



海南美蘭國際機場股份有限公司 Hainan Meilan International Airport Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 357)

CONTINUING CONNECTED TRANSACTION

On 22 September 2006, the Company entered into the Franchise Agreement with Luckyway Travelling, pursuant to which the Company has granted Luckyway Travelling a franchise to provide tourism and travelling services at Meilan Airport for a term of three months and two years commencing from 1 October 2006 for the estimated maximum aggregate annual value of RMB1,241,310, RMB5,479,325 and RMB5,902,935, respectively.

Hainan Airlines, being one of the promoters of the Company, is directly or indirectly interested so as to exercise or control the exercise of 34% of the voting power at the general meetings of Luckyway Travelling. Luckyway Travelling is therefore an associate of Hainan Airlines and a connected person of the Company.

As certain applicable percentage ratios (as defined in the Listing Rules), on an annual basis, are more than 0.1% but less than 2.5%, the transaction under the Franchise Agreement will constitute a continuing connected transaction of the Company under the Listing Rules and will be subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement.

I. FRANCHISE AGREEMENT

Date of Agreement:	22 September 2006
Parties:	The Company, as the franchisor Luckyway Travelling, as the franchisee
Subject:	Grant by the Company to Luckyway Travelling of a franchise to provide tourism and travelling services at Meilan Airport.
Term:	Three months and two years commencing from 1 October 2006 and ending on 31 December 2008 (both dates inclusive)
Price:	The Company will charge Luckyway Travelling the following fees: <ol style="list-style-type: none"> for the period from 1 October 2006 to 31 December 2006, the pro-rata portion of a basic annual franchise fee of RMB3,500,000, and for each of the two years ended 31 December 2008, such basic annual franchise fee plus a margin reflecting the expected rate of increase of passengers throughput for the financial years of 2007 and 2008, respectively; 50% of the profits earned by Luckyway Travelling from its franchise operation at Meilan Airport; and a management fee which is equivalent to 25% of the public utilities costs paid by Luckyway Travelling in relation to its franchise operation at Meilan Airport.
Other Major Terms:	<ol style="list-style-type: none"> The Company will provide Luckyway Travelling with a commercial area of approximately 160 sq. m. at Meilan Airport for the purpose of providing tourism and travelling services in relation to its franchise operation; and Luckyway Travelling will take over approximately 90 employees in relation to the tourism and travelling business from Meilan Travelling, a non wholly-owned subsidiary of the Company, and will enter into labour contracts with those employees. Within three months following the execution of the Franchise Agreement, Luckyway Travelling may choose to return the non-performing employees to Meilan Travelling.

II. ANNUAL CAP

The Directors estimate that the maximum aggregate annual amount (the "Annual Cap") payable by Luckyway Travelling to the Company under the Franchise Agreement to be RMB1,241,310, RMB5,479,325 and RMB5,902,935, respectively, for the three months ending 31 December 2006 and each of the two years ending 31 December 2008, respectively.

Set out below is the calculation of and the basis for determining the Annual Cap for the three-month period ending 31 December 2006, and each of the two years ending 31 December 2008:

Year	Three Months Period from 1 October 2006 to 31 December 2006		
	2006 (RMB)	2007 (RMB)	2008 (RMB)
Estimated franchise fee			
Basic franchise fee	875,000 (Note a)	3,500,000 (Note b)	3,759,000
Expected rate of increase of passengers throughput	–	7.4% (Note c)	7.4%
Estimated franchise fee	875,000	3,759,000	4,037,166
Estimated profits to be shared with the Company			
Estimated profits to be earned by Luckyway Travelling	710,000 (Note d)	3,348,400 (Note d)	3,637,300 (Note d)
Expected rate of increase of profits	–	8% (Note e)	8% (Note e)
Estimated profits to be shared with the Company	355,000	1,674,200	1,818,700
Estimated Management Fee to Be Charged by the Company			
Estimated public utilities cost to be paid by Luckyway Travelling	45,240 (Note f)	184,500 (Note f)	188,274 (Note f)
Management Fee Rate	25% (Note g)	25% (Note g)	25% (Note g)
Estimated Management Fee to be charged by the Company	11,310	46,125	47,069
Annual Cap	1,241,310	5,479,325	5,902,935

Notes:

- This amount is derived by dividing the basic annual franchise fee of RMB3,500,000 by 12, then multiplying the result by 3.

The basic annual franchise fee of RMB3,500,000 has been determined by reference to the expected profit of RMB3,400,000 from Luckyway Travelling for 2006 and the actual net profit of RMB2,960,000 of Meilan Travelling for the first eight months of 2006.
- Please see the explanation in the second paragraph of Note a above.
- Such expected rate of increase of passengers throughput is provided by a domestic airport planning and designing institute, which is an independent third party.
- The estimated profit for the three-month period from 1 October 2006 to 31 December 2006 is derived by deducting the average profit of Meilan Travelling from 2002 to 2005 in the approximate amount of RMB6,341,100 (the "Average Profit") by the basic annual franchise fee of RMB3,500,000, which is then divided by 12 and multiplied by 3.

The estimated profit for each of the two years ending 31 December 2008 is calculated by multiplying the Average Profit by the expected rate of increase of profits (as stated in Note (e) below) compounded on a yearly basis, and then deducting the basic annual franchise fee of RMB3,500,000 for the year ending 31 December 2007 (as stated in Note (a) above) and the basic annual franchise fee of RMB3,759,000 for the year ending 31 December 2008, respectively.

