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海航基礎股份有限公司
HNA Infrastructure Company Limited*

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

INTERIM RESULTS ANNOUNCEMENT AS OF 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Total revenue was RMB738.06 million
(for the six months ended 30 June 2016: RMB627.31 million)
- Revenue from aeronautical business was RMB420.74 million
(for the six months ended 30 June 2016: RMB357.64 million)
- Revenue from non-aeronautical business was RMB317.32 million
(for the six months ended 30 June 2016: RMB269.67 million)
- Net profit attributable to shareholders was RMB312.86 million
(for the six months ended 30 June 2016: RMB253.30 million)
- Earnings per share was RMB0.66
(for the six months ended 30 June 2016: RMB0.54)

BUSINESS HIGHLIGHTS

- The passenger throughput recorded 11.4516 million
(for the six months ended 30 June 2016: 9.7151 million)
- Aircraft takeoff and landing reached 79,111 times
(for the six months ended 30 June 2016: 70,224 times)
- Cargo throughput was 161,999.30 tons
(for the six months ended 30 June 2016: 150,076.20 tons)

RESULTS

The board of directors (the “Directors”) of HNA Infrastructure Company Limited (the “Company” or “HNA INFRA” or “Meilan Airport”) (the “Board”) is pleased to announce the unaudited financial position and operating results of the Company and its subsidiaries (the “Group”) which have been reviewed by the Audit Committee of the Company (the “Audit Committee”) as at 30 June 2017 and for the six months ended thereon, together with the comparative figures for the corresponding period of 2016 as follows:

* For identification purpose only

The selected consolidated financial information prepared according to China Accounting Standards For Business Enterprises is as follows:

CONSOLIDATED INCOME STATEMENT

	Note(s)	Six months ended 30 June	
		2017 RMB Unaudited	2016 RMB Unaudited
Revenue	2	738,060,024	627,310,083
Less: Operating costs	3	(297,343,326)	(230,749,265)
Taxes and surcharges		(8,364,633)	(8,596,318)
Promotion and selling expenses		(1,728,444)	–
General and administrative expenses	3	(34,654,293)	(31,218,565)
Finance expenses-net	4	(17,319,635)	(44,790,586)
Add: Investment income	5	35,483,315	24,307,593
Including: Share of profit of associates		35,435,107	24,307,593
Add: Other gain		4,892,400	–
Operating profit		419,025,408	336,262,942
Add: Non-operating income		1,169,446	5,836,700
Including: Gains on disposal of non-current assets		87,770	426,381
Less: Non-operating expenses		(2,129,703)	(2,048,674)
Including: Losses on disposal of non-current assets		(2,129,703)	(1,981,307)
Total profit		418,065,151	340,050,968
Less: Income tax expenses	6	(98,805,889)	(78,978,486)
Net profit		319,259,262	261,072,482
Attributable to shareholders of the parent company		312,861,564	253,298,200
Minority interest		6,397,698	7,774,282
Other comprehensive income after tax – net		(26,209,471)	–
Attributable to shareholders of the Company		(26,209,471)	–
Other comprehensive income that will be subsequently reclassified to profit or loss		(26,209,471)	–
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit and loss		(26,209,471)	–
Total comprehensive income		293,049,791	261,072,482
Earnings per share			
– Basic and diluted earnings per share	7	0.66	0.54

CONSOLIDATED BALANCE SHEET

		30 June	31 December
		2017	2016
	<i>Note(s)</i>	RMB	RMB
		Unaudited	Audited
ASSETS			
Current assets			
Cash at bank and on hand		924,067,780	952,868,307
Accounts receivable	9	251,341,387	254,279,646
Advances to suppliers		5,207,677	3,014,742
Interest receivable		5,834,231	4,131,919
Other receivables		16,570,317	8,311,392
Inventories		828,314	569,576
Other current assets		52,463,520	44,492,717
		<hr/>	<hr/>
Total current assets		1,256,313,226	1,267,668,299
		<hr/>	<hr/>
Non-current assets			
Long-term receivables		90,765,805	93,365,336
Long-term equity investments		1,392,616,807	1,384,104,022
Fixed assets		1,807,039,941	1,759,710,550
Construction in progress		2,294,656,535	1,730,470,347
Intangible assets		172,033,954	174,034,793
Deferred tax assets		6,956,978	7,658,716
Other non-current assets		1,598,648,318	1,778,818,773
		<hr/>	<hr/>
Total non-current assets		7,362,718,338	6,928,162,537
		<hr/>	<hr/>
Total assets		8,619,031,564	8,195,830,836
		<hr/> <hr/>	<hr/> <hr/>

		30 June 2017 RMB Unaudited	31 December 2016 RMB Audited
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings		300,000,000	470,014,771
Accounts payable	<i>10</i>	36,491,874	21,743,187
Advances from customers		9,092,503	9,429,493
Employee benefits payable		38,630,641	33,168,416
Taxes payable		50,425,513	39,787,073
Interests payable		54,831,756	87,006,074
Dividends payable		15,413,657	499,500
Other payable		474,926,340	947,148,540
Non-current liabilities due within one year		176,738,423	168,794,032
Total current liabilities		1,156,550,707	1,777,591,086
Non-current liabilities			
Long-term borrowings		677,403,322	778,145,636
Debentures payable	<i>11</i>	1,810,869,042	1,808,667,580
Long-term payable		974,431,873	83,958,872
Long-term employee benefits payable		354,621	524,126
Other non-current liabilities		17,321,406	19,275,137
Total non-current liabilities		3,480,380,264	2,690,571,351
Total liabilities		4,636,930,971	4,468,162,437
Shareholders' equity			
Share capital		473,213,000	473,213,000
Capital surplus		845,591,893	846,304,744
Surplus reserve		246,394,231	246,394,231
Other comprehensive income		(14,708,389)	11,501,082
Undistributed profits		2,396,824,750	2,118,506,186
Total equity attributable to shareholders of the Company		3,947,315,485	3,695,919,243
Minority interests		34,785,108	31,749,156
Total equity		3,982,100,593	3,727,668,399
Total liabilities and equity		8,619,031,564	8,195,830,836
Net current asset/(liabilities)		99,762,519	(509,922,787)
Total assets less current liabilities		7,462,480,857	6,418,239,750

Notes:

1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance of the People’s Republic of China (the “PRC”) on 15 February 2006 and in subsequent periods (hereinafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”). The financial statements are prepared and disclosed in accordance with CAS 32 “Interim Financial Reporting”, which shall be read in conjunction with the financial statements for the year 2016.

In 2017, the Ministry of Finance issued CAS 42 “Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations” and CAS 16 “Government Grants” (revised). The Group has applied the above standards in preparing the financial statements for the six months period ended 30 June 2017. The revision of the standard has no significant influence over the Group. Apart from adopting CAS 42 “Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations” and CAS 16 “Government Grants” (revised), the accounting policies adopted in the financial statements are consistent with those adopted in the financial statements for the year 2016.

2. REVENUES AND SEGMENT INFORMATION

The chief operating decision-maker (“CODM”) of the Group has been identified as the executive Directors, and senior management led by the president of the Company. 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 conducts 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.

	Six months ended 30 June	
	2017	2016
	RMB	RMB
Analysis of revenue (by nature)		
Aeronautical:		
Passenger service charges	158,875,392	138,621,709
Refund of civil aviation development fund	134,736,341	114,120,285
Ground handling service income	70,828,490	57,726,146
Fees and related charges on aircraft takeoff and landing	56,302,202	47,167,369
	420,742,425	357,635,509
Non-aeronautical:		
Franchise income	189,324,697	156,066,065
Freight and packaging income	45,715,562	42,799,102
Rental income	22,865,136	18,256,191
VIP room income	12,096,986	10,507,918
Parking income	8,672,624	9,256,545
Other income	38,642,594	32,788,753
	317,317,599	269,674,574
Total revenue	738,060,024	627,310,083

3. COST/EXPENSES BY NATURE

Operating costs, promotion and selling expenses and general and administrative expenses include the following depreciation and amortisation items:

	Six months ended 30 June	
	2017	2016
	<i>RMB</i>	<i>RMB</i>
Depreciation of fixed assets	48,923,576	44,840,371
Amortisation of intangible assets	<u>2,000,839</u>	<u>1,985,881</u>

4. FINANCIAL EXPENSES-NET

	Six months ended 30 June	
	2017	2016
	<i>RMB</i>	<i>RMB</i>
Interest expenses	113,965,149	124,149,155
Including: bank borrowings	41,141,881	82,673,680
corporate bonds	68,778,284	38,411,354
finance lease	4,044,984	3,064,121
Net foreign exchange (gains)/losses	(7,845,140)	27,714,184
Less: Interest expenses and exchange losses capitalisation	(74,504,832)	(81,751,630)
Interest income	(14,522,791)	(25,650,460)
Others	<u>227,249</u>	<u>329,337</u>
	<u>17,319,635</u>	<u>44,790,586</u>

5. INVESTMENT INCOME

	Six months ended 30 June	
	2017	2016
	<i>RMB</i>	<i>RMB</i>
Investment income from long-term equity investment of unlisted companies under equity method	35,435,107	24,307,593
Others	<u>48,208</u>	<u>—</u>
	<u>35,483,315</u>	<u>24,307,593</u>

There is no significant restrictions on the repatriation of investment income.

