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 2012

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

Liu Lu, Chairman
Liang Jun, Vice Chairman
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

Liu Lu
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

Office Building of Meilan Airport
Haikou City
Hainan Province, the PRC

PLACE OF BUSINESS IN HONG KONG

16/F Luk Kwok Centre
72 Gloucester Road
Wanchai, Hong Kong

LEGAL ADVISER

Orrick, Herrington & Sutcliffe LLP.
43rd Floor, Gloucester Tower, the Landmark
15 Queen's Road Central
Hong Kong

AUDITOR

PricewaterhouseCoopers
Zhong Tian CPAs Limited Company
11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District
Shanghai, China

PRINCIPAL BANKER

Bank of China, Haikou Jinyu
Sub-branch of Hainan Province Branch
1/F, Yazhuang Garden
82 Haixiu Central Road
Haikou City
Hainan Province, the PRC

China Everbright Bank, Haikou Yingbin Sub-branch
1/F, Longquan Garden
56 Longkun South Road
Haikou City
Hainan Province, the PRC

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

00357

Financial Highlights

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 2012, which have been reviewed by the audit committee of the Company (the "Audit Committee"), and the prospects for the second half of the year 2012.

FINANCIAL HIGHLIGHTS

(RMB'000)	**As at 30 June 2012**	As at 30 June 2011	Changes (%)
Turnover	**354,604**	289,045	22.68
Gross profit	**230,378**	188,439	22.26
Net profit attributable to shareholders	**156,489**	155,089	0.90
Earnings per share-basic (RMB)	**0.33**	0.33	0
Net operating cash flow	**230,435**	91,408	152.10
EBITDA	**236,211**	214,552	10.09

(RMB'000)	**As at 30 June 2012**	As at 31 December 2011	Changes (%)
Total assets	**3,816,020**	2,855,003	33.66
Total liabilities	**1,440,690**	639,358	125.33
Shareholders' equity	**2,375,330**	2,215,645	7.21
Current ratio	**4.24**	2.26	87.61
Gearing ratio	**37.75%**	22.39%	15.36

For the six months ended 30 June 2012, the Group's total revenue amounted to RMB354,603,870, representing an increase of 22.68% as compared to the corresponding period of last year. Net profit attributable to shareholders of the Company increased by 0.90% over the corresponding period of last year to RMB156,489,207. Earnings per share amounted to RMB0.33 (corresponding period of last year: earnings per share of RMB0.33).

BUSINESS ENVIRONMENT

Civil Aviation Industry in the PRC

In the first half of 2012, global economic uncertainties continued as a result of the lingering European sovereign debt crisis and high inflation pressure in emerging economies. Given concerns on global economic recession, slowing down of the tourism market, EU's policy on charging carbon emissions tax and global crude oil prices fluctuations at high levels, the International Air Transport Association ("IATA") downgraded its 2012 profit forecast on the global aviation industry for several times since the end of 2011.

Albeit the pessimistic profit forecast of IATA on the aviation industry this year, the PRC aviation industry market is anticipated to deliver positive results. Currently, China ranks seventh and fourth, respectively, in the global aviation industry in terms of passenger volume and freight volume. According to the "12th Five-year Plan" for China's civil aviation industry, China will invest over RMB1.5 trillion in the civil aviation sector in the "12th Five-year Plan" period, during which passenger traffic will reach 450 million, airports for civil aviation use will reach at least 230 and fleet size, including general aviation aircraft, will surpass 4,500 planes.

In early July 2012, the State Council of the PRC promulgated the *Opinions on Promoting the Development of the Civil Aviation Industry* (《關於促進民航業發展的若干意見》) (the "Opinions"). As the first general guidelines on the development of the civil aviation industry promulgated by the PRC on the national strategic level, which clearly stated the development targets, missions and policy measures for the civil aviation industry in China, the Opinions have marked an important milestone and will have deep influence on the development of the civil aviation industry in China in the long run. The Opinions were an important and favourable policy to China's civil aviation industry.

With continual economic growth in China and bright prospects for the subdivided field of civil aviation market, a promising outlook is still ahead for the airport industry in China.

Tourism Industry in Hainan

In the first half of 2012, the tourism industry in Hainan maintained its steady growth. As at late June, the aggregate number of overnight visitors to Hainan was 15.5823 million, representing an increase of 8.1% as compared to the corresponding period of last year; total revenue from the tourism industry amounted to RMB18.087 billion, representing an increase of 18% as compared to the corresponding period of last year. Currently, Hainan Province has a total of 36 national A-level scenic spots, two of which are 5A-level scenic spots and 15 of which are 4A-level scenic spots. According to the *Opinions on the Planning and Construction of Major Scenic Spots and Resorts in the Province* (《全省重點旅遊景區和度假區規劃建設的若干意見》) promulgated by the Hainan government in 2011, the number of national 5A-level scenic spots in Hainan will reach 8 to 10 by 2015. Preparation work for the construction of various projects, such as a large-scale tropical paradise forest park, Xisha National Marine Park (西沙海洋國家公園), a large-scale wetland park, a large-scale wildlife park and botanical garden, an aerospace theme park zone, a marine theme park, a movie theme park, a large-scale amusement park and Airbus Visit (「空中巴士」觀光), are also in progress.

Development of the tourism industry in Hainan and establishment of the International Tourism Island in Hainan are pressed forward through efforts of the local government. During the first half of the year, the Hainan government visited various cities and countries including Inner Mongolia, Shaanxi, Shandong, Hunan, Hong Kong, Korea, the United States and Malaysia to promote tourist attractions in Hainan. In May 2012, the Hainan government finalised and issued the "12th Five-year Plan for Development of the Tourism Industry in Hainan" (《海南省旅遊業發展「十二五」規劃》) (the "12th Five-year Tourism Plan"), which has set the target of building Hainan into the pilot zone for reformation and innovation of China's tourism industry and a world-class island resort destination. According to the "12th Five-year Tourism Plan", a detailed plan has been formulated for the development of major tourism attractions in Hainan, which included the projects in store for coming four years for the tourism industry in Hainan, whereby transformation and upgrade of the tourism industry will be realised through construction of specific projects, and also provided an important reference for relevant work arrangement in different parts of Hainan in the 2012 Tourism Projects Construction Year (二零一二「旅遊項目建設年」).

In June 2012, the State Council approved the establishment of Sansha City, the third prefectural-level city in Hainan Province, which consists of islands covering an area of 130,000 km^2 and manages over 2 million km^2 of surrounding waters. It is the youngest city in China, the city with the southernmost latitude, the smallest in terms of land size and population and the largest in terms of total area. Leveraging upon the abundant tourism resources of the South China Sea, the establishment of Sansha City will be beneficial to infrastructure construction and centralised planning of tourism resources, and is expected to boost the tourism industry in Hainan as a whole.

In the first half of 2012, economic activities, sports and cultural events were held in Hainan, such as Boao Forum for Asia, "Aloha Cup" of Hainan International Regatta, Tour of Hainan International Cycling Race, Volvo Ocean Race, Hainan Riyue Bay International Surfing Festival, Hainan Snooker Classic, FIVB Beach Volleyball World Tour (Sanya Open) and Hainan Danzhou Super Grand Master Chess Tournament, etc. These eye-catching events also helped to promote the tourism industry in Hainan.

Offshore Duty Free Store

Haikou Meilan Airport Duty-free Shop Co. LTD (海免海口美蘭機場免税店), the first offshore duty free store in airport in China, commenced its operation on 21 December 2011. As at 30 June 2012, visitor spending per capita at the Meilan Airport Offshore Duty Free Store was over RMB2,000 and the total sales amounted to over RMB200 million. The Airport Offshore Duty Free Store has an operating area of 2,200 m^2. Main construction of phase two, which will provide an additional operating area of 1,500 m^2, has been completed. Famous and first-tier international brands, including Gucci, Giorgio Armani, Prada, Salvatore Ferragamo and Versace, have set up their stores in the Offshore Duty Free Store, offering an increasing variety of products and attracting a large number of tourists from off the island and overseas. With the coverage of the duty free operation gradually extending to the northern and southern parts of Hainan, tourist consumption in Hainan and the influence of the International Tourism Island have been boosted, and the passenger volume of Haikou Meilan International Airport has significantly increased.

Transportation and Aviation Industry in Hainan

In respect of railways, the passenger carrying capacity of Hainan East Ring Railway, with a total length of 308 km, continued to increase. According to statistics, the Hainan East Ring Railway has an average daily passenger flow volume increased from 26,000 passengers in 2011 to almost 30,000 passengers, and even increased up to 50,000 passengers on peak days during holidays. As for the West Ring Railway with a total length of 344 km, land acquisition and relocation work have begun in the first half of 2012. It is expected that the construction of the route from Sanya Phoenix International Airport to Sanya of the West Ring Railway will commence in the year and will be completed in 2014 at the earliest.

In respect of highways, the construction of the central highway connecting Haikou to Tunchang is in full swing, following the construction progress of the grid-shaped highway under the "12th Five-year Development Plan of Hainan Province". It is expected that the highway will commence operation at the end of this year. The part of the highway connecting Tunchang to Qiongzhong has commenced construction in May 2012, and is expected to commence operation in 2015. Upon completion, the central highway will become the main transportation route connecting all counties and cities in central Hainan.

In respect of marine transportation, Hainan Province has a coastline of 1,617 km long and 68 natural bays. Currently, Haikou Port to the north, Yangpu Port and Basuo Port to the west, Sanya Port to the south and Qinglan Port to the east together formed the "Five Ports in Four Directions" (四方五港). There are 137 berths used for production at costal ports in Hainan, among which 34 are deep-water berths with a capacity of over 10,000 tons. Cargo throughput already surpassed 100 million tons and container throughput even surpassed 1 million TEUs. According to the "12th Five-year Development Plan of Hainan Province", the Yangpu-Haikou comprehensive port will be a major part of the next stage of ports construction in Hainan. The Yangpu Port and the Haikou Port, both with a capacity of 100 million tons, will be built to form the Yangpu-Haikou comprehensive port, an international shipping hub in the region.

In respect of aviation, preliminary preparation work, including selection of location, scientific demonstration and land planning, for relocation of Sanya Phoenix International Airport has been kick-started during the first half of 2012. According to information, the project has been reported to the National Development and Reform Commission of the PRC and listed as part of the "Integrated Transportation System Development and Planning for the 12th Five-year Plan of Hainan Province" (海南省「十二五」綜合交通體系發展規劃). According to the Plan, upon expansion, Sanya Phoenix International Airport will have a planned passenger reception capacity of 25 million people per year. Moreover, the Qionghai government also commenced the land acquisition work of the site for Boao Airport in full gear in June 2012. This represented that the construction project of Boao Airport has reached the concrete operational stage.

With increasing income levels and consumption power of residents in Hainan Island and Mainland China at large, the passenger throughput of marine transportation in Hainan as a percentage to total passenger throughput in the Province has been decreasing in recent years, while the passenger throughput of air transportation in Hainan as a percentage to total passenger throughput in the Province has been increasing year-on-year. Coupled with the change in passenger structure, diversion of passenger throughput of ports has minimal impacts on the aviation industry in Hainan Province. Continual increase in operational capacity of the East Ring Railway and accelerated construction of the central highway will significantly shorten the travel time by land transportation between cities and counties in Hainan and Haikou, providing a convenient access for travellers travelling through Meilan Airport. In addition, upon commencement of operations after 3 to 5 years of construction, Boao Airport, which mainly focuses on providing services to business aircrafts and chartered planes, will have only limited impact on Meilan Airport as it has a planned passenger reception capacity of only 0.4 million people per year. As the construction period of Sanya Phoenix International Airport is expected to be 5 to 10 years, it will also have minimal short-term impacts on Meilan Airport. The Company will seize the opportunities brought by the construction of the International Tourism Island in Hainan and speed up infrastructure construction such as the international terminal and expansion of the existing terminal buildings, so as to develop its aviation business in Hainan. It will also grasp new opportunities to cooperate with other domestic airports in order to maintain its stable development.

PROGRESS OF THE COMPANY'S ACQUISITION AND ISSUANCE OF A SHARES

According to the Company's circular to its shareholders dated 13 May 2010, the Company announced that it had entered into conditional Share Transfer Agreements with HNA Group Company Limited ("HNA Group") and Kingward Investment Limited ("Kingward Investment") respectively for the acquisition of 54.5% of the issued share capital of HNA Airport Holding (Group) Company Ltd ("HNA Airport Holding") at a total consideration of RMB2,199,900,000 and proposed to issue A shares in the PRC. HNA Group and Kingward Investment respectively owned 30% and 24.5% of the equity interests of HNA Airport Holding. In early 2011, the Company completed the acquisition of the 24.5% of equity interests of HNA Airport Holding held by Kingward Investment by its own funds and bank borrowings upon satisfaction of all conditions precedent to the acquisition. The Company originally intended to finance the acquisition of the 30% of equity interests of HNA Airport Holding held by HNA Group by the proceeds from the proposed issue of A shares in the PRC, and one of the conditions precedent to such acquisition was that the Company has obtained the official approval for the issue of A Shares from the relevant authority or department and such issue of A Shares has been completed. In the event that not all of the above precedent conditions are satisfied or fulfilled within 2 years after the passing of the resolution relating to the issue of A Shares at the extraordinary general meeting and class general meetings, the HNA Group Agreement shall be terminated automatically unless the Company and HNA Group agree on such other date to satisfy or fulfill the above conditions, and neither the Company nor HNA Group shall undertake any responsibility under the HNA Group Agreement. On 31 May 2010, the Company held the H shareholders class meeting, domestic shareholders class meeting and extraordinary general meeting in relation to the above matters. During 2011 and the first half of 2012, the Company has been actively motivating the preparation work for the issue of A Shares and liaising with the CSRC. Currently, the Company is taking an active role in adjusting the A Shares issue plan based on the standards and requirements of the CSRC regarding the issue of A shares, and is negotiating with HNA Group on the extension of relevant terms of the acquisition agreement in order to reach new agreement or supplemental agreement as early as possible, with a view to continue to fulfill the agreement in relation to the acquisition of the 30% of equity interests of HNA Airport Holding held by HNA Group. Upon arriving at unanimous consent on the acquisition agreement and the A Shares issue plan, the Company will submit a proposal to the Board and the general meeting of the Company for consideration of the acquisition agreement as well as make timely disclosure to the market pursuant to the requirements under the Listing Rules.

