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瑞港國際機場集團股份有限公司

Regal International Airport Group 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 2018

FINANCIAL HIGHLIGHTS

- Total revenue was RMB926.34 million
(for the six months ended 30 June 2017: RMB738.06 million)
- Revenue from aeronautical business was RMB487.27 million
(for the six months ended 30 June 2017: RMB420.74 million)
- Revenue from non-aeronautical business was RMB439.07 million
(for the six months ended 30 June 2017: RMB317.32 million)
- Net profit attributable to shareholders was RMB371.84 million
(for the six months ended 30 June 2017: RMB312.86 million)
- Earnings per share was RMB0.79
(for the six months ended 30 June 2017: RMB0.66)

BUSINESS HIGHLIGHTS

- The passenger throughput recorded 12.3459 million
(for the six months ended 30 June 2017: 11.4516 million)
- Aircraft takeoff and landing reached 83,103 times
(for the six months ended 30 June 2017: 79,111 times)
- Cargo throughput was 179,308.30 tons
(for the six months ended 30 June 2017: 161,999.30 tons)

* *For identification purposes only*

RESULTS

The board of directors (the “**Directors**”) of Regal International Airport Group Company Limited (formerly HNA Infrastructure Company Limited) (the “**Company**” or “**Meilan Airport**”) (the “**Board**”) is pleased to announce the unaudited financial position and operating results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018, which have been reviewed by the audit committee of the Company (the “**Audit Committee**”), together with the comparative figures for the corresponding period of 2017.

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

CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2018	2017
	Note(s)	RMB	RMB
		Unaudited	Unaudited
Revenue	2	926,341,233	738,060,024
Less: Cost of sales	3	(339,646,053)	(297,343,326)
Taxes and surcharges		(15,877,336)	(8,364,633)
Selling and distribution expenses		(1,642,992)	(1,728,444)
General and administrative expenses	3	(38,368,024)	(34,654,293)
Finance expenses-net	4	(80,519,643)	(17,319,635)
Expected credit lose of financial assets		(1,004,207)	-
Add: Losses on disposals of assets		(59,227)	(2,041,933)
Investment income	5	39,635,316	35,483,315
Including: Share of profit of associates		39,635,316	35,435,107
Other income		3,873,131	4,892,400
Operating profit		492,732,198	416,983,475
Add: Non-operating income		777,272	1,081,676
Less: Non-operating expenses		(23,551)	-
Total profit		493,485,919	418,065,151
Less: Income tax expenses	6	(117,705,550)	(98,805,889)

		Six months ended 30 June	
		2018	2017
	<i>Note(s)</i>	RMB	RMB
		Unaudited	Unaudited
Net profit		<u>375,780,369</u>	<u>319,259,262</u>
Attributable to shareholders of the Company		371,841,595	312,861,564
Minority interests		3,938,774	6,397,698
Other comprehensive income, net of tax		<u>961,533</u>	<u>(26,209,471)</u>
Attributable to shareholders of the Company		961,533	(26,209,471)
Other comprehensive income that will be subsequently reclassified to profit or loss		961,533	(26,209,471)
Share of the other comprehensive income of the investee accounted for using equity method that will be subsequently reclassified to profit and loss		<u>961,533</u>	<u>(26,209,471)</u>
Total comprehensive income		<u><u>376,741,902</u></u>	<u><u>293,049,791</u></u>
Earnings per share			
— Basic and diluted earnings per share	7	<u><u>0.79</u></u>	<u><u>0.66</u></u>

CONSOLIDATED BALANCE SHEET

		30 June 2018	31 December 2017
	<i>Note(s)</i>	<i>RMB</i>	<i>RMB</i>
		Unaudited	Audited
ASSETS			
Current assets			
Cash at bank and on hand		210,934,344	730,521,238
Accounts receivable	9	379,642,886	331,266,374
Prepayments		3,683,602	3,244,160
Other receivables		12,177,551	22,371,550
Inventories		882,088	345,830
Other current assets		<u>-</u>	<u>78,619,784</u>
Total current assets		<u>607,320,471</u>	<u>1,166,368,936</u>
Non-current assets			
Long-term receivables		-	54,358,488
Long-term equity investments		1,397,593,124	1,373,582,971
Investment properties		1,272,978,332	1,272,974,299
Fixed assets		2,519,160,485	2,550,683,680
Construction in progress		1,023,897,066	892,261,651
Intangible assets		162,708,223	164,571,183
Long-term prepaid expenses		7,123,503	7,520,928
Deferred tax assets		7,062,644	7,045,112
Other non-current assets		<u>1,582,406,473</u>	<u>1,588,783,218</u>
Total non-current assets		<u>7,972,929,850</u>	<u>7,911,781,530</u>
Total assets		<u>8,580,250,321</u>	<u>9,078,150,466</u>

		30 June	31 December
		2018	2017
	<i>Note(s)</i>	RMB	RMB
		Unaudited	Audited
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable	10	135,813,302	77,926,873
Advances from customers		-	25,401,632
Contract liabilities		33,222,028	-
Employee benefits payable		37,466,977	36,627,653
Taxes payable		218,212,404	71,422,251
Other payables		975,059,678	710,909,107
Current portion of non-current liabilities		<u>1,387,183,309</u>	<u>215,751,426</u>
Total current liabilities		<u>2,786,957,698</u>	<u>1,138,038,942</u>
Non-current liabilities			
Long-term borrowings		-	560,003,253
Debentures payable	11	518,198,983	1,813,305,592
Deferred income		14,920,000	-
Long-term payables		804,038,941	1,458,673,787
Long-term employee benefits payable		128,468	191,064
Other non-current liabilities		<u>51,728,248</u>	<u>15,944,540</u>
Total non-current liabilities		<u>1,389,014,640</u>	<u>3,848,118,236</u>
Total liabilities		<u>4,175,972,338</u>	<u>4,986,157,178</u>
Shareholders' equity			
Share capital		473,213,000	473,213,000
Capital surplus		813,135,400	829,722,095
Surplus reserve		246,394,231	246,394,231
Other comprehensive income		1,692,237	730,704
Retained earnings		<u>2,834,456,948</u>	<u>2,504,993,353</u>

	30 June 2018	31 December 2017
<i>Note(s)</i>	RMB	RMB
	Unaudited	Audited
Total equity attributable to shareholders of the Company	4,368,891,816	4,055,053,383
Minority interests	<u>35,386,167</u>	<u>36,939,905</u>
Total equity	<u>4,404,277,983</u>	<u>4,091,993,288</u>
Total liabilities and equity	<u>8,580,250,321</u>	<u>9,078,150,466</u>
Net current (liabilities)/asset	<u>(2,179,637,227)</u>	<u>28,329,994</u>
Total assets less current liabilities	<u>5,793,292,623</u>	<u>7,940,111,524</u>

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 ended 31 December 2017.

The Ministry of Finance released the CAS 22 - Recognition and Measurement of Financial Instruments, CAS 23 - Transfer of Financial Assets, CAS 24 - Hedge Accounting and CAS 37 - Presentation of Financial Instruments (hereinafter referred to as the “**New Accounting Standards for Financial Instruments**”) along with revised CAS 14 - Revenue (the “**New Revenue Standards**”) in 2017 and the Circular of the Ministry of Finance on Revising and Issuing the Formats of Corporate Financial Statements for 2018 (Cai Kuai [2018] No. 15) in 2018. The Group has adopted the above new and amended standards on 1 January 2018. The adoption of these new and amended standards has no significant impact on the Group’s financial statements. Apart from adopting New Accounting Standards for Financial Instruments and New Revenue Standards, the accounting policies adopted in these interim financial statements are consistent with those adopted in these interim financial statements for the year ended 31 December 2017.

