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海南美蘭國際空港股份有限公司
Hainan Meilan International Airport Company Limited*
(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 357)

INTERIM RESULTS ANNOUNCEMENT AS OF 30 JUNE 2023

FINANCIAL HIGHLIGHTS

- Total revenue was RMB1,065.95 million
(for the six months ended 30 June 2022: RMB622.63 million)
- Revenue from aeronautical business was RMB494.40 million
(for the six months ended 30 June 2022: RMB212.67 million)
- Revenue from non-aeronautical business was RMB571.55 million
(for the six months ended 30 June 2022: RMB409.96 million)
- Net loss attributable to shareholders was RMB50.62 million
(for the six months ended 30 June 2022: net loss attributable to shareholders of RMB11.79 million)
- Loss per share was RMB0.11
(for the six months ended 30 June 2022: loss per share of RMB0.02)

BUSINESS HIGHLIGHTS

- The passenger throughput recorded 12.0480 million
(for the six months ended 30 June 2022: 6.5613 million)
- Aircraft takeoff and landing reached 85,367 times
(for the six months ended 30 June 2022: 58,631 times)
- Cargo and mail throughput was 93,077.90 tons
(for the six months ended 30 June 2022: 74,186.50 tons)

* For identification purpose only

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Hainan Meilan International Airport Company Limited* (the “**Company**” or “**Meilan Airport**”) is pleased to announce the unaudited financial position and operating results of the Company and its subsidiaries (the “**Group**”) as at 30 June 2023 and for the six months then ended which have been reviewed by the audit committee of the Company (the “**Audit Committee**”), together with the comparative information for the corresponding period of 2022 as follows:

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

CONSOLIDATED INCOME STATEMENT

Item	Note	Six months ended 30 June	
		2023	2022
		RMB	RMB
		(Unaudited)	(Unaudited)
Revenue	3	1,065,946,966	622,633,880
Less: Cost of sales		(971,815,319)	(518,636,648)
Taxes and surcharges		(33,631,129)	(35,828,067)
Selling and distribution expenses		(1,779,116)	(2,134,534)
General and administrative expenses		(41,013,515)	(35,460,471)
Financial expenses		(75,270,423)	(48,393,195)
Including: Interest expenses		(76,902,681)	(48,861,896)
Interest income		1,030,271	689,662
Add: Other income		6,314,880	15,377,319
Investment income	4	613,458	19,383,504
Including: Investment loss on associates		–	(4,499,456)
Losses on changes in fair value		(4,857,759)	(5,390,335)
Credit impairment losses		(15,378,404)	(1,604,411)
Gains/(Losses) on disposal of assets		726,610	(240,408)
Operating (Loss)/profit		(70,143,751)	9,706,634
Add: Non-operating income		499,186	290,159
Less: Non-operating expenses		(2,631)	(17,362,503)

Item	<i>Note</i>	Six months ended 30 June	
		2023	2022
		RMB	RMB
		(Unaudited)	(Unaudited)
Total loss		(69,647,196)	(7,365,710)
Less: Income tax credits/(expenses)	5	<u>13,221,716</u>	<u>(18,102,286)</u>
Net loss		(56,425,480)	(25,467,996)
Classified by continuity of operations			
Net loss from continuing operations		(56,425,480)	(25,467,996)
Net profit from discontinued operations		-	-
Classified by ownership of the equity			
Minority interests		(5,805,125)	(13,679,872)
Net loss attributable to shareholders of the Company		(50,620,355)	(11,788,124)
Other comprehensive income, net of tax		-	-
Total comprehensive loss		<u>(56,425,480)</u>	<u>(25,467,996)</u>
Attributable to shareholders of the Company		(50,620,355)	(11,788,124)
Attributable to minority interests		(5,805,125)	(13,679,872)
Loss per share			
Basic loss per share (RMB Yuan)	6	(0.11)	(0.02)
Diluted loss per share (RMB Yuan)	6	<u>(0.11)</u>	<u>(0.02)</u>

CONSOLIDATED BALANCE SHEETS

		30 June	31 December
		2023	2022
	<i>Note</i>	RMB	RMB
		(Unaudited)	(Audited)
ASSETS			
Current assets			
Cash at bank and on hand		292,336,791	119,427,073
Financial assets held for trading		23,418,974	28,276,733
Accounts receivable	8	388,420,120	267,265,560
Prepayments		6,058,204	9,827,641
Other receivables		45,482,935	45,165,250
Inventories		938,023	785,451
Other current assets		11,443,253	9,257,877
Total current assets		<u>768,098,300</u>	<u>480,005,585</u>
Non-current assets			
Long-term equity investments		8,349,494	8,349,494
Other non-current financial assets		49,057,863	49,057,863
Investment properties		1,562,220,538	1,588,118,868
Fixed assets		7,169,988,959	7,287,915,800
Right-of-use assets		1,369,875,810	84,244,294
Intangible assets		1,041,612,655	1,050,102,401
Long-term prepaid expenses		2,869,981	3,338,293
Deferred tax assets		43,483,271	41,834,806
Other non-current assets		53,808,701	46,583,900
Total non-current assets		<u>11,301,267,272</u>	<u>10,159,545,719</u>
TOTAL ASSETS		<u>12,069,365,572</u>	<u>10,639,551,304</u>

		30 June	31 December
		2023	2022
	<i>Note</i>	RMB	RMB
		(Unaudited)	(Audited)
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings		300,000,000	100,000,000
Accounts payable	9	336,014,541	361,617,182
Advances from customers		19,709,704	29,159,367
Contract liabilities		27,553,874	12,433,168
Employee benefits payable		98,412,914	72,653,332
Taxes payable		220,894,715	242,555,786
Other payables		2,165,652,001	2,381,475,457
Other current liabilities		4,278,182	3,306,607
Non-current liabilities due within one year		3,280,546,485	2,796,812,359
Total current liabilities		6,453,062,416	6,000,013,258
Non-current liabilities			
Lease liabilities		1,057,075,528	–
Long-term payables		22,790,493	24,682,712
Deferred income		42,308,889	43,725,556
Deferred tax liabilities		73,026,995	84,598,932
Other non-current liabilities		71,006,750	80,010,865
Total non-current liabilities		1,266,208,655	233,018,065
Total liabilities		7,719,271,071	6,233,031,323
Shareholders' equity			
Share capital		473,213,000	473,213,000
Capital surplus		864,890,722	864,890,722
Other comprehensive loss		13,624,269	13,624,269
Surplus reserve		246,394,231	246,394,231
Retained earnings		2,760,700,269	2,811,320,624
Total equity attributable to shareholders of the Company		4,358,822,491	4,409,442,846
Minority interests		(8,727,990)	(2,922,865)
Total equity		4,350,094,501	4,406,519,981
TOTAL LIABILITIES AND EQUITY		12,069,365,572	10,639,551,304

Note:

1 GENERAL INFORMATION

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 28 December 2000. The registered address and the address of the headquarters of the Company is in Haikou City, Hainan Province, the PRC. The Company's shares were listed on the main board of The Stock Exchange of Hong Kong Limited on 18 November 2002. The Company and its subsidiaries (collectively the "Group") are mainly engaged in the operation of the Meilan Airport ("Meilan Airport") and certain ancillary commercial businesses at Haikou City, Hainan Province, the PRC. The parent company of the Company is Haikou Meilan International Airport Co., Ltd. ("Haikou Meilan"), an enterprise established in the PRC with limited liability.

These financial statements are authorised for issue by the Board on 25 August 2023.

2 BASIS OF PREPARATION

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises—Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as the "Accounting Standards for Business Enterprises" or "CASs"). The financial statements are prepared and presented in accordance with the Accounting Standard for Business Enterprises 32 "Interim Financial Reporting", issued by the Ministry of Finance. The accounting policies applied in the preparation of the financial statements were consistent with those applied in the preparation of the financial statements for the year ended 31 December 2022. The financial statements shall be read in conjunction with the financial statements for the year ended 31 December 2022.

The Group recorded the net loss of approximately RMB56 million for six months ended 30 June 2023. As at 30 June 2023, the Group recorded current liabilities of approximately RMB6.45 billion, which exceeded its current assets by approximately RMB5.68 billion. The Group's current liabilities mainly comprise short-term borrowings of RMB0.3 billion and the syndicated loan of RMB1.94 billion, amounts due to related parties of RMB790 million, lease liabilities due within one year of RMB0.55 billion and the construction fee payable of Meilan Airport Phase II Expansion Project (the "Phase II Expansion Project") of RMB1.22 billion.

On 23 December 2020, the Company received notice of arbitration requiring the Company to pay a compensation for the damage with a maximum amount of HK\$6.962 billion in respect of the H shares subscription agreement entered into in prior year (the "Arbitration Case"). In June 2023, the Company received the arbitral award of the first phase in which the majority opinion of the arbitral tribunal found that the Company had not used its best endeavors to facilitate the transaction of the subscription agreement and therefore found that there was a breach of contract. As at the date of these financial statements, the Arbitration Case is still pending in the second phase to determine whether there is causation between the breach of contract and the damages claimed by the applicant, and if there is causation, what is the amount of damages that the applicant is entitled to.

The Company and Haikou Meilan jointly constructed the Phase II Expansion Project. Haikou Meilan as the borrower and the Company as the co-borrower have obtained a syndicated loan (the “**Syndicated Loan**”) with a total facility of RMB7.8 billion and maturity of 20 years which is specifically for financing the construction of the Phase II Expansion Project. The Company and Haikou Meilan jointly undertake the repayment obligation for each loan drawn down under the Syndicated Loan Agreement and are jointly and severally liable for the repayment of the Loan (the “**Joint Repayment Commitment**”). As of 30 June 2023, the draw-down of the Syndicated Loan totalled approximately RMB5.18 billion, and the repayment of principal amounted to RMB0.11 billion, of which Haikou Meilan had outstanding principal of RMB3.13 billion and the Company had outstanding principal of RMB1.94 billion. In 2019, Haikou Meilan has triggered the event of default of the Syndicated Loan Agreement. Furthermore, as HNA Group Co., Ltd.(“**HNA Group**”) and its certain related parties including Haikou Meilan were not able to settle their debts in due course and were insolvent as a whole, Hainan High People Court (the “**Hainan High Court**”) ruled on the acceptance of the substantial consolidated restructuring of HNA Group and its related companies inclusive of Haikou Meilan totalling 321 companies on 13 March 2021 (the “**HNA Group Substantial Consolidated Restructuring**”) (“**Haikou Meilan’s Defaults**”). Haikou Meilan’s Defaults resulted in the loan syndicate has the right to request, at any time, the Company as the co-borrower to undertake the Joint Repayment Commitment to repay the Syndicated Loan drawn down by Haikou Meilan amounting to RMB3.13 billion and the right to request, at any time, the Company to early repay the balance of the Syndicated Loan drawn down by the Company amounting to RMB1.94 billion and suspend offering the remaining loan facility of RMB1.96 billion to the Company. On 24 April 2022, Hainan High Court ruled on the completion of the HNA Group Substantial Consolidated Restructuring and the Syndicated Loan Agreement to continue.