BUSINESS AND REVENUE REVIEW

Overview

In the first half of 2012, the Group continued to step up its efforts on building a safety protection system in order to ensure safe production and smooth operation of Meilan Airport. The Group also received appreciation from all sectors in respect of its quality logistics and security services in large events such as the "Two Meetings" of the National People's Congress of the PRC, the CPPCC and the Boao Forum for Asia.

In the first half of 2012, the Company completely secured the National Civil Aviation Flight Schedule Meeting (全國民航航班時刻會議) held in Haikou, actively participated in relevant meetings held by the Civil Aviation Administration of China ("CAAC") and the China Civil Airport Association and visited various airline companies, in an aim to promote and introduce the development of Hainan's International Tourism Island and the preferential policies launched by Haikou Meilan International Airport. Through participation in a series of meetings, visits and promotions, perception and influence of the Group in the civil aviation industry in China and the attractiveness of Meilan Airport have been effectively enhanced.

In the first half of 2012, the Company received a total of 9 major awards (consist of 4 national awards and 5 provincial awards), including the "National Civilised Unit" award. After being listed as a SKYTRAX Four-star Airport, with a view to becoming a SKYTRAX Five-star Airport, Meilan Airport launched initiatives in early May 2012 to enhance its service quality and strengthen its brand building efforts.

The Group strived to enhance efficiency by diversifying income streams and reducing expenses in the first half of 2012. Stringent operating cost controls were implemented through the streamlining of production and operational processes and the creation of new income streams. Technology upgrade were conducted to increase the energy utilisation rate with satisfactory results achieved in saving water and electricity, giving Meilan Airport the title of "Haikou Advanced Unit in Saving Water". The Company also took an active role in innovation in workforce and enhancement of staff efficiency of Meilan Airport by deploying dispatched staff for ground services and freight transportation. At present, there are a total of 219 dispatched staff, and our labour costs have been effectively lowered. Currently, the Company has implemented over 20 income stream diversification projects in total, among which, the highest revenue was generated from the payment for use of VIP cars for tourists. Such revenue amounted to RMB1.2125 million for the first half of the year, delivering outstanding results in terms of efficiency enhancement.

In the first half of 2012, the Company also organised and implemented the "Quality Enhancement Program for Listed Companies" (上市公司質量提升計劃), whereby a committee for construction of an internal control system has been established to examine and assess the integrity, reasonableness and effectiveness of the internal control system, prevent non-compliance, strictly control operational and management risks and continually improve the internal control system. At the same time, the relevant system for related party transactions was revised and improved to clearly define the departments responsible for different procedures, including confirmation of related party transactions, transaction negotiation, consideration and authorisation, and settlement of payments, and ensure lawful authorisation of, fair pricing for and timely disclosure of related party transactions. In addition, the Company further optimised the fund management system in respect of related parties, whereby fund transfers between related parties were regulated and disclosed pursuant to regulatory requirements to mitigate the risk of misappropriation of funds. Through the aforesaid means, the Company enhanced its level of standard operation and strengthened operational management, thereby achieving a circular interaction and cooperation among standard operation, results improvement and capital operation.

The expansion of existing terminal buildings of Meilan Airport (including the new international terminal building, customs warehouse, special garage, the expansion of the west side of the existing terminal building, etc.) was in smooth progress with capacities designed to meet the passenger throughput, cargo throughput and aircraft movement of 15 million headcount, 180,000 tons and 111,000 flights per annum, respectively, by 2013. Currently, main constructions of the international terminal have been completed, and interior and exterior decoration and outdoor constructions are in progress. It is expected that the international terminal will be completed in October 2012 and commence operation in early 2013 upon inspection and approval.

Furthermore, the Company enhanced its care for and the happiness of employees by establishing a "Loving Home" (愛心家園), renovating the staff canteen and building a new staff dormitory.

Aeronautical Business Overview

In the first half of 2012, the aeronautical market business experienced relatively substantial decline due to regulation of CAAC and the corresponding reduction in capacity of airline companies. However, under the auspices of the preferential policies of the aviation industry issued by the government in Hainan, such as the *Provisional Measures on Further Encouraging Operation of Air Passenger Transport in Haikou* (《海口市鼓勵航空客運市場開發暫行辦法》) and favourable factors such as the construction of Hainan International Tourism Island and the opening of the offshore duty free store, the Group pressed ahead by implementing various marketing plans for niche markets. Various measures and channels were also adopted for its aviation market expansion.

In the first half of 2012, Meilan Airport successfully established 19 aviation routes, including Haikou-Hefei-Tianjin, Haikou-Luoyang-Tianjin, Haikou-Chongqing-Xiangyang, Haikou-Xi'an-Baotou, Haikou-Wuhan-Xiangyang, Haikou-Nanning-Shantou, Haikou-Kaohsiung, Haikou-Singapore-Perth and Taiyuan-Haikou-Singapore, further optimising the aviation route network of Haikou.

As for the international aviation sector, Meilan Airport launched one new domestic aviation route and two new international aviation routes in the first half of 2012, including the new "Haikou-Singapore-Perth" route, the first regular intercontinental route of Meilan Airport. The Company also put efforts to expand its transit aviation business in Southeast Asia and successfully launched the first "Taiyuan- Haikou-Singapore" transit/stop over route in May 2012, marking an important step towards building Meilan Airport as the gateway airport of Southeast Asia. The (regional) international transportation volume of the Group also reached a historic high over the past periods. During the six months ended 30 June 2012, the international and regional passenger throughput reached a total of 221,900 people, representing an increase of 15.57% as compared to the corresponding period of the previous year.

Aviation traffic throughput of the Group for the first half of 2012 and comparison figures for the corresponding period of last year are set out below:

		1H 2012	1H 2011	Change (%)
Aircraft movement (flights)		**44,066**	41,658	5.78
In which:	Domestic	**42,010**	40,041	4.92
	International and regional	**2,056**	1,617	27.15
Passenger throughput (headcount in ten thousand)		**548.66**	507.15	8.18
In which:	Domestic	**526.47**	487.95	7.89
	International and regional	**22.19**	19.20	15.57
Cargo throughput (tons)		**93,624.40**	88,201.70	6.15
In which:	Domestic	**90,701.50**	85,857.60	5.64
	International and regional	**2,922.90**	2,344.10	24.69

The Group's revenue from aeronautical business for the six months ended 30 June 2012 amounted to RMB203,007,851, representing an increase of approximately 5.97% over the same period of 2011. Details of which are as follows:

	Amount (RMB)	Change over the same period of 2011 (%)
Passenger charges	82,797,683	2.49
Aircraft movement fees and related charges	27,762,284	5.98
Ground handling services income	27,978,668	16.19
Civil Aviation Development Fund (former airport construction fee)	64,469,216	6.55
Total revenue from aeronautical business	203,007,851	5.97

Pursuant to the *Interim Measures for the Collection, Use and Management of the Civil Aviation Development Fund* (《民航發展基金徵收使用管理暫行辦法》), promulgated by the Ministry of Finance of the PRC ("MOF"), the airport construction fee and Civil Aviation Infrastructure Construction Fund have been collectively replaced by the Civil Aviation Development Fund since 1 April 2012.

According to the notice about the subsidy of Civil Aviation Development Fund issued by CAAC on 11 April 2012, the previous subsidies of airport construction fee refund granted to the Group has been changed to the subsidies of Civil Aviation Development Fund correspondingly. As the nature and refund method of both subsidies are basically the same, and the actual refund rate of the airport construction fee for the Group was 48% since 2008, the Group has, according to the best estimates made by the management, recognised the refund percentage of Civil Aviation Development Fund as 48% for the period and received most of the refund amount from CAAC based on such refund percentage up to the end of the period.

Non-aeronautical Business Overview

In the first half of 2012, driven by favourable factors such as the continuing growth in transportation volume and the official opening of the Meilan Airport Offshore Duty Free Store, the Group achieved a substantial growth with its non-aeronautical business revenue through strengthening of marketing efforts, exploration of potential resources and proactive expansion into new business. The non-aeronautical business of the Group recorded a revenue of RMB151,596,019 for the six months ended 30 June 2012, representing an increase of 55.52% as compared to the same period of 2011.

	Amount (RMB)	Change over the same period of 2011 (%)
Franchise fee	74,336,983	129.77
Rental	13,344,446	18.54
Freight and packing	36,496,709	10.77
Car parking	4,921,947	35.31
VIP room charge	14,201,776	30.62
Others	8,294,158	29.43
Total revenue from non-aeronautical businesses	151,596,019	55.52

Franchise income

In the first half of 2012, the franchise income of the Group amounted to RMB74,336,983, representing an increase of 129.77% as compared to the corresponding period of the previous year. The increase was mainly attributable to the franchise income from an airport offshore duty free store, namely, the Haikou Meilan Airport Duty-free Shop Co., LTD. The store commenced operation at Meilan Airport at the end of last year.

VIP room charge

In the first half of 2012, the VIP room service charge of the Group maintained fast growth and amounted to RMB14,201,776, representing an increase of 30.62% as compared to the corresponding period of the previous year, which was mainly attributable to the increase in usage of VIP room services as a result of the higher quality service and passenger volume as well as the increases in charges for VIP service since late 2011 through various marketing strategies such as raising service rates and increasing service offerings.

Freight and packing income

In the first half of 2012, the freight and packing income increased as a result of the gradual picking up of freight volume of seafood and provision of new freight services by utilising the Company's internal resources. For the six months ended 30 June 2012, the freight and packing income of the Group amounted to RMB36,496,709, representing an increase of 10.77% as compared to the corresponding period of the previous year.

Car parking income

In the first half of 2012, the car parking income of the Group amounted to RMB4,921,947, representing an increase of 35.31% as compared to the corresponding period of the previous year. The substantial increase in car parking income of the Group was mainly due to efforts including raising the fees since late 2011, as well as consolidating car park resources and increasing the number of overnight car parking spaces.

FINANCIAL REVIEW

1. Asset Analysis

As at 30 June 2012, total assets of the Group amounted to RMB3,816,020,119, representing an increase of 33.66% over 31 December 2011, of which RMB1,273,972,695 were current assets and RMB2,542,047,424 were non-current assets. The increase in assets was mainly due to the increase in cash at bank and on hand due to RMB0.8 billion raised from the issue of corporate debentures by the Company during the period.

2. Cost and Expense Analysis

In the first half of 2012, the Group's operating expense amounted to RMB111,486,833, representing an increase of 21.89% or RMB20,021,068 as compared to the corresponding period of 2011. The Group's general and administrative expenses amounted to RMB40,121,463, representing an increase of 34.02% or RMB10,183,996 as compared to the corresponding period of 2011. The increase in costs and expenses was mainly attributable to:

(1) an increase of RMB11,228,794 in labour costs caused by an increase in employees' remuneration;

(2) an increase of RMB5,975,474 in labour costs of dispatched staff as a result of the increased number of dispatched staff, since the Company took an active role in innovation in workforce by deploying dispatched staff; and

(3) an increase of RMB2,896,605 in utilities as a result of the increase in utility rates in the year, and the increase in electricity usage due to the use of refrigeration equipment according to relevant standards for the need of brand building by the Company.

In the first half of 2012, the Group's finance expenses amounted to RMB21,958,320, representing an increase of RMB29,039,135 as compared to the corresponding period of 2011, which was mainly due to a significant decrease in US dollar exchange gains as compared to the corresponding period of 2011 and the increase in interest expenses arising from increased loan amounts for the period.

3. Gearing Ratio

As at 30 June 2012, the Group had total current assets of RMB1,273,972,695, total assets of RMB3,816,020,119, total current liabilities of RMB300,329,712 and total liabilities of RMB1,440,690,388. As at 30 June 2012, the Group's gearing ratio (total liabilities/total assets) was 37.75%, representing an increase of 15.36% compared to that as at 31 December 2011, which was mainly due to an increase in liabilities arising from the issue of corporate debentures of RMB0.8 billion by the Company during the period.

4. Pledge of the Group's Assets

The Group pledged its 24.5% equity interests in HNA Airport Holding to secure a long-term bank borrowings of USD72,500,000 from China Development Bank. As at 30 June 2012, the balance of the bank borrowings was USD72,000,000 (equivalent to RMB455,434,326).

5. Capital Structure of the Group

As at 30 June 2012, the total issued share capital of the Company was RMB473,213,000. As at 30 June 2012, the Group still had bank borrowing in the amount of USD72,000,000 which is subject to the Libor +3.4% interest rate and borrowing in the amount of RMB2,000,000 which is subject to the current floating interest rates of the People's Bank of China.

6. Significant Investments Held and their Performance

As at 30 June 2012, the Company held 24.5% equity interests in HNA Airport Holding. In the first half of 2012, HNA Airport Holding realised a net profit attributable to the parent company in the amount of RMB51,299,573 (unaudited), and investment income of the Company was RMB12,568,396.

