Notes to the Financial Statements

Year ended 31 December 2005

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 (together as the "Group") are mainly engaged in the operation of the Meilan Airport in Hainan, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2006.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised IFRS

In 2005, the Group adopted the new/revised IFRSs below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment property
IFRS 2	Share-based Payments
IFRS 3	Business Combinations
IFRIC-Int1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC-Int2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC Amendment to SIC-12	Scope of SIC-12 Consolidation – Special Purpose Entities

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33, 39, 40, IFRIC-Int 1, 2 and IFRIC Amendment to SIC-12 did not result in substantial changes to the Group's accounting policies. In summary:

– IAS 1 has affected the presentation of minority interests and other disclosures.

– IAS 2, 8, 10, 16, 17, 24, 27, 28, 31, 32, 33, 39, 40, IFRIC-Int 1, 2 and IFRIC Amendment to SIC-12 had no material effect on the Group's policies.

– IAS 21 had no material effect on the Group's policy. All the Group entities have the same functional currency as their measurement currency.

IFRS 2 had no material effect on the Group's policy. All the Group activities have not undertaken any share-based payment transaction.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The adoption of new/revised IFRS (continued)

The adoption of IFRS 3, IAS 36 and IAS 38 resulted in a change in the accounting policy for goodwill. Until 31 December 2004 goodwill and negative goodwill were:

– Amortised on a straight line basis over a period of 10 years;

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3, IAS 36 and IAS 38:

– The Group ceased amortisation of goodwill and negative goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and negative goodwill;

– From 1 January 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment while negative goodwill was derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings.

– Assets that have indefinite useful lives are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

– 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).

The following new/revised Standards or Interpretations have been issued but are not yet effective. The Group has not early adopted these and expect the adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC-Int 3	Emission Rights
IFRIC-Int 4	Determining whether an Arrangement contains A Lease
IFRIC-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC-Int7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassesment of Embedded Derivatives

2 Summary of significant accounting policies (continued)

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

In the Company's financial statements, interests in subsidiaries are carried at cost less provision for impairment in value. The results of the subsidiaries' operations are accounted for to the extent of dividends received and receivable. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date 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.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at original cost or revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the Directors, less accumulated depreciation and impairment losses. In the intervening years, the Directors review the carrying amounts of the property, plant and equipment and adjustment is made where there has been a material change.

Increases in the carrying amount arising on revaluation of properties, plant and equipment are credited to revaluation surplus reserve in the equity holders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus reserve; all other decreases are charged to the income statement.

Depreciation is calculated on the straight-line method to write off the cost or revalued amount less accumulated impairment losses of each asset to their residual values over their estimated useful life as follows:

Buildings and improvements	15-40 years
Machinery and equipment	10-15 years
Motor vehicles	10 years
Furniture, fixtures and other equipment	6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit from operations. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

Interest costs on borrowings to finance the construction of property, plant and equipment 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.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the cost of construction, costs of plant and equipment and other direct costs plus cost of borrowings (including interest charges and exchange differences arising from foreign currency borrowings to the extent these exchange differences are regarded as an adjustment to interest costs) used to finance these projects during the period of construction or installation and testing. Assets under construction are not depreciated until such time as the relevant assets are completed and ready for their intended use.

2 Summary of significant accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is at least tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (Note g).

(g) Impairment of non-financial assets

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

(h) Financial assets

The Group classified its financial assets into two categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

Regular purchases and sales of investments are recognised on trade-date, which is the date that the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(i) Leases

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

(i) The Company is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Company is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(j) Inventories

Inventories consist mainly of merchandise for resale and consumable items. Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Net realisable value of consumable items is the expected amount to be realised from use, whereas that of merchandise for resale are the estimated selling price in the ordinary course of business, less the marketing and distribution expenses.

(k) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade 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 receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in the current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity.

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

(n) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 Summary of significant accounting policies (continued)

(o) Deferred income tax

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Employee benefits

(i) Pension obligations

For defined contribution plans, the Group participates in employee retirement schemes regarding pension benefits required under existing PRC legislation. 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 costs. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Bonus entitlements

A liability for employee benefits in the form of bonus entitlements is recognised in payroll and welfare payable when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

– there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or

– past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus entitlements are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain that reimbursement will be received if the Group settles the obligation.

Notes to the Financial Statements

Year ended 31 December 2005

2 Summary of significant accounting policies (continued)

(r) Revenue recognition

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

Revenues are recognised as follows:

(i) Airport fee is recognised upon outbound passengers departing from the airport.

(ii) Aeronautical revenues other than airport fee are recognised when the related airport services are rendered.

(iii) Revenues from duty free shops and other shops, air catering, restaurants and lounges are recognised upon delivery of goods and/or when title is passed to customers, or upon rendering of services.

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

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

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

(vii) Franchise fee is recognised on the straight-line basis during the period of granting the right of operations.

