



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)



Interim Report **2006**

Stock Code : 357



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CORPORATE INFORMATION

NAME IN CHINESE

海南美蘭國際機場股份有限公司

NAME IN ENGLISH

Hainan Meilan International Airport
Company Limited

EXECUTIVE DIRECTORS

Zhang Cong, *Chairman*

Wang Zhen

Dong Guiguo

Gunnar Moller

NON-EXECUTIVE DIRECTORS

Zhang Han'an

Kjeld Binger

INDEPENDENT NON-EXECUTIVE DIRECTORS

Xu Bailing

Xie Zhuang

Fung Ching, Simon

SUPERVISORS

Chen Kewen

Zhang Shusheng

Zeng Xuemei

COMPANY SECRETARY

Bai Yan

AUTHORISED REPRESENTATIVES

Zhang Cong

Bai Yan

AUDIT COMMITTEE

Xu Bailing

Xie Zhuang

Fung Ching, Simon

LEGAL ADDRESS AND HEAD OFFICE

Meilan Airport Complex

Haikou City

Hainan Province, PRC

ADDRESS OF BUSINESS IN HONG KONG

Unit B, 7/F, No. 2 Austin Avenue,
Tsimshatsui, Kowloon
Hong Kong

LEGAL ADVISER TO THE COMPANY

Lovells

23/F Cheung Kong Center

2 Queen's Road Central

Hong Kong

INTERNATIONAL AUDITORS

PricewaterhouseCoopers

22/F, Prince's Building

Central, Hong Kong

PRC AUDITORS

Hainan Congxin

Certified Public Accountants

Unit 1202, CMEC Building

Guomao Avenue

Hainan Province, PRC

Post code: 571100

PRINCIPAL BANKERS

Bank of China, Meilan Branch

Meilan Airport Terminal,

Haikou City,

Hainan Province, PRC

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Shops1712-1716, 17th Floor,

Hopewell Centre, 183 Queen's Road East,

Wanchai, Hong Kong

STOCK CODE

357

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2006, the structural adjustment in the PRC aviation market and the change of travel pattern led to the continuing decline in traffic volume of Meilan Airport. To counter the declining trend of its operation, Hainan Meilan International Airport Company Limited (“Meilan Airport” or the “Company”) and its subsidiaries (collectively referred to as the “Group”) have established a new airport management system with a streamlined structure that promotes efficient management and cost-effective operation. In addition, the Group continued to embrace the philosophy of “faithfulness, results-oriented and innovation” while adopting a series of measures to broaden income sources and reduce expenditure, with the view of consolidating the foundation of handling international flights and expediting the exploration of domestic routes. The Group also proactively developed non-aeronautical business and continued to strengthen internal reform. By pursuing cost-effective development, the Group accelerated the transformation of an operating enterprise into a managing one.

For the six months ended 30 June 2006, the Group’s total revenue amounted to approximately RMB176,554,000, representing an increase of 1.5% as compared to the corresponding period of last year. Net profit attributable to shareholders of the Company decreased by 1.5% from the corresponding period of last year to RMB79,642,000. Earnings per share amounted to RMB17 cents (for the six months ended 30 June 2005: RMB17 cents).

For the six months ended 30 June 2006, the decrease in the Group’s net profit attributable to shareholders was mainly attributable to the growth in depreciation cost, which was increased by RMB3,700,000 as compared to the corresponding period of last year, with the inauguration of the Phase II expansion of the airport terminal building.

BUSINESS REVIEW

1. Aeronautical Business

For the six months ended 30 June 2006, accumulated passenger throughput and aircraft movement totaled to 3,515,700 and 32,942, representing a decreases of 3.1% and 6.6% respectively as compared to the corresponding period of last year. Cargo throughput, on the other hand, reached 53,816.4 tons, representing an increase of 2.8% when compared with that of the corresponding period of last year.

Due to the decline in traffic volume, revenue from the Group’s aeronautical business was RMB122,730,000, representing a decrease of 4.7% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Major reasons for the drop in traffic volume and counter-measures

Major factors leading to the decline in traffic volume of Meilan Airport included:

1) Impact of the strategic adjustment of airlines

Domestic airlines continued to strengthen the establishment of routes to and from aviation hubs and major cities. Coupled with the further concentration of aviation traffic capacity in high-yielding routes, traffic capacity allocated to Haikou reduced. The top six airlines with the largest cuts in traffic capacity are Hong Kong Dragon Airlines Limited, Sichuan Airlines Co., Ltd., China Southern Airlines Co., Ltd. ("China Southern"), Air China Co., Ltd., China Eastern Airlines Co., Ltd. and Hainan Airlines Co., Ltd. ("Hainan Airlines").

2) Impact of structural change in travel pattern

In 2006, the main theme of the PRC domestic travel market has been focusing on short distance trip and self-driving trips, causing significant change in the traveling structure in travel industry which directly affected Hainan Island, especially for those long distance trips to Haikou.

3) Diffluent impact of other airports in Hainan province

With increasing awareness and competitiveness of Sanya, the influence of this city in tourism continued to enhance. As such, the diffluent impact of Sanya Phoenix International Airport became increasingly significant, which indirectly affected the passenger throughput of Meilan Airport.

4) Demand for further improvement in tourism promotion of Haikou to both domestic and overseas markets

Different regions in the PRC actively promote tourism, among which the tourism promotion in Haikou has further room for improvement in attracting more tourists to visit Hainan province. In response to intensified market competition, the Group has taken proactive measures to step up its marketing promotion. The Company's management also paid visits to airlines in different scales, so as to foster better relationships. Furthermore, the management collected and analyzed the latest information of the aviation market, which help them to devise practical measures of routes development in a timely manner. The Group endeavors to propel aeronautical business development to boost traffic volume of Meilan Airport.

Development progress of new international routes

Amidst the unfavorable market of declining passenger throughput in Meilan Airport, the Group strived for strengthening its relationship with both domestic and foreign airlines. While the Group also took advantages of participating in the 2006 New Routes Asia Conference to promote the opening of Hainan aviation rights as well as Hainan's tourism resources to foreign airlines. In addition, the Group also established an effective communication system to attract foreign airlines to launch routes to Haikou.