7. Material Acquisitions and Disposals

As at 30 June 2012, the Company has no new material acquisitions and disposals.

8. Employees and Remuneration Policy

As at 30 June 2012, the Group had a total of 609 employees, representing an increase of 144 employees as compared to 465 employees at the beginning of the year. The increase in number of employees was mainly due to the Company's decision to return airport passenger services business and relevant employees to the Company since Grand China Aviation Ground Service, the previous outsource service supplier, underwent corporate transformation and no longer operated such business, while there was no other professional company suitable to take up the business. 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 2012, the Group's total staff cost accounted for approximately 9.69% of its total turnover. The staff cost increased by 48.53% over the corresponding period of 2011, which was mainly due to increase in employee benefits costs caused by an increase in employees' remuneration.

9. Entrusted Deposits and Overdue Fixed Deposits

As at 30 June 2012, the Group did not have any entrusted deposits and overdue fixed deposits.

10. Contingent Liabilities

As at 30 June 2012, 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 aeronautical 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 interests in HNA Airport Holding, the Group will repay the interest and principal of the loan in the amount of USD72,000,000 from China Development Bank in connection with the equity acquisition. Therefore, the exchange rate fluctuation of RMB against 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 USD72,000,000 bank borrowing balance and the RMB2,000,000 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 results announcement, there has been no material change in relation to the information disclosed in the Company's 2011 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

In the first half of 2012, real economic growth of the PRC continued to slow down. It was a direct result of the austerity measures adopted by the Chinese government for curbing the trend of inflation and adjusting economic structure and altering the form of economic growth. Currently, the PRC is pushing ahead the implementation of major projects under the 12th Five-year Plan, and embarking upon a number of major projects which are considered to involve wide coverage and provide strong momentum. Infrastructural construction focusing on railways, highways, airports and agricultural waterworks, future energy projects, as well as energy-saving and emission-reducing projects will be the major directions for investment. Expedition in infrastructural investment will still be the most effective means to drive economic growth in the future. In the second half of the year, the proactive fiscal policy of the PRC will continue to step up efforts in expanding expenditure and investment. The PRC will stress structural transformation and reduce reliance on investment for driving economic growth. Such initiative will be significant for the steady economic growth in the long run. With implementation of a series of monetary and fiscal policies, it is anticipated that the real economy will be gradually revitalised, and the nation is expected to report healthy and steady economic growth for the entire year as a whole.

The aviation industry is closely linked to economic performance. Under the European sovereign debt crisis, slowdown in the travel market, and the EU's implementation of the policy to levy on carbon emission, the global aviation industry will experience a lot of challenges in the second half of the year. Profitability of airlines will undergo immense pressure in view of the volatility and persistently high level of oil prices. Albeit recent drops in international oil prices which to a certain extent have alleviated the cost pressure exerted on airline companies, the trend of oil prices is still uncertain for the second half of the year. According to IATA, it is estimated that the aggregate profit of the global aviation industry for 2012 will be less than one half of 2011. Notwithstanding the economic downturn and high level of oil prices both at home and abroad, the civil aviation industry of the PRC still outperforms its peers in the global aviation industry. In the second half of the year, with the revitalisation of demand, alleviation of cost pressure, the PRC government's substantial investment in infrastructure, as well as the launch of favourable policies, such as *Certain Opinions of the State Council on Promoting the Development of the Civil Aviation Industry* (《關於促進民航業發展的若干意見》), it is expected that the number of passengers throughout China's aviation industry will be on a steady rise.

In 2012, Hainan Province continues to solidify and intensify the establishment of Hainan's International Tourism Island. 70 items of sports and cultural programs will be rolled out to promote and push ahead the sports and cultural construction of the island, creating spiritual enrichment for both local residents and tourists from inside and outside the country. In addition to the ten key projects such as the Phase II construction of the Hainan Provincial Museum, those 70 key items of sports and cultural programs also include nine cultural events such as China Gold Disc Award Ceremony, and 31 major sports events such as Mission Hills Star Trophy, and ten cultural expos such as the exhibition showcasing the artistic works of Qi Baishi and the exhibition of pre-historical creatures etc. With the intensified implementation of policies such as tax rebates and concession schemes enjoyed by tourists leaving the island, the enhanced overseas marketing and promotion of the island, as well as the development of new routes of flights, the travel economy of Hainan reported healthy growth for the first half of the year and is expected to perform well for the entire year.

In the first half of 2012, 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 amidst economic downturn and the traditional low season. Meilan Airport Offshore Duty Free Store, of which the main construction of phase two has been completed, is expected to commence operation during the year. Larger operating area and richer product variety of the Offshore Duty Free Store are going to attract more tourists for shopping in the Store, which will in turn create favourable impacts on the growth of passenger throughput and revenue from non-aeronautical business.

The Group therefore considers that the international and domestic routes of Haikou Meilan International Airport will run smoothly and achieve the targets set for major indicators including passenger throughput in the second half of 2012. In terms of operation management, the Company will focus on process management and mitigation of core risks and implement the safety warning mechanism and safety performance management in a comprehensive manner, while pushing ahead the construction of a SKYTRAX Five-star Airport and enhancing the overall soft competitiveness of our service, as well as brand image and service quality of the Airport. In addition to ensuring safety and service quality, the Group will also put forth efforts to diversify income streams, increase income and reduce expenditures, strictly control cost, maintain the annual income level and strive to bring favourable results to the shareholders.

INTERIM DIVIDEND

The Board of the Company has passed the resolution to recommend the payment of an interim dividend of RMB0.17 per share (before tax) (the "2012 Interim Dividend") on or before Friday, 21 December 2012 on the extraordinary general meeting to be held on Monday, 22 October 2012 to shareholders of the Company whose names appear on the Company's Register of Members on Wednesday, 31 October 2012. The 2012 Interim Dividend is subject to approval by shareholders at the extraordinary general meeting to be held by the Company.

According to the *Enterprise Income Tax Law of the People's Republic of China* (《中華人民共和國企業所得稅法》), which took effect on 1 January 2008, its implementation rules and the relevant interpretation by tax authorities in the PRC, when a company distributes dividends to non-resident enterprise shareholders whose names appear on the H-share register of a company, such company is required to withhold and pay on behalf of such shareholders an enterprise income tax at the rate of 10% in general (except as required otherwise by the laws, regulations and tax treaties regarding tax revenue). Any shares registered in the name of a non-individual shareholder, including HKSCC Nominees Limited, other nominee or trustee, or other organisation and group, are deemed as shares held by non-resident enterprise shareholders. As such, the dividends that the shareholder is entitled to are subject to the enterprise income tax.

The Company will strictly comply with the laws or the requirements of relevant government departments, and will withhold and pay the enterprise income tax on behalf of its non-resident enterprise shareholders whose names appear on the H-share register of the Company on the record date. The Company will take no responsibility in respect of and will not deal with any requests in relation to any delay or error in ascertaining the identities of shareholders, nor will the Company handle any disputes arising from the arrangement of withholding tax or paying tax. However, the Company may provide assistance to the extent of its ability as appropriate.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Friday, 21 September 2012 to Monday, 22 October 2012, during which time no transfer of shares will be registered. To attend and vote at the extraordinary general meeting, all instruments of transfer, accompanied by the relevant share certificates and form of transfer shall be delivered to the Company's Share Registrar and Transfer Office, 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, 20 September 2012.

The Company's Register of Members will be closed from Monday, 29 October 2012 to Wednesday, 31 October 2012, during which time no transfer of shares will be registered. To qualify for receiving the distribution of 2012 Interim Dividend, all instruments of transfer, accompanied by the relevant share certificates and form of transfer shall be delivered to the Company's Share Registrar and Transfer Office, 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 Friday, 26 October 2012. After the approval is granted at the extraordinary general meeting, the Company will distribute the interim dividend on or before 21 December 2012.

MATERIAL LITIGATION OR ARBITRATION

The Company had no material litigation or arbitration from 1 January 2012 to 30 June 2012.

Other Information

CHANGE OF DIRECTORS

The Board of the Company comprises 11 Directors. Changes in the directorship of the Company are as follows:

Mr. Dong Zhanbin resigned as the Company's Executive Director and President due to job re-designation reasons, with effect from 20 August 2012 and 5 July 2012, respectively. Mr. Liang Jun also resigned as the Company's Chairman on 23 August 2012. At the same time, the Company's nomination committee recommended Mr. Liu Lu to replace Mr. Liang Jun as the Company's Chairman and Mr. Dong Zhanbin as the Company's Executive Director and President.

Mr. Liu Lu officially became an Executive Director on 20 August 2012 for a term of three years. This was approved and ratified in the extraordinary general meeting held on 20 August 2012.

Mr. Liang Jun was re-appointed as Executive Director on 29 May 2012 for a term of three years. This was approved and ratified in the annual general meeting held on 29 May 2012.

Mr. Hu Wentai was re-appointed as Non-executive Director on 29 May 2012 for a term of three years. This was approved and ratified in the annual general meeting held on 29 May 2012.

CHANGE OF SUPERVISOR

Mr. Dong Guiguo was re-appointed as the Company's Supervisor on 29 May 2012 for a term of three years. This was approved and ratified in the annual general meeting held on 29 May 2012.

CHANGE OF SENIOR MANAGEMENT

Ms. Xing Xihong resigned as the Company's chief financial controller due to job re-designation reasons with effect from 27 March 2012.

Ms. Xiong Yan officially became the Company's chief financial controller on 27 March 2012. This was approved in the 11th meeting of the Fourth Session of the Board on 27 March 2012.

Mr. Liu Jiyao resigned as the Company's Vice President due to job re-designation reasons with effect from 9 May 2012.

Mr. Yang Xuqiang officially became the Company's Vice President on 9 May 2012. This was approved in the 12th meeting of the Fourth Session of the Board on 9 May 2012.

DIRECTORS' REMUNERATION

As at 30 June 2012, 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 voluntarily waive their remuneration for the year of 2011.

Mr. Zhao Yahui (originally Executive Director and Chairman) waived 2011 remuneration of RMB4,834;

Mr. Liang Jun (Executive Director and Vice Chairman) waived 2011 remuneration of RMB70,000;

Mr. Dong Zhanbin (originally Executive Director) waived 2011 remuneration of RMB65,166;

Ms. Xing Xihong (Executive Director) waived 2011 remuneration of RMB70,000;

Mr. Hu Wentai (Non-executive Director and Vice Chairman) waived 2011 remuneration of RMB50,000;

Mr. Zhang Han'an (Non-executive Director) waived 2011 remuneration of RMB50,000.

SUPERVISORS' REMUNERATION

Mr. Dong Guiguo (Chairman of the Supervisory Committee) waived 2011 remuneration of RMB20,000;

Mr. Han Aimin (Supervisor) waived 2011 remuneration of RMB7,120;

Ms. Zeng Xuemei (originally Supervisor) waived 2011 remuneration of RMB12,880.

COMPANY SECRETARY'S REMUNERATION

Mr. Xing Zhoujin (Company Secretary) waived 2011 remuneration of RMB30,000.

SHARE CAPITAL STRUCTURE

As at 30 June 2012, 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 2012, 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 (Note 1)	Beneficial	Corporate	237,500,000 (L)	96.43%	50.19%

H shares

Name of shareholders	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) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Zhang Zhiping (Note 2)	Interest of controlled corporation	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Financial Services Group Limited (Note 2)	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	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial	94,343,000 (L) 32,788,500 (S)	41.58% 14.45%	19.94% 6.93%
UBS AG (Note 3)	Person having a security interest in shares and controlled corporate interest	31,537,400 (L)	13.90%	6.66%
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%

Notes:

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

2. Zhang Gaobo was holding 49.19% interest in Oriental Patron Financial Group Limited. Zhang Zhiping was holding 49.92% interest in Oriental Patron Financial Group Limited. Oriental Patron Financial Group Limited was holding 95% interest in Oriental Patron Financial Services Group Limited. Oriental Patron Resources Investment Limited was wholly-owned by Oriental Patron Financial Services Group Limited as to 100% interests.

3. Among the 31,537,400 shares in the Company, UBS AG was deemed to hold 60,000 shares through its securities interest in those shares and was deemed to have equity interest in 31,472,400 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 21,987,400 shares, 5,271,000 shares and 4,214,000 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 H shares in the Company, among which, Walden Ventures Limited was interested in 32,788,500 H shares of the Company in its capacity as a person having a security interest in shares, and 65,577,000 H shares of the Company in its capacity as a beneficial owner.

   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 H shares in the Company.

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

Save as disclosed above, as at 30 June 2012, 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 2012, 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 or chief executive 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 2012.

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 control, 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 2012.

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

As at 30 June 2012, there were four Independent Non-executive Directors in the Board. As at 30 June 2012, 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 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance practices to the healthy and sustainable development of the Group. 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 2012, the Company had complied with the code provisions of 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.mlairport.com as well as the website of the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2012 containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be made available on the said websites in due course.

THE BOARD

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

Executive Directors	*Independent Non-executive Directors*
Liu Lu *(Chairman)*	Xu Bailing
Liang Jun *(Vice Chairman)*	Fung Ching, Simon
Xing Xihong	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
Liu Lu
Chairman

23 August 2012
Haikou, the PRC

Report on Review of Financial Statements

(English translation for reference only)

普华永道

PwC ZT Yue Zi (2012) No. 036

To the Shareholders of
Hainan Meilan International Airport Company Limited,

We have reviewed the accompanying interim financial statements of Hainan Meilan International Airport Company Limited (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 30 June 2012, and the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements for the six months ended 30 June 2012, and the notes to the financial statements. Management of the Company is responsible for the preparation of interim financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, our responsibility is to issue review report on these interim financial statements based on our review.