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

(ix) Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

(s) Dividend distribution

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

3 Financial risk management

(a) Financial risk factors

The Group and the Company conduct their operations in the PRC and accordingly are subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, influence of national authorities over pricing regulation and competition in the industry.

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that purchases of certain equipment and payment of consulting fee are in US dollars. Dividends to equity holders holding H Shares are declared in RMB and paid in Hong Kong dollars. As at 31 December 2005, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB960,000 (as at 31 December 2004: RMB5,187,000) were denominated in Hong Kong dollars or US dollars. Fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The interest rates and terms of repayment of the bank loans of the Group and the Company are disclosed in Note 14.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(iv) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents to meet its construction commitments.

(b) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgement

Estimates and judgements 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 an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate impairment of property, plant and equipment

Whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, the Group will test whether property, plant and equipment has suffered any impairment in accordance with the accounting policies stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Notes to the Financial Statements

Year ended 31 December 2005

4 Critical accounting estimates and judgement (continued)

(b) Estimate impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policies stated in Notes 2(f) and 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

5 Revenue and segment information

The Group conducts its business within one business segment – the business of operating an airport and provision of related services in the PRC. As the products and services provided by the Group are all related to the operation of an airport and subject to similar business risks, no segment income statement has been prepared by the Group for the year ended 31 December 2005. The Group also operates within one geographical segment because its revenues are primarily generated and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

	Year ended 31 December	
	2005	2004
Analysis of revenue by category	***RMB'000***	*RMB'000*
Aeronautical:		
Passenger charges	**95,366**	101,819
Aircraft movement fees and related charges	**42,262**	42,222
Airport fee	**85,327**	90,176
Ground handling services income	**25,409**	25,536
	248,364	259,753
Non-aeronautical:		
Retailing	**10,160**	21,788
Franchise fee	**15,980**	13,992
Rental	**16,469**	19,307
Tourism	**19,457**	22,165
Advertising	**9,157**	8,247
Car parking	**5,327**	5,072
Others	**9,930**	9,701
	86,480	100,272
Total revenues	**334,844**	360,025

6 Land use right

The interests of the Group and the Company in land use right represent prepaid operating lease payments for land use right outside Hong Kong held on leases of over the terms of 50 to 70 years. The movement of the land use right is as follows:

	The Group and the Company
	RMB'000
Year ended 31 December 2004	
Opening net book amount	168,301
Additions	4,239
Amortisation	(2,409)
Closing net book amount	170,131
As at 31 December 2004	
Cost	179,499
Accumulated amortisation	(9,368)
Net book amount	170,131
Year ended 31 December 2005	
Opening net book amount	170,131
Amortisation	(3,310)
Closing net book amount	166,821
As at 31 December 2005	
Cost	179,499
Accumulated amortisation	(12,678)
Net book amount	166,821

Notes to the Financial Statements

Year ended 31 December 2005

7 Property, plant and equipment

Property, plant and equipment of 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 2004						
Cost or valuation	624,968	77,871	39,364	17,142	771	760,116
Accumulated depreciation	(19,519)	(9,508)	(7,892)	(5,733)	–	(42,652)
Net book amount	605,449	68,363	31,472	11,409	771	717,464
Year ended 31 December 2004						
Opening net book amount	605,449	68,363	31,472	11,409	771	717,464
Additions	9,693	1,359	6,086	2,770	157,782	177,690
Transfer	1,499	–	–	26	(1,525)	–
Disposals *(Note 26)*	–	–	(451)	(1)	–	(452)
Reclassification	–	–	(232)	232	–	–
Depreciation	(16,960)	(7,797)	(7,142)	(2,683)	–	(34,582)
Closing net book amount	599,681	61,925	29,733	11,753	157,028	860,120
As at 31 December 2004						
Cost or valuation	636,160	79,230	44,081	20,220	157,028	936,719
Accumulated depreciation	(36,479)	(17,305)	(14,348)	(8,467)	–	(76,599)
Net book amount	599,681	61,925	29,733	11,753	157,028	860,120
Year ended 31 December 2005						
Opening net book amount	599,681	61,925	29,733	11,753	157,028	860,120
Additions	2,464	123	211	2,421	180,366	185,585
Disposals *(Note 26)*	–	(3)	(18)	(46)	–	(67)
Depreciation	(16,365)	(7,096)	(5,156)	(2,742)	–	(31,359)
Closing net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
As at 31 December 2005						
Cost or valuation	638,624	79,347	44,162	22,459	337,394	1,121,986
Accumulated depreciation	(52,844)	(24,398)	(19,392)	(11,073)	–	(107,707)
Net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279

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

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	**2005 Total *RMB'000***	2004 Total *RMB'000*
Cost	677,599	100,023	55,718	26,690	337,394	**1,197,424**	1,012,156
Accumulated depreciation	(125,330)	(47,652)	(31,312)	(15,538)	–	**(219,832)**	(188,868)
	552,269	52,371	24,406	11,152	337,394	**977,592**	823,288

Depreciation expense of RMB31,248,000 (2004: RMB34,481,000) has been charged in cost of services and sale of goods, RMB45,000 (2004: RMB41,000) in selling and distribution costs and RMB66,000 (2004: RMB60,000) in administrative expenses.

