

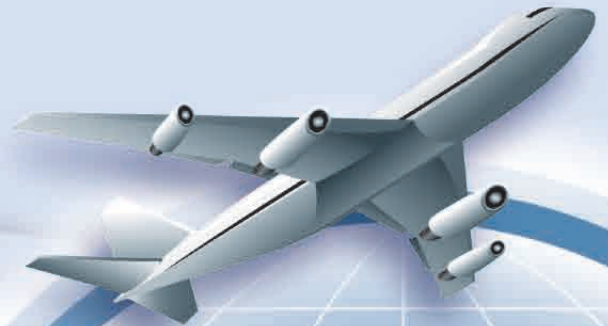
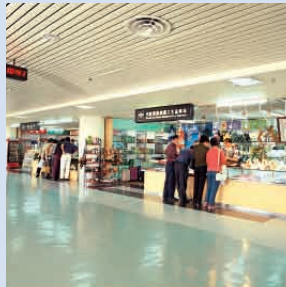


海南美蘭國際機場股份有限公司
HAINAN MEILAN INTERNATIONAL
AIRPORT COMPANY LIMITED

(A joint stock company incorporated in
the People's Republic of China with limited liability)



Stock Code: 357



Interim Report 2007

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CORPORATE INFORMATION

CHINESE NAME

海南美蘭國際機場股份有限公司

ENGLISH NAME

Hainan Meilan International Airport Company Limited

COMPANY WEBSITE

www.mlairport.com

EXECUTIVE DIRECTORS

Zhang Cong, *Chairman*

Dong Zhanbin

Dong Guiguo

NON-EXECUTIVE DIRECTORS

Zhang Han'an

INDEPENDENT NON-EXECUTIVE DIRECTORS

Xu Bailing

Xie Zhuang

Fung Ching, Simon

SUPERVISORS

Chen Kewen

Zhang Shusheng

Zeng Xuemei

COMPANY SECRETARY

Bai Yan

AUTHORISED REPRESENTATIVES

Zhang Cong

Bai Yan

AUDIT COMMITTEE

Xu Bailing

Xie Zhuang

Fung Ching, Simon

REMUNERATION COMMITTEE

Xie Zhuang

Fung Ching, Simon

Dong Guiguo

LEGAL ADDRESS AND HEAD OFFICE

Meilan Airport Complex

Haikou City

Hainan Province, PRC

PLACE OF BUSINESS IN HONG KONG

Unit B, 7/F, No. 2 Austin Avenue,

Tsimshatsui, Kowloon,

Hong Kong

LEGAL ADVISER AS TO HONG KONG LAW

Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP

39/F, Gloucester Tower

The Landmark

15 Queen's Road, Central

Hong Kong

INTERNATIONAL AUDITORS

PricewaterhouseCoopers

22/F, Prince's Building,

Central, Hong Kong

PRC AUDITORS

Hainan Congxin Certified Public Accountants

Unit 1202, CMEC Building,

Guomao Avenue, Haikou City,

Hainan Province, PRC

Postal code: 571100

PRINCIPAL BANKER

China Everbright Bank, Yingbin Branch

56 Longkun South Road, Haikou City,

Hainan Province, PRC

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17th Floor,

Hopewell Centre,

183 Queen's Road East,

Wanchai, Hong Kong

STOCK CODE

357

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2007, Hainan Meilan International Airport Company Limited (“Meilan Airport” or the “Company”) and its subsidiaries (collectively referred to as the “Group”) implemented its strategy of “the Year of Transformation, Efficiency and Internationalisation” by proactively exploring the passenger and cargo markets, strengthening its safety management, exploring more income sources while tightening its cost control and beefing up its brand building process. As a result of the internal reforms of the Company, our aeronautical business saw a turnaround and satisfactory development in non-aeronautical business was also achieved.

For the six months ended 30 June 2007, the Group’s total revenue amounted to approximately RMB174,889,000, representing a decrease of 1% as compared to the corresponding period last year. Net profit attributable to shareholders of the Company increased by 9.4% from the corresponding period last year to RMB87,095,000. Earnings per share amounted to RMB0.18 (same period last year: earnings per share of RMB0.17).

BUSINESS REVIEW

1. Aeronautical Business

For the six months ended 30 June 2007, total passenger throughput amounted to 3,593,000, representing an increase of 2.2% as compared to the corresponding period of last year. Aircraft movement amounted to 30,629, representing a decrease of 7% as compared to the corresponding period of last year, among which transport movement reached 28,764, representing an increase of 0.5% over the corresponding period last year. Cargo throughput reached 60,348 tons, representing an increase of 12.1% over the corresponding period last year.

For the six months ended 30 June 2007, revenue from the Group’s aeronautical business was RMB126,123,000, representing an increase of 2.8% as compared to the corresponding period last year.

For the first half of 2007, the increase in the Group’s net profit attributable to shareholders was mainly attributable to the strengthened cost control by the management which lowered the operating cost.

Rebound in Domestic Flights

In the first half of 2007, by introducing a series of preferential policies and guarantee measures under the market development strategy of “Expansion and Attraction”, the Group was able to overcome the unfavorable market conditions of Hainan Meilan International Airport in the last two years and recorded a rebound in our domestic aeronautical business after two consecutive years of recession.

MANAGEMENT DISCUSSION AND ANALYSIS

- By conducting comprehensive study on the characteristics of the flights and passengers of Haikou, visiting major domestic airlines and participating in flight schedule coordination conferences, the Company obtained reliable data to formulate its flight schedules, resulting in a steady growth in its passenger load factor.
- In view of the robust growth of domestic private airlines and budget airlines, the Company researched and formulated low-cost guarantee measures for the operation of those airlines to meet the needs of their business development.
- Promoting Hainan's extensive tropical tourism resources in line with the multilevel, all-rounded and large-scaled Hainan tourism publicizing campaign carried out by the local government.

For the six months ended 30 June 2007, though number of flights of Hainan Meilan International Airport slightly decreased by 0.6% to 26,998 over the same period last year, domestic passenger throughput and cargo throughout reached 3,409,000 person-times and 57,748.1 tons, representing an increase of 0.7% and 11.7% as compared to corresponding period of last year respectively.

Steady Growth of International Flights

In the first half of 2007, the bottleneck in respect of the opening of Hainan aviation rights recorded a breakthrough and the problem of the route issue was settled. Upon the implementation of the opening policy, international flights between Hainan province and Southeast Asia no longer need to detour via Hong Kong or Guangxi, which greatly improved the present situation of long flight distance and time and high cost arising from the detour of both domestic and foreign airlines that operates Hainan international route, and effectively speeded up the development of international routes of Meilan Airport.

The Group successfully organised the 2007 Asian Route Development Forum from 25 March 2007 to 27 March 2007. In this forum, Meilan Airport promoted to Asia-Pacific and European airlines the open-up of aviation rights of Hainan and its flight subsidy arrangement as well as the affluent tropical tourism resources of Hainan. The organisation of the forum demonstrated our management skill and quality services. The forum not only enhanced the profile and reputation of Meilan Airport in the international market, but also facilitated the development of the aviation market potential as well as the opening of aviation rights for Hainan. It also served as a successful trial and gained valuable experience for Meilan Airport's internationalisation strategy.

Reputation of Hainan Meilan International Airport and the tourism industry of Hainan were greatly improved by the opening up of international routes, successful organisation of the Asian Route Development Forum and active promotion of Hainan's tourism resources. Tourists all over the world are attracted. Accordingly, more international airlines open Haikou routes, resulting in the healthy growth of our international routes.

For the six months ended 30 June 2007, there were 7 scheduled international routes to and from Hainan Meilan International Airport. Passenger throughput of Hainan Meilan International Airport reached 109,700 person-times with aircraft movement reached 1,008 and cargo throughput amounted to 1,681.1 tons. The cargo throughput represents an increase of 29.7%, and passenger throughput and aircraft movement recorded a significant growth of 64% and 76% respectively over the corresponding period last year.