We conducted our review in accordance with China Standards on review (No. 2101), "Review of Financial Statements". Those standards require that we plan and perform the review to obtain moderate assurance about whether the financial statements are free from material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared in accordance with the requirements of Accounting Standards for Business Enterprises, and do not present fairly, in all material respects of the financial position of the consolidated and company as at 30 June 2012, and of their financial performance and its cash flows for the six months ended 30 June 2012.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai , the People's Republic of China
23 August 2012

普华永道中天会计师事务所有限公司
PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com

Consolidated and Company's balance sheets

As at 30 June 2012

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

ASSETS	Note(s)	30 June 2012 consolidated (Unaudited)	31 December 2011 consolidated (Audited)	30 June 2012 company (Unaudited)	31 December 2011 company (Audited)
Current assets					
Cash at bank and on hand	5(1), 10(1)	**1,149,787,172**	366,887,159	**1,091,909,824**	322,579,699
Accounts receivable	5(2), 10(2)	**111,572,581**	145,125,372	**108,125,216**	138,163,766
Advances to suppliers	5(3)	**5,435,965**	6,076,495	**4,800,959**	5,286,661
Other receivables	5(4), 10(3)	**3,495,250**	3,696,823	**33,849,782**	35,724,084
Interest receivable		**3,509,718**	1,793,832	**3,509,718**	1,793,832
Inventories		**140,018**	26,172	**140,018**	26,172
Other current assets	5(5)	**31,991**	1,293,397	**—**	117,534
Total current assets		**1,273,972,695**	524,899,250	**1,242,335,517**	503,691,748
Non-current assets					
Long-term equity investments	5(6), 10(4)	**1,080,733,137**	1,068,164,742	**1,092,160,962**	1,087,698,578
Fixed assets	5(7), 10(5)	**864,723,198**	885,230,061	**863,106,084**	883,960,266
Construction in progress		**2,618,155**	—	**2,618,155**	—
Intangible assets	5(8), 10(6)	**145,657,119**	147,238,713	**145,657,119**	147,238,713
Long-term prepaid expenses		**4,936,773**	5,686,823	**4,936,773**	5,686,823
Deferred tax assets	5(9)	**4,017,842**	4,421,740	**4,017,842**	4,421,740
Other non-current assets	5(3), 7(7)	**439,361,200**	219,361,200	**439,361,200**	219,361,200
Total non-current assets		**2,542,047,424**	2,330,103,279	**2,551,858,135**	2,348,367,320
Total assets		**3,816,020,119**	2,855,002,529	**3,794,193,652**	2,852,059,068

Consolidated and Company's balance sheets

As at 30 June 2012

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

LIABILITIES AND OWNERS' EQUITY	Note(s)	30 June 2012 consolidated (Unaudited)	31 December 2011 consolidated (Audited)	30 June 2012 company (Unaudited)	31 December 2011 company (Audited)
Current liabilities					
Accounts payable	5(10), 10(7)	**12,552,782**	17,575,257	**12,552,782**	17,051,068
Advances from customers		**8,475,711**	8,885,537	**8,413,810**	8,823,636
Employee benefits payable	5(11)	**49,639,157**	51,683,674	**46,677,254**	46,313,764
Taxes payable	5(12)	**12,372,260**	11,967,808	**11,808,421**	11,654,593
Interest payable	5(13)	**20,142,328**	3,508,354	**20,142,328**	3,508,354
Dividends payable	5(14)	**666,000**	666,000	**666,000**	666,000
Other payables	5(15)	**80,633,274**	75,885,685	**78,083,360**	92,960,683
Current portion of non-current liabilities	5(16)	**115,848,200**	61,858,550	**115,848,200**	61,858,550
Total current liabilities		**300,329,712**	232,030,865	**294,192,155**	242,836,648
Non-current liabilities					
Long-term borrowings	5(16)	**341,586,126**	398,956,700	**341,586,126**	398,956,700
Debentures payable	5(17)	**790,704,550**	—	**790,704,550**	—
Other non-current liabilities	5(18)	**8,070,000**	8,370,000	**8,070,000**	8,370,000
Total non-current liabilities		**1,140,360,676**	407,326,700	**1,140,360,676**	407,326,700
Total liabilities		**1,440,690,388**	639,357,565	**1,434,552,831**	650,163,348
Shareholders' equity					
Paid-in capital	5(19)	**473,213,000**	473,213,000	**473,213,000**	473,213,000
Capital surplus	5(20)	**699,484,654**	699,484,654	**699,484,654**	699,484,654
Surplus reserve	5(21)	**216,748,099**	216,748,099	**216,748,099**	216,748,099
Undistributed profits	5(22)	**972,256,203**	815,766,996	**970,195,068**	812,449,967
Total equity attributable to shareholders of the Company		**2,361,701,956**	2,205,212,749	**2,359,640,821**	2,201,895,720
Minority interest	5(23)	**13,627,775**	10,432,215	**—**	—
Total shareholders' equity		**2,375,329,731**	2,215,644,964	**2,359,640,821**	2,201,895,720
Total liabilities and shareholders' equity		**3,816,020,119**	2,855,002,529	**3,794,193,652**	2,852,059,068

The accompanying notes form an integral part of these financial statements.

Legal representative: **Liu Lu**

Person in charge of accounting function: **Zhang Peihua**

Person in charge of accounting department: **Lin Xiaosai**

Consolidated and Company's income statements

For the six months ended 30 June 2012

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

	Note(s)	Six months ended 30 June 2012 consolidated (Unaudited)	30 June 2011 consolidated (Unaudited)	30 June 2012 company (Unaudited)	30 June 2011 company (Unaudited)
Revenue	5(24),10(8)	**354,603,870**	289,044,705	**311,884,969**	250,952,770
Less: Operating costs	5(24)	**(111,486,833)**	(91,465,765)	**(83,162,131)**	(67,678,439)
Taxes and surcharges	5(25)	**(12,739,384)**	(9,139,770)	**(10,868,064)**	(7,833,236)
Sales expenses		**—**	(97,391)	**—**	—
General and administrative expenses	5(24)	**(40,121,463)**	(29,937,467)	**(35,892,448)**	(25,578,643)
Financial expenses — net	5(26),10(9)	**(21,958,320)**	7,080,815	**(22,004,876)**	7,001,342
Add: Reversal of asset impairment losses		**1,340,619**	749,484	**1,340,619**	694,425
Investment income	5(27),10(10)	**13,235,515**	14,486,169	**16,761,385**	14,486,169
Including: Share of profit of associates		**12,568,396**	14,486,169	**12,568,396**	14,486,169
Operating profit		**182,874,004**	180,720,780	**178,059,454**	172,044,388
Add: Non-operating income	5(28),10(11)	**577,762**	375,023	**577,762**	314,023
Less: Non-operating expenses		**(315,180)**	(389,972)	**(92,566)**	(389,950)
Including: Losses on disposal of non-current assets		**(78,759)**	(389,972)	**(78,759)**	(389,950)
Total profit		**183,136,586**	180,705,831	**178,544,650**	171,968,461
Less: Income tax expenses	5(29),10(12)	**(23,765,931)**	(22,362,598)	**(20,799,549)**	(20,265,204)
Net profit		**159,370,655**	158,343,233	**157,745,101**	151,703,257
Attributable to shareholders of the Company		**156,489,207**	155,089,246	**157,745,101**	151,703,257
Minority interest		**2,881,448**	3,253,987	**—**	—
Earnings per share (RMB)					
Basic earnings per share	5(30)	**0.33**	0.33	**N/A**	N/A
Diluted earnings per share	5(30)	**0.33**	0.33	**N/A**	N/A
Other comprehensive income		**—**	—	**—**	—
Total comprehensive income		**159,370,655**	158,343,233	**157,745,101**	151,703,257
Attributable to shareholders of the Company		**156,489,207**	155,089,246	**157,745,101**	151,703,257
Minority interest		**2,881,448**	3,253,987	**—**	—

The accompanying notes form an integral part of these financial statements.

Legal representative: **Liu Lu**

Person in charge of accounting function: **Zhang Peihua**

Person in charge of accounting department: **Lin Xiaosai**

Consolidated and Company's cash flow statements

For the six months ended 30 June 2012

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

		Six months ended			
	Note(s)	**30 June 2012 consolidated (Unaudited)**	30 June 2011 consolidated (Unaudited)	**30 June 2012 company (Unaudited)**	30 June 2011 company (Unaudited)
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		**389,087,454**	293,926,626	**342,854,312**	255,917,937
Cash received relating to other operating activities		**45,334,768**	1,026,233	**67,886,773**	3,925,612
Sub-total of cash inflows		**434,422,222**	294,952,859	**410,741,085**	259,843,549
Cash paid for goods and services		**(63,906,072)**	(67,518,847)	**(48,396,338)**	(48,235,788)
Cash paid to and on behalf of employees		**(36,409,550)**	(31,744,994)	**(25,138,915)**	(22,271,196)
Payments of taxes and surcharges		**(39,718,670)**	(25,762,554)	**(35,809,642)**	(23,099,913)
Cash paid relating to other operating activities		**(63,952,558)**	(78,518,490)	**(75,465,210)**	(90,710,660)
Sub-total of cash outflows		**(203,986,850)**	(203,544,885)	**(184,810,105)**	(184,317,557)
Net cash flows from operating activities	5(31),10(13)	**230,435,372**	91,407,974	**225,930,980**	75,525,992
Cash flows from investing activities					
Cash received from investment income		**—**	—	**4,080,000**	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**374,037**	178,112	**278,621**	111,011
Cash received from disposal of subsidiaries		**10,595,274**	—	**13,319,000**	—
Cash received from other investment activities		**—**	2,738,675	**—**	4,178,699
Sub-total of cash inflows		**10,969,311**	2,916,787	**17,677,621**	4,289,710
Cash paid to acquire fixed assets and intangible assets		**(231,294,892)**	(4,546,038)	**(240,964,092)**	(4,461,125)
Net cash paid for acquisition of subsidiaries and other business units		**—**	(956,870,950)	**(5,100,000)**	(956,870,950)
Cash paid relating to other investing activities		**(4,354,050)**	—	**(4,354,050)**	—
Sub-total of cash outflows		**(235,648,942)**	(961,416,988)	**(250,418,142)**	(961,332,075)
Net cash flows from investing activities		**(224,679,631)**	(958,500,201)	**(232,740,521)**	(957,042,365)

Consolidated and Company's cash flow statements

For the six months ended 30 June 2012

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

	Note(s)	Six months ended 30 June 2012 consolidated (Unaudited)	30 June 2011 consolidated (Unaudited)	30 June 2012 company (Unaudited)	30 June 2011 company (Unaudited)
Cash flows from financing activities					
Cash received from capital contributions		**4,900,000**	—	**—**	—
Including: Cash received from capital contributions by minority shareholders of subsidiaries		**4,900,000**	—	**—**	—
Cash received from borrowings		**—**	469,191,000	**—**	469,191,000
Cash received from issuing debentures		**790,400,000**	—	**790,400,000**	—
Sub-total of cash inflows		**795,300,000**	469,191,000	**790,400,000**	469,191,000
Cash repayments of borrowings		**(5,162,250)**	(2,000,000)	**(5,162,250)**	(2,000,000)
Cash payments for distribution of dividends or profits and interest expenses		**(13,043,042)**	(7,014,672)	**(9,123,042)**	(7,014,672)
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		**(3,920,000)**	—	**—**	—
Cash payments for other financing activities		**(39,999)**	—	**(39,999)**	—
Sub-total of cash outflows		**(18,245,291)**	(9,014,672)	**(14,325,291)**	(9,014,672)
Net cash flows from financing activities		**777,054,709**	460,176,328	**776,074,709**	460,176,328
Effect of foreign exchange rate changes on cash		**89,563**	30,520	**64,957**	31,320
Net increase/(decrease) in cash		**782,900,013**	(406,885,379)	**769,330,125**	(421,308,725)
Add: Cash at beginning of the period		**366,887,159**	960,553,355	**322,579,699**	908,841,783
Cash at end of the period		**1,149,787,172**	553,667,976	**1,091,909,824**	487,533,058

The accompanying notes form an integral part of these financial statements.

Legal representative: **Liu Lu**

Person in charge of accounting function: **Zhang Peihua**

Person in charge of accounting department: **Lin Xiaosai**

Consolidated statement of changes in shareholders' equity

For the six month ended 30 June 2012

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

	Attributable to shareholders of the Company					
	Share capital 5(19)	Capital Reserves 5(20)	Surplus Reserves 5(21)	Undistributed profits 5(22)	Minority interest 5(23)	Total share holders' equity
Balances at 1 January 2011	473,213,000	699,484,654	187,992,913	682,511,611	8,419,494	2,051,621,672
Net profit	—	—	—	155,089,246	3,253,987	158,343,233
Profit distributed to shareholders	—	—	—	(56,785,560)	—	(56,785,560)
Balances at 30 June 2011	473,213,000	699,484,654	187,992,913	780,815,297	11,673,481	2,153,179,345
Balances at 1 January 2012	**473,213,000**	**699,484,654**	**216,748,099**	**815,766,996**	**10,432,215**	**2,215,644,964**
Disposal of Subsidiaries	**—**	**—**	**—**	**—**	**(665,888)**	**(665,888)**
Net profit	**—**	**—**	**—**	**156,489,207**	**2,881,448**	**159,370,655**
Capital Injected by minority shareholders	**—**	**—**	**—**	**—**	**4,900,000**	**4,900,000**
Profit distributed to shareholders	**—**	**—**	**—**	**—**	**(3,920,000)**	**(3,920,000)**
Balances at 30 June 2012	**473,213,000**	**699,484,654**	**216,748,099**	**972,256,203**	**13,627,775**	**2,375,329,731**

The accompanying notes form an integral part of these financial statements.

