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 : 0357

Interim Report 2011

Contents

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

Liang Jun, Chairman
Dong Zhanbin
Xing Xihong

NON-EXECUTIVE DIRECTORS

Hu Wentai, Vice Chairman
Zhang Han'an
Chan Nap Kee, Joseph
Yan Xiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Xu Bailing
Fung Ching, Simon
George F. Meng
Feng Da'an

SUPERVISORS

Dong Guiguo, Chairman
Zhang Shusheng
Han Aimin

COMPANY SECRETARY

Xing Zhoujin

AUTHORIZED REPRESENTATIVES

Liang Jun
Xing Zhoujin

AUDIT COMMITTEE

Xu Bailing, Chairman
Fung Ching, Simon
George F. Meng

REMUNERATION COMMITTEE

Feng Da'an, Chairman
Fung Ching, Simon
Xing Xihong

NOMINATION COMMITTEE

Xu Bailing, Chairman
Feng Da'an
Liang Jun

STRATEGIC COMMITTEE

Fung Ching, Simon, Chairman
Xu Bailing
Feng Da'an
Liang Jun
Hu Wentai

LEGAL ADDRESS AND HEAD OFFICE

Meilan Airport Complex
Haikou City
Hainan Province, the PRC

PLACE OF BUSINESS IN HONG KONG

28/F, Bank of East Asia Harbour View Centre
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Wanchai, Hong Kong

LEGAL ADVISER

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AUDITORS

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Zhong Tian CPAs Company Limited
11/F., PricewaterhouseCoopers Center
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PRINCIPAL BANKER

Bank of China, Haikou Jinyu Sub-branch of Hainan
Province Branch
81 Haixiu Central Road
Haikou City
Hainan Province, the PRC

China Everbright Bank, Yingbin Sub-branch
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Haikou City
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Computershare Hong Kong Investor Services Limited
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Wanchai, Hong Kong

STOCK CODE

00357

The board of directors (the "Board") of Hainan Meilan International Airport Company Limited ("Meilan Airport" or the "Company", together with its subsidiaries, the "Group") is pleased to announce the operating conditions, the unaudited financial results of the Company for the six months ended 30 June 2011, which have been reviewed by the audit committee of the Company (the "Audit Committee"), and the prospects for the second half of the year 2011.

FINANCIAL HIGHLIGHTS

(RMB'000)	**As at 30 June 2011**	As at 30 June 2010	Changes (%)
Turnover	**289,045**	262,419	10.15
Gross profit	**188,439**	166,715	13.03
Net profit attributable to shareholders	**155,089**	133,032	16.58
Earnings per share-basic (RMB)	**0.33**	0.28	17.86
Net operating cash flow	**91,408**	192,275	-52.46
EBITDA	**214,552**	172,861	24.12

(RMB'000)	**As at 30 June 2011**	As at 31 December 2010	Changes (%)
Total assets	**2,829,142**	2,297,967	23.11
Total liabilities	**675,963**	246,345	174.40
Shareholders' equity	**2,153,179**	2,051,622	4.95
Current ratio	**3.81**	5.08	-25.00
Gearing ratio	**23.89%**	10.72%	13.17

The world economy started its recovery after a risky 2010. 2011 is the commencing year of China's "12th Five Year Planning". China's economic conditions in the first half of the year was out of ordinary, witnessing a series of natural disasters which had significant impact on agricultural production. Commodity prices and the inflation rate were high and the rate of economic growth of the country slowed down. The Chinese government kept enforcing the macro-economic control policies, which will demonstrate a path with the synchronized development of economy and social well-being. This shows that in the post-crisis era, the focus of macro-econic control has transformed progressively from the previous short-term and passive control with an emphasis on "maintaining growth" to the long-term and active control with an emphasis on "the balancing between growth and social well-being". In this regard, China's economy has walked out of its "recovery period" into a "transformation period".

In 2011, with the further progression of the country's strategic plan of building Hainan as the International Tourism Island and the implementation of various preferential policies, Hainan is now in a golden era of rapid development. After the rapid growth during the same period last year, the economy of Hainan remained in a good state and kept a relatively fast growing momentum in the first half of this year. Preferential policies for the International Tourism Island such as tax refund to international tourist and citizen tax exemption ("tax-free for travelers leaving the island") started to show their effects, and local financial income realised a relatively rapid growth. Number of tourists to Hainan, particularly that of foreign tourists, grew significantly, and income from tourism kept growing steadily. Agricultural production and sales were both encouraging, and the export of special agricultural products was in a favourable trend. Consumer spending kept growing rapidly, and the operation of financial market was stable and the total financial volume increased significantly.

During the period under review, the Group grasped the opportunities of the steadily growing economy, the establishment of the ASEAN Free Trade Area and the implementation of favourable policies for the Hainan International Tourism Island such as tax-free for travelers leaving the island to develop its main aeronautical business aggressively. With these efforts, Meilan Airport achieved satisfactory results in terms of the three major operating indicators, i.e. passenger throughput, aircraft movement and cargo throughput, and the overall operation remained stable.

For the six months ended 30 June 2011, the Group's total revenue amounted to RMB289,045,000, representing an increase of 10.15% as compared to the corresponding period of last year. Net profit attributable to shareholders of the Company increased by 16.58% over the corresponding period of last year to RMB155,089,000. Earnings per share amounted to RMB33 cents (corresponding period of last year: earnings per share of RMB28 cents). The increase in net profit attributable to shareholders of the Company in the first half of 2011 was mainly a result of the Company's grasping of opportunities of the country's growing economy and the accelerated construction of the Hainan International Tourism Island to further develop its main aeronautical business and expand the non-aeronautical business, which powered the increase in operating revenue.

BUSINESS REVIEW

1. Aeronautical Business

For the six months ended 30 June 2011, total passenger throughput amounted to 5,071,500, representing an increase of 6.65% as compared to the corresponding period of last year. Aircraft movement amounted to 41,658, representing an increase of 3.79% as compared to the corresponding period of last year. Cargo throughput reached 88,201.70 tons, representing an increase of 2.36% over the corresponding period of last year.

For the six months ended 30 June 2011, revenue from the Group's aeronautical business was RMB191,567,000, representing an increase of 10.64% as compared to the corresponding period of last year.

According to Ju Fa Ming Dian [2011] 17 <Notice about the subsidy of airport fee for the three listed airports> from Civil Aviation Administration of China ("CAAC"), the Group can enjoy the subsidy of airport fee till 31 December 2015. Based on previous years practice, CAAC decides the airport fee return rates in the second half of the year every year. The actual return rate of airport fee for the Group had been 48% for the previous years. The Group calculated its airport fee return for this period based on 48% temporarily, which is the management's best estimation.

Growth of Domestic Flights Achieved

For the six months ended 30 June 2011, domestic passenger throughput of Meilan Airport reached 4,879,500, representing an increase of 6.84% as compared to the corresponding period of last year. Number of aircrafts taking off and landing amounted to 40,041, representing an increase of 3.88% as compared to the corresponding period of last year. Cargo throughput amounted to 85,857.60 tons, representing an increase of 2.21% over the corresponding period of last year.

During the first half of 2011, the economy of Hainan Province was in good condition. Under the favourable policies such as tax-free for travelers leaving the island, demand in the civil aviation market grew steadily. The Group also employed various proactive measures to develop the domestic aviation market and to continuously improve the market development strategies. In the first half of 2011, domestic flights achieved steady growth.

- In the face of the severe market competition, the Company proactively launched promotion measures. The Company successfully held the 2011 Haikou Aviation and Tourism Market Promotion Conference at the beginning of the year, and successfully invited the officer of the local government, the relevant representatives in-charge of 20 foreign and domestic airlines, a number of well-known travel agencies, companies from convention, exhibition and cultural industries and the media to take part in the conference. The conference had a good impact on the industry, and has laid a solid foundation for Meilan Airport's expansion in the aviation market in the coming year. Moreover, the Company has also successfully held the 11th Route and Flight Business Conference of China. It utilized the opportunity to promote the Hainan International Tourism Island policies, the preferential policies for flights directly to Haikou and the aviation and tourism market of Haikou, which would facilitate airlines to increase winter and spring flights to Haikou.

- The Company grasped the favourable opportunities brought by favourable market news and policies such as the opening of the East Ring Railway and the implementation of tax-free for travelers leaving the island to actively participate in promotional conferences for civil aviation system, airport industry and the Asian region. New routes such as Haikou=Beihai=Wuhan, Haikou=Changsha=Nanjing, Haikou=Guilin=Guiyang, Haikou=Xiamen=Tianjing, Haikou =Nanning=Hangzhou were established, and the Company successfully entered into cooperation agreements with a number airlines for the increase of capacity.

- The Company was committed to exploring new business mode and had been actively propelling the synchronized operation of the two airports and the East Ring Railway system in Hainan. The Group designed and launched the "air and railway joint-transportation" product with airlines, enabling "bundle sale" of air ticket and railway ticket, which provides convenience for visitors to travel to and within the island.

Development of International Flights

The Company has also been committed to the development of the international (regional) aviation market. Through participating in civil aviation conferences such as the World Route Development Forum held by the Route Development Group Ltd and the Asian Route Development Forum, the Company promoted and recommended the preferential policies of the Hainan International Tourism Island and Haikou Meilan International Airport, and negotiated with international airlines and established communication channels, which have laid a solid foundation for the development of the international aviaiton market in the second half of the year and even future.

For the six months ended 30 June 2011, international passengers throughput of Meilan Airport reached 192,000 (including regional passenger), number of aircrafts taking off and landing amounted to 1,617, cargo throughput amounted to 2,344.10 tons, representing an increase of 2.07%, 1.63% and 8.19% respectively over the corresponding period of last year.

2. Non-aeronautical Business

In the first half of 2011, the Group leveraged the opportunities brought by the construction of the Hainan International Tourism Island to reinforce marketing for non-aeronautical business, formulate differentiated marketing strategies and actively explore profit-growth opportunities, which resulted in a steady growth in the revenue of non-aeronautical business.

For the six months ended 30 June 2011, revenue from the Group's non-aeronautical business was RMB97,478,000, representing an increase of 9.19% over the corresponding period of last year.

- The Group's rental revenue reached RMB11,258,000 in the first half of the year, representing an increase of 58.83% over the corresponding period of last year, which was mainly because the Company reinforced marketing by planning the distribution of rental space and set different rental standards according to market demand, which attracted more merchants to become tenants and improved the rental rate.

- In the first half of the year, the Group recorded franchise fees of RMB32,353,000, representing an increase of 13.19% over the corresponding period of last year. This is mainly attributable to the increase in revenue from advertisement franchise fees and growth in the income of Hainan DFS Retail Company Limited (DFS), which increased the Company's franchise fees revenue.

- The Group's VIP service business achieved revenue of RMB10,872,000 in the first half of the year, representing an increase of 41.93% over the corresponding period of last year. This was mainly due to the increase in reception volume of the VIP service, as well as the increase of charges for the naming right of VIP lounge.