A short-term bank loan of the Company amounting to approximately RMB0.38 billion was overdue in November 2020 (the “**Overdue Payment**”), which constituted an event of default of the Syndicated Loan. As of January 2022, the Company has fully repaid the principal and interest of the loan.

The abovementioned Arbitration Case, Haikou Meilan’s Defaults and Overdue Debt triggered events of default of the Syndicated Loan. As at the date of these financial statements, the Company and Haikou Meilan have not obtained the written waiver from the loan syndicate, nor received notice from the loan syndicate requiring the Company to immediately repay the Syndicated Loan or undertake the Joint Repayment Commitment.

The above events or circumstances indicate the existence of a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern.

In view of the above, the Directors have carefully considered the Group's future working capital, operating position and available sources of financing so as to assess whether the Group has sufficient working capital and sources of financing to ensure that it can settle its debts when they fall due and continue as going concern for 12 months from 30 June 2023. The Group is planning a series of measures to mitigate pressure on working capital, including but not limited to:

- 1) In respect of the Arbitration Case, the Company will actively continue defending against the allegation through the Company's arbitration lawyer in the second stage of the arbitration proceedings with the best endeavor to avoid compensation for the damages claimed by the applicant;
- 2) The Company and Haikou Meilan have obtained the agreement from the loan syndicate to continue to perform the Syndicated Loan Agreement. The Company and Haikou Meilan are negotiating with the loan syndicate about the waiver in respect of aforementioned events of default. Management believes that the loan syndicate will agree to waive the above defaults and will not require the Company to early repay the principal and interest of the Syndicate Loan of the Company of RMB1.94 billion or settle the principal and interest of the Syndicate Loan of Haikou Meilan of RMB3.13 billion;
- 3) In December 2022, Hainan Provincial Development and Reform Commission has approved a facility of RMB0.7 billion sourced from the 2023 local government specific bond for the Phase II Expansion Project. As of August 2023, it has received a total of RMB90 million in loans. Haikou Meilan and the Company will follow up with the People's Government of Hainan Province to draw down the facility to settle the construction fees of the Phase II Expansion Project. Management is of the view that the Company can continue to obtain facilities from local government to finance the repayment of construction fees of the Phase II Expansion Project;
- 4) The Company has negotiated with Haikou Meilan and obtained its consent that the Company can repay the amounts due to Haikou Meilan when the Company has sufficient working capital, including the Company's amounts due to Haikou Meilan of about RMB1.27 billion and the lease liabilities payable within one year of about RMB 0.55 billion on 30 June 2023;
- 5) In June 2023, the Group obtained the approval of the Civil Aviation Administration of China that the standard peak hour capacity for flights at Meilan Airport was increased from 30 to 40 flights/hour. The Group continued to timely take a number of measures to match transportation capacity with market demand, build an aviation regional gateway hub facing the Pacific and Indian Oceans, reasonably control the airport operation cost, accelerate the upgrades of luxury shops in Terminal 2 and develop an exclusive online shopping platform for Meilan Airport duty-free shops to increase the working capital inflow of the Company; and
- 6) The Company continued to communicate with major banks and financial institutions to actively obtain new bank facilities. As of August 2023, the Company has obtained an intentional financing facility of RMB200 million from a domestic commercial bank to supplement the Company's working capital.

The Board of the Company has reviewed the Group's cash flow forecast prepared by the management of the Company and the Directors are of the opinion that, after careful consideration of the resources available to the Group, including the internally generated funds and the available banking and other financing resources and taking into account the above plans and measures, and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements for at least 12 months from the date of these financial statements.

Notwithstanding, significant uncertainty exists as to whether the management of the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

- 1) Whether the Company will not be required to pay the damage as claimed by the applicant of the Arbitration Case;
- 2) Whether the Company can successfully obtain the loan syndicate's official waiver in respect of the aforementioned events of default and then the Company is not required by the loan syndicate to early repay the balance of the Syndicated Loan drawn down by the Company of RMB1.94 billion or settle the balance of the Syndicated Loan drawn down by Haikou Meilan of RMB3.13 billion;
- 3) Whether the Company can continue to utilise, at any time, the facility of local government specific bonds to settle the construction payment of the Phase II Expansion Project;
- 4) Whether the Group's airport operation will generate the expected stable net operating cash inflow; and
- 5) Whether the Group can sign the loan agreements with the bank offering the intentional financing facility and draw down the loan when necessary.

Should the Group be unable to operate as a going concern, adjustments would have to be made to adjust the carrying amounts of the Group's assets to their recoverable amounts, to make a provision for financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not yet been reflected in these financial statements.

3 REVENUES AND SEGMENT INFORMATION

	Six months ended 30 June	
	2023	2022
	RMB	RMB
Analysis of revenues (by nature)		
Aeronautical business:		
Passenger service income	228,912,963	98,063,591
Ground handling service income	169,863,940	69,055,628
Fees and related charges on aircraft take-off and landing	95,627,630	45,552,220
	494,404,533	212,671,439
Non-aeronautical business:		
Franchise income	325,387,703	230,507,465
Hotel income	57,670,144	40,291,984
Freight and packaging income	50,771,318	45,458,663
Rental income	34,296,684	27,404,324
VIP room income	15,112,466	20,005,729
Other income	88,304,118	46,294,276
	571,542,433	409,962,441
	1,065,946,966	622,633,880

4 INVESTMENT INCOME/(LOSS)

	Six months ended 30 June	
	2023	2022
	RMB	RMB
Income from debt restructuring of the HNA Group Substantial Consolidated Restructuring	–	23,224,670
Investment loss from long-term equity investment in unlisted companies using equity method	–	(4,499,456)
Others	613,458	658,290
	613,458	19,383,504

There is no significant restriction on the repatriation of investment income of the Group.

5 INCOME TAX (CREDITS)/EXPENSES

As the Group had no assessable profits arising in Hong Kong during the period, Hong Kong profits tax has not been provided for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil). Income tax expenses in the consolidated income statement represent provision for the PRC corporate income tax (“CIT”).

	Six months ended 30 June	
	2023	2022
	RMB	RMB
Current income tax calculated based on tax law and related regulations	220,265	–
Deferred income tax	<u>(13,441,981)</u>	<u>18,102,286</u>
	<u>(13,221,716)</u>	<u>18,102,286</u>

Pursuant to the Notice on the Policies of Income Tax Preferences for Enterprises in Hainan Free Trade Port (Cai Shui 2020 No. 31) jointly issued by the Department of Finance of Hainan Province and the Hainan Province Tax Service of State Taxation Administration and the relevant regulations, the Group is subject to enterprise income tax at the preferential rate of 15% from 1 January 2020 to 31 December 2024. The Group’s applicable enterprise income tax rate for the period was 15% (six months ended 30 June 2022: 15%).

6 LOSS PER SHARE

Basic loss per share is calculated by dividing consolidated net loss attributable to ordinary shareholders of the parent company by the weighted average number of outstanding ordinary shares of the Company:

	Six months ended 30 June	
	2023	2022
Consolidated net loss attributable to ordinary shareholders of the Company (RMB)	(50,620,355)	(11,788,124)
Weighted average number of outstanding ordinary shares of the Company (Share)	<u>473,213,000</u>	<u>473,213,000</u>
Basic loss per share (RMB)	<u>(0.11)</u>	<u>(0.02)</u>

Diluted loss per share is calculated by dividing the consolidated net loss attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of outstanding ordinary shares of the Company. As there were no dilutive potential ordinary shares during the period (for the six months ended 30 June 2022: nil), diluted loss per share equal to basic loss per share.

7 DIVIDENDS

On 25 August 2023, the Board of Directors proposed not to distribute 2023 interim cash dividend (2022 interim cash dividend: nil).

Pursuant to the resolution of the annual general meeting held on 27 June 2023, the Company did not distribute a final cash dividend for the year 2022 (final cash dividend for the year 2021: nil).

8 ACCOUNTS RECEIVABLE

	30 June 2023 RMB	31 December 2022 <i>RMB</i>
Accounts receivable	500,178,132	379,760,127
Less: Provision for bad debts	<u>(111,758,012)</u>	<u>(112,494,567)</u>
	<u>388,420,120</u>	<u>267,265,560</u>

Credit terms granted to customers by the Group are with a general term ranging from 1 to 3 months. The ageing analysis of accounts receivable based on the dates of recognition, is set out as follows:

	30 June 2023 RMB	31 December 2022 <i>RMB</i>
Within 90 days	316,538,059	210,796,481
91 to 180 days	47,696,552	32,858,608
181 to 365 days	57,782,465	39,427,881
Over 365 days	<u>78,161,056</u>	<u>96,677,157</u>
	<u>500,178,132</u>	<u>379,760,127</u>

9 ACCOUNTS PAYABLE

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

	30 June 2023 RMB	31 December 2022 <i>RMB</i>
Within 90 days	97,440,814	108,738,388
91 to 180 days	26,770,087	24,203,659
181 to 365 days	23,941,365	36,520,441
Over 365 days	<u>187,862,275</u>	<u>192,154,694</u>
	<u>336,014,541</u>	<u>361,617,182</u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2023, the Group's total revenue amounted to RMB1,065,946,966, representing an increase of 71.20% as compared to the corresponding period of 2022. Net loss attributable to shareholders amounted to RMB50,620,355, while the net loss attributable to shareholders for the corresponding period of 2022 was RMB11,788,124. Loss per share amounted to RMB0.11 (the corresponding period of 2022: loss per share of RMB0.02).

