MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2006, the structural adjustment in the PRC aviation market and the change of travel pattern led to the continuing decline in traffic volume of Meilan Airport. To counter the declining trend of its operation, Hainan Meilan International Airport Company Limited ("Meilan Airport" or the "Company") and its subsidiaries (collectively referred to as the "Group") have established a new airport management system with a streamlined structure that promotes efficient management and cost-effective operation. In addition, the Group continued to embrace the philosophy of "faithfulness, results-oriented and innovation" while adopting a series of measures to broaden income sources and reduce expenditure, with the view of consolidating the foundation of handling international flights and expediting the exploration of domestic routes. The Group also proactively developed non-aeronautical business and continued to strengthen internal reform. By pursuing cost-effective development, the Group accelerated the transformation of an operating enterprise into a managing one.

For the six months ended 30 June 2006, the Group's total revenue amounted to approximately RMB176,554,000, representing an increase of 1.5% as compared to the corresponding period of last year. Net profit attributable to shareholders of the Company decreased by 1.5% from the corresponding period of last year to RMB79,642,000. Earnings per share amounted to RMB17 cents (for the six months ended 30 June 2005: RMB17 cents).

For the six months ended 30 June 2006, the decrease in the Group's net profit attributable to shareholders was mainly attributable to the growth in depreciation cost, which was increased by RMB3,700,000 as compared to the corresponding period of last year, with the inauguration of the Phase II expansion of the airport terminal building.

BUSINESS REVIEW

1. Aeronautical Business

For the six months ended 30 June 2006, accumulated passenger throughput and aircraft movement totaled to 3,515,700 and 32,942, representing a decreases of 3.1% and 6.6% respectively as compared to the corresponding period of last year. Cargo throughput, on the other hand, reached 53,816.4 tons, representing an increase of 2.8% when compared with that of the corresponding period of last year.

Due to the decline in traffic volume, revenue from the Group's aeronautical business was RMB122,730,000, representing a decrease of 4.7% as compared to the corresponding period of last year.

Major reasons for the drop in traffic volume and counter-measures

Major factors leading to the decline in traffic volume of Meilan Airport included:

1) Impact of the strategic adjustment of airlines

Domestic airlines continued to strengthen the establishment of routes to and from aviation hubs and major cities. Coupled with the further concentration of aviation traffic capacity in high-yielding routes, traffic capacity allocated to Haikou reduced. The top six airlines with the largest cuts in traffic capacity are Hong Kong Dragon Airlines Limited, Sichuan Airlines Co., Ltd., China Southern Airlines Co., Ltd. ("China Southern"), Air China Co., Ltd., China Eastern Airlines Co., Ltd. and Hainan Airlines Co., Ltd. ("Hainan Airlines").

2) Impact of structural change in travel pattern

In 2006, the main theme of the PRC domestic travel market has been focusing on short distance trip and self-driving trips, causing significant change in the traveling structure in travel industry which directly affected Hainan Island, especially for those long distance trips to Haikou.

3) Diffluent impact of other airports in Hainan province

With increasing awareness and competitiveness of Sanya, the influence of this city in tourism continued to enhance. As such, the diffluent impact of Sanya Phoenix International Airport became increasingly significant, which indirectly affected the passenger throughput of Meilan Airport.

4) Demand for further improvement in tourism promotion of Haikou to both domestic and overseas markets

Different regions in the PRC actively promote tourism, among which the tourism promotion in Haikou has further room for improvement in attracting more tourists to visit Hainan province. In response to intensified market competition, the Group has taken proactive measures to step up its marketing promotion. The Company's management also paid visits to airlines in different scales, so as to foster better relationships. Furthermore, the management collected and analyzed the latest information of the aviation market, which help them to devise practical measures of routes development in a timely manner. The Group endeavors to propel aeronautical business development to boost traffic volume of Meilan Airport.