In July 2006, the Group confirmed the first foreign low-cost airlines, Tiger Airways Pte Ltd. from Singapore, to open 1 daily flight between Haikou and Singapore.

In addition, the Group is dedicated to resolve the problem relating to international routes and formulated development plan of international flights. By communicating with airlines in Southeast Asia and conducting research and analysis on the international aviation market, the Group hoped to restore the charter flights between Haikou and Southeast Asia and consolidate the results in exploring international routes.

As at 30 June 2006, there were 7 international routes to and from Meilan Airport. Passenger throughput of international routes at Hainan Meilan International Airport reached 67,356 persons with aircraft movements totaled to 573 and cargo throughput amounted to 1,296.4 tons, representing an increase of 43.9%, 8.3% and 43.7% as compared to corresponding period of last year respectively. The segment, once again, became the Group's operation highlights and ensured revenue from its aeronautical business.

2. Non-aeronautical business

For the six months ended 30 June 2006, revenue derived from the Group's non-aeronautical business was RMB53,824,000, representing an increase of 19.3% over the corresponding period of last year. The main reason is that, as a result of the inauguration of Phase II Expansion of airport terminal building, the business of Duty Free Shoppers Hong Kong Limited ("DFS") has been fully expanding in Meilan Airport. The concession operation of the Group has recorded income of RMB14,040,000, representing an increase of 99.2% as compared to the corresponding period of last year.

- The Group's advertising company achieved revenue of RMB5,673,000, representing a 32.9% increase over the corresponding period of last year. The Group has successfully introduced more than 30 customers, including Beijing Shengshi United Advertising Co., Ltd., Chery Automobile Co., Ltd., Maersk China Co., Ltd., Sheraton Haikou Resort and Gloria Resort Sanya during the first half of the year;
- The Group's tourism transportation business recorded revenue of RMB11,796,000, which was a 13.6% growth over the corresponding period of last year;

MANAGEMENT DISCUSSION AND ANALYSIS

- The Group's car park operation business recorded revenue of RMB2,778,000 during the first half of the year, representing a decrease of 2.2% as compared to corresponding period of last year;

The Group exerted tremendous efforts in achieving stable increase in its existing non-aeronautical business segment while proactively developing new business projects, with the view of broadening the income source of non-aeronautical businesses. The Group has actively carried out the business of opening the new VIP room to the public, such as introducing many companies including the Bank of Communications and China petroleum & Chemical Corporation to name the VIP room in the new airport terminal.

3. Service Branding

Leveraged on the opportunities arising from the inauguration of the Phase II expansion project of the airport terminal building, the Group continued to reinforce its service philosophy, develop innovative services, enhance service standards, fully improve safety management hardware facilities and strengthen staff safety awareness, so as to constantly upgrade our service level and safety quality, thereby emerging as an outstanding international airport. During the first half of the year, the Group effectively provided the ancillary services for large-scale activities like the annual meeting of Bo'ao Forum For Asia, the Spring Festival and the Golden Week of May Holiday, receiving full recognition and praise from a wide diversity of sectors.

FINANCIAL REVIEW

1. Liquidity and financial resources

As at 30 June 2006, the Group's current assets amounted to RMB586,960,000, comprising cash and cash equivalents of RMB214,768,000, time deposits of RMB84,468,000, net receivables of RMB254,708,000, inventories at cost of RMB3,832,000, other receivables and prepayments of RMB14,321,000 and amounts due from related parties of RMB14,863,000.

As at 30 June 2006, the Group's current liabilities amounted to RMB190,720,000, comprising the outstanding principal of the long-term loans and due within 1 year of RMB39,000,000, other payables of RMB146,974,000 and current income tax liabilities of RMB4,746,000.

2. Operating costs

For the first half of 2006, the Group's costs of services and sales of goods amounted to RMB55,806,000, representing an increase of 16.9% as compared to the corresponding period of last year. The increase was mainly attributable to the inauguration of the Phase II Expansion of terminal building which led to an increase by RMB3,017,000 related to the consumption fee as compared to corresponding period of last year. The depreciation fee of the Phase II expansion project has also increased by RMB3,700,000.

During the first half of 2006, the Group's administrative expenses amounted to RMB28,572,000, representing a decrease of 15.3% as compared to the corresponding period of last year. The main reasons of the decrease are as follows:

1. The impairment of goodwill of RMB3,650,000 was made in the corresponding period of last year.
2. The salaries of the management decreased by RMB1,300,000 as compared to the corresponding period of last year.

3. Gearing ratio

As at 30 June 2006, the Group had current assets of RMB586,960,000 and total assets of RMB1,860,389,000. Current liabilities and total liabilities amounted to RMB190,720,000 and RMB240,862,000 respectively. The Group's gearing ratio (total liabilities/total assets) was 12.9%, representing an increase of 2.7% compared to that as at 31 December 2005, which was mainly due to the inauguration of the Phase II of terminal building that led to the increase by RMB88,700,000 in the payables.

4. Pledge of the Group's assets

The Group pledged its rights to revenues, including the rights of the airport fee to secure a long-term bank loan of RMB128,000,000 from China Development Bank. As at 30 June 2006, the balance of bank loan was RMB78,000,000.

5. Share capital structure of the Group

As at 30 June 2006, the share capital of the Company was RMB473,213,000.

6. Performance and prospect of substantial investments held

As at 30 June 2006, the Group or the Company did not have any significant investment.

7. Purchases, Sales or Redemption of Shares

As at 30 June 2006, the Group or the Company had not purchased, sold or redeemed any of the Company's shares.

8. Entrusted deposits and overdue fixed deposits

As at 30 June 2006, the Group or the Company did not have any entrusted deposits and overdue fixed deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

9. Contingent liabilities

As at 30 June 2006, the Group or the Company did not have any contingent liabilities.

10. Exposure to foreign exchange risks

Except for the purchase of certain equipment, goods and materials and the payment of consultancy fees which are denominated in US Dollar, the Group's business is mainly denominated in Renminbi ("RMB"). Dividends to equity holders holding H shares are declared in RMB and paid in Hong Kong Dollar. As at 30 June 2006, the Group's other assets and liabilities were denominated in RMB, only cash and cash equivalents of approximately RMB759,000 were denominated in HK Dollar or US Dollar. The Directors believe that the Group's business is not subject to any substantial foreign exchange risk.