Legal representative: **Liu Lu**

Person in charge of accounting function: **Zhang Peihua**

Person in charge of accounting department: **Lin Xiaosai**

Company's statement of changes in shareholders' equity

For the six month ended 30 June 2012

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

	Share capital	Capital Reserves	Surplus Reserves 5(21)	Undistributed profits 5(22)	Total share holders' equity
Balances at 1 January 2011	473,213,000	699,484,654	187,992,913	681,420,800	2,042,111,367
Net profit	—	—	—	151,703,257	151,703,257
Profit distributed to shareholders	—	—	—	(56,785,560)	(56,785,560)
Balances at 30 June 2011	473,213,000	699,484,654	187,992,913	776,338,497	2,137,029,064
Balances at 1 January 2012	**473,213,000**	**699,484,654**	**216,748,099**	**812,449,967**	**2,201,895,720**
Net profit	**—**	**—**	**—**	**157,745,101**	**157,745,101**
Balances at 30 June 2012	**473,213,000**	**699,484,654**	**216,748,099**	**970,195,068**	**2,359,640,821**

The accompanying notes form an integral part of these financial statements.

Legal representative: **Liu Lu**

Person in charge of accounting function: **Zhang Peihua**

Person in charge of accounting department: **Lin Xiaosai**

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 23 August 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of preparation

The financial statements were 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 Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises* and other relevant regulations issued thereafter (hereafter collectively referred to as "the Accounting Standards 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 2012 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Consolidated and the Company as of 30 June 2012 and of their financial performance, cash flows and other information for the period then ended.

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 ended 30 June 2012 (the period from 1 January 2011 to 30 June 2011 is referred to "the corresponding period last year").

2.4 Recording currency

The recording currency is Renminbi (RMB).

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 from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) 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.

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

2.5 Business Combinations (Cont'd)

(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 profit or loss in the period in which they are incurred.

2.6 Preparation of consolidated financial statements

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

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is 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, comes 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.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations 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 subsidiaries' equity and the portion of subsidiaries' net profits or losses for the period not contributable to Company are recognized as minority interests and presented separately in the consolidated balance sheet within equity and net profits respectively.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments 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.

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

2.8 Foreign currency translation (Cont'd)

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 of financial assets*

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 are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument, and transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Receivables are measured at amortised cost using the effective interest method.

(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, an impairment loss is provided for.

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.

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

2.9 Financial instrument (Cont'd)

(a) Financial assets (Cont'd)

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, 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, borrowings and debentures payable.

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

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

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

2.10 Receivables

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

Receivables with amounts that are individually significant are subject to assessment for impairment on the individual basis. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

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

2.10 Receivables (Cont'd)

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, 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. Provision for declines in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over 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 necessary to make the sale and related 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 the investees that the Company has significant influence on their financial and operating policies.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to 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 of the Group are acquired by payment in cash, of which the initial investment cost shall be the purchase price actually paid.

(b) Subsequent measurement and recognition of related 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.

For 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 acquisition date, 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 measurement and recognition of related profit or loss (Cont'd)

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to 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 criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, 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 distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(c) Basis for determining existence of control and significant influence over investees

Control is the power to govern the financial and operating policies of the investee so as to obtain benefits from its operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights over the investee is considered, such as convertible debts and warrants currently exercisable, etc.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those 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).

2.13 Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, motor vehicles, computers and electronic equipment and office equipment.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the acquisition date.

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

2.13 Fixed assets (Cont'd)

(a) Recognition and initial measurement of fixed assets (Cont'd)

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

(b) Depreciation method of fixed assets

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%
Office equipment and others	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) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying 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 ("CIP")

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 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 and 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 the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, 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 the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

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

2.17 Long-term prepaid expenses

Long-term prepaid expenses mainly include unrealized financing expenses. 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 the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an 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. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a 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 above asset impairment loss is recognised, it will not 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.

Employees of the Group participate in the defined contribution pension plan set up and administered by government authorities. Based on salaries of the employees, basic pensions are provided for monthly according to stipulated proportions and not exceeding the stipulated upper limit, which is paid to local labour and social security institutions. Apart from this, the Group has no other post-retirement benefit commitments.

Where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from termination of the employment relationship with employees is recognised, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

Except for the compensation to employees for termination of the employment relationship, the employee benefits are recognised in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable.

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

2.20 Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend 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 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:

(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 Group 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.

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

2.22 Government Grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including fire alarm system subsidies.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable; the grant is measured at nominal amount.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. Government grants measured at nominal amounts are recognised immediately in profit or loss for the current period.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for 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 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.

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

2.23 Deferred tax assets (Cont'd)

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related 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.

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

2.26 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.

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 based on management's experience in operating airport and the conditions of the fixed assets, which may 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 rate that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(c) The return rate of Civil Aviation Development Fund (The airport construction fee)

Pursuant to the *Interim Measures for the Collection, Use and Management of the Civil Aviation Development Fund* (民航發展基金徵收使用管理暫行辦法), promulgated by the Ministry of Finance of the PRC, the airport construction fee and Civil Aviation Infrastructure Construction fund have collectively replaced by the Civil Aviation Development Fund since 1 April 2012.

According to the notice about the subsidy of Civil Aviation Development Fund issued by Civil Aviation Administration of China ("CAAC") on 11 April 2012, the previous subsidies of airport construction fee refund granted to the Group has been changed to the subsidies of Civil Aviation Development Fund correspondingly. As the nature and refund method of both subsidies are basically the same, and the actual refund rate of the airport construction fee was 48% since 2008, the Group has, according to the best estimates made by the management, recognised the refund percentage of Civil Aviation Development Fund as 48% and received most of the refund amount from CAAC based on such refund percentage up to the end of the period.

3 TAXATION

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

Category	Tax base	Tax rate
Corporate income tax ("CIT")	Taxable income	25%
Business tax	Taxable turnover amount	3% or 5%
City maintenance and construction tax	Business tax paid	5% or 7%
Surcharge for education	Business tax paid	3%
Local surcharge for education	Business tax paid	2%

(2) Preferential tax treatments and approval discounts

According to *Measures for tax preference on investment* issued by the People's Government of Hainan Province, the Group's applicable to CIT rate of 15% as a jointly control entity.

In accordance with the *Corporate Income Tax Law of the People's Republic of China* (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 2012 is 25% (2011: 24%).

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 2012 is 12.5% (2011: 12%).

4 BUSINESS COMBINATION AND CONSOLIDATION

(1) Subsidiaries

Subsidiaries obtained through incorporation

	Type of subsidiaries	Place of registration	Principal activities	Paid up Capital RMB'000	Interest held (%)	Voting rights (%)	Whether consolidate the financial statements or not
Haikou Meilan International Airport Advertising Co., Ltd. ("Meilan Advertising")	subsidiary	Haikou	Provision of advertising services	1,000	Directly 95 Indirectly 4.75	100	Yes
Hainan Haikou Meilan International Airport Duty Free Shop Ltd. ("Meilan Duty free shop")	subsidiary	Haikou	Retail sales	1,000	95	100	Yes
Hainan Meilan International Airport Cargo Co., Ltd. ("Meilan Cargo")	subsidiary	Haikou	Provision of cargo service	20,000	51	60	Yes

(2) Entities excluded from the consolidation scope in the current period

	Net assets on disposal date	Net profit earned from the beginning of the year to the disposal date
Hainan Meilan International Airport Travelling Co., Ltd. ("Meilan Travelling")	13,317,769	—

Meilan Travelling is excluded from the consolidation scope in the current period due to loss of control resulted from disposal of equity interests (Note 4(3), Note 10(4)).

4 BUSINESS COMBINATION AND CONSOLIDATION (CONT'D)

(3) Disposal of subsidiaries due to loss of control caused by disposal of equity interest

	Disposal date	Recognition of profit or loss
Meilan Travelling	1 January 2012	Calculated as described in Note 4(3)(iii)

The Company originally held 95% of the equity interest and 100% of the voting rights in Meilan Travelling, which is incorporated in Haikou, People's Republic of China, and it is mainly engaged in domestic tourism business, including agency of transportation, sightseeing, accommodation, catering services and airport shuttle bus services etc.

Pursuant to the agreement of *Share Rights Transfer Agreement of Hainan Meilan International Airport Travelling Co., Ltd* signed on the date of 16 December 2011 between the Company, Haikou Meilan and Grand China Aviation Ground Service Co., Ltd ("Xinhua Konggang"), the Company and Haikou Meilan transferred the 95% and 5% shares of interest which were held by them respectively in Meilan Travelling to Xinhua Konggang at a consideration of RMB14,020,000. The consideration for the 95% share of the Company was RMB13,319,000. The change of business registration was completed in January 2012.

(i) The proceeds and cash flows from the disposal are as follows:

	Amount
Proceeds from disposal	13,319,000
Cash received from disposal	13,319,000
Less: cash held by Meilan Travelling	(2,723,726)
Net cash received from disposal	10,595,274

(ii) Net assets of Meilan Travelling are as follows:

	1 January 2012
Current assets	22,395,041
Non-current assets	95,414
Current liabilities	(9,172,686)
Total	13,317,769

4 BUSINESS COMBINATION AND CONSOLIDATION (CONT'D)

(3) Disposal of subsidiaries due to loss of control caused by disposal of equity interest (Cont'd)

(iii) The calculation of profit or loss on disposal is as follows:

	Amount
Proceeds from disposal	13,319,000
Less: The Company's share of Meilan Travelling's net asset	(12,651,881)
Including: Net assets of Meilan Travelling at the disposal date	(13,317,769)
Minority interests of Meilan Travelling	665,888
Investment income generated from disposal	667,119

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2012	31 December 2011
Cash on hand	**135,662**	47,476
Cash at bank	**1,149,651,510**	366,839,683
	1,149,787,172	366,887,159

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

(2) Accounts receivable

	30 June 2012	31 December 2011
Accounts receivable by nature		
— from aeronautical services	**79,021,645**	122,708,420
— from non-aeronautical services	**35,933,948**	27,140,583
	114,955,593	149,849,003
Less: provision for bad debts	**(3,383,012)**	(4,723,631)
	111,572,581	145,125,372

	30 June 2012	31 December 2011
Accounts receivable by customers		
— from third parties	**45,605,229**	60,870,152
Less: provision for bad debts	**(3,383,012)**	(4,723,631)
	42,222,217	56,146,521
— from related parties	**69,350,364**	88,978,851
	111,572,581	145,125,372

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.

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

(2) Accounts receivable (Cont'd)

As at 30 June 2012, the ageing of accounts receivable based on their recording dates is analysed below:

	30 June 2012	31 December 2011
Within 90 days	**81,054,551**	88,419,162
91 to 180 days	**3,652,868**	10,473,887
181 to 365 days	**10,530,067**	33,044,367
Over 365 days	**19,718,107**	17,911,587
	114,955,593	149,849,003

As at 30 June 2012, the Group performed impairment test on accounts receivable from third parties with the specific identification method. Based on which amount equalling to RMB4,750,000 (31 December 2011: RMB250,000) has been identified as past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2012	31 December 2011
181 to 365 days	**2,500,000**	—
Over 365 days	**2,250,000**	250,000
	4,750,000	250,000

As at 30 June 2012, accounts receivable from related parties of RMB25,171,962 (31 December 2011: RMB53,443,522) are past due but not impaired. The ageing analysis of these trade receivables is as follows:

	30 June 2012	31 December 2011
91 to 180 days	**3,145,693**	8,398,905
181 to 365 days	**7,815,461**	30,402,952
Over 365 days	**14,210,808**	14,641,665
	25,171,962	53,443,522

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

(2) Accounts receivable (Cont'd)

Changes of impairment provision for accounts receivable in the current period are as follows:

	31 December 2011	Addition	Reduction		30 June 2012
			Reversals	Written off	
Provision for bad debts	4,723,631	—	(1,340,619)	—	**3,383,012**

(3) Advances to suppliers

	30 June 2012	31 December 2011
Advances to suppliers	**444,797,165**	225,437,695
Less: Advances to suppliers disclosed in other non-current assets	**(439,361,200)**	(219,361,200)
	5,435,965	6,076,495

The ageing of advances to suppliers is analysed below:

	30 June 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	**444,732,953**	**99.99%**	225,298,132	99.94%
1 to 2 years	**64,212**	**0.01%**	139,563	0.06%
	444,797,165	**100%**	225,437,695	100%

As at 30 June 2012, the balance of advance to Haikou Meilan for Terminal and its Ancillary Project is RMB439,361,200 (31 December 2011: RMB219,361,200), please refer to Note7(7).

