

## 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 unaudited condensed consolidated interim financial information is presented in thousands of Renminbi (RMB'000), unless otherwise stated. This unaudited condensed consolidated interim financial information has been approved for issue by the Board of Directors on 14 September 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 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with International Accounting Standards 34, 'Interim financial reporting' promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

## 3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures'

Amendment to IAS 39, Amendment to 'The fair value option'

Amendment to IAS 21, Amendment 'Net investment in a foreign operation'

Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions'

Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts'

### 3 ACCOUNTING POLICIES *(continued)*

IFRS 6, 'Exploration for and evaluation of mineral resources'

IFRIC 4, 'Determining whether an arrangement contains a lease'

IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds'

IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded the following interpretation is relevant to the Group:

IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts and considered this interpretation has no significant impact on the recognition and reclassification of the Group's leases.

Other amendments and interpretations are not relevant to the Group.

#### 4. REVENUES 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 six months ended 30 June 2006. 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.

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
<b>Analysis of revenue by category</b>	<b>RMB'000</b>	RMB'000
Aeronautical:		
Passenger charges	<b>47,831</b>	49,528
Aircraft movement fees and related charges	<b>22,048</b>	21,687
Airport fee	<b>43,185</b>	44,289
Ground handling services income	<b>9,666</b>	13,324
	<b>122,730</b>	128,828
Non-aeronautical:		
Retailing	<b>5,573</b>	7,131
Franchise fee	<b>14,040</b>	7,050
Rental	<b>8,654</b>	8,808
Tourism	<b>11,796</b>	10,384
Advertising	<b>5,673</b>	4,269
Car parking	<b>2,778</b>	2,840
Others	<b>5,310</b>	4,639
	<b>53,824</b>	45,121
Total revenues	<b>176,554</b>	173,949

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 5 CAPITAL EXPENDITURE

	Land use right RMB'000	Property, plant and equipment RMB'000
<b>Six months ended 30 June 2005</b>		
<b>Opening net book amount 1 January 2005</b>	170,131	860,120
Additions	–	88,734
Disposals	–	(55)
Amortisation/depreciation	(1,463)	(16,740)
	<u>168,668</u>	<u>932,059</u>
<b>Six months ended 30 June 2006</b>		
<b>Opening net book amount at 1 January 2006</b>	166,821	1,014,279
Additions	–	113,232
Disposals	–	(4)
Amortisation/depreciation	(1,309)	(19,590)
	<u>165,512</u>	<u>1,107,917</u>

### 6 TRADE RECEIVABLES, NET

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade receivables from third parties	25,451	29,466
Less: provision for impairment of receivables	(2,248)	(2,248)
	<u>23,203</u>	<u>27,218</u>
Trade receivables from related parties (Note 16(c))	75,695	49,255
Airport fee receivable	155,810	113,201
	<u>254,708</u>	<u>189,674</u>

## 6 TRADE RECEIVABLES, NET *(continued)*

As at 30 June 2006, the ageing analysis of the trade receivables from third parties was as follows:

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
0 – 90 days	<b>17,747</b>	20,437
91 – 180 days	<b>5,136</b>	3,363
181 – 365 days	<b>96</b>	2,530
Over 365 days	<b>224</b>	888
	<b>23,203</b>	27,218

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 30 June 2006, the ageing analysis of the trade receivables from related parties was as follows:

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
0 – 90 days	<b>38,756</b>	45,514
91 – 180 days	<b>25,486</b>	2,242
181 – 365 days	<b>9,814</b>	1,181
Over 365 days	<b>1,639</b>	318
	<b>75,695</b>	49,255

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

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 6 TRADE RECEIVABLES, NET *(continued)*

As at 30 June 2006, the original amount, fair value and ageing analysis of the airport fee receivable was as follows:

	30 June 2006		31 December 2005	
	Original amount RMB'000	Fair value RMB'000	Original amount RMB'000	Fair value RMB'000
0 – 90 days	17,961	17,762	22,124	21,899
91 – 180 days	25,225	24,946	18,914	18,721
181 – 365 days	41,038	40,584	44,289	43,838
Over 365 days	73,329	72,518	29,040	28,743
	<u>157,553</u>	<u>155,810</u>	<u>114,367</u>	<u>113,201</u>

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 has been 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 government authorities are still in the process of finalising the detailed procedures for the payment of the airport fee to the Company.