Operating Environment

Civil Aviation Industry of China

In the first half of 2023, China's civil aviation industry firmly established the concept of safe development, strictly implemented safety responsibilities, strengthened the safety awareness and safety management of all employees, deepened the investigation and rectification of hidden dangers, systematically managed and controlled various safety risks, efficiently coordinated safe operation and resumption of production. The Civil Aviation Administration of China (the "CAAC") has adhered to the principle of seeking progress while maintaining stability, progressing step by step, and scientifically researched and judged the situation of market recovery trend, and based on the results of dynamic safety assessment, carried out classification differentiation control of the operation volume of airlines and the airport, and promoted the recovery of the aviation market in stages and in an orderly manner according to the principle of "Safety First, Market-driven, Support Takes Priority". As of 30 June 2023, the industry had completed 53.13 billion ton kilometers of transportation, 284 million passenger carriers and 3.276 million tons of cargo and mail transportation, representing 84.6%, 88.2% and 93.1% of the corresponding period in 2019, respectively. At present, the safety situation has generally remained stable, the whole industry has formed a consensus on safe and orderly recovery, and the transportation and production as a whole have shown a good situation of stable recovery, safe operation, and orderly competition. Steady progress was made in deepening reform in important areas, international exchanges and cooperation in civil aviation continued to deepen, various special aircraft, charters and major transportation support tasks were successfully fulfilled, and new results were achieved in the high-quality development of civil aviation.

In July 2023, the CAAC issued the “Guideline on Implementing the Overall Deployment of Construction of Digital China to Accelerate the Development of Smart Civil Aviation Construction (關於落實數字中國建設總體部署加快推動智慧民航建設發展的指導意見)” (“**Guideline**”), which aims to implement the “Overall Layout Plan for Digital China Construction (數字中國建設整體佈局規劃)” and “Guideline on Building a Data Infrastructure System to Better Make Use of the Functions of Data Elements (關於構建數據基礎制度更好發揮數據要素作用的意見)”, better coordinate the construction of new infrastructure, activate the potential of data elements, and give full play to the role of smart civil aviation construction as an innovation engine in promoting the high-quality development of civil aviation. As a document which follows the past and inspires the next, the Guideline is not only the top-level design document for CAAC to implement the overall deployment of construction of Digital China, but also a guiding document to coordinate and lead the smart civil aviation construction and big data construction in the industry and other work. It will comprehensively promote the digital transformation and intelligent operation of the industry and provide support for the joint acceleration of the construction of a new digital ecology of civil aviation.

The Guideline proposes to follow the strategic path of having solid foundation, digital empowerment, ability improvement, and environmental optimisation, in order to comprehensively improve the systematization, synergy and safety of smart civil aviation construction, promote the digital transformation and intelligent operation of the industry, and compose a better chapter of civil aviation for the powerful state of transportation, which will contribute to promoting Chinese-style modernization. The Guideline also put forward four working principles, including “Deepening Reform, Innovation-driven”, “Systematic Layout, Digital Empowerment”, “Independence and Controllability, Safety and Reliability” and “Open Cooperation, Mutual Benefit and Win-win” and clarified the main goals of the digital transformation and development of the industry by 2027 and 2035.

The Group will follow the requirements of each document issued by the CAAC, focus on the working objectives such as “Safe Development”, “Smart Civil Aviation” and “Sincere Service”, and constantly improve the service quality and operational efficiency of Meilan Airport.

Tourism in Hainan Province

During the period ended 30 June 2023, the province received a total of 46,065,900 domestic and foreign tourists, representing a year-on-year increase of 32.8%, and the total tourism revenue was about RMB91.611 billion, representing a year-on-year increase of 42.4%.

On 22 March 2023, the Hainan Provincial Tourism, Culture, Radio, Film and Television Sports Department (海南省旅遊和文化廣電體育廳) (the “**Hainan Tourism and Culture Department**”) held a special investment promotion meeting for the tourism, culture and conservation industry, taking advantage of the holding of the 2023 (China) County Economic Development Conference (二零二三(中國)縣域經濟發展大會) in Haikou. As one of Hainan’s leading industries, tourism plays an important role in Hainan’s economic development. Hainan actively cultivates new forms of tourism consumption and new attractions, promotes the upgrading of quality of the tourism industry, warmly welcomes more people to focus on Hainan, shares the development results of the construction of the free trade ports, and shares the benefits of reform and opening up.

In May 2023, Boao Dongyu Island Resort was officially awarded the National Tourism Resort, realising the progress of breakthrough in the construction of advanced tourism core attractions in Hainan Province. Focusing on the existing hardware facilities of Boao Dongyu Island Resort, it has built a core area for international and domestic high-end conference service functions, and at the same time launched a rich and diversified product portfolio including health and tourism, parent-child research and study, leisure, entertainment, and sports. Together with the Sanya Yalong Bay Resort, which was previously evaluated, they would jointly lead the new era of Hainan tourism vacation in the north and in the south, respectively. Hainan Province attaches great importance to the establishment work, formulates special plans, and accelerates the establishment work through provincial and municipal linkage, expert guidance, and quality improvement and upgrading of resort areas. The establishment of a national tourist resort is an important step to promote and lead the transformation of the tourism industry from sightseeing to leisure vacation. It is also an important measure to help build Hainan International Tourism Consumption Center and create a Hainan vacation paradise.

On 21 June 2023, a press conference on measures to promote consumption in Hainan Province in 2023 was held in Haikou. The Hainan Tourism and Culture Department has formulated the “Implementation Plan for the Issuance of Tourism Consumption Vouchers in Hainan Province in 2023 (二零二三年海南省旅遊消費券發放實施方案)” which would encourage cities, counties and enterprises to participate in supporting funds by issuing RMB50 million of tourism consumption vouchers, and increase the attractiveness of Hainan tourism. The issuance timing of the tourism consumption vouchers was well-chosen to be before the Dragon Boat Festival, with an aim to stimulate consumption during the festival, attracting students and parents and so on to travel to Hainan for summer vacation. At the same time, the leverage effect is strengthened in the regions and tourism products with large pull effect and great marketing results, and strive to obtain the maximum comprehensive benefits.

On 1 July 2023, the Hainan Tourism Development Research Institute was launched in Haikou. The research institute has a theoretical research center, an applied research center, an academic exchange center, a talent training center and a data information center, which will carry out theoretical and empirical research focusing on the relevant fields of the high-quality development of Hainan’s tourism industry and the construction of international tourism consumption centers. The business scope is divided into five major sectors such as tourism development strategy research, policy research on the construction of Hainan International Tourism Consumption Center, academic exchanges on tourism development, training and exchanges of tourism talents and statistical analysis of tourism consumption data. According to the plan, the research institute will make full use of the policy advantages of Hainan Free Trade Port (“**Hainan Free Trade Port**”) to actively carry out strategic, forward-looking and applied industrial policy, industrial development, service system research, and capacity building for high-quality development of Hainan tourism industry.

Since 00:00 on 15 March 2023, China has officially resumed various visa-free policies including the examination and issuance of visas for foreigners to China by visa authorities stationed abroad and the resumption of visa-free entry in Hainan. Hainan Province began to receive inbound tourist groups since March, showcasing the start of the resumption of Hainan inbound tourism. The Hainan Tourism and Culture Department will continue to promote the introduction of support policies for the inbound tourism market, including support measures for the development of the inbound tourism market and financial subsidy policies for civil aviation passenger transportation. It will promote the optimisation of subsidies for civil aviation, encourage airlines and charters to open direct routes abroad, and increase the number of inbound tourists, as well as to promote the optimisation of visa exemption policies, expand the scope of visa exemption, and enhance the convenience of visa exemption. It will also encourage tourism enterprises to develop the inbound market by introducing measures to support the Hainan inbound tourism market. More convenient immigration control measures will promote the construction of Hainan Free Trade Port and Hainan International Tourism Consumption Center and enhance the internationalization level of Hainan tourism.

Tourism Highlights of Hainan Province

In the first half of 2023, Hainan Province has adopted a series of measures to stimulate consumption vitality and promote the recovery of the tourism market.

The construction of key tourism projects in Hainan Province is progressing in an orderly manner:

- Hainan Island Tourism Highway is an important carrier to promote the construction of international tourism islands and international tourism consumption center. On 30 June 2023, the construction of the subgrade section of the main line of Hainan Island Tourism Highway was completed. As of now, the project has completed a total investment of RMB11.23 billion, accounting for 72% of the total investment budget. The construction of the remaining seven special structure bridges and electromechanical greening is progressing steadily. It is expected that the whole line will be completed and opened to traffic by the end of December 2023. The opening of tourist roads around Hainan Island will promote the integration of Hainan tourism, help to adjust the imbalance of development of tourism in the east and west of Hainan, and at the same time radiate benefits to the central region, forming a balanced trend of tourism development in the whole region, bringing tourism and economic development opportunities to more cities and counties.
- The Haikou International Duty-Free City project is located in the sub-center of the West Coast of Haikou City, close to the new seaport, an important transportation hub of Haikou. It is a two-wheel-driven retail tourism complex with “duty-free + culture and tourism” with the duty-free business as the traffic inflow built by China Duty Free Group Co., Ltd. (“CDF”) under China Tourism Group. Among them, cdf Haikou International Duty-Free City, located in land parcel no. 5, has commenced operation in 2022 with a gross floor area of about 289,000 square metres, making it the world’s largest single duty-free store. At present, the supporting projects of four land parcels of the project are under simultaneous construction. The four land parcels are positioned as super-grade A landmark office buildings, characteristic commercial buildings, high-quality talent communities and theme hotels. The total construction area of the characteristic commercial buildings is about 58,000 square meters, including three buildings, which are expected to be completed within the year.

Various types of recreational activities launched in full swing:

- In June 2023, the Hainan Tourism and Culture Department decided to implement the “Let Hainan Tourism Flourish in the Off Season (讓海南旅遊淡季旺起來)” campaign across the industry, so as to make Hainan tourism flourish in the off season, focusing on the theme of “Welcome from Cool Hainan (酷酷的海南歡迎你)” According to the plan, the Hainan Tourism and Culture Department will launch a number of measures in four aspects such as building a composite tourism product system, carrying out all-round tourism promotion and marketing, accelerating targeted tourism integration and creating better tourism market services.

- On 28 June 2023, “Forgetting about the summer heat with the fun and unparalleled 2023 International Duty-Free Thematic Event of Haikou” (「樂不思「暑」無與「倫」比二零二三海口國際免稅主題活動」) was launched. Focusing on the summer peak season for tourism and the Jay Chou concert, thematic discount activities such as “consumption waiver, discount, service for the fans, picture posting while on travel” which are based on the five major sectors including “duty-free, characteristic cultural business district, long-established brands and specialty food and beverages, night market, business circle” have been planned and launched. The three major duty-free enterprises of CDF, Hainan Holdings Global Boutique and Shenzhen Duty Free Group focus on hot spots and carry out exclusive preferential activities for fans of Jay Chou in their duty-free cities. Through offering substantial discounts on commodities, exquisite theme gift, and other means to attract tourists, duty-free consumption in Haikou was empowered.