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

(4) Other receivables

The ageing of other receivables is analysed below:

	30 June 2012	31 December 2011
Within 90 days	**953,768**	930,189
91 to 180 days	**572,568**	157,723
181 to 365 days	**153,473**	189,344
Over 365 days	**1,815,441**	2,419,567
	3,495,250	3,696,823

(5) Other current assets

	30 June 2012	31 December 2011
Prepayment of Enterprise Income tax	**30,196**	1,175,863
Prepayment of other taxes	**1,795**	117,534
	31,991	1,293,397

(6) Long-term equity investments

Associates — Unlisted companies

	31 December 2011	Additional investment cost	Share of profit of investees under equity method	30 June 2012	Interest Held (%)	Voting Rights
Haikou Decheng Industrial and Development Co., Ltd. ("Haikou Decheng")	30,874,651	—	—	**30,874,651**	30	1/3
Hainan Airlines Airport Holding Group Company Limited ("HNA Airport")	1,037,290,091	—	12,568,395	**1,049,858,486**	24.5	1/7
	1,068,164,742	—	12,568,395	**1,080,733,137**		

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

(6) Long-term equity investments (Cont'd)

Associates — Unlisted companies (Cont'd)

No significant restrictions on the long term equity investments.

	30 June 2012				1 January 2012 to 30 June 2012
	Management Assets RMB	Management Liabilities RMB	Management Net assets RMB	Management Revenue RMB	Management Net profits RMB
Associates —					
Haikou Decheng	1,077,322,754	974,409,553	102,913,201	—	(1,206)
HNA Airport	11,074,021,440	5,400,767,475	5,673,253,965	483,297,101	93,693,892

(7) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and others	Total
Cost					
31 December 2011	960,449,729	215,598,361	92,477,089	61,494,131	1,330,019,310
Increases	—	779,597	2,732,061	1,901,632	5,413,290
Disposal of subsidiary	—	—	(109,198)	(250,721)	(359,919)
Other decreases	—	—	(195,400)	(440,791)	(636,191)
30 June 2012	960,449,729	216,377,958	94,904,552	62,704,251	1,334,436,490
Accumulated depreciation					
31 December 2011	(234,176,343)	(115,194,416)	(52,971,479)	(42,447,011)	(444,789,249)
Depreciation charged	(12,548,737)	(8,475,128)	(2,805,442)	(1,906,343)	(25,735,650)
Disposal of subsidiary	—	—	94,642	169,863	264,505
Other decreases	—	—	132,657	414,445	547,102
30 June 2012	(246,725,080)	(123,669,544)	(55,549,622)	(43,769,046)	(469,713,292)
Net book value					
30 June 2012	713,724,649	92,708,414	39,354,930	18,935,205	864,723,198
31 December 2011	726,273,386	100,403,945	39,505,610	19,047,120	885,230,061

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

(7) Fixed assets (Cont'd)

Depreciation expenses of RMB25,540,776 and RMB194,874 were charged in operating costs and general and administrative expenses in the current period (for the six months ended 30 June 2011, the amounts are: RMB27,790,234 and RMB435,000).

(8) Intangible assets

	Land use right
Cost	
31 December 2011 and 30 June 2012	179,637,283
Accumulated amortisation	
31 December 2011	(32,398,570)
Amortisation	(1,581,594)
30 June 2012	(33,980,164)
Net book amount	
30 June 2012	145,657,119
31 December 2011	147,238,713

Amortisation expenses of RMB1,581,594 (for the six months ended 30 June 2011: RMB1,581,594) were charged in operating costs in the current period.

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

	30 June 2012	31 December 2011
Inside Mainland China—		
between 10 to 50 years	**60,649,194**	61,454,272
over 50 years	**85,007,925**	85,784,441
	145,657,119	147,238,713

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

(9) Deferred tax assets

	30 June 2012		31 December 2011	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for asset impairment	**422,877**	**3,383,012**	590,454	4,723,631
Accrued termination costs	**1,266,647**	**7,282,718**	1,528,494	8,104,854
Accrued bonus, and accrued Directors' emoluments	**2,328,318**	**18,626,548**	2,302,792	18,422,334
	4,017,842	**29,292,278**	4,421,740	31,250,819

As at 30 June 2012, no deferred tax liabilities exist (31 December 2011: nil).

(10) Accounts payable

The ageing of accounts payable based on their recording dates is analysed below:

	30 June 2012	31 December 2011
Within 90 days	**3,684,872**	12,297,551
91 to 180 days	**3,128,984**	745,955
Over 181 days	**5,738,926**	4,531,751
	12,552,782	17,575,257

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

(11) Employee benefits payable

	31 December 2011	Additions	Reductions	30 June 2012
Wages and salaries, bonuses, allowances and subsidies	38,332,678	28,145,149	(28,827,865)	**37,649,962**
Staff welfare	—	827,412	(827,412)	**—**
Social security contributions	—	3,448,812	(3,373,588)	**75,224**
Including: Basic pensions	—	2,290,947	(2,229,012)	**61,935**
Medical insurance	—	851,461	(851,461)	**—**
Unemployment insurance	—	174,445	(164,617)	**9,828**
Work injury insurance	—	73,796	(71,794)	**2,002**
Maternity insurance	—	58,163	(56,704)	**1,459**
Housing funds	359,809	1,429,894	(1,091,202)	**698,501**
Labor union and employee education funds	3,290,084	513,766	(1,782,882)	**2,020,968**
Termination benefits	9,701,103	—	(506,601)	**9,194,502**
	51,683,674	34,365,033	(36,409,550)	**49,639,157**

(12) Taxes payable

	30 June 2012	31 December 2011
Enterprise income tax payable	**5,291,155**	5,538,122
Business tax payable	**5,214,189**	3,825,557
Real estate tax payable	**1,578,340**	1,499,488
Individual income tax payable	**83,433**	370,950
Others	**205,143**	733,691
	12,372,260	11,967,808

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

(13) Interest payable

	30 June 2012	31 December 2011
Interest of long-term borrowings with periodic payments of interest and return of principal at maturity	**2,462,328**	3,508,354
Interest of corporate debentures	**17,680,000**	—
	20,142,328	3,508,354

(14) Dividends payable

	Six months ended 30 June 2012	2011
Dividends payable of ordinary shares at the beginning of the period	**666,000**	666,000
Add: Dividends payable of ordinary shares in current period	**—**	56,785,560
Less: Dividends and withholding tax paid in current period	**—**	(2,692,651)
Dividends payable of ordinary shares at the end of the period	**666,000**	54,758,909

(15) Other payables

	30 June 2012	31 December 2011
Airport ground services payable	**35,217,890**	30,481,334
Construction payables	**13,006,493**	11,056,019
Deposit guarantees	**9,884,355**	10,536,355
Plant and other equipment repairs expenses	**1,262,852**	6,419,698
Airlines subsidy payables	**6,409,786**	5,531,976
Others	**14,851,898**	11,860,303
	80,633,274	75,885,685

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

(16) Long-term borrowings

	30 June 2012	31 December 2011
Secured borrowings	**457,434,326**	460,815,250
Less: current portion of long-term borrowings	**(115,848,200)**	(61,858,550)
	341,586,126	398,956,700

As at 30 June 2012, the weighted average interest rate of long-term borrowings is 3.88% (31 December 2011: 3.74%).

As at 30 June 2012, bank borrowings of USD72,000,000, equivalent to RMB455,434,326 (31 December 2011: RMB456,815,250) are secured by the 24.5% interest of HNA Airport held by the Group. Interest is payable every quarter and the principal is due for repayment on installment before 26 January 2016.

As at 30 June 2012, bank borrowings of RMB2,000,000 (31 December 2011: RMB4,000,000) are secured by the Group's operating revenue. Interest is payable every quarter and the principal is due for repayment on installment before 17 June 2013.

(17) Debentures payable

	31 December 2011	Increase in current period	Decrease in current period	30 June 2012
Debentures payable				
— par value	—	800,000,000	—	**800,000,000**
— issurance expenses	—	(9,600,000)	304,550	**(9,295,450)**
	—	790,400,000	304,550	**790,704,550**

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

(17) Debentures payable (Cont'd)

Related information is as follows:

	Par value	Issuance date	Maturity	Issuance amount
Corporate debentures	100	13 March 2012	7 years	800,000,000

Interest accrued of debentures is analysed as follows:

		Interest accrued		
	31 December 2011	Interest accrued in current period	Interest paid in current period	**30 June 2012**
Debentures payable	—	17,680,000	—	**17,680,000**

(a) Under No. [2011] 2082 approved by China Securities Regulatory Commission ("CSRC"), the Company issued corporate debentures with a total amount of RMB 800,000,000 and duration of 7 years on 13 March 2012. Interest of the debenture is annually paid on 15 March and calculated by the simple interest method, and the interest rate is 7.8% annually.

(18) Other non-current liabilities

	30 June 2012	31 December 2011
Government grants relevant to assets		
— Fire alarm system subsidies	**8,070,000**	8,370,000

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

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

(19) Share capital

	30 June 2012 and 31 December 2011 (Number of shares)	30 June 2012 and 31 December 2011 (RMB)
Shares held by domestic legal entities		
Haikou Meilan	237,500,000	237,500,000
HNA Group company Limited ("HNA Group")	3,512,500	3,512,500
Hainan Airlines Company Limited ("Hainan Airlines")	5,287,500	5,287,500
Shares held by foreign investors	226,913,000	226,913,000
	473,213,000	473,213,000

(20) Capital reserve

	30 June 2012 and 31 December 2011
Capital premium	598,983,655
Other capital reserve	100,500,999
	699,484,654

(21) Surplus reserve

	31 December 2011	Additions	Reductions	**30 June 2012**
Statutory surplus reserve	216,748,099	—	—	**216,748,099**

	31 December 2010	Additions	Reductions	30 June 2011
Statutory surplus reserve	187,992,913	—	—	187,992,913

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

(21) Surplus reserve (Cont'd)

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. No statutory surplus reserve was accrued for the current period (for the six months ended 30 June 2011: nil).

(22) Undistributed profits

As at 30 June 2012, included in the undistributed profits, RMB1,511,616 is subsidiaries' surplus reserve attributable to the Company (for the six months ended 30 June 2011: RMB1,606,084), among which nil is appropriated for the current period (for the six months ended 30 June 2011: nil).

(23) Minority interests

Minority equity attributable to the subsidiaries of the subsidiaries

Subsidiaries	Minority	30 June 2012	31 December 2011
Meilan Cargo	Baixiang Logistic Company Limited.	**13,708,062**	9,844,788
Meilan Advertising	Haikou Meilan	**2,097**	3,929
Meilan Duty Free Shop	Haikou Meilan	**(82,384)**	(82,390)
Meilan Travelling	Haikou Meilan	**—**	665,888
		13,627,775	10,432,215

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

(24) Revenue and cost of sales, general and administrative expenses

	Six months ended 30 June	
	2012	2011
Revenue		
Aeronautical:		
Passenger charges	**82,797,683**	80,784,443
Civil Aviation Development Fund (Airport construction fees)	**64,469,216**	60,506,802
Aircraft movement fees and related charges	**27,762,284**	26,196,725
Ground handling services income	**27,978,668**	24,079,151
	203,007,851	191,567,121
Non-aeronautical:		
Franchise fee	**74,336,983**	32,353,091
Freight and packing	**36,496,709**	32,948,520
Rental	**13,344,446**	11,257,728
VIP room charge	**14,201,776**	10,872,256
Car parking	**4,921,947**	3,637,594
Others	**8,294,158**	6,408,395
	151,596,019	97,477,584
	354,603,870	289,044,705

According to the *Interim Measures for the Collection, Use and Management of the Civil Aviation Development Fund* (《民航發展基金徵收使用管理暫行辦法》) promulgated by the Ministry of Finance and effective on 1 April 2012, Civil Aviation Development Fund is charged to passengers and the rate of charges remains the same as the former airport construction fee. Meanwhile, the former airport construction fee was abolished correspondingly.

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

(24) Revenue and cost of sales, general and administrative expenses (Cont'd)

Operating costs, general and administrative expenses include the following items:

	Six months ended 30 June	
	2012	2011
Employee benefit expenses	**34,365,033**	23,136,239
Depreciation of fixed assets	**25,735,650**	28,225,234
Airport and logistic composite services fee	**23,447,293**	19,584,627
Packaging materials expenses	**16,768,603**	15,918,190
Utilities	**10,643,251**	7,746,646
Labour costs of dispatched staff	**6,615,950**	640,476
Airlines subsidies expenses	**3,603,715**	1,106,220
Other taxes	**3,420,510**	3,131,389
Repairs and maintenance	**2,441,402**	5,283,158
Handling fees of CAAC Settlement Center	**1,717,318**	—
Amortisation of land use rights	**1,581,594**	1,581,594
Travelling expenses	**1,010,519**	2,263,678
Audit fee	**885,915**	638,800

(25) Tax and surcharges

	Six months ended 30 June	
	2012	2011
Business tax	**11,408,524**	8,181,718
City maintenance and construction tax	**764,499**	548,966
Educational surcharge	**566,361**	409,086
	12,739,384	9,139,770

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

(26) Financial expenses — net

	Six months ended 30 June 2012	2011
Interest expenses	**25,757,016**	7,293,202
Including: Bank borrowings	**8,077,016**	7,293,202
Corporate debentures	**17,680,000**	—
Less: interest income	**(7,117,030)**	(4,277,526)
Exchange losses/(gains)	**1,768,833**	(10,951,116)
Amortisation of financial charges	**1,054,599**	660,750
Others	**494,902**	193,875
	21,958,320	(7,080,815)

Interest expenses are analysed by the repayment terms of bank borrowings and debentures payable as follows:

	30 June 2012		30 June 2011	
	Bank borrowings	Debentures payable	Bank borrowings	Debentures payable
Wholly repayable within five years	**8,077,016**	**—**	7,293,202	—
Not wholly repayable within five years	**—**	**17,680,000**	—	—
	8,077,016	**17,680,000**	7,293,202	—

(27) Investment income

	Six months ended 30 June 2012	2011
Share of profit of investees under equity method — HNA Airport	**12,568,396**	14,486,169
Disposal of equity interest — Meilan Travelling	**667,119**	—
	13,235,515	14,486,169

No significant restrictions on the repatriation of investment income.