At 31 December 2005, the directors of the Company assessed the receivable amounting to RMB114,367,000 would be fully recoverable in the middle of 2006. At 30 June 2006, this amount has not yet been received and the directors have made a re-assessment of its recoverability. Based on actions now taken and the discussion with the relevant government authorities by the management, the directors considered the accumulated balance as at 30 June 2006 amounting to RMB157,553,000 would ultimately be fully recoverable. During the six months ended 30 June 2006, the Company had recognised an impairment loss of RMB1,743,000 (2005: RMB1,166,000), considering the cash flows and discounted using the effective interest rate of 2.25% per annum. The difference between the face and fair value of the amount is recognised as interest income and included in "Other gains" in the subsequent period.

## 7 SHARE CAPITAL

	RMB'000
At 31 December 2005 and 30 June 2006	
Share capital registered, issued and fully paid	
246,300,000 Domestic shares of RMB 1 each	246,300
226,913,000 H shares of RMB 1 each	226,913
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	473,213
Share premium on group reorganisation in 2000	69,390
Share premium on issue net of issuing expenses	557,647
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	1,100,250
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## 8 OTHER RESERVES

Until 31 December 2005, 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.

Starting from 1 January 2006, pursuant to revised "Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by Ministry of Finance ("MOF") (Cai Qi [2006]No.67), the Company shall cease to provide for the statutory public welfare fund out of appropriation of net profit. The balance of public welfare fund as at 31 December 2005 is converted into statutory reserve. The profit appropriation to statutory reserve fund remained unchanged.

## 9 BORROWINGS

As at 30 June 2006, the borrowings were borrowed from the banks 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 30 June 2006, loans of RMB78,000,000 (As at 31 December 2005: RMB103,000,000) denominated in RMB bear interest at commercial rates of 6.39% per annum (2005: 5.76% per annum) with maturities through 2013 (As at 31 December 2005: through 2013).

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 9 BORROWINGS (continued)

The bank borrowings were repayable as follows:

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
Within one year	<b>39,000</b>	50,000
In the second year	<b>21,000</b>	28,000
In the third to fifth year	<b>8,000</b>	17,000
After five years	<b>10,000</b>	8,000
	<b>78,000</b>	103,000
Less: Current portion of borrowings included in current liabilities	<b>(39,000)</b>	(50,000)
	<b>39,000</b>	53,000

### 10 TRADE AND OTHER PAYABLES

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
Trade payables	<b>2,594</b>	2,621
Other payables	<b>117,016</b>	36,007
Deposit received	<b>1,283</b>	1,326
Due to related parties (Note 16(c))	<b>26,081</b>	19,952
	<b>146,974</b>	59,906

At 30 June 2006, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
0 – 90 days	<b>22,786</b>	17,054
91–180 days	<b>875</b>	859
181–365 days	<b>4,292</b>	484
Over 365 days	<b>311</b>	–
	<b>28,264</b>	18,397



## 11 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Cost of goods and services	22,867	20,904
Depreciation of property, plant and equipment (Note 5)	19,590	16,740
Amortisation of land use right (Note 5)	1,309	1,463
Employee benefit expense	16,124	16,231
Impairment and amortisation of goodwill	–	3,650
Other taxes	2,464	2,505
Auditors' remuneration	1,033	1,064
Consulting fee	2,139	1,911
Operating lease rentals – building	255	255
Impairment of trade receivables	1,743	35

## 12 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 (for the six months ended 30 June 2005: Nil). Taxation in the income statement represents provision for PRC enterprise income tax.

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Current income tax		
– outside Hong Kong	6,737	6,880
Deferred income tax	(120)	(120)
Income tax expense	6,617	6,760

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 12 INCOME TAX EXPENSE *(continued)*

The difference between the 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:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Profit before taxation	<u>86,267</u>	<u>87,158</u>
Tax calculated at a domestic rate applicable to profits in the Hainan Province	12,940	13,074
Effect of tax holidays	(6,473)	(6,732)
Tax loss not recognised	36	267
Expenses not deductible for tax purpose	<u>114</u>	<u>151</u>
Income tax expense	<u>6,617</u>	<u>6,760</u>

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (for the six months ended 30 June 2005: 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 Qionghua 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.

## 13 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 period.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	<u>79,642</u>	<u>80,890</u>
Weighted average number of ordinary shares in issue (thousands)	<u>473,213</u>	<u>473,213</u>
Basic earnings per share (RMB per share)	<u>17 cents</u>	<u>17 cents</u>

### – Diluted

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2006 and 2005.