2. Non-aeronautical business

During the first half of 2007, with reference to the business development experience of overseas airports, the Group leveraged on its advantages as an air terminal and aggressively promoted its franchise and outsourcing business in accordance with the concept of "utilisation of operating resources to meet market demand". After outsourcing the travel agency business of the airport at the end of 2006, the duty free shop business was also franchised to Hainan HNA China Duty Free Merchandise Co. Ltd in the first half of 2007. Under such arrangement, certain operating risk was shared by other enterprises and the Group could ensure a steady income. Currently, the Group is preparing for the establishment of a joint venture for its advertising business.

For the six months ended 30 June 2007, revenue from the Group's non-aeronautical business was RMB48,766,000, representing a decrease of 9.4% over the corresponding period last year, as a result of the outsourcing of travel agency business to Luckyway Travelling at the end of 2006. In respect of this business, the Group charged a fixed outsourcing fee plus a share of profit after tax. However, revenue from the Company's other principal non-aeronautical business all recorded remarkable results during the first half of year as follows:

- The Group's advertising company achieved revenue of RMB6,433,000, representing a 13.4% increase over the corresponding period last year.
- The Group's duty-free company achieved revenue of RMB8,057,000, representing a 44.6% increase over the corresponding period last year.

3. Intensifying internal reform to lower operating cost

During the first half of 2007, the Company restructured its internal organisation to clarify the responsibility, rights and benefits. The resulted organisation structure is more rational with clearly defined functions and responsibilities. The development potential of production and technical positions, satisfaction of the employees as well as management efficiency and effectiveness were further improved. The Company also adopted a comprehensive budget preparation system by monitoring the performance of "profit centres". The Group also further developed its know-how and maintenance capability. Due to our stringent control of cost, daily operating expenses decreased by 12% during the first half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Branding of Services

The services of Hainan Meilan International Airport are highly recognised by the public. To improve the management, security and service of the airport, the Group established a corporate brand building task group in the first half of 2007. The task group launched a well-organised campaign and strived to gain national and provincial quality recognitions. During the first half of the year, the Group successfully coordinated the supporting services for a number of major events like the Bo'ao Forum for Asia and the Asia Route Development Forum. The smooth operation of the airport during the Spring Festival and the Golden Week of May Holiday was highly appreciated by all sectors.

5. Infrastructure Improvement

After the inauguration of Terminal II of Meilan Airport, the inefficiency of Terminal I became obvious. Improvement and development of infrastructure and ancillary facilities of Hainan Meilan International Airport are carried out to upgrade its overall capability.

FINANCIAL REVIEW

1. Liquidity and financial resources

As at 30 June 2007, the Group's current assets amounted to RMB698,214,000, comprising cash and cash equivalents of RMB418,828,000, time deposits of RMB87,401,000, receivable of RMB191,943,000, and inventories of RMB42,000.

As at 30 June 2007, the Group's current liabilities amounted to RMB143,004,000, comprising the outstanding principal of the long-term loans due within 1 year of RMB21,000,000, payables of RMB121,928,000 and income tax payables of RMB76,000.

2. Operating costs

For the first half of 2007, the Group's costs of services and sales of goods amounted to RMB55,754,000, representing a decrease of 0.1% as compared to the corresponding period last year.

For the first half of 2007, the Group's management expenses amounted to RMB19,592,000, representing a decrease of 31.4% as compared to the corresponding period last year, which was mainly attributable to the strengthened cost control by the management and the decrease of the technical services fee after the termination of the agreement with the Copenhagen airport.

3. Gearing ratio

As at 30 June 2007, the Group had current assets of RMB698,214,000 and total assets of RMB1,932,712,000. The Group had current liabilities and total liabilities amounted to RMB143,004,000 and RMB182,790,000 respectively. The Group's gearing ratio (total liabilities/total assets) was 9.5%, representing a decrease of 1.6% compared to that as at 31 December 2006. The drop was mainly due to repayment of the bank loan, which led to the decrease of the principal and the total liabilities.

4. Pledge on 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 2007, the balance of the bank loan was RMB39,000,000.

5. Capital structure of the Group

As at 30 June 2007, the issued share capital of the Company was RMB473,213,000. Now the Group still have bank loan of RMB39,000,000 which is primarily denominated in Renminbi ("RMB"). The Group's bank loan is subject to the floating interest rates of People's Bank of China.

6. Significant investments and their performance and prospect

As at 30 June 2007, the Group and the Company did not have any significant investment.

7. Material Acquisitions and Disposals

As at 30 June 2007, the Group and the Company had not conducted any material acquisitions and disposals in connection with the relevant subsidiaries or associated companies.

8. Employees and remuneration policy

As at 30 June 2007, the Group had a total of 750 employees, representing an increase of 74 employees as compared to 676 employees at the beginning of the year. The increase was mainly attributable to the resumption of the operation of Haikou Airport Cargo Centre to the Company, which brought all cargo staff back to the Company. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group reviews its remuneration policy and packages on a regular basis. Bonuses and commissions may be awarded to employees as incentives based on their performance. All benefits are the rewards for the efforts contributed by individuals. For the six months ended 30 June 2007, the Group's total staff cost accounted for approximately 22.0% of its total operating costs. The staff cost increased by 3.1% from the corresponding period last year, mainly due to an increase of staff, as well as an organic growth in payroll in line with years of employment and seniority.

MANAGEMENT DISCUSSION AND ANALYSIS

9. Entrusted deposits and overdue fixed deposits

As at 30 June 2007, the Group and the Company did not have any entrusted deposits and overdue fixed deposits.

10. Contingent liabilities

As at 30 June 2007, the Group and the Company did not have any contingent liabilities.

11. Exposure to foreign exchange risks

Except for the purchase of certain equipment and the payment of consultancy fees which are denominated in US Dollar, the Group's business is mainly denominated in RMB. Dividends to equity holders holding H shares are declared in RMB and paid in Hong Kong Dollar. As at 30 June 2007, except cash and cash equivalents of approximately RMB779,000 that were denominated in HK Dollar or US Dollar, the Group's other assets and liabilities were denominated in RMB. 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 2006 Annual Report in accordance with Rule 32 set out in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

PROSPECTS FOR THE SECOND HALF OF THE YEAR

The Board of the Company anticipates that the throughput of Hainan Meilan International Airport will maintain on the growth track in the second half of the year. International aeronautical business will maintain its growth momentum with the resolution of the problem of the route issue. The Group will keep on expanding the international and domestic aeronautical business and the transformation of the operation of non-aeronautical business with ongoing upgrading its quality of management, security and services. The Group will also actively cooperate with the governments of Hainan Province and Haikou City in promoting Hainan tourism to establish its reputation among domestic tourists and in the international market. The Group will also develop charter flight business by joining hands with local tourism authorities to develop long distant air routes to generate more throughput and revenue of Hainan Meilan International Airport .

Moreover, the Group will continue to promote internationalisation of Meilan Airport and enhance the overall quality of its staff through a series of international training. The Group will endeavour to improve the standard of human resource management and establish a fair and effective incentive system to encourage the motivation, initiative and creativity of the employees. We will continue to dedicate ourselves to build a regional airport management company. The Group intends to utilise the remaining proceeds from the issuance of the H shares to implement its existing plans and strategies for business development, so as to enhance the value of the Company and bring shareholders with abundant returns.

INTERIM DIVIDEND

Subject to the approval of the shareholders of the Company at the extraordinary general meeting (the “**EGM**”), the Board has proposed to declare and pay an interim dividend of HK\$0.20 per share to the shareholders of the Company whose names appear on the Company’s Register of Members as at close of business on Friday, 14 September 2007. In accordance with the Articles of Association of the Company, dividends payable to holders of Domestic Shares will be paid in RMB, whereas dividends payable to holders of H Shares will be calculated and declared in RMB 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 Saturday, 15 September 2007 to Monday, 15 October 2007, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM and qualify for the interim dividend, all instruments of transfers, accompanied by the relevant share certificates, must be lodged with the H Share Register of the Company, Computershare Hong Kong Investors Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 14 September 2007. Subject to the approval of the shareholders of the Company at the EGM, the interim dividend is expected to be payable on or before Wednesday, 28 November 2007 to shareholders whose names appear on the Register of Member as at close of business on Friday, 14 September 2007.

MATERIAL LITIGATION AND ARBITRATION

The Company had no material litigation or arbitration from 1 January 2007 to 30 June 2007.