3. Branding of Services

In the first half of the year, the Group has facilitated Meilan Airport's participation in the Airport Service Quality (ASQ) program, established a coordination mechanism with the parties with business presence in the airport, standardized service quality standard and facilitated the improvement and implementation of projects, so as to speed up its integration with world-class airport management standard, realize the top 5 position in the ASQ5-15 million person-time throughput category and build up its brand as a SKYTRAX four star airport. Excellent results were achieved from the brand-building work of the airport. Apart from successfully obtaining the ACI Global Award for Outstanding Contribution of General Manager from the Airport Council International, the Group was also honoured in March 2011 as the SKYTRAX Best Regional Airport (China). In the first half of the year, the Group also received appreciation from all sectors in respect of its quality logistic and security services in large events such as the "Two Meetings" of the National People's Congress and the CPPCC, the leader summit of the "BRIC" and the 10th Bo'ao Forum for Asia.

FINANCIAL REVIEW

1. Asset Analysis

As at 30 June 2011, total assets of the Group amounted to RMB2,829,142,000, representing an increase of 23.11% over 31 December 2010, of which RMB771,993,000 were current assets and RMB2,057,149,000 were non-current assets. The increase in assets was mainly due to the increase in long-term equity investment (acquisition of 24.5% equity interest in HNA Airport Holding (Group) Company Ltd ("HNA Airport Holding") during the period).

2. Costs Analysis

For the first half of 2011, the Group's operating costs amounted to RMB91,466,000, representing an increase of 3.53% or RMB3,121,000 as compared to the corresponding period of last year, which was mainly due to the increased maintenance cost of equipments and other electromechanical equipments in the terminal since the airport has been in operation for 12 years.

In the first half of 2011, the Group's management expenses amounted to RMB29,937,000, which was a 1.32% or RMB391,000 increase compared to the corresponding period of last year.

3. Gearing ratio

As at 30 June 2011, the Group had total current assets of RMB771,993,000, total assets of RMB2,829,142,000, total current liabilities of RMB202,408,000 and total liabilities of RMB675,963,000. As at 30 June 2011, the Group's gearing ratio (total liabilities/total assets) was 23.89%, representing an increase of 13.17% compared to that as at 31 December 2010, which was due to the bank borrowing for the payment for the acquisition of 24.5% equity interest in HNA Airport Holding in the amount of USD72,500,000.

4. Pledge of the Group's assets

The Group pledged its 24.5% equity interest in HNA Airport Holding to secure a long-term bank loan of USD72,500,000 from China Development Bank. As at 30 June 2011, the balance of the bank loan was USD72,500,000 (equivalent to RMB469,191,000).

At the same time, the Group pledged its operating revenues to secure a long-term bank loan of RMB128,000,000 from China Development Bank. As at 30 June 2011, the balance of the bank loan was RMB6,000,000.

5. Capital structure of the Group

As at 30 June 2011, the total issued share capital of the Company was RMB473,213,000. Now the Group still has bank borrowing in the amount of USD72,500,000 which is subject to the Libor+ 3.4% interest rate and bank borrowing in the amount of RMB6,000,000 subject to the current floating interest rates of People's Bank of China.

6. Significant investments held and their performance and prospect

As at 30 June 2011, the Company has completed the acquisition of 24.5% equity interests in HNA Airport Holding from Kingward Investment Limited ("Kingward") through the use of its own funds and bank loans. In the first half of the year, HNA Airport Holding realized a net profit attributable to the parent company in the amount of RMB59,126,500 (unaudited), and investment income of the Company was RMB14,486,000. This acquisition will help the Company to develop in areas with high economic development potential, laying a solid foundation for the sustainability of the Company's future revenue.

7. Material Acquisitions and Disposals

For the six months ended 30 June 2011, the Company announced on 31 January 2011 that after receiving the relevant approval from the State Administration of Foreign Exchange of China, the Company paid the consideration to Kingward for acquiring the shares of HNA Airport Holding held by Kingward on 28 January 2011. (For details, please refer to the Company's announcement dated 31 January 2011).

8. Employees and remuneration policy

As at 30 June 2011, the Group had a total of 585 employees, representing a decrease of 46 employees as compared to 631 employees at the beginning of the year, which was a result of ordinary staff turnover. 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 rewards for the efforts contributed by the individuals. For the six months ended 30 June 2011, the Group's total staff cost accounted for approximately 8% of its total turnover. The staff cost decreased by 9.72% over the corresponding period of last year, which was mainly due to the subcontracting of part of the business.

9. Entrusted deposits and overdue fixed deposits

As at 30 June 2011, the Group did not have any entrusted deposits and overdue fixed deposits.

10. Contingent liabilities

As at 30 June 2011, the Group did not have any contingent liabilities.

11. Exposure to foreign exchange risks

The business of the Group is mainly settled in RMB, except for part of the extonantical revenue, equipment purchase and consultation fee which are settled in U.S. or HK dollar. The dividend of H shareholders is declared in RMB, paid in Hong Kong dollar. According to the overall purchase plan of the 24.5% equity interest in HNA Airport Holding, the Group will repay the interest and principal of the loan in the amount of USD72,500,000 from China Development Bank. Therefore, the exchange rate fluctuation of RMB to U.S. dollar will affect the financial performance of the Group.

12. Interest rate risk

The Group has the liability to repay the principal and interest of the USD72,500,000 bank borrowing and the RMB6,000,000 bank borrowing borrowed from China Development Bank. Changes of the Libor and adjustments to the benchmark interest rate of the People's Bank of China will affect the Group's interest expenses and results.

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 2010 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

Since 2011, the world economy has generally been progressing steadily. However, the continued unrest in the Middle East and North Africa, the nuclear leakage caused by the earthquake and tsunami in Japan which had not been solved properly in a timely manner and the looming of the Euro-debt and U.S. debt crisis have all brought along downward risks and uncertainties to the world economy. Among the major developed economies, the momentum for economic growth of the U.S. was insufficient due to factors such as the decrease of government expenses and the increase of oil prices in the first half of the year. In the second half of the year, although the expansion of the financial and monetary policies of the U.S. would contract progressively, it is expected that the U.S. government would maintain relatively loose monetary policies since the employment problem in the U.S. is still severe and the real estate market is still in depression. The EU countries maintained a slow growing trend. At present, the greatest problem which the EU faces is that it could not coordinate its financial policies and the monetary policies, and its political diversification has led to a deadlock in decision-making among the countries. As affected by the debt crisis of Greece, the EU countries would opt for the tightening of fiscal policies. As various countries' financial and monetary policies in the plans to stimulate the economy are gradually withdrawn, the world's economic growth pattern has shifted into an endogenous one. After the effects of the policies fade out, economic growth would naturally slowdown. However, in the second half of the year, the overall world economy will continue to grow gently.

The aviation industry is an industry closely linked to economic development. The recent downgrade of the credit rating of U.S. national debt, the raising of debt ceiling of the U.S. by the market and the continually-spreading panic on the European debt crisis have led to a sharp decline of aviation stocks generally. On the other hand, according to the relevant private financial data: 21.88% private parties consider that the U.S. debt crisis will lead to a new round of financial crisis. Therefore, in the short term, the crisis will lead to a decrease in trade surplus in the second half of the year, which will weaken the effort in investment around the world. Under the serious inflation problem, demand cannot be effectively stimulated, and the U.S. debt and European debt crisis may affect the demand for air-transport. However, in the long term, considering that the U.S. has never been in default of national debt, U.S. national debt involves major economies such as Japan and China, and that the U.S. is a country where wealth are with the people, U.S. debt shall not have significant adverse impact on market demand. On the contrary, southern European countries such as Greece have always been in default of national debts in the past 200 years, and the Euro economy has only been in existence for 10 years, therefore the European debt crisis has posed uncertainty on the aviation industry.

Since the beginning of this year, China's economy has entered a downward trend. The growth rate of real economy continued to slow down, industrial added value has been decreasing on a month-on-month basis compared with the same period last year, and the growth rate of the economy has decreased significantly. These are the inevitable results from the implementation of macro econic-control by the Chinese government with an aim to combat inflation, adjust the economic structure and the way of growth. In the second half of the year, the Chinese economy not only has to "prevent inflation", but also has to "secure growth". Although the pressure of commodity price increase is high, there is an increasing number of favourable conditions for maintaining stable commodity prices, including (a) the bumper harvest in food crops this summer, ranking the second highest production volume in history, which is helpful in lowering the inflation expectation; (b) the situation that the supply of most industrial goods is greater than their respective demand has not changed, and the proper slowing down of economic growth in particular could help in alleviating the demand pressure caused by price increase; (c) the slight decline in the price of bulk commodities in the international market, which could help alleviating the strong imported inflation pressure; (d) the positive impact of the prudent monetary policies in the previous period, particularly the continuous contracting of liquidity, will gradually surface; and (e) tail-raising factor that will contract on a month-on-month basis in the second half of the year. The Chinese government continued to implement the "nominally prudent, actually slightly tightening" monetary policy announced at the end of last year. Although the current monetary policies are relatively tight, the financial policies are still proactive, which can prevent a significant decline in the growth rate of the economy. At the same time, high-end consumption in China is still heated at present. The investment in affordable housing as well as the large number of infrastructure construction works this year (which is the commencement year of the "12th Five Year") will also facilitate investment and prevent the occurrence of significant decline.

2011 is a key year for the accelerated development of the Hainan International Tourism Island. With the launching of policies such as tax-free for travelers leaving the island, the ever-increasing effort in overseas promotion, and the development of new routes, the tourism economy of Hainan grew healthily in the first half of the year, and the overall condition was favourable.

As facilitated by the citizen tax exemption policy, tax-free travel to Hainan has become a new favourite in the tourism market of the country. This has greatly propelled and ensured the sustainable growth of Hainan's tourism market, and has brought Hainan province into an unprecedented upsurge in tourism and consumption in the traditional low season. Since the implementation of the tax-free policy for travelers leaving the island, the Sanya duty free store of China Duty Free Group Co., Ltd. has received an enormous amount of business. According to the duty free store, total customer flow of the store has exceeded 800,000 person-time in June 2011, in which the highest number of customers for a single day was over 20,000 person-time. "Tax-free policy for travelers leaving the island" will create great attractiveness that could retain the high-end consumption of the citizens within the country. Last year, 50% of the consumption of high-end luxury items of China were spent overseas. Tax-free shopping could predictively increase Hainan's tourist number by 20%-25%, and facilitate the growth of consumption per person by 15%-20%. Shopping is one part of the growth of the tourism economy, and the increase in number of tourists resulted from tax-free shopping could facilitate the growth in other tourism consumptions such as dining, accommodation, transportation and entertainment. China's first airport tax-free out-lying island store is expected to open in Meilan Airport. At present, construction of the hardware of that store is completed, and it is expected that its opening would directly facilitate the growth of passenger volume of the airport.