7 Property, plant and equipment (continued)

Property, plant and equipment of the Company were:

	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*
As at 1 January 2004						
Cost or valuation	624,968	77,871	38,849	12,738	745	755,171
Accumulated depreciation	(19,519)	(9,508)	(7,738)	(3,553)	–	(40,318)
Net book amount	605,449	68,363	31,111	9,185	745	714,853
Year ended 31 December 2004						
Opening net book amount	605,449	68,363	31,111	9,185	745	714,853
Additions	9,693	1,359	6,086	2,565	157,782	177,485
Transfer	1,499	–	–	–	(1,499)	–
Disposals	–	–	(451)	(1)	–	(452)
Reclassification	–	–	(232)	232	–	–
Depreciation	(16,960)	(7,797)	(6,968)	(1,840)	–	(33,565)
Closing net book amount	599,681	61,925	29,546	10,141	157,028	858,321
As at 31 December 2004						
Cost or valuation	636,160	79,230	43,566	15,585	157,028	931,569
Accumulated depreciation	(36,479)	(17,305)	(14,020)	(5,444)	–	(73,248)
Net book amount	599,681	61,925	29,546	10,141	157,028	858,321
Year ended 31 December 2005						
Opening net book amount	599,681	61,925	29,546	10,141	157,028	858,321
Additions	2,464	123	211	1,637	180,366	184,801
Disposals	–	(3)	(18)	(46)	–	(67)
Depreciation	(16,365)	(7,096)	(5,130)	(2,016)	–	(30,607)
Closing net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
As at 31 December 2005						
Cost or valuation	638,624	79,347	43,647	17,040	337,394	1,116,052
Accumulated depreciation	(52,844)	(24,398)	(19,038)	(7,324)	–	(103,604)
Net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448

Notes to the Financial Statements

Year ended 31 December 2005

7 Property, plant and equipment (continued)

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

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	2005 Total *RMB'000*	2004 Total *RMB'000*
Cost	677,599	100,023	55,204	21,271	337,394	**1,191,491**	1,007,007
Accumulated depreciation	(125,330)	(47,652)	(30,959)	(11,789)	–	**(215,730)**	(187,852)
	552,269	52,371	24,245	9,482	337,394	**975,761**	819,155

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

	The Group and the Company	
	2005 *RMB'000*	2004 *RMB'000*
Cost	**30,473**	26,072
Accumulated depreciation	**(2,805)**	(1,606)
Net book amount	**27,668**	24,466

An valuation of the property, plant and equipment of the Group was performed at 31 August 2002 by Vigers Hong Kong Limited, independent professionally qualified surveyors, for the purpose of the listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited. Except for the valuation of property which was based on a combination of the open market value and depreciated replacement cost, the valuation of the remaining plant and equipment was based on the open market method. The depreciated replacement cost approach considers the costs to reproduce or replace in new condition the property appraised, in accordance with current construction costs for similar property in the locality, less depreciation whether arising from physical, functional or economic causes. The valuer assumed that the buildings and assets under construction will be used for the purposes for which they are presently used and did not consider alternative uses. A net valuation surplus, being the difference between the valuation surplus of approximately RMB41,449,000 resulted from the revaluation and the related deferred tax of approximately RMB4,968,000, was recorded in Note 13.

Interest expenses capitalised to assets under construction for the year ended 31 December 2005 amounted to RMB7,586,000 (2004: RMB7,496,000) (Note 19). Total accumulated interest expenses capitalised to assets under construction as at 31 December 2005 is RMB16,658,000 (as at 31 December 2004: RMB9,072,000).

8 Goodwill

The amount capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries are as follows:

	Goodwill *RMB'000*	Negative goodwill *RMB'000*	Total *RMB'000*
Year ended 31 December 2004			
Opening net book amount	4,063	(202)	3,861
Amortisation charge	(413)	37	(376)
Closing net book amount	3,650	(165)	3,485
As at 31 December 2004			
Cost	4,063	(202)	3,861
Accumulated amortisation	(413)	37	(376)
Net book amount	3,650	(165)	3,485
Year ended 31 December 2005			
Opening net book amount	3,650	(165)	3,485
Impairment charge	(3,650)	–	(3,650)
Write-off	–	165	165
Closing net book amount	–	–	–
As at 31 December 2005			
Cost	3,650	–	3,650
Accumulated impairment	(3,650)	–	(3,650)
Net book amount	–	–	–

9 Investments in and amounts due from/to subsidiaries

(a) Investments in subsidiaries

	The Company	
	2005 ***RMB'000***	2004 *RMB'000*
Unlisted shares, at cost	**18,094**	18,094

Notes to the Financial Statements

Year ended 31 December 2005

9 Investments in and amounts due from/to subsidiaries (continued)

(a) Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31 December 2005.