6. INCOME TAX EXPENSES

Hong Kong profits tax has not been provided for as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil). Income tax expenses in the consolidated income statement represent provision for the PRC corporate income tax (“CIT”).

	Six months ended 30 June	
	2017	2016
	RMB	RMB
Current income tax calculated based on tax law and related regulations	98,104,151	78,580,424
Deferred income tax	701,738	398,062
	<u>98,805,889</u>	<u>78,978,486</u>

The applicable tax rate of the Group for the current period is 25% (for the six months ended 30 June 2016: 25%).

7. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the consolidated net profit attributable to ordinary shareholders of the parent company by weighted average number of ordinary shares outstanding:

	Six months ended 30 June	
	2017	2016
Consolidated net profit attributable to ordinary shareholders of the parent company (RMB)	<u>312,861,564</u>	<u>253,298,200</u>
Weighted average number of outstanding ordinary shares of the Company (share)	<u>473,213,000</u>	<u>473,213,000</u>
Basic earnings per share (RMB)	<u>0.66</u>	<u>0.54</u>

Diluted earnings per share is calculated by dividing the 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 were no dilutive potential ordinary shares in this period (for the six months ended 30 June 2016: nil), diluted earnings per share equal to basic earnings per share.

8. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	RMB	RMB
Proposed to distribute 2017 interim dividend of RMB0.134 per share (2016 interim dividend: RMB0.094 per share)	63,410,000	44,483,000

During the current period, 2016 final cash dividend of RMB0.073 per share, totaling RMB34,543,000 (for the six months ended 30 June 2016: 2015 final cash dividend distributed of RMB0.120 per share, totaling RMB56,785,560) was declared to the shareholders of the Company.

An interim dividend of 2017 of RMB0.134 per share, calculated by issued shares of 473,213,000, totaling RMB63,410,000 was proposed to be distributed to all shareholders by the Board on 24 August 2017 (2016 interim cash dividend: RMB0.094 per share, totaling RMB44,483,000). For the six months ended 30 June 2017, this interim dividend has not been recognised as a liability in this interim financial statements.

9. ACCOUNTS RECEIVABLE

	30 June	31 December
	2017	2016
	RMB	RMB
Accounts receivable	253,169,617	256,107,876
Less: provision for bad debts	(1,828,230)	(1,828,230)
	251,341,387	254,279,646

Credit terms granted to customers are determined by management on an individual basis with a general term ranging from 1 to 3 months. As at 30 June 2017, the ageing analysis of accounts receivable, based on the dates of recognition, is set out as follows:

	30 June	31 December
	2017	2016
	RMB	RMB
Within 90 days	212,508,430	227,460,723
91 to 180 days	17,614,915	12,361,770
181 to 365 days	12,994,192	9,731,774
Over 365 days	10,052,080	6,553,609
	253,169,617	256,107,876

10. ACCOUNTS PAYABLE

The ageing analysis of accounts payable, based on the dates of recognition, is as follows:

	30 June	31 December
	2017	2016
	RMB	RMB
Within 90 days	25,368,213	13,062,328
91 to 180 days	2,693,410	1,028,752
Over 180 days	8,430,251	7,652,107
	36,491,874	21,743,187

11. DEBENTURES PAYABLE

	31 December 2016	Amortization of premium	30 June 2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Long-term debentures payable	<u>1,808,667,580</u>	<u>2,201,462</u>	<u>1,810,869,042</u>

Related information is as follows:

	Par value	Issuance date	Maturity	Issuance amount
	<i>RMB</i>			<i>RMB</i>
Meilan debentures (a)	800,000,000	13 March 2012	7 years	800,000,000
Guohai private equity debentures I (b)	500,000,000	27 April 2016	3 years	500,000,000
Guohai private equity debentures II (c)	<u>520,000,000</u>	<u>2 September 2016</u>	<u>3 years</u>	<u>520,000,000</u>
	<u>1,820,000,000</u>			<u>1,820,000,000</u>

Interest accrued of the debentures is analysed as below:

	31 December 2016	Interest accrued		30 June 2017
	<i>RMB</i>	Interest accrued in current period	Interest paid in current period	<i>RMB</i>
		<i>RMB</i>	<i>RMB</i>	
Meilan debentures (a)	49,400,000	31,200,000	(62,400,000)	18,200,000
Guohai private equity debentures I (b)	24,900,000	18,100,000	(36,500,000)	6,500,000
Guohai private equity debentures II (c)	<u>11,549,699</u>	<u>17,276,822</u>	<u>–</u>	<u>28,826,521</u>
	<u>85,849,699</u>	<u>66,576,822</u>	<u>(98,900,000)</u>	<u>53,526,521</u>

- (a) Pursuant to Zheng Jian Xu Ke [2011] No. 2082 approved by the China Securities Regulatory Commission (the “CSRC”), the Company issued debentures of RMB800,000,000 to qualified investors which are listed on the Shanghai Stock Exchange (the “Shanghai Stock Exchange”) on 13 March 2012. The maturity of the debentures is 7 years with fixed interest rate of 7.8% per annum and the interest is payable annually on 15 March of each year and the principal is repayable upon maturity.
- (b) On 27 April 2016, the Company issued Guohai private equity debentures phase I of RMB500,000,000 to qualified investors which are listed on the Shenzhen Stock Exchange (the “Shenzhen Stock Exchange”). The maturity of the debentures is 3 years, with fixed interest rate of 7.3% per annum, and the interest is payable annually on 27 April of each year and the principal is repayable upon maturity.
- (c) On 2 September 2016, the Company issued Guohai private equity debentures phase II of RMB520,000,000 to qualified investors which are listed on the Shenzhen Stock Exchange. The maturity of the debentures is 3 years, with fixed interest rate of 6.7% per annum, and the interest is payable annually on 2 September of each year and the principal is repayable upon maturity.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2017, the Group's total revenue amounted to RMB738,060,024, representing an increase of 17.65% as compared to the corresponding period of 2016. Net profit attributable to shareholders amounted to RMB312,861,564, representing an increase of 23.52% as compared to the corresponding period of 2016. Earnings per share amounted to RMB0.66 (the corresponding period of 2016: earnings per share RMB0.54).

OPERATING ENVIRONMENT

CIVIL AVIATION INDUSTRY OF CHINA

In the first half of 2017, China's civil aviation industry continued to promote the implementation of the Thirteenth Five-Year Plan, accelerated the construction of civil aviation infrastructure, fully supported the development of aviation industry and enhanced the support capability of civil aviation science and education. It also paid adequate attention to civil aviation service quality standards, carried out special actions of "Civil Aviation Service Quality Standards", devoted greater efforts to the punctuality supervision and innovated civil aviation characteristics of services. It promoted the development of general aviation, and actively carried out navigation pilot, improved navigation development policy environment soundly and enhanced the operational capacity of navigation operations. It promoted the reform of airspace management system and the optimization of airspace, expanded the pilot scheme of fine management reform and improved the efficiency of air traffic control. It also expanded international cooperation, consolidated the basis of foreign cooperation, promoted the airworthiness validation expansion between Sino-US, Sino-European and Sino-Russian and expanded the reserves of air rights resources. And it improved the administrative efficiency of the government, comprehensively strengthened law-based administration, established and improved an integrated and coordinated news information working mechanism with information disclosure, policy interpretation, press release and public opinion monitoring, and promoted the decentralization and strengthened financial policy guidance.