As at 30 June 2018, the Group recorded net current liabilities of RMB2,179,637,227 (31 December 2017: net current assets of RMB28,329,994). Meanwhile, the Company and Haikou Meilan International Airport Co., Ltd. (“**Haikou Meilan**”) are jointly constructing the Meilan Airport Phase II Expansion Project, amongst which the capex of the part the Company being responsible to construct is estimated to be RMB7.2 billion. The Company needs funding to support these construction projects and refinance of existing debts. The Group’s financing plan includes: 1) the undrawn facilities of syndicated loans of RMB3.9 billion in connection with the Meilan Airport Phase II Expansion Project; 2) the proposed additional issuance of the Company’s domestic share to Haikou Meilan and Hainan HNA Infrastructure Investment Group Co., Ltd. and H shares to public; and 3) new bank loans and asset-backed securities under negotiation. Management has prepared the Group’s cash flow forecast for next twelve months, by taking into account the expected the Group’s operating cash inflows and above financing plans, management is of the view that the Group will have sufficient funds to settle the debts when they fall due. As a result, the consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared on a going concern basis.

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 operations of the Meilan Airport and provision of services in connection with the airport operations 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	
	2018	2017
	RMB	RMB
Analysis of revenue (by nature)		
Aeronautical:		
Passenger service charges	181,727,691	158,875,392
Refund of civil aviation development fund	146,175,936	134,736,341
Ground handling service income	94,653,271	70,828,490
Fees and related charges on aircraft takeoff and landing	<u>64,717,505</u>	<u>56,302,202</u>
	487,274,403	420,742,425
Non-aeronautical:		
Franchise income	272,108,641	189,324,697
Freight and packaging income	55,790,886	45,715,562
Rental income	31,461,960	22,865,136
VIP room income	14,571,432	12,096,986
Car parking income	13,471,810	8,672,624
Hotel income	7,278,565	-
Other income	<u>44,383,536</u>	<u>38,642,594</u>
	439,066,830	317,317,599
Total revenue	<u>926,341,233</u>	<u>738,060,024</u>

- (a) According to the Notice of the Ministry of Finance on Abolition of the Policy of Recognition of Refund of the Civil Aviation Development Fund to the Three Listed Airports including the Capital Airport as Revenue promulgated by the Ministry of Finance of the People’s Republic of China on 29 May 2018, the policy previously enjoyed by the Company to recognize the refund of the Civil Aviation Development Fund as the revenue of the Company will be cancelled on 29 November 2018. After the abolition of the above policy, the Company will not recognize the refund of the Civil Aviation Development Fund as revenue.

3. COSTS/EXPENSES BY NATURE

Cost of sales, selling and distribution expenses and general and administrative expenses include:

	Six months ended 30 June	
	2018	2017
	RMB	RMB
Depreciation of fixed assets	63,711,215	48,923,576
Depreciation of investment properties	17,013,394	-
Amortisation of intangible assets	<u>1,862,960</u>	<u>2,000,839</u>

4. FINANCIAL EXPENSES-NET

	Six months ended 30 June	
	2018	2017
	RMB	RMB
Interest expenses	101,992,330	113,965,149
Including: debentures payable	66,671,833	68,778,284
bank borrowings	32,027,355	41,141,881
finance lease	3,293,142	4,044,984
Net foreign exchange losses/(gains)	15,768	(7,845,140)
Less: Interest expenses and exchange losses capitalisation	(5,574,176)	(74,504,832)
Interest income	(16,332,784)	(14,522,791)
Others	<u>418,505</u>	<u>227,249</u>
	<u>80,519,643</u>	<u>17,319,635</u>

5. INVESTMENT INCOME

	Six months ended 30 June	
	2018	2017
	RMB	RMB
Investment income from long-term equity investment of unlisted companies under equity method	39,635,316	35,435,107
Others	<u>-</u>	<u>48,208</u>
	<u>39,635,316</u>	<u>35,483,315</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 2018 (for the six months ended 30 June 2017: nil). Income tax expenses in the consolidated income statement represent provision for the PRC corporate income tax (“CIT”).

	Six months ended 30 June	
	2018	2017
	RMB	RMB
Current income tax calculated based on tax law and related regulations	117,723,083	98,104,151
Deferred income tax	<u>(17,533)</u>	<u>701,738</u>
	<u>117,705,550</u>	<u>98,805,889</u>

The applicable tax rate of the Group for the current period is 25% (for the six months ended 30 June 2017: 25%).

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
Consolidated net profit attributable to ordinary shareholders of the Company (RMB)	<u>371,841,595</u>	<u>312,861,564</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>0.79</u>	<u>0.66</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 2017: nil), diluted earnings per share equal to basic earnings per share.

8. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	<i>RMB</i>	<i>RMB</i>
Proposed 2018 interim dividend of RMB0.150 per share (2017 interim dividend: RMB0.134 per share)	<u>70,981,950</u>	<u>63,410,000</u>

During the current period, 2017 final cash dividend of RMB0.090 per share, totaling RMB42,378,000 (for the six months ended 30 June 2017: 2016 final cash dividend of RMB0.073 per share, totaling RMB34,543,000) was declared to the shareholders of the Company.

On 24 August 2018, the Board proposed 2018 interim dividend of RMB0.150 per share, calculated by issued shares of 473,213,000, totaling RMB70,981,950 (2017 interim cash dividend: RMB0.134 per share, totaling RMB63,410,000). For the six months ended 30 June 2018, this interim dividend has not been recognised as a liability in this interim financial statements.

9. ACCOUNTS RECEIVABLE

	30 June	31 December
	2018	2017
	<i>RMB</i>	<i>RMB</i>
Accounts receivable	382,126,486	332,745,767
Less: Provision for bad debts	<u>(2,483,600)</u>	<u>(1,479,393)</u>
	<u>379,642,886</u>	<u>331,266,374</u>

Credit terms granted to customers are ranging from 1 to 3 months. As at 30 June 2018, the ageing analysis of accounts receivable, based on the dates of recognition, is set out as follows:

	30 June	31 December
	2018	2017
	<i>RMB</i>	<i>RMB</i>
Within 90 days	309,642,319	305,342,252
91 to 180 days	43,075,416	21,079,854
181 to 365 days	23,199,574	5,650,314
Over 365 days	<u>6,209,177</u>	<u>673,347</u>
	<u>382,126,486</u>	<u>332,745,767</u>

10. ACCOUNTS PAYABLE

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

	30 June 2018 RMB	31 December 2017 RMB
Within 90 days	55,410,906	56,739,658
91 to 180 days	53,568,372	14,118,346
Over 180 days	<u>26,834,024</u>	<u>7,068,869</u>
	<u>135,813,302</u>	<u>77,926,873</u>

11. DEBENTURES PAYABLE

	31 December 2017 RMB	Amortization of premium RMB	30 June 2018 RMB
Long-term debentures payable	1,813,305,592	2,218,565	1,815,524,157
Less: Debentures payable due within one year	<u>-</u>		<u>(1,297,325,174)</u>
	<u>1,813,305,592</u>		<u>518,198,983</u>

Related information is as follows:

	Par value RMB	Issuance date	Maturity	Issuance amount RMB
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>	2 September 2016	3 years	<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:

	Interest accrued			
	31 December 2017 RMB	Interest accrued in current period RMB	Interest paid in current period RMB	30 June 2018 RMB
Meilan debentures (a)	49,400,000	31,200,000	(62,400,000)	18,200,000
Guohai private equity debentures I (b)	24,800,000	18,148,611	(36,500,000)	6,448,611
Guohai private equity debentures II (c)	<u>11,454,247</u>	<u>17,323,222</u>	<u>-</u>	<u>28,777,469</u>
	<u>85,654,247</u>	<u>66,671,833</u>	<u>(98,900,000)</u>	<u>53,426,080</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 2018, the Group's total revenue amounted to RMB926,341,233, representing an increase of 25.51% as compared to the corresponding period of 2017. Net profit attributable to shareholders amounted to RMB371,841,595, representing an increase of 18.85% as compared to the corresponding period of 2017. Earnings per share amounted to RMB0.79 (the corresponding period of 2017: earnings per share RMB0.66).