The East Ring high speed railway had an urban integration effect in the tourism industry and the traditional pattern of tourism where the tourists are concentrated in the southern part of Hainan is gradually changing. Since the operation of the East Ring high speed railway, passenger volume increased continuously. Tourists and local residents opt for the high speed railway which is considered a fast and convenient way to travel. Travel companies also adjusted their travel routes and travel products for the high speed railway. The urban integration brought about by the East Ring high speed railway gradually changed the traditional mode of tourism in Hainan. In the past, the tourist number and tourism income of Sanya has always accounted for 50% of that of the whole province. The East Ring high speed railway could alleviate the pressure on accommodation in major tourism destinations. Tourists in Sanya may choose to stay in Haikou, Qionghai and Wenchang, etc. This can effectively distribute the tourists, so that the tourism market of the province could become more balanced. At the same time, the feasibility study report for the Hainan West Ring railway has been replied and approved by the National Development and Reform Commission, such that construction of the railway could commence in the second half of the year. The construction is planned to take four years. After the project is completed, it will form a round-island high speed railway network with the East Ring railway, forming a modern transportation system for Hainan. This has great significance in propelling the construction of the Hainan International Tourism Island, tourism market exploration of west Hainan region and meeting the needs of the economic development in the coastal region of the western part of Hainan.

Hainan province plans to build a new Boao airport for civil use in Qionghai city. At present, the project has been approved by the State Council and the Central Military Commission. The nature of the airport is a domestic branch airport with a total investment of approximately RMB945 million. The scale of the airport is designed and constructed based on a passenger throughput of 480,000 person-time in 2020. Its functional positioning is to serve the special planes and governmental planes of the domestic and foreign political figures who take part in the annual Boao Forum for Asia in the short term, and to serve civil flights as well in the long run. The airport will satisfy the requirements for the takeoff and landing of Boeing 737 special planes and different types of business jets. The construction of the Boao airport has great significance in further raising the service level of the Boao Forum for Asia, stimulating and facilitating local tourism development, improving the layout of airports in the province and improving the comprehensive transportation system. Since the initial service targets of the Boao airport are governmental planes and special planes and as limited by its scale, it is expected that after the construction of the airport is completed, the passenger volume of Meilan airport would not be affected in the short term. The Company would closely monitor the development of the airport, prepare relevant strategic plans as soon as possible while keep developing the local aviation market, and explore cooperation and development modes so as to ensure the continuous and steady development of the Company.

The complex zone of the launching site in Hainan province is located in the northeastern region of Dongjiao Town in Wenchang City. It consists of three basic functional areas, which are the aerospace theme park zone, the aerospace business service zone and the aerospace living facilities zone. Such project was invested and constructed by Hainan Aerospace Investment Management Company Limited, a wholly-owned subsidiary of China Aerospace International Holdings Limited. The site area of the project is approximately 6,100 acreage, and the total investment amount is approximately RMB12 billion. At the end of 2010, foundation was laid for the aerospace theme park zone, which is the core project of the complex zone of the launching site in Hainan province. The first phase of the park is planned to be completed and commence operation in 2013. At present, project planning for the project is completed, and project land acquisition, demolition and settlement work have started. Since Wenchang is less than 100km from Haikou, therefore when the launching site in Hainan province is completed, it will not only facilitate the economic development of aerospace tourism of Hainan, but also bring significant growth in passenger number for Meilan Airport.

In the second half of the year, the tourism industry of Hainan province will maintain a rapid development trend. Under the effects of preferential policies such as tax-free shopping, visa-free for tour groups from 26 countries, the welcoming of yachts and the launch of "guess lottery", Hainan province will attract more foreign and domestic tourists to come and visit. Therefore, the Board of Directors considers that the international and domestic routes of Haikou Meilan Airport in the second half of 2011 would run smoothly. The Company will cooperate with airlines by using flexible methods according to the condition of the aviation market and the actual conditions of different airlines. Through actively and extensively promoting the effect of tax-free for travelers leaving the island on the tourism market of Haikou, we will strive to add more routes for Haikou; we will facilitate the amendment and promotion of the two aviation compensation policies of the provincial and city governments, carry out market development works, and facilitate airlines to put their aircrafts overnight in the airport; we will strengthen the ties with the base airline, strive to introduce new base airline; in terms of operation management, we will strictly control cost, keep the annual income level and strive to bring favourable results to the shareholders.

INTERIM DIVIDEND

The Board has passed the resolution to recommend the payment of an interim dividend on or before 23 December 2011 (Friday) of RMB0.15 per share (before tax) on the extraordinary general meeting to be held on 24 October 2011 (Monday) to shareholders of the Company whose names appear on the Company's Register of Members on 1 November 2011 (Tuesday).

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Friday, 28 October 2011 to Tuesday, 1 November 2011, during which time no transfer of shares will be registered. To qualify for receiving the distribution of interim dividends, all instruments of transfer, accompanied by the relevant share certificates and form of transfer shall be delivered to Computershare Hong Kong Investor Services Limited, located at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Thursday, 27 October 2011.

MATERIAL LITIGATION OR ARBITRATION

The Company had no material litigation or arbitration from 1 January 2011 to 30 June 2011.

CHANGE OF DIRECTORS

The Board of the Company comprises 11 directors. From 1 January 2011 to 30 June 2011, changes in the directorship of the Company are as follows:

Mr. Zhao Yahui resigned as the Company's executive director and chairman due to job re-designation reason, effective from 25 January 2011. Mr. Liang Jun also resigned as the Company's President on 25 January 2011. At the same time, the Company's Nomination Committee recommended Mr. Liang Jun to replace Mr. Zhao Yahui as the Company's Chairman, and recommended Mr. Dong Zhanbin to be the Company's executive Director and President.

Mr. Dong Zhanbin officially became an executive Director and the President on 25 January 2011 for a term of three years. This was approved and ratified in the extraordinary general meeting held on 21 March 2011.

Mr. Chen Nap Kee, Joseph was re-appointed as Non-executive Director on 15 October 2010 for a term of three years. This was approved and ratified in the extraordinary general meeting held on 21 March 2011.

Mr. Yan Xiang was re-appointed as Non-executive Director on 15 October 2010 for a term of three years. This was approved and ratified in the extraordinary general meeting held on 21 March 2011.

Mr. George F. Meng was re-appointed as Independent Non-executive Director and a member of the Audit Committee of the Board on 15 October 2010 for a term of three years. This was approved and ratified in the extraordinary general meeting held on 21 March 2011.

CHANGE OF SUPERVISOR

Ms. Zeng Xuemei resigned as a Staff Representative Supervisor of the Company due to work re-location with effect from 23 August 2011.

Mr. Han Aimin was democratically elected as a Staff Representative Supervisor of the Company on 23 August 2011.

DIRECTORS' REMUNERATION

As of 30 June 2011, the Directors, supervisors and Company Secretary nominated by the holders of domestic shares of the Company to hold positions in the Company have submitted written declarations to the Company, stating that they are voluntary to waive their remuneration for the year of 2010.

Mr. Zhao Yahui (originally Executive Director and Chairman) waived 2010 remuneration of RMB70,000;

Mr. Liang Jun (Executive Director and General Manager) waived 2010 remuneration of RMB70,000;

Ms. Xing Xihong (Executive Director) waived 2010 remuneration of RMB70,000;

Mr. Hu Wentai (Non-executive Director and Vice Chairman) waived 2010 remuneration of RMB50,000;

Mr. Zhang Han'an (Non-executive Director) waived 2010 remuneration of RMB50,000.

SUPERVISORS' REMUNERATION

Mr. Dong Guiguo (Chairman of the Supervisory Committee) waived 2010 remuneration of RMB20,000;

Ms. Zeng Xuemei (supervisor) waived 2010 remuneration of RMB20,000.

COMPANY SECRETARY'S REMUNERATION

Mr. Xing Zhoujin (Company Secretary) waived 2010 remuneration of RMB30,000.

SHARE CAPITAL STRUCTURE

As at 30 June 2011, the total number of issued shares of the Company was 473,213,000 as follows:

	Number of Shares	Percentage to total issued shares
Domestic shares	246,300,000	52%
H Shares	226,913,000	48%
Total issued shares	473,213,000	100%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2011, so far as is 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, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"); or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Domestic shares

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

H shares

Name of Shareholder	Type of Interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Zhang Gaobo (Note 2)	Interest of controlled corporation	94,343,000 (L)	41.58%	19.94%
	Interest of controlled corporation	32,788,500 (S)	14.45%	6.93%
Zhang Zhi Ping (Note 2)	Interest of controlled corporation	94,343,000 (L)	41.58%	19.94%
	Interest of controlled corporation	32,788,500 (S)	14.45%	6.93%

Name of Shareholder	Type of Interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporation Interest of controlled corporation	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporation Interest of controlled corporation	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial Beneficial	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
UBS AG (Note 3)	Beneficial, security interest and controlled corporate interest	33,679,400 (L)	14.84%	7.12%
Utilico Emerging Markets Utilities Limited (Note 4)	Investment manager	11,629,000 (L)	5.12%	2.46%
ARC Capital Holdings Limited (Note 5)	Interest of controlled corporation	98,365,500 (L)	43.35%	20.79%
ARC Capital Partners Limited (Note 5)	Investment manager	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Asia Opportunity Fund L.P. (Note 5)	Interest of controlled corporation	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Equity Partners Limited (Note 5)	Interest of controlled corporation	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Asset Management Limited (Note 5)	Investment manager	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Holdings Limited (Note 5)	Interest of controlled corporation	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Group Limited (Note 5)	Interest of controlled corporation	98,365,500 (L)	43.35%	20.79%
Pacific Alliance Investment Management Limited (Note 5)	Interest of controlled corporation	98,365,500 (L)	43.35%	20.79%
Walden Ventures Limited (Note 5)	Beneficial owner and person having a security interest in shares	98,365,500 (L)	43.35%	20.79%
Deutsche Bank Aktiengesellschaft (Note 6)	Beneficial owner, investment manager and person having a security interest in shares	14,011,980 (L)	6.18%	2.96%
	Beneficial owner	5,498,000 (S)	2.42%	1.16%

Notes:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.

2. Each of Zhang Gaobo and Zhang Zhiping holds 49% and 51% interests of Oriental Patron Financial Group Limited, respectively. Oriental Patron Financial Group Limited holds 95% interests of Oriental Patron Financial Services Group Limited. The interests of Oriental Patron Resources Investment Limited is wholly-owned by Oriental Patron Financial Services Group limited.

3. Among the 33,679,400 shares in the Company, UBS AG was holding 2,000 shares as a beneficial owner and was deemed to have equity interest in the remaining 33,677,400 shares (UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Ltd were all wholly-owned by UBS AG, and were beneficially holding 23,502,400 shares, 5,631,000 shares and 4,544,000 shares in the Company, respectively).

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.

5. Pacific Alliance Group Holdings Limited was holding 99.17% interest in Pacific Alliance Group Limited, which was in turn holding 90% interest in Pacific Alliance Investment Management Limited.

   Pacific Alliance Investment Management Limited was holding 61.8% interest in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited was holding 100% interest in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 98,365,500 shares in its capacity as investment manager. ARC Capital Holdings Limited is a corporation controlled by ARC Capital Partners Limited for the purpose of Part XV of the SFO. ARC Capital Holdings Limited was holding 46.67% interest in Walden Ventures Limited which was in turn holding 43.35% interest of the Company.

   Pacific Alliance Investment Management Limited was also holding 100% interest in Pacific Alliance Group Asset Management Limited. Pacific Alliance Group Asset Management Limited was deemed to be interested in 98,365,500 shares in its capacity as investment manager. Pacific Alliance Asia Opportunity Fund L.P. is a corporation controlled by Pacific Alliance Group Asset Management Limited for the purpose of Part XV of the SFO. Pacific Alliance Asia Opportunity Fund L.P. was holding 36.67% interest in Walden Ventures Limited which was in turn holding 43.35% interest of the Company.