In 2017, the civil aviation of China will accelerate the construction of infrastructure, and plans to launch 10 key civil aviation projects and 34 extension projects. During the period of the Thirteenth Five-Year Plan, the total number of aircraft is expected to have a net increase of thousands, and the number of transport airports is expected to increase by 66 to a total of 272 by 2020.

In the first half of 2017, the National Development and Reform Commission of the PRC, the Ministry of Transport of the PRC and the Civil Aviation Administration of China ("Civil Aviation Administration") issued 28 policies and documents related to general aviation, which specified the future development path and plan of general aviation, boosted the confidence of the industry, so that China's general aviation industry has rules to follow. As of the first half of 2017, there were 345 general aviation enterprises with general aviation business licenses; 224 certified transport airports; 3,065 civil aviation aircrafts; 2,205 general aircrafts.

In the first half of 2017, the total traffic turnover of the civil aviation industry of China was 51.34 billion tons/km, the passenger traffic volume was 263 million, the cargo and mail traffic volume was 3.292 million tons and the domestic passenger load factor was 84.9%, representing a year-on-year growth of 12.5%, 13.4%, 5.1% and 1.6 percentage point, respectively, of which the domestic passenger load factor hit a record high.

The Group will keep abreast of the development trend of the civil aviation industry of China in the second half of 2017, put ourselves in a well-prepared position and make an in-depth study of national policies so as to strive for an increase in transport capacity by airlines on the premise of safe flight, as well as further enhance and consolidate Meilan Airport's position among the major airports in China.

Tourism in Hainan Province

In the first half of 2017, the tourism of Hainan Province maintained rapid growth. For the period ended 30 June 2017, the number of domestic and foreign tourists received in Hainan Province amounted to 31.4572 million, representing a year-on-year growth of 12.5%. The total revenue from tourism was RMB37.141 billion, representing a year-on-year increase of 22.8%.

Hainan Province has started the regional tourism construction work. In the first half of 2017, it has introduced the “Guidelines of Regional Tourism Demonstration Zone Construction Work of Hainan Province”(《海南省創建全域旅遊示范區工作導則》), the “Accreditation Criteria of Regional Tourism Demonstration Zone Construction Work of Hainan Province”(《海南省創建全域旅遊示范區工作認定標準》) and the “Development Plan of Regional Tourism Construction of Hainan Province”(《海南省全域旅遊建設發展規劃》) and other standard policies, focused on promoting the construction of tourism boutique city, provincial tourism industry parks, key tourist resorts, tourism complex projects, tourist attractions, style towns, rural tourism and special tourist blocks to form the development joint efforts of the tourism industry and effectively promote the transformation and upgrading of the tourism in Hainan Province.

At the Haikou Comprehensive Investment Promotion Conference held on 27 June 2017, a total of 12 tourism industry projects including the development and construction projects of the world-class volcanic garden tourism town and the West Coast theme cultural tourism complex construction project were signed with a total amount of RMB65.97 billion. In addition, Haikou is promoting the construction of “Beautiful Countryside of Hainan”(美麗海南百鎮千村), and strives to complete the construction of 71 beautiful countries in 2017. It plans to build 142 beautiful countries by the end of 2019.

Key Tourism Projects in Hainan Province

In the first half of 2017, the government at all levels of Hainan Province strove to drive the development of key tourism projects.

In April 2017, Boao Happy City International Medical & Tourism Pilot Zone (the “Pilot Zone”) was assessed by the National Health and Family Planning Commission of the People’s Republic of China and became the first national health medical and tourism demonstration zone. As of June 2017, the Pilot Zone had docked 99 projects, of which 68 projects were formally accepted, 39 projects passed the medical technology assessment, 27 newly started projects, the total construction area of the newly started projects was 1,948 acres with a total investment of RMB21 billion, the investment of industrial projects was about RMB3.58 billion, two projects have been completed and are in operation, which created tax of RMB150 million. After completion, it is expected that the resident population of the Pilot Zone will reach 56,000, the employment population will reach approximately 41,000, it can receive about 5 million medical tourists each year, the annual output value of core industries can reach more than RMB50 billion, tax can reach more than RMB8.6 billion and the indirect income can reach RMB80-100 billion.

The “Sea Flower Island Tourism Complex Project”(the “Sea Flower”), which is scheduled to open in 2018, is currently under construction with an area of about 6.84 million square meters including 28 segments, such as the conference exhibition, food street, commercial street, wedding estate, sports center, hotel, shopping center, museum group, film base and so on. There are 22 segments in the main construction phase, 3 segments in the pile construction stage. As of May 2017, the investment of Sea Flower has accumulated to RMB20.15 billion. The construction of Sea Flower conforms to the Hainan international tourism island development strategy, and will greatly enhance the image and quality of Hainan coastal tourism.

As the number one project of Hainan Province Cultural Industry, the Changying Hainan “Global 100” project has always adhered to the speed and quality since the commencement of construction on 6 November 2015. The project has now invested RMB10.6 billion, and the main structure of the six parks of the Phase I theme park has been completed and is now in the stage of interior and exterior decoration, landscape garden construction, equipment installation and equipment debugging, etc.

It is expected that the gradual completion of these key tourism projects will bring new vitality to the tourism of Hainan, especially Northern Hainan, and reveal a new era of the tourism of Hainan Province.

The Group will pay close attention to the development trend of the tourism of the northern area of Hainan Province, actively cooperate with the local government to carry out promotion of the characteristic tourism products of the northern area of Hainan Province, and grasp the opportunities to drive the passenger throughput of Meilan Airport to hit a new record.

TRANSPORTATION WITHIN THE ISLAND

- As for water transport, the planned land area of Haikou Port New Harbour area with a complex functional area comprising railway, water transport and passenger transport ro-ro is approximately 5.1 square kilometers, divided into New harbour and Guangdong south harbour. Up to now, the second phase of the project has been basically completed and is scheduled to be fully operational in October 2017. The third phase of the project is also being fully promoted and is expected to be completed by the end of 2018. The new harbour area will build a Qiongzhou Strait half-an-hour water transport circle supported by seaplane and boat.
- As for the highways, as an important part of Tian(田)-shaped highway network of Hainan Province, the Qiongle expressway and Wanyang expressway projects are being promoted as planned, of which Qiongle expressway has now entered the road construction stage, and Wanyang expressway is also under full construction; The Wenqiong expressway, Changpu tourist road and Puqian bridge projects, which are also parts of “One Bridge and Four Highways” project, are progressing smoothly. In addition, the Haikou belt city expressway reconstruction and expansion project with a total investment of RMB698 million was officially opened on 18 October 2016, whose starting point and terminal are located in Chengmai Bailian exchange and Haikou Meilan International Airport interchange, respectively, with a total length of about 32.69 km. Up to now, Meilan Airport to Mission Hills section has been completed and came into use, and the whole project is expected to be completed in March 2018 as a whole.
- As for the investment and construction of airports, Qionghai Boao Airport Phase II expansion project has passed the acceptance of the Central and Southern Regional Administration of Civil Aviation Administration of China and the relevant authorities on 16 March 2017, which provided powerful guarantee for “holding conference at one place” of Boao Forum for Asia; the Danzhou airport project is in the site selection stage, and is expected to be completed in 2019; Sanya new airport project is expected to start the construction in 2017; Meilan Airport Phase II expansion project is also being promoted as planned, which will have a positive significance for Meilan Airport’s building the regional aviation hub between South China and Southeast Asia and the strategic fulcrum of “Maritime Silk Road” after completion.

OFFSHORE DUTY-FREE

In the first half of 2017, with the further unwinding of Hainan' offshore duty-free policies, the sales of duty-free commodities of Haimian Haikou Meilan Airport Duty-Free Shop Co., Ltd.* (海免海口美蘭機場免税店有限公司) (the “Meilan Airport Offshore Duty-Free Shop”) once again reached a record high.

For the six months ended 30 June 2017, Meilan Airport Offshore Duty-Free Shop recorded sales revenue of RMB1,006.1748 million, a total number of shopping tourists of 546,137 and a total sales number of commodities of 1,518,666, representing a year-on-year increase of 32.92%, 38.72% and 23.77%, respectively.