Investment incomes from non-listed companies in the current period amount to RMB13,235,515 for the Group (for the six months ended 30 June 2011: RMB14,486,169).

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

(28) Non-operating income

	Six months ended 30 June	
	2012	2011
Government grants	**300,000**	200,000
Gains on disposal of fixed assets	**268,292**	148,100
Others	**9,470**	26,923
	577,762	375,023

(29) Income tax expenses

	Six months ended 30 June	
	2012	2011
Current income tax	**23,362,033**	23,296,560
Deferred income tax	**403,898**	(933,962)
	23,765,931	22,362,598

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 as follows:

	Six months ended 30 June	
	2012	2011
Total profit	**183,136,586**	180,705,831
Income tax expenses calculated at applicable tax rates	**45,784,147**	43,369,949
Effect of tax incentive	**(22,318,081)**	(20,636,278)
Income not subject to tax	**(1,563,144)**	(1,738,340)
Expenses not deductible for tax purposes	**1,307,026**	1,367,267
Previous Income tax	**555,983**	—
	23,765,931	22,362,598

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

(30) Earnings per share

(a) Basic earnings per share is calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	Six months ended 30 June	
	2012	2011
Consolidated net profit attributable to ordinary shareholders of the Company	**156,489,207**	155,089,246
Weighted average number of ordinary shares outstanding (share)	**473,213,000**	473,213,000
Basic earnings per share	**0.33**	0.33

(b) Diluted earnings per share is calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there are no dilutive potential ordinary shares in current period (for the six months ended 30 June 2011: nil), diluted earnings per share equal to basic earnings per share.

(31) Supplementary information to the consolidated cash flow statement

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

	30 June 2012	30 June 2011
Net profit	**159,370,655**	158,343,233
Add: Reversal of asset impairment	**(1,340,619)**	(749,484)
Depreciation of fixed assets	**25,735,650**	28,225,234
Amortisation of intangible assets	**1,581,594**	1,581,594
(Gains)/losses on disposal of fixed assets	**(189,533)**	241,850
Financial expense/(income)	**28,198,829**	(7,935,440)
Investment income	**(12,568,396)**	(14,486,169)
Decrease/(increase) in deferred tax assets	**403,898**	(933,962)
(Increase)/decrease in inventories	**(113,846)**	21,441
Decrease in operating receivables	**16,922,692**	19,947,444
(Increase)/decrease in operating payables	**12,434,448**	(92,847,767)
Net cash flows from operating activities	**230,435,372**	91,407,974

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

(31) Supplementary information to the consolidated cash flow statement (Cont'd)

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

	Six months ended 30 June	
	2012	2011
Cash and cash equivalents at end of the period	**1,149,787,172**	553,667,976
Less: cash equivalents at beginning of the period	**(366,887,159)**	(960,553,355)
Net increase/(decrease) in cash and cash equivalents	**782,900,013**	(406,885,379)

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 ground handling services

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

	30 June 2012 and 31 December 2011
Haikou Meilan	2,028,913,102

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

	30 June 2012 and 31 December 2011	
	% 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 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	101,681,100	30	1/3
HNA Airport	Haikou, Hainan Province	Airport operation and ground handling services; airport investment, holding, constructing and rebuilding	3,020,151,992	24.5	1/7

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

(4) Information of other related parties:

	Relationship with the Group
HNA Group	Has significant influence of Haikou Meilan
Hainan Developing Holding Company Limited ("Hainan Developing")	Has significant influence of Haikou Meilan
Hainan Airlines	Under control of Hainan Developing
Hainan Airlines Food Company Co. Ltd. ("Hainan Food")	Under control of HNA Group
Hainan Island Opal Property Management Co., Ltd ("Island Opal")	Under control of HNA Group
Beijing Capital Airlines Co. Ltd. ("Capital Airlines")	Under control of HNA Group
HNA Group Finance Co., Ltd ("HNA Group Finance")	Under control of HNA Group
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Under control of HNA Group
Luckyway International Travel Service Co. Ltd. ("Luckyway")	Under control of HNA Group
HNA Safe Car Rental Co. Ltd. ("HNA Safe")	Under control of HNA Group
Tianjin Airlines Co., Ltd. ("Tianjin Airlines"	Under control of HNA Group
Grand China Aviation Technik Co. Ltd. ("GCA Technik")	Under control of HNA Group
Hainan HNA China Duty Free Merchandise Co., Ltd. ("HNA China Duty Free")	Under control of HNA Group
Hong Kong Airlines Co. Ltd. ("Hong Kong Airlines")	Under control of HNA Group
Hong Kong Express Airlines Co., Ltd. ("Hong Kong Express Airlines")	Under control of HNA Group
Western Airlines Co., Ltd. ("Western Airlines")	Under control of HNA Group
HNA Lucky Air Co. Ltd ("Yunnan Xiangpeng")	Under control of HNA Group
Grand China Aviation Ground Service ("Xinhua Konggang")	Under control of HNA Group
Meilan Travelling	Under control of HNA Group
Haikou meilan airport duty-free shop Co., LTD ("Haikou Duty Free")	Under significant influence of HNA Group

(5) Significant 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.

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

(5) Significant related party transactions (Cont'd)

(b) Purchases of goods and services

	Six months ended 30 June 2012	2011
Hainan Airlines	**16,768,603**	15,918,190
Haikou Meilan	**9,831,767**	8,021,975
HNA Group	**8,489,400**	6,295,623
Island Opal	**5,448,500**	4,657,900
Xinhua Konggang	**3,466,227**	—
HNAAIS	**1,331,192**	944,004
	45,335,689	35,837,692

(c) Rendering of services

	Six months ended 30 June 2012	2011
Hainan Airlines	**56,265,565**	51,507,523
Haikou Duty Free	**39,462,255**	—
Capital Airlines	**15,918,934**	9,358,216
Tianjin Airlines	**4,168,264**	4,325,390
Hong Kong Express Airlines	**2,869,492**	3,304,456
HNA China Duty Free	**2,717,566**	2,315,939
Meilan Travelling	**2,000,000**	—
Western Airlines	**1,516,886**	1,286,365
Hong Kong Airlines	**1,141,389**	629,058
Yunnan Xiangpeng	**610,299**	380,726
GCA Technik	**596,160**	596,160
Hainan Food	**504,000**	1,191,630
HNA Safe	**150,000**	150,000
HNA Group	**68,220**	35,980
Luckyway	**—**	2,967,471
	127,989,030	78,048,914

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

(5) Significant related party transactions (Cont'd)

(d) Remuneration of key management

	Six months ended 30 June 2012	Six months ended 30 June 2011
Remuneration of key management	**1,235,094**	1,167,105

(e) Interest Income

	Six months ended 30 June 2012	Six months ended 30 June 2011
HNA Group Finance	**5,028,624**	3,369,104

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

(6) Significant receivables from and payables to related parties

(a) Cash at bank

	30 June 2012	31 December 2011
HNA Group Finance	**428,259,131**	150,447,515

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

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

(b) Accounts receivable

	30 June 2012	31 December 2011
Haikou Duty Free	**15,221,760**	—
Hong Kong Express Airlines	**13,833,850**	14,095,478
Hainan Airlines	**11,911,468**	31,155,928
Capital Airlines	**9,669,978**	17,423,698
Hong Kong Airlines	**8,024,014**	6,771,473
Meilan Travelling	**2,000,000**	—
Tianjin Airlines	**1,808,290**	8,788,928
Hainan Food	**1,617,180**	1,123,228
Luckyway	**947,340**	6,682,409
GCA Technik	**894,240**	298,080
Western Airlines	**825,783**	768,821
HNA China Duty Free	**557,816**	682,915
Yunnan Xiangpeng	**412,955**	407,166
HNA Safe	**230,000**	380,000
HNA Group	**106,246**	38,026
Others	**1,289,446**	362,701
	69,350,366	88,978,851

(c) Advances to suppliers

	30 June 2012	31 December 2011
Haikou Meilan (Note 7(7))	**439,361,200**	219,361,200
Others	**—**	148,739
	439,361,200	219,509,939

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

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

(d) Other receivables

	30 June 2012	31 December 2011
Hainan Airlines	**652,604**	458,559
Others	**202,265**	731,239
	854,869	1,189,798

(e) Interest receivable

	30 June 2012	31 December 2011
HNA Group Finance	**1,657,452**	867,699

(f) Accounts payable

	30 June 2012	31 December 2011
Island Opal	**3,693,750**	1,041,934
Xinhua Konggang	**—**	2,711,526
Others	**—**	473,964
	3,693,750	4,227,424

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

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

(g) Other payables

	30 June 2012	31 December 2011
Haikou Meilan	**35,217,890**	30,481,334
Meilan Travelling	**3,859,457**	—
Luckyway	**1,000,000**	1,000,000
Island Opal	**910,088**	637,654
Others	**830,471**	822,119
	41,817,906	32,941,107

(h) Advances from customers

	30 June 2012	31 December 2011
Haikou Meilan (Note 7(7))	**3,128,973**	3,128,973
HNA China Duty Free	**61,901**	61,901
	3,190,874	3,190,874

(i) Directors' emolument payable

	30 June 2012	31 December 2011
Directors' emolument payable	**1,445,095**	1,579,934

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

(7) Significant commitments in relation to related parties

The commitments in relation to related parties contracted for but not yet necessary to be recognised on the balance sheet by the Group as at the balance sheet date are as follows:

Transfer of assets	30 June 2012	31 December 2011
Land Use Right Transfer Agreement and Terminal and its Ancillary Project Acquisition Agreement with Haikou Meilan		
— Receivable of Land Use Right Transfer from Haikou Meilan (note a-1)	**(28,160,761)**	(28,160,761)
— Payable of Terminal and its Ancillary Project acquisition to Haikou Meilan (note a-2)	**657,444,800**	877,444,800
	629,284,039	849,284,039

(a) On 26 August 2011, the Company entered into the Land Use Right Transfer Agreement and Terminal and its Ancillary Project Acquisition Agreement with Haikou Meilan respectively.

(a-1) Pursuant to the Land Use Right Transfer Agreement, in order to facilitate the construction of the Project and the obtaining of relevant property ownership certificate(s) as a whole by Haikou Meilan, the Company will transfer the land use right of the land with a site area of approximately 125 acres at a consideration of RMB31,289,734. As at 30 June 2012, the company has received a deposit of the consideration amounting to RMB3,128,973 from Haikou Meilan (31 December 2011: RMB3,128,973).

(a-2) Pursuant to the Terminal and its Ancillary Project Acquisition Agreement, Haikou Meilan agreed to sell all assets comprising the Project upon completion of construction of the Project, including but not limited to, the land use rights of the Project, and all buildings, equipment, facilities and other related assets comprising the Project upon completion of construction of the Project, at a consideration of RMB1,096,806,000. As at 30 June 2012, the Company has paid a Tentative Acquisition Consideration amounting to RMB439,361,200 (31 December 2011: RMB219,361,200) (note 5(3)).

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 2011, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 30 June 2012 and 31 December 2011, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	30 June 2012		
	USD	**Others**	**Total**
Financial assets denominated in foreign currency			
— Cash at bank and on hand	**4,969,305**	**35,188**	**5,004,493**
Financial liabilities denominated in foreign currency			
— Long-term borrowings	**455,434,326**	**—**	**455,434,326**

	31 December 2011		
	USD	Others	Total
Financial assets denominated in foreign currency			
— Cash at bank and on hand	2,481,217	34,251	2,515,468
Financial liabilities denominated in foreign currency			
— Long-term borrowings	456,815,250	—	456,815,250

As at 30 June 2012, 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 or decreased by approximately RMB39,415,689 (31 December 2011: RMB39,981,395).

8 FINANCIAL INSTRUMENT AND RISK (CONT'D)

(1) Market risk (Cont'd)

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings and debentures payable. 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 2012, the Group's long-term interest bearing borrowings were mainly USD-denominated with floating rates, amounting to USD72,000,000, equivalent to RMB455,434,326 (31 December 2011: USD72,500,000, equivalent to RMB456,815,250) ((Note 5(16)).

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. The Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the current period, the Group did not enter into any interest rate swap agreements.

For the period ended 30 June 2012, 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 USD240,135, equivalent to RMB1,518,831 (for the period ended 30 June 2011: USD118,170, equivalent to RMB764,747).

(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.

8 FINANCIAL INSTRUMENT AND RISK (CONT'D)

(3) Liquidity risk

Cash flow forecasting is performed by the Company and 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 and securities that are readily convertible to 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.