6. Among the 14,011,980 shares in the Company, Deutsche Bank Aktiengesellschaft was holding 5,508,980 shares as a beneficial owner, was deemed to be interested in 2,000,000 shares in its capacity as investment manager, and was deemed to be interested in the remaining 6,512,000 shares as person having a security interest in shares. Deutsche Bank Aktiengesellschaft was holding short position in 5,498,000 shares in its capacity as beneficial owner.

7. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as at 30 June 2010, 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, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

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

As at 30 June 2011, 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 by the Company 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. No Directors, Supervisors and chief executive of the Company have any interest or short position in the shares, underlying shares or debentures 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 by the Company 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.

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

None of the directors, supervisors and chief executives of the Company or their respective spouses or children under the age of 18 was 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 2011.

AUDIT COMMITTEE

The Audit Committee has, together with the management, reviewed the interim report, including 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 unaudited condensed consolidated interim financial information for the six months ended 30 June 2011.

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

As at 30 June 2011, there were four independent non-executive directors in the Board and the Audit Committee comprised 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

The Company has adopted a code for securities transaction by directors on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the directors of the Company, all of the directors have complied with the required standard set out in the Model Code regarding directors' securities transaction during the six months ended 30 June 2011.

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 Stock Exchange and regulations of other competent authorities. For the six months ended 30 June 2011, 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.

THE BOARD

As at the date of this report, the Board of the Company comprised the following persons:

Executive directors
Liang Jun *(Chairman)*
Dong Zhanbin
Xing Xihong

Independent non-executive directors
Xu Bailing
Fung Ching, Simon
George F.Meng
Feng Da'an

Non-executive directors
Hu Wentai *(Vice Chairman)*
Zhang Han'an
Chan Nap Kee, Joseph
Yan Xiang

By Order of the Board
Hainan Meilan International Airport Company Limited
Liang Jun
Chairman and Executive Director

26 August 2011
Haikou, the People's Republic of China

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

ASSETS	Note(s)	**30 June 2011 consolidated (Unaudited)**	31 December 2010 consolidated (Audited)	**30 June 2011 company (Unaudited)**	31 December 2010 company (Audited)
Current assets					
Cash at bank and on hand	*5(1) 9(1)*	**553,668**	960,553	**487,533**	908,842
Accounts receivable	*5(2) 9(2)*	**194,660**	218,362	**191,064**	214,906
Advances to suppliers	*5(3)*	**9,523**	13,355	**8,834**	12,991
Other receivables	*5(4) 9(3)*	**11,006**	8,326	**48,700**	35,333
Interest receivable		**3,131**	1,592	**2,592**	1,053
Inventories		**5**	26	**5**	26
Total current assets		**771,993**	1,202,214	**738,728**	1,173,151
Non-current Assets					
Long-term equity investments	*5(5) 9(4)*	**1,002,232**	30,875	**1,021,766**	50,409
Fixed assets	*5(6) 9(5)*	**891,473**	906,753	**890,628**	905,871
Construction in progress		**4,053**	4,551	**4,053**	4,551
Intangible assets	*5(7) 9(6)*	**148,820**	150,402	**148,820**	150,402
Long-term prepaid expenses		**6,465**	–	**6,465**	–
Deferred tax assets	*5(8)*	**4,106**	3,172	**4,106**	3,172
Total non-current assets		**2,057,149**	1,095,753	**2,075,838**	1,114,405
Total assets		**2,829,142**	2,297,967	**2,814,566**	2,287,556

Consolidated and Company's balance sheets

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	*Note(s)*	**30 June 2011 consolidated (Unaudited)**	31 December 2010 consolidated (Audited)	**30 June 2011 company (Unaudited)**	31 December 2010 company (Audited)
Current liabilities					
Accounts payable		**11,310**	6,340	**10,807**	5,847
Advances from customers		**15,352**	31,445	**15,290**	31,383
Employee benefits payable	*5(9)*	**41,605**	50,061	**39,460**	45,414
Taxes payable	*5(10)*	**10,196**	390	**8,895**	(169)
Interest payable		**2,986**	15	**2,986**	15
Dividends payable	*5(11)*	**54,759**	666	**54,759**	666
Other payables	*5(12)*	**58,964**	143,628	**64,549**	148,488
Current portion of non-current liabilities	*5(13)*	**7,236**	4,000	**7,236**	4,000
Total current liabilities		**202,408**	236,545	**203,982**	235,644
Non-current liabilities					
Long-term borrowings	*5(13)*	**467,955**	4,000	**467,955**	4,000
Other non-current liabilities	*5(14)*	**5,600**	5,800	**5,600**	5,800
Total non-current liabilities		**473,555**	9,800	**473,555**	9,800
Total liabilities		**675,963**	246,345	**677,537**	245,444
Shareholders' equity					
Share capital	*5(15)*	**473,213**	473,213	**473,213**	473,213
Capital surplus	*5(16)*	**699,485**	699,485	**699,485**	699,485
Surplus reserve	*5(17)*	**187,993**	187,993	**187,993**	187,993
Undistributed profits		**780,815**	682,512	**776,338**	681,421
Total capital and reserves attributable to shareholders of the Company		**2,141,506**	2,043,203	**2,137,029**	2,042,112
Minority interest	*5(18)*	**11,673**	8,419	**–**	–
Total shareholders' equity		**2,153,179**	2,051,622	**2,137,029**	2,042,112
Total liabilities and shareholders' equity		**2,829,142**	2,297,967	**2,814,566**	2,287,556

	Note(s)	Six months ended 30 June 2011 consolidated (Unaudited)	2010 consolidated (Unaudited)	2011 company (Unaudited)	2010 company (Unaudited)
Revenue	5(19) 9(7)	**289,045**	262,419	**250,953**	233,221
Less: Operating costs	5(19) 9(7)	**(91,466)**	(88,345)	**(67,678)**	(69,285)
Taxes and surcharges	5(20)	**(9,140)**	(7,359)	**(7,833)**	(6,270)
Sales expenses		**(97)**	–	**–**	–
General and administrative expenses		**(29,937)**	(29,546)	**(25,579)**	(27,745)
Finance income – net	5(21) 9(8)	**7,081**	8,011	**7,001**	7,910
Asset impairment reverse/(losses)		**749**	(451)	**694**	(451)
Add: Investment income	5(22) 9(9)	**14,486**	–	**14,486**	–
Investment income from associates		**14,486**	–	**14,486**	–
Operating profit		**180,721**	144,729	**172,044**	137,380
Add: Non-operating income		**375**	2	**314**	2
Less: Non-operating expenses		**(390)**	(82)	**(390)**	(82)
Non-current assets disposal expenses		**(390)**	(82)	**(390)**	(82)
Total profit		**180,706**	144,649	**171,968**	137,300
Less: Income tax expenses	5(23) 9(10)	**(22,363)**	(8,843)	**(20,265)**	(7,246)
Net profit		**158,343**	135,806	**151,703**	130,054
Attributable to share holders of the Company		**155,089**	133,032	**151,703**	130,054
Minority interest		**3,254**	2,774	**–**	–
Earnings per share (RMB Yuan)					
Basic earnings per share	5(24)	**0.33**	0.28	**N/A**	N/A
Diluted earnings per share	5(24)	**0.33**	0.28	**N/A**	N/A
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income		**158,343**	135,806	**151,703**	130,054
Attributable to share holders of the Company		**155,089**	133,032	**151,703**	130,054
Minority interest		**3,254**	2,774	**–**	–

Consolidated and Company's cash flow statements

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Note(s)	Six months ended 30 June **2011 consolidated (Unaudited)**	2010 consolidated (Unaudited)	**2011 company (Unaudited)**	2010 company (Unaudited)
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		**293,927**	281,304	**255,918**	258,628
Cash received relating to other operating activities		**1,026**	6,131	**3,926**	8,083
Sub-total of cash inflows		**294,953**	287,435	**259,844**	266,711
Cash paid for goods and services		**(67,519)**	(40,667)	**(48,236)**	(25,382)
Cash paid to and on behalf of employees		**(31,745)**	(23,626)	**(22,271)**	(20,202)
Payments of taxes and surcharges		**(25,763)**	(16,480)	**(23,100)**	(15,640)
Cash paid relating to other operating activities		**(78,518)**	(14,387)	**(90,711)**	(18,029)
Sub-total of cash outflows		**(203,545)**	(95,160)	**(184,318)**	(79,253)
Net cash flows from operating activities	*5(25) 9(11)*	**91,408**	192,275	**75,526**	187,458
Cash flows from investing activities					
Net cash received from disposal of fixed assets		**178**	120	**111**	116
Cash received from other investment activities		**2,739**	8,529	**4,179**	8,502
Sub-total of cash inflows		**2,917**	8,649	**4,290**	8,618
Cash paid to acquire fixed assets		**(4,546)**	(4,108)	**(4,461)**	(3,869)
Net cash paid for acquisition of subsidiaries		**(956,871)**	–	**(956,871)**	(5,100)
Sub-total of cash outflows		**(961,417)**	(4,108)	**(961,332)**	(8,969)
Net cash flows from investing activities		**(958,500)**	4,541	**(957,042)**	(351)
Cash flows from financing activities					
Cash received from borrowings		**469,191**	–	**469,191**	–
Cash received from capital contributions		**–**	4,900	**–**	–
Including cash received from minority interest of subsidiaries		**–**	4,900	**–**	–
Sub-total of cash inflows		**469,191**	4,900	**469,191**	–

	Note(s)	**2011 consolidated (Unaudited)**	2010 consolidated (Unaudited)	**2011 company (Unaudited)**	2010 company (Unaudited)
		Six months ended 30 June			
Cash repayments of amounts borrowed		**(2,000)**	(2,000)	**(2,000)**	(2,000)
Cash payments for distribution of dividends or profits and interest expenses		**(7,015)**	(350)	**(7,015)**	(350)
Sub-total of cash outflows		**(9,015)**	(2,350)	**(9,015)**	(2,350)
Net cash flows from financing activities		**460,176**	2,550	**460,176**	(2,350)
Effect of foreign exchange rate changes on cash and cash equivalents		**31**	–	**31**	–
Net (decrease)/increase in cash and cash equivalents		**(406,885)**	199,366	**(421,309)**	184,757
Add: Cash and cash equivalents at beginning of period		**960,553**	748,678	**908,842**	719,000
Cash and cash equivalents at end of period		**553,668**	948,044	**487,533**	903,757

Consolidated statement of changes in shareholders' equity

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

		Attributable to share holders of the Group					
		Share capital	Capital Reserves	Surplus Reserves	Undistributed profits	Minority interest	Total share holders' equity
	Notes	5(15)	5(16)	5(17)		5(18)	
Balances at 1 January 2010		473,213	699,485	164,477	724,424	745	2,062,344
Net profit		–	–	–	133,032	2,774	135,806
Minority shares		–	–	–	–	4,900	4,900
Dividend of ordinary shares	*5(11)*	–	–	–	(94,643)	–	(94,643)
Balances at 30 June 2010		473,213	699,485	164,477	762,813	8,419	2,108,407
Balances at 1 January 2011		**473,213**	**699,485**	**187,993**	**682,512**	**8,419**	**2,051,622**
Net profit		**–**	**–**	**–**	**155,089**	**3,254**	**158,343**
Dividend of ordinary shares	*5(11)*	**–**	**–**	**–**	**(56,786)**	**–**	**(56,786)**
Balances at 30 June 2011		**473,213**	**699,485**	**187,993**	**780,815**	**11,673**	**2,153,179**