As at 31 December 2005, the Company had equity interests in the following principal subsidiaries, all of which are unlisted limited liability company and operating in the PRC:

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

(b) The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and payable on demand.

10 Trade receivables, net

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from third parties	**29,466**	32,172	**29,210**	31,615
Less: provision for impairment of receivables	**(2,248)**	(2,215)	**(2,186)**	(2,186)
	27,218	29,957	**27,024**	29,429
Trade receivables from related parties *(Note 28(c))*	**49,255**	105,419	**48,639**	105,419
Airport fee receivable	**113,201**	29,040	**113,201**	29,040
	189,674	164,416	**188,864**	163,888

10 Trade receivables, net (continued)

As at 31 December 2005, the ageing analysis of the trade receivables from third parties was as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 90 days	20,437	22,375	20,267	22,358
91 – 180 days	3,363	5,906	3,363	5,604
181 – 365 days	2,530	972	2,530	814
Over 365 days	888	704	864	653
	27,218	29,957	27,024	29,429

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

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

As at 31 December 2005, the ageing analysis of the trade receivables from related parties was as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 90 days	45,514	53,416	45,186	53,416
91 – 180 days	2,242	24,461	1,954	24,461
181 – 365 days	1,181	25,043	1,181	25,043
Over 365 days	318	2,499	318	2,499
	49,255	105,419	48,639	105,419

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

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

As at 31 December 2005, the original amount, fair value and ageing analysis of the airport fee receivable were as follows:

	The Group and the Company			
	2005		2004	
	Original amount	Fair value	Original amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 90 days	22,124	21,899	29,040	29,040
91 – 180 days	18,914	18,721	–	–
181 – 365 days	44,289	43,838	–	–
Over 365 days	29,040	28,743	–	–
	114,367	113,201	29,040	29,040

Notes to the Financial Statements

Year ended 31 December 2005

10 Trade receivables, net (continued)

In accordance with the "Notice regarding Questions on Levy and Management Methods of Civil Aviation Airport Construction Fee (the "Notice")" issued jointly by General Administration of Civil Aviation of China (the "CAAC") and Ministry of Finance of the PRC (the "Ministry of Finance") on 22 July 2004, with effect from 1 September 2004, the Airport Fee would be collected together with air tickets sold by the airlines companies instead of being collected at airport directly by the Company. Based on the Notice, the Company should eventually receive the Airport Fee from the Ministry of Finance. After the change in the collection procedures in September 2004, the Company has not collected any Airport Fee because the relevant PRC authorities are still in the process of finalising the detailed procedures for the payment of the Airport Fee to the Company.

The Directors of the Company believes that such receivable will be fully recoverable in 2006. The fair value is estimated based on cash flows, discounted using an effective deposit interest rate of 2.07% per annum.

11 Time deposits and cash and cash equivalents

(a) Time deposits

As at 31 December 2005, the Group and the Company had two deposits (2004: two deposits) placed with Xiamen International Bank amounting to RMB64,468,000 (2004: RMB81,614,000) and one deposit placed with China Merchants Bank, Shenzhen Shatoujiao Branch amounting to RMB20,000,000 (2004: RMB20,000,000). The deposits placed with Xiamen International Bank earn interest at 2.25% per annum and have maturity date of 9 June 2006 and the deposit placed with China Merchants Bank, Shenzhen Shatoujiao Branch earns interest at 2.07% per annum and has maturity date of 26 June 2006.

(b) Cash and cash equivalents, which are also for the purpose of cash flow statement, comprised:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**21,408**	379,976	**10,036**	354,994
Short-term bank deposit	**224,000**	–	**224,000**	–
	245,408	379,976	**234,036**	354,994

The effective interest rate on the short-term bank deposit was 1.71% per annum and the maturity date is 28 March 2006.

12 Share capital

	2005	2004
	RMB'000	*RMB'000*
At 1 January and 31 December		
Share capital registered, issued and fully paid		
246,300,000 Domestic shares of RMB1 each	**246,300**	246,300
226,913,000 H shares of RMB1 each	**226,913**	226,913
	473,213	473,213
Share premium on group reorganisation in 2000	**69,390**	69,390
Share premium on issue net of issuing expenses	**557,647**	557,647
	1,100,250	1,100,250

13 Other reserves

	The Group		
	Revaluation surplus	**Statutory reserves**	**Total**
	(note a)	*(note b)*	
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2004	36,481	53,096	89,577
Transfer from retained earnings	–	25,368	25,368
Balance at 31 December 2004	36,481	78,464	114,945
Balance at 1 January 2005	36,481	78,464	114,945
Transfer from retained earnings	–	22,278	22,278
Balance at 31 December 2005	**36,481**	**100,742**	**137,223**