- The 2023 second Hainan International Offshore Duty-free Shopping Festival hosted by the People’s Government of Hainan Province and organised by the Department of Commerce of Hainan Province was officially opened in cdf Haikou International Duty-Free City on 4 July 2023. The theme of this year’s shopping festival is “Enjoy Duty-free Shopping in Hainan (惠購海南樂享免稅)” which is planned to last for two months until the end of August. Through issuing offshore duty-free shopping consumption vouchers, holding joyful summer parent-child duty-free shopping and other theme marketing activities, it will bring consumers diversified theme activities, high-quality shopping experience and enriched product supply and bundle deals, so that consumers can fully enjoy offshore duty-free shopping in Hainan. Six stores of CDF in Hainan region will combine more than 800 domestic and international brands in 45 duty-free categories to bring a series of marketing activities including brand first-store debut, new product debut, celebrity in-store activities, CDF exclusive packages, duty-free exclusive privileges, flash interactive experiences, etc., and launch a number of activities such as “Children’s Fashion Show” and “Fragrance Festival” in different time slots to create more complex consumption scenes combined with “Parent-Child Tour”, “Study Tour”, “Graduation Tour” and other current hot spots. At the same time, during the shopping festival, six stores of CDF in Hainan will also visit 10 key domestic cities to launch thematic promotion activities to further expand the market presence of the offshore duty-free in Hainan and release the strong magnetic power of the offshore duty-free in Hainan.

The Group will pay close attention to the development of tourism in Hainan Province, actively cooperate with the local government for the promotion and marketing of the tourism market, and seize the development opportunities to help Meilan Airport achieve another record of passenger and cargo and mail throughput.

Transportation within the Island

In recent years, the transportation industry in Hainan Province has continuously promoted the leapfrog development of the industry. Transportation investment has hit a record high, serving economic growth prominently. The infrastructure network has been gradually improved, and the goal of “expressway connecting to all counties (縣縣通高速)” has been successfully completed; The “Five Ports in Four Directions (四方五港)” pattern has been more optimised, and port service guarantee capabilities have been significantly improved. The “flight economic circle of four hours and eight hours (四小時八小時飛行經濟圈)” for civil aviation has been preliminarily constructed; The transportation of the whole province has moved from “basic adaptation” to “moderate advancement,” providing a strong guarantee for accelerating the construction of Hainan Free Trade Port.

- On the highway side, the overall progress of the ground auxiliary road project in the Haikou section of G15 Shenyang-Haikou Expressway has been completed by about 40%, striving to meet the opening conditions by the end of the year. The construction of the project will connect the G98 Island Ring Expressway with the G15 high-speed overhead, and at the same time connect the transportation hubs such as port areas, railway stations, airports, etc., to build an integrated comprehensive transportation system of highways, ports, railways and aviation, which is of great significance to the regional economic development.

The construction of the subgrade section of the main line of Hainan Island Ring Tourism Highway has been completed, and the construction of bridges, electromechanical and greening is currently under way. The Hainan Island Ring Tourism Highway is a leading major infrastructure project for the construction of Hainan Free Trade Port and the establishment of an international tourism consumption center. The main line of the highway has a total mileage of 988.2 kilometers, connecting the characteristic bay, promontory, characteristic towns and tourist attractions along the way, and coastal resort areas.

The construction process of Meilan Airport Expressway Project is progressing steadily. At present, the overall image project progress of the project has been completed about 60%. Meilan Airport Expressway Project starts from Haiwen North Road in the north and connects Guilinyang in the south. The total length of the route is 5.389 kilometers. The whole line mainly adopts the form of elevated expressway, and the main line elevated standard section adopts two-way six-lane scale. After the project is completed, it will effectively shorten the driving time between Meilan Airport and Qiongbei area, significantly improve the traffic conditions from Haikou Meilan Airport to the urban area, and meet the needs of rapid passage in key surrounding areas.

- As for the port, the Haikou new port integrated transportation hub project has entered the sprinting phase and is scheduled to be fully completed this year. As the “second tier port” and gateway port of Hainan Free Trade Port, after the project is completed, it will become the largest comprehensive hub for passenger roll-on/roll-off in the country that integrates functions such as the port for waiting to aboard, port for boarding and disembarking, port for inspection, hub for commerce and “zero-interchange transportation”. It can realise the “zero-interchange” for tourists travelling across the sea, improve the service level of the new Haikou port, promote the development of surrounding tourism, cultural and commercial complementary services, and provide important port facilities for the lockdown operation of Hainan Island.

Offshore Duty-free

Currently, the tourism market in Hainan has gradually recovered, and the offshore duty-free market in Hainan has continued to be popular, which has become an important window for Hainan to attract international consumption to return.

In order to support the construction of Hainan Free Trade Port, further enhance the shopping experience of offshore travelers, and provide consumers with more diversified and convenient options, the General Administration of Customs of the People’s Republic of China, the Ministry of Finance of the People’s Republic of China, and the State Taxation Administration issued the “Announcement on Increasing Picking-up methods of ‘Guarantee and Pick-up’ and ‘Buy and Pick-up’ for Offshore Duty-Free Shopping in Hainan” (《關於增加海南離島免稅購物「擔保即提」和「即購即提」提貨方式的公告》) (the “**Announcement**”) on 21 March 2023, starting from 1 April 2023, on the basis of “mail delivery (郵寄送達)” and “return to the island for collection (返島提取)”, two new picking-up methods of “guarantee and pick-up (擔保即提)” and “buy and pick-up (即購即提)” were added. When offshore travellers purchase duty-free goods in Hainan offshore duty-free shops (excluding online sales windows) with valid identity documents or travel documents and offshore information, except for picking up goods in designated areas of airports, railway stations and docks, as well as electing mail delivery or returning to the island for collection by residents in the island, they can choose “guarantee and pick-up (擔保即提)” for duty-free goods with a unit price of more than RMB50,000 (inclusive), and choose “buy and pick-up (即購即提)” for duty-free goods with a unit price of no more than RMB20,000 (exclusive) and in the list of the Announcement.

In order to ensure the smooth implementation of the new delivery method, Haikou Customs has correspondingly upgraded the offshore duty-free supervision system in accordance with the policy content to meet the needs of “guarantee and pick-up (擔保即提)” passengers for physical verification; Haikou Customs has set up seven physical verification points at Hainan airports, and outbound ports for trains and ships. Supervision system is deployed, which can quickly obtain commodity information and passenger shopping information, and efficiently handle physical verification business for passengers. At the same time, it also optimises the procedures for handling security deposits. The customs and bank customs tax security deposits account can be linked in transactions, and passengers can directly pay security deposits to the customs account to ensure that security deposits are collected and refunded safely and efficiently.

To thoroughly utilise the consumption potential of international travelers and attract the return of consumption, cdf duty-free shops at Meilan Airport launched the intercontinental flights exclusive benefit activity in July 2023. Travelers on international flights transiting through Haikou to domestic cities can enjoy a 15% discount on top of the offshore duty-free prices offered by cdf Meilan Airport duty-free shops by presenting their Haikou inbound boarding passes, which are within 72 hours (3 days), for international sections (such as Sydney-Haikou, Melbourne-Haikou), resident identity cards (for Chinese travelers) or passports (for foreign travelers) to register at the main service counter of cdf Meilan Airport duty-free shops.

Thanks to the continuous adjustment and optimisation of the offshore duty-free policy and the favorable impact of the construction of Hainan Free Trade Port, the amount of offshore duty-free sales has increased year by year, from the initial annual sales of less than RMB1 billion to over RMB10 billion in 2019. After the implementation of new offshore duty-free policy on 1 July 2020, the sales amount reached RMB27.5 billion that year, demonstrating good growth momentum. According to statistics from Haikou Customs, since the implementation of the new policy on 1 July 2020, as of 30 June 2023, Haikou Customs had supervised a total of RMB130.7 billion in offshore duty-free purchases, 17.67 million tourist shoppers and 175 million commodities sold.

For the six months ended 30 June 2023, the retail sales of offshore duty-free goods in Hainan Province amounted to approximately RMB26.318 billion, the number of duty-free shoppers was approximately 3.7334 million and the number of duty-free commodities sold was approximately 30.8624 million, representing year-on-year increase of 24.38%, 45.39% and 1.17%, respectively.

Business and Revenue Review

Overview

In the first half of 2023, under the complex international environment, the Chinese economy showed development resilience. The Chinese economy has steadily advanced along the path of high-quality development. The overall operation of the Chinese economy has shown a recovery trend, market demand has gradually recovered, production and supply have continued to increase, resident income have grown steadily, and consumption potentials have been gradually released. In this context, the Group took multiple measures simultaneously, continued to exert efforts, and focused on the recovery of flight routes with multiple indicators returning to the pre-epidemic level.

Since 1 January 2023, the Company has been responsible for the overall operation of the relevant assets Meilan Airport Phase I and II. As the Company will operate all the leased assets with a leasing model, this will enable the Company to better operate its operating assets in accordance with the prevailing standard of “high standards with stringent requirements” in the civil aviation industry. In addition, on 18 April 2023, the Company and Haimian Haikou Meilan Airport Duty-Free Shop Co., Ltd. (海免海口美蘭機場免稅店有限公司) made adjustments to the relevant agreements previously entered, including the extension of the terms of the agreements.

On 25 June 2023, Meilan Airport received the official reply from the CAAC regarding the adjustment of the slot capacity. According to the official reply, the capacity standard during peak hours of Meilan Airport will be adjusted from 30 flights per hour (i.e., no more than 29 flights per hour will be arranged, and the use of the remaining 1 flight will be determined by the CAAC, and no more than 85 flights will be arranged for 3 consecutive hours. The standard has been implemented since 1 January 2017) to 40 flights per hour (i.e., the slot coordination parameter will not exceed 39 flights per hour, and the use of the remaining 1 flight will be determined by the CAAC) which has been implemented since 25 June 2023. This capacity adjustment provides a solid foundation for Meilan Airport’s future development.

In the first half of 2023, Meilan Airport received many domestic and international awards for its excellent passenger service experience: in total 39 awards at industrial, provincial and ministerial levels or above, including 3 important international awards, 21 national awards, 15 provincial awards, and 35 industrial and honorable awards. Internationally, Meilan Airport won three global awards granted by SKYTRAX : “Best Regional Airport in China”, “Best Airport Staff in China” and “Best Clean Airport in China”. Domestically, Meilan Airport was granted a number of prestigious awards including the title of “2022 Two-Star “Dual Carbon” Airport” by the China Civil Airports Association. The end-to-end luggage tracking system of Meilan Airport and the Meilan Airport Smart Pandemic Prevention Platform were awarded the “2022–2023 Civil Aviation Enterprise Digital Transformation Benchmark Case (二零二二 – 二零二三年度民航企業數字化轉型標桿案例)” by the civil aviation information technology application branch of China Computer Users Association (中國計算機用戶協會). These honors indicated that the service quality and business standard of Meilan Airport has been highly recognized and endorsed by the vast number of passengers and authoritative institutions, which has improved the brand awareness and industry influence of Meilan Airport.