	Notes	Attributable to share holders of the Company				Total share holders' equity
		Paid-in capital	Capital Reserves	Surplus Reserves	Undistributed profits	
Balances at 1 January 2010		473,213	699,485	164,477	726,310	2,063,485
Net profit		–	–	–	130,054	130,054
Dividend of ordinary shares	*5(11)*	–	–	–	(94,643)	(94,643)
Balances at 30 June 2010		473,213	699,485	164,477	761,721	2,098,896
Balances at 1 January 2011		**473,213**	**699,485**	**187,993**	**681,421**	**2,042,112**
Net profit		**–**	**–**	**–**	**151,703**	**151,703**
Dividend of ordinary shares	*5(11)*	**–**	**–**	**–**	**(56,786)**	**(56,786)**
Balances at 30 June 2011		**473,213**	**699,485**	**187,993**	**776,338**	**2,137,029**

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. The legal address and head office is at Haikou City, Hainan Province, the PRC. The Company's 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 Province, the PRC (the "Meilan Airport") and certain ancillary commercial businesses. The parent company and the ultimate holding company of the Company is Haikou Meilan Airport Co., Ltd. ("Haikou Meilan"), a state-owned enterprise established in the PRC with limited liability.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 August 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as "the Accounting Standard for Business Enterprises" or "CAS").

2.2 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the six months ended 30 June 2011 ("Current period") are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 30 June 2011 and the operating results, cash flows and other information for the current period of the Group and the Company.

2.3 Accounting period

The Company's accounting year starts on 1 January and ends on 31 December. The actual accounting period for these financial statements is the six months period ended 30 June 2011.

2.4 Recording currency

The recording currency is Renminbi (RMB).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.5 Business Combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus. If the capital surplus is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at the fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period.

Costs directly attributable to the combination are included in the cost of combination.

2.6 Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

Subsidiaries are fully consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, came under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

The financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company during the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not held by the Company are recognized as minority interests and presented separately in the consolidated balance sheet within equity and net profits respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.7 Cash and cash equivalents

Cash and cash equivalents refer to all cash in hand, call deposits, short-term and highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8 Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

2.9 Financial instrument

(a) Financial assets

(i) Classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

The financial assets of the Group are receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(ii) Recognition and measurement

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables are measured at amortised cost using the effective interest method. Transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.9 Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, the Group shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

(iv) Derecognition of financial assets

Financial assets are derecognised when: i) the contractual rights to receive the cash flows from the financial assets have expired; or ii) all substantial risks and rewards of ownership of the financial assets have been transferred; or iii) the control over the financial asset has been waived even if the Group does not transfer or retain nearly all of the risks and rewards relating to the ownership of a financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate of consideration received is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: the financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise other financial liabilities, including payables and borrowings.

Payables comprise accounts payable and other payables, which are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently carried at amortised costs using the effective interest method.

Other financial liabilities are classified as the current liabilities if they mature within one year (one year included); others are classified as long-term liabilities; long-term liabilities due for repayment within one year since the balance sheet day are classified as current portion of non-current liabilities.

A financial liability (or a part of financial liability) is derecognised when and only when the obligation specified in the contract is discharged or cancelled. The difference between the carrying amount of a financial liability (or a part of financial liability) extinguished and the consideration paid is recognised in profit of loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.10 Receivables

Receivables comprise accounts receivable, other receivables and interest receivable. Accounts receivable arising from rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

Receivables are subject to separate impairment assessment. If there is objective evidence that the Group will not be able to collect the full amount under the original terms, a provision for impairment of that receivable is established at the difference between the carrying amount of that receivable and the present value of its estimated future cash flows.

Receivables that are not individually significant and those receivables that have been individually evaluated for impairment and have been found not impaired are combined into certain groups based on their credit risk characteristics. The impairment losses are determined based on the historical loss experience for the groups of receivables with the similar credit risk characteristics and taking into consideration of the current circumstances.

2.11 Inventories

Inventories include food and turnover materials, and are presented at the lower of cost and net realisable value. Cost is determined using the first in first out method. Provisions for declines in the value of inventories are determined at the carrying value of the inventories net of their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and relevant taxes.

2.12 Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries and the Group's long-term equity investments in its associates.

Subsidiaries are all investees over which the Company is able to control; associates are all investees that the Company has significant influence on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted using the equity method when preparing the consolidated financial statements; Investments in associates are accounted for using the equity method.

(a) Determining initial investment cost

Long-term equity investments accounted for using the cost method are measured at the initial investment cost. Long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.12 Long-term equity investments (Cont'd)

(b) Subsequent accounting and recognition of profit or loss

For long-term equity investments accounted for using the cost method, investment income is recognised in profit or loss for the cash dividends or profit declared by the investee.

When using the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise the investment losses and the provision. For changes in owner's equity of the investee other than those arising from its net profit or loss, the Group record directly in capital surplus its proportion, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment gain or losses are recognised. The loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not allowed to be eliminated.

(c) Determining control and significant influence over investees

Control means that the investor has the power to govern the financial and operating policies so as to obtain benefits from their operating activities. The existence and effect of potential voting rights (including that derived from the convertible bonds and warrants that are currently convertible or exercisable) are considered to determine whether the Group has control over the investee.

Significant influence means that the investor has the right to participate in the determination of the investee's financial and operating policies, but cannot control or joint control with other parties on the determination of these policies.

(d) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries and associates is reduced to the recoverable amount when the recoverable amount is less than the carrying amount (Note 2(18)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.13 Fixed assets

(a) Initial reorganization and measurement

Fixed assets comprise buildings, machinery and equipment, motor vehicles, furniture, fixtures and other equipment.

A fixed asset is recognized when it is probable that the economic benefits associated with the fixed assets will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation method

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

	Estimated useful lives	**Estimated residual value**	**Annual depreciation rate**
Buildings	15-40 years	3%	6.5-2.4%
Machinery and equipment	14 years	3%	6.9%
Motor vehicles	10 years	3%	9.7%
Furniture, fixtures and other equipment	6-15 years	3%	16.2%-6.5%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at least at each year-end.

(c) When the recoverable amount of investment real estate less than its carrying value, book value is reduced to its recoverable amount (Note 2 (18)).

(d) Fixed assets disposal

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.14 Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation cost, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is less than the carrying amount (Note 2(18)).

2.15 Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For a borrowing specific for the acquisition, construction or production activities for preparing an asset eligible for capitalisation, the to-be-capitalised borrowing costs shall be determined according to the actual borrowing costs incurred less any income earned on the unused borrowing fund as a deposit in the bank or as a temporary investment.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.16 Intangible assets

Intangible assets are land use rights ("LUR") and are measured at cost. LUR acquired are amortized on the straight-line basis over their estimated useful lives

For an intangible asset with a finite useful life, review and adjustment on useful life and amortization method are performed at each year-end.

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is less than the carrying amount (Note 2(18)).

2.17 Long-term prepaid expenses

Long-term prepaid expenses include the remaining amortisation of financial expenses and other prepayments that should be amortized over more than one year. The remaining amortization of financial expense is amortised using the effective interest method over the period of the financial expenses. Other prepayments are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

2.18 Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are 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 the present value of the future cash flows expected to be derived from the asset. A provision for asset Impairment is determined and recognised on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the asset impairment loss mentioned above is recognised, it is not allowed to be reversed for the value recovered in the subsequent periods.

2.19 Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.19 Employee benefits (Cont'd)

If the Group terminates the labour relationship with any employee prior to the expiration of the relevant labour contract or makes a severance package proposal with the purpose of enticing the employees to willingly accept such a termination, and the following conditions are concurrently satisfied, the Group shall recognize the liabilities to be incurred due to severance pay, and shall at the same time record them in the profit and loss of the current period.

Except for the compensation for termination of labour relationship, employee benefits are recognised as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

2.20 Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

2.21 Revenue recognition

The amount of revenue is determined in accordance with 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 taxes, rebates and discounts.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Group's activities as described below. Revenues are recognised as follows:

(a) Rending of services

- Services have been provided;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- the relevant amount of revenue and costs can be measured reliably

(b) Sales of goods

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The relevant amount of revenue and costs can be measured reliably.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.21 Revenue recognition (Cont'd)

(c) Transfer of asset use rights

– It is probable that the economic benefits associated with the transaction will flow to the Company; and

– The relevant amount of revenue and costs can be measured reliably.

2.22 Government subsidies

Government subsidy means the monetary or non-monetary assets obtained freely by an enterprise from the government, including fire alarm system subsidies.

Government subsidy is recognized unless the additional condition can be met and the subsidy can be received by the corporation. If the government subsidy is a monetary asset, it will be measured in the light of the received or receivable amount.

The government subsidies pertinent to assets will be recognized as other non-current debt-deferred income, equally amortized within the useful lives of the relevant assets and recognized as profit and loss at the same time. The government subsidies measured at their nominal amounts will be directly recognized as profit and loss in the current period.

2.23 Deferred tax assets

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax base of assets and liabilities and their carrying amount (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax law. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, joint ventures and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset and presented on net basis when:

- The deferred taxes are relate to the same tax payer within the group and same fiscal authority, and;
- That tax payer has a legally enforceable right to offset current tax assets against current tax liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.24 Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

2.25 Jointly controlled operations

The jointly controlled operation is that the Group participates certain operation using the assets or other resources of the Group with other parties, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group should account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation applicable to the particular assets, liabilities, revenues and expenses.

2.26 Segment information

The Group identify operating segments based on the internal organization structure, management requirement and internal reporting, then disclose segment information of reportable segment which is based on operating segment.

An operating segment is the component of the Group that all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and (3) for which the information of financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

2.27 Critical accounting estimates and judgments

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

2.27 Critical accounting estimates and judgments (Cont'd)

Critical accounting estimates and key assumptions

The critical accounting estimates and key 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 outlined below:

(a) Fixed assets

The Group's management determines the estimated useful lives and related depreciation charges for its fixed assets. This estimate is made based on management's experience in operating airport and the conditions of the fixed assets. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charges where useful lives are shorter than previously estimated lives.

Management determines the residual values of its fixed assets based on all relevant factors (including the use of the current scrap value in current market as a reference value) at the end of each year.

(b) Impairment of financial assets

Whenever events or changes in circumstances indicate that the carrying amounts of financial assets may not be recoverable, the Group will test whether financial assets have suffered any impairment in accordance with the accounting policies stated in Note 2.9. In making its judgment, the Group considers information from a variety of sources including 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.

(c) Airport fee return rates

According to Minhangfa[2011]17 <Notice about the subsidy airport fee for the three listed airports> from Civil Aviation Administration of China ("CAAC"), the airport fee can be recognised as income by the Group till 31 December 2015. Based on previous years practice, CAAC decides the airport fee return rates at Quarter 4 yearly. The actual return rate for the Group had been 48% for the previous years. The Group calculated its airport fee return based on 48% temperately, which is the management's best estimation.

