

The Group:	**Revaluation surplus** RMB'000	**Statutory reserves** (Note) RMB'000	**Other** RMB'000	**Total** RMB'000
Balance at 1 January 2008	17,541	125,842	–	143,383
Depreciation transfer	(2,051)	–	–	(2,051)
Transfer from retained earnings	–	18,872	–	18,872
Balance at 31 December 2008	15,490	144,714	–	160,204
Balance at 1 January 2009	15,490	144,714	–	160,204
Depreciation transfer	(2,051)	–	–	(2,051)
Transfer upon disposal of property, plant and equipments	(87)	–	–	(87)
Transfer from retained earnings	–	19,098	–	19,098
Share of reserve of an associate	–	–	395	395
Balance at 31 December 2009	13,352	163,812	395	177,559

14 OTHER RESERVES (CONT'D)

The Company:	**Revaluation surplus**	**Statutory reserves** (Note)	**Total**
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008	17,541	125,217	142,758
Depreciation transfer	(2,051)	–	(2,051)
Transfer from retained earnings	–	18,872	18,872
Balance at 31 December 2008	15,490	144,089	159,579
Balance at 1 January 2009	15,490	144,089	159,579
Depreciation transfer	(2,051)	–	(2,051)
Transfer upon disposal of property, plant and equipments	(87)	–	(87)
Transfer from retained earnings	–	19,098	19,098
Balance at 31 December 2009	13,352	163,187	176,539

Note:

Pursuant to the revised "The Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by the 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 shall not be used for the purposes other than those for which they are created and are not distributable as cash dividend.

15 COMPANY RETAINED EARNINGS

	2009	2008
	RMB'000	RMB'000
Balance at 1 January	**588,797**	454,377
Depreciation transfer	**2,051**	2,051
Transfer upon disposal of property, plant and equipments	**87**	–
Transfer to statutory reserves (Note 14)	**(19,098)**	(18,872)
Profit for the year	**181,261**	184,923
2007 final dividend paid	**–**	(33,682)
2008 final dividend paid	**(62,495)**	–
Balance at 31 December	**690,603**	588,797

16 BORROWINGS – THE GROUP AND THE COMPANY

As at 31 December 2009, bank borrowings of RMB12,000,000 (2008: RMB16,000,000) for financing the construction of airport terminals, the related premises and facilities were secured by a floating charge over the Company's revenues. These bank borrowings are denominated in RMB and bear average coupons of 6.95% (2008: 7.50%) per annum, the interest of the full loans is determined yearly with reference to the market interest rates. These bank borrowings mature until 2013.

The Bank borrowings were repayable as follows:

	2009 RMB'000	2008 RMB'000
Within 1 year	**4,000**	4,000
Between 1 and 2 years	**4,000**	4,000
Between 2 and 5 years	**4,000**	8,000
	12,000	16,000
Less: current portion of borrowings included in current liabilities	**(4,000)**	(4,000)
	8,000	12,000

The carrying amounts of the borrowings approximate their fair values.

17 DEFERRED INCOME TAX – THE GROUP AND THE COMPANY

The analysis of deferred income tax assets and liabilities is as follows:

	2009 RMB'000	2008 RMB'000
Deferred income tax assets to be recovered:		
– within 12 months	**(1,258)**	(1,418)
Deferred income tax liabilities to be recovered:		
– after more than 12 months	**10,628**	10,924
– within 12 months	**296**	269
	10,924	11,193
Deferred income tax liabilities (net)	**9,666**	9,775

17 DEFERRED INCOME TAX – THE GROUP AND THE COMPANY (CONT'D)

The gross movement on the deferred income tax account is as follows:

	2009 **RMB'000**	2008 RMB'000
At 1 January	**9,775**	11,193
Credited to income statement (Note 22)	**(109)**	(1,418)
At 31 December	**9,666**	9,775

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is as follows:

	Deferred income tax assets	**Deferred income tax liabilities**			
	Provision for impairment of receivables RMB'000	**Land use rights** RMB'000	**Property, plant and equipment** RMB'000	**Sub-total** RMB'000	**Total** RMB'000
As at 1 January 2008	–	6,655	4,538	11,193	11,193
Credited to income statement	(1,418)	–	–	–	(1,418)
As at 31 December 2008	(1,418)	6,655	4,538	11,193	9,775
Charged/(credited) to income statement	160	(62)	(207)	(269)	(109)
As at 31 December 2009	(1,258)	6,593	4,331	10,924	9,666

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 RMB337,000 (2008: RMB615,250) in respect of the tax losses of the Group's subsidiaries of approximately RMB1,348,000 as at 31 December 2009 (2008: RMB2,461,000). Tax losses amounting to RMB374,000, RMB402,000, RMB485,000, RMB63,000 and RMB24,000, will expire in 2010, 2011, 2012, 2013 and 2014 respectively.

