

Report of the Directors

The Board of Directors (the "Board") herein presents their report together with the audited financial statements of Hainan Meilan International Airport Company Limited ("Meilan Airport" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

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 2005, the Group conducted its business within one business segment i.e. the business of operating an airport and provision of related services in the PRC. The Group also operated within one geographical segment and its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

Operating Results and Financial Position

The Group's operating results (prepared in accordance with the International Financial Reporting Standards) for the year ended 31 December 2005, and the financial positions of the Group and the Company as at 31 December 2005 are set out from page 34 to page 74 of this annual report.

Final Dividend

In view of various issues and opportunities facing the Company, the Directors of the Company hereby declared that there will be no further dividend payout for the year ended 31 December 2005.

Closure of Register of Members

The Company's Register of Members will be closed from 25 April, 2006 (Tuesday) to 24 May, 2006 (Wednesday) (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the annual general meeting and qualify for entitlement to vote in the meeting must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited, located at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 24 April, 2006 (Monday) for completion of the registration of the relevant transfer.

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Bank Borrowings

Details of the bank borrowings of the Group and the Company are set out in Note 14 to the accompanying financial statements.

Property, plant and equipment

Details of the property, plant and equipment as at 31 December 2005 and the change in property, plant and equipment of the Group and the Company for the year ended 31 December 2005 are set out in Note 7 to the accompanying financial statements.

Taxation

Details of taxation of the Group (including all tax preferences) and the Company for the year ended 31 December 2005 are set out in Note 20 to the accompanying financial statements.

Reserves

Change in reserves of the Group and the Company for the year ended 31 December 2005 is set out in Note 13 to the accompanying financial statements. Distributable reserves of the Company as at 31 December 2005, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to RMB308,501,000 (2004: RMB215,892,000).

Donations

Charitable and other donations made by the Group during the year amounted to RMB800,000.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2005 are set out in Note 9 to the accompanying financial statements.

Major customers and suppliers

The largest customer and the top five customers of the Group represented 25.6% and 48% of the total operating revenues of the Group for the year ended 31 December 2005, respectively.

The largest supplier and the top five suppliers of the Group represented 12.7% and 32.5% of the total operating costs of the Group for the year ended 31 December 2005, respectively.

Mr. Zhang Han'an, a Director of the Company, holds 20,000 staff shares in Hainan Airlines Company Limited. Save for the foregoing, none of the Directors or Supervisors or their respective associates (as defined under the Rules Governing the Listing of Securities On The Stock Exchange of Hong Kong Limited ("the Listing Rules") or shareholders who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company, has any interests in any of such suppliers or customers.

Share Capital Structure

As at 31 December 2005, the total issued share of the Company was 473, 213, 000 in number. The percentage of the total shares is as follows:

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

Disclosure of interests

As at 31 December 2005, the following persons (other than directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register of interest in shares and short positions maintained under section 336 of the Securities and Futures Ordinance ("SFO"):

Long positions in shares

Domestic shares

Name of shareholders	Capacity	Nature of shares	Ordinary shares capacity	Percentage of issued domestic shares/total issued shares (%)
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000	96.43/50.19

H shares

Name of Shareholders	Capacity	Nature of shares	Ordinary shares capacity (Note 3)	Percentage of total H shares in issue (%)	Date of latest disclosure
Copenhagen Airport A/S (note 2)	Beneficial Owner	Corporate	94,643,000	41.71 (L)	31/12/2004
Deutsche Bank Aktiengesellschaft	Beneficial Owner	Corporate	12,935,000	5.70 (L)	03/01/2006
QVT Financial GP LLC	Beneficial Owner	Corporate	13,135,000	5.79 (L)	29/12/2005
QVT Financial LP (note 4)	Beneficial Owner	Corporate	13,135,000	5.79 (L)	29/12/2005

Note:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
2. Copenhagen Airport A/S is a public company owned by the Danish government and other private and institutional investors in and outside Denmark, and the shares of which are listed on the Copenhagen Stock Exchange.
3. L = Long Position, S = Short Position, P = Lending Pool
4. QVT Financial LP is the controlling shareholder of QVT Financial GP LLC thereby deemed to be a substantial shareholder in the shares of the Company.

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Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2005, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Connected Transactions

Material and persistent related party transactions entered by the Group and the Company during the year ended 31 December 2005 which constitute connected transactions (the "Connected Transactions") under the Listing Rules, are disclosed in note 28 to the accompanying financial statements.

With respect to the persistent Connected Transactions, the Independent Non-Executive Directors are of the opinion that those Connected Transactions:

- a) fall into the category of daily operation of the Company;
- b) were conducted on normal commercial terms; and
- c) were conducted in accordance with the clauses in the agreement governing such transactions. The clauses are fair and reasonable, and of the shareholders interests.