OPERATING ENVIRONMENT

CIVIL AVIATION INDUSTRY OF CHINA

In the first half of 2018, China's civil aviation industry adhered as always to the bottom line of flight safety by laying foundation, strengthening basic capabilities, carrying out industry-wide comprehensive publicity and education on work safety of practitioners, enhancing management of hidden dangers in small and medium-sized airports and fully promoting adjustment and reform of supervision models, striving to enhance accident investigation and the capability of emergency handling. In respect of service quality improvement, the 2018 National Civil Aviation Work Conference (二零一八年全國民航工作會議) identified eight service commitments covering the entire process of travels. In the first half of 2018, realtime multi-way dissemination of dynamic information for flight routes was basically achieved; 12 airports having passenger throughput exceeding 10 million realized whole-process electronic passenger check-in, security check and boarding; airport catering "with same price and quality in same city" became an important content for airport service evaluation; the application of domestic baggage self-service consignment, RFID (Radio Frequency Identification), baggage whole-process tracking, etc., was actively promoted, and airport baggage collection achieved visualization; on-board portable electronic devices were open for use; rescheduling and cancelling services were improved, charging standard was standardized, procedures for rescheduling and cancelling services were simplified; administrative measures for food safety in civil aviation operations were drafted; service projects such as "Baby Rooms" and "military priority according to law" were optimized, accessibility facilities and equipment were improved, and disabled military men (police) Internet discount ticket purchase was implemented; a complaint supervision linkage mechanism was established, while 38 airlines and 14 airports domestically achieved linkage with the centralized complaint acceptance platform.

In the first half of 2018, the Civil Aviation Administration of China ("**Civil Aviation Administration**") actively promoted independent, enhanced and applicable navigation regulations and standard systems, and 11 parts of regulations and the baskets of amendments covering business licenses, personnel qualifications,

airport construction, airworthiness management, accident investigation, security management, etc. have entered the review procedures, which will be beneficial to the further development of China's general aviation industry. As of the first half of 2018, there were 93 licensed new general airports, 39 new aviation enterprises and 118 new general aircrafts. As of the first half of 2018, there were 231 civil aviation certified transport airports; 3,391 civil aviation aircrafts; and 2,415 general aircrafts for China's civil aviation purpose.

In the first half of 2018, the total traffic turnover of the civil aviation industry of China was 58.4 billion tons/km, the passenger traffic volume was 297 million, the cargo and mail traffic volume was 3.555 million tons and the punctuality rate was 79.52%, representing a year-on-year growth of 13%, 12.4%, 6.4% and 8.33 percentage point, respectively.

The Group will keep abreast of the development trend of the civil aviation industry of China in the second half of 2018, 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 2018, the tourism of Hainan Province maintained rapid growth. For the period ended 30 June 2018, the number of domestic and foreign tourists received in Hainan Province amounted to 36.3985 million, representing a year-on-year growth of 14.4%. The total revenue from tourism was RMB44.988 billion, representing a year-on-year increase of 17.3%.

On 14 April 2018, the Guiding Opinions of the CPC Central Committee and the State Council on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up (《中共中央國務院關於支持海南全面深化改革開放的指導意見》) (the "Opinions") were officially released. The Opinions have made four new strategic orientations for Hainan: comprehensive deepening of reforms and opening up of pilot zones; the National Ecological Civilization Experimental Zones; the International Tourism Consumption Center; and the National Major Strategic Service Support Zones. The Opinions proposed that Hainan implements a more open and convenient tax-free shopping policy for outlying islands, realizes full coverage of outlying island for tourists, increases tax-free shopping quotas, supports Hainan's opening of multinational cruise travel routes, orderly promotes the development of Xisha tourism resources to steadily open island tours; formulates convenient policies

supporting overseas patients to go to Boao Lecheng International Medical Tourism Pioneer Zones for treatment; explored the development of quiz-type sport lottery and video lotteris in large-scale international competitions; and vigorously promoted internationalization of tourism consumption in Hainan.

Furthermore, with the approval of the State Council, it is decided that from 1 May 2018, the list of countries for visa-free tours going to Hainan will be relaxed from 26 to 59, visa-free stay for foreign tourists entering Hainan will be extended to 30 days, and visa-free for tourisr groups will be relaxed to visa-free for individuals. Hainan has superior natural conditions, and the national positioning of international tourist island has enabled Hainan to play an important role of “window” in opening up to the outside world over the years. In the new historical era, implementation in Hainan the policy for 59 countries visa exemption is in line with the need for Hainan to expand and open up in a new era, which will attract more international tourists to travel to Hainan and create the brandname of international tourist destinations for Hainan, hence promoting the tourism development and internationalization of Hainan.

Hainan’s unique geographical location and strategic position have determined Hainan’s unique role in integrating and serving China’s major strategies. In implementing the “One Belt One Road” initiative, Hainan will accelerate interconnection in air and at sea with ASEAN countries, countries along the 21st Century Maritime Silk Road as well as Hong Kong, Macao and Taiwan region, laying a solid foundation for the construction of the Pilot Free Trade Zone and the Free Trade Port.

KEY TOURISM PROJECTS IN HAINAN PROVINCE

In the first half of 2018, the government at all levels of Hainan Province strove to drive the development of key tourism projects.

The Wuyuanhe Culture and Sports Center (五源河文化體育中心) is located at Changbin Road, Xiuying District, Haikou City. The project covers a total area of 6,600 mu with a total investment of over RMB30 billion. It includes “One Venue and Eight Pavilions”, accomdating commercial and Olympic park venues and supporting facilities, consisting venues for competitions, cultural and sports industry, international business, star-rated hotels, commercial offices, top-class education, ecological healthcare, premium residence and so on. With a planned resident population of over 100,000 and a daily average of over 10,000 vehicle flows, the project will become a new urban center in Haikou. The project for stadium was completed and put into use in April 2018. The stadium covers an area of 60,000 square meters and can accommodate 50,000 audiences. It will also hold more than 30 major events and concerts every year and is expected to become a venue for China’s first-class cultural, sports competitions and great events.

The Haikou Bay Nanhai Mingzhu Cruise Port Tourism Comprehensive Development Artificial Island Project (海口灣南海明珠郵輪港旅遊綜合開發人工島項目), located in the territorial waters off the west coast of Haikou City, has a planned areas of nearly 6,900 acres of sea. With the concept of “ecology + technology” and the theme of “the world’s only unique tourist destination”, the whole island is planned to become a future international integrated tourism destination integrating “tourism and holiday” and “smart ecology”.