OTHER INFORMATION

CHANGE IN DIRECTORS

The Board of Directors of the Company comprised 7 directors as at 30 June 2007. From 1 January 2007 to 30 June 2007, the changes in the Directors of the Company are as follows:

Mr. Dong Zhanbin was appointed as executive director with effect from 5 February 2007;

Mr. Wang Zhen resigned as executive director with effect from 5 February 2007;

Mr. Kjeld Binger resigned as non-executive director with effect from 27 March 2007;

Mr. Gunnar Moller resigned as executive director with effect from 5 June 2007;

There were no other changes in the Directorship.

SHARE CAPITAL STRUCTURE

As at 30 June 2007, the total number of issued shares of the Company was 473,213,000 as follows:

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2007, so far as known to the Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had interests in the shares of the Company which would be required to be recorded in the register to be kept under section 336 of the SFO:

Long position in shares

Domestic shares

Name of Shareholders	Type of Interest	Type of Shares	Number of Shares	Percentage of domestic shares	Percentage of issued share capital
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial	Corporate	237,500,000	96.43%	50.19%

H shares

Name of Shareholders	Type of Interest	Number of Shares	Percentage of H Shares in issue	Percentage of issued share capital
Zhang Gaobo (Note 2)	Controlled corporate interest	94,643,000	41.71%	20.00%
Zhang Zhiping (Note 2)	Controlled corporate interest	94,643,000	41.71%	20.00%
Million West Limited (Note 2)	Controlled corporate interest	94,643,000	41.71%	20.00%
Best Future International Limited (Note 2)	Controlled corporate interest	94,643,000	41.71%	20.00%
Oriental Patron Holdings Limited (Note 2)	Controlled corporate interest	94,643,000	41.71%	20.00%

OTHER MATTERS

Name of Shareholders	Type of Interest	Number of Shares	Percentage of H Shares in issue	Percentage of issued share capital
Oriental Patron Financial Services Group Limited (Note 2)	Controlled corporate interest	94,643,000	41.71%	20.00%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial	94,643,000	41.71%	20.00%
UBS AG (Note 3)	Beneficial, security interest and controlled corporate interest	20,460,000	9.02%	4.32%
Utilico Emerging Markets Utilities Limited (Note 4)	Investment manager	11,629,000	5.12%	2.46%

Notes:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
2. Reference is made to the announcement of the Company dated 5 June 2007 which stated that Copenhagen Airport A/S has effected and completed a block trade on The Stock Exchange of Hong Kong Limited to dispose of its entire shareholding of 94,643,000 H shares (the "Sale Shares") in the Company to an independent purchaser at a price of HK\$5.75 per Sale Share. Following completion of such sale, Copenhagen Airport A/S will cease to be a shareholder of the Company. The Sale Shares will be acquired by Oriental Patron Resources Investment Limited.

Zhang Gaobo holds 90% interests in Million West Limited. Zhang Zhiping holds 89% interests in Best Future International Limited. Million West Limited and Best Future International Limited each holds 50% interests in Oriental Patron Holdings Limited. Oriental Patron Holdings Limited holds 95% interests in Oriental Patron Financial Services Group Limited. Oriental Patron Financial Services Group Limited wholly owns the interests of Oriental Patron Resources Investment Limited.

3. Among the 20,460,000 shares in the Company, UBS AG, which holds 4,471,714 shares as the beneficial owner, has security interests in 1,006,000 shares and is deemed to be interested in the other 14,982,686 shares since it wholly owns UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd. which respectively and beneficially owns 10,850,686, 3,121,000 and 1,011,000 shares of the Company.
4. Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.

Save as disclosed above, as at 30 June 2007, so far as is known to the Directors, Supervisors or chief executive of the Company, no other person (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register to be kept under section 336 of the SFO.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2007, the interests of the Directors, Supervisors and chief executive of the Company in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would be required to be recorded in the register to be kept pursuant to section 352 of the SFO, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules were as follows:

Long positions in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	Number of associated corporation	Type of Interest	Number of Shares
Zhang Han'an (Non-executive Director)	Hainan Airlines Company Limited (<i>Note</i>)	Beneficial	20,000

Note: Hainan Airlines Company Limited is a joint stock limited company incorporated in the PRC and one of the Promoters of the Company.

Save as disclosed above, as at 30 June 2007, none of the Directors, Supervisors or chief executive of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be recorded in the register to be kept pursuant to section 352 of the SFO, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules.

THE RIGHTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE TO PURCHASE SHARES

None of the Directors, Supervisors and chief executives or their respective spouses or children under the age of 18 were granted any rights to subscribe for shares of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the listed securities of the Company during the six months ended 30 June 2007.

OTHER MATTERS

AUDIT COMMITTEE

The audit committee of the Company has, together with the management, reviewed the accounting standards and practices adopted by the Group, and discussed matters relating to auditing, internal controls, financial reporting and non-exempt continuing connected transactions, including a review of the audited interim account for the six months ended 30 June 2007.

DETAILS OF COMPLIANCE WITH RULE 3.10(1), RULE 3.10(2) AND RULE 3.21 OF LISTING RULES

As at 30 June 2007, there are three Independent Non-executive Directors in the Board of the Company as required under Rule 3.10(1) of Listing Rules; and as at 30 June 2007, the audit committee comprises three Independent Non-executive Directors, including personnel with appropriate professional qualifications of accounting and the membership of the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has not adopted a code for securities transaction by directors on terms more exacting than the required standards of the Model Code due to the fact that most directors of the Company are residents of Mainland China whose investment in H shares are subject to legal restriction from the PRC government. None of the directors of the Company failed to comply with the Model Code during the accounting period covered by this interim report.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to complying with all the rules prescribed by China Securities Regulatory Commission and the Hong Kong Stock Exchange and regulations of other competent authorities. For the six months ended 30 June 2007, the Company had complied with the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules and met with all reasonable governance and disclosure requirements. The Company will strive for continuously enhancing its governance standard and transparency to shareholders.

By Order of the Board

Hainan Meilan International Airport Company Limited

Mr. Zhang Cong

Chairman

Haikou, The People's Republic of China
29 August 2007

CONSOLIDATED BALANCE SHEET AND BALANCE SHEET

As at 30 June 2007

	Note	The Group		The Company	
		30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
ASSETS					
Non-current assets					
Land use rights	6	162,083	163,710	162,083	163,710
Property, plant and equipment	7	1,072,415	1,089,832	1,071,141	1,088,334
Investments in subsidiaries	8(a)	–	–	18,094	18,094
		1,234,498	1,253,542	1,251,318	1,270,138
Current assets					
Inventories		42	3,716	42	45
Trade receivables	9	184,499	193,813	181,151	192,483
Other receivables and prepayments		7,302	11,266	5,894	10,319
Due from subsidiaries	8(b)	–	–	21,851	10,874
Due from related parties	28(c)	142	56	101	56
Time deposits	10(a)	87,401	85,918	87,401	85,918
Cash and cash equivalents	10(b)	418,828	322,040	399,597	314,161
		698,214	616,809	696,037	613,856
Total assets		1,932,712	1,870,351	1,947,355	1,883,994
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	11	1,100,250	1,100,250	1,100,250	1,100,250
Other reserves	12	149,528	149,528	148,903	148,903
Retained earnings		499,572	412,477	507,558	419,607
		1,749,350	1,662,255	1,756,711	1,668,760
Minority interests		572	600	–	–
Total equity		1,749,922	1,662,855	1,756,711	1,668,760

CONSOLIDATED BALANCE SHEET AND BALANCE SHEET

As at 30 June 2007

	Note	The Group		The Company	
		30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
Liabilities					
Non-current liabilities					
Borrowings-secured	13	18,000	25,000	18,000	25,000
Deferred income tax liabilities	14	10,901	11,021	10,901	11,021
Deferred income	15	10,885	8,459	10,885	8,459
		39,786	44,480	39,786	44,480
Current liabilities					
Trade and other payables	16	121,928	134,907	116,057	128,953
Due to subsidiaries	8(b)	–	–	13,801	13,801
Current income tax liabilities		76	109	–	–
Borrowings-secured	13	21,000	28,000	21,000	28,000
		143,004	163,016	150,858	170,754
Total liabilities		182,790	207,496	190,644	215,234
Total equity and liabilities		1,932,712	1,870,351	1,947,355	1,883,994
Net current assets		555,210	453,793	545,179	443,102
Total assets less current liabilities		1,789,708	1,707,335	1,796,497	1,713,240

The notes on pages 20 to 68 are an integral part of these consolidated interim financial statements.

