

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2004, Hainan Meilan International Airport Company Limited (“Meilan Airport” or “the Company”) and its subsidiaries (together, “the Group”) made great efforts on promoting the business brand of the Company as an international airport with individualized character under the spiritual guidance of “faithfulness, performance and innovation”. The Group also went through reform of its management system over the business operation. For the six months ended 30 June 2004, the Group’s total revenue was RMB188,867,000 and increased by 42% as compared to the corresponding period of last year. The net profit attributable to shareholders for the period ended 30 June 2004 was RMB101,630,000 and increased by 96% as compared to the corresponding period of last year. Earnings per share for the period ended 30 June 2004 was RMB0.21 (for the period ended 30 June 2003: RMB0.11).

BUSINESS REVIEW

1. *Aeronautical Business*

In the first half of 2004, the Group’s traffic throughput recorded considerable increase. During the six months ended 30 June 2004, accumulative passenger throughput totaled 3,852,000. Aircraft movement recorded 35,688. Cargo throughput was 53,836.5 tons. As compared to the corresponding period of last year, the above three sectors were increased by 54%, 14% and 33% respectively.

The Group’s total revenue generated from its aeronautical business during the six months ended 30 June 2004 was increased by 51% to RMB137,043,000.

In the first half of 2004, in order to accommodate the increasingly arising traffic throughput at Meilan Airport, the Group carried out the expansion plan that has been resolved before. The expansion plan includes extension of the terminal building, renovation of certain facilities installed at the passengers waiting hall, building up a commercial analysis system and addition of ten parking stands. The completion of the entire expansion plan is expected to be accomplished and put to use in the first quarter of 2005, by which time Hainan Meilan Airport will be capable of accommodating 9,300,000 passenger throughput per year that designed for the airport’s full capacity for the year of 2009.

As discussed in previous reports and announcements, the PRC central government has adopted certain policies in 2003 and earlier 2004 in respect of opening up aviation industry to foreign airlines in Hainan Island as a pilot project, and Meilan Airport has already benefited from such policies in the first half of 2004. On 25 March 2004, Thailand Phuket Airlines opened the route by chartered flight from Bangkok to Haikou, and on 28 March 2004, Malaysia Airlines opened the route by chartered flight from Kuala Lumpur to Haikou. During the six months ended 30 June 2004, international and regional aircraft movement in Meilan Airport recorded 945, passenger throughput recorded 86,045 person time, and cargo throughput recorded 1,084.5 tons. As compared to the corresponding period of last year, the above three sectors were increased by 78%, 109% and 89% respectively. By the end of June 2004, Meilan Airport opened four international routes with fixed flight schedule and eight international routes with unfixed flight schedule. The Group will continually put efforts on attracting more international airlines to open direct route to or en route of Meilan airport.

2. *Non-aeronautical Business*

During the six months ended 30 June 2004, the Group's revenue generated from non-aeronautical business was increased by 21% to RMB51,824,000. The growth is mainly attributable to the rapid increase of passenger throughput and the co-operation with Select Service Partner ("SSP") of Compass Group, one of the largest food service groups in the world, for co-operation in food and beverage operation at the airport.

During the period under review, the Group has devoted to develop its existing non-aeronautical business and the following remarkable achievement was recorded:

- The Group retained and assisted ACNielsen, an internationally renowned consulting firm to make comprehensive investigation and review of the composition of the passengers at Meilan Airport, which provides abundant reference data to the future business development for the Company.
- The first phase and second phase of the food and beverage development project with SSP were completed and operation commenced, which has brought not only convenience to passengers but also economic benefit to the Group.
- Active negotiations were conducted between the Company and internationally renowned retailers on operation of retail business in the terminal building.
- Revenues from the Group's advertising business recorded RMB4,144,000, increased by 56% compared to the corresponding period of last year.
- Revenues from the Group's travel agency business recorded RMB13,595,000, increased by 37% compared to the corresponding period of last year.

3. *Enhanced Service Quality*

The Group has been actively devoting to enhance its service standard and quality at Hainan Meilan Airport and the Company, as part of such efforts, sent certain staff to Copenhagen Airport, Singapore Changi Airport, Shanghai Pudong Airport and Chengdu Shuangliu Airport to do on-the-spot study and training. New service standards were adopted and the airport's business model was restructured with aim to building a brand-new and high-standard service system. Such efforts have got very positive feedbacks from the passengers, especially from those honorable sponsors and attendees of the major events, such as the Bo'ao Asia Forum, National People's Congress Conference and the Chinese People's Political Consultative Conference. As an accommodating airport for those events, the Company played a very important role in terms of coordination.

FINANCIAL REVIEW

1. *Liquidity and Financial Resources*

As of 30 June 2004, the Group had total current assets of RMB737,576,000, comprising cash and cash equivalents of RMB426,828,000, time deposit of RMB100,000,000, net accounts receivable of RMB45,340,000, inventories of RMB3,487,000, prepayments, deposits and other receivables of RMB40,550,000, and amounts due from related parties of RMB121,371,000.

As of 30 June 2004, the Group's current liabilities were RMB87,092,000, comprising accounts payable of RMB2,642,000, accrued liabilities and other payables of RMB57,574,000, airport fee payable of RMB5,688,000, due to related parties of RMB18,859,000, tax payables of RMB897,000, and deposits received of RMB1,432,000.

2. *Operating Costs*

For the first half of 2004, operating costs of the Group were RMB50,012,000, representing an increase of 18% compared to the corresponding period last year. The rise in expenses was mainly attributable to the increase in costs of RMB3,690,000 in relation to the travel and commodities sale with the increase of its incomes and the open of new apron and the inspection joint operation building led to the depreciation cost of RMB1,100,000.