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**4,095**	2,594	**3,774**	2,002
Other payables	**91,133**	54,635	**80,486**	48,280
Deposits received	**6,003**	6,013	**6,003**	6,013
Due to related parties (Note 30(b))	**2,886**	4,526	**2,264**	4,278
	104,117	67,768	**92,527**	60,573

As at 31 December 2009, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
0-90 days	**2,314**	4,314	**1,923**	3,897
91-180 days	**731**	186	**731**	186
181-365 days	**1,123**	639	**1,123**	639
Over 365 days	**2,813**	1,981	**2,261**	1,558
	6,981	7,120	**6,038**	6,280

19 EXPENSES BY NATURE

Expenses/(income) included in cost of services and sales and administrative expenses are analysed as follows:

	2009 RMB'000	2008 RMB'000
Airport and logistic composite services fee	**31,553**	28,426
Business tax and levies	**10,880**	10,942
Depreciation of property, plant and equipment (Note 7)	**51,896**	48,377
Amortisation of land use rights (Note 6)	**3,481**	3,491
Employee benefit expenses (Note 20)	**63,887**	49,954
Other taxes	**6,213**	6,222
Auditors' remuneration	**2,030**	1,800
Traveling expenses	**5,472**	7,733
Consulting fees	**742**	3,399
(Reversal)/provision of impairment of trade and other receivables	**(3,524)**	14,179
Utilities	**16,052**	15,779
Repairs and maintenance	**10,414**	10,506

20 EMPLOYEE BENEFIT EXPENSES

	2009 RMB'000	2008 RMB'000
Wages and salaries	**42,868**	35,063
Pension costs-statutory pension (Note 26)	**3,564**	4,516
Staff welfare	**1,116**	1,306
Housing fund (Note 27)	**2,485**	2,261
Medical benefits	**1,164**	1,386
Termination cost	**8,526**	–
Other allowances and benefits	**4,164**	5,422
	63,887	49,954

20 EMPLOYEE BENEFIT EXPENSES (CONT'D)

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2009 is set out below:

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of Director					
Zhao Yahui	-	113	-	12	125
Dong Zhanbin (Note (i))	-	34	-	4	38
Bai Yan (Note (iii))	-	73	-	10	83
Xing Xihong (Note (iv))	-	88	-	12	100
Liang Jun (Note (ii))	-	94	-	10	104
Zhang Han'an	-	-	-	-	-
Chan Nap Kee, Joseph	50	-	-	-	50
Yan Xiang	50	-	-	-	50
Hu Wentai	-	113	-	12	125
Xu Bailing	100	-	-	-	100
Fung Ching, Simon	100	-	-	-	100
Xie Zhuang	100	-	-	-	100
George F. Meng	100	-	-	-	100
Name of Supervisor					
Chen Kewen (Note (i))	-	-	-	-	-
Dong Guiguo (Note (ii))	-	-	-	-	-
Zhang Shusheng	20	-	-	-	20
Zeng Xuemei	-	-	-	-	-
	520	515	-	60	1,095

Notes:

(i) Resigned on 25 May 2009.

(ii) Appointed on 25 May 2009.

(iii) Resigned on 12 October 2009.

(iv) Appointed on 12 October 2009.

20 EMPLOYEE BENEFIT EXPENSES (CONT'D)

(a) Directors' and Supervisors' emoluments (cont'd)

The remuneration of every Director and Supervisor for the year ended 31 December 2008 is set out below:

	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 (Note (i))	-	85	28	12	125
Zhao Yahui (Note (ii))	-	5	-	-	5
Dong Zhanbin	-	84	26	12	122
Dong Guiguo (Note (i))	-	69	23	12	104
Bai Yan	-	61	21	12	94
Zhang Han'an	-	-	-	-	-
Chan Nap Kee, Joseph	50	-	-	-	50
Yan Xiang	50	-	-	-	50
Hu Wentai (Note (ii))	-	88	28	12	128
Xu Bailing	100	-	-	-	100
Fung Ching, Simon	100	-	-	-	100
Xie Zhuang	100	-	-	-	100
George F. Meng	100	-	-	-	100
Name of Supervisor					
Chen Kewe	-	-	-	-	-
Zhang Shusheng	20	-	-	-	20
Zeng Xuemei	-	-	-	-	-
	520	392	126	60	1,098

Notes:

(i) Resigned in 16 December 2008

(ii) Appointed in 16 December 2008

In the year of 2009, Mr Zhao Yahui, Mr Dong Zhanbin, Mr Bai Yan, Mrs Xing Xihong, Mr Liang Jun, Mr Zhang Han'an, Mr Hu Wentai, Mr Chen Kewen, Mr Dong Guiguo and Mrs Zeng Xuemei waived director fees of RMB380,000 (2008: RMB399,000) in total.