On behalf of the Board

Dong Zhanbin
Director and Chief Executive Officer

Dong Guiguo
Director and Chief Financial Officer

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Note	Six months ended 30 June	
		2007 RMB'000	2006 RMB'000 (Unaudited)
Revenue			
Aeronautical	5	126,123	122,730
Non-aeronautical	5	48,766	53,824
		174,889	176,554
Business tax and levies		(6,460)	(6,380)
Cost of services and sales	17	(55,754)	(55,806)
Gross profit		112,675	114,368
Selling and distribution costs	17	(200)	(1,509)
Administrative expenses	17	(19,592)	(28,572)
Operating profit		92,883	84,287
Finance income		3,173	3,457
Finance costs		(1,626)	(1,477)
Finance income-net	19	1,547	1,980
Profit before income tax		94,430	86,267
Income tax expense	20	(7,363)	(6,617)
Profit for the period		87,067	79,650
Attributable to:			
Equity holders of the Company	21	87,095	79,642
Minority interests		(28)	8
		87,067	79,650
		RMB	RMB
Earnings per share for profit attributable to the equity holders of the Company during the period			
– basic and diluted	22	18 cents	17 cents
		RMB'000	RMB'000
Dividends	23	92,106	–

The notes on pages 20 to 68 are an integral part of these consolidated interim financial statements.

On behalf of the Board

Dong Zhanbin
Director and Chief Executive Officer

Dong Guiguo
Director and Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company				Minority interests RMB'000	Total equity RMB'000
	Share capital	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000		
Balance as at 1 January 2006	1,100,250	137,223	301,806	1,539,279	598	1,539,877
Profit for the period (Unaudited)	–	–	79,642	79,642	8	79,650
Balance as at 30 June 2006 (Unaudited)	<u>1,100,250</u>	<u>137,223</u>	<u>381,448</u>	<u>1,618,921</u>	<u>606</u>	<u>1,619,527</u>
Balance as at 1 January 2007	1,100,250	149,528	412,477	1,662,255	600	1,662,855
Profit/(loss) for the period	–	–	87,095	87,095	(28)	87,067
Balance at 30 June 2007	<u>1,100,250</u>	<u>149,528</u>	<u>499,572</u>	<u>1,749,350</u>	<u>572</u>	<u>1,749,922</u>

The notes on pages 20 to 68 are an integral part of these consolidated interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	2006
	<i>Note</i>	RMB'000	RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	26	130,206	23,300
Interest paid		(1,626)	(3,053)
Income tax paid		(4,283)	(5,213)
		<hr/>	<hr/>
Net cash generated from operating activities		124,297	15,034
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,199)	(22,965)
Increase in time deposits		(1,483)	–
Interest received		3,173	2,291
		<hr/>	<hr/>
Net cash used in investing activities		(13,509)	(20,674)
Cash flows from financing activities			
Repayments of borrowings		(14,000)	(25,000)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		96,788	(30,640)
Cash and cash equivalents at beginning of the period		322,040	245,408
		<hr/>	<hr/>
Cash and cash equivalents at end of the period	10	418,828	214,768
		<hr/>	<hr/>

The notes on pages 20 to 68 are an integral part of these consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 (collectively 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 interim financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated interim financial statements have been approved for issue by the Board of Directors on 29 August 2007.

In the opinion of the directors of the Company (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 significant accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

The consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment.

The consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the explanatory notes for the six months ended 30 June 2006 were unaudited.

(i) *Standards effective from 2007*

IFRS 7, Financial instruments: Disclosures, and the complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

(ii) Interpretations effective from 2007 but not relevant to the Group's operations

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations:

- IFRIC-Int 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC-Int 8, Scope of IFRS 2, Share-based Payment;
- IFRIC-Int 9, Reassessment of Embedded Derivatives; and
- IFRIC-Int 10, Interim Financial Reporting and Impairment.

(iii) Standard and the interpretations to existing standards that are not yet effective and not relevant to the Group's operations

Standard and the interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods that the Group has not early adopted:

- IFRS 8, Operating Segments (effective for annual report periods beginning on or after 1 January 2009);
- IFRIC-Int 11 – Group and Treasury Share Transactions Arrangements (effective for annual periods beginning on or after 1 March 2007); and
- IFRIC-Int 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Consolidation

The consolidated interim financial statements include the financial statements of the Company and all of its subsidiaries made up to 30 June.

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 (see Note 2(f)). 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment 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 balance sheet, the investments in subsidiaries are stated at cost less provision for impairment in value (see Note 2(g)). The results of the subsidiaries are accounted by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 return 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 interim 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

Increases in the carrying amount arising on revaluation of certain property, plant and equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings.

Depreciation is calculated on the straight-line method to allocate their cost or revalued amount 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 balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other gains – net, in the income statements. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

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 assets.

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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 (see Note 2(g)). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use 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 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Loans and receivables

Financial assets represent 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 (see Note 2(k)). Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. Impairment testing of trade receivables is described in Note 2(k).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Operating leases

Leases in which 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 are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other 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 the 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(m) Share capital

Ordinary shares are classified as equity.

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

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) 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.

Borrowing costs incurred for the construction of any qualifying asset 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) 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 interim financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. 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 income 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, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(r) Employee benefits

(i) Pension obligations

The Group participates in defined contribution plans. The defined contribution plans are employee retirement plans regarding pension benefits required under the existing PRC legislations. 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 benefits expenses. The Group has no legal or constructive obligations to pay further contributions.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits *(continued)*

(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.

(s) 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses. 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.

(t) 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, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition *(continued)*

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) Freight income is recognized when the services are rendered.
- (x) Interest income is recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

(u) Dividend distribution

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

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 30 June 2007, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB779,000 (as at 31 December 2006: RMB753,000) were denominated in Hong Kong dollar and US dollar. 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

As the Group has no significant interest-bearing assets (other than cash and cash equivalents), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. During 2007 and 2006, the Group's borrowings at variable rates were denominated in RMB.

At 30 June 2007, if interest rates on RMB dollar-denominated borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB24,000 (for the six months ended 30 June 2006 (unaudited): RMB47,000) lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

(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. The extent of the Company's credit exposure is represented by the aggregate balance of trade and other receivables.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 30 June 2007				
Bank borrowings	21,000	4,000	4,000	10,000
Trade and other payables	121,928	–	–	–
At 31 December 2006				
Bank borrowings	28,000	9,000	4,000	12,000
Trade and other payables	134,907	–	–	–

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The carrying values less a reasonable impairment provision for financial assets and liabilities with a maturity of less than one year are approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT

Estimates and judgments 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 a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is made based on management's experience in operating airport and the conditions of the property, plant and equipment. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT *(continued)*

(b) Impairment of trade receivables

Whenever events or changes in circumstances indicate that the carrying amounts of trade receivables may not be recoverable, the Group will test whether trade receivables have suffered any impairment in accordance with the accounting policies stated in Note 2(h). In making its judgment, the Group considers information from a variety of sources including:

- (i) Recent prices of similar receivables in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (ii) Discounted cash flow projections based on reliable estimates of future cash flows and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on recent prices of receivables is not available, the fair value of receivable is determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 operations of an airport and are subject to similar business risks, no segment income statement has been prepared by the Group for the six months ended 30 June 2007. 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 information is presented.