	The Company		
	Revaluation surplus	**Statutory reserves**	**Total**
	(note a)	*(note b)*	
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2004	36,481	52,624	89,105
Transfer from retained earnings	–	25,280	25,280
Balance at 31 December 2004	36,481	77,904	114,385
Balance at 1 January 2005	36,481	77,904	114,385
Transfer from retained earnings	–	22,243	22,243
Balance at 31 December 2005	**36,481**	**100,147**	**136,628**

Notes to the Financial Statements

Year ended 31 December 2005

13 Other reserves (continued)

(a) Revaluation surplus

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment *(Note 7)*	**36,481**	36,481

(b) Statutory reserves

In accordance with the relevant laws and regulations of the PRC and the Articles of Association of the Company, 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 surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% for the statutory public welfare fund. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees. Title to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

14 Borrowings

As at 31 December 2005, all of the borrowings were borrowed from the bank to finance the construction of the airport terminal, the related premises and facilities and were secured by a floating charge over the Company's revenues.

As at 31 December 2005, loans of RMB103,000,000 (2004: RMB128,000,000) denominated in RMB bear interest at commercial rate of 6.12% per annum (2004: 5.76% per annum) with maturities through 2013 (2004: through 2013).

The bank borrowings were repayable as follows:

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**50,000**	25,000
In the second year	**28,000**	50,000
In the third to fifth year	**17,000**	41,000
After five years	**8,000**	12,000
	103,000	128,000
Less: Current portion of borrowings included in current liabilities	**(50,000)**	(25,000)
	53,000	103,000

The effective interest rate as at 31 December 2005 was 6.12% (2004: 5.76%).

14 Borrowings (continued)

The carrying amounts and fair values of the non-current borrowings are as follows:

	The Group and the Company			
	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings – non-current	**53,000**	103,000	**53,270**	103,387

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.12% (2004: 5.76%).

There were no undrawn banking facilities as at 31 December 2005 (2004: nil).

15 Deferred income tax liabilities

The deferred income tax liabilities arising from the difference between the depreciation and amortisation for accounting purpose and the depreciation and amortisation for tax purpose of the following assets:

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Land use right	**6,454**	6,535
Property, plant and equipment	**4,808**	4,968
	11,262	11,503
Deferred income tax liabilities to be recovered:		
– after more than 12 months	**11,021**	11,262
– within 12 months	**241**	241
	11,262	11,503

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

	The Group and the Company		
	Land use right	Property, plant and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2004 and as at 31 December 2004	6,535	4,968	11,503
Credit to the income statement	(81)	(160)	(241)
As at 31 December 2005	6,454	4,808	11,262

Notes to the Financial Statements

Year ended 31 December 2005

15 Deferred income tax liabilities (continued)

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 RMB442,000 (2004: RMB332,000) in respect of the tax losses of the Group's subsidiaries as at 31 December 2005 of approximately RMB3,052,000 (2004: RMB2,285,000). Tax losses amounting to RMB814,000, RMB727,000, RMB744,000 and RMB767,000 will expire in 2007, 2008, 2009 and 2010 respectively.

Except for the tax losses carry forwards as referred to in the preceding paragraph, there are no other material deferred income tax assets not recognised.

16 Trade and other payables

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**2,621**	4,699	**1,715**	1,355
Other payables	**36,007**	52,867	**30,452**	46,635
Deposits received	**1,326**	1,281	**1,326**	1,281
Due to related parties *(Note 28(c))*	**19,952**	42,365	**15,776**	41,486
	59,906	101,212	**49,269**	90,757

At 31 December 2005, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 -90 days	**17,054**	15,059	**16,428**	12,399
91-180 days	**859**	12,707	**752**	12,707
181-365 days	**484**	17,443	**311**	16,760
Over 365 days	**–**	975	**–**	975
	18,397	46,184	**17,491**	42,841

17 Expenses by nature

Expenses included in cost of services and sale of goods, selling and distribution costs and administrative expenses are analysed as follows:

	2005	2004
	RMB'000	*RMB'000*
Cost of goods and services	**41,977**	44,835
Depreciation of property, plant and equipment *(Note 7)*	**31,359**	34,582
Amortisation of land use right *(Note 6)*	**3,310**	2,409
Employee benefit expense *(Note 18)*	**33,891**	33,364
Amortisation of goodwill *(Note 8)*	**–**	376
Impairment of goodwill *(Note 8)*	**3,650**	–
Other taxes	**4,881**	4,903
Auditors' remuneration	**2,384**	2,121
Consulting fee	**4,587**	6,012
Operating lease rentals – building	**509**	509
Loss on disposal of property, plant and equipment *(Note 26)*	**67**	452
Impairment/(reversal of impairment) of trade receivables	**33**	(2,176)

18 Employee benefit expense

	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	**23,481**	24,737
Pension costs – statutory pension *(Note 24)*	**3,526**	2,784
Staff welfare	**2,172**	1,163
Housing fund *(Note 25)*	**1,841**	1,587
Medical benefits	**1,015**	928
Other allowances and benefits	**1,856**	2,165
	33,891	33,364

As at 31 December 2005, the Group and the Company had 691 and 600 (2004: 714 and 538) employees respectively.