NO OTHER MATERIAL CHANGE

Other than those discussed in this interim report, there has been no material change in relation to the information disclosed in the Company's 2005 Annual Report in accordance with Rule 32 set out in Appendix 16 to the Listing Rules.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

For the second half of 2006, the Board of the Company forecasts that, the traffic volume of Meilan Airport will be affected by a series of factors and the market conditions will still remain to be unfavorable. The Group will continue to pursue cost-effective development and strengthen the development of its domestic and international aeronautical businesses, with an aim of achieving a turnaround in the declining trend of traffic volume of the domestic flight market. The Group will also coordinate and resolve the issue of opening flight routes to and from Hainan in a proactive manner and further develop international routes to maintain the positive growth momentum of its international aeronautical business.

In addition, the Group will also reinforce the reform of its internal operating system and expedite the development of subcontracting business to enhance income level. By strengthening human resources development as well as the management standard, the Group is dedicated to further optimizing its overall quality. The Group will apply the remaining funds raised from the issuance of H Shares to gradually implement its stated plans, realize its business development strategy for the improvement of the Company's value and bring fruitful returns to equity holders.

INTERIM DIVIDENDS

The Directors of the Company hereby declared that there will be no dividend payout for the six months ended June 30 2006.

MATERIAL LITIGATION AND ARBITRATION

The Company had no material litigation or arbitration from 1 January 2006 to 30 June 2006.

OTHER INFORMATION

CHANGE IN DIRECTORS

From 1 January 2006 to 30 June 2006, the changes in the Directors of the Company are as follow:

Mr. Zhang Cong has been appointed as executive director since 27 January 2006;

Mr. Dong Guiguo has been appointed as executive director since 25 May 2006;

Mr. Wang Zhen continues to be the Company's executive director for a term of three years after his term of office expired on 9 May 2006;

Mr. Chen Wenli has been resigned as non-executive director since 27 January 2006;

Mr. Huang Qiu has been resigned as executive director since 25 May, 2006;

There were no other changes in the Directorship.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2006, the Group had a total of 666 employees, representing a decrease of 25 employees as compared to 691 employees at the beginning of the year. The decrease was mainly attributable to the rationalization of the organization structure and optimization of manpower. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group reviews its remuneration policy and packages on a regular basis. Bonuses and commissions may be awarded to employees as incentives based on their performance. All benefits are the rewards for the efforts contributed by individuals. For the six months ended 30 June 2006, the Group's total staff cost accounted for approximately 9.1% of its total turnover. The staff cost decreased by 0.7% from the corresponding period of last year, mainly due to that the salaries of the management decreased by RMB1,300,000 as compared to the corresponding period of last year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2006, none of the Directors or Supervisor or chief executive had any interests or short positions in any shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register of the Company required to be kept under section 352 of the SFO. None of the Directors, Supervisors, chief executives or their spouses or their children under 18 is entitled to subscribe for the shares of the Company.

OTHER INFORMATION

SHARE CAPITAL STRUCTURE

As at 30 June 2006, the total issued share of the Company was 473,213,000 shares. The percentage of the total shares is as follows:

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

DISCLOSURE OF INTERESTS

As at 30 June 2006, the following persons (other than Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register of interest in shares and short positions maintained under section 336 of the Securities and Futures Ordinance ("SFO").

Long positions in shares

Domestic shares

Name of shareholders	Capacity	Nature of shares	Number of ordinary shares	Percent of issued domestic shares (%)/ total issued shares (%)
Haikou Meilan International Airport Company Limited (<i>Note 1</i>)	Beneficial owner	Corporate	237,500,000	96.43/50.20

H shares

Name of shareholders	Capacity	Nature of shares	Ordinary shares capacity (Note 3)	Percentage of total H Shares in issue (%)	Date of latest disclosure (DD/MM/YYYY)
Copenhagen Airport A/S (Note 2)	Beneficial owner	Corporate	94,643,000	41.71(L)	31/12/2004
Deutsche Bank Aktiengesellschaft	Beneficial owner	Corporate	22,776,000	10.04(L)	19/06/2005
QVT Financial LP	Beneficial owner	Corporate	16,259,000	7.16(L)	19/06/2005
QVT Financial GP LLC (Note 4)	Beneficial owner	Corporate	16,259,000	7.16(L)	19/06/2005
QVT Fund LP	Beneficial owner	Corporate	14,969,649	6.59(L)	21/06/2005
QVT Associates GP LLC (Note 5)	Beneficial owner	Corporate	14,969,649	6.59(L)	21/06/2005
Templeton Asset Management Limited	Beneficial owner	Corporate	11,700,000	5.16(L)	25/04/2006
Utilico Emerging Markets Utilities Limited	Beneficial owner	Corporate	11,629,000	5.12(L)	15/02/2006

Note:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
2. Copenhagen Airport A/S is a public company owned by the Danish government and other private and institutional investors in and outside Denmark, and the shares of which are listed on the Copenhagen Stock Exchange.
3. L = Long Position, S = Short Position, P = Lending Pool

OTHER INFORMATION

4. QVT Financial GP LLC is the controlling shareholder of QVT Financial LP. Accordingly, QVT Financial GP LLC is deemed to be beneficially interested in the Company's shares.
5. QVT Associates GP LLC is the controlling shareholder of QVT Fund LP. Accordingly, QVT Associates GP LLC is deemed to be beneficially interested in the Company's shares.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 30 June 2006, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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 2006.

AUDIT COMMITTEE

The audit committee of the Company has, together with the management, reviewed the accounting standards and practices adopted by the Group, and discussed matters relating to auditing, internal controls, financial reporting and non-exempt continuing connected transactions, including a review of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 and the interim results announcement.

The audit committee appointed external auditors, PricewaterhouseCoopers to perform agreed upon procedure to assist to review the reasonableness of certain financial information of the Group included in the unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 and the disclosures requirements of the financial information included therein have been prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which is conducted in accordance with International Standard on Related Services ("ISRS") 4400-Engagements to Perform Agreed-upon Procedures Regarding Financial Information, issued by International Auditing and Assurance Standards Board.