Analysis of revenues by category	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Aeronautical:		
Passenger charges	46,151	47,831
Aircraft movement fees and related charges	20,815	22,048
Airport fee	44,266	43,185
Ground handling services income	14,891	9,666
	<u>126,123</u>	<u>122,730</u>
Non-aeronautical:		
Retailing	8,057	5,573
Franchise fee	11,448	14,040
Rental	8,528	8,654
Tourism	–	11,796
Freight	4,692	–
Advertising	6,433	5,673
Car parking	2,495	2,778
Others	7,113	5,310
	<u>48,766</u>	<u>53,824</u>
Total revenues	<u>174,889</u>	<u>176,554</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6 LAND USE RIGHTS

The interests of the Group and the Company in land use rights represent prepaid operating lease payments for land use rights. The movement of the land use rights is as follows:

	The Group and the Company RMB'000
As at 1 January 2006	
Cost	179,499
Accumulated amortisation	(12,678)
	<hr/>
Net book amount	166,821
	<hr/>
Year ended 31 December 2006	
Opening net book amount	166,821
Amortisation	(3,111)
	<hr/>
Closing net book amount	163,710
	<hr/>
As at 31 December 2006	
Cost	179,499
Accumulated amortisation	(15,789)
	<hr/>
Net book amount	163,710
	<hr/>
Six months ended 30 June 2007	
Opening net book amount	163,710
Amortisation	(1,627)
	<hr/>
Closing net book amount	162,083
	<hr/>
As at 30 June 2007	
Cost	179,499
Accumulated amortisation	(17,416)
	<hr/>
Net book amount	162,083
	<hr/>

As at 30 June 2007, certain land use rights amounting to RMB4,393,000 were in the process of application for official certificates.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6 LAND USE RIGHTS *(continued)*

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	The Group and the Company	
	30 June	31 December
	2007	2006
	RMB'000	RMB'000
Outside Hong Kong, held on:		
Leases of over 50 years	87,974	88,671
Leases of between 10 to 50 years	74,109	75,039
	<hr/>	<hr/>
	162,083	163,710
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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT

The Group:

	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 2006						
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	<u>585,780</u>	<u>54,949</u>	<u>24,770</u>	<u>11,386</u>	<u>337,394</u>	<u>1,014,279</u>
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
Additions	276	391	3,889	849	113,321	118,726
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals	–	–	–	(16)	–	(16)
Depreciation	(22,959)	(10,773)	(5,323)	(4,102)	–	(43,157)
Closing net book amount	<u>917,837</u>	<u>108,909</u>	<u>23,336</u>	<u>34,200</u>	<u>5,550</u>	<u>1,089,832</u>
As at 1 January 2007						
Cost or valuation	993,640	144,080	48,051	49,262	5,550	1,240,583
Accumulated depreciation	(75,803)	(35,171)	(24,715)	(15,062)	–	(150,751)
Net book amount	<u>917,837</u>	<u>108,909</u>	<u>23,336</u>	<u>34,200</u>	<u>5,550</u>	<u>1,089,832</u>
Six months ended 30 June 2007						
Opening net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
Additions	–	–	5,511	744	–	6,255
Depreciation	(12,637)	(6,100)	(2,719)	(2,216)	–	(23,672)
Closing net book amount	<u>905,200</u>	<u>102,809</u>	<u>26,128</u>	<u>32,728</u>	<u>5,550</u>	<u>1,072,415</u>
As at 30 June 2007						
Cost or valuation	993,640	144,080	53,562	50,006	5,550	1,246,838
Accumulated depreciation	(88,440)	(41,271)	(27,434)	(17,278)	–	(174,423)
Net book amount	<u>905,200</u>	<u>102,809</u>	<u>26,128</u>	<u>32,728</u>	<u>5,550</u>	<u>1,072,415</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT (continued)

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	30 June 2007 Total RMB'000	31 December 2006 Total RMB'000
Cost	1,032,615	164,755	65,084	54,237	5,550	1,322,241	1,316,020
Accumulated depreciation	(160,848)	(63,962)	(39,031)	(22,085)	–	(285,926)	(262,161)
	871,767	100,793	26,053	32,152	5,550	1,036,315	1,053,859

Depreciation expense of RMB23,603,000 (for the six months ended 30 June 2006 (unaudited): RMB19,540,000) has been charged in cost of services and sales, RMB21,000 (for the six months ended 30 June 2006 (unaudited): RMB21,000) in selling and distribution costs and RMB48,000 (for the six months ended 30 June 2006 (unaudited): RMB29,000) in administrative expenses.

The analysis of the cost or valuation as at 30 June 2007 of the above assets is 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	Total RMB'000
At cost	432,640	66,360	16,818	40,683	5,550	562,051
At valuation	561,000	77,720	36,744	9,323	–	684,787
	993,640	144,080	53,562	50,006	5,550	1,246,838

The analysis of the cost or valuation as at 31 December 2006 of the above assets is 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	Total RMB'000
At cost	432,640	66,360	11,307	39,939	5,550	555,796
At valuation	561,000	77,720	36,744	9,323	–	684,787
	993,640	144,080	48,051	49,262	5,550	1,240,583

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT (continued)

The Company:

	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 2006						
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	<u>585,780</u>	<u>54,949</u>	<u>24,609</u>	<u>9,716</u>	<u>337,394</u>	<u>1,012,448</u>
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
Additions	276	391	3,889	705	113,321	118,582
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals	–	–	–	(16)	–	(16)
Depreciation	(22,959)	(10,773)	(5,302)	(3,646)	–	(42,680)
Closing net book amount	<u>917,837</u>	<u>108,909</u>	<u>23,196</u>	<u>32,842</u>	<u>5,550</u>	<u>1,088,334</u>
As at 1 January 2007						
Cost or valuation	993,640	144,080	47,536	43,699	5,550	1,234,505
Accumulated depreciation	(75,803)	(35,171)	(24,340)	(10,857)	–	(146,171)
Net book amount	<u>917,837</u>	<u>108,909</u>	<u>23,196</u>	<u>32,842</u>	<u>5,550</u>	<u>1,088,334</u>
Six months ended 30 June 2007						
Opening net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
Additions	–	–	5,514	737	–	6,251
Depreciation	(12,637)	(6,100)	(2,712)	(1,995)	–	(23,444)
Closing net book amount	<u>905,200</u>	<u>102,809</u>	<u>25,998</u>	<u>31,584</u>	<u>5,550</u>	<u>1,071,141</u>
As at 30 June 2007						
At valuation	993,640	144,080	53,050	44,436	5,550	1,240,756
Accumulated depreciation	(88,440)	(41,271)	(27,052)	(12,852)	–	(169,615)
Net book amount	<u>905,200</u>	<u>102,809</u>	<u>25,998</u>	<u>31,584</u>	<u>5,550</u>	<u>1,071,141</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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	30 June 2007 Total RMB'000	31 December 2006 Total RMB'000
Cost	1,032,615	164,755	64,570	48,668	5,550	1,316,158	1,309,943
Accumulated depreciation	(160,848)	(63,962)	(38,647)	(17,659)	–	(281,116)	(257,581)
	<u>871,767</u>	<u>100,793</u>	<u>25,923</u>	<u>31,009</u>	<u>5,550</u>	<u>1,035,042</u>	<u>1,052,362</u>

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	
	30 June 2007 RMB'000	31 December 2006 RMB'000
Cost	38,589	57,227
Accumulated depreciation	(5,248)	(4,751)
Net book amount	<u>33,341</u>	<u>52,476</u>

The Group's property, plant and equipment were last revalued on 31 August 2002 by independent valuers. Valuations were made on the basis of market value by a member of the Hong Kong Institute of Surveyors employed by the Group. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (*Note 12*).

No interest expenses were capitalised to assets under construction for the six months ended 30 June 2007 (for the six months ended 30 June 2006 (unaudited): RMB1,576,000).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8 INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

(a) Investments in subsidiaries

	The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000
Unlisted shares, at cost	18,094	18,094

As at 30 June 2007, the Company had equity interests in the following subsidiaries, all of which are unlisted limited liability companies operating in the PRC:

Name	Place of establishment and kind of legal entity	Principal activities and place of operations	Paid up capital RMB'000	Interest held	
				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 Traveling 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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9 TRADE RECEIVABLES

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
Trade receivables from third parties (<i>Note (a)</i>)	31,846	28,229	29,657	27,441
Less: provision for impairment of receivables	(2,489)	(2,425)	(2,186)	(2,186)
	29,357	25,804	27,471	25,255
Trade receivables from related parties (<i>Note (b) and 28(c)</i>)	110,697	87,445	109,235	86,664
Airport fee receivable (<i>Note (c)</i>)	44,445	80,564	44,445	80,564
	184,499	193,813	181,151	192,483

As at 30 June 2007, all trade receivables were denominated in RMB.