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 2012				
	Within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years	Total
Financial assets					
Cash at bank and on hand	1,149,787,172	–	–	–	1,149,787,172
Accounts receivable	111,572,581	–	–	–	111,572,581
Other receivables	3,495,250	–	–	–	3,495,250
Interest receivable	3,509,718	–	–	–	3,509,718
	1,268,364,721	–	–	–	1,268,364,721
Financial liabilities					
Accounts payable	12,552,782	–	–	–	12,552,782
Other payables	80,633,274	–	–	–	80,633,274
Interest payable	20,142,328	–	–	–	20,142,328
Debentures payable	62,400,000	62,400,000	187,200,000	909,200,000	1,221,200,000
Long-term borrowings	130,436,279	125,818,036	238,677,791	–	494,932,106
	306,164,663	188,218,036	425,877,791	909,200,000	1,829,460,490

8 FINANCIAL INSTRUMENT AND RISK (CONT'D)

(3) Liquidity risk (Cont'd)

	31 December 2011				
	Within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years	Total
Financial assets					
Cash at bank and on hand	366,887,159	—	—	—	366,887,159
Accounts receivable	145,125,372	—	—	—	145,125,372
Interest receivable	1,793,832	—	—	—	1,793,832
Other receivables	3,696,823	—	—	—	3,696,823
	517,503,186	—	—	—	517,503,186
Financial liabilities					
Accounts payable	17,575,257	—	—	—	17,575,257
Other payables	75,885,685	—	—	—	75,885,685
Interest payable	3,508,354	—	—	—	3,508,354
Long-term borrowings	77,920,024	127,276,314	292,900,998	—	498,097,336
	174,889,320	127,276,314	292,900,998	—	595,066,632

Bank borrowings and debentures payable are analysed by repayment terms as follows:

	30 June 2012		31 December 2011	
	Bank borrowings	**Debentures payable**	Bank borrowings	Debentures payable
Wholly repayable within five years	**494,932,106**	**—**	498,097,336	—
Not wholly repayable within five years	**—**	**1,221,200,000**	—	—
	494,932,106	**1,221,200,000**	498,097,336	—

8 FINANCIAL INSTRUMENT AND RISK (CONT'D)

(4) Fair value

Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, interest receivable, payables, interest payable, long-term borrowings and debentures payable.

Except for the financial liabilities listed below, the carrying amount of the other financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

	30 June 2012		31 December 2011	
	Book value	**Fair value**	Book value	Fair value
Financial liabilities — Debentures payable	**790,704,550**	**839,920,000**	—	—

The fair value of debentures payable in an active market is determined at the quoted price in the active market. The fair value of the Corporate debentures of the Company in this period is determined to the quoted prices of Shanghai Stock Exchange in the last trading day prior to June 30 2012. The fair value of long-term borrowings not quoted in an active market is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms.

9 COMMITMENTS

Capital commitments

Capital expenditures contracted for but not yet necessary to be recognised on the balance sheet:

	30 June 2012	31 December 2011
Buildings, machinery and equipment	**657,444,800**	877,444,800

10 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2012	31 December 2011
Cash on hand	**98,188**	16,630
Cash at bank	**1,091,811,636**	322,563,069
	1,091,909,824	322,579,699

(2) Accounts receivable

	30 June 2012	31 December 2011
Accounts receivables by nature		
— from aeronautical services	**79,021,645**	122,708,420
— from non-aeronautical services	**32,486,583**	20,178,977
	111,508,228	142,887,397
Less: provision for bad debts	**(3,383,012)**	(4,723,631)
	108,125,216	138,163,766

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

(2) Accounts receivable (Cont'd)

	30 June 2012	31 December 2011
Accounts receivable by customers		
— from third parties	**45,355,229**	60,620,152
Less: provision for bad debts	**(3,383,012)**	(4,723,631)
	41,972,217	55,896,521
— from related parties	**66,152,999**	82,267,245
	108,125,216	138,163,766

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 based on their recording dates is analysed below:

	30 June 2012	31 December 2011
Within 90 days	**80,803,192**	87,426,157
91 to 180 days	**3,652,868**	8,101,253
181 to 365 days	**10,530,067**	32,904,461
Over 365 days	**16,522,101**	14,455,526
	111,508,228	142,887,397

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

(2) Accounts receivable (Cont'd)

As at 30 June 2012, the Management of the Company performed impairment test on accounts receivable from third parties with the specific identification method; Based on which amount equalling to RMB4,500,000 (31 December 2011: Nil) has been identified as past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2012	31 December 2011
181 to 365 days	**2,500,000**	—
Over 365 days	**2,000,000**	—
	4,500,000	—

As at 30 June 2012, Accounts receivable from related parties amounting to RMB22,225,956 (31 December 2011: RMB47,474,921) is past due but not impaired. The ageing of accounts receivable in kind is as follows:

	30 June 2012	31 December 2011
91 to 180 days	**3,145,693**	6,026,270
181 to 365 days	**7,815,461**	30,263,047
Over 365 days	**11,264,802**	11,185,604
	22,225,956	47,474,921

	31 December 2011	Additions	Reductions		30 June 2012
			Reversal	Written off	
Provision for bad debts	4,723,631	—	(1,340,619)	—	**3,383,012**

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

(3) Other receivables

	30 June 2012	31 December 2011
Packaging fee for Meilan Cargo	**26,224,710**	21,288,699
Advance for intragroup companies	**4,566,018**	3,866,018
Others	**3,059,054**	10,569,367
	33,849,782	35,724,084

The ageing of other receivables is analysed below:

	30 June 2012	31 December 2011
Within 90 days	**14,177,505**	14,779,950
91 to 180 days	**7,210,099**	7,158,938
181 to 365 days	**7,154,688**	7,525,267
Over 365 days	**5,307,490**	6,259,929
	33,849,782	35,724,084

(4) Long-term equity investments

	30 June 2012	31 December 2011
Subsidiaries (a)		
— Unlisted companies	**11,427,825**	19,533,836
Associates (b)		
— Unlisted companies	**1,080,733,137**	1,068,164,742
	1,092,160,962	1,087,698,578

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

(4) Long-term equity investments (Cont'd)

(a) Subsidiaries

	31 December 2011	Increase in current year	Decrease in current year	30 June 2012	Interest Held (%)	Voting Rights (%)
Meilan Advertising	950,000	—	—	**950,000**	95	100
Meilan Duty Free Shop	277,825	—	—	**277,825**	95	100
Meilan Travelling	13,206,011	—	(13,206,011)	**—**	—	—
Meilan Cargo	5,100,000	5,100,000	—	**10,200,000**	51	60
	19,533,836	5,100,000	(13,206,011)	**11,427,825**		

According to the irrevocable transfer agreement signed by the Company and Xinhua Konggang on 16 December 2011, the Company transferred its entire shares of interest in Meilan Travelling to Xinhua Konggang. The transaction was completed in January 2012.

(b) Associates

	31 December 2011	Additional investment cost	Share of profit of investees under equity method	30 June 2012	Interest Held (%)	Voting Rights
Haikou Decheng	30,874,651	—	—	**30,874,651**	30	1/3
HNA — Airport	1,037,290,091	—	12,568,395	**1,049,858,486**	24.5	1/7
	1,068,164,742	—	12,568,395	**1,080,733,137**		

No significant restrictions on the long term equity investments.

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

(5) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and others	Total
Cost					
31 December 2011	960,449,729	215,598,361	91,468,961	56,495,034	1,324,012,085
Increases	—	779,597	2,732,061	1,366,432	4,878,090
Decrease	—	—	(195,400)	(440,791)	(636,191)
30 June 2012	960,449,729	216,377,958	94,005,622	57,420,675	1,328,253,984
Accumulated depreciation					
31 December 2011	(234,176,343)	(115,194,416)	(52,808,714)	(37,872,346)	(440,051,819)
Depreciation charged	(12,548,737)	(8,475,127)	(2,761,844)	(1,857,475)	(25,643,183)
Decrease	—	—	132,657	414,445	547,102
30 June 2012	(246,725,080)	(123,669,543)	(55,437,901)	(39,315,376)	(465,147,900)
Net book value					
30 June 2012	713,724,649	92,708,415	38,567,721	18,105,299	863,106,084
31 December 2011	726,273,386	100,403,945	38,660,247	18,622,688	883,960,266

A depreciation expense of RMB25,460,289 and RMB182,894 was charged in operating costs and general and administrative expenses in the current period (for the six months ended 30 June 2011: the amounts are: RMB27,675,823 and RMB435,000).

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

(6) Intangible assets

	Land use right
Cost	
31 December 2011 and 30 June 2012	179,637,283
Accumulated amortisation	
31 December 2011	(32,398,570)
Amortisation	(1,581,594)
30 June 2012	(33,980,164)
Net book amount	
30 June 2012	145,657,119
31 December 2011	147,238,713

Amortisation expenses of RMB1,581,594 (for the six months ended 30 June 2011: RMB1,581,594) were charged in cost of sales in the current period.

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

	30 June 2012	31 December 2011
Inside Mainland China —		
between 10 to 50 years	**60,649,194**	61,454,272
over 50 years	**85,007,925**	85,784,441
	145,657,119	147,238,713

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

(7) Accounts payable

The ageing of account s payable based on their recording dates is analysed below:

	30 June 2012	31 December 2011
Within 90 days	**3,684,872**	11,812,445
91 to 180 days	**3,128,984**	745,955
Over 181 days	**5,738,926**	4,492,668
	12,552,782	17,051,068

(8) Revenue

	Six months ended 30 June 2012	2011
Aeronautical:		
Passenger charges	**82,797,683**	80,784,443
Civil Aviation Development Fund (Airport construction fee)	**64,469,216**	60,506,802
Aircraft movement fees and related charges	**27,762,284**	26,196,725
Ground handling services income	**20,297,975**	17,435,736
	195,327,158	184,923,706
Non-aeronautical:		
Franchise fee	**74,336,983**	32,353,091
Rental	**14,844,446**	12,757,728
VIP room charge	**14,201,776**	10,872,256
Car parking	**4,921,947**	3,637,594
Others	**8,252,659**	6,408,395
	116,557,811	66,029,064
	311,884,969	250,952,770

According to the *Interim Measures for the Collection, Use and Management of the Civil Aviation Development Fund* (《民航發展基金徵收使用管理暫行辦法》) promulgated by the Ministry of Finance and effective on 1 April 2012, Civil Aviation Development Fund is charged to passengers and the rate of charges remains the same as the former airport construction fee. Meanwhile, the former airport construction fee was abolished correspondingly.

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

(9) Financial expenses — net

	Six months ended 30 June 2012	2011
Interest expenses	**25,757,016**	7,293,202
Including: Bank borrowings	**8,077,016**	7,293,202
Corporate debentures	**17,680,000**	—
Less: interest income	**(6,990,903)**	(4,178,699)
Exchange gains or losses	**1,768,833**	(10,951,116)
Amortisation of financial charges	**1,054,599**	660,750
Others	**415,331**	174,521
	22,004,876	(7,001,342)

Interest expenses are analysed by the repayment terms of bank and debentures payable as follows:

	30 June 2012		30 June 2011	
	Bank borrowings	**Debentures payable**	Bank borrowings	Debentures payable
Wholly repayable within five years	**8,077,016**	**—**	7,293,202	—
Not wholly repayable within five years	**—**	**17,680,000**	—	—
	8,077,016	**17,680,000**	7,293,202	—

(10) Investment income

	Six months ended 30 June 2012	2011
Share of profit of investees under equity method — HNA Airport	**12,568,396**	14,486,169
Share of profit of investees under cost method — Meilan Cargo	**4,080,000**	—
Others	**112,989**	—
	16,761,385	14,486,169

No significant restrictions on the repatriation of investment income.

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

(11) Non-operating income

	Six months ended 30 June 2012	2011
Government grants	**300,000**	200,000
Gains on disposal of Fixed assets	**268,292**	87,100
Others	**9,470**	26,923
	577,762	314,023

(12) Income tax expenses

	Six months ended 30 June 2012	2011
Current income tax	**20,395,651**	21,199,166
Deferred income tax	**403,898**	(933,962)
	20,799,549	20,265,204

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

	Six months ended 30 June 2012	2011
Total profit	**178,544,650**	171,968,461
Income tax expenses calculated at applicable tax rates	**44,636,163**	41,273,355
Effect of tax incentive	**(22,318,081)**	(20,636,278)
Income not subject to tax	**(2,444,579)**	(1,738,340)
Expenses not deductible for tax purposes	**926,046**	1,366,467
	20,799,549	20,265,204

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

(13) Supplementary information to the Company's cash flow statement

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

	Six months ended 30 June	
	2012	2011
Net profit	**157,745,101**	151,703,257
Add: Provisions/(Reversal of) for asset impairment	**(1,340,619)**	(694,425)
Depreciation of fixed assets	**25,643,183**	28,110,823
Amortisation of intangible assets	**1,581,594**	1,581,594
(Gains)/losses on disposal of fixed assets	**(189,533)**	302,850
Financial expenses/(income)	**28,315,899**	(7,836,693)
Investment income	**(12,681,385)**	(14,486,169)
Decrease/(increase) in deferred tax assets	**403,898**	(933,962)
(Increase)/decrease in inventories	**(113,846)**	21,451
Decrease in operating receivables	**27,540,004**	8,131,125
Decrease in operating payables	**(973,316)**	(90,373,859)
Net cash flows from operating activities	**225,930,980**	75,525,992

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

	Six months ended 30 June	
	2012	2011
Cash and cash equivalents at end of the period	**1,091,909,824**	487,533,058
Less: cash and cash equivalents at beginning of the period	**(322,579,699)**	(908,841,783)
Net increase/(decrease) in cash and cash equivalents	**769,330,125**	(421,308,725)

11 NET CURRENT ASSETS

	The Group		The Company	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Current assets	**1,273,972,695**	524,899,250	**1,242,335,517**	503,691,748
Less: Current liabilities	**(300,329,712)**	(232,030,865)	**(294,192,155)**	(242,836,648)
Net current assets	**973,642,983**	292,868,385	**948,143,362**	260,855,100

12 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group		The Company	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Total assets	**3,816,020,119**	2,855,002,529	**3,794,193,652**	2,852,059,068
Less: Current liabilities	**(300,329,712)**	(232,030,865)	**(294,192,155)**	(242,836,648)
Total assets less current liabilities	**3,515,690,407**	2,622,971,664	**3,500,001,497**	2,609,222,420