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

As at 30 June 2006, there are 3 Independent Non-executive Directors in the Board of the Company as required under Rule 3.10(1) of Listing Rules; and as at 30 June 2006, the audit committee comprises three Independent Non-executive Directors, including personnel with appropriate professional qualifications of accounting and the membership of Hong Kong Institute of Certified Public Accountants.

IN COMPLIANCE OF MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has not adopted a code for securities transaction by directors on terms more exacting than the required standards of the Model Code due to the fact that most directors of the Company are Mainland China persons whose investment in H shares are subject to legal restriction from the PRC government. Following specific enquiry made with all directors, none of the directors of the Company failed to comply with the required standard set out in the Model Code regarding securities transactions by the directors during the accounting period covered by this interim report.

CORPORATE GOVERNANCE REPORT

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Hong Kong Stock Exchange, as well as requirements of other regulatory bodies. During the six months ended 30 June 2006, the Company had complied with the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules which came into effect in January 2005 and met with all reasonable governance and disclosure requirements. The Company will strive for continuously enhancing its corporate governance standard and transparency to shareholders.

BOARD OF DIRECTORS

Chairman of the board and Chief Executive Officer (CEO)

The chairman of the board is the authorized representative of the Company. The chairman is responsible for development direction and effective running of the board, and ensuring the board acts in the best interests of the Company.

The CEO is accountable to the board, and is delegated with the responsibility for running the Company's business and implementing the resolutions of the board.

The chairman and CEO of the Company are Mr Zhang Cong and Mr Wang Zhen respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

Composition of the board

The board currently comprises the following members:

Chairman:	Zhang Cong (appointed as chairman of the board on 27 January 2006)
Executive Directors:	Wang Zhen, Dong Guiguo (appointed as director on 25 May 2006), Gunnar Moller
Non-executive directors:	Zhang Han'an, Kjeld Binger
Independent non-executive directors:	Xu Bailin, Xie Zhuang, Fung Ching Simon

Three independent non-executive directors of the Company have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence.

For the six months ended 30 June 2006, the composition of the board had the following changes:

On 27 January 2006, Mr Zhang Cong was appointed as an executive director and the chairman of Company in replacement of Mr. Chen WenLi.

On 25 May 2006, Mr. Dong Duiguo was appointed as an executive director of the Company in replacement of Mr. Huang Qiu.

There is no relationship between directors that is disclosable under applicable rules and regulations.

Nomination of directors

- i. The Company does not have a nomination committee at present.
- ii. The board had adopted a nomination procedure and process during the year, according to which a qualified shareholders group may nominate a candidate for directorship and put the nomination onto the board for vote. If more than a half of the directors have voted for the nomination, it would then be put onto a general meeting as an ordinary resolution seeking for shareholders' approval.
- iii. Criteria for director selection and nomination:
 - 1) the candidate shall meet the conditions for a listed company director as required by the PRC Company Law, Securities Law and the Listing Rules of Hong Kong Stock Exchange;
 - 2) the candidate shall meet the requirements as prescribed in the Company's articles of association;
 - 3) the candidate shall be regarded as having a high moral standard and relevant professional expertise, and being able to act in good faith, prudence and diligence, and to avoid any material and potential conflict of interest or of role with the Company.
- iv. Non-executive directors shall hold office for a term of 3 years, and shall then be eligible for re-election and, if re-elected, their tenures may continue thereafter.
- v. For the six months ended 30 June 2006, Mr. Zhang Cong had been appointed as an executive director, Mr Dong Guiguo had been appointed as an executive director and Mr. Wang Zhen had been re-elected as an executive director. The selection, nomination and appointment of Mr. Zhang Cong and Mr. Dong Guiguo and Mr. Wang Zhen were in line with the director nomination criteria mentioned above.

CORPORATE GOVERNANCE REPORT

Board meetings

- i. The board of directors of the Company held 2 meetings during the six months ended 30 June 2006.
- ii. The attendance records of the members of the board are set out below:

	Chen Wenli	Wang Zhen	Huang Qiu	Gunnar Moller	Zhang Han'an	Kjeld Binger	Xu Bailin	Xie Zhuang	Fung Ching Simon
2nd term, 14th meeting	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Zhang Cong	Wang Zhen	Huang Qiu	Gunnar Moller	Zhang Han'an	Kjeld Binger	Xu Bailin	Xie Zhuang	Fung Ching Simon
2nd term, 15th meeting	✓	✓	✓	✓	✓	✓	✓	✓	✓

Duties of Directors

- i. During the six months ended 30 June 2006, the Company had engaged legal advisory professionals to provide training for newly-appointed directors, ensuring that they had sufficient knowledge to its business and activities, and were fully aware of their duties and responsibilities under prevailing regulations, Listing Rules, applicable provisions of law and other regulatory requirements, as well as the operational and management policies of the Company.
- ii. During the six months ended 30 June 2006, two non-executive directors of the Company, Mr Kjeld Binger and Mr. Zhang Han'an, had discharged their duties as non-executive directors.
- iii. During the six months ended 30 June 2006, each director of the Company had dedicated adequate time and effort to attend the Company's board meetings and considered the affairs of the Company.
- iv. During the six months ended 30 June 2006, all directors of the Company had complied with the Model Code as set out in Appendix 10 of the Listing Rules.
- v. The directors shall be responsible for checking the financial statements.
- vi. During the six months ended 30 June 2006, the directors have not been aware of any material affairs or circumstances which are able to gravely influence the capability of continuing operation of the Company.
- vii. The board of directors has reviewed the internal control system of the Company and subsidiaries and concluded the system effective.

Authority and practice of the board

The board has established the remuneration committee and audit committee. Each of these committees has established its own written terms of reference and functions effectively on this basis.

Details of terms of reference of the board and the management and the respective areas to exercise their authority are set out in the articles of association of the Company.