Notes to the Financial Statements

Year ended 31 December 2005

18 Employee benefit expense (continued)

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Wang Zhen	70	72	76	13	231
Huang Qiu	70	58	59	13	200
Kristian Bjorneboe	70	108	70	–	248
Chen Wenli	70	–	–	–	70
Zhang Han'an	50	–	–	–	50
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Fung Ching, Simon	80	–	–	–	80
Xie Zhuang	80	–	–	–	80
Gunnar Moller	–	–	–	–	–

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Wang Zhen	70	54	72	11	207
Huang Qiu	70	41	57	11	179
Kristian Bjorneboe	70	131	80	–	281
Chen Wenli	70	–	–	–	70
Zhang Han'an	51	–	–	–	51
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Meng Jianqiang	62	–	–	–	62
Fung Ching, Simon	18	–	–	–	18
Xie Zhuang	76	–	–	–	76

For the year ended 31 December 2005 and 2004, the emoluments paid to each of the Directors, Supervisors and the five highest-paid employees fell within the band from nil to RMB1 million.

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

18 Employee benefit expense (continued)

(b) Five highest paid individuals

Five highest paid employees included three Directors (2004: three Directors), whose emoluments have been included in the above disclosure. Details of emoluments of another two highest paid employees (2004: two) were:

	2005 *RMB'000*	2004 *RMB'000*
Basic salaries and allowances	123	90
Bonuses	134	132
Retirement scheme contributions	26	21
	283	243

During the year ended 31 December 2005, no emolument was paid to the five Directors, Supervisors and any of the five highest-paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.

19 Interest expense

	2005 *RMB'000*	2004 *RMB'000*
Interest on bank loans		
– not wholly repayable within five years	7,586	7,496
Less: interest capitalised *(Note 7)*	(7,586)	(7,496)
	–	–

20 Income tax expense

Hong Kong profits tax has not been provided as the Group had no estimated assessable profits arising in Hong Kong during the period (2004: Nil). Taxation in the income statement represents provision for PRC enterprise income tax.

	2005 *RMB'000*	2004 *RMB'000*
Current income tax		
– outside Hong Kong	12,478	33
Deferred income tax *(Note 15)*	(241)	–
Income tax expense	12,237	33

Notes to the Financial Statements

Year ended 31 December 2005

20 Income tax expense (continued)

The difference between the annual taxation charge in the consolidated income statement and the amount which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:

	2005 *RMB'000*	2004 *RMB'000*
Profit before taxation	163,651	185,666
Tax calculated at a domestic rate applicable to profits in the Hainan Province	24,548	27,850
Effect of tax holidays	(13,397)	(28,231)
Tax loss not recognised	114	108
Investment income not subject to income tax	–	(28)
Expenses not deductible for tax purpose	972	334
Income tax expense	12,237	33

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (2004: 15%) on the taxable income as reported in their statutory financial statements which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

Pursuant to the approval documents issued by Hainan Qiongshan State Tax Bureau, the Company has been granted full exemption from enterprise income tax from 2000 to 2004 and a 50% reduction from 2005 to 2009.

21 Profit attributable to equity holders of the Company

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of RMB154,601,000 (2004: RMB186,888,000).

22 Earnings per share

– Basic

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

	2005	2004
Profit attributable to equity holders of the Company (RMB'000)	151,844	185,677
Weighted average number of ordinary shares in issue (thousands)	473,213	473,213
Basic earnings per share (RMB per share)	32 cents	39 cents

– Diluted

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the year ended 31 December 2005 and 2004.

23 Dividends

	2005 RMB'000	2004 RMB'000
Interim, paid, of RMB 8.4 cents (2004: RMB10.4 cents) per share	39,750	49,214
No final dividends proposed (2004: RMB7.4 cents) per share	–	35,018
	39,750	84,232

At the Board of Directors' meeting held on 21 March 2006, the Directors declared no further dividend payout for the year ended 31 December 2005.

24 Pensions

All of the Group's full-time employees, who are permanent PRC citizens, are covered by a state-sponsored pension scheme and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the state-sponsored retirement plan at a rate of 20% of the employees' salaries in 2005 and 2004.

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

25 Housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 15% (2004: 15%) of the specified salary amount of its full-time Chinese employees. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2005, the Group's contribution to the housing fund was approximately RMB1,841,000 (2004: RMB1,587,000).