On 28 April 2018, the Atlantis Sanya Hotel officially opened for operation. The Atlantis Sanya Hotel is located at the national coast of Haitang Bay with a total investment of RMB11 billion. Covering an area of 540,000 square meters, the hotel is jointly built by over 80 internationally renowned architectural and design institutions, with its style of design blending Eastern and Western cultures and the local culture of Qiongdao. It is a tourism complex integrating the eight business formats of resorts, entertainment, catering, shopping, performing arts, property, international exhibitions and special marine culture experiences, and a new benchmark for Hainan tourism. The official kick-off of China’s first Atlantis Hotel in Sanya will further expand the supply of high-end tourism products in Hainan, optimize the structure of tourism products, attract more domestic and foreign people to Hainan to form a new format and new hotspots of tourism consumption, playing an active role in promoting the international tourism consumption center in Hainan.

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 new seaports of Haikou Port have completed construction of the Phase I and Phase II terminals as well as eighteen 10,000-tonne grade passenger and cargo roll-on berths. Upon completion of all projects by 2020, the new seaport area will become the major collection and distribution port of Haikou City’s ferry transportation and a first-class passenger transportation hub. The area will be built into a road transportation center with intelligent loading and unloading process and a comprehensive sectional transportation organization system as well as an integrated water and land transportation hub, with an annual capacity reaching

4.8 million vehicles times and 33 million passenger times which will fully meet the transportation needs of the Qiongzhou Strait Grand Passage (瓊州海峽大通道), striving to forge Haikou Port into the “bridgehead” for Hainan to further its opening to the outside world, develop the port-oriented industry and a prosperous export-oriented economy, and deepening participation in China’s “One Belt One Road” initiative.

- As for the highways, as an important part of Tian(田)-shaped highway network of Hainan Province, the constructions of Qiongle expressway and Wanyang expressway projects are progressed as planned. In particular, Qiongle expressway has for the entire route entered the end of construction stage, and is expected to be opened to traffic by October 2018; Wanyang Expressway has completed construction of main structures of some bridges and is expected to complete construction and open to traffic in the second half of 2019. In addition, the Puqian Bridge (鋪前大橋), with a total investment of approximately RMB3,010 million, has completed construction of 80% of the total project volume and is expected to complete all construction and open for traffic at the end of 2018. By then, the bridge will be connected with Haikou Jiangdong Avenue, shortening the one-and-half-hour drive from Haikou to Wenchang to 30 minutes, improving the regional road network in Hainan, playing the radiation-driven function of Haikou and promoting the development of tourism resources along the route.
- As for the investment and construction of airports, the Danzhou airport project with a planned investment of RMB1,500 million is expected to commence construction in 2018; Sanya new airport project’s site selection has obtained approval of the Civil Aviation Administration, and are working on various pre-construction preparations as planned; Meilan Airport Phase II expansion project is also being promoted as planned, and is expected to be put into operation in 2019. According to the spirit of the document Guiding Opinions on Supporting Hainan’s Comprehensive Deepening of Reform and Opening up (《關於支持海南全面深化改革開放的指導意見》), Hainan Province needs to increase the pace of airport infrastructure construction and development, and realize the airport layout of “South, North, East and West, Two Major and Two Minor” as soon as possible, and gradually build Hainan into an important international hub airport along the route of “One Belt One Road”.

OFFSHORE DUTY-FREE

In the first half of 2018, 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稅店有限公司) (“**Meilan Airport Offshore Duty-Free Shop**”) once again reached a record high.

For the six months ended 30 June 2018, Meilan Airport Offshore Duty-Free Shop recorded sales revenue of RMB1,174.5270 million, a total number of shopping tourists of 644,621 and a total sales number of commodities of 1,882,787, representing a year-on-year increase of 16.73%, 18.03% and 23.98%, respectively.

With the improvement of living standards, our nationals' demand for international famous brand products has been increasing and the number of the PRC outbound tourists is also on a gradually upward trend. In order to attract our citizens to come back and spend in the country so as to stimulate domestic demand, the off-shore duty-free policy has been firmly imposed in Hainan since 2011. Over the past seven years, Hainan's off-shore duty-free industry has been steadily developed and expanded, facilitating Hainan's tourism-driven economic growth. As an integral contributor for the realization of Hainan's off-shore duty-free policy, Meilan Airport Offshore Duty-Free Shop actively seek to cater to consumer demand. During the first half of 2018, many best-selling brand items were introduced to enrich the in-store merchandise portfolio and offer a variety of choices to satisfy passengers' different consumption requirements. Interesting marketing activities like World Watch Festival, Fragrance Festival, World Cup Interactions, etc. were held to boost consumer enthusiasm and create various extraordinarily fantastic shopping experiences which were off-shore and tax-free.

In addition, for demonstration the merits of off-shore duty-free shopping in Hainan as well as its very exciting and attractive quality to different brand owners, domestic and foreign industry professionals and visitors, Meilan Airport Offshore Duty-Free Shop actively participated in domestic and international industry-famous exhibitions, including the TFWA Singapore Duty-Free Goods Asia Pacific Exhibition & Conference and Beijing International Tourism Expo in the first half of 2018 with a view to enhance its corporate profile and strengthen monetizing power of Hainan's tourism industry.

Because of an increase in passenger throughput and the improvement in operation, management and services, Meilan Airport Offshore Duty-Free Shop had over 600,000 passengers which stopped by and made purchases in the first half of 2018, 18% higher than the same period last year. Moreover, it was awarded the "Best Employer in China" for 2017 and the "Hainan End-users' Satisfaction Service Star Unit" for 2017.

As a result of the continuous growth in the economy as well as per capita disposable income, the PRC's consumers tend to have greater concern of service quality. Nowadays, Chinese tourists gives more emphasis on purchase experience rather than just purchasing goods, and they are paying more attention to quality instead of prices. To contribute for the establishment of Hainan as a shopping hub, Meilan Airport

Offshore Duty-Free Shop endeavours to implement the brand strategy of “searching all over the world, only to give you the better”, and leverages on the advantages of off-shore duty-free policy to provide consumers with more international high-end brand products and to further consolidate its one-stop concept accommodating “tour, entertainment and purchase”.

BUSINESS AND REVENUE REVIEW

OVERVIEW

In the first half of 2018, 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 Celebration Ceremony of the 30th Anniversary of the Founding of Hainan Province and the Hainan Special Economic Zone and has won high recognition from various sectors.

In the first half of 2018, Meilan Airport’s brand creation work achieved another success: won 32 awards at industrial, provincial and ministerial levels or above, including 3 important international awards, 7 national awards, 15 provincial and 7 industrial awards. Internationally, Meilan Airport won several major awards in the world, including “SKYTRAX Best Regional Airport in China”, “The First Place of ASQ Award for Best Airport in the World by Size 15-25 Million Passengers for 2017” and “The Second Place of ASQ Award for Best Airport in Asia Pacific”. For domestic awards, it also won several heavyweight ones such as “Great Progress Award for Abnormal Flight Service of Airport 2017” and “National Customer Satisfaction Enterprise”. These awards not only indicate that the service quality of Meilan Airport has been highly recognized by domestic and foreign authoritative organizations as well as passengers but also have enhanced its brand profile and position in the industry.

In the first half of 2018, the Group continued to further the intelligentization of its airport and sharpen the edges of its core business by introduction of self-service check-in, self-service baggage check-in, self-service flight-ticket changing, service baggage inquiry, self-service boarding, paperless customs speed clearance, etc.

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. As of 30 June 2018, the steel structure of the terminal corridor area has been capped, 85% of the structural work of the central area has been completed, and 63% of the base level of the flight area road surface work has been completed. It is planned to be put into operation in 2019. After that, the overall support capacity of

Meilan Airport will be comprehensively upgraded. According to the design capacity, the terminal area of Meilan Airport will reach 351,000 square meters, with 174 gate positions, which are capable to accommodate the passenger throughput of 35 million passengers and 400,000 tons of cargoes.