The board has the power to make decision or formulate plan on the following:

- i. to decide on the operational plan and investment plan of the Company;
- ii. to formulate the Company's proposed annual financial budget and final accounts;
- iii. to formulate plans for profit distribution and recovery of losses;
- iv. to formulate plans for increases in or reductions of the Company's registered capital and the issue of corporate bonds;
- v. to prepare plans for merger, division and dissolution of the Company;
- vi. to decide on the set up of the Company's internal management structure;
- vii. to appoint or dismiss the Company's general manager and pursuant to the general manager's nominations to appoint or dismiss the vice general managers and other senior officers of the Company (includes financial officers) and decide upon their remuneration;
- viii. to formulate the Company's basic management system;
- ix. to formulate proposals for amendment of the articles of association of the Company;
- x. to formulate proposals for major acquisitions or disposals of the Company.

The management may make decisions on the following:

- i. to coordinate the implementation of the Company's annual business and investment plans;
- ii. to formulate plans for the establishment of the Company's internal management structure;
- iii. to formulate the basic administration system of the Company;
- iv. to formulate the basic rules of the Company;
- v. to recommend the appointment and dismissal of vice managers and other senior officers (include financial officers) of the Company;

CORPORATE GOVERNANCE REPORT

- vi. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the board).

The board of the Company acts in strict compliance with relevant requirements of the Company Law, its articles of association and the Listing Rules.

Securities transactions by the directors

- i. The Company has not adopted a code for securities transactions by directors on terms more exacting than the required standard of the Model Code due to the fact that most directors of the Company are Mainland China persons whose investment in H shares are subject to legal restriction from the PRC government;
- ii. Following specific enquiry made with all directors, none of the directors of the Company failed to comply with the required standard set out in the Model Code regarding securities transactions by the directors.

Remuneration of Directors and Senior Management

A remuneration committee has been set up by the Company. It is a sub-committee under the board which is responsible for giving advice to the board on overall remuneration policies of directors and senior management of the Company.

Composition of the remuneration committee: Mr Xie Zhuang, an independent non-executive director, is the chairman. The other members of the committee are Mr Fung Ching Simon, an independent non-executive director, and Mr Huang Qiu, a former executive director and the chief financial officer of the Company.

During the six months ended 30 June 2006, the Company has held one meeting of the remuneration committee.

In the meeting of the remuneration committee held on 21 March 2006, the directors' remuneration for the year 2005 and the directors' remuneration policies for the year 2006 have been approved.

Directors' remuneration policies: each of the chairman and executive directors receives director's fee of RMB70,000. Each of the non-executive directors receives director's fee of RMB50,000. Each of the independent non-executive directors receives director's fee of RMB80,000. Salaries to executive directors are paid by reference to their respective positions in the salary scale. Non-executive directors and independent non-executive directors are not entitled to any salary. Such remuneration policies came into effect after review by the board and approval granted in general meeting prior to the Company's listing. These policies are subject to review and approval in each year's annual general meeting.

Payment of performance bonus and other incentive bonuses is based on actual financial results achieved by the Company, such that as much as 2 per cent of consolidated net profit for previous financial year as audited by international auditors would be allocated and paid-out to directors, supervisors and members of senior management.

Audit Committee

An Audit Committee has been set up under the board of directors. The duties of the Audit Committee are to review the appointment of external auditors, to determine the auditors' remuneration, to monitor the work of auditors and to review the Company's internal control and reporting system. The Audit Committee comprises three independent non-executive directors, namely Xu Bailing, Xie Zhuang and Fung Ching, Simon, with Xu Bailing acting as the chairman.

During the six months ended 30 June 2006, the Audit Committee has held one meeting; all of the three committee members have attended the meeting.

The Audit Committee has reviewed the 2005 annual report, auditors report, considered the re-appointment of auditors and approved the report in respect of their remuneration and the execution of continuing connected transactions and prepared the work report at the first meeting in 2006.

The Audit Committee approved the re-appointment of PricewaterhouseCoopers as the international auditors of the Company. The Board of Directors has no disagreement.

Shareholding Interests of Senior Management

None of the senior management members held any shareholding interests in the Company during the period.

Shareholders' Right

In respect of protecting the rights of the Company, the articles of association set out the requirements for shareholders to request a special general meeting to be convened: When two or more shareholders holding in aggregate ten per cent (10%) or more (consists of ten per cent (10%)) of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and substance to the board to convene a special general meeting with an agenda of the meeting. A special general meeting is required to be held as soon as practicable upon receipt by the board of such written request.

For the six months ended 30 June 2006, the board did not receive any requests from shareholders to convene a special general meeting.

CORPORATE GOVERNANCE REPORT

Investors Relations

- 1 There was no alteration of material nature to the articles of association of the Company during the first half of 2006;
- 2 Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Other Information in the 2006 interim report;
- 3 As at 30 June 2006, 226,913,000 H shares of the Company were held by the public.
- 4 The Company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors. The financial public relations firm will answer the queries brought by investors and maintain active communications with investors and fund managers. The Company will publish the key operation data on a monthly basis and report the Company's latest development in relevant media and at the Company's website by means of press releases and announcements.

By order of the Board

Zhang Cong

Chairman

Hainan Province, the PRC

14 September 2006

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Note	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
ASSETS			
Non-current assets			
Land use right	5	165,512	166,821
Property, plant and equipment	5	1,107,917	1,014,279
		<u>1,273,429</u>	<u>1,181,100</u>
Current assets			
Inventories, at cost		3,832	2,750
Trade receivables, net	6	254,708	189,674
Other receivables and prepayments		14,321	12,592
Due from related parties	16(c)	14,863	1,275
Time deposits		84,468	84,468
Cash and cash equivalents		214,768	245,408
		<u>586,960</u>	<u>536,167</u>
Total assets		<u>1,860,389</u>	<u>1,717,267</u>
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	7	1,100,250	1,100,250
Other reserves	8	137,223	137,223
Retained earnings		381,448	301,806
		<u>1,618,921</u>	<u>1,539,279</u>
Minority interests		<u>606</u>	<u>598</u>
Total equity		<u>1,619,527</u>	<u>1,539,877</u>
Liabilities			
Non-current liabilities			
Borrowings – secured	9	39,000	53,000
Deferred income tax liabilities		11,142	11,262
		<u>50,142</u>	<u>64,262</u>
Current liabilities			
Trade and other payables	10	146,974	59,906
Current income tax liabilities		4,746	3,222
Borrowings – secured	9	39,000	50,000
		<u>190,720</u>	<u>113,128</u>
Total liabilities		<u>240,862</u>	<u>177,390</u>
Total equity and liabilities		<u>1,860,389</u>	<u>1,717,267</u>