(a) As at 30 June 2007, the ageing analysis of trade receivables from third parties was as follows:

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
0 – 90 days	17,508	22,064	15,516	21,427
91 – 180 days	8,983	3,643	8,983	3,627
181 – 365 days	2,836	171	2,854	171
Over 365 days	2,519	2,351	2,304	2,216
	31,846	28,229	29,657	27,441

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

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9 TRADE RECEIVABLES *(continued)*

- (a) As at 30 June 2007, the ageing analysis of trade receivables from third parties was as follows:
(continued)

As at 30 June 2007, trade receivables of RMB2,489,000 (as at 31 December 2006: RMB2,425,000) were impaired. The amount of the provision was RMB2,489,000 as at 30 June 2007 (as at 31 December 2006: RMB2,425,000). The individually impaired receivables mainly relate to lessees, who are in difficult economic situations. The ageing of these receivables is as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Over 365 days	<u>2,489</u>	<u>2,425</u>

As at 30 June 2007, trade receivables of RMB11,849,000 (as at 31 December 2006: RMB3,740,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
91 – 180 days	8,983	3,643
181 – 365 days	2,836	97
Over 365 days	<u>30</u>	<u>–</u>
	<u>11,849</u>	<u>3,740</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9 TRADE RECEIVABLES *(continued)*

- (a) As at 30 June 2007, the ageing analysis of trade receivables from third parties was as follows:
(continued)

Movements on the provision for impairment of trade receivables are as follows:

	The Group and the Company RMB'000
Balance as at 1 January 2006	2,248
Provision for impairment	177
	<hr/>
Balance as at 31 December 2006	2,425
	<hr/>
Balance as at 1 January 2007	2,425
Provision for impairment	64
	<hr/>
Balance as at 30 June 2007	2,489
	<hr/>

The creation of provision for impaired receivables have been included in administrative expenses in the income statement (*Note 17*).

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9 TRADE RECEIVABLES *(continued)*

- (b) As at 30 June 2007, the ageing analysis of trade receivables from related parties was as follows:

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
0 – 90 days	41,130	46,176	40,943	45,436
91 – 180 days	33,479	17,972	32,931	17,972
181 – 365 days	20,493	12,993	19,777	12,959
Over 365 days	15,595	10,304	15,584	10,297
	110,697	87,445	109,235	86,664

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

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

As at 30 June 2007, trade receivables from related parties of RMB69,567,000 (as at 31 December 2006: RMB41,269,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
91 – 180 days	33,479	17,972
181 – 365 days	20,493	12,993
Over 365 days	15,595	10,304
	69,567	41,269

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9 TRADE RECEIVABLES *(continued)*

- (c) As at 30 June 2007, the original amount, fair value and ageing analysis of the airport fee receivable were as follows:

	The Group and the Company			
	30 June 2007		31 December 2006	
	Original amount RMB'000	Fair value RMB'000	Original amount RMB'000	Fair value RMB'000
0 – 90 days	18,632	18,632	22,281	22,036
91 – 180 days	25,813	25,813	15,995	15,819
181 – 365 days	–	–	43,185	42,709
	44,445	44,445	81,461	80,564

10 TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Time deposits

As at 30 June 2007, the Group and the Company had deposits, dominated in RMB, placed with certain banks in the PRC. These deposits earned interest at rate ranging from 2.61% to 3.06% per annum and will be matured on 17 December 2007 and 6 June 2008, respectively.

(b) Cash and cash equivalents comprised:

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
RMB	418,048	321,296	398,968	313,785
USD	731	675	580	307
HKD	49	50	49	50
EUR	–	19	–	19
	418,828	322,040	399,597	314,161

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11 SHARE CAPITAL

	30 June 2007 RMB'000	31 December 2006 RMB'000
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 arising from group reorganisation in 2000	69,390	69,390
Share premium arising from new issuance net of issuing expenses	557,647	557,647
	627,037	627,037
	1,100,250	1,100,250

12 OTHER RESERVES

	The Group		
	Revaluation surplus (Note a) RMB'000	Statutory reserves (Note b) RMB'000	Total RMB'000
Balance at 31 December 2006 and 30 June 2007	36,481	113,047	149,528
	36,481	113,047	149,528
	The Company		
	Revaluation surplus (Note a) RMB'000	Statutory reserves (Note b) RMB'000	Total RMB'000
Balance at 31 December 2006 and 30 June 2007	36,481	112,422	148,903
	36,481	112,422	148,903

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12 OTHER RESERVES (continued)

(a) Revaluation surplus

	The Group and the Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000
Property, plant and equipment (Note 7)	<u>36,481</u>	<u>36,481</u>

(b) Statutory reserves

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 Han [2006] No.67), 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 reserves. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend.

13 BORROWINGS – SECURED

As at 30 June 2007, bank borrowings of RMB39,000,000 (as at 31 December 2006: RMB53,000,000) for financing the construction of airport terminal, the related premises and facilities were secured by a floating charge over the Company's revenues. These bank borrowings were denominated in RMB bearing interest at commercial rate of 7.20% per annum (as at 31 December 2006: 6.39% per annum), with reference to the market interest rates determined yearly. These bank borrowings mature until 2013.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13 BORROWINGS – SECURED (continued)

As at 30 June 2007, the bank borrowings were repayable as follows:

	The Group and the Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000
Within 1 year	21,000	28,000
Between 1 and 2 years	4,000	9,000
Between 3 and 5 years	14,000	12,000
Over 5 years	–	4,000
	<u>39,000</u>	<u>53,000</u>
Less: current portion of borrowings included in current liabilities	<u>(21,000)</u>	<u>(28,000)</u>
	<u>18,000</u>	<u>25,000</u>

The effective interest rate as at 30 June 2007 was 7.33% (as at 31 December 2006: 6.39%).

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

	The Group and the Company			
	Carrying value		Fair value	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
Bank borrowings – non-current	<u>18,000</u>	<u>25,000</u>	<u>18,099</u>	<u>25,108</u>

The fair value are based on cash flows discounted using a rate based on the borrowing rate of 7.20% (as at 31 December 2006: 6.39%).

The carrying amounts of current borrowings are approximate their fair values.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14 DEFERRED INCOME TAX LIABILITIES

Deferred income tax liabilities arose as a result of differences in depreciation periods of plant and machinery between tax bases and accounting bases of following assets. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheet and its tax bases in accordance with IAS12:

	The Group and the Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000
Land use rights	6,333	6,373
Property, plant and equipment	4,568	4,648
	10,901	11,021
Deferred income tax liabilities to be settled:		
– after more than 12 months	10,660	10,780
– within 12 months	241	241
	10,901	11,021

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

	The Group and the Company		
	Land use rights RMB'000	Property, plant and equipment RMB'000	Total RMB'000
Balance as at 1 January 2006	6,454	4,808	11,262
Recognised in the income statement	(81)	(160)	(241)
Balance as at 31 December 2006	6,373	4,648	11,021
Recognised in the income statement	(40)	(80)	(120)
Balance as at 30 June 2007	6,333	4,568	10,901

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14 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 RMB629,000 (as at 31 December 2006: RMB501,000) in respect of the tax losses of the Group's subsidiaries as at 30 June 2007 of approximately RMB4,338,000 (as at 31 December 2006: RMB3,454,000). Tax losses amounting to RMB814,000, RMB727,000, RMB744,000, RMB767,000, RMB402,000 and RMB884,000, will expire in 2007, 2008, 2009, 2010, 2011 and 2012 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 being recognised.