The implementation of the offshore duty-free policy provides new impetus to the growth of tourism economy in Hainan. Since its formal implementation in 2011, the offshore duty-free policy of Hainan has experienced four major adjustments, releasing the consumption potentiality by increasing the quota of duty-free shopping, canceling the purchase restriction for the offshore residents, concluding the offshore tourists by train into applicable scope of the duty-free shopping and so on. Meilan Airport Offshore Duty-Free Shop clanged to the policy adjustment opportunities, turned the policy advantage into development advantage, and enhanced Hainan duty-free shopping attraction through the rich variety of goods, the introduction of promotional activities, the innovative service content, the optimization of online sales channels and the addition of train station delivery points and other initiatives.

In addition, in order to enhance the brand awareness, Meilan Airport Offshore Duty-Free Shop actively implemented the “Going Out” strategy, participated in the TFWA Singapore Duty-Free Goods Asia Pacific Exhibition & Conference, Beijing International Tourism Expo and other industry events, and carried out close exchanges and contacts with internationally renowned brands, retailers and industry authorities, which enriched consumer shopping options and enhanced brand competitiveness. In July 2017, the 6th China Finance Summit in 2017 was held in Beijing with the theme “China’s new picture of economy: transformation and change”. Meilan Airport Offshore Duty-Free Shop has been awarded the “2017 Outstanding Brand Identity Award” as a model of outstanding enterprises to promote economic growth and social progress under the “New Normal”.

Recently, the Hainan Provincial People’s Government has issued the “Implementation Plan of Actively Performing the Leading Role of New Consumption and Accelerating the Development of New Supply and New Impetus”, which has made it clear that Hainan strives to increase the offshore duty-free shopping quota for single goods, and promote the increase of duty-free shopping outlets, indicating that the offshore duty-free will usher in a new development opportunity.

As the forerunner of offshore duty-free policy of the Hainan, Meilan Airport Offshore Duty-Free Shop will adhere to the brand strategy of “searching all over the world, only to give you the better”, take advantage of the national “One Belt One Road” strategic opportunity to actively cater to consumption under the new policy, introduce more international high-end brands, enhance the duty-free shopping experience, attract more travelers to Hainan and promote the steady growth of tourism in Hainan.

BUSINESS AND REVENUE REVIEW

OVERVIEW

In the first half of 2017, in compliance with the industrial and national safety work arrangement, the Group has strengthened and improved its safety management to ensure a safe and stable operation of Meilan Airport. The Group also successfully completed the transportation security tasks for major events, including the Boao Forum for Asia Annual Conference and the “One Belt One Road” summit forum and has won high recognition from various sectors.

In the first half of 2017, the Group’s brand creation work achieved another success: won 19 awards at provincial and ministerial levels or above, including 6 important international awards, 9 national awards, 4 provincial and ministerial awards. The award value is much higher than that of the previous years. Among them, we won three ASQ awards in one fell swoop and also won the right to hold the 2017 Global ASQ Forum by virtue of outstanding performance on the passenger service experience and brand awareness. The successful holding of the forum was highly recognized by the participants all over the world, which further enhanced the awareness and reputation of Meilan Airport in the industry.

Meilan Airport took the initiative to learn advanced service concepts and leading service standards according to the international standards since its enablement of the SKYTRAX five-star airport construction in 2012 and worked out a “BE NICE” upgrade program, continuously improved the infrastructure and services, and adhered to the continuous improvement of hardware facilities and soft power to provide excellent travel experience for global tourists. In addition, SKYTRAX accreditation agency awarded Meilan Airport a five-star medal in April 2017, and thus Meilan Airport successfully achieved the five-star goal, becoming the world’s eighth, domestically the first (excluding Hong Kong, Macao and Taiwan) SKYTRAX five-star airport, marking the Meilan Airport service quality being recognized by the international authority of the accreditation agencies and the tourists and Meilan Airport ranking among the world’s outstanding airports.

In the first half of 2017, the Group continued to deepen the construction of intelligent airports and continuously strengthened the competitiveness of its core business. By combing the core business processes and key information resources, the Group has basically completed the construction of the information system that supports the safe and efficient operation, improved marketing revenue and passenger services and promoted the information system for the elaborate internal management. The Group upgraded the “One License Clearance” (一證通關) service system, flight information display system, the core switch, monitoring system, and actively defended the “Eternal Blue” (永恒之藍) worm virus, to achieve zero virus infection and provide escort for the normal operation of the flight.

The Phase II expansion project of Meilan Airport broke ground for laying a cornerstone on 18 November 2015 and held the opening ceremony on 6 September 2016. Currently the engineering construction section is being carried out in an orderly manner. Meanwhile, the Company is applying on a planned basis for loans to provide sufficient funds for Phase II expansion project jointly with Haikou Meilan International Airport Company Limited (the “Parent Company”).

The terminal complex project containing three major segments, namely the parking building, the commercial building (including duty-free and duty-imposed commercial portions) and the hotel building, completed topping-out on 20 June 2016. On 25 January 2017, Hainan Tourism Boutique and Haikou Aviation Science and Technology Museum, located on the second floor and third floor of the commercial building, respectively, have commenced trial operation. During the trial operation period, the Company has made its best effort to ensure the safe operation of all regions and actively promoted the project acceptance work and carried out commercial projects investment, marketing, publicity, operation and management, staffing and other works meanwhile.

In addition, in the first half of 2017, adhering to the “people-oriented” principle, the Group continued to organize comprehensive caring activities for its staff by enriching their cultural life with an aim to increase their cohesiveness and sense of belonging. As for cultural and sports activities, the Group organized the “Five Star Cup” football match from 10 June 2017 to 21 June 2017; as for the leisure life of the staff, the Group organized an outing activity themed “Heading for Happiness”, held Meilan Airport “five-star” story contest and so on; as for humanity and caring, the Group sent condolences to and visited colleagues in hardship or with sick leave, cheered up front-line colleagues at holidays and conducted periodic activities such as health care seminars to build a “Happy Meilan Family”. At the same time, the Group spared no effort in social welfare activities such as participation in blood donation, visiting charity houses, tree planting and actively performed its social responsibility.

OVERVIEW OF AVIATION BUSINESS

With various favourable factors such as the development of Hainan Tourism International Island and offshore duty-free policy, Meilan Airport has achieved passenger throughput of over 10 million for seven consecutive years under the backdrop of overall rapid development of the civil aviation industry on 3 June 2017. The passenger throughput has achieved the record of over 10 million for the first time 206 days earlier than that in 2011 and 34 days earlier than that in 2016, which is a new record again. The Company continued to strengthen its marketing efforts in major aviation markets, resolutely implemented the national “One Belt One Road” strategic approach, and seized the international aviation market development opportunities. To ensure the steady growth of passenger throughput in winter and spring, the Group made targeted cooperation with the airlines, namely the “increment during idle time”, “increment of large aircraft” and “increment premium route” and so on, by which we made the outstanding results of the average monthly passenger throughput of the first quarter reaching more than 2 million under the crisis that the resources in the winter and spring season were basically saturated, and that there were no increasing flights during the Spring Festival and other unfavorable situations. In addition, we laid a solid foundation for Meilan Airport’s target of receiving 20 million passengers in 2017 by carrying out the “increment in summer and autumn off-season” with the airlines.

In the first half of 2017, Meilan Airport operated 210 originating routes with a year-on-year increase of 66 routes, including 189 domestic routes, 5 regional routes and 16 international routes. These routes cover 118 navigable cities, including 98 domestic cities, 5 regional cities and 15 international cities. There are 43 airlines operating at Meilan Airport, including 33 domestic airlines, 4 regional airlines and 6 international airlines. Since entering into the summer and autumn flight seasons in 2017 (from 26 March to 30 June 2017), the overall flight execution rate stood at 87.33% and passenger throughput increased by 28.51% as compared with the summer and autumn flight seasons in 2016.

The Group scientifically and rationally formulated customized marketing strategies and targets, actively participated in various domestic tourism market promotion and overseas routes forums to introduce Haikou air travel market, resulting in constantly optimized coverage density and service range of our route network. The Group newly launched 5 international routes, namely “Haikou-Guangzhou – Yangon”, “Haikou – Penang – Kuala Lumpur”, “Haikou – Chiangmai”, “Haikou – Chiang Rai” and “Haikou – Vientiane”. As a result, the aviation market coverage rate in South-east Asia reached 70%. The route network now covers 12 countries and regions, including Hong Kong, Macau and Taiwan, Italy and South Korea. For the six months ended 30 June 2017, international and regional passenger throughput amounted to 413,600, representing a year-on-year growth of 28.17%.