The notes on pages 25 to 40 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Unaudited Six months ended 30 June 2006 RMB'000	Audited 2005 RMB'000
Revenues			
Aeronautical		122,730	128,828
Non-aeronautical		53,824	45,121
		<hr/>	<hr/>
	4	176,554	173,949
Business tax and levies		(6,380)	(6,049)
Cost of services and sale of goods	11	(55,806)	(47,744)
		<hr/>	<hr/>
Gross profit		114,368	120,156
Selling and distribution costs	11	(1,509)	(1,688)
Administrative expenses	11	(28,572)	(33,738)
Other gains		3,457	2,428
		<hr/>	<hr/>
Profit from operations		87,744	87,158
Finance costs		(1,477)	–
		<hr/>	<hr/>
Profit before income tax		86,267	87,158
Income tax expense	12	(6,617)	(6,760)
		<hr/>	<hr/>
Profit for the period		79,650	80,398
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		79,642	80,890
Minority interest		8	(492)
		<hr/>	<hr/>
		79,650	80,398
		<hr/>	<hr/>
		RMB	RMB
Earnings per share			
– basic and diluted	13	17 cents	17 cents
		<hr/>	<hr/>
		RMB'000	RMB'000
Dividends	14	–	39,750
		<hr/>	<hr/>

The notes on pages 25 to 40 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the Company			Minority interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000		
Audited balance as at 1 January 2005	1,100,250	114,945	247,008	1,028	1,463,231
Profit/(loss) for the period	–	–	80,890	(492)	80,398
2004 final dividend	–	–	(35,018)	–	(35,018)
Audited balance as at 30 June 2005	<u>1,100,250</u>	<u>114,945</u>	<u>292,880</u>	<u>536</u>	<u>1,508,611</u>
Audited balance as at 1 January 2006	1,100,250	137,223	301,806	598	1,539,877
Profit for the period	–	–	79,642	8	79,650
Unaudited balance at 30 June 2006	<u>1,100,250</u>	<u>137,223</u>	<u>381,448</u>	<u>606</u>	<u>1,619,527</u>

The notes on pages 25 to 40 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

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	Unaudited Six months ended 30 June 2006 RMB'000	Audited 2005 RMB'000
Cash flows from operating activities		
Cash generated from operations	23,300	82,816
Interest paid	(3,053)	(3,727)
Income tax paid	(5,213)	(3,940)
	<hr/>	<hr/>
Net cash generated from operating activities	15,034	75,149
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property, plant and equipment	(22,965)	(85,007)
Increase in time deposits	–	(853)
Interest received	2,291	2,423
	<hr/>	<hr/>
Net cash used in investing activities	(20,674)	(83,437)
	<hr/>	<hr/>
Cash flows from financing activities		
Repayment of borrowings	(25,000)	–
Dividends paid to the Company's equity holders	–	(35,018)
	<hr/>	<hr/>
Net cash used in financing activities	(25,000)	(35,018)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(30,640)	(43,306)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of the period	245,408	379,976
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	214,768	336,670
	<hr/>	<hr/>

The notes on pages 25 to 40 form an integral part of this unaudited condensed consolidated interim financial information.

1 GENERAL INFORMATION

Hainan Meilan International Airport Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 28 December 2000. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 18 November 2002. The Company and its subsidiaries (together as the “Group”) are mainly engaged in the operation of the Meilan Airport in Hainan, the PRC (the “Meilan Airport”) and certain ancillary commercial businesses.

The unaudited condensed consolidated interim financial information is presented in thousands of Renminbi (RMB’000), unless otherwise stated. This unaudited condensed consolidated interim financial information has been approved for issue by the Board of Directors on 14 September 2006.

In the opinion of the Directors, the ultimate holding company is Haikou Meilan International Airport Company Limited, a company established in the PRC with limited liability.

2 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with International Accounting Standards 34, ‘Interim financial reporting’ promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

Amendment to IAS 19, ‘Actuarial gains and losses, group plans and disclosures’

Amendment to IAS 39, Amendment to ‘The fair value option’

Amendment to IAS 21, Amendment ‘Net investment in a foreign operation’

Amendment to IAS 39, Amendment ‘Cash flow hedge accounting of forecast intragroup transactions’

Amendment to IAS 39 and IFRS 4, Amendment ‘Financial guarantee contracts’

3 ACCOUNTING POLICIES *(continued)*

IFRS 6, 'Exploration for and evaluation of mineral resources'

IFRIC 4, 'Determining whether an arrangement contains a lease'

IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds'

IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded the following interpretation is relevant to the Group:

IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts and considered this interpretation has no significant impact on the recognition and reclassification of the Group's leases.

Other amendments and interpretations are not relevant to the Group.

4. REVENUES AND SEGMENT INFORMATION

The Group conducts its business within one business segment – the business of operating an airport and provision of related services in the PRC. As the products and services provided by the Group are all related to the operation of an airport and subject to similar business risks, no segment income statement has been prepared by the Group for the six months ended 30 June 2006. The Group also operates within one geographical segment because its revenues are primarily generated and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

Analysis of revenue by category	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Aeronautical:		
Passenger charges	47,831	49,528
Aircraft movement fees and related charges	22,048	21,687
Airport fee	43,185	44,289
Ground handling services income	9,666	13,324
	122,730	128,828
Non-aeronautical:		
Retailing	5,573	7,131
Franchise fee	14,040	7,050
Rental	8,654	8,808
Tourism	11,796	10,384
Advertising	5,673	4,269
Car parking	2,778	2,840
Others	5,310	4,639
	53,824	45,121
Total revenues	176,554	173,949