## 14 DIVIDENDS

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interim, proposed, of nil ( six months ended 30 June 2005: RMB 8.4 cents) per ordinary share	<u>–</u>	<u>39,750</u>

At a meeting held on 14 September 2006, the Directors declared no interim dividend for six months ended at 30 June 2006.

## 15 COMMITMENTS

### (a) Capital commitments

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

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
Contracted but not provided for	<b>2,744</b>	41,107
Authorised but not contracted for	<b>255</b>	76,770
	<b>2,999</b>	117,877

### (b) Operating lease commitments – where the Group is 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:

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
Not later than 1 year	<b>720</b>	1,949

### (c) Operating lease commitments – where the Group is the lessor

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

	<b>30 June 2006 RMB'000</b>	31 December 2005 RMB'000
Not later than 1 year	<b>16,474</b>	19,262
Later than 1 year and not later than 5 years	<b>27,615</b>	16,387
Over 5 years	<b>1,249</b>	–
	<b>45,338</b>	35,649

## 16 MATERIAL RELATED PARTY TRANSACTIONS

The Company is controlled by Haikou Meilan International Airport Co., Ltd, established in the PRC which 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 period:

Name of related party	Relationship with the Company	Nature of transactions	Six months ended 30 June	
			2006 RMB'000	2005 RMB'000
<b>Revenues:</b>				
Hainan Airlines	Shareholder	Income for the provision of customary airport ground services	<b>33,857</b>	39,371
		Rental income for the leasing of office and commercial space	<b>4,061</b>	3,350
		Income from franchise fee for the operation of the cargo centre	<b>3,000</b>	3,000
China Southern Airlines Co., Ltd. ("Southern Airlines")	Promoter	Income for the provision of customary airport ground services	<b>20,353</b>	22,167
		Rental income for the leasing of office and commercial space	<b>3,198</b>	3,081
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	<b>1,032</b>	992
Hainan Airlines Food Company Limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	<b>1,034</b>	973

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 16 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 period: *(continued)*

Name of related party	Relationship with the Company	Nature of transactions	Six months ended 30 June	
			2006	2005
<b>Expenses:</b>				
Haikou Meilan International Airport Co. Ltd.	Parent company	Airport composite services charged by the Parent Company	7,773	5,579
		Rental expense paid for the leasing of office and commercial space	255	255
HNA Group	Shareholder	Logistic composite services charged by HNA Group	5,158	5,362
Hainan Airlines Aviation Information System Co. Ltd. ("HNAAIS")	Subsidiary of Hainan Airlines	Information system maintenance services	1,040	600
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	1,447	1,238
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	23,850	25,109

### (b) Key management compensation

	Six months ended	
	30 June 2006	30 June 2005
	RMB'000	RMB'000
Salaries and other short-term employee benefits	409	352
Bonuses	150	145
Retirement scheme contributions	46	35
	<b>605</b>	<b>532</b>

## 16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) As at 30 June 2006, balances with related parties comprised:

	<b>30 June 2006 RMB '000</b>	31 December 2005 RMB '000
Trade receivables from related parties:		
Hainan Airlines <i>(Note)</i>	<b>56,570</b>	24,929
HNA Group	<b>568</b>	5,727
Southern Airlines	<b>13,958</b>	15,338
Hainan Food	<b>2,581</b>	1,724
Xiamen Airlines	<b>1,039</b>	1,015
Others	<b>979</b>	522
	<hr/> <b>75,695</b> <hr/>	<hr/> 49,255 <hr/>
Other receivables from related parties:		
Hainan Da Lung Enterprise Co., Ltd.	–	1,162
Haikou Meilan International Airport Co., Ltd.	<b>14,652</b>	–
Sanya Phoenix International Airport Company Limited	<b>19</b>	–
Others	<b>192</b>	113
	<hr/> <b>14,863</b> <hr/>	<hr/> 1,275 <hr/>
	<hr/> <b>90,558</b> <hr/>	<hr/> 50,530 <hr/>
Payable to related parties:		
Haikou Meilan International Airport Co., Ltd.	<b>20,152</b>	16,508
CPHI	<b>4,576</b>	3,129
Hainan Airlines	<b>1,179</b>	310
Others	<b>174</b>	5
	<hr/> <b>26,081</b> <hr/>	<hr/> 19,952 <hr/>

Note: An amount of RMB30,000,000 was settled in August 2006.

### 16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

**(c)** As at 30 June 2006, balances with related parties comprised: *(continued)*

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 notes above.