3 TAXATION

(1) The types and rates of taxes applicable to the Group are set out below:

Type	Taxable base	Tax rate
Enterprise income tax	Taxable income	24% or 25%
Value added tax ("VAT")	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the effective tax rate)	4%
Business tax	Taxable turnover	3% or 5%
City maintenance and construction tax	Value added tax and Business tax amount	5% or 7%
Surcharge for education	Value added tax and Business tax amount	3%

(2) Tax preferential and approval

In accordance with the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law", effective from 1 January 2008) as approved by the National People's Congress on 16 March 2007, the CIT rate applicable to the Company will be gradually increased from 15% to 25% in a 5-year period from 2008 to 2012. The tax rate in 2011 is 24% (2010: 22%).

Pursuant to the approval document (Hai Guo Shui Han [2008] No.13) issued by Haikou State Tax Bureau on 2 February 2008, the Company was entitled to the exemption of CIT from 2004 to 2008, and 50% deduction of CIT from 2009 to 2013. Therefore, the applicable tax rate for the Company in 2011 is 12% (2010: 11%).

4 BUSINESS COMBINATION AND CONSOLIDATION

Subsidiaries

Subsidiaries establised by the Group

	Type of subsidiaries	Place of registration	Principal activities	Paid up Capital RMB'000	Interest held (%)	Voting rights (%)	Whether consolidate the financial statements or not
Hainan Meilan International Airport Advertising Co., Ltd. ("Meilan Advertising")	Limited liability company	Haikou	Provision of advertising services	1,000	99.75	100	Yes
Haikou Meilan International Airport Duty Free Shop Ltd. ("Meilan Duty free shop")	Limited liability company	Haikou	Retail sales	1,000	95	95	Yes
Hainan Meilan International Airport Travelling Co., Ltd. ("Meilan Travelling")	Limited liability company	Haikou	Provision of tourism services	11,000	95	95	Yes
Hainan Meilan International Airport Cargo Co., Ltd. ("Meilan Cargo")	Limited liability company	Haikou	Provision of cargo service	10,000	51	51	Yes

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2011	31 December 2010
Cash on hand	**165**	72
Cash at bank	**553,503**	960,481
	553,668	960,553

(2) Accounts receivable

	30 June 2011	31 December 2010
Accounts receivable	**198,312**	222,763
Less: provision for bad debts	**(3,652)**	(4,401)
	194,660	218,362

	30 June 2011	31 December 2010
Accounts receivables from aeronautical services	**170,836**	198,049
Accounts receivables from non-aeronautical services	**27,476**	24,714
	198,312	222,763

The credit terms given to customers are determined on an individual basis by the management, with a normal credit period ranging from 1 to 3 months.

The ageing of accounts receivable is analysed below:

	30 June 2011	31 December 2010
Within 90 days	**123,704**	104,848
91 to 180 days	**19,675**	41,193
181 to 365 days	**23,509**	56,143
Over 365 days	**31,424**	20,579
	198,312	222,763

	31 December 2010	Additions	Reversals	Written off	30 June 2011
Provision for bad debts	4,401	–	(694)	(55)	**3,652**

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Advances to suppliers

The ageing of advances to suppliers is analysed below:

	30 June 2011		31 December 2010	
	Amount	**% of total balance**	Amount	% of total balance
Within 1 year	**9,523**	**100%**	12,000	90%
1 to 2 years	**–**	**–**	1,355	10%
	9,523	**100%**	13,355	100%

(4) Other receivables

	30 June 2011	31 December 2010
Luckyway International Travel Service Co., Ltd. ("Luckyway")	**5,015**	4,274
Hainan Newborn Information and Technology Co. Ltd ("Hainan Newborn")	**3,285**	–
Others	**2,706**	4,052
	11,006	8,326

The ageing of other receivables is analysed below:

	30 June 2011	31 December 2010
Within 90 days	**4,355**	3,218
91 to 180 days	**179**	113
181 to 365 days	**2,221**	636
Over 365 days	**4,251**	4,359
	11,006	8,326

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Long-term equity investments

Associates – Unlisted companies

	31 December 2010	Additional investment cost	Share of profit of investees under equity method	**30 June 2011**	Interest Held	Voting Rights
Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng")	30,875	–	–	**30,875**	30%	30%
Hainan Airlines Airport Holding Company Limited ("HNA Airport Holding")	–	956,871	14,486	**971,357**	24.5%	24.5%
	30,875	956,871	14,486	**1,002,232**		

No significant restrictions on the long term equity investments.

	Interest Held	Voting Rights	**30 June 2011**			**1 January 2011 or the acquisition date to 30 June 2011**	
			Assets	**Liabilities**	**Net assets**	**Revenue**	**Net profits**
Associates –							
Haikou Decheng	30%	30%	**259,430**	**156,516**	**102,914**	**–**	**–**
HNA Airport Holding	24.5%	24.5%	**9,307,165**	**4,400,528**	**4,906,637**	**402,936**	**81,777**

Pursuant to the agreement entered into between the Company and Kingward Investment Limited ("Kingward") on 25 March 2010, the Company would acquire 24.5% equity interests in HNA Airport Holding from Kingward. The consideration of USD145,000,000 was paid to Kingward on 28 January 2011 and the acquisition of such shares was completed. HNA Airport Holding became an associate of the Company. The equity interest has been secured by the Group for the long term borrowings, please refer to Note 5 (13).

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and other equipment	Total
Cost					
31 December 2010	951,824	211,552	77,497	58,259	1,299,132
Transfer from construction in progress	–	1,812	–	–	1,812
Other additions	–	60	10,323	1,170	11,553
Disposals	(220)	(23)	(1,377)	(1,882)	(3,502)
30 June 2011	951,604	213,401	86,443	57,547	1,308,995
Accumulated depreciation					
31 December 2010	(209,681)	(98,181)	(49,244)	(35,273)	(392,379)
Depreciation	(12,303)	(8,513)	(2,884)	(4,525)	(28,225)
Disposals	104	15	1,323	1,640	3,082
30 June 2011	(221,880)	(106,679)	(50,805)	(38,158)	(417,522)
Net book value					
30 June 2011	729,724	106,722	35,638	19,389	891,473
31 December 2010	742,143	113,371	28,253	22,986	906,753

Depreciation expenses of RMB27,790K and RMB 435K were charged in cost of sales and general and administrative expenses in the current period (for the six months ended 30 June 2010: RMB28,146K and RMB 772K in cost of sales and general and administrative expenses).

(7) Intangible assets

	Land use right
Cost	
31 December 2010 and 30 June 2011	179,637
Accumulated amortisation	
31 December 2010	(29,235)
Amortisation	(1,582)
30 June 2011	(30,817)
Net book amount	
30 June 2011	148,820
31 December 2010	150,402

Amortisation expenses of RMB1,582K (for the six months ended 30 June 2010: RMB1,741K) were charged in cost of sales in the current period.

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(CONT'D)

(7) Intangible assets (Cont'd)

The net book value of land use rights are analysed as follows:

	30 June 2011	31 December 2010
Inside Mainland China –		
between 10 to 50 years	**62,259**	63,065
over 50 years	**86,561**	87,337
	148,820	150,402

(8) Deferred tax assets

Deferred tax assets has not been offsetted

	30 June 2011		31 December 2010	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for asset impairment	**456**	**3,652**	522	4,346
Accrued termination costs	**1,579**	**8,641**	1,714	9,893
Accrued bonus, accrued Directors' emoluments, long-aging payables	**2,071**	**16,565**	936	7,804
	4,106	**28,858**	3,172	22,043

As at 30 June 2011 and at 31 December 2010, no deferred tax liabilities existed.

(9) Employee benefits payable

	31 December 2010	Additions	Reductions	30 June 2011
Wages and salaries, bonuses, allowances and subsidies	34,238	15,750	(21,826)	**28,162**
Staff welfare	–	631	(631)	**–**
Social security contributions	1,160	3,165	(3,973)	**352**
Including: Basic pensions	1,012	2,162	(2,732)	**442**
Medical insurance	444	692	(883)	**253**
Work injury insurance	17	63	(87)	**(7)**
Unemployment insurance	(324)	199	(222)	**(347)**
Maternity insurance	11	49	(49)	**11**
Housing funds	649	1,882	(2,353)	**178**
Labor union funds and employee education funds	2,922	577	(337)	**3,162**
Termination costs	9,893	262	(1,514)	**8,641**
Others	1,199	1,022	(1,111)	**1,110**
	50,061	23,289	(31,745)	**41,605**

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Taxes payable

	30 June 2011	31 December 2010
Business tax payable	**3,338**	3,941
Enterprise income tax payable/(prepaid)	**6,209**	(5,516)
Individual income tax payable	**423**	661
Prepaid city maintenance and construction tax	**(114)**	(108)
Prepaid Educational surcharge	**(39)**	(60)
Others	**379**	1,472
	10,196	390

(11) Dividend payable

	Six months ended 30 June	
	2011	2010
Dividend Payable of ordinary shares at the beginning of the period	**666**	666
Add: Dividend payable of ordinary shares in current period	**56,786**	94,643
Less: Withholding tax for dividend payable	**(2,693)**	–
Dividend payable of ordinary shares at the end of the period	**54,759**	95,309

Pursuant to the resolution of the annual General Meeting on 19 May 2011, a cash dividend of RMB0.12 per share was declared. The total dividend amounted to RMB56, 786K based on the ordinary share 473,213K.

(12) Other payables

	30 June 2011	31 December 2010
Airport ground services payable	**17,681**	94,271
Construction payables	**13,232**	15,505
Deposit guarantees	**9,007**	8,132
Payables to Luckyway	**5,698**	9,597
Airlines subsidy payables	**3,048**	8,326
Others	**10,298**	7,797
	58,964	143,628

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Long-term borrowings

	30 June 2011	31 December 2010
Secured borrowings	**475,191**	8,000
Less: current portion of long-term borrowings	**(7,236)**	(4,000)
	467,955	4,000

As at 30 June 2011, the weighted average interest rate of long-term borrowings is 3.79% (31 December 2010:5.94%).

As at 30 June 2011, bank borrowings of USD72,500K (equivalent to as RMB469,191K) (31 December 2010: nil) are secured by the 24.5% interest of HNA Airport Holding held by the Group.

As at 30 June 2011, bank borrowings of RMB6,000K (31 December 2010: RMB 8,000K) are secured by the Group's operating revenue.

(14) Other non-current liabilities

	Six months ended 30 June	
Government subsidy	**2011**	2010
31 December 2010	**5,800**	3,000
Amortisation	**(200)**	–
30 June 2011	**5,600**	3,000

Government subsidy relevant to assets is amortised over the expected useful life of the assets, i.e. 15 years.