15 DEFERRED INCOME

	The Group and the Company 30 June 2007
	RMB'000
Balance as at 1 January 2006	–
Addition	9,237
Amortisation	(778)
	<hr/>
Balance as at 31 December 2006	8,459
Addition	3,233
Amortisation <i>(Note 17)</i>	(807)
	<hr/>
Balance as at 30 June 2007	<u>10,885</u>

Pursuant to an approval document issued by Hainan Province State Tax Bureau on 27 December 2006, the Company has been granted an enterprise income tax credit on certain qualified purchases of domestically manufactured equipment. Such tax credit is deferred and recognised in the income statement over the estimated useful lives of the related equipment.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

16 TRADE AND OTHER PAYABLES

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
Trade payables	3,364	5,146	2,408	2,770
Other payables	100,814	108,544	96,051	105,116
Deposits received	1,406	1,391	1,406	1,391
Due to related parties (Note 28(c))	16,344	19,826	16,192	19,676
	<u>121,928</u>	<u>134,907</u>	<u>116,057</u>	<u>128,953</u>

As at 30 June 2007, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
0-90 days	15,262	16,868	15,091	14,736
91-180 days	2,045	2,803	1,772	2,785
181-365 days	1,458	3,352	1,449	2,976
Over 365 days	791	1,243	288	1,243
	<u>19,556</u>	<u>24,266</u>	<u>18,600</u>	<u>21,740</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

17 EXPENSES BY NATURE

Expenses/(income) included in cost of services and sales of goods, selling and distribution costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
		(Unaudited)
Cost of goods and services	18,465	22,867
Depreciation of property, plant and equipment (Note 7)	23,672	19,590
Amortisation of land use rights (Note 6)	1,627	1,309
Employee benefit expense (Note 18)	16,628	16,124
Other taxes	3,049	2,464
Auditors remuneration	1,220	1,033
Traveling expenses	1,723	2,228
Consulting fee	–	2,139
Operating lease rentals – building	–	255
Amortisation of deferred income (Note 15)	(807)	–
Loss on disposal of property, plant and equipment	–	4
Impairment charge of trade receivables (Note 9)	64	1,743
Utilities and power	5,472	8,194
Repair and maintenance	2,298	1,587
Other expenses	2,135	6,350
	<hr/>	<hr/>
Total cost of services and sale of goods, selling and distribution costs and administrative expenses	75,546	85,887
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

18 EMPLOYEE BENEFIT EXPENSE

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Wages and salaries	10,479	11,077
Pension costs – statutory pension (Note 24)	1,826	1,894
Staff welfare	965	913
Housing fund (Note 25)	796	989
Medical benefits	566	495
Other allowances and benefits	1,996	756
	<u>16,628</u>	<u>16,124</u>

As at 30 June 2007, the Group and the Company had 750 and 716 (as at 31 December 2006: 676 and 593) employees respectively.

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the six months ended 30 June 2007 is set out below:

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Zhang Cong**	35	37	20	6	98
Wang Zhen*	7	–	–	–	7
Dong Zhanbin**	28	36	20	6	90
Dong Guiguo	35	32	18	6	91
Gunnar Moller*	30	66	35	–	131
Zhang Han'an	25	–	–	–	25
Kjeld Binger*	12	–	–	–	12
Xu Bailing	50	–	–	–	50
Fung Ching, Simon	50	–	–	–	50
Xie Zhuang	50	–	–	–	50
Name of Supervisor					
Chen Kewen	10	–	–	–	10
Zhang Shusheng	10	–	–	–	10
Zeng Xuemei	10	–	–	–	10

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

18 EMPLOYEE BENEFIT EXPENSE (continued)

(a) Directors' and Supervisors' emoluments (continued)

The remuneration of every Director and Supervisor for the six months ended 30 June 2006 is set out below:

Name of Director	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Zhang Cong**	32	28	17	6	83
Wang Zhen	35	36	22	7	100
Huang Qiu*	28	47	17	7	99
Dong Guiguo	7	5	3	1	16
Gunnar Moller	35	65	36	–	136
Chen Wenli*	5	–	–	–	5
Zhang Han'an	25	–	–	–	25
Kjeld Binger	25	–	–	–	25
Xu Bailing	40	–	–	–	40
Fung Ching, Simon	40	–	–	–	40
Xie Zhuang	40	–	–	–	40
Name of Supervisor					
Chen Kewen	7	–	–	–	7
Zhang Cong*	1	–	–	–	1
Zhang Shusheng	10	–	–	–	10
Zeng Xuemei	10	17	9	8	44

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

* Mr. Chen Wenli resigned as director with effect from 27 January 2006; Mr. Zhang Cong resigned as supervisor with effect from 27 January 2006; Mr. Huang Qiu resigned as executive director with effect from 25 May 2006; Mr. Wang Zhen resigned as executive director with effect from 5 February 2007; Mr. Kjeld Binger resigned as non-executive director with effect from 27 March 2007; and Mr. Gunnar Moller resigned as non-executive director with effect from 5 June 2007.

** Mr. Zhang Cong has been appointed as an executive director from 27 January 2006; and Mr. Dong Zhanbin has been appointed as an executive director from 5 February 2007.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

18 EMPLOYEE BENEFIT EXPENSE *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the period include four (for the six months ended 30 June 2006 (unaudited): four) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (for the six months ended 30 June 2006 (unaudited): one) individual during the period is as follows:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000 (Unaudited)
Basic salaries and allowances	44	48
Bonuses	16	15
Retirement scheme contributions	6	7
	<hr/>	<hr/>
	66	70
	<hr/>	<hr/>

During the six months ended 30 June 2007, no emolument was paid to the 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.

For the six months ended 30 June 2007 and 2006, the five highest-paid employees fell within the band from nil to RMB1 million.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

19 FINANCE INCOME – NET

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Interest on bank loans	(1,626)	(3,053)
Less: interest capitalised (<i>Note 7</i>)	–	1,576
	<hr/>	<hr/>
Finance cost	(1,626)	(1,477)
	<hr/>	<hr/>
Finance income – bank interest	2,276	3,457
Finance income – others	897	–
	<hr/>	<hr/>
Finance income	3,173	3,457
	<hr/>	<hr/>
Finance income – net	1,547	1,980
	<hr/>	<hr/>

20 INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for as the Group had no estimated assessable profits arising in Hong Kong during the period (for the six months ended 30 June 2006 (unaudited): Nil). Taxation in the income statement represents provision for the PRC enterprise income tax.

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Current income tax – outside Hong Kong	7,483	6,737
Deferred income tax (<i>Note 14</i>)	(120)	(120)
	<hr/>	<hr/>
Income tax expense	7,363	6,617
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

20 INCOME TAX EXPENSE *(continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Profit before taxation	94,430	86,267
Tax calculated at a domestic rate applicable to profits in the Hainan Province	14,164	12,940
Effect of tax holidays	(6,908)	(6,473)
Unrecognised tax losses	66	36
Expenses not deductible for tax purposes	41	114
Tax charge	7,363	6,617

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 2006: 15%) on the estimated assessable profit for the period.

Pursuant to the approval documents issued by Hainan Qionghang 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. On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which will be effective from 1 January 2008. Under the new CIT Law, group companies except for the Company which currently adopt income tax at the rate of 15% will be subject to the rate of 25% from 1 January 2008. For the Company, the applicable tax rate will increase from the current beneficial tax rate to 25% from 1 January 2010 after the expiry of tax reduction period.

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 RMB87,951,000 (for the six months ended 30 June 2006 (unaudited): RMB79,712,000).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 period.

	Six months ended 30 June	
	2007	2006 (Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	<u>87,095</u>	<u>79,642</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>18 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 share outstanding during the six months ended 30 June 2007 and 2006.

23 DIVIDENDS

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Interim, proposed, of HKD20 cents (for the six months ended 30 June 2006: no interim dividend proposed) per share	<u>92,106</u>	<u>–</u>

At the Board of Director's meeting held on 29 August 2007, the Directors proposed an interim dividend of HKD20 cents per share, amounting to HKD94,642,600 (equivalent to RMB92,106,000). This dividend proposed to be declared is not reflected as a dividend payable in this consolidated interim financial statement, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 2007 and 2006.

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% (for the six months ended June 2006: 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 period ended 30 June 2006, the Group's contribution to the housing fund was approximately RMB939,000 (for the six months ended 30 June 2006 (unaudited): RMB989,000).