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 CAPITAL EXPENDITURE

	Land use right RMB'000	Property, plant and equipment RMB'000
Six months ended 30 June 2005		
Opening net book amount 1 January 2005	170,131	860,120
Additions	–	88,734
Disposals	–	(55)
Amortisation/depreciation	(1,463)	(16,740)
	<u>168,668</u>	<u>932,059</u>
Six months ended 30 June 2006		
Opening net book amount at 1 January 2006	166,821	1,014,279
Additions	–	113,232
Disposals	–	(4)
Amortisation/depreciation	(1,309)	(19,590)
	<u>165,512</u>	<u>1,107,917</u>

6 TRADE RECEIVABLES, NET

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade receivables from third parties	25,451	29,466
Less: provision for impairment of receivables	(2,248)	(2,248)
	<u>23,203</u>	<u>27,218</u>
Trade receivables from related parties (Note 16(c))	75,695	49,255
Airport fee receivable	155,810	113,201
	<u>254,708</u>	<u>189,674</u>

6 TRADE RECEIVABLES, NET *(continued)*

As at 30 June 2006, the ageing analysis of the trade receivables from third parties was as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
0 – 90 days	17,747	20,437
91 – 180 days	5,136	3,363
181 – 365 days	96	2,530
Over 365 days	224	888
	23,203	27,218

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

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

As at 30 June 2006, the ageing analysis of the trade receivables from related parties was as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
0 – 90 days	38,756	45,514
91 – 180 days	25,486	2,242
181 – 365 days	9,814	1,181
Over 365 days	1,639	318
	75,695	49,255

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 TRADE RECEIVABLES, NET *(continued)*

As at 30 June 2006, the original amount, fair value and ageing analysis of the airport fee receivable was as follows:

	30 June 2006		31 December 2005	
	Original amount RMB'000	Fair value RMB'000	Original amount RMB'000	Fair value RMB'000
0 – 90 days	17,961	17,762	22,124	21,899
91 – 180 days	25,225	24,946	18,914	18,721
181 – 365 days	41,038	40,584	44,289	43,838
Over 365 days	73,329	72,518	29,040	28,743
	<u>157,553</u>	<u>155,810</u>	<u>114,367</u>	<u>113,201</u>

In accordance with the "Notice regarding Questions on Levy and Management Methods of Civil Aviation Airport Construction Fee (the "Notice")" issued jointly by General Administration of Civil Aviation of China (the "CAAC") and Ministry of Finance of the PRC (the "Ministry of Finance") on 22 July 2004, with effect from 1 September 2004, the airport fee has been collected together with air tickets sold by the airlines companies instead of being collected at airport directly by the Company. Based on the Notice, the Company should eventually receive the Airport Fee from the Ministry of Finance. After the change in the collection procedures in September 2004, the Company has not collected any airport fee because the relevant government authorities are still in the process of finalising the detailed procedures for the payment of the airport fee to the Company.

At 31 December 2005, the directors of the Company assessed the receivable amounting to RMB114,367,000 would be fully recoverable in the middle of 2006. At 30 June 2006, this amount has not yet been received and the directors have made a re-assessment of its recoverability. Based on actions now taken and the discussion with the relevant government authorities by the management, the directors considered the accumulated balance as at 30 June 2006 amounting to RMB157,553,000 would ultimately be fully recoverable. During the six months ended 30 June 2006, the Company had recognised an impairment loss of RMB1,743,000 (2005: RMB1,166,000), considering the cash flows and discounted using the effective interest rate of 2.25% per annum. The difference between the face and fair value of the amount is recognised as interest income and included in "Other gains" in the subsequent period.

7 SHARE CAPITAL

	RMB'000
At 31 December 2005 and 30 June 2006	
Share capital registered, issued and fully paid	
246,300,000 Domestic shares of RMB 1 each	246,300
226,913,000 H shares of RMB 1 each	226,913
	<hr/>
	473,213
Share premium on group reorganisation in 2000	69,390
Share premium on issue net of issuing expenses	557,647
	<hr/>
	1,100,250
	<hr/>

8 OTHER RESERVES

Until 31 December 2005, in accordance with the relevant laws and regulations of the PRC and the Articles of Association of the Company, when distributing the net profit of each year, the Company shall set aside 10% of its profit after taxation (based on the Company's local statutory financial statements) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% for the statutory public welfare fund. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees. Title to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Starting from 1 January 2006, pursuant to revised "Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by Ministry of Finance ("MOF") (Cai Qi [2006]No.67), the Company shall cease to provide for the statutory public welfare fund out of appropriation of net profit. The balance of public welfare fund as at 31 December 2005 is converted into statutory reserve. The profit appropriation to statutory reserve fund remained unchanged.

9 BORROWINGS

As at 30 June 2006, the borrowings were borrowed from the banks to finance the construction of the airport terminal, the related premises and facilities and were secured by a floating charge over the Company's revenues.

As at 30 June 2006, loans of RMB78,000,000 (As at 31 December 2005: RMB103,000,000) denominated in RMB bear interest at commercial rates of 6.39% per annum (2005: 5.76% per annum) with maturities through 2013 (As at 31 December 2005: through 2013).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 BORROWINGS *(continued)*

The bank borrowings were repayable as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within one year	39,000	50,000
In the second year	21,000	28,000
In the third to fifth year	8,000	17,000
After five years	10,000	8,000
	78,000	103,000
Less: Current portion of borrowings included in current liabilities	(39,000)	(50,000)
	39,000	53,000

10 TRADE AND OTHER PAYABLES

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade payables	2,594	2,621
Other payables	117,016	36,007
Deposit received	1,283	1,326
Due to related parties <i>(Note 16(c))</i>	26,081	19,952
	146,974	59,906

At 30 June 2006, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
0 – 90 days	22,786	17,054
91–180 days	875	859
181–365 days	4,292	484
Over 365 days	311	–
	28,264	18,397

11 EXPENSES BY NATURE

Expenses included in cost of services and sale of goods, selling and distribution costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Cost of goods and services	22,867	20,904
Depreciation of property, plant and equipment (Note 5)	19,590	16,740
Amortisation of land use right (Note 5)	1,309	1,463
Employee benefit expense	16,124	16,231
Impairment and amortisation of goodwill	–	3,650
Other taxes	2,464	2,505
Auditors' remuneration	1,033	1,064
Consulting fee	2,139	1,911
Operating lease rentals – building	255	255
Impairment of trade receivables	1,743	35

12 INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group had no estimated assessable profits arising in Hong Kong during the period (for the six months ended 30 June 2005: Nil). Taxation in the income statement represents provision for PRC enterprise income tax.