The Group's administrative expenses for the first half of 2004 were RMB27,892,000, representing an increase of 4% from last year.

3. *Gearing Ratio and Current Ratio*

As at 30 June 2004, the Group had total current assets of RMB737,576,000, total assets of RMB1,655,034,000, total current liabilities of RMB87,092,000, total liabilities of RMB226,595,000. Gearing ratio (total liabilities/total assets) of the Group was 14%, almost equal to that in the end of last year.

4. *Charge on Group's Assets*

The long-term loan balance from China Development Bank of RMB128,000,000 is secured by a floating charge over the Company's revenue.

5. *The Group's Capital Structure*

As at 30 June 2004, the Company had a total issued share capital of RMB473,213,000 and reserves of RMB954,157,000.

6. *Material Investment, Performance and Future Prospects*

As at 30 June 2004, the Group and the Company had no major investments.

7. *Acquisition and Disposal*

As at June 30 2004, the Company had no purchase, sales and redemption of shares.

8. *Entrusted Deposits and Overdue Fixed Deposits*

As at June 30 2004, the Company had no entrusted deposits and overdue fixed deposits.

9. *Contingent Liabilities*

As at June 30 2004, the Group had no significant contingent liabilities.

10. *Exposure to Foreign Exchange Risk*

As all business operations of the Group were in China, including Hong Kong and Macau, all assets and liabilities were denominated in Renminbi, Hong Kong Dollars and US Dollars, the Directors believe that the Group does not have any material foreign exchange risk on its operations. During the period under review, the Group did not experience any material difficulty or negative impact on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors also believe that the Group has sufficient foreign exchange to meet its foreign exchange requirements.

06 11. *Connected Transactions with Yangzijiang and Hainan Food*

- (i) On 12 August 2002, the Company entered into an agreement with Yangzijiang Air Express Company Ltd (“Yangzijiang”), a subsidiary of HNA Group Ltd, a substantial shareholder of the Company, pursuant to which Yangzijiang paid a RMB18,000,000 annual franchise fee to the Company for the operation of the Company’s cargo centre with the rights to utilise the facilities of the cargo centre with effect from 1 June 2002. The aforesaid agreement expired on 1 January 2004 and, as at the date of this report, the Company is in the process of negotiating the new contract and franchise fee with Yangzijiang. Pursuant to a letter from Yangzijiang dated 1 September 2004, Yangzijiang agreed to pay the Company an amount not less than 50% of the franchise fee determined under the aforesaid expired agreement. For the period ended 30 June 2004, the Directors considered that it is appropriate to recognise the relevant franchise fee revenue to the extent that Yangzijiang has agreed to pay, amounting to RMB4,500,000.
- (ii) On 31 December 2000, the Company entered into a Catering Service Agreement with Hainan Airlines Food Company Ltd (“Hainan Food”), a subsidiary of Hainan Airlines Company Ltd, a substantial shareholder of the Company, granting the latter the right to provide on-board catering services to airlines for a term of three years for a franchise fee of RMB4,380,000 per annum. The aforesaid agreement expired on 1 January 2004 and, as at the date of this report, the Company is in the process of negotiating the new contract and franchise fee with Hainan Food. Pursuant to a letter from Hainan Food dated 1 September 2004, Hainan Food agreed to pay the Company an amount not less than 50% of the franchise fee determined under the aforesaid expired agreement. For the period ended 30 June 2004, the Directors considered that it is appropriate to recognise the relevant franchise fee revenue to the extent that Hainan Food has agreed to pay, amounting to RMB1,095,000.

NO OTHER MATERIAL CHANGE

Other than those discussed in this interim report, there has been no material change in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules from the information disclosed in the Company's 2003 Annual Report.

PROSPECTS FOR THE LATTER HALF-YEAR

For the second half of 2004, the Group aims at continuously building up the Company's brand as an outstanding international airport, enhancing the operation and management efficiency and service quality, introducing advanced management expertise from foreign airports and endeavouring to improve management quality of Meilan Airport. In addition, more efforts will be put on acquisition of other suitable airports in order to increase revenue and profit of the Group. The Group will also continuously introduce more and more foreign airlines to open and operate international flights to Haikou to take advantage of the preferential policies granted to Hainan in terms of opening up aviation industry to foreign investors. The major construction of Phase II expansion project is expected to be completed at the end of 2004 and facilities installation and decoration will begin thereafter. The Group will further apply the funds raised from issuance of H Shares to implement the Group's other projects for further enhancement of the Company's value and shareholders' returns. The Directors are very confident in achieving the foregoing goals in year 2004.

INTERIM DIVIDEND

The Board has resolved the payment of an interim dividend of RMB10.4 cents per share for the six months ended 30 June 2004 amounting to a total of RMB49,214,000 to the shareholders of the Company whose names appear on the Company's Register of Members on Friday, 15 October 2004. In accordance with the Articles of Association of the Company, dividends payable to holders of Domestic Shares will be paid in Renminbi, whereas dividends payable to holders of H Shares will be calculated and declared in Renminbi and paid in Hong Kong Dollars. The exchange rate to be adopted shall be the average closing rates for the five working days preceding the date of dividend declaration as quoted by the People's Bank of China.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 18 October 2004 to Friday, 22 October 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all instruments of transfers, accompanied by the relevant share certificates, must be lodged with the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4 p.m. on Friday, 15 October 2004. The interim dividend is expected to be payable on or before Thursday, 28 October 2004 to shareholders whose names appear on the Register of Members on Friday, 15 October 2004.

MATERIAL LITIGATION AND ARBITRATION

The Company had no material litigation or arbitration as at 30 June 2004.