With respect to the construction of smart airport, in April 2023, Meilan Airport online integrity education base – “Clean Airport – Sunny Meilan Platform” (清廉空港•陽光美蘭平台) was launched, realising the innovation of Meilan Airport’s integrity education system, providing lightweight, systematic and personalised integrity learning services for the party members, cadres and employees of Meilan Airport, and fully empowering the digital transformation of integrity education for the party members, cadres and employees.

In order to comprehensively support the airport operation and management related links and achieve a more intelligent management system, the Meilan Airport Smart Large Service Platform Product Service Project (智慧大服務平台產品服務項目) commenced trial operation in May 2023. After optimisation, it will build an intelligent service platform integrating intelligent travel, intelligent service, intelligent operation and intelligent management and control. With the core concepts of globalisation, integration, digitalisation and intelligence, it will help Meilan Airport to transform and upgrade digitally.

Combined with the needs of Meilan Airport’s VIP service business changes, in June 2023, Meilan Airport’s new VIP management system was put into trial operation. The system finally realised the closed-loop management of Meilan Airport’s VIP service, and built a one-stop platform of “VIP management + service”.

In the first half of 2023, Meilan Airport Hotel won a total of 13 awards including “2022 Star Hotel” by the comprehensive travel platform “Fliggy (飛豬旅行)”, “2022 Most Popular Hotel” by Trip.com Group, “Top 100 Mid-to-High-end Hotels in China” and “Top Ten Hotels in Haikou” by MCI Consumer Favourite List. Meilan Airport Hotel has been promoting social awareness and increasing the exposure of the hotel through channels such as radio and internet topics. Meilan Airport Hotel served approximately 226,600 guests during the six months ended 30 June 2023, with a room occupancy rate of 85.59%, representing a significant year-on-year increase. In order to increase the business volume, Meilan Airport Hotel actively optimised the source market of various channels, and has established long-term cooperation with more than twenty airlines to ensure the accommodation and catering for the airline crew. At the same time, Meilan Airport Hotel continued to develop conference and training rooms for government and aviation institutes, as well as the reception for international and domestic travelling transit groups.

Overview of Aviation Business

In the first half of 2023, the aviation market recovered significantly, and the passenger throughput of Meilan Airport increased significantly compared with the same period of 2022. The Company actively communicated with airlines to increase wide-body transportation capacity for popular destinations to meet passenger travelling needs. In addition, the Company paid close attention to market trends, seized favorable opportunities such as the small batches of seasonal travelers, large-scale local convention and exhibition activities, and new international shipping routes, publicized the Haikou market on a number of mainstream media, and continuously transmitted favorable market information. Meanwhile, the Company cooperated with major airlines and OTA (Online Travel Agency) platforms to carry out publicity and promotion activities, in order to attract traffic for the airline market and increase market development efforts.

In the first half of 2023, Meilan Airport has established a total of 203 departure routes, including 188 domestic routes, representing a year-on-year increase of 18 routes; 10 international and regional routes, 5 international freight routes; and has extended its reach to 130 cities, including 114 domestic cities, 10 international and regional cities and 6 international freight cities. A total of 46 airlines operated at Meilan Airport, including 33 domestic airlines, 9 international and regional airlines and 4 international freight airlines.

The recovery of the international market will be combined with the application of the release of time slots to amplify market development efforts. In the first half of 2023, Meilan Airport has operated a total of 10 international and regional passenger routes (Haikou = Hong Kong, Haikou = Phnom Penh, Haikou = Bangkok, Haikou = Singapore, Haikou = Macau, Taiyuan = Haikou = Sydney, Haikou = Kuala Lumpur, Haikou = Samoa, Changsha = Haikou = London, Haikou = Melbourne). Compared with the full year of 2022, 9 new international and regional passenger routes were opened. Compared with the full year of 2019, the recovery rate of international and regional passenger routes was 27.78%. The international and regional air passenger market is gradually recovering.

On 11 July 2023, “Incheon = Haikou = Kuala Lumpur”, the fifth freedom of the air freight regular route, was officially opened. This is the second fifth freedom of the air freight route opened by Meilan Airport following the “Haikou = Singapore = Jakarta” international cargo route, which will build a bridge in the air for exchanges and communications among the three areas, fully promoting the high-quality development of Hainan Free Trade Port.

Details of the aviation traffic throughput for the six months ended 30 June 2023 and the comparative figures in the corresponding period of last year are set out below:

	For the six months		
	ended 30 June		Change
	2023	2022	
Aircraft takeoff and landing (flights)	85,367	58,631	45.60%
in which: domestic	83,910	58,429	43.61%
international and regional	1,457	202	621.29%
Passenger throughput (headcount in ten thousand)	1,204.80	656.13	83.62%
in which: domestic	1,191.02	656.10	81.53%
international and regional	13.78	0.03	45,833.33%
Cargo and mail throughput (tons)	93,077.90	74,186.50	25.46%
in which: domestic	89,728.20	72,097.50	24.45%
international and regional	3,349.70	2,089.00	60.35%

The Group’s revenue from aviation business for the six months ended 30 June 2023 was RMB494,404,533, representing an increase of 132.47% as compared to the corresponding period of 2022. Details are as follows:

	For the	Changes
	six months	over the
	ended	corresponding
	30 June 2023	period of 2022
	(RMB)	
Passenger service charges	228,912,963	133.43%
Ground handling service income	169,863,940	145.98%
Fees and related charges on aircraft takeoff and landing	95,627,630	109.93%
Total revenue from aviation business	494,404,533	132.47%

Overview of Non-aviation Business

For the six months ended 30 June 2023, as the production and operation indicators have gradually recovered, the Group achieved a revenue from its non-aviation business of RMB571,542,433, representing an increase of 39.41% as compared with the corresponding period of 2022.

	For the six months ended 30 June 2023 (RMB)	Changes over the corresponding period of 2022
Franchise income	325,387,703	41.16%
Hotel income	57,670,144	43.13%
Freight and packaging income	50,771,318	11.69%
Rental income	34,296,684	25.15%
VIP room income	15,112,466	-24.46%
Other income	<u>88,304,118</u>	<u>90.75%</u>
Total revenue from non-aviation business	<u>571,542,433</u>	<u>39.41%</u>

Franchise Income

In the first half of 2023, the franchise income of the Group aggregated to RMB325,387,703, representing a year-on-year increase of 41.16%, which was mainly attributable to the significant increase in the sales of cdf Meilan Airport duty-free shops and the increase in the rental area of offshore duty-free pick-up points as the recovery of domestic aviation industry had continued and the passenger throughput at Meilan Airport had increased, thereby leading to a significant increase in franchise income of the Group as compared with that of the corresponding period of last year.

Hotel Income

In the first half of 2023, the hotel income of the Group amounted to RMB57,670,144, representing a year-on-year increase of 43.13%, which was mainly due to the increase in the occupancy rate of Meilan Airport Hotel as a result of the increase in the passenger throughput of Meilan Airport due to the continuous recovery of domestic aviation industry.

Freight and Packaging Income

In the first half of 2023, the freight and packaging income of the Group aggregated to RMB50,771,318, representing a year-on-year increase of 11.69%, which was mainly due to the year-on-year increase in the cargo and mail throughput at Meilan Airport as a result of the continuous recovery of domestic aviation industry and integration of resources and promotion activities carried out in the freight business at Meilan Airport.

Rental Income

In the first half of 2023, the rental income of the Group aggregated to RMB34,296,684, representing a year-on-year increase of 25.15%, which was mainly due to the increase in rental income as a result of the increase in external rental area.

VIP Room Income

In the first half of 2023, the VIP room income of the Group aggregated to RMB15,112,466, representing a year-on-year decrease of 24.46%, which was mainly due to the year-on-year decrease of VIP room income as the VIP card licensing business terminated in July 2022 as a result of business adjustment.

Financial Review

Asset Analysis

As at 30 June 2023, the total assets of the Group amounted to RMB12,069,365,572, among which, the current assets amounted to RMB768,098,300, and the non-current assets amounted to RMB11,301,267,272. The total assets increased by 13.44% as compared with that as at 31 December 2022, which was mainly due to the newly added right-of-use assets as the Company leased the relevant assets of Phase I and Phase II of Meilan Airport held by Haikou Meilan International Airport Company Limited (the “**Parent Company**”).

Cost and Expense Analysis

For the six months ended 30 June 2023, the Group’s operating costs amounted to RMB971,815,319, the sales expenses amounted to RMB1,779,116, and the administrative expenses amounted to RMB41,013,515, the operating costs, sales expenses and administrative expenses amounted to a total of RMB1,014,607,950, which represented an increase of 82.41% as compared with that of the corresponding period of 2022. The increase in costs and expenses was attributable to the following reasons:

- (1) depreciation expenses and amortization of intangible assets increased by RMB238,816,137 as compared to the corresponding period in 2022, mainly due to the depreciation of newly added right-of-use assets as the Company leased the relevant assets of Meilan Airport Phase I and Meilan Airport Phase II held by the Parent Company;
- (2) the labor costs increased by RMB157,001,054 as compared with that of corresponding period of 2022, mainly because the Company has been responsible for the overall operation of Meilan Airport since 2023, and there was an increase in labour demand which has led to an increase in the number of employees, which in turn led to an increase in labour costs; and
- (3) the utilities, cleaning and environmental maintenance fee and repair fee increased by RMB51,806,558 as compared with the same period of 2022, mainly due to the increase in business volume of Meilan Airport as the domestic aviation industry continued to recover, and the Company was responsible for the overall operation of Meilan Airport, which led to the increase in related operation cost.

For the six months ended 30 June 2023, the finance expenses of the Group amounted to RMB75,270,423, representing an increase of RMB26,877,228 as compared with that of corresponding period of 2022, which was mainly due to the increase in finance expenses as the result of the addition of interest expenses on lease liabilities of RMB34,520,262 in the first half of 2023.