The terminal complex project including three major commercial projects - parking building, commercial building (including duty-free and duty-paying commerces) and hotel building has been fully constructed. On 1 January 2018, the group check-in area in the airport's commercial building officially opened, which is a new exploration of Meilan Airport to combine its airport services with traditional commerce. On 8 February 2018, the Meilan Airport hotel which provides nearly 1,000 rooms officially opened. The Aerospace Science and Technology Museum which officially opened in 2017 has won several honorary titles in succession, namely Hainan Science Education Base, Hainan Provincial Student Education Implementation Base and Professional Science and Technology Museum. It is currently the first aviation science education base set up in an airport in the PRC.

In addition, as the eighth in the world and the first in China (excluding Hong Kong, Macau and Taiwan) "SKYTRAX Five-star Airport", while Meilan Airport continues to improve its service facilities and upgrade its service quality, it always shoulder its social responsibility and takes part in social welfare undertakings and conveys positive message to the society. On 27 May 2018, Meilan Airport and Hainan (Haikou) Special Education School successfully held the "Little Hand Passing Love - Blind Boys Entering Meilan Airport Public Welfare Activities", which gained unanimous praise from all walks of life. The activities were successively reported in CCTV's programs, "CCTV News", "Morning News" and "News Live", further enhancing the brand image of Meilan Airport. Meanwhile, 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

At the backdrop of rapid development of the civil aviation industry, coupled with the development of Hainan Tourism International Island and the favourable offshore duty-free policy, the passenger throughput of Meilan Airport continued to set new records. It exceeded 20 million the first time in 2017 and officially listed as a major domestic airport in the country. In the first half of 2018, by continuously improving the quality of its airline operations and adopting marketing mechanisms such as preparing passenger composition analysis reports, Meilan Airport firmly seized opportunities derived from the "One Belt One Road" initiative which tries to establish Haikou City as an international free trade port and build a "Pan-South China

Sea tourism economic circle”. Subject to CAAC’s total flight constraint, Meilan Airport vigorously refined flight evaluation during rush hours. In the first half of the year, the wide-body aircraft operation increased by 25.74% year-on-year in the airport and the development boosted further effective time utilization and refinement of work items of flight management. As such, the passenger throughput amounted to 12.3459 million in the first half of the year, an increase of 7.8 percentage points over the same period last year.

In addition, as Meilan Airport continuously improved its domestic and international route network, it further attracted 18 domestic and foreign airlines to operate 27 international and regional routes and expanded its route network coverage. At the same time, taking “Haikou — Sydney” route as a pilot to conduct international transit check-in port operations for four cities (Beijing/Shanghai/Taiyuan/Zhengzhou). Currently, the business has been officially approved by the General Administration of Customs. In the future, Meilan Airport will continue to exert more efforts in the development of Haikou’s domestic and international aviation markets, with a focus on overseas routes and flights between Haikou and countries along the “ One Belt One Road” and 59 countries granted visa-free access to China for striving to achieve passenger throughput of over 24 million in 2018.

In the first half of 2018, Meilan Airport operated 242 originating routes, 80 more routes than the same period last year, comprising 215 domestic routes, 4 regional routes and 23 international routes. These routes cover 127 navigable cities, comprising 102 domestic cities, 4 regional cities and 21 international cities. There are 48 airlines operating at Meilan Airport, comprising 33 domestic airlines, 4 regional airlines and 11 international airlines. Since entering into the summer and autumn flight seasons in 2018 (from 25 March to 30 June 2018), the overall flight execution rate stood at 93.01% and passenger throughput increased by 10.65% as compared with the summer and autumn flight seasons in 2017.

On 15 September 2017, the CAAC issued the “Notice regarding the Promulgation of Several Policy Measures for Controlling the Total Amount of Operation, Adjusting the Flight Structure and Increasing Flight Punctuality (《關於發佈把控運行總量調整航班結構提升航班正點率若干政策措施的通知》)” (Min Hang Fa 2017 Document No. 115) to impose restrictions on domestic airport increments. For Meilan Airport which acts as the main coordination airport, its total airport increment is controlled within 3%. Therefore, the growth rate of aircraft movements and passenger throughput of Meiland Airport has slowed down in the first half of 2018 compared with previous years.

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 4 international routes, namely “Haikou — Sydney”, “Haikou — Moscow Oblast”, “Haikou — Surabaya” and “Haikou — Manila”, and resumed two international routes, “Haikou — Luang Prabang” and “Haikou — Vientiane”. As a result, the aviation market coverage rate in South-east Asia reached 80%. The route network now covers 15 countries and regions, including Hong Kong, Macau and Taiwan, Italy and South Korea. For the six months ended 30 June 2018, international and regional passenger throughput amounted to 530,400 representing a year-on-year growth of 28.20%.

Details of the aviation traffic throughput for the six months ended 30 June 2018 and the comparative figures in the corresponding period of last year are set out below:

	Six month ended 30 June 2018	Six month ended 30 June 2017	Change
Aircraft takeoff and landing (flights)	83,103	79,111	5.05%
in which:domestic	78,636	75,143	4.65%
international and regional	4,467	3,968	12.58%
Passenger throughput (headcount in ten thousand)	1,234.59	1,145.16	7.81%
in which:domestic	1,181.55	1,103.80	7.04%
international and regional	53.04	41.36	28.24%
Cargo and mail traffic throughput (tons)	179,308.30	161,999.30	10.68%
in which:domestic	170,353.40	155,185.40	9.77%
international and regional	8,954.90	6,813.90	31.42%

The Group's revenue from aviation business for the six months ended 30 June 2018 was RMB487,274,403, representing an increase of 15.81% as compared to the corresponding period of 2017. Details are as follows:

	Six months ended 30 June 2018	Changes over the corresponding period of 2017
	<i>RMB</i>	
Passenger service charges	181,727,691	14.38%
Refund of civil aviation development fund	146,175,936	8.49%
Ground handling service income	94,653,271	33.64%
Fees and related charges on aircraft takeoff and landing	<u>64,717,505</u>	<u>14.95%</u>
Total revenue from aviation business	<u>487,274,403</u>	<u>15.81%</u>

Refund of Civil Aviation Development Fund

According to the Notice of the Ministry of Finance on Abolition of the Policy of Recognition of Refund of the Civil Aviation Development Fund to the Three Listed Airports including the Capital Airport as Revenue (《財政部關於取消民航發展基金用於首都機場等三家上市機場返還作企業收入處理政策的通知》) promulgated by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) (the “**Ministry of Finance**”) on 29 May 2018 received by the Company from Civil Aviation Administration (民航局) on 15 June 2018, the policy of recognition of the refund of the Civil Aviation Development Fund as the revenue of the Company according to the Interim Measures for the Collection, Use and Management of the Civil Aviation Development Fund (《民航發展基金徵收使用管理暫行辦法》) and other relevant laws, regulations and documents will be cancelled upon the expiry of the half-year transition period (i. e. 29 November 2018). During the transition period, the Civil Aviation Development Fund refunded to the Company will continue to be recognized as the revenue of the Company. After the abolition of the above policy, the Company will not recognise the refund of Civil Aviation Development Fund, if any, as revenue.

OVERVIEW OF NON-AVIATION BUSINESS

In the first half of 2018, the non-aviation business of the Group maintained a stable increase. For the six months ended 30 June 2018, the Group achieved a revenue from its non-aviation business of RMB439,066,830, representing an increase of 38.37% as

compared with the corresponding period of 2017. The growth in revenue from our non-aviation business was mainly due to the substantial increase in the income from the franchise of Meilan Airport Offshore Duty-Free Shop and advertising, the rental and the car park.