(15) Share capital

	30 June 2011 and 31 December 2010 (In thousand)	30 June 2011 and 31 December 2010 (RMB'000)
Shares held by domestic legal entities		
Haikou Meilan	**237,500.0**	237,500.0
HNA Group Co., Ltd. ("HNA Group")	**3,512.5**	3,512.5
Hainan Airlines Company Limited ("Hainan Airlines")	**5,287.5**	5,287.5
Shares held by foreign investors	**226,913.0**	226,913.0
	473,213.0	473,213.0

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(16) Capital reserve

	30 June 2011 and 31 December 2010
Capital premium	**598,984**
Other capital reserve	**100,501**
	699,485

(17) Surplus reserve

	31 December 2010	Additions	Reductions	30 June 2011
Statutory surplus reserve	187,993	–	–	**187,993**

	31 December 2008	Additions	Reductions	30 June 2010
Statutory surplus reserve	164,477	–	–	164,477

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities. The Group hasn't accrued to the statutory surplus reserve for the current period (for the six months ended 30 June 2010: nil)

As at 30 June 2011, included in the undistributed profits, the amount of RMB1,606K is subsidiaries' surplus reserve attributable to the Company (31 December 2010: RMB1,606K), among which nil is appropriated for the current period (for the six months ended 30 June 2010: nil).

(18) Minority Equity

Minority equity attributable to the subsidiaries of the Group

Subsidiaries	Minority	30 June 2011	31 December 2010
Meilan Cargo	Baixiang Logistic Company Limited	**11,075**	7,821
Meilan Advertising	Haikou Meilan	**4**	4
Meilan Duty Free Shop	Haikou Meilan	**(88)**	(88)
Meilan Travelling	Haikou Meilan	**682**	682
		11,673	8,419

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Revenue and cost of sales

	Six months ended 30 June	
	2011	2010
Revenue		
Aeronautical:		
Passenger charges	**80,784**	70,688
Airport fee	**60,507**	56,681
Aircraft movement fees and related charges	**26,197**	24,243
Ground handling services income	**24,079**	21,535
Non-aeronautical:		
Freight and packing	**32,949**	36,272
Franchise fee	**32,353**	28,582
Rental	**11,258**	7,088
VIP room charge	**10,872**	7,660
Car parking	**3,638**	3,571
Others	**6,408**	6,099
	289,045	262,419

	Six months ended 30 June	
	2011	2010
Cost of sales		
Depreciation and amortisation charges	**29,807**	30,540
Cost of Packing materials	**15,918**	19,745
Airport and logistic composite services fee	**13,289**	10,875
Employee benefits costs	**11,499**	14,312
Utilities and power	**7,747**	8,490
Repairs and maintenance	**5,100**	241
Airlines subsidies expense	**1,106**	1,500
Others	**7,000**	2,642
	91,466	88,345

(20) Tax and surcharges

	Six months ended 30 June	
	2011	2010
Business tax	**8,182**	7,224
City maintenance and construction tax	**549**	66
Educational surcharge	**409**	69
	9,140	7,359

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(21) Financial income – net

	Six months ended 30 June	
	2011	2010
Interest income	**4,278**	8,409
Less: interest expense arisen from bank borrowings	**(7,293)**	(328)
Exchange gains – net	**10,951**	–
Amortized financial charges	**(661)**	–
Others	**(194)**	(70)
	7,081	8,011

Interest expense are analysed by maturity days as follows:

	30 June 2011	31 December 2010
The last maturity day in 5 years	**7,293**	328

(22) Investment income

	Six months ended 30 June	
	2011	2010
Share of profit of investees under equity method – HNA Airport Holding	**14,486**	–

No significant restrictions on the repatriation of investment income.

(23) Income tax expenses

	Six months ended 30 June	
	2011	2010
Current income tax	**23,297**	10,780
Deferred income tax	**(934)**	(1,937)
	22,363	8,843

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	Six months ended 30 June	
	2011	2010
Total profit	**180,706**	144,649
Income tax expenses calculated at applicable tax rates	**43,370**	31,803
Effect of tax holiday	**(20,636)**	(15,103)
Income not subject to tax	**(1,738)**	(7,646)
Expenses not deductible for tax purposes	**1,367**	(211)
	22,363	8,843

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(24) Earnings per share

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

	Six months ended 30 June	
	2011	2010
Profit attributable to shareholders of the Company (RMB'000)	**155,089**	133,032
Number of ordinary shares in issue ('000)	**473,213**	473,213
Basic earnings per share (RMB)	**0.33**	0.28

Diluted earnings per share was calculated by dividing the consolidated net profit attributable to holders of ordinary shares of the parent company adjusted by dilutive potential ordinary shares by the weighted average of issued ordinary shares of the Company after adjustment. During the period, the Company does not have dilutive potential ordinary shares (for the six months ended 30 June 2010: nil). Therefore, diluted earnings per share equals to basic earnings per share.

(25) Notes to consolidated cash flow statements

Reconciliation from net profit to cash flows from operating activities

	Six months ended 30 June	
	2011	2010
Net profit	**158,343**	135,806
Add: (Reversal of)/Provisions for asset impairment	**(749)**	451
Depreciation of fixed assets	**28,225**	28,918
Amortisation of intangible assets	**1,582**	1,741
Losses on disposal of fixed assets	**242**	82
Financial income	**(7,935)**	(8,081)
Investment income	**(14,486)**	–
Increase in deferred tax assets	**(934)**	(1,937)
Decrease in inventories	**21**	5
Decrease/(Increase) in operating receivables	**19,947**	(14,300)
(Decrease)/Increase in operating payables	**(92,848)**	49,590
Net cash flows from operating activities	**91,408**	192,275

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(25) Notes to consolidated cash flow statements (Cont'd)

	Six months ended 30 June	
	2011	2010
Cash and cash equivalents at end of the period	**553,668**	948,044
Less: cash equivalents at beginning of the period	**(960,553)**	(748,678)
Net (decrease)/increase in cash and cash equivalents	**(406,885)**	199,366

6 SEGMENT INFORMATION

The chief operating decision-maker of the Group has been identified as the senior management lead by the general manager. The management reviews the Group's internal reporting in order to assess performance and allocate resources. The management has determined the operating segments based on these reports.

The management considers the Group conduct its business within one business segment-the business of operating an airport and provision of related services in the PRC and the Group also operates within one geographical segment because its revenues are primarily generated from and its assets are located in the PRC.

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company:

	Place of registration	Nature of business
Haikou Meilan	Haikou	Transportation and airport service

(b) Registered capital and changes in registered capital of the parent company:

	30 June 2011 and 31 December 2010
Haikou Meilan	**2,028,913**

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(1) The parent company (Cont'd)

(c) The proportions of equity interests and voting rights in the Company held by the parent company:

	30 June 2011 and 31 December 2010 % interest held	% voting rights
Haikou Meilan	**50.19**	**50.19**

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in Note 7(4).

(3) Information of associates

	Place of registration	Nature of business	Registered capital	Interest held	Voting rights
Haikou Decheng	Haikou, Hainan Province	Property development, resort operation, eco-agriculture development and gardening	101,681	30%	30%
HNA Group	Haikou, Hainan Province	Airport operation and ground handling services; airport investment, holding, constructing and rebuilding	3,020,152	24.5%	24.5%

(4) Nature of related parties that do not control or are not controlled by the Company:

	Relationship with the Group
HNA Group	Has significant influence of Haikou Meilan, together with the Company
Hainan Developing Holding Company Limited ("Hainan Developing")	Has significant influence of the Group
Hainan Airlines	Subsidiary of Hainan Developing
Hainan Airlines Food Company Limited ("Hainan Food")	Subsidiary of HNA Group
Hainan Island Opal Property Management Co., Ltd ("Island Opal")	Subsidiary of HNA Group
Beijing Capital Airlines CO., Ltd. ("Capital Airlines")	Subsidiary of HNA Group
HNA Group Finance Co., Ltd ("HNA Group Finance")	Subsidiary of HNA Group
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Subsidiary of HNA Group
Luckyway	Subsidiary of HNA Group
HNA Safe Car Rental Co. Ltd. ("HNA Safe")	Subsidiary of HNA Group
Tianjin Airlines Co., Ltd. ("Tianjin Airlines", previous name " Grand China Express Airlines Co., Ltd.")	Subsidiary of HNA Group
Grand China Aviation Technik Limited Company ("GCA Technik")	Subsidiary of HNA Group
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Subsidiary of HNA Group
Hong Kong Airlines Limited ("Hong Kong Airlines")	Subsidiary of HNA Group
Hong Kong Express Airlines Co., Ltd. ("Hong Kong Express Airlines")	Subsidiary of HNA Group
Western Airlines Co., Ltd. ("Western Airlines")	Subsidiary of HNA Group
Hainan Newborn	Subsidiary of HNA Group
HNA Lucky Air Co. Ltd ("Yunnan Xiangpeng")	Subsidiary of HNA Group

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions

(a) Pricing policies

The Group's pricing on raw materials purchased from related parties, and services provided or received from related parties are based on market price.

(b) Purchases of goods and services

	Six months ended 30 June	
	2011	2010
Hainan Airlines	**15,918**	19,740
Haikou Meilan	**8,022**	8,260
HNA Group	**6,296**	5,822
Island Opal	**4,658**	2,744
HNAAIS	**944**	1,014
	35,838	37,580

(c) Rendering of services

	Six months ended 30 June	
	2011	2010
Hainan Airlines	**51,508**	50,744
Capital Airlines	**9,358**	2,387
Tianjin Airlines	**4,325**	3,445
Hong Kong Express Airlines	**3,304**	640
Luckyway	**2,967**	2,762
HNA China Duty Free	**2,316**	2,097
Western Airlines	**1,286**	660
Hainan Food	**1,192**	1,769
Others	**391**	2,053
	76,647	66,557

(d) Remuneration of key management

	Six months ended 30 June	
	2011	2010
Remuneration of key management	**1,167**	1,145

(e) Interest Income

	Six months ended 30 June	
	2011	2010
HNA Group Finance	**3,369**	5,607

Calculated in accordance with rates of commercial banks over the same period.

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(f) Directors' emolument

	Six months ended 30 June 2011	2010
Directors' emolument	**2,422**	1,806

(6) Receivables from and payables to related parties

(a) Cash at bank

	30 June 2011	31 December 2010
HNA Group Finance	**325,161**	429,990

(b) Accounts receivable

	30 June 2011	31 December 2010
Hainan Airlines	**49,089**	99,876
Capital Airlines	**20,153**	7,591
Tianjin Airlines	**20,135**	17,037
Hong Kong Express Airlines	**10,696**	4,675
Hong Kong Airlines	**8,159**	8,143
Hainan Food	**5,635**	4,526
Luckyway	**4,922**	7,955
Western Airlines	**3,015**	2,847
HNA China Duty Free	**2,461**	1,774
GCA Technik	**596**	–
Yunnan Xiangpeng	**584**	252
Others	**1,278**	1,060
	126,723	155,736

(c) Other receivables

	30 June 2011	31 December 2010
Luckyway	**5,015**	4,274
Hainan Newborn	**3,285**	–
Hainan Airlines	**699**	765
Others	**243**	247
	9,242	5,286

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(6) Receivables from and payables to related parties (Cont'd)

(d) Interest receivable

	30 June 2011	31 December 2010
HNA Group Finance	**1,666**	1,592

(e) Accounts payable

	30 June 2011	31 December 2010
Island Opal	**3,692**	584
Others	**467**	426
	4,159	1,010

(f) Other payable

	30 June 2011	31 December 2010
Haikou Meilan	**17,831**	94,321
Others	**261**	178
	18,092	94,499

(g) Advance from customers

	30 June 2011	31 December 2010
GCA Technik	**426**	–
Hainan Food	**162**	–
HNA China Duty Free	**62**	62
	650	62

(h) Directors' emolument payable

	30 June 2011	31 December 2010
Directors' emolument	**23,189**	20,767

8 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. To mitigate the foreign exchange risk. During the current period and the corresponding period of 2010, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 30 June 2011 and 31 December 2010, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized below:

	30 June 2011		
	USD	**Other**	**Total**
Financial assets denominated in foreign currency – Cash at bank and on hand	**1,452**	**36**	**1,488**
Financial liabilities denominated in foreign currency – Long-term borrowings	**469,191**	**–**	**469,191**

	31 December 2010		
	USD	Other	Total
Financial assets denominated in foreign currency – Cash at bank and on hand	1,440	37	1,477

As at 30 June 2011, if the currency had weakened/strengthened by 10% against the USD while all other variables had been held constant, the Group's net profit for the period would have increased/decreased approximately by RMB41,161K (31 December 2010: RMB127K).

