

Chairman's Statement



Zhang Cong *Chairman*

To all shareholders,

In 2005, the Group continuously headed towards the “people-oriented and internationalised” branding by timely keeping abreast of the ever challenging aviation market and by gradually enhancing security level and service quality.

During the year under review, under adversities in the operating environment, the Group placed dual-focus strategies of income growth and cost savings through vigorous resources consolidation and a totally strengthened budget management. With magnificent exploitation of aviation routes, the opening of aviation rights posted robust results. The Group was the first to pass the aviation security examination by the General Administration of Civil Aviation of China, marking its entering into the 7th year of safe operation in its history. The successful passing of the verification of the World Health Organization embarked the Group's positioning as the first airport of less than 10 million passenger throughput winning the reputation of an international hygienic airport. To forge towards a unified and professional commercial management of airports, the Group has introduced with Select Service Partner (“SSP”), a catering company, and Duty Free Shoppers Hong Kong Limited (“DFS”), a retailer, resulting in ideal operating conditions with an increasingly upgrading internationalised image.

To capture the increasing passenger and cargoes throughput, the Group took the move to commence the phase II expansion in early 2004, which included the expansion of the terminal building and apron. The terminal building has been duly examined and delivered upon the completion of the constructions, and will be put into a formal commission in January 2006.

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Results

In 2005, the Group's total revenue decreased by 7.0% over last year to RMB334.84 million. Income from aeronautical business amounted to RMB248.36 million, representing a decrease of 4.4% as compared with that of last year. Income from non-aeronautical business amounted to RMB86.48 million, representing a drop of 13.8% over last year. Net profit attributable to shareholders dropped by 18.2% to RMB151.84 million.

Operation Review

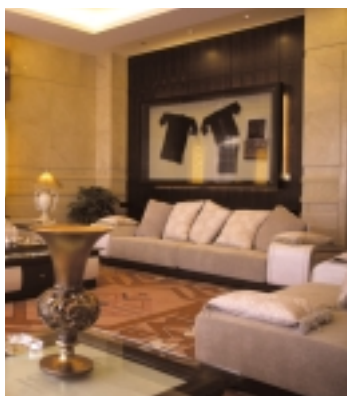
In 2005, the Group's transportation production business was severely impacted by strategic reorganisations and structural adjustments by a number of domestic airlines, tourist market consolidation in Hainan, and a drift of passenger flows upon the commission of the Guangdong-Hainan Railway. On the side of aeronautical business, the annual total aircraft movement reached 68,879 (of which 57,994 being transportation cargo movement), representing an increase of 0.9% over last year. Passenger throughput reached 7.027 million,

representing a decrease of 6% over that of last year. Cargoes throughput decreased by 3.8% over the previous year to 94,728.9 tones. Besides, with the opening of aviation rights in Hailan Province, the Group achieved a drastic increase in international and regional routes. As to international and regional routes, the annual passenger throughput and aircraft movement of 228,000 and 2,496 respectively, which represented an increase of 30.4% and 34%, and marked new highlights for transportation production business during the year.

Outlook

In 2005, the Group experienced a decline in targeted production operation for the first time in its history under an unfavorable operating environment. Looking forward to 2006, the Group will devote greater efforts in developing domestic and international aeronautical markets through various initiatives of income growth and cost savings measurement, with an aim to enhance overall profitability for the Group and strive to achieve better operating results to shareholders.





Broaden the thought of route development to build up a comprehensive Route Network

In early 2005, to resist against market adversities and tough operating environment, the Group has set up a principal business development team to formulate and implement sales and marketing strategies. Timely information supports were customized for airlines, which motivated those airlines to gradually increase their injection of transportation capacities in Hainan Meilan International Airport. In 2006, the Group will dedicate more efforts to explore the development of aviation market and broaden the thought of route development to build up a comprehensive route network. In addition, the Group will devote to the new route tracing and post management tasks, with an aim to consolidate and enlarge the share of aeronautical market.

Persistent Exploration of International Routes for fostering New Sectors of Economic Growth

The Group has driven substantial growth momentums for regional and international routes by fully leveraging on the embedded opportunities arising from the opening of aviation rights in Hainan and by capitalizing on the regional and resources advantages. Hainan Meilan International Airport currently operates 11 international and regional routes. Five new international airlines, including Malaysia Air Asia, Singapore Valuair, Korea Asiana Airlines, Thailand Phuke Airlines and Singapore Silk Air, have opened routes to and from Haikou. In 2006, the Group will take advantage of the speedily growing domestic aeronautical industry by capitalizing on the external momentums of the foreign aeronautical industry in order to establish a firmer foothold in the international aeronautical market and to explore new sectors of economic growth.

Commission of Phase II Expansion

The Group has undergone a trial commission upon the completion of the phase II expansion, followed by a formal commission on 17 January 2006. The expanded new terminal building fully represented a blended mixture of a harmonic, healthy, saving and environmental design. An annual passenger throughput of 9.3 million can be accommodated based on a total terminal building area of 99,300 m², a total apron area of 384,000 m² and 33 aprons spaces. With the completion and commission of the phase II expansion, a solidly strong foundation is set to pave for an expanded operation scale, an enhanced operation quality and an upgraded positioning as a regional aviation pivot on the part of the Group.

People-oriented Philosophy for gearing towards a "harmonic Meilan"

In 2006, the Group will optimize its human deployment system by adhering to a people-oriented philosophy in order to head towards a corporate culture of mutual respect and treasured talent values, as well as a positive mechanism of preferential talent policies. Reinforced job trainings and fully exerted talent potentials will serve to form a base for a total enhancement in operation quality and professional skills. A "harmonic Meilan" will be realized by improving staff compensation policies through gradual reforms in remuneration and welfare packages.

Implement Management Reforms and Enhance Operation Quality

In 2005, the Group put into place a more scientific and reasonable management and control mechanism by taking great leaps in insisting and deepening profound management reforms. 2006 will be a year making the Group's devoted efforts in promoting management reforms for smoother work flows and sustainable improvement in operation efficiency and service quality.

Acknowledgement

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

Zhang Cong

Chairman

Hainan Province, the PRC
21 March 2006