Details of the aviation traffic throughput for the six months ended 30 June 2017 and the comparative figures in the corresponding period of 2016 are set out below:

	Six months ended 30 June		Change
	2017	2016	
Aircraft takeoff and landing (flights)	79,111	70,224	12.66%
in which: domestic	75,143	67,434	11.43%
international and regional	3,968	2,790	42.22%
Passenger throughput			
(headcount in ten thousand)	1,145.16	971.51	17.87%
in which: domestic	1,103.80	939.24	17.52%
international and regional	41.36	32.27	28.17%
Cargo and mail traffic throughput (tons)	161,999.30	150,076.20	7.94%
in which: domestic	155,185.40	144,343.70	7.51%
international and regional	6,813.90	5,732.50	18.86%

The Group’s revenue from aviation business for the six months ended 30 June 2017 was RMB420,742,425, representing an increase of approximately 17.65% as compared to the corresponding period of 2016. Details are as follows:

	Six months ended 30 June 2017 RMB	Changes over the corresponding period of 2016
Passenger service charges	158,875,392	14.61%
Refund of civil aviation development fund	134,736,341	18.07%
Ground handling service income	70,828,490	22.70%
Fees and related charges on aircraft takeoff and landing	56,302,202	19.37%
Total revenue from aviation business	420,742,425	17.65%

OVERVIEW OF NON-AVIATION BUSINESS

In the first half of 2017, the non-aviation business of the Group maintained a stable increase. For the six months ended 30 June 2017, the Group achieved a revenue from its non-aviation business of RMB317,317,599, representing an increase of 17.67% as compared with the corresponding period of 2016. The growth in revenue from our non-aviation business was mainly due to the substantial increase in the franchise income of Meilan Airport Offshore Duty-Free Shop, the rental income and the VIP room income.

	Six months ended 30 June 2017 RMB	Changes over the corresponding period of 2016
Franchise income	189,324,697	21.31%
Freight and packaging income	45,715,562	6.81%
Rental income	22,865,136	25.25%
VIP room income	12,096,986	15.12%
Parking fee income	8,672,624	-6.31%
Other income	38,642,594	17.85%
Total revenue from non-aviation business	317,317,599	17.67%

Franchise Income

In the first half of 2017, the franchise income of the Group aggregated to RMB189,324,697, representing a year-on-year growth of 21.31%, which was mainly attributable to factors such as the increase of offshore duty-free commodity types, the increase of shopping quota of offshore duty-free commodities due to the further unwinding offshore duty-free policies, and innovative promotion activities of Meilan Airport Offshore Duty-Free Shop, resulting in the substantial growth in the franchise income of the Group.

Freight and Packaging Income

In the first half of 2017, the freight and packaging income of the Group aggregated to RMB45,715,562, representing a year-on-year increase of 6.81%, which was mainly due to the Group's focusing on the integration of agency business resources, strengthening the air cargo agent and SF Express agent business cooperation and newly developing the agent business cooperation with Shandong Airlines Co., Ltd* and Sichuan Airlines Co., Ltd*.

Rental Income

In the first half of 2017, the rental income of the Group aggregated to RMB22,865,136, representing a year-on-year increase of 25.25%, which was mainly attributable to the Company's further optimization on the strategy of promoting business and the layout of the terminal site and improvement over the efficiency of commercial tenancy, thus promoting the continuous growth of rental income.

VIP Room Income

In the first half of 2017, the VIP room income of the Group aggregated to RMB12,096,986, representing a year-on-year increase of 15.12%, which was mainly attributable to the Company's great efforts to innovate the VIP service business and new services such as Easy Card, leading to an increase in the VIP customers received.

Parking Fee Income

In the first half of 2017, the parking fee income of the Group aggregated to RMB8,672,624, representing a year-on-year decrease of 6.31%, which was mainly affected by the construction of the parking, resulting in the reduction of the available parking lots resources and the deduction of parking fee of the tourists during the trial operation of the new parking building.

FINANCIAL REVIEW

Asset Analysis

As at 30 June 2017, the total assets of the Group amounted to RMB8,619,031,564, among which, the current assets amounted to RMB1,256,313,226, and the non-current assets amounted to RMB7,362,718,338. The total assets increased by 5.16% as compared with that as at 31 December 2016.

Cost and Expense Analysis

For the six months ended 30 June 2017, the Group's operating costs amounted to RMB297,343,326, and the administrative expenses amounted to RMB34,654,293, totalling RMB331,997,619, which represented a year-on-year increase of 26.73%. The increase in costs and expenses was attributable to:

- (1) the expenses of dispatched employees increased by RMB24,205,193 as compared with that of the corresponding period of 2016 due to an increase in the number of dispatched employees and an improvement in the remuneration level in line with the business development of the Company;
- (2) the staff cost recorded an increase of RMB20,589,842 as compared with that of the corresponding period of 2016 due to a normal rise in the remuneration level and increase in staff headcount;
- (3) maintenance costs increased by RMB9,691,755 as compared with that of the corresponding period of 2016, mainly due to maintenance of the facilities and equipments of the terminal building with the need of brand construction of the five-star airport;
- (4) the depreciation cost increased by RMB4,083,205 as compared with that of the corresponding period of 2016, which was due to the five-star airport construction and the commencement of the auxiliary facilities of the terminal building renovation.

For the six months ended 30 June 2017, the finance expenses of the Group amounted to RMB17,319,635, representing a decrease of RMB27,470,951 as compared with that of the corresponding period of 2016. The decrease was mainly due to repayment of loan leading to a decrease of interest and exchange loss.

GEARING RATIO

As at 30 June 2017, the Group had total current assets of RMB1,256,313,226, total assets of RMB8,619,031,564, total current liabilities of RMB1,156,550,707 and total liabilities of RMB4,636,930,971. As at 30 June 2017, the Group's gearing ratio (total liabilities/total assets) was 53.80%, representing a decrease of 0.72% as compared to that as at 31 December 2016. The decrease was due to the repayment of bank borrowings.

PLEDGE OF THE GROUP'S ASSETS

On 2 July 2015, the Company entered into an ABS arrangement with a trust whereby the Company obtained financing from the trust of RMB1,100,000,000 under which the Company's entitlements to aviation service income from 1 May 2015 to 30 April 2020 were pledged to the trust for issuing an asset-backed security. As at 30 June 2017, the remaining balance of the external borrowings of the ABS amounted to RMB778,403,322.

CAPITAL STRUCTURE OF THE GROUP

As at 30 June 2017, the total issued share capital of the Company was RMB473,213,000. The long-term liabilities of the Group primarily consisted of bank loans, ABS borrowings, corporate bonds and long-term payables. Currently, the Group has the ABS borrowings of RMB778,403,322; seven-year corporate bonds of RMB800,000,000 with coupon rate of 7.8% per annum issued in 2012; three-year corporate bonds of RMB500,000,000 with coupon rate of 7.3% per annum issued in April 2016; three-year corporate bonds of RMB520,000,000 with coupon rate of 6.7% per annum issued in September 2016 and long-term payables under finance leases of RMB125,747,061.

SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCES

As of 30 June 2017, the Company held 24.5% equity interests in HNA Airport Holdings. For the six months ended 30 June 2017, the Company recorded an investment income of RMB35,436,172 based on the net profit attributable to parent company of HNA Airport Holdings.

MATERIAL ACQUISITIONS AND DISPOSALS

As of 30 June 2017, the Company did not carry out any new and major acquisitions and disposals.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group had a total of 904 employees, representing an increase of 31 employees as compared to the beginning of 2017. Such increase was mainly due to the normal introduction of personnel. Employees of the Group are remunerated based on their performances, seniority 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 performance assessment.

ENTRUSTED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 30 June 2017, the Group did not have any entrusted deposits or overdue fixed deposits.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any contingent liabilities.

EXPOSURE TO FOREIGN EXCHANGE RISKS

The businesses of the Group are principally conducted in RMB, except certain revenue from the aviation business, purchase of equipment and consultation fee which are denominated in US\$ or HK\$. The dividends to H-share holders are declared in RMB but paid in HK\$. As at 30 June 2017, the deposit denominated in US\$ of the Group amounted to US\$350,620 (equivalent to RMB2,375,242). The Group has not entered into any forward contract to hedge its exposure to foreign exchange risk.

INTEREST RATE RISK

The Group's interest rate risk arises from long-term interest bearing borrowings including long term borrowings, corporate bonds and long-term payables. 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.