Gearing Ratio

As at 30 June 2023, the Group had total current assets of RMB768,098,300, total assets of RMB12,069,365,572, total current liabilities of RMB6,453,062,416, total liabilities of RMB7,719,271,071. As at 30 June 2023, the Group's gearing ratio (total liabilities/total assets) was 63.96%, representing an increase of 5.37% as compared to that as at 31 December 2022, which was mainly because the Company leased the relevant assets of Meilan Airport Phase I and Meilan Airport Phase II held by the Parent Company, adding new lease liabilities and resulting in the relatively great extent of increase in liabilities.

Pledge of Assets

As mentioned in the Company's announcement dated 1 February 2018, the Company and the Parent Company, as co-borrowers, pledged the land and buildings owned by the Company and the Parent Company as security to secure the syndicated loan (the "**Syndicated Loan**") of RMB7.8 billion from China Development Bank Corporation Limited, Hainan Branch of Industrial and Commercial Bank of China Limited and Hainan Branch of Agricultural Bank of China Limited, as co-lenders, for a period of 20 years, which shall be solely used for the construction of the airport project of the Phase II Expansion Project.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and to maintain a healthy capital ratio in order to support its business and maximize shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost.

As at 30 June 2023, the interest-bearing debts of the Group mainly included bank loans and lease liabilities (the "**Total Borrowings**"), amounting to approximately RMB3,847,259,992, and the cash and cash equivalents were approximately RMB292,336,791. The gearing ratio (net liabilities/total capital) of the Group was 44.97% as at 30 June 2023 (31 December 2022: 30.40%), representing an increase of 14.57% as compared with that of 31 December 2022, which was mainly because the Company leased the relevant assets of Meilan Airport Phase I and Meilan Airport Phase II held by the Parent Company, adding new lease liabilities and resulting in the relatively great extent of increase in liabilities.

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 30 June 2023, the Syndicated Loan contract was denominated in Renminbi with a fixed rate, of which the amount is RMB1,944,000,000.

The Group aimed to keep the balance between the continuity and flexibility of funds through utilizing its Total Borrowings. As at 30 June 2023, 100.00% of the bank loans of the Group would/may become due within one year. As at 30 June 2023, the bank loans of the Group were denominated in Renminbi, the cash and cash equivalents were mainly held in Renminbi.

Cash Flow

For the six months ended 30 June 2023, the Group's net cash inflow from operating activities was RMB238,529,437, representing a year-on-year increase of 24.88%, which was mainly due to the increase in business volume of Meilan Airport as the domestic aviation industry continued to recover, and that the assets of Meilan Airport Phase I and Meilan Airport Phase II were leased during the first half of 2023 with the revenue related to the leased assets being attributable to the Company, leading to the increase in the revenue.

For the six months ended 30 June 2023, the Group's net cash outflow for investment activities was RMB176,314,721, representing a year-on-year increase of 79.43%, which was mainly due to the payment for the construction of the Phase II Expansion Project.

For the six months ended 30 June 2023, the Group's net cash inflow for financing activities was RMB110,695,002, representing a year-on-year increase of 176.31%, which was mainly attributable to the new working capital loans.

Significant Investments Held and Their Performances

Hainan Airlines Airport Holding (Group) Company Limited ("**HNA Airport Holdings**"), the major associate of the Company, is principally engaged in the operation and management of Sanya Phoenix Airport.

HNA Airport Holdings is a subsidiary of Hainan Airport Infrastructure Co., Ltd (formerly known as "**HNA Infrastructure Investment Group Company Limited**") ("**Hainan Airport**"), which was included in the restructuring of Hainan Airport in February 2021, and the net liabilities attributable to the Parent Company in the consolidated financial statement as at 31 December 2022 was approximately RMB1.86 billion. For the six months ended 30 June 2023, HNA Airport Holdings recorded a net profit attributable to shareholders of the Parent Company of RMB0.16 billion. As at 30 June 2023, the equity attributable to shareholders of HNA Airport Holdings remained in deficit of RMB1.66 billion, the long-term equity investment of the Group in HNA Airport Holdings was nil.

Save as disclosed above, for the six months ended 30 June 2023, the Group did not hold other material investments that have a significant impact on the overall operations of the Group.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

Other than those disclosed in this interim results announcement, for the six months ended 30 June 2023, the Company did not carry out any other material acquisitions or disposals of subsidiaries, associated companies or joint ventures.

Employees and Remuneration Policy

As at 30 June 2023, the Group had a total of 3,443 employees, representing an increase of 2,211 employees as compared to that at the end of 2022. The increase in employees was due to the increase in labor demand as the Company is responsible for the overall operation of Meilan Airport which led to the increase of business volume. Employees of the Group are remunerated based on their performances, seniority and prevailing industry practices. The Group reviews its remuneration policy on a regular basis. Bonuses and commissions may be awarded to the employees as incentives based on the assessment of their performance.

Retirement Pension

The Group shall participate in the retirement scheme operated by the relevant local governmental institutions. The PRC government shall be responsible for the pension of the retired employees. The Group has to make a contribution at a certain percentage of the salary of the employees with permanent residence in the PRC (according to the retirement pension policies in Hainan Province, the contribution ratio for the six months ended 30 June 2023 was 16%). Once the Group contributes to the retirement scheme, the employer's contribution is fully owned by the employees. For the six months ended 30 June 2023, the pension contribution of the Group was approximately RMB31,186,668 (for the corresponding period of last year, the pension contribution of the Group for the six months ended 30 June 2022 was approximately RMB17,635,625).

Entrusted Deposits and Overdue Time Deposits

As at 30 June 2023, the Group did not have any entrusted deposits or overdue time deposits.

Contingent Liabilities

Save for the arrangements under the Syndicated Loan and the arbitration mentioned in the section headed "Material Litigation or Arbitration" below in this interim results announcement, as at 30 June 2023, the Group had no other significant contingent liability.

Exposure to Foreign Exchange Risks

The businesses of the Group are principally conducted in Renminbi, except certain revenue from the aviation business, purchase of equipment and consultation service fees which are denominated in US dollars or HK dollars. The Group has not entered into any forward contracts to hedge its exposure to foreign exchange risks.

Interest Rate Risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings 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.

EVENT AFTER THE REPORTING PERIOD

There were no important events affecting the Group that have occurred since 30 June 2023.

NO OTHER MATERIAL CHANGE

Other than those disclosed in this interim results announcement, there has been no other material change in relation to the information disclosed in the 2022 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 “**Hong Kong Stock Exchange**”).

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

References are made to the circulars of the Company dated 28 April 2017, 6 March 2018, 18 April 2019 and 7 January 2020 in relation to, among other things, the past Parent Company subscription and the past new H shares issue and the extension of validity period of the shareholders' resolutions and authorisation granted to the Board in relation to the past Parent Company subscription and the past new H shares issue.

According to the past Parent Company subscription, the Parent Company agreed to subscribe for the new domestic shares, which include:

189,987,125 new domestic shares as consideration for the transfer of the Phase I runway assets by the Parent Company to the Company; and 12,500,000 new domestic shares by cash at an aggregate subscription price of RMB100,000,000 (equivalent to approximately HK\$111,632,061), at the subscription price of RMB8.00 (equivalent to approximately HK\$8.93) per new domestic share.

Pursuant to the past new H shares issue, the Company may proceed to place not more than 200,000,000 new H shares to qualified institutions, corporation and individuals and other investors.

The validity period of the shareholders' resolutions and authorisation granted to the Board in relation to the past Parent Company subscription and the past new H shares issue expired on 25 June 2020.

References are made to the announcement of the Company dated 24 July 2020 and the circular of the Company dated 20 August 2020 in relation to, among other things, the Parent Company subscription and the new H shares issue. On 24 July 2020, the Company and the Parent Company entered into the Parent Company domestic shares subscription agreement (the “**2020 Parent Company Domestic Shares Subscription Agreement**”), pursuant to which, the Parent Company agreed to subscribe for the subscription shares, being not more than 140,741,000 new domestic shares as consideration for the transfer of the Phase I runway assets by the Parent Company to the Company. There is no other material change on the terms of the 2020 Parent Company Domestic Shares Subscription Agreement as compared to those in the past Parent Company domestic shares subscription agreements, except for the adjustments to the subscription price, number and method for the subscription shares. Meanwhile, the Board proposed the new H shares issue (i.e. issue of not more than 155,000,000 new H shares). In relation to the Parent Company subscription and the new H shares issue, the Company held the extraordinary general meeting, the H shareholders class meeting and the domestic shareholders class meeting on 18 September 2020, where the relevant resolutions were considered and approved.

References are made to the announcement of the Company dated 22 August 2021 and the circular dated 21 September 2021 in relation to, among other things, the Parent Company Subscription and the new H shares issue. On 21 August 2021, the Company and the Parent Company entered into the 2021 Supplemental Parent Company Domestic Shares Subscription Agreement (the “**2021 Supplemental Parent Company Domestic Shares Subscription Agreement**”), pursuant to which, the Company and the Parent Company mutually agreed to make certain amendments to the 2020 Parent Company Domestic Shares Subscription Agreement. The Company held the extraordinary general meeting, the H shareholders class meeting and the domestic shareholders class meeting on 8 October 2021, where the relevant resolutions were considered and approved to extend the validity period of shareholders’ resolutions and authorization granted to the Board in relation to the Parent Company Subscription and the new H shares issue for a further period of twelve (12) months, commencing from 18 September 2021 and ending on 17 September 2022.

References are made to the announcement of the Company dated 8 August 2022 and the circular of the Company dated 30 September 2022 in relation to, among other things, the Parent Company subscription and the new H shares issue. The Company held the extraordinary general meeting, the H shareholders class meeting and the domestic shareholders class meeting on 8 November 2022, where the relevant resolutions were considered and approved to extend the validity period of shareholders’ resolutions and authorization granted to the Board in relation to the Parent Company subscription and the new H shares issue for a further period of twelve(12)months, commencing from 18 September 2022 and ending on 17 September 2023.

Each of the completion of the Parent Company subscription and the new H shares issue shall be subject to certain conditions precedent. For details, please refer to the circulars of the Company dated 20 August 2020, 21 September 2021 and 30 September 2022. As of the date of this interim results announcement, none of such conditions precedent was satisfied or waived. The Company will notify the shareholders and potential investors of the Company with the information on the progress of the Parent Company subscription and the new H shares issue in the future (if necessary).

RISK MANAGEMENT AND INTERNAL CONTROLS

In the first half of 2023, 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 systematically organise, mitigate and monitor potential risks and to build a governance environment with risks under control and compliant operations.