As at 31 December 2005 and 2004, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

Notes to the Financial Statements

Year ended 31 December 2005

26 Notes to consolidated cash flow statement

(a) Reconciliation of profit for the year to cash generated from operations

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Profit for the year	**151,414**	185,633
Adjustments for:		
– Income tax expense	**12,237**	33
– Interest income	**(4,494)**	(4,849)
– Depreciation and amortisation	**34,669**	36,991
– Amortisation of goodwill	**–**	376
– Impairment of goodwill	**3,650**	–
– Write-off of negative goodwill	**(165)**	–
– Loss on sale of property, plant and equipment	**67**	452
– Impairment/(reversal of impairment) of trade receivables	**33**	(2,176)
Change in working capital:		
– Receivables and prepayments	**(18,823)**	(49,660)
– Trade and other payables	**(41,306)**	24,500
– Inventories	**1,124**	(1,021)
Cash generated from operations	**138,406**	190,279

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

	2005	2004
	RMB'000	*RMB'000*
Net book amount	**67**	452
Loss on sale of property, plant and equipment	**(67)**	(452)
Proceeds from sale of property, plant and equipment	**–**	–

27 Commitments

(a) Capital commitments

Capital expenditure in respect of buildings and improvements at the balance sheet date but not yet incurred is as follows:

	The Group and the Company	
	2005	2004
	RMB'000	*RMB'000*
Contracted but not provided for	**41,107**	77,105
Authorised but not contracted for	**76,770**	198,259
	117,877	275,364

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

The Group leases offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**1,949**	646	**509**	646
Later than 1 year and not later than 5 years	**–**	509	**–**	509
	1,949	1,155	**509**	1,155

(c) Operating lease arrangements – where the Group and the Company are the lessor

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**19,262**	5,681	**13,766**	1,937
Later than 1 year and not later than 5 years	**16,387**	693	**15,568**	268
	35,649	6,374	**29,334**	2,205

Notes to the Financial Statements

Year ended 31 December 2005

28 Material related party transactions

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

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

Name of related party	Relationship with the Company	Nature of transactions	Note	The Group 2005 RMB'000	The Group 2004 RMB'000
Revenues:					
Yangzijiang Air Express Company Limited ("Yangzijiang Air Express")	Subsidiary of HNA Group	Income from franchise fee for the operation of the cargo centre	*(i)*	**–**	9,900
Hainan Airlines Food Company Limited ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	*(ii)*	**1,856**	2,078
Hainan Airlines	Shareholder	Income from franchise fee for the operation of the cargo centre	*(i)*	**6,000**	–
		Income for the provision of customary airport ground services	*(iii)*	**73,355**	75,037
		Rental income for the leasing of office and commercial space	*(iv)*	**6,699**	5,839
China Southen Airlines Co., Ltd. ("Southern Airlines ")	Promoter	Income for the provision of customary airport ground services	*(iii)*	**42,895**	38,957
		Rental income for the leasing of office and commercial space	*(iv)*	**5,946**	6,294
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	*(iii)*	**1,993**	2,498

28 Material related party transactions (continued)

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

Name of related party	Relationship with the Company	Nature of transactions	Note	The Group 2005 RMB'000	The Group 2004 RMB'000
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	*(v)*	**12,600**	11,222
		Rental expense paid for the leasing of office and commercial space	*(vi)*	**509**	509
HNA Group	Shareholder	Logistic composite services charged by HNA Group	*(vii)*	**10,741**	9,500
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	*(viii)*	**3,587**	6,011
Sharing of customary airport ground services income:					
Haikou Meilan International Airport Co., Ltd.	Parent Company	Sharing of customary airport ground services income by the Parent Company	*(ix)*	**46,603**	46,905

(i) In accordance with an agreement between the Company and Yangzijiang Air Express dated 17 December 2004, Yangzijiang Air Express would pay an annual franchise fee of RMB9,900,000 to the Company for operating the cargo centre of the Company as well as obtaining the rights to utilise the facilities of the cargo centre with retrospective effect on 1 January 2004. The aforesaid agreement expired on 1 January 2005 and Yangzijiang Air Express ceased operating the cargo centre of the Company since then.

In accordance with the agreement between the Company and Hainan Airlnes dated 26 August 2005, Hainan Airlines would pay a monthly franchise fee of RMB500,000 to the Company for operating the cargo centre with retrospective effect on 1 January 2005.

The aforementioned agreement was approved by the Extraordinary General Meeting on 4 November 2005.

(ii) In accordance with an agreement between the Company and Hainan Food dated 5 January 2005, Hainan Food is granted a right to provide on-board catering services to airlines.

(iii) The Company provided customary airport ground services including landing facilities, basic ground handling services, cargo storage and handling, passenger and baggage security check services and other related services to Hainan Airlines, Southern Airlines and Xiamen Airlines at rates prescribed by the CAAC.