NO OTHER MATERIAL CHANGE

Other than those discussed in this announcement, there has been no material change in relation to the information disclosed in the Company's 2016 annual report in accordance with Rule 32 set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange").

PROGRESS OF THE RENEWAL OF "FRANCHISE CONTRACT" AND "VENUE LEASING CONTRACT" WITH MEILAN AIRPORT OFFSHORE DUTY-FREE SHOP

The Group and Meilan Airport Offshore Duty-Free Shop had finished the renewals of the "Franchise Contract in respect of Leasing of Venue for Offshore Duty-Free Business" and the "Meilan Airport Venue Leasing Contract" (collectively, the "Duty-Free Contracts") in June 2016.

With the effect of the Hainan offshore duty-free policies continuously extending, Meilan Airport, as always, shows its immense support to the development of Meilan Airport Offshore Duty-Free Shop. Meanwhile, Meilan Airport Offshore Duty-Free Shop will enhance the "traveling and shopping experience (游購行)" of the tourists passing through Meilan Airport by offering quality services and a rich variety of duty-free commodities.

In recent years, benefited from the close mutual cooperation, the current operating area of Meilan Airport Offshore Duty-Free Shop has expanded to 9,480 square meters from 2,200 square meters at business inception. The operating area will be further expanded after commencement of operation of the B1 and F1 offshore duty-free shops of the terminal complex project in the future. The sales performance of duty-free commodities increased from RMB0.38 billion in 2012 to RMB1.489 billion in 2016, and the sales amount was recorded at RMB1.006 billion in the first half of 2017. It is hoped that the sales target of RMB2 billion will be achieved in 2017.

Both parties acknowledge that the win-win situation will be reached through sustainably perfect integration of resources from the airport and the duty-free shop under the basis of mutual benefits in the future such that the interests of the companies and their shareholders will be safeguarded.

ACQUISITION PROGRESS

According to the announcement of the Company dated 13 November 2015, the circular of the Company dated 4 December 2015, the announcement of the Company dated 30 September 2016 and the announcement of the Company dated 30 March 2017:

On 13 November 2015, the Company and the Parent Company entered into an equity transfer agreement (the “Equity Transfer Agreement”), pursuant to which, the Company agreed to acquire 100% of the equity interest in Hainan Meilan Airport Assets Management Co., Ltd.* (“Meilan Airport Assets Management”), a wholly-owned subsidiary of the Parent Company, at a consideration of RMB604,800,000.

The consideration of the acquisition was determined with reference to the valuation of the total assets of Meilan Airport Assets Management as at 30 September 2015, being the base date of evaluation, conducted by Vigers Appraisal & Consulting Limited. The payment of the entire consideration of the equity transfer by the Company is subject to the fulfillment of the capital contribution obligation by the Parent Company to Meilan Airport Assets Management.

The consideration was paid by two installments as follows:

- (i) RMB574,560,000 (being 95% of the total consideration) shall be payable within 60 business days from the date of approval of the Equity Transfer Agreement and the transaction contemplated thereunder by the extraordinary general meeting; and
- (ii) RMB30,240,000 (being 5% of the total consideration) shall be payable within 15 business days from the date of completion of the necessary industrial and commercial registrations and filings relating to the Equity Transfer Agreement and the transaction contemplated thereunder in the Industrial and Commercial Bureau of Hainan Province.

As of the date of this announcement, the Company paid the first installment of the consideration to the Parent Company in accordance with the Equity Transfer Agreement. Upon the fulfillment of the capital contribution obligation by the Parent Company, the Company will pay the second installment of the consideration in accordance with the Equity Transfer Agreement.

As of the date of this announcement, the Parent Company was conducting the assets transferring procedure with the approval of the relevant government functions in accordance with relevant provisions. The Company will notify the shareholders of the Company and potential investors with the information on the latest progress under the Equity Transfer Agreement in the future, and make disclosure timely to the public according to the provisions of the Listing Rules.

THE PROGRESS OF ISSUANCE OF DOMESTIC SHARES AND PROPOSED PLACING OF NEW H SHARES

As disclosed in the announcement of the Company dated 30 December 2016 and the circular of the Company dated 27 April 2017:

- (1) the Company and the Parent Company entered into a domestic shares subscription agreement and supplemental domestic shares subscription agreement, pursuant to which the Parent Company agreed to subscribe 189,987,125 new domestic shares of the Company as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company and 250,000,000 new domestic shares of the Company by cash at an aggregate subscription price of RMB2,000,000,000;

- (2) the Company and Hainan HNA Infrastructure Investment Group Co., Ltd (“Hainan HNA Infrastructure”) entered into a domestic shares subscription agreement and supplemental domestic shares subscription agreement, pursuant to which Hainan HNA Infrastructure agreed to subscribe 50,000,000 new domestic shares of the Company by cash at an aggregate subscription price of RMB400,000,000;
- (3) the grant of the proposed specific mandate to the Board to issue not more than 200,000,000 new H Shares; and
- (4) proposed consequential amendments to the articles of association of the Company.

The extraordinary general meeting, H shares class meeting and domestic shares class meeting of the Company were held on 26 June 2017 and the resolutions relating to the above have been duly passed. As at the date of this announcement, the Company is in the course of preparing relevant conditions precedent. The Company will notify the shareholders of the Company and potential investors with the information on the latest progress under the specific issuance of domestic shares and proposed placing of new H shares project in the future, and make disclosure timely to the public pursuant to the provisions of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROLS

In 2016, the Group has actively conducted scientific analysis and teased out the operational deficiencies or potential risks identified during the course of work, in order to organize systematically, mitigate and monitor potential risks and to build a governance environment with risks under control and compliant operation.

In the second half of 2017, the Group will proceed with “Promotion Work over the Risk Management and Internal Control System”, further optimize the framework, refine schemes, and carry out this task as the routine work of the Group. The Group will pay attention to, keep track of and effectively fix problems to lay a solid foundation for the healthy, rapid and sustainable development of the Group in the future.

Serial No.	Names of risks	Key risk descriptions	Counter measures taken in the first half of 2017	Effect of risk-counter measures
1	Operation risks – core safety risks	<p>(1) Bird strikes: Meilan Airport is near wet land, where there are myriads of bird activities nearby. Failure to drive away the birds effectively may lead to their collision with the aircraft, which will cause damage to the aircraft, or even flight crash and fatalities;</p> <p>(2) Aircraft damage risks: assuming that scratch and collision between ground vehicles and aircraft happen during the process of flight operations and ground service; or vehicles cut in with the taxing aircraft in the apron; or metal parts coming off vehicles and equipment are left in the apron and pose as foreign objects, or there are undertrained security personnel or fatigue operations; or damages on the aircraft caused during handling baggage or cargo due to the box deformation, equipment failure, improper operation and other reasons, all above may lead to economic losses and delay or even cancellation of the flight; and</p>	<p>(1) In light of numerous bird strikes against aircraft this year, the Company organized a specified bird risk assessment, sorted out 10 root causes of the problem from the human, aircraft, environment and management aspects, and developed targeted preventive measures with coordination with the flight department. At the same time, the Company drafted and issued specified safety pre-warning for bird strike control, to urge the flight department to strengthen bird risk control. Through the pre-warning study, the importance of pre-warning for bird strikes are highlighted among all the staff, and they will be committed to a joint effort in preventing bird strikes;</p> <p>(2) As for aircraft damage risks, the Group put forward the vehicle technical measures and operational preventive measures. In order to ensure the effectiveness of the measures, on one hand, the Company increased the times of inspection and training on technical devices; on the other hand, the Company strengthened the personnel training, business revision training and risk prevention education; and</p>	<p>(1) The Company strengthened the comprehensive management of bird damage through a number of emergency measures, to control the bird damage and reduce the occurrence of bird strikes. In the first half of 2017, 449 birds were captured, with an increase of 331.73% over the same period of last year;</p> <p>(2) In the first half of 2017, the Group conducted 8 special inspections of the aprons, formulated and issued 8 safety tips, timely detected and suppressed illegal personnel 54 times, and dealt with 184 unusual events; and</p>

Serial No.	Names of risks	Key risk descriptions	Counter measures taken in the first half of 2017	Effect of risk-counter measures
		(3) Construction management risks in the flight area: failure in exercising effective management of the relevant personnel, vehicles and materials in the flight area during the course of construction and maintenance work may increase relevant risks of foreign matters and invasion of the flight area.	(3) Prior to the commencement of construction, the enclosure was set up to effectively prevent the construction wastes from falling into the flight area. The Group has arranged the construction personnel and vehicles to apply for a pass in isolation area, and arranged guides for the construction personnel and vehicles to prevent foreign personnel from getting in and out randomly and causing danger to the airport isolation area.	(3) Taking into account the situation of the construction area of the flight, the Group has carried out dynamic partition management, put into use the ambient alarm system, and implemented the 24-hour continuous real-time monitoring and every-30-minutes inspection system. In the first half of 2017, the Group timely dealt with 45 hidden troubles and managed to ensure the safety of the ambient and prevent the occurrence of illegal intrusion.