For each of the four years ended 31 December 2005 and the eight months ended 31 August 2006, the net profit of Meilan Travelling was approximately RMB7,747,600, RMB7,971,300, RMB6,463,100, RMB3,182,600 and RMB2,960,000, respectively.
- The expected rate of increase of profits is based on the rate of increase of actual net profits for the first eight months of 2006 as compared with the corresponding period of 2005, after taking into account the seasonal characteristics of the travel business over the entire year.

* For identification purpose only

- The estimated public utilities cost to be paid by Luckyway Travelling is based on the actual cost incurred during the entire year of 2005 and the first eight months of 2006, as well as a 2% annual rate of increase. The 2% rate of increase is determined on the basis of the actual rate of increase for the past years and the possible business expansion in the future. For each of the four years ended 31 December 2005 and the eight months ended 31 August 2006, the actual public utilities costs incurred by Meilan Travelling at Meilan Airport was approximately RMB161,135, RMB164,258, RMB168,924, RMB177,415 and RMB123,147, respectively.
- The management fee rate to be charged by the Company has been determined by reference to a mandatory management fee rate standard previously implemented by the General Administration of Civil Aviation Administration of China. Meilan Travelling has not paid any management fee to the Company up to the date of this announcement.

III. REASONS FOR ENTERING INTO THE FRANCHISE AGREEMENT

In 2005, the Group's tourism and travelling business was severely affected by, strategic reorganization and structural adjustments of a number of domestic airlines, tourist market consolidation in Hainan, and a drift of passenger flows upon the commission of the Guangdong-Hainan Railway. Due to a reduction in passenger and cargo throughput, the turnover from the tourism and travelling business operated by Meilan Travelling decreased substantially for the year ended 31 December 2005.

Luckyway Travelling is a professional travelling service company which provides comprehensive tourism and travelling services, such as organizing travel groups, conferences, exhibitions, reserving hotels, selling air tickets, etc.. Since its establishment in 2002, it has built up a significant client base and reputation throughout the PRC, including establishing a branch in Hainan province. It also provides cross-border travel services. Based on the airline and hotel network resources held by Hainan Airlines and HNA Group Company Limited, Luckyway Travelling is in a better position to provide good tourism and travelling services and an enlarged tourist base to Meilan Airport.

The Company expects the grant of the franchise of the tourism and travelling services to Luckyway Travelling would help increase passenger throughput. The franchise fee which the Company expects to receive would also provide the Company with a steady stream of income.

IV. RELATIONSHIP BETWEEN LUCKYWAY TRAVELLING AND THE COMPANY

Hainan Airlines, being one of the promoters of the Company, is a connected person of the Company under the Listing Rules. Hainan Airlines is directly or indirectly interested so as to exercise or control the exercise of 34% of the voting power at general meetings of Luckyway Travelling. Accordingly, Luckyway Travelling is an associate of Hainan Airlines and a connected person of the Company.

V. COMPLIANCE WITH THE LISTING RULES

As certain applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules), on an annual basis are more than 0.1% but less than 2.5%, the transaction under the Franchise Agreement will constitute a continuing connected transaction of the Company under the Listing Rules and will be subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the transaction contemplated under the Franchise Agreement have been negotiated on arm's length basis and are on normal commercial terms; (ii) such transaction will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of the transaction are fair and reasonable and in the interests of the Company and its shareholders as a whole.

VI. GENERAL INFORMATION

The Company is principally engaged in the management and operation of aeronautical and non-aeronautical businesses at Meilan Airport in Hainan Province, the PRC. Luckyway Travelling is principally engaged in the provision of tourism and travelling services in the PRC.

VII. DEFINITION

"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Company"	海南美蘭國際機場股份有限公司 (Hainan Meilan International Airport Company Limited), a joint stock limited company incorporated in the PRC on 28 December 2000
"Directors"	the director(s) of the Company
"Franchise Agreement"	the agreement between the Company and Luckyway Travelling dated 22 September 2006, pursuant to which the Company has granted Luckyway Travelling a franchise to provide tourism and travelling services at Meilan Airport
"Group"	the Company and its subsidiaries
"Hainan Airlines"	海南航空股份有限公司 (Hainan Airlines Company Limited), a joint stock limited company incorporated in the PRC and one of the promoters of the Company. Hainan Airlines directly owns 1.2% of the shares of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Luckyway Travelling"	幸運國際旅行社有限公司 (Luckyway International Travel Service Co., Ltd.), a limited liability company established in PRC and is directly and indirectly owned as to 34% by Hainan Airlines
"Meilan Airport"	the civil airport known as 海口美蘭國際機場 (Haikou Meilan International Airport) located in Haikou City, Hainan Province, PRC
"Meilan Travelling"	海南美蘭機場國際旅行社有限公司 (Hainan Meilan International Airport Travelling Company Limited) a limited liability company established in the PRC, and is directly owned as to 95% by the Company
"PRC"	the People's Republic of China
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sq.m"	square metres

As at the date of this announcement, there are nine directors on the Board. They are: Zhang Cong, Wang Zhen, Huang Qiu and Gunnar Moller as executive directors; Zhang Han'an and Kjeld Binger as non-executive director; and Xu Bailin, Xie Zhuang and Fung Ching Simon as independent non-executive directors.

By Order of the Board
Hainan Meilan International Airport Company Limited
Zhang Cong
Chairman

Haikou, the People's Republic of China
22 September 2006

*Please also refer to the published version of this announcement in
Wen Wei Po Post and China Daily.*