Notes to the Financial Statements

Year ended 31 December 2005

28 Material related party transactions (continued)

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

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

(v) According to a revised airport composite services agreement with a term of three years approved by the Extraordinary General Meeting on 18 May 2005 with retrospective effect from 1 January 2005, the Parent Company has agreed to provide the following services to the Group:

(a) provision of security guard service;

(b) cleaning and landscaping;

(c) sewage and refuse processing;

(d) power and energy supply and equipment maintenance; and

(e) passenger and luggage security inspection.

(vi) The Company and the Parent Company entered into an office lease agreement dated 25 October 2002, the Company rented from the Parent Company office premises for a term of five years at an annual rental of RMB509,000 with effect from 1 January 2002.

(vii) Pursuant to a logistic composite service agreement dated 26 August 2005, HNA Group has agreed to 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; and (e) appliance procurement services with effect from 1 January 2005.

The charges for these services are determined as follows: item (a), at the cost of providing such services shared among the HNA Group, the Company and other relevant companies on a pro rata basis by reference to employee headcount; items (b) and (c) at a fixed price with reference to the relevant cost per employee headcount; and items (d) and (e) at the cost of providing such services plus a 5% and a 1% mark-up as management fees, respectively.

(viii) Pursuant to the technical service agreement dated 16 September 2002 and amended on 30 October 2002 between the Company and CPHI. CPHI has agreed to provide certain technical and consultancy services in respect of the long-term management and development of Meilan Airport.

The Company is required to pay fees to CPHI which consist of a fixed fee component and a performance-related component. The fixed fee component is calculated by reference to the number of consultant-days used in providing the technical and consultancy services. The performance-related component is calculated by reference to the Company's actual earnings before interest, tax, depreciation and amortisation.

28 Material related party transactions (continued)

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

(ix) As directed by the circular (Zong Ju Cai Han No. [2002] 77) issued by the CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company that both parties will share, on the ratio of 75% to the Company and 25% to the Parent Company, the aircraft movement fees for all airlines, passenger charges for domestic airlines and the basic ground handling fees for Hong Kong, Macau and foreign airlines in connection with the airport terminal services and runway services provided to the Group's customers by the Company and the Parent Company, respectively. The Company will collect such fees on behalf of the Parent Company and assumes no liabilities in respect of a default of payment by the airline customers. The Company has accounted for its share of 75% of the aeronautical fees in its consolidated income statement as revenue.

(b) Key management compensation

	2005 *RMB'000*	2004 *RMB'000*
Salaries and other short-term employee benefits	693	607
Bonuses	450	423
Retirement scheme contributions	76	60
	1,219	1,090

(c) As at 31 December 2005, balances with related parties comprised:

	The Group		The Company	
	2005 *RMB'000*	2004 *RMB'000*	2005 *RMB'000*	2004 *RMB'000*
Trade receivables from related parties:				
Hainan Airlines	24,929	79,004	24,929	79,004
HNA Group	5,727	–	5,727	–
Southern Airlines	15,338	15,492	15,009	15,492
Hainan Food	1,724	2,625	1,724	2,625
Yangzijiang Air Express	–	5,477	–	5,477
SPIA *(Note i)*	27	2,499	27	2,499
Xiamen Airlines	1,015	322	1,015	322
Others	495	–	208	–
	49,255	105,419	48,639	105,419

Notes to the Financial Statements

Year ended 31 December 2005

28 Material related party transactions (continued)

(c) As at 31 December 2005, balances with related parties comprised: (continued)

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables from related parties:				
Hainan Da Lung Enterprise Co., Ltd. *(Note ii)*	**1,162**	8,230	**1,162**	8,230
Parent Company	**–**	823	**–**	–
SPIA	**–**	67	**–**	67
Others	**113**	711	**113**	711
	1,275	9,831	**1,275**	9,008
	50,530	115,250	**49,914**	114,427
Payable to related parties:				
Parent Company	**16,508**	36,352	**12,337**	35,473
CPHI	**3,129**	6,011	**3,129**	6,011
Others	**315**	2	**310**	2
	19,952	42,365	**15,776**	41,486

Note:

(i) During the year ended 31 December 2004, Hainan Airlines obtained control over the management of Sanya Phoenix International Airport Company Limited ("SPIA") and as a result, SPIA became a related party of the Company.

(ii) On 10 December 2002, the Company entered into a procurement agreement with Hainan Da Lung Enterprise Co., Ltd., a subsidiary of the Parent Company, under which Hainan Da Lung Enterprise Co., Ltd. would purchase equipment amounting to RMB20,000,000 for the apron of Meilan Airport on behalf of the Company. The Company made full payment to Hainan Da Lung Enterprise Co., Ltd. in December 2002 in accordance with the contract terms. The balance is guaranteed by the Parent Company.

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.