In the second half of 2023, the Group will continue to carry out the “Promotion Work over the Risk Management and Internal Control System”, further optimise the framework and refine the schemes, and carry out this task as the routine work of the Group. The Group will pay attention to, keep track of and effectively resolve problems to lay a solid foundation for a healthy, rapid and sustainable development of the Group in the future.

No.	Names of risks	Description of the key risk	Counter measures taken in the first half of 2023	Effectiveness of risk-counter measures
1	Operation risk – Core safety risks	The major safety risks faced by the airport facing mainly include bird strike risk, aircraft damage risk and airfield construction management risk. Failure to effectively drive birds away may result in collisions with aircraft, affecting the normal flight, and even the material economic loss. During the flight operation support process, if damage is made to the aircraft due to crate deformation, equipment failure and improper human operation, it may cause economic loss, flight delay or even cancellation. Failure to effectively manage relevant personnel, vehicles and related materials during the construction and maintenance work in the flight area of Meilan Airport may increase the risks associated with foreign objects and flight area intrusion.	<p>(1) Guarding against bird strike risk: We established a professional team for bird strike prevention at the airport to prevent and control bird strike risks by, among others, strengthening the employees training and drills, introducing new bird repellent equipment, conducting research on bird ecological environment, visiting other airports for exchange of views and learning, and carrying out bird rescue work;</p> <p>(2) Preventing vehicles from colliding with aircraft: We improved ground security procedures for aircraft and established standardized operation guidelines; increased efforts in flight operation support and vehicle running status inspection through “online+offline” means, and imposed penalty for violations; carried out safety education and high-risk road operation rules training and assessment; organised coordination meetings among various aircraft support units to specifically solve safety hazards;</p>	<p>In the first half of 2023, Meilan Airport took various measures to comprehensively control and strictly monitor and prevent each core safety risk, and there were no aircraft scratching, illegal intrusion to the runway and unsafe construction in the flight area. Effectiveness of risk-counter measures are set out below:</p> <p>(1) In the first half of 2023, the rate of bird strikes in the duty area was 0.13 per 10,000 flights, which was lower than the annual airport bird strike prevention and management target set by the CAAC: the rate of bird strikes in the duty area was 0.8 per 10,000 flights;</p>

No.	Names of risks	Description of the key risk	Counter measures taken in the first half of 2023	Effectiveness of risk-counter measures
			<p>(3) Guarding against of foreign objects in the flight control area: We strengthened foreign objects cleaning and inspection, organised all units to carry out training on foreign objects, revised and finalized three management systems in respect of cultural construction, risk assessment, merit point management, safety inspection, etc., improved the safety control mechanism, and raised the apron operators' awareness against foreign objects; and</p> <p>(4) Guarding against construction management risk in the airfield: We ensured smooth communication between the construction unit and the apron tower during the construction period, and standardized the implementation of information notification process, emergency handling process, personnel training requirements, construction approval process, emergency drills, etc. according to the regulations on the management of construction works without the stopping of flights in the airfield.</p>	<p>(2) There was no safety incidents of foreign object damage to aircraft due to the liability of Meilan Airport in the first half of 2023; and</p> <p>(3) In the first half of 2023, there were no safety incidents caused by illegal intrusion to the runway and construction at Meilan Airport.</p>

No.	Names of risks	Description of the key risk	Counter measures taken in the first half of 2023	Effectiveness of risk-counter measures
2	Business risk/ strategic risk – risk of changes in business environment and market demand	Airport revenue is affected by changes in economic environment and market demand. If the economic growth slows down or an economic crisis occurs, or the demands and preferences of passengers change, it may lead to a decline in the Company’s revenue and adversely affect the airport’s operating performance.	<p>(1) Introducing passenger and cargo airline base companies: In 2022, Meilan Airport introduced Central Airlines as the first freight base company, and also introduced Juneyao Airlines as the third airline base company at Meilan Airport to improve the layout of Haikou route network;</p> <p>(2) Adding new domestic destinations during the Epidemic outbreak: Against the backdrop of the pandemic, we actively visited and coordinated the airlines to develop new destinations, and achieved a year-on-year increase of 10 new domestic destinations as compared to that in 2022;</p>	<p>(1) In the first half of 2023, the number of aircraft take off and landing and the number of passengers carried at Meilan Airport have resumed to 102.08% and 96.39% for the same period in 2019;</p> <p>(2) In the first half of 2023, Meilan Airport had a total of 6,354 wide-body aircraft in operation, representing an increase of 140.01% as compared to the same period of 2022 and an increase of 55.93% as compared to the same period of 2019. Wide-body aircraft accounted for 7.49%, representing a year-on-year increase of 3.01 percentage points;</p>

No.	Names of risks	Description of the key risk	Counter measures taken in the first half of 2023	Effectiveness of risk-counter measures
			<p>(3) Strengthening the utilization of idle hours: We communicated with the regional civil aviation administration and airlines to utilize idle hours. The domestic planned flights in summer and autumn flight season increased by 4.72% year-on-year; the domestic planned flights in the winter and spring flight season increased by 0.21% year-on-year, creating favorable conditions for flight scheduling and time utilization; and</p>	<p>(3) Meilan Airport opened 5 new domestic destinations and 18 new domestic routes, 9 new international and regional routes and 9 new international and regional destinations, 2 new international cargo routes and 2 new international cargo destinations. We continuously improved the domestic network layout of Meilan Airport and gradually improved the international and regional passenger market; and</p>
			<p>(4) Carrying out joint marketing activities in aviation market: We carried out joint promotional activities with airlines and OTA (Online Travel Agency) platforms for 35 times through live streaming, BANNER display, Weibo and other forms. We also cooperated with Feng Xiaogang Film Commune (馮小剛電影公社), Changying Wonderland (長影環球100), Mission Hills Golf Club (觀瀾湖高爾夫) and other scenic spots to introduce air tickets+scenic spot tickets/accommodation discount packages to attract tourists to travel from Haikou.</p>	<p>(4) Assisted cdf Meilan Airport duty-free shops to achieve brand upgrading, and promoted the exposure and entering rate of cdf Meilan Airport duty-free shops, which stimulated the consumption by offshore passengers. At the same time, it explored the consumption potential of high-end customers and increased the customer unit price level.</p>

No.	Names of risks	Description of the key risk	Counter measures taken in the first half of 2023	Effectiveness of risk-counter measures
3	Operation risk – Outsourcing units management risk	Some functions of airport operation are outsourced, but the responsibility of security service and operational efficiency are still borne by the airport itself. The quality and efficiency of outsourcing units affect the operating conditions of the airport itself.	<p>(1) Carrying out specific work on outsourcing business management: In 2022, we formulated and issued the Work Plan for Optimising Business Management and Control System of External Suppliers (《外部供方業務管控體系優化工作方案》), and established a special working group to explore and optimise the management and control mode of outsourcing business;</p> <p>(2) Promoting the end-to-end process management and control of outsourcing agreements: We reviewed and updated the list of agreements, continuously updated the standard agreements according to the implementation thereof. In addition, we reviewed the implementation of the current systems and carried out the improvement of the end-to-end process management and control mechanism;</p>	<p>In the first half of 2023, the verification and optimisation of the outsourcing management model of Meilan Airport was the main line, and the Company continued to deepen the system optimisation, pay attention to actual results, create highlights, consolidate the system foundation, and help the high-quality development of Meilan Airport. Effects of risk-counter measures are set out below:</p> <p>(1) Sorting out and formulating a template of the agreement to ensure that the outsourcing unit met the requirements for safety service and operation control of Meilan Airport, and introducing high-quality external suppliers through front-end control;</p> <p>(2) Establishing an outsourcing agreement account management mechanism and a problem list feedback mechanism through the linkage and coordination of multiple departments, and strengthening the end-to-end process management and control to effectively prevent outsourcing contract risks;</p>

No.	Names of risks	Description of the key risk	Counter measures taken in the first half of 2023	Effectiveness of risk-counter measures
			<p>(3) Establishing personnel management and training mechanism: We separately formulated the human resources evaluation system and training management system for outsourcing units, established the human resources work quality evaluation system for outsourcing units, internally assessed and certified 53 outsourcing part-time internal trainers, and set up a tiered team of trainers. In addition, we organised 24 outsourcing units to carry out entry training and assessment; and</p> <p>(4) Organising management review of outsourcing units: Hainan Certification Authority Center was engaged to review key outsourcing units, and conducted professional evaluation from various aspects such as quality management system, industry standard and compliance, and raised a total of 57 issues for improvement. After rectification, 54 issues have been completed at present, and the remaining 3 issues involving system revision and personnel allocation were under further rectification.</p>	<p>(3) Establishing a personnel management and training mechanism, building a trainer echelon, and organising and carrying out personnel access training and assessment of outsourcing units, with a passing rate of 100%;</p> <p>(4) Identifying 30 issues for improvement through service-oriented supervision. After continuous rectification by trial units, review by various regulatory teams and the “look back” work in mid-2023, 29 issues have been rectified and the rectification rate reached 96.7%; and</p> <p>(5) Strengthening the information communication and business management between outsourcing units and Meilan Airport through the dual supervision of regulatory units and secondary committees, and focusing on the improvement of the overall operation quality of the “Grand Meilan” community.</p>

PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the first half of 2023, facing the complex and severe international environment, all domestic regions and departments accelerated the construction of a new development pattern, focusing on promoting high-quality development, coordinating development and safety in a better manner, attaching great importance to the work of stabilising growth, employment, and prices. The market demand gradually recovered with the production and supply continuously increased, achieving generally stable employment and prices, steady growth in residents' income, and overall economic recovery. In the second half of 2023, although the external environment is becoming more complex and severe, and the domestic economic development is also under a certain extent of pressure, the long-term positive fundamentals of the domestic economy remain unchanged, and the characteristics of strong resilience, great potential and sufficient vitality remain unchanged, and the conditions for supporting high-quality development also remain unchanged. With the accumulation of more positive factors to promote development, the economy in China is expected to continue to recover.

In the second half of 2023, Hainan province will focus on the four leading industries (i.e. tourism, modern service industry, high-tech industry and high-efficiency agriculture with tropical characteristic), enhance the effect of investment promotion, and promote the early landing, implementation and realisation of results of contracted projects. It will continue to create new consumption hot-spots, standardize the order of the tourism market, and allow tourists to enjoy greater discounts, experience better experiences, and keep them to stay for a longer period. It will accelerate policy transformation, amplify the effectiveness of policies, vigorously carry out stress testing, and complete the construction of the hardware project for lockdown operation on schedule, so as to strongly boost the confidence and expectation of main market entities. While exploring the potential of key industries and promoting the upgrade of service industry, it will step up its efforts in the expansion of international market, accelerate the development of new business models for foreign trade, and introduce high-quality landmark foreign investment projects, so as to maintain the momentum of externally oriented economic growth.