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2011, the Group's long-term interest bearing borrowings were mainly USD-denominated with floating rates, amounting to USD72,500K (31 December 2010: nil) (Note 5(13)).

8 FINANCIAL INSTRUMENT AND RISK (CONT'D)

(1) Market risk (Cont'd)

(b) Interest rate risk (Cont'd)

Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's finance department at its headquarters continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. During the current period and the corresponding period of 2010, the Group did not enter into any interest rate swap agreements.

For the six months ended 30 June 2011, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately USD118K (2010: nil).

(2) Credit risk

Credit risk is managed on a Group basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, and other receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium, large size listed banks or HNA Group Finance. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

8 FINANCIAL INSTRUMENT AND RISK (CONT'D)

(3) Liquidity risk (Cont'd)

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2011			
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Total**
Financial assets –				
Cash at bank and on hand	**553,668**	**–**	**–**	**553,668**
Financial liabilities –				
Long-term borrowings	**21,720**	**133,928**	**369,173**	**524,821**

	31 December 2010			
	Within 1 year	1 to 2 years	2 to 5 years	Total
Financial assets –				
Cash at bank and on hand	960,553	–	–	960,553
Financial liabilities				
Long-term borrowings	4,391	2,165	2,055	8,611

9 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2011	31 December 2010
Cash on hand	**68**	32
Cash at bank	**487,465**	908,810
	487,533	908,842

(2) Accounts receivable

	30 June 2011	31 December 2010
Accounts receivable	**194,716**	219,252
Less: provision for bad debts	**(3,652)**	(4,346)
	191,064	214,906

9 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(2) Accounts receivable (Cont'd)

	30 June 2011	31 December 2010
Accounts receivables from aeronautical services	**170,916**	198,094
Accounts receivables from non-aeronautical services	**23,800**	21,158
	194,716	219,252

The credit terms given to customers are determined on an individual basis by the management, with a normal credit period ranging from 1 to 3 months.

The ageing of accounts receivable is analysed below:

	30 June 2011	31 December 2010
Within 90 days	**123,304**	104,588
91 to 180 days	**19,675**	41,193
181 to 365 days	**23,509**	56,143
Over 365 days	**28,228**	17,328
	194,716	219,252

	31 December 2010	Additions	Reductions reversals	Written off	30 June 2011
Provision for bad debts	4,346	–	(694)	–	**3,652**

(3) Other receivables

	30 June 2011	31 December 2010
Franchise fee from intragroup companies	**28,316**	28,027
Packing materials paid on behalf of intragroup companies	**14,066**	481
Others	**6,318**	6,825
	48,700	35,333

9 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(3) Other receivables (Cont'd)

The ageing of other receivables is analysed below:

	30 June 2011	31 December 2010
Within 90 days	**10,630**	3,268
91 to 180 days	**3,667**	708
181 to 365 days	**3,903**	1,852
Over 365 days	**30,500**	29,505
	48,700	35,333

(4) Long-term equity investments

	31 December 2010	Additional investment cost	Share of profit of investees under equity method	**30 June 2011**	Interest Held (%)	Voting Rights (%)
Meilan Advertising	950	–	–	**950**	95	95
Meilan Duty Free Shop	278	–	–	**278**	95	95
Meilan Traveling	13,206	–	–	**13,206**	95	95
Meilan Cargo	5,100	–	–	**5,100**	51	51
Haikou Decheng	30,875	–	–	**30,875**	30	30
HNA Airport Holding	–	956,871	14,486	**971,357**	24.5	24.5
	50,409	956,871	14,486	**1,021,766**		

No significant restrictions on the long term equity investments.

(5) Fixed assets

	Buildings	**Machinery and equipment**	**Motor vehicles**	**Furniture, fixtures and other equipment**	**Total**
Cost					
31 December 2010	951,824	211,546	76,852	52,705	1,292,927
Transfer from construction in progress	–	1,812	–	–	1,812
Additions	–	60	10,323	1,086	11,469
Disposals	(220)	(17)	(1,377)	(1,082)	(2,696)
30 June 2011	951,604	213,401	85,798	52,709	1,303,512
Accumulated depreciation					
31 December 2010	(209,681)	(98,182)	(49,144)	(30,049)	(387,056)
Depreciation	(12,303)	(8,513)	(2,853)	(4,442)	(28,111)
Disposals	104	15	1,323	841	2,283
30 June 2011	(221,880)	(106,680)	(50,674)	(33,650)	(412,884)
Net book value					
30 June 2011	729,724	106,721	35,124	19,059	890,628
31 December 2010	742,143	113,364	27,708	22,656	905,871

9 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(5) Fixed assets (Cont'd)

Depreciation expenses of RMB27,676K and RMB435K were charged in cost of sales and general and administrative expenses in the current period (for the period ended 30 June 2010: RMB28,027K and RMB772K in cost of sales and general and administrative expenses).

(6) Intangible assets

	Land use right
Cost	
31 December 2010 and 30 June 2011	179,637
Accumulated amortisation	
31 December 2010	(29,235)
Amortisation	(1,582)
30 June 2011	(30,817)
Net book amount	
30 June 2011	148,820
31 December 2010	150,402

Amortisation expenses of RMB1,582K (for the six months ended 30 June 2010: RMB1,741K) were charged in cost of sales in the current period.

The net book value of land use rights are analysed as follows:

	30 June 2011	31 December 2010
Inside Mainland China –		
between 10 to 50 years	**62,259**	63,065
over 50 years	**86,561**	87,337
	148,820	150,402

(7) Revenue and cost of sales

	Six months ended 30 June	
	2011	2010
Revenue		
Aeronautical:		
Passenger charges	**80,784**	70,688
Airport fee	**60,507**	56,681
Aircraft movement fees and related charges	**26,197**	24,243
Ground handling services income	**17,436**	16,863
Non-aeronautical:		
Franchise fee	**32,353**	27,999
Freight and packing	**–**	11,329
Rental	**12,758**	7,088
VIP room charge	**10,872**	7,660
Car parking	**3,638**	3,571
Others	**6,408**	7,099
	250,953	233,221

9 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(7) Revenue and cost of sales (Cont'd)

	Six months ended 30 June 2011	2010
Cost of sales		
Depreciation and amortisation charges	**29,693**	30,540
Airport and logistic composite services fee	**11,470**	9,717
Utilities and power	**7,670**	8,414
Employee benefits costs	**6,794**	10,710
Repairs and maintenance	**4,993**	214
Airlines subsidies expense	**1,106**	1,500
Cost of Packing materials	**–**	6,059
Others	**5,952**	2,131
	67,678	69,285

(8) Financial income-net

	Six months ended 30 June 2011	2010
Interest income	**4,179**	8,284
Less: interest expense	**(7,293)**	(328)
Exchange gains – net	**10,951**	–
Amortisation of financing expense	**(661)**	–
Others	**(175)**	(46)
	7,001	7,910

Interest expense are analysed by maturity days as follows:

	30 June 2011	31 December 2010
The last maturity day in 5 years	**7,293**	328

(9) Investment income

	Six months ended 30 June 2011	2010
Share of profit of investees under equity method – HNA Airport Holding	**14,486**	–

No significant restrictions on the repatriation of investment income.

9 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(10) Income tax expenses

	Six months ended 30 June 2011	2010
Current income tax	**21,199**	9,183
Deferred income tax	**(934)**	(1,937)
	20,265	7,246

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	Six months ended 30 June 2011	2010
Total profit	**171,968**	137,300
Income tax expenses calculated at applicable tax rates	**41,273**	30,206
Effect of change in the tax rates	**(20,636)**	(15,103)
Income not subject to tax	**(1,738)**	(7,646)
Expenses not deductible for tax purposes	**1,366**	(211)
Income tax expenses	**20,265**	7,246

(11) Notes to cash flow statements

(a) Reconciliation from net profit to cash flows from operating activities

	Six months ended 30 June 2011	2010
Net profit	**151,703**	130,054
Add: (Reversal of)/Provisions for asset impairment	**(694)**	452
Depreciation of fixed assets	**28,111**	28,799
Amortisation of intangible assets	**1,582**	1,741
Losses on disposal of fixed assets	**303**	82
Financial income	**(7,837)**	(7,956)
Investment income	**(14,486)**	–
Increase in deferred tax assets	**(934)**	(1,937)
Decrease in inventories	**21**	5
Decrease/(Increase) in operating receivables	**8,131**	(6,265)
(Decrease)/Increase in operating payables	**(90,374)**	42,483
Net cash flows from operating activities	**75,526**	187,458

(b) Net (decrease)/increase in cash and cash equivalents

	Six months ended 30 June 2011	2010
Cash and cash equivalents at end of period	**487,533**	903,757
Less: cash and cash equivalents at beginning of period	**(908,842)**	(719,000)
Net (decrease)/increase in cash and cash equivalents	**(421,309)**	184,757

10 NET CURRENT ASSET

	The Group	
	30 June 2011	31 December 2010
Current assets	**771,993**	1,202,214
Less: Current labilities	**(202,408)**	(236,545)
Net current assets	**569,585**	965,669

	The Company	
	30 June 2011	31 December 2010
Current assets	**738,728**	1,173,151
Less: Current liabilities	**(203,982)**	(235,644)
Net current assets	**534,746**	937,507

11 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	30 June 2011	31 December 2010
Total assets	**2,829,142**	2,297,967
Less: Current liabilities	**(202,408)**	(236,545)
Total assets less current liabilities	**2,626,734**	2,061,142

	The Company	
	30 June 2011	31 December 2010
Total assets	**2,814,566**	2,287,556
Less: Current liabilities	**(203,982)**	(235,644)
Total assets less current liabilities	**2,610,584**	2,051,912

12 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the agreement entered into between the Company and Haikou Meilan on 26 August 2011, the Company would acquire the terminal expansion project, including the land use right, from Haikou Meilan at a total consideration of RMB1,136,253,000. Such transaction will be subject to the approval of the Independent Shareholders taken on a poll at the Extraordinary General Meeting.