20 EMPLOYEE BENEFIT EXPENSES (CONT'D)

(b) Five highest paid individuals

During the year ended 31 December 2009, the five individuals whose emoluments were the highest in the Group included three directors (2008: five directors) whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining two individual (2008: Nil) are as follows:

	2009 **RMB'000**
Basic salaries and allowances	**195**
Bonuses	**–**
Retirement scheme contributions	**23**
	218

During the years ended 31 December 2009 and 2008, no emolument was paid to the Directors, Supervisors or 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 years ended 31 December 2009 and 2008, the five highest-paid employees fell within the band from nil to RMB1 million (2008: nil to RMB1 million).

21 FINANCE INCOME – NET

	2009 **RMB'000**	2008 RMB'000
Finance income – interest	**12,328**	16,963
Interest on bank borrowings	**(1,017)**	(1,406)
Finance income – net	**11,311**	15,557

There was no interest capitalised for the years ended 31 December 2009 (2008: Nil).

22 INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for as the Group had no assessable profits arising in Hong Kong during the year (2008: nil). Income tax expense represents provision for the PRC corporate income tax.

	2009 **RMB'000**	2008 RMB'000
Current income tax		
– outside Hong Kong	**10,957**	–
Deferred income tax (Note 17)	**(109)**	(1,418)
Income tax expense	**10,848**	(1,418)

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

	2009 **RMB'000**	2008 RMB'000
Profit before income tax	**191,409**	185,042
Tax calculated at a rate applicable to profits in the Hainan Province (Note (a))	**38,282**	33,308
Effect of tax holiday (Note (b))	**(19,145)**	(34,757)
Income not subject to corporate income tax (Note (c))	**(9,803)**	–
Tax losses not recognised	**6**	9
Utilisation of previously unrecognised tax losses	**(192)**	(128)
Expenses not deductible for tax purposes	**1,700**	150
Tax charge	**10,848**	(1,418)

Note (a)

Effective from 1 January 2008, the Company shall pay the corporate income tax ("CIT") in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") as approved by the National People's Congress on 16 March 2007. Under the New CIT Law, the CIT rate applicable to the Company will be gradually increased to 25% in a 5-year period from 2008 to 2012. The tax rate in 2009 is 20% (2008: 18%).

Note (b)

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 and the Company was then entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013. With 50% reduction of CIT in 2009, the applicable tax rate for the Company in 2009 is 10% (2008: nil).

Note (c)

Pursuant to the approval document (Cai Shui [2009] No.87) issued by Ministy of Finance on 16 June 2009, the airport fee income of the Company for the years from 2008 to 2010 is exempted from CIT.

23 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 RMB181,261,000 (2008: RMB184,923,000).

24 EARNINGS PER SHARE

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.

	2009	2008
Profit attributable to shareholders of the Company (RMB'000)	**180,563**	186,434
Weighted average number of ordinary shares in issue (thousands)	**473,213**	473,213
Basic earnings per share (RMB per share)	**38 cents**	39 cents

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 2009 and 2008.

25 DIVIDENDS

The dividends paid in 2009 and 2008 were Hong Kong Dollars ("HKD") 70,982,000 (HKD0.15 per ordinary share) equivalent to RMB62,495,000, and HKD37,857,000 (HKD0.08 per ordinary share) equivalent to RMB33,682,000, respectively. The Directors of the Company recommend the payment of a final dividend of RMB0.2 per ordinary share, totaling RMB94,643,000.Such dividend is to be approved by the shareholders at the Annual General Meeting in 2010. These financial statements do not reflect this dividend payable.

	2009 **RMB'000**	2008 RMB'000
Proposed final dividend of RMB0.2(2008:HKD0.15) per ordinary share	**94,643**	62,495

In accordance with the Corporate Income Tax Law of the PRC and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H share of the Company when distributing dividends to them. Any H shares of the Company registered other than in the name(s) of individual(s), including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed to be shares held by non-resident enterprise shareholder(s). Such H-shares shareholders will receive their dividends after the deduction of corporate income tax.