	Six months ended 30 June 2018 RMB	Changes over the corresponding period of 2017
Franchise income	272,108,641	43.73%
Freight and packaging income	55,790,886	22.04%
Rental income	31,461,960	37.60%
Car parking income	13,471,810	55.34%
VIP room income	14,571,432	20.46%
Hotel income	7,278,565	-
Other income	<u>44,383,536</u>	<u>14.86%</u>
Total revenue from non-aviation business	<u>439,066,830</u>	<u>38.37%</u>

Franchise Income

In the first half of 2018, the franchise income of the Group aggregated to RMB272,108,641, representing a year-on-year growth of 43.73%, which was mainly attributable to factors such as an increase in average passenger spending as a result of an increase in passenger throughput and innovative promotion activities of Meilan Airport Offshore Duty-Free Shop, and the putting in use of the duty-free shop business area and advertising area of the terminal complex project, resulting in the substantial growth in the franchise income of the Group.

Freight and Packaging Income

In the first half of 2018, the freight and packaging income of the Group aggregated to RMB55,790,886, representing a year-on-year increase of 22.04%, 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 new agent business cooperation with Megacap Aviation Service and new international express mail and direct mail services.

Rental Income

In the first half of 2018, the rental income of the Group aggregated to RMB31,461,960, representing a year-on-year increase of 37.60%, which was mainly attributable to the Company's further optimization on the layout of the terminal site and improvement over the efficiency of commercial tenancy and the putting in use of the terminal complex project, thus promoting the continuous growth of rental income.

VIP Room Income

In the first half of 2018, the VIP room income of the Group aggregated to RMB14,571,432, representing a year-on-year increase of 20.46%, which was mainly attributable to the Company's great efforts to innovate the VIP service business amidst an increase in the passenger throughput and new services such as Five-star Meilan Card Membership, leading to an increase in the VIP customers received.

Car Parking Income

In the first half of 2018, the car parking income of the Group aggregated to RMB13,471,810, representing a year-on-year increase of 55.34%, which was mainly attributed to the putting in use of the parking building of the terminal complex project and a significant increase in car park income driven by increased parking charges.

FINANCIAL REVIEW

ASSET ANALYSIS

As at 30 June 2018, the total assets of the Group amounted to RMB8,580,250,321, among which, the current assets amounted to RMB607,320,471, and the non-current assets amounted to RMB7,972,929,850. The total assets decreased by 5.48% as compared with that as at 31 December 2017.

COST AND EXPENSE ANALYSIS

For the six months ended 30 June 2018, the Group's operating costs amounted to RMB339,646,053, sales expenses amounted to RMB1,642,992 and the administrative expenses amounted to RMB38,368,024, totalling RMB379,657,069, which represented a year-on-year increase of 13.76%. The increase in costs and expenses was attributable to:

- (1) depreciation costs increased by RMB31,801,033 as compared with that of the corresponding period of 2017, mainly due to the completion of construction of the terminal complex and the update and renovation of the terminal building which has been put into use;
- (2) the expenses of outsourced employees and dispatched employees increased by RMB9,076,569 as compared with that of the corresponding period of 2017 due to the growth of the Company's business volume, the increase in its outsourcing business, and the increase in the salary standards of outsourced employees;

- (3) water and electricity costs increased by RMB2,716,938 as compared with that of the corresponding period of 2017, mainly due to the putting in use of the terminal complex;
- (4) the carton cost increased by RMB1,395,852 as compared with that of the corresponding period of 2017, which was due to the increase in freight forwarding business volume.

For the six months ended 30 June 2018, the finance expenses of the Group amounted to RMB80,519,643, representing an increase of RMB63,200,008 as compared with that of the corresponding period of 2017. The increase was mainly due to the putting in use of the terminal complex, and the termination of capitalization of interest on borrowings related to the project.

GEARING RATIO

As at 30 June 2018, the Group had total current assets of RMB607,320,471, total assets of RMB8,580,250,321, total current liabilities of RMB2,786,957,698 and total liabilities of RMB4,175,972,338. As at 30 June 2018, the Group's gearing ratio (total liabilities/total assets) was 48.67%, representing a decrease of 6.25% as compared to that as at 31 December 2017. The decrease was mainly due to the repayment of borrowings and the construction project payment in connection with Meilan Airport Phase II advanced by the Haikou Meilan International Airport Co., Ltd. (the "**Parent Company**").

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 2018, the external borrowings of the ABS were repaid in full and the release of the pledge have not been completed.

CAPITAL STRUCTURE OF THE GROUP

As at 30 June 2018, the total issued share capital of the Company was RMB473,213,000. The long-term liabilities of the Group primarily consisted of corporate bonds and long-term payables. Currently, the Group has three-year corporate bonds of RMB520,000,000 with coupon rate of 6.7% per annum issued in September 2016; long-term payables under finance leases of RMB14,618,837; and long-term entrusted loan payables of RMB6,562,376.

SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCES

As of 30 June 2018, the Company held 24.5% equity interests in Hainan Airlines Airport Holding (Group) Company Limited. For the six months ended 30 June 2018, the Company recorded an investment income of RMB39,681,158 from share of profit attributable to the Shareholders of the Company of Hainan Airlines Airport Holding (Group) Company Limited.

MATERIAL ACQUISITIONS AND DISPOSALS

As of 30 June 2018, the Company did not carry out any new and major acquisitions and disposals.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had a total of 821 employees, representing a decrease of 112 employees as compared to the beginning of 2018. Except for the normal employee turnover, the reason for decrease in employees is due to the Group selected the superior and eliminated the inferior in accordance with the 2017 employee performance appraisal result. 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 2018, the Group did not have any entrusted deposits or overdue fixed deposits.

CONTINGENT LIABILITIES

As at 30 June 2018, 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 2018, the deposit denominated in US\$ of the Group amounted to US\$10,792 (equivalent to RMB71,405). 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 2017 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**").

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, 30 March 2017, 29 September 2017 and 29 March 2018:

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.

Additional time is required to complete the contribution of assets due to the suspension of transfer procedures regarding the relevant land and buildings by relevant local government authorities according to the requirements of policies. As of the date of this announcement, the Parent Company was awaiting the approval from the relevant government functions for completing the assets transferring procedure as soon as possible. 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, 27 April 2017, 1 February 2018 and 20 March 2018:

- (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 transaction have been duly passed. As the CSRC's review of the transaction is in progress, the Company convened the extraordinary general meeting, H shareholders class meeting and domestic shareholders class meeting again on 20 March 2018 for considering and approving the above delay in resolutions, and extended the validity period of such resolutions by nine months (i.e. from 26 March 2018 to 25 December 2018). As of the date of this announcement, the Company was still awaiting the approval from the CSRC. 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 (if necessary).