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Current income tax		
– outside Hong Kong	6,737	6,880
Deferred income tax	(120)	(120)
Income tax expense	6,617	6,760

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 INCOME TAX EXPENSE *(continued)*

The difference between the taxation charge in the consolidated income statement and the amount which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Profit before taxation	<u>86,267</u>	<u>87,158</u>
Tax calculated at a domestic rate applicable to profits in the Hainan Province	12,940	13,074
Effect of tax holidays	(6,473)	(6,732)
Tax loss not recognised	36	267
Expenses not deductible for tax purpose	<u>114</u>	<u>151</u>
Income tax expense	<u>6,617</u>	<u>6,760</u>

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (for the six months ended 30 June 2005: 15%) on the taxable income as reported in their statutory financial statements which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

Pursuant to the approval documents issued by Hainan Qionghua State Tax Bureau, the Company has been granted full exemption from enterprise income tax from 2000 to 2004 and a 50% reduction from 2005 to 2009.

13 EARNINGS PER SHARE

– Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	<u>79,642</u>	<u>80,890</u>
Weighted average number of ordinary shares in issue (thousands)	<u>473,213</u>	<u>473,213</u>
Basic earnings per share (RMB per share)	<u>17 cents</u>	<u>17 cents</u>

– Diluted

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2006 and 2005.

14 DIVIDENDS

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interim, proposed, of nil (six months ended 30 June 2005: RMB 8.4 cents) per ordinary share	<u>–</u>	<u>39,750</u>

At a meeting held on 14 September 2006, the Directors declared no interim dividend for six months ended at 30 June 2006.

15 COMMITMENTS

(a) Capital commitments

Capital expenditure in respect of buildings and improvements at the balance sheet date but not yet incurred is as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Contracted but not provided for	2,744	41,107
Authorised but not contracted for	255	76,770
	2,999	117,877

(b) Operating lease commitments – where the Group is the lessee

The Group leases offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Not later than 1 year	720	1,949

(c) Operating lease commitments – where the Group is the lessor

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

	30 June 2006 RMB'000	31 December 2005 RMB'000
Not later than 1 year	16,474	19,262
Later than 1 year and not later than 5 years	27,615	16,387
Over 5 years	1,249	–
	45,338	35,649

16 MATERIAL RELATED PARTY TRANSACTIONS

The Company is controlled by Haikou Meilan International Airport Co., Ltd, established in the PRC which owns 50% of the Company's shares. Copenhagen Airports A/S ("CPHA") owns 20% of the Company's shares. Hainan Airlines Company Limited ("Hainan Airlines") and HNA Group Co., Ltd. ("HNA Group") owns 1.2% and 0.8 of the Company's shares respectively. The remaining 28% of the shares are widely held.

- a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the period:

Name of related party	Relationship with the Company	Nature of transactions	Six months ended 30 June	
			2006 RMB'000	2005 RMB'000
Revenues:				
Hainan Airlines	Shareholder	Income for the provision of customary airport ground services	33,857	39,371
		Rental income for the leasing of office and commercial space	4,061	3,350
		Income from franchise fee for the operation of the cargo centre	3,000	3,000
China Southern Airlines Co., Ltd. ("Southern Airlines")	Promoter	Income for the provision of customary airport ground services	20,353	22,167
		Rental income for the leasing of office and commercial space	3,198	3,081
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	1,032	992
Hainan Airlines Food Company Limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	1,034	973

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

- a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the period: *(continued)*

Name of related party	Relationship with the Company	Nature of transactions	Six months ended 30 June	
			2006	2005
Expenses:				
Haikou Meilan International Airport Co. Ltd.	Parent company	Airport composite services charged by the Parent Company	7,773	5,579
		Rental expense paid for the leasing of office and commercial space	255	255
HNA Group	Shareholder	Logistic composite services charged by HNA Group	5,158	5,362
Hainan Airlines Aviation Information System Co. Ltd. ("HNAAIS")	Subsidiary of Hainan Airlines	Information system maintenance services	1,040	600
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	1,447	1,238
Sharing of customary airport ground services income:				
Haikou Meilan International Airport Co. Ltd.	Parent Company	Sharing of customary airport ground services income by the Parent Company	23,850	25,109

(b) Key management compensation

	Six months ended	
	30 June 2006	30 June 2005
	RMB'000	RMB'000
Salaries and other short-term employee benefits	409	352
Bonuses	150	145
Retirement scheme contributions	46	35
	605	532

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) As at 30 June 2006, balances with related parties comprised:

	30 June 2006 RMB '000	31 December 2005 RMB '000
Trade receivables from related parties:		
Hainan Airlines <i>(Note)</i>	56,570	24,929
HNA Group	568	5,727
Southern Airlines	13,958	15,338
Hainan Food	2,581	1,724
Xiamen Airlines	1,039	1,015
Others	979	522
	<hr/> 75,695 <hr/>	<hr/> 49,255 <hr/>
Other receivables from related parties:		
Hainan Da Lung Enterprise Co., Ltd.	–	1,162
Haikou Meilan International Airport Co., Ltd.	14,652	–
Sanya Phoenix International Airport Company Limited	19	–
Others	192	113
	<hr/> 14,863 <hr/>	<hr/> 1,275 <hr/>
	<hr/> 90,558 <hr/>	<hr/> 50,530 <hr/>
Payable to related parties:		
Haikou Meilan International Airport Co., Ltd.	20,152	16,508
CPHI	4,576	3,129
Hainan Airlines	1,179	310
Others	174	5
	<hr/> 26,081 <hr/>	<hr/> 19,952 <hr/>

Note: An amount of RMB30,000,000 was settled in August 2006.

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) As at 30 June 2006, balances with related parties comprised: *(continued)*

Trade receivables from related parties are unsecured, interest-free and with a credit period of 1 to 3 months.

Other balances due from/to related parties are unsecured, interest-free and without fixed terms of repayment, unless otherwise stated in notes above.