26 PENSIONS

All of the Group's full-time employees, who are permanent PRC citizens, are covered by a State-sponsored defined contribution 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 2009 and 2008. The Group provides no other retirement benefits than those described above.

27 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% (2008: 12%) 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 2009, the Group's contribution to the housing fund amounted to approximately RMB2,485,000 (2008: RMB2,261,000).

As at 31 December 2009 and 2008, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

28 CASH GENERATED FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	2009	2008
	RMB'000	RMB'000
Net book amount (Note 7)	**909**	265
Loss on disposal	**(560)**	(93)
Proceeds from disposal	**349**	172

29 COMMITMENTS – THE GROUP AND THE COMPANY

(a) Capital commitments

Capital expenditure at the end of the year but not yet incurred is as follows:

	2009	2008
	RMB'000	RMB'000
Buildings and improvements		
Contracted but not provided for	**863**	7,512

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

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

	2009	2008
	RMB'000	RMB'000
Not later than 1 year	**14,657**	14,566
Later than 1 year and not later than 5 years	**4,666**	17,106
	19,323	31,672

30 RELATED PARTY TRANSACTIONS

The Company is majority owned by Haikou Meilan, a state-owned enterprise established in the PRC with limited liability.

In accordance with IAS 24, "Related Party Disclosure", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are also defined as related parties of the Company. On that basis, related parties include Haikou Meilan and its subsidiaries (other than the Company), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and Haikou Meilan as well as their close family members.

30 RELATED PARTY TRANSACTIONS (CONT'D)

A significant portion of the Company's business activities are conducted with state-owned enterprises. Sale of services to these state-owned enterprises are at state-prescribed prices which are similar to prices to other customers. The Company considers that these sales are activities in the ordinary course of business. In this connection, the Company has significant trading balances with state-owned enterprises in the ordinary course of business which have similar terms of repayments as balances with third parties.

In addition, a large portion of the Company's bank deposits/bank borrowings were held at/borrowed from state-owned financial institutions in accordance with the terms as set out in the respective agreements or as mutually agreed between the parties in concern at prevailing market terms and rates.

For the purpose of the related party transaction disclosures, the Directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

Other than the transactions as disclosed in the respective notes, the following is a summary of significant transactions carried out with related parties in the ordinary course of business.

(a) The following is a summary of material transactions carried out with these related parties, controlled, or significantly influenced by HNA Group, which has significant influence on the Company, in the ordinary course of business during the year:

			The Group	
Name of related party	**Nature of transactions**	Note	**2009 RMB'000**	2008 RMB'000
Revenues:				
Hainan Airlines	Income for provision of customary airport ground services	(i)	**80,465**	84,275
	Income from provision of cargo, mail and luggage service	(i)	**4,108**	4,236
	Rental income for leasing of offices and commercial space	(ii)	**6,608**	7,285
Hainan Airlines Food Company Limited ("Hainan Food")	Franchise income from catering services	(iii)	**2,720**	2,417
Luckyway International Travel Services Co., Ltd. ("Luckyway")	Franchise income from tourism and traveling services	(iv)	**5,024**	4,773

30 RELATED PARTY TRANSACTIONS (CONT'D)

(a) The following is a summary of material transactions carried out with these related parties, controlled, or significantly influenced by HNA Group, which has significant influence on the Company, in the ordinary course of business during the year: (cont'd)

			The Group	
Name of related party	**Nature of transactions**	Note	**2009 RMB'000**	2008 RMB'000
Revenues:				
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Franchise income	(v)	**3,330**	3,627
Deer Air Co., Ltd.	Income for provision of customary airport ground services	(i)	**2,955**	2,294
Hong Kong Airlines Limited	Income for provision of customary airport ground services	(i)	**3,295**	2,359
Tianjin Airlines Co., Ltd. ("Tianjin Airlines", previous name "Grand China Express Airlines Co., Ltd.")	Income for provision of customary airport ground services	(i)	**4,684**	652
HNA Group Finance	Interest income from deposits	(vi)	**10,000**	11,991
Expenses:				
Haikou Meilan	Airport composite services charged	(vii)	**15,531**	15,360
HNA Group	Logistic composite services charged	(viii)	**11,618**	11,848
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Information system maintenance service	(ix)	**2,028**	2,043
HNA Henghe Property Management Co., Ltd. ("Henghe Property Management")	Property management service	(x)	**4,821**	–
Sharing of customary airport ground services income:				
Haikou Meilan	Sharing of customary airport ground services income	(xi)	**87,831**	82,218
Deposits:				
HNA Group Finance	Maximum deposits placed with HNA Group Finance	(vi)	**449,312**	449,793

30 RELATED PARTY TRANSACTIONS (CONT'D)

(a) The following is a summary of material transactions carried out with these related parties, controlled, or significantly influenced by HNA Group, which has significant influence on the Company, in the ordinary course of business during the year: (cont'd)

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

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

(iii) 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.