Development progress of new international routes

Amidst the unfavorable market of declining passenger throughput in Meilan Airport, the Group strived for strengthening its relationship with both domestic and foreign airlines. While the Group also took advantages of participating in the 2006 New Routes Asia Conference to promote the opening of Hainan aviation rights as well as Hainan's tourism resources to foreign airlines. In addition, the Group also established an effective communication system to attract foreign airlines to launch routes to Haikou.

In July 2006, the Group confirmed the first foreign low-cost airlines, Tiger Airways Pte Ltd. from Singapore, to open 1 daily flight between Haikou and Singapore.

In addition, the Group is dedicated to resolve the problem relating to international routes and formulated development plan of international flights. By communicating with airlines in Southeast Asia and conducting research and analysis on the international aviation market, the Group hoped to restore the charter flights between Haikou and Southeast Asia and consolidate the results in exploring international routes.

As at 30 June 2006, there were 7 international routes to and from Meilan Airport. Passenger throughput of international routes at Hainan Meilan International Airport reached 67,356 persons with aircraft movements totaled to 573 and cargo throughput amounted to 1,296.4 tons, representing an increase of 43.9%, 8.3% and 43.7% as compared to corresponding period of last year respectively. The segment, once again, became the Group's operation highlights and ensured revenue from its aeronautical business.

2. Non-aeronautical business

For the six months ended 30 June 2006, revenue derived from the Group's non-aeronautical business was RMB53,824,000, representing an increase of 19.3% over the corresponding period of last year. The main reason is that, as a result of the inauguration of Phase II Expansion of airport terminal building, the business of Duty Free Shoppers Hong Kong Limited ("DFS") has been fully expanding in Meilan Airport. The concession operation of the Group has recorded income of RMB14,040,000, representing an increase of 99.2% as compared to the corresponding period of last year.

- The Group's advertising company achieved revenue of RMB5,673,000, representing a 32.9% increase over the corresponding period of last year. The Group has successfully introduced more than 30 customers, including Beijing Shengshi United Advertising Co., Ltd., Chery Automobile Co., Ltd., Maersk China Co., Ltd., Sheraton Haikou Resort and Gloria Resort Sanya during the first half of the year;

- The Group's tourism transportation business recorded revenue of RMB11,796,000, which was a 13.6% growth over the corresponding period of last year;

- The Group's car park operation business recorded revenue of RMB2,778,000 during the first half of the year, representing a decrease of 2.2% as compared to corresponding period of last year;

The Group exerted tremendous efforts in achieving stable increase in its existing non-aeronautical business segment while proactively developing new business projects, with the view of broadening the income source of non-aeronautical businesses. The Group has actively carried out the business of opening the new VIP room to the public, such as introducing many companies including the Bank of Communications and China petroleum & Chemical Corporation to name the VIP room in the new airport terminal.

3. Service Branding

Leveraged on the opportunities arising from the inauguration of the Phase II expansion project of the airport terminal building, the Group continued to reinforce its service philosophy, develop innovative services, enhance service standards, fully improve safety management hardware facilities and strengthen staff safety awareness, so as to constantly upgrade our service level and safety quality, thereby emerging as an outstanding international airport. During the first half of the year, the Group effectively provided the ancillary services for large-scale activities like the annual meeting of Bo'ao Forum For Asia, the Spring Festival and the Golden Week of May Holiday, receiving full recognition and praise from a wide diversity of sectors.

FINANCIAL REVIEW

1. Liquidity and financial resources

As at 30 June 2006, the Group's current assets amounted to RMB586,960,000, comprising cash and cash equivalents of RMB214,768,000, time deposits of RMB84,468,000, net receivables of RMB254,708,000, inventories at cost of RMB3,832,000, other receivables and prepayments of RMB14,321,000 and amounts due from related parties of RMB14,863,000.

As at 30 June 2006, the Group's current liabilities amounted to RMB190,720,000, comprising the outstanding principal of the long-term loans and due within 1 year of RMB39,000,000, other payables of RMB146,974,000 and current income tax liabilities of RMB4,746,000.