The exception were noted was as follows:

- (a) The agreement with China Southern Airlines Company Limited on the lease of commercial area in the terminal buildings was not reached by the two parties before the Extraordinary General Meeting ("EGM") and was not approved by the EGM by 31 December 2005. The agreement was approved by the Board of Directors on 21 March 2006 and to be approved by the forth coming EGM.
- (b) For the year ended 31 December 2005, due to the Phase II expansion project and the upgrade of the network by the year-end, the transaction volume with Hainan Airlines Information System Company for computer system maintenance increased substantially to approximate RMB1.5 million and the transaction was not declared or announced by 31 December 2005. The agreement with Hainan Airlines Information System Company was approved by the Board of Directors on 21 March 2006 and to be announced.

Based on the work done, the international auditors of the Company have confirmed to the Board the matters set out under Rule 14A.38 of the Listing Rules in respect of those Connected Transactions that:

- a) Except the above matters, the Connected Transactions have been approved by the Board of Directors of the Company;
- b) Except the above matters, the Connected Transactions are in accordance with the pricing policies as disclosed in the section of "Connected Transactions" of Directors' Report in the 2005 Annual Report;
- c) Except the above matters, the Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing the Transactions.
- d) Except the above matters, the Connected Transactions have been entered into under the cap approved by the Extraordinary General Meeting.

Directors', supervisors' and chief executives' interests and short positions

As at 31 December 2005, none of the Directors or Supervisors or Chief Executives had any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be recorded in the register of the Company required to be kept under section 352 of the SFO. None of the Directors, Supervisors, Chief Executives or their spouses or their children under 18 is entitled to subscribe for the shares or debentures of the Company or the members of the Group.

Service contracts, interests in share capital and contracts by directors and supervisors

As at 31 December 2005, the Board Meeting of the Company comprises nine directors.

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

Executive Directors

Zhang Cong	(appointed on 27 January 2006)
Wang Zhen	(appointed on 9 May 2003)
Huang Qiu	(appointed on 9 May 2003)
Gunnar Moller	(appointed on 14 December 2005)

Non-executive Directors

Zhang Han'an	(re-appointed on 19 January 2004)
Kjeld Binger	(re-appointed on 14 December 2005)

Independent non-executive Directors

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

The Company has received the annual confirmation letter on independency of each independent non-executive director.

Supervisors

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

The resigned directors and supervisors as at the date of this report are as follows:

Executive Directors

Kristian Bjerneboe	(resigned on 14 December 2005)
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Non-executive Directors

Chen Wenli	(resigned on 27 January 2006)
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Supervisors

Zhang Cong	(resigned on 27 January 2006)
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Brief biographical details of the Directors and Supervisors are set out on page 20 to page 22 of this annual report. Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years.

None of the Directors, Supervisors or their respective spouses or children under 18 held any shares, debentures or other interests in the Company, nor were they granted, nor have they exercised any rights to subscribe for shares in or debentures of the Company.

During the reported period, none of the Directors or Supervisors of the Company has any material interests in any contracts entered into by the Company or its subsidiaries.

Directors' and supervisors' interests in competing businesses

None of the Directors and Supervisors holds any interests in any competing businesses against the Company or any of its jointly-controlled entities or subsidiaries for the year ended 31 December 2005.

Remuneration of directors and supervisors

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, the remuneration paid to the Chairman and Executive Director of the Company was RMB70,000 per person; the remuneration paid to the Non-executive Director was RMB50,000 per person; the remuneration paid to the Independent Non-executive Director was RMB80,000 per person; and the remuneration paid to Supervisor was RMB20,000 per person. Save for Executive Directors and Supervisors representing staff, none of the Directors or Supervisors is entitled to any other remunerations of the Company. Save as the aforesaid benefits, the Executive Directors and Supervisors who are also Company's staff are also entitled to receive salaries in respect of their respective positions taken on full-time basis in the Company. Details of the remuneration of Directors and Supervisors are set out in Note 18 to the accompanying financial statements.

The highest paid individuals

The five highest paid individuals of the Group during the reported period were either Directors or senior executives of the Company. Details of their remuneration are set out in Note 18 to the accompanying financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no similar restriction against such rights under the relevant PRC law that applicable to the Company as a joint stock limited company incorporated in the PRC. Therefore, the Company is not obliged to offer new shares, if any, to its existing shareholders on a pro-rata basis.

Transactions in its securities

For the year ended 31 December 2005, the Company did not issue or grant any convertible securities, options, warrants or other similar rights. The Company has not redeemed any of its share capital during the year.

Entrusted deposits and overdue fixed deposits

The Group had no entrusted deposits and overdue fixed deposits as at 31 December 2005.

Material litigation or arbitration

The Group had no material litigation or arbitration as at 31 December 2005.

Auditors

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

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

Audit Committee

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

Five year financial summary

A table of the operating results, assets and liabilities of the Group for the last five financial years is set out on page 4.

Public Float Requirement

As to the date of publication, from the public information held by the Company and the knowledge from the directors, the Public Float was 226,913,000 H shares, which contributes 48% to the total shares. This satisfies the minimum requirement of 8.08 in the Listing Rules regarding the Public Float.

By the order of the Board

Zhang Cong

Chairman of the Board

Hainan Province, the PRC

21 March 2006