(iv) Pursuant to a revised franchise agreement with a term from 1 January 2009 to 31 December 2011 between the Company and Luckyway dated 16 October 2008, the Company granted Luckyway of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is RMB4.7million. Besides, 50% of the profits earned by Luckyway from its franchise operations at Meilan Airport are charged by the Company.

(v) 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 passengers.

(vi) 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.

30 RELATED PARTY TRANSACTIONS (CONT'D)

(a) The following is a summary of material transactions carried out with these related parties, controlled, or significantly influenced by HNA Group, which has significant influence on the Company, in the ordinary course of business during the year: (cont'd)

(vii) According to a renewed airport composite services agreement with a term of three years effect from 1 January 2008, Haikou Meilan 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 Haikou Meilan 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. Item (f) shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus markup fee basis.

(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), at a fixed price with reference to the relevant cost per employee headcount; item (c), at a fixed annual fee; item (d) at the cost of providing such services plus a 5% mark-up as management fees; item (e), 1% of price of commodities and appliance procured respectively; and item (f) shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus markup fee basis.

30 RELATED PARTY TRANSACTIONS (CONT'D)

(a) The following is a summary of material transactions carried out with these related parties, controlled, or significantly influenced by HNA Group, which has significant influence on the Company, in the ordinary course of business during the year: (cont'd)

(ix) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 16 October 2008, HNAAIS agreed to provide maintenance services for the information system of the Company with effect from 1 January 2009. The monthly service fee varies from month to month depending on the type of services rendered by HNAAIS.

(x) Pursuant to the agreements between the Group and Henghe Property Management dated 16 October 2008, Henghe Property Management agreed to provide to the Company the services including (a) terminal cleaning services; (b) baggage carts and aircraft cleaning services; (c) property management services on the cargo center.

The charges for these services are determined as follows: item (a), the cleaning fee for Terminal I is calculated based on the number of passenger throughput, and the fee for Terminal II is fixed annually; item (b) at a fixed price with reference to the passengers throughput; and items (c), with an fixed annual fee, based on the cost of providing such services.

(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 Haikou Meilan whereby both parties agreed to share, on the ratio of 75% to the Company and 25% to Haikou Meilan, 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 Haikou Meilan, respectively. The Company will collect such fees on behalf of Haikou Meilan 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.

30 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 31 December 2009, balances with related parties comprised:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from related parties:				
Hainan Airlines	**95,605**	32,479	**93,130**	30,005
Hainan Food	**2,962**	2,297	**2,962**	2,297
Luckyway	**4,973**	1,459	**4,483**	969
HNA China Duty Free	**981**	971	**981**	971
Tianjin Airlines	**7,752**	1,323	**7,752**	1,323
Hong Kong Airlines Limited	**2,050**	5,218	**2,050**	5,218
Deer Air Co., Ltd.	**2,889**	3,243	**2,889**	3,243
Others	**2,035**	2,082	**2,404**	1,198
	119,247	49,072	**116,651**	45,224
Other receivables from related parties:				
Luckyway	**4,641**	3,299	**3,270**	2,491
Hainan Airlines	**626**	115	**626**	115
Others	**433**	468	**355**	473
	5,700	3,882	**4,251**	3,079

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with related party – HNA Group Finance				
Time deposits	**100,000**	100,000	**100,000**	100,000
Short-term deposits	**285,000**	260,000	**285,000**	260,000
Current deposits	**42,120**	88,342	**32,184**	88,342
	427,120	448,342	**417,184**	448,342

30 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 31 December 2009, balances with related parties comprised: (cont'd)

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payables to related parties:				
Haikou Meilan	**197**	2,247	**197**	2,097
Luckyway	**1,000**	1,000	**1,000**	1,000
Others	**1,689**	1,279	**1,067**	1,181
	2,886	4,526	**2,264**	4,278

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.

31 EVENTS AFTER THE REPORTING PERIOD

At the Board meeting held on 25 March 2010, it was resolved by the Board of Directors that the Company will acquire a total of 54.5% equity interests in HNA Airport Holding (Group) Co, Ltd. (the "Target"). The Company has entered into agreements with two vendors respectively to acquire 30% and 24.5% equity interests in the Target on 25 March 2010. The transaction under these agreements constitutes a very substantial acquisition and a connected transaction, and is still subject to approval of the coming General Meeting.