RISK MANAGEMENT AND INTERNAL CONTROLS

In 2017, 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 2018, 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 2018	Effect of risk-counter measures
1	Operation risks – risk regarding the operation support capacity	The operation support capacity turns out to be not enough due to the rapid increase in the passenger and cargo traffic, including the obsolescence of airport equipment and facility, limited accommodation capacity of the airport lounge, increase in the working intensity of the front line staff and outsourced laborers, which may decrease the efficiency of the operation support and cause potential safety hazard.	<p>(1) For the purpose of the criteria set out in the “Measures for Assessing the Operation Safety Support Capacity of Large Airport” (《大型機場運行安全保障能力評估辦法》) issued by CAAC, focused on identifying any incident of working under fatigue and the operating conditions of the equipment and facilities, and carrying out proper management and control of such criteria, ensuring meeting or exceeding the required criteria during the assessment by CAAC;</p> <p>(2) Calling for every department to monitor the mindset status of the employees on a timely basis. Prior to the commencement of any major support activity, carrying out background checks against the employee who was responsible for such activity jointly with the public security bureau of the airport, and implementing the internal control management in a proper manner; ensuring the plan for updating the obsolete equipment is in place, and arranging the supporting staff to take timely maintenance for, and on-site inspection of, such equipment until the updating was completed; and</p> <p>(3) Further improving the management process for passenger complaints to make sure the complaints were 100% processed in time, and eliminating any potential complaint risk of whatever kind to improve operation efficiency; identifying the key components of, and risks exposed to, the services provided by every business unit by adopting 29 key indicators for service supervision, and by carrying out a “Three Levels of Monitoring and Control” mode, aimed to monitor and control such indicators on a monthly basis.</p>	<p>(1) In the evaluation by CAAC, the scoring of evaluation in the operation safety protection of the Company met the required criteria;</p> <p>(2) The Company continued to initiate staff caring activities, and the mindset status of employees was overall stable; and</p> <p>(3) In the first half of 2018, there were no material complaint and material public opinion in the service quality of Meilan Airport, the complaints were 100% processed in time, the service quality was good in overall, and the numbers of complaints experienced a downward trend.</p>

Serial No.	Names of risks	Key risk Descriptions	Counter measures taken in the first half of 2018	Effect of risk-counter measures
2	Operation risks – risk regarding outsourced operations and laborers	Along with the increase of the passenger and cargo traffic in the airport, the outsourced operations, functions and laborers increase as well, yet the laborers' quality, quality control or supporting resources of the entrusted entities fail to meet the requirements, which would make the safety and service management more difficult as such entrusted entities increase and the core business are outsourced.	<p>(1) Setting up a top corporate function responsible for managing business outsourcing by establishing a business outsourcing management committee, and by setting up a business outsourcing management center in the quality management department to coordinate the whole process of the Company's business outsourcing management;</p> <p>(2) Formulating the "Regulations on Business Outsourcing Management" (《外包業務管理規定》), against which the Company conducted a semi-annual review of the entrusted entity, including, among others, inspecting its operations and supervision and management of such outsourced business, to ensure the safety responsibilities borne by the principal was under control; and</p> <p>(3) Holding discussions with the entrusted entity to understand the mindsets of its executives and employees, to obtain such information related to operation risks, which would be followed by identifying the operation risks and formulating relevant measures for improvement to mitigate the risks exposed to outsourced operations and laborers.</p>	In the first half of 2018, the Company conducted dynamic adjustments on the quality control system of the Company and the structural system of business outsourcing management combined with the actual production and operation requirements: Specifying the business outsourcing vesting regulatory unit as the level 1 supervision; specifying the quality management department of the Company as the level 2 supervision, which manage and control the whole process deviation during the entire production and operation process; the system establishment of the top-level design of business outsourcing management was preliminary completed.

Serial No.	Names of risks	Key risk Descriptions	Counter measures taken in the first half of 2018	Effect of risk-counter measures
3	Operation Risk – Risk regarding flight release rate	Reduced normal rate of flight release or flight on time rate due to any reason attributable to the airlines (including aircraft maintenance, mechanical failure, flight dispatching, etc.) or any reason not attributable to the airlines factors (such as weather conditions, air traffic control, ground facility breakdown, passenger, etc.) may result in a reduction of the flight number or a restriction upon the increase in the flight number of Meilan Airport by CAAC, which may reduce or prevent the passenger traffic volume from growing, thus significantly and adversely affecting the economic benefit of the Company.	<p>(1) Subdividing the indicators for flight operation support, enhancing co-operations and improving support efficiency;</p> <p>(2) Integrating the airline, and air traffic control and airport-stationed units into a comprehensive platform for flight on-time performance management, to jointly push forward the flight on-time performance management efforts and to summarise and analyse the sound experiences developed, and the weakness identified, during the flight supporting process; and</p> <p>(3) Enhancing the air and ground coordination to ensure the flight take off on time by taking advantage of the apron and control tower at Meilan Airport.</p>	<p>(1) Compiling documents such as the Regulations on Flight Operation and Management of Meilan Airport (《美蘭機場航班運行管理規定》), Standards on Flight Protection Deadline of Meilan Airport (《美蘭機場航班保障時限標準》), Regulations on Dynamic Management on Flight Delay Risk of Meilan Airport (《美蘭機場航班延誤風險動態化管理規定》) and Regulations on Credit Management of Meilan Airport (《美蘭機場信用管理規定》), and using such documents as flight protection pioneering documents to the entire flight protection system thoroughly;</p> <p>(2) Leveraging the operation and management coordination platform for regularly organising and convening the flight operation and management working meeting of Meilan Airport; and</p> <p>(3) Establishing and improving the standards on employment qualification sequence of apron control position of Meilan Airport, improving the qualification standards, training and evaluation standards and assessment bank on apron control core position, training. Maintaining the advantage of Meilan Airport in control tower of apron by focusing on skill in position for enhancing efficiency of taxiing and assisting flight take off on time.</p>

PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the first half of 2018, the intervenes and difficulties increased in the global economy recovery, which the recovery of most nations were slowdown, the global overall inflation rebound, the margin of monetary policy was tightened and the rise in protectionism obviously. The economy of the United States was basically stable, and the United States remained a steady interest rate increase rhythm and intensified the trade friction, which increased the uncertainties of the global recovery; the recovery function of European economies weakened, alleviation in political disturbance, which the interest rate rise would be delayed; the prosperity of the Japanese economies was improved, the growth forces remained and the monetary easing continued; the recovery in the emerging economies was diversified, increasing in inflation, and the monetary easing was limited. Under the circumstance of increasing in adverse factors of the external economic conditions, the difficulties and challenges faced by the PRC also increased. In contrast, as for the PRC aviation industry, in the first half of 2018, the PRC aviation industry remained the trend of progress through stability and promising through stability, 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 2018, along with the execution of the state’s “One Belt One Road” initiative, the construction of international tourist island in Hainan, establishment of a free trade trial zone in Hainan Island 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.

CHANGE OF COMPANY NAME AND DEVELOPMENT STRATEGY

After more than ten years of operation and development, the Group has accumulated rich experience in operation and management in airport construction and operation management, brand building, and airport industry development. Its popularity and influence have also been widely recognized by the industry. In order to grasp the policy dividend and market opportunity period of the Hainan Free Trade Zone, the Group has adjusted its corporate development strategy, gradually participated in businesses such as export of operation and management to domestic and foreign airports, as well as expansion in upstream and downstream industry chain of airport, which expand the operating scale of the Group. The new name, “Regal International Airport Group Co., Ltd.”, was officially launched on 9 August 2018 to reflect the Group’s strategic objectives.

With the continuous furtherance of the “One Belt One Road” initiative, the construction of an international tourist island and the construction of the Hainan Free Trade Trial Zone and a free trade port, the business development space of the Group is expected to be further released. Taking this as an opportunity, the Group changes its company name and optimizes, enriches and adjusts its industrial structure, with an aim to better grasp market opportunities and build the Group into a global leading integrated service provider in airport investment, operation and management.