As at 30 June 2006 and 31 December 2006, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

26 CASH GENERATED FROM OPERATIONS

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000 (Unaudited)
Profit before income tax	94,430	86,267
Adjustments for:		
– Interest income	(3,173)	(2,291)
– Interest expense	1,626	1,477
– Depreciation and amortization	25,299	20,899
– Loss on sale of property, plant and equipment	–	4
– Provision/(reversal) of impairment charge of trade receivables	64	(47)
Change in working capital:		
– Receivables and prepayments	9,628	(80,304)
– Trade and other payables	(1,342)	(1,623)
– Inventories	3,674	(1,082)
Cash generated from operations	130,206	23,300

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

27 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	The Group and the Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000
Buildings and improvements		
Contracted but not provided for	12,129	21,708
Authorised but not contracted for	–	566
	12,129	22,274

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

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

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
Not later than 1 year	23,462	27,258	16,970	16,658
Later than 1 year and not later than 5 years	49,239	34,029	41,624	30,527
Over 5 years	413	1,452	413	1,452
	73,114	62,739	59,007	48,637

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

28 MATERIAL RELATED PARTY TRANSACTIONS

The Company is controlled by Haikou Meilan International Airport Company Limited (the "Parent Company") established in the PRC which owns 50% of the Company's shares. Oriental Patron Financial Services Group Limited ("Oriental Patron") 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 by public.

Copenhagen Airport A/S ("CPHA") disposed all its shares (20%) in the Company to Oriental Patron, an independent third party, on 5 June 2007.

- (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	Note	The Group	
				Six months ended 30 June 2007 RMB'000	2006 RMB'000 (Unaudited)
Revenues:					
Hainan Airlines	Shareholder	Income for provision of customary airport ground services	(i)	32,193	33,857
		Rental income for leasing of offices and commercial space	(ii)	4,117	4,061
		Income from franchise fee for operations of cargo centre	(iii)	1,000	3,000
China Southern Airlines Co., Ltd. ("Southern Airlines")	Promoter	Income for provision of customary airport ground services	(i)	20,391	20,353
		Rental income for leasing of offices and commercial space	(ii)	3,513	3,198
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for provision of customary airport ground services	(i)	1,373	1,032
Hainan Airlines Food Company limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	(iv)	1,125	1,034
Luckyway Travelling	Subsidiary of HNA Group	Franchise income from tourism and traveling services at Meilan Airport	(v)	1,750	–

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 period: *(continued)*

Name of related party	Relationship with the Company	Nature of transactions	Note	The Group	
				Six months ended 30 June 2007 RMB'000	2006 RMB'000 (Unaudited)
Revenues: <i>(continued)</i>					
HongKong Airlines Limited	Subsidiary of HNA Group	Income for provision of customary airport ground services	(i)	1,238	–
Hainan HNA China Duty Free Merchandise Co. Ltd (“HNA China Duty Free”)	Subsidiary of HNA Group	Purchase of merchandise	(x)	2,556	–
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	(vi)	6,617	7,773
		Rental expense paid for the leasing of offices and commercial space	(vii)	–	255
HNA Group	Shareholder	Logistic composite services charged by HNA Group	(viii)	5,394	5,158
Hainan Airlines Aviation Information System Co. Ltd. (“HNAAIS”)	Subsidiary of Hainan Airlines	Information system maintenance service	(ix)	941	1,040
Copenhagen Airports International A/S (“CPHI”)	Subsidiary of CPHA	Technical services fee expenses		–	1,447
Sharing of customary airport ground services income:					
Haikou Meilan International Airport Co., Ltd.	Parent Company	Sharing of customary airport ground services income with the Parent Company	(xi)	30,132	23,850

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 period: *(continued)*

- (i) 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 and other airlines at rates prescribed by the General Administration of Civil Aviation of China (the "CAAC").
- (ii) The Company leased offices, commercial areas, premises, airport counters and an aircraft hangar to Hainan Airlines and Southern Airlines. The rental charges were agreed between the Company and the airlines.
- (iii) In accordance with an agreement between the Company and Hainan Airlines dated 26 August 2005, Hainan Airlines would pay a monthly franchise fee of RMB500,000 to the Company for operating cargo centre with retrospective effect on 1 January 2005. The aforementioned agreement was approved by the Extraordinary General Meeting on 4 November 2005.

According to the aforementioned agreement, Hainan Airlines transferred the fixed assets for operating the cargo center to the Company on 1 March 2007. Hainan Airlines ceased to pay franchise fee to the Company after 1 March 2007.

- (iv) 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. The franchise fee is calculated on a fixed price with reference to the number of passengers receiving the relevant services.
- (v) Pursuant to a franchise agreement with a term from 1 October 2006 to 31 December 2008 between the Company and Luckyway Traveling dated 22 September 2006, the Company granted Luckyway Traveling of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is Rmb3.5 million. Besides, 50% of the profits earned by Luckyway Traveling from its franchise operations at Meilan airport will be charged by the Company.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 period: *(continued)*

(vi) 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, energy supply and equipment maintenance; and
- (e) Passenger and luggage security inspection.

The charges relating to the services of items (a)-(d) are determined in accordance with the cost for the Parent Company in providing such services plus a 5% mark-up as management fee, except for item (d), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to Item (e) is determined in accordance with the rate prescribed by CAAC.

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

(viii) Pursuant to a logistic composite service agreement dated 26 August 2005, HNA Group has agreed to provide and 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 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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 period: *(continued)*
- (ix) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 17 May 2006, HNAAIS agreed to provide maintenance services for the information system of the Company with effect from 1 January 2006. The monthly service fee varies from month to month depending on the type of services rendered by HNAAIS.
- (x) Pursuant to a franchise agreement with a term from 22 June 2007 to 21 June 2010 between the Company and HNA China Duty Free dated 22 June 2007, the Company granted HNA China Duty Free the franchise to engage in retail sales of duty free commodities at Meilan Airport. The total fee for each month shall be calculated based on the number of outbound International and regional passengers.
- (xi) As directed by a circular (Zong Ju Cai Han [2002] No.77) issued by CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company whereby both parties agreed to 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

	For the six months ended	
	30 June 2007 RMB'000	30 June 2006 RMB'000 (Unaudited)
Salaries and other short-term employee benefits	482	409
Bonuses	168	150
Retirement scheme contributions	42	46
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	692	605
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

28 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

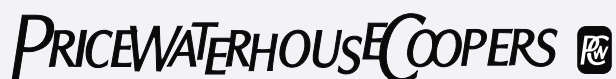
(c) As at 30 June 2007, balances with related parties comprised:

	The Group		The Company	
	30 June 2007 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000	31 December 2006 RMB'000
Trade receivables from related parties:				
Hainan Airlines*	82,360	62,723	81,235	62,048
Southern Airlines	15,406	15,799	15,402	15,765
Deer Jet	4,137	2,313	4,137	2,313
Hainan Food	2,883	3,435	2,883	3,435
Yangzijiang Air Express	14	15	14	15
Xiamen Airlines	709	1,293	709	1,293
Luckyway	1,733	583	1,733	583
Others	3,455	1,284	3,122	1,212
	<u>110,697</u>	<u>87,445</u>	<u>109,235</u>	<u>86,664</u>
Other receivables from related parties:				
SPIA	98	56	98	56
Others	44	–	3	–
	<u>142</u>	<u>56</u>	<u>101</u>	<u>56</u>
	<u>110,839</u>	<u>87,501</u>	<u>109,336</u>	<u>86,720</u>
Payables to related parties:				
Parent Company	14,153	12,998	14,101	12,848
CPHI	–	6,345	–	6,345
Luckyway	1,681	–	1,681	–
Others	510	483	410	483
	<u>16,344</u>	<u>19,826</u>	<u>16,192</u>	<u>19,676</u>

* An amount of RMB30,000,000 was settled on 17 August 2007.

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.

INDEPENDENT AUDITOR'S REPORT



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**To the Board of Directors of
HAINAN MEILAN INTERNATIONAL AIRPORT COMPANY LIMITED**

(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated interim financial statements of Hainan Meilan International Airport Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 15 to 68, which comprise the consolidated and company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Although the Company issued consolidated interim financial statements as at 30 June 2006, this information was not audited.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated interim financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated interim financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the six months then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting" and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 August 2007