Serial No.	Names of risks	Key risk descriptions	Counter measures taken in the first half of 2017	Effect of risk-counter measures
2	Operation Risk – Risk of normal flight release rate	The normal flight release rate and flight on time rate decreased due to airline factors (including aircraft maintenance, flight dispatching, etc.) or non-airline factors (e.g. weather conditions, air traffic control, mechanical trouble, passenger, etc.) may result in the Civil Aviation Authority of China reducing the flight number or restricting the growth of the flight number of Meilan Airport, which may reduce or make passenger traffic volume unable to grow, thus leading to a major adverse impact on the economic profits of the Company.	<p>(1) The Group established the Coordination Committee for Flight Operation Management of Meilan Airport, which was established jointly with the Civil Aviation Authority, Air Traffic Control Bureau, airport companies, airlines, as well as the ground service units. The Company made full use of the platform of Coordination Committee for Flight Operation Management of Meilan Airport, to address the existing issues during the service process, and play a leading role in the problem solving process;</p> <p>(2) The Group conducted daily inspection and report on the normal flight conditions, focused on figuring out and timely issuing the reasons for flight delay, to make it possible for the ground support units to understand the normal flight conditions and take timely measures based on the reasons for the delay; and</p> <p>(3) The Group standardized the construction of the normal flight management systems. In order to achieve systematic management of normal flight operations, the Group developed “Routine Flight Operation Regulations of Meilan Airport” and revised the “Service Standard for Flight Operations in Meilan Airport” and “Normal Statistics Management Method of Meilan Airport”, etc.</p>	As of 30 June 2017, the normal flight release rate was 70.31%, which was 7.41% lower than that of the same period in 2016. The normal flight release rate of Meilan Airport was mainly affected by weather which accounted for 54.68% of the delay; military activities which accounted for 24.53% of the delay; airlines which accounted for 0.49% of the delay, and other reasons accounting for 20.30% of the delay. Meilan Airport refined the powers and responsibilities of each department in the normal rate security work through the development of “Haikou Meilan International Airport 2017 Flight Normal Management Work Program (《海口美蘭國際機場2017年航班正常性管理工作方案》) and continued to promote the A-CDM (airport coordination decision-making) systematic construction work to guarantee the normal flight release rate.

Serial No.	Names of risks	Key risk descriptions	Counter measures taken in the first half of 2017	Effect of risk-counter measures
3	Business risks/ strategic risks – business environment and change of market demand risks	The airport construction features large scale of financing, long repayment time, and uncertain investment returns. If the Company’s income (especially the non-aviation business income) declines or sees sluggish growth, and the investment costs and benefits do not match due to the economic environment, international political factors and passenger demand changes and so on, the Company’s profitability will be impacted and even have difficulty in debt repayment.	<p>(1) The Group studied the economic environment, passenger demand changes and other factors, and adjusted the terminal business leasing strategies according to the company’s strategies;</p> <p>(2) The Company has completed the redesign of the terminal, which enhanced the appearance and service efficiency of the terminal. At the same time, by diversifying the leasing approaches, the Company further promoted the continuous growth of non-aviation business income; and</p> <p>(3) Takin into account market changes, industry development as well as new business models and so on, the Group timely innovated the leasing mode and operation mode to ensure the continuous growth in business income.</p>	In the first half of 2017, the Group’s aviation business revenue increased by 17.65% over the same period in 2016; non-aviation business increased by 17.67% over the same period in 2016.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the first half of 2017, the world economy continued to improve, the overall recovery of the developed economies was steady, and the US, the Eurozone and the Japanese economy generally improved. Among the emerging economies, China and India continue to lead the Asian economic growth, but, as the overall recovery of the global economy is not balanced, and strong structural growth has not yet appeared, there are still many risks and uncertainties. While all the indicators of the domestic civil aviation transport industry are still growing rapidly, the impact of the civil aviation industry on the social economy is also increasing. Civil aviation industry is an important link for the development of bilateral or multilateral relations for China, and also the “pioneer”(“先行軍”) for China’s opening up. With the further implementation and promotion of the “One Belt One Road” development strategy, China’s opening-up to the outside world will show a new situation, and the civil aviation industry in China will usher new opportunities for development while playing an important role in the opening-up.

The Group considers that, in the second half of 2017, along with the execution of the state's "One Belt One Road" initiative and the construction of international tourist island in Hainan in full swing, and the sustained unwinding of the offshore duty-free policy, there will be stable operation of both international and domestic routes of Meilan Airport and healthy growth in major indicators such as annual passenger throughput. In terms of operation management, the Company will be governed strictly through atmosphere creation, compliance training, institution construction and process optimization, self-examination and self-correction and compliance system construction; the Group will focus on implementing the Civil Aviation Administration of China's Thirteenth Five-Year Plan and "Civil Aviation Advancing One Belt and One Road Construction Action Plan (2016-2030)", and continue to improve the safety alerting mechanism and safety performance management; the Group will also consolidate the existing brand building results to enhance the social awareness and influence of Meilan Airport. In addition to ensuring safety and service quality, the Group will continue to control costs and generate new income sources so as to maintain annual profit level and strive for fruitful return to shareholders.

SEEK INDUSTRY INTEGRATION OPPORTUNITIES

The Group will follow the "One Belt One Road" initiative strategic plan, give full play to its own advantages, focus on the development of the airport services and management output business of the cities along the routes of "One Belt One Road", and timely choose to carry out other necessary capital operation plans according to its development needs on the basis of the comprehensive consolidation of SKYTRAX five-star construction achievements. The Group is committed to becoming an investment management group with strategic complement and industrial chain cluster taking asset management as the core, combining the investment and the development, supplemented by similar financial supports for the businesses and the airport.

INTERIM DIVIDENDS

The Board has resolved to recommend payment of an interim dividend of RMB0.134 per share (tax inclusive) on or before Thursday, 30 November 2017 to shareholders of the Company whose names appear on the Company's register of members on Monday, 30 October 2017 at the extraordinary general meeting to be held on Monday, 16 October 2017 ("2017 Interim Dividends"), and has authorized the Board to take any necessary actions in this regard as required by applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Saturday, 16 September 2017 to Monday, 16 October 2017 (both days inclusive), 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 Friday, 15 September 2017.

The Company's register of members will be closed from Wednesday, 25 October 2017 to Monday, 30 October 2017 (both days inclusive), during which time no transfer of shares will be registered. To qualify for the entitlement of the 2017 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, Wan Chai, Hong Kong by no later than 4:30 p.m. on Tuesday, 24 October 2017. Subject to approval at the extraordinary general meeting, the interim dividend will be paid on Thursday, 30 November 2017.

MATERIAL LITIGATION OR ARBITRATION

The Group had not involved in any material litigation or arbitration from 1 January 2017 to 30 June 2017.

OTHER INFORMATION

Change of Directors

The Board comprises eleven Directors. During the period from 1 January 2017 to 30 June 2017, there was no change in the directorship of the Company.

Change of Senior Management

During the period from 1 January 2017 to 30 June 2017, there was no change in the senior management of the Company.

Remuneration of Directors and Supervisors

The Company held the 2012 annual general meeting on 27 May 2013, where the "Resolution in Relation to the Remuneration Packages for the Directors and Supervisors of the Company in 2013" was considered and approved. It provided that Directors and supervisors nominated by shareholders of related parties would not enjoy allowance for the position from the year of 2013, but will receive appropriate wages depending on their specific duties in the Company. Other Directors and supervisors will receive their remuneration according to the remuneration package approved by the general meeting of shareholders.

Remuneration of Company Secretary

Mr. Xing Zhoujin, being the company secretary nominated by shareholders of related parties, will not enjoy any allowance for holding the position, but will receive appropriate wages depending on his specific duties in the Company.