INTERIM DIVIDENDS

The Board has resolved to recommend payment of an interim dividend of RMB0.150 per share (tax inclusive) on or before Friday, 30 November 2018 to shareholders of the Company whose names appear on the Company’s register of members on Tuesday, 30 October 2018 at the extraordinary general meeting to be held on Wednesday, 10 October 2018 (“**2018 Interim Dividend**”), and has authorized the Board to take any necessary actions in this regard as required by applicable laws and regulations.

The dividends to H-shareholders are declared in Renminbi but paid in HK\$. The exchange rate of Renminbi to HK\$ to be adopted shall be the average middle exchange rate of the five business days preceding and including the date of declaration of such dividends at the forthcoming extraordinary general meeting on Wednesday, 10 October 2018 as announced by the People’s Bank of China.

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

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

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Monday, 10 September 2018 to Wednesday, 10 October 2018 (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, 7 September 2018.

The Company's register of members will be closed from Thursday, 25 October 2018 to Tuesday, 30 October 2018 (both days inclusive), during which time no transfer of shares will be registered. To qualify for the entitlement of the 2018 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 Wednesday, 24 October 2018. Subject to approval at the extraordinary general meeting, the interim dividend will be paid on Friday, 30 November 2018.

MATERIAL LITIGATION OR ARBITRATION

The Group had not involved in any material litigation or arbitration from 1 January 2018 to 30 June 2018.

OTHER INFORMATION

Change of Directors

The Board comprises eleven Directors. During the period from 1 January 2018 to 30 June 2018, changes in the directorship of the Company are as follows:

Mr. Liao Hongyu had taken over the role of executive Director of Mr. Wang Zhen from 30 January 2018, with a term of 3 years. His appointment was approved at an extraordinary general meeting held on 30 January 2018.

Mr. Xing Zhoujin had taken over the role of executive Director of Mr. Wu Jian from 16 March 2018, with a term of 3 years. His appointment was approved at an extraordinary general meeting held on 16 March 2018.

Change of Senior Management

During the period from 1 January 2018 to 30 June 2018, changes in the senior management of the Company are as follows:

In accordance with the actual working requirements of the Company, Mr. Liao Hongyu had officially taken over the role of the chairman of the Company of Mr. Wang Zhen from 30 January 2018, which was approved at the ninth meeting of the sixth session of the Board held on 30 January 2018.

Since 30 January 2018, Mr. Yu Ke served as an executive vice president of the Company and Mr. Wu Jian no longer served as an vice president of the Company, which was approved at the ninth meeting of the sixth session of the Board held on 30 January 2018.

Since 24 May 2018, Mr. Wang Hexin served as a venture capital president of the Company and Mr. Han Aimin no longer served a vice president of the Company, which was approved at the fourteenth meeting of the sixth session of the Board held on 24 May 2018.

During the period from 30 June 2018 to the date of this announcement, changes in the senior management of the Company are as follows:

Since 16 July 2018, Mr. Hu Mingzhe served as the chief operation officer of the Company and Mr. Yu Ke no longer served an executive vice president of the Company, which was approved at the sixteenth meeting of the sixth session of the Board held on 16 July 2018.

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 2018, 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	<u>226,913,000</u>	<u>48%</u>
Total	<u>473,213,000</u>	<u>100%</u>

Interests of Substantial Shareholders in Shares

As at 30 June 2018, 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 (Note 2)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Zhang Zhiping (Note 2)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporations	94,343,000(L)	41.58%	19.94%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial owner	94,343,000(L)	41.58%	19.94%

Name of Shareholders	Type of interests	Number of ordinary shares	Percentage to H shares issued	Percentage to total issued share capital
UBS Group AG (<i>Note 3</i>)	Security interests in shares and interest of controlled corporations	22,540,400(L) 1,000(S)	9.93% 0.00%	4.76% 0.00%
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%
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%
Leitzes Alexander Scott (<i>Note 6</i>)	Trustee	18,898,000(L)	8.33%	3.99%
Lights On Ventures, LLC (<i>Note 6</i>)	Interest of controlled corporations	18,898,000(L)	8.33%	3.99%
Solve A Maze I LLC (<i>Note 6</i>)	Interest of controlled corporations	18,898,000(L)	8.33%	3.99%
Solve A Maze II LLC (<i>Note 6</i>)	Interest of controlled corporations	18,898,000(L)	8.33%	3.99%
Karst Peak Asia Master Fund (<i>Note 6</i>)	Beneficial owner	18,898,000(L)	8.33%	3.99%

Name of Shareholders	Type of interests	Number of ordinary shares	Percentage to H shares issued	Percentage to total issued share capital
Karst Peak Capital Management (Cayman) Limited (<i>Note 6</i>)	Interest of controlled corporations	18,898,000(L)	8.33%	3.99%
Leitzes Adam Gregory (<i>Note 6</i>)	Interest of controlled corporations	18,898,000(L)	8.33%	3.99%
JP Morgan Chase & Co. (<i>Note 7</i>)	Beneficial owner and custodian corporation/ approved lending agent	13,607,488(L)	5.99%	2.88%
Greenwoods Asset Management Limited (<i>Note 8</i>)	Investment manager	13,549,000(L)	5.97%	2.86%
Unique Element Corp. (<i>Note 8</i>)	Interest of controlled corporations	13,549,000(L)	5.97%	2.86%
Jiang Jinzhi (<i>Note 8</i>)	Interest of controlled corporations	13,549,000(L)	5.97%	2.86%
Greenwoods Asset Management Holdings Limited (<i>Note 8</i>)	Interest of controlled corporations	13,549,000(L)	5.97%	2.86%

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 Stock Exchange, UBS Group AG was deemed to hold 3,692,000 shares through its security interest and hold 18,848,400 shares through its interest in a controlled corporation. UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG and UBS 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 576,000, 660,300, 17,607,100, 4,000 and 1,000 long position shares and 1,000 short position 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 14.45% 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 14.45% interests in H shares of the Company.
6. According to the disclosure of interest filed on the website of the Stock Exchange, Karst Peak Asia Master Fund held 18,898,000 shares in the Company and was wholly-owned by Karst Peak Capital Management (Cayman) Limited, which was held by Solve A Maze I LLC and Lights On Ventures, LLC as to 65% and 35% respectively. Solve A Maze I LLC was wholly owned by Leitzes Adam Gregory. Lights On Ventures, LLC was wholly owned by Solve A Maze II LLC, which was held as to 100% by Leitzes Alexander Scott in capacity as a trustee. Pursuant to Part XV of the SFO, each of Karst Peak Capital Management (Cayman) Limited, Solve A Maze I LLC, Lights On Ventures, LLC, Solve A Maze II LLC, Leitzes Adam Gregory and Leitzes Alexander Scott is deemed to have interest in the shares held by Karst Peak Asia Master Fund.
7. Among the 13,607,488 shares in the Company, JP Morgan 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. Greenwoods Asset Management Limited was wholly owned by Greenwoods Asset Management Holdings Limited. 81% interest in Greenwoods Assets Management Holdings Limited were held by Unique Element Corp., which in turn was wholly owned by Jiang Jinzhi. Greenwoods Asset Management Limited held 13,549,000 shares in the capacity of investment manager.
9. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as of 30 June 2018, 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 2018, 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 “**Model Code**”).

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 2018.

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 2018.

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

As of 30 June 2018, there were four independent non-executive Directors in the Board. As of 30 June 2018, 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 2018.

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 2018, 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 2018 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 2018.

THE BOARD

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

Executive directors

Liao Hongyu (*Chairman*)

Tu Haidong (*President*)

Zhou Feng

Xing Zhoujin

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

Regal International Airport Group Company Limited*

Liao Hongyu

Chairman and Executive Director

Haikou, the PRC

24 August 2018

* *For identification purposes only*