2. Operating costs

For the first half of 2006, the Group's costs of services and sales of goods amounted to RMB55,806,000, representing an increase of 16.9% as compared to the corresponding period of last year. The increase was mainly attributable to the inauguration of the Phase II Expansion of terminal building which led to an increase by RMB3,017,000 related to the consumption fee as compared to corresponding period of last year. The depreciation fee of the Phase II expansion project has also increased by RMB3,700,000.

During the first half of 2006, the Group's administrative expenses amounted to RMB28,572,000, representing a decrease of 15.3% as compared to the corresponding period of last year. The main reasons of the decrease are as follows:

1. The impairment of goodwill of RMB3,650,000 was made in the corresponding period of last year.

2. The salaries of the management decreased by RMB1,300,000 as compared to the corresponding period of last year.

3. Gearing ratio

As at 30 June 2006, the Group had current assets of RMB586,960,000 and total assets of RMB1,860,389,000. Current liabilities and total liabilities amounted to RMB190,720,000 and RMB240,862,000 respectively. The Group's gearing ratio (total liabilities/total assets) was 12.9%, representing an increase of 2.7% compared to that as at 31 December 2005, which was mainly due to the inauguration of the Phase II of terminal building that led to the increase by RMB88,700,000 in the payables.

4. Pledge of the Group's assets

The Group pledged its rights to revenues, including the rights of the airport fee to secure a long-term bank loan of RMB128,000,000 from China Development Bank. As at 30 June 2006, the balance of bank loan was RMB78,000,000.

5. Share capital structure of the Group

As at 30 June 2006, the share capital of the Company was RMB473,213,000.

6. Performance and prospect of substantial investments held

As at 30 June 2006, the Group or the Company did not have any significant investment.

7. Purchases, Sales or Redemption of Shares

As at 30 June 2006, the Group or the Company had not purchased, sold or redeemed any of the Company's shares.

8. Entrusted deposits and overdue fixed deposits

As at 30 June 2006, the Group or the Company did not have any entrusted deposits and overdue fixed deposits.

9. Contingent liabilities

As at 30 June 2006, the Group or the Company did not have any contingent liabilities.

10. Exposure to foreign exchange risks

Except for the purchase of certain equipment, goods and materials and the payment of consultancy fees which are denominated in US Dollar, the Group's business is mainly denominated in Renminbi ("RMB"). Dividends to equity holders holding H shares are declared in RMB and paid in Hong Kong Dollar. As at 30 June 2006, the Group's other assets and liabilities were denominated in RMB, only cash and cash equivalents of approximately RMB759,000 were denominated in HK Dollar or US Dollar. The Directors believe that the Group's business is not subject to any substantial foreign exchange risk.

NO OTHER MATERIAL CHANGE

Other than those discussed in this interim report, there has been no material change in relation to the information disclosed in the Company's 2005 Annual Report in accordance with Rule 32 set out in Appendix 16 to the Listing Rules.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

For the second half of 2006, the Board of the Company forecasts that, the traffic volume of Meilan Airport will be affected by a series of factors and the market conditions will still remain to be unfavorable. The Group will continue to pursue cost-effective development and strengthen the development of its domestic and international aeronautical businesses, with an aim of achieving a turnaround in the declining trend of traffic volume of the domestic flight market. The Group will also coordinate and resolve the issue of opening flight routes to and from Hainan in a proactive manner and further develop international routes to maintain the positive growth momentum of its international aeronautical business.

In addition, the Group will also reinforce the reform of its internal operating system and expedite the development of subcontracting business to enhance income level. By strengthening human resources development as well as the management standard, the Group is dedicated to further optimizing its overall quality. The Group will apply the remaining funds raised from the issuance of H Shares to gradually implement its stated plans, realize its business development strategy for the improvement of the Company's value and bring fruitful returns to equity holders.

INTERIM DIVIDENDS

The Directors of the Company hereby declared that there will be no dividend payout for the six months ended June 30 2006.

MATERIAL LITIGATION AND ARBITRATION

The Company had no material litigation or arbitration from 1 January 2006 to 30 June 2006.