Share Capital Structure

As at 30 June 2017, the total number of issued shares of the Company was 473,213,000, of which:

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

Interests of Substantial Shareholders in Shares

As at 30 June 2017, so far as known to the Directors, supervisors and chief executives of the Company, the following persons (other than the Directors, supervisors and chief executives 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 HK 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 the 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	Capacity	Class of shares	Number of ordinary shares	Percentage to domestic shares issued	Percentage to total issued share capital
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000(L)	96.43%	50.19%

H Shares

Name of shareholders	Type of interests	Number of ordinary shares	Percentage to H shares issued	Percentage to total issued share capital
Zhang Gaobo (<i>Note 2</i>)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Zhang Zhiping(<i>Note 2</i>)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Oriental Patron Financial Services Group Limited (<i>Note 2</i>)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Oriental Patron Financial Group Limited (<i>Note 2</i>)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Oriental Patron Resources Investment Limited (<i>Note 2</i>)	Beneficial owner	94,343,000(L)	41.58%	19.94%
UBS Group AG (<i>Note 3</i>)	Security interests in shares and interest of controlled corporations	27,189,400(L) 161,000(S)	11.98% 0.07%	5.78% 0.03%
UBS AG (<i>Note 4</i>)	Beneficial owner, security interests in shares and interest of controlled corporations	27,174,400(L) 15,000(S)	11.98% 0.01%	5.74% 0.00%
ARC Capital Holdings Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
ARC Capital Partners Limited (<i>Note 5</i>)	Investment manager	32,788,500(L)	14.45%	6.93%
Pacific Alliance Asia Opportunity Fund L.P. (<i>Note 5</i>)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Equity Partners Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Group Asset Management Limited (<i>Note 5</i>)	Investment manager	32,788,500(L)	14.45%	6.93%
PAG Holdings Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Group Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%

Name of shareholders	Type of interests	Number of ordinary shares	Percentage to H shares issued	Percentage to total issued share capital
Pacific Alliance Investment Management Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Walden Ventures Limited (<i>Note 5</i>)	Beneficial owner	32,788,500(L)	14.45%	6.93%
Greenwoods Asset Management Limited (<i>Note 6</i>)	Interest of controlled corporations	13,549,000(L)	5.97%	2.86%
Greenwoods Assets Management Holdings Limited (<i>Note 6</i>)	Interest of controlled corporations	13,549,000(L)	5.97%	2.86%
Jiang Jinzhi (<i>Note 6</i>)	Interest of controlled corporations	13,549,000(L)	5.97%	2.86%
JP Morgan Chase & Co. (<i>Note 7</i>)	Beneficial owner and custodian corporation/ approved lending agent	13,607,488(L)	5.99%	2.88%
Svenska Handelsbanken AB Publ. (<i>Note 8</i>)	Investment manager	11,387,747(L)	5.02%	2.41%

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 and Zhang Zhiping held 49% and 51% interests in Oriental Patron Financial Group Limited, respectively. Oriental Patron Financial Group Limited held 95% interests in Oriental Patron Financial Services Group Limited. 100% interests of Oriental Patron Resources Investment Limited was wholly-owned by Oriental Patron Financial Services Group Limited.
3. According to the disclosure of interest filed by UBS Group AG on the website of the HK Stock Exchange, UBS Group AG was deemed to hold 7,248,000 shares through its security interest and hold 19,941,400 long position shares and 161,000 short position shares through its interest in a controlled corporation. UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Fund Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG were wholly – owned by UBS Group AG. UBS Group AG was deemed to hold interests in the Company through owning the above-mentioned companies pursuant to Part XV of the SFO and were beneficially holding 197,000 long position shares and 161,000 short position shares, 601,000 shares, 790,300 shares, 18,349,000 shares and 4,000 shares in the Company, respectively.
4. According to the disclosure of interest filed by UBS AG on the website of the HK Stock Exchange, among the 27,174,400 shares in the Company, UBS AG was deemed to hold 8,896,000 shares through security interest, and 18,263,400 shares through interests of a controlled corporation and 15,000 long position shares and 15,000 short position shares as beneficial owner. UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Hong Kong) Ltd and UBS Global Asset Management (Singapore) Ltd were wholly-owned by UBS AG. UBS AG was deemed hold interests in the Company through owning the above-mentioned companies pursuant to Part XV of the SFO and were beneficially holding 14,194,100 shares, 1,905,000 shares, and 2,164,300 shares in the Company, respectively.

5. PAG Holdings Limited held 99.17% interest in Pacific Alliance Group Limited, which in turn held 90% interest in Pacific Alliance Investment Management Limited. Pacific Alliance Investment Management Limited held 52.53% interest in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited held 100% interest in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 32,788,500 shares in its capacity as investment manager. ARC Capital Holdings Limited is a corporation controlled by ARC Capital Partners Limited pursuant to Part XV of the SFO. ARC Capital Holdings Limited was holding 46.67% interest in Walden Ventures Limited which in turn held 32,788,500 shares interests in H shares of the Company. Pacific Alliance Investment Management Limited held 100% interest in Pacific Alliance Group Asset Management Limited. Pacific Alliance Group Asset Management Limited was deemed to be interested in 32,788,500 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 pursuant to Part XV of the SFO. Pacific Alliance Asia Opportunity Fund L.P. held 36.67% interest in Walden Ventures Limited which was in turn held 32,788,500 shares in H shares of the Company.
6. Each of Greenwoods Asset Management Limited, Greenwoods Assets Management Holdings Limited and Jiang Jinzhi held 13,549,000 shares through its interests in controlled corporations. Greenwoods China Alpha Master Fund was wholly owned by Greenwoods Asset Management Limited. Greenwoods Asset Management Limited was wholly owned by Greenwoods Asset Management Holdings Limited. 81% interests of Greenwoods Asset Management Holdings Limited was owned by Unique Element Corp., which was wholly owned by Jiang Jinzhi. Golden China Master Fund and Golden China Plus Master Fund were wholly owned by Jiang Jinzhi. Greenwoods China Alpha Master Fund, Golden China Master Fund and Golden China Plus Master Fund were beneficially holding 3,692,000 shares, 9,198,000 shares and 659,000 shares in the Company, respectively.
7. Among the 13,607,488 shares in the Company, JPMorgan Chase & Co. was deemed to hold 12,963,588 shares as custodian corporation/approved lending agent and held 643,900 shares as beneficial owner.
8. Svenska Handelsbanken AB Publ. held 11,387,747 shares in the Company by virtue of its capacity as investment manager
9. (L) and (S) represent long position and short position respectively

Save as disclosed above, as of 30 June 2017, so far as known to the Directors, supervisors and chief executives of the Company, no other person (not being the Directors, supervisors, and chief executives 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 HK 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.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES

As at 30 June 2017, 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 required to be notified to the Company and the HK Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

None of the Director, supervisor 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 LISTED SECURITIES OF THE COMPANY

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 2017.

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 review of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017.

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

As of 30 June 2017, there were four independent non-executive Directors in the Board. As of 30 June 2017, the audit committee comprised three independent non-executive Directors, including one 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 the 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 enquiries with the Directors of the Company, all of the Directors have complied with the required standard set out in the Model Code and the code of conduct regarding directors' securities transaction during the six months ended 30 June 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE PRACTICES

The Company is committed to complying with all the rules prescribed by the China Securities Regulatory Commission and the HK Stock Exchange and regulations of other competent authorities. For the six months ended 30 June 2017, the Company had complied with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules and met with all reasonable governance and disclosure requirements. The Company will continue to improve its corporate governance and enhance its transparency to shareholders.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the website of the HK Stock Exchange at www.hkexnews.hk as well as the Company's website www.mlairport.com. The 2017 interim report of the Company containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be made available on the websites of the HK Stock Exchange and the Company on or before 12 September 2017.

THE BOARD

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

Executive Directors

WANG Zhen (*Chairman*)
YANG Xiaobin (*President*)
ZHOU Feng
LIU Shanbin

Independent Non-executive Directors

DENG Tianlin
FUNG Ching, Simon
George F MENG
HE Linji

Non-executive Directors

HU Wentai (*Vice Chairman*)
CHAN Nap Kee, Joseph
YAN Xiang

By order of the Board
HNA Infrastructure Company Limited
Wang Zhen
Chairman and Executive Director

Haikou, the PRC
24 August 2017