In the second half of 2023, the recovery and development of civil aviation will enter a critical period of incremental quality improvement. The Group will resolutely stick to the bottom line of safety, strengthen the implementation of the main accountability of safety, focus on improving safety assurance capabilities, further consolidate and strengthen the safety foundation, guard against and resolve safety risks, and maintain a safe operating environment. The Group will also make a scientific arrangement of transportation capacity and fully utilise operation assurance resources, striving to improve operation assurance efficiency and production and operation indicators on the basis of ensuring safe operation. Adhering to the principle of seeking progress while maintaining stability, improving the travel efficiency and travel experience of passengers, and guaranteeing the smooth operation of major air transportation, the Group will strengthen the operation and management of corporate safety management, production organisation, personnel training, resource guarantee and other aspects. The Group continuously tracked the progress of flight slot capacity application, and communicated the airline's incremental plan according to the production situation and movements to achieve maximum efficiency benefits from the slots.

INTERIM DIVIDENDS

The Board expected that, in the second half of 2023, the Company has a large capital demand, mainly due to that the Phase II Expansion Project has been officially put into operation in December 2021, and the out-of-pocket costs have increased significantly; and although the Phase II Expansion Project has been put into operation, the relevant construction has not been fully completed and settled, and a large amount of capital will still be required in 2023 for the payment of the construction. In view of the actual needs of capital for the Company's future development, the Board does not recommend the payment of interim dividend for the six months ended 30 June 2023.

MATERIAL LITIGATION OR ARBITRATION

As disclosed in the announcement of the Company dated 5 January 2021, Aero Infrastructure Holding Company Limited and the Company entered into a subscription agreement in relation to the subscription of 200,000,000 new H shares (the "**New H Shares Subscription Agreement**") on 29 September 2019. Aero Infrastructure Holding Company Limited (the "**Claimant**"), as the claimant, filed an arbitration (the "**Arbitration Case**") with the Hong Kong International Arbitration Centre against the Company asserting allegations in connection with the New H Shares Subscription Agreement.

Reference was made to the announcement of the Company dated 15 June 2023. In June 2023, the Company received the first phase arbitration award of the above Arbitration Case, in which the majority opinion of the arbitration tribunal determined that the Company failed to use its best endeavors to facilitate the transaction of the subscription agreement, and therefore the Company was found to have breached the contract. The Arbitration Case will hold the hearing for the second phase in the second half of 2023 to determine whether there is causation between the breach of contract and the damages claimed by the applicant, and the amount of damages that the applicant is entitled to if there is causation. Based on this, whether the Company needs to compensate the applicant for losses and the amount of compensation will be subject to the results of the second phase of the Arbitration Case.

Save as disclosed above, the Group had no other material litigation or arbitration for the six months ended 30 June 2023.

OTHER INFORMATION

Changes in Information of Directors, Supervisors and Chief Executives

Mr. Qiu Guoliang ceased to be a non-executive Director with effect from 13 April 2023.

Mr. Wang Zhen, an executive Director, has reached the statutory retirement age and ceased to be the commander in chief of the commander department of Meilan Airport Phase II Expansion since August 2023, and has been re-designated as a non-executive Director with effect from 11 August 2023.

Mr. Wu Jian, a non-executive Director, has been the vice president of the Parent Company since July 2023 and ceased to be the assistant to the president of the Parent Company.

Save as disclosed above, during the six months ended 30 June 2023 and as at the date of this interim results announcement, there was no change in the Directors, supervisors and chief executives of the Company, and the Company is also not aware of any other change in information relating to the Directors and chief executives of the Company that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 the Directors and supervisors nominated by connected party shareholders would not enjoy allowance for their positions from the year of 2013, but may receive appropriate wages depending on their specific duties in the Company. Other Directors and supervisors will receive their remuneration according to the remuneration packages approved by the general meeting.

Remuneration of Company Secretary

Mr. Xing Zhoujin, being the company secretary of the Company nominated by the connected party shareholder, does not enjoy any allowance for his position, but will receive appropriate wages depending on his specific duties in the Company.

SHARE CAPITAL STRUCTURE

As at 30 June 2023, 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><u>473,213,000</u></u>	<u><u>100%</u></u>

INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

As at 30 June 2023, so far as is known to the Directors, supervisors and chief executive of the Company, the following persons (other than the Directors, supervisors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the Securities and Futures Ordinance (the “SFO”) (Chapter 571 of the Laws of Hong Kong).

Domestic Shares

Name of shareholders	Capacity	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	237,500,000(L)	96.43%	50.19%
Hainan Airport Industrial Investment Co., Ltd.* (Note 1)	Interest of controlled corporations	237,500,000(L)	96.43%	50.19%
Hainan Development Holdings Co., Ltd.* (Note 1)	Interest of controlled corporations	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
UBS Group AG (<i>Note 2</i>)	Interest of controlled corporations	26,868,372 (L)	11.84%	5.68%
The Bank of New York Mellon Corporation (<i>Note 3</i>)	Interest of controlled corporations	14,165,996 (L)	6.24%	2.99%
		611,000 (P)	0.27%	0.13%
HSBC Holdings plc (<i>Note 4</i>)	Interest of controlled corporations	9,956,000 (L)	4.38%	2.10%
		9,956,000 (S)	4.38%	2.10%
	Custodian (other than an exempt custodian interest)	3,445,000 (L)	1.52%	0.73%

Note:

- Haikou Meilan International Airport Company Limited is established in the PRC and is the controlling shareholder of the Company. According to the disclosure of interest filed on the website of the Hong Kong Stock Exchange, Hainan Development Holdings Co., Ltd.* (海南省發展控股有限公司) held 100% interest in Hainan Airport Group Co., Ltd.* (海南機場集團有限公司), Hainan Airport Group Co., Ltd held 56.00% interest in Hainan Airport Industrial Investment Co., Ltd.* (海南機場實業投資有限公司), and Hainan Airport Industrial Investment Co., Ltd. held 46.81% interest in the Parent Company. Therefore, both Hainan Development Holdings Co., Ltd. and Hainan Airport Industrial Investment Co., Ltd. were deemed to be interested in 237,500,000 domestic shares of the Company in long position held by the Parent Company.
- According to the disclosure of interest filed on the website of the Hong Kong Stock Exchange, UBS Group AG held 100% interest in (i) UBS AG; (ii) UBS Asset Management (Singapore) Ltd; (iii) UBS Fund Management (Luxembourg) S.A.; (iv) UBS Fund Management (Switzerland) AG; (v) UBS Switzerland AG; (vii) UBS Asset Management (Americas) Inc.; (viii) UBS Asset Management (Hong Kong) Ltd; (ix) UBS Asset Management Switzerland AG; (x) UBS Asset Management (UK) Limited; (xi) UBS Europe SE; and (xii) Credit Suisse Funds AG. Accordingly, UBS Group AG was deemed to be interested in 3,403,786, 541,300, 21,383,115, 40,000, 22,099, 23,000, 1,305,913, 39,000, 23,159, 5,000 and 82,000 H shares of the Company held by the above companies respectively in long position.

3. According to the disclosure of interest filed on the website of the Hong Kong Stock Exchange, The Bank of New York Mellon Corporation held 100% interest in The Bank of New York Mellon. In addition, The Bank of New York Mellon held 100% interest in BNY International Financing Corporation and BNY International Financing Corporation held 100% interest in BNY Mellon Corporate Trustee Services Limited. Accordingly, The Bank of New York Mellon Corporation was deemed to be interested in the 7,358,616 H shares and 6,807,380 H shares of the Company in long position held by The Bank of New York Mellon and BNY Mellon Corporate Trustee Services Limited, respectively.
4. According to the disclosure of interest filed on the website of the Hong Kong Stock Exchange, HSBC Holdings plc held 100% interest in HSBC Asia Holdings Limited and HSBC Bank plc, and HSBC Asia Holdings Limited held 100% interest in The Hongkong and Shanghai Banking Corporation Limited. Accordingly, HSBC Holdings plc was deemed to be interested in the 4,000 H shares of the Company in short position held by The Hongkong and Shanghai Banking Corporation Limited and 13,401,000 H shares of the Company in long position and 9,952,000 H shares of the Company in short position held by HSBC Bank plc.
5. (L), (S) and (P) represent long position, short position and lending pool respectively.

Save as disclosed above, as at 30 June 2023, so far as known to the Directors, supervisors and chief executive of the Company, there was no other person (other than the Directors, supervisors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES

As at 30 June 2023, no Directors, supervisors or chief executive of the Company had any interests or short positions 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 were required to be recorded in the register required to be kept by the Company under section 352 of the SFO, or required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules.

THE RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2023, neither the Company nor any of its subsidiaries had entered into any arrangement to enable the Directors or supervisors to acquire any benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or supervisors or their respective spouses or children under the age of 18 has been granted any rights to subscribe for shares in, or debentures of, the Company or any other body corporate or have exercised any of such rights.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Audit Committee has, together with the management of the Company, reviewed the interim results and the unaudited condensed consolidated interim financial information (including the accounting standards and practices adopted by the Group) of the Group for the six months ended 30 June 2023.

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

As of 30 June 2023, there were four independent non-executive Directors in the Board. As of 30 June 2023, 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.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' and supervisors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry to all Directors and supervisors, the Company confirmed that, all Directors and supervisors have complied with the Model Code and the code of conduct of the Company regarding Directors' and supervisors' securities transactions for the six months ended 30 June 2023.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has been in compliance with all the rules prescribed by the China Securities Regulatory Commission and the Hong Kong Stock Exchange, as well as requirements of other regulatory bodies. The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules and established a series of corporate governance systems in accordance with relevant requirements to continuously improve the corporate governance structure.

Pursuant to the code provision B.2.2 of the CG Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the articles of association of the Company (the “**Articles of Association**”), the Directors and supervisors shall hold term of office of three years from the date of election, and may stand for re-election upon the expiry of their term of office.

The term of office of Mr. Liao Hongyu, an independent supervisor, has expired on 2 June 2022. As the selection of a successor to the independent supervisor is still in progress, the Company failed to complete the re-election/election before the expiry of the term of office of the aforementioned supervisor. Before the completion of the re-election/election, such supervisor will continue to perform the corresponding duties.

In accordance with code provision C.2.1 of the CG Code, the responsibilities of the chairman and chief executive officer of a listed issuer should be separate and should not be performed by the same individual. Mr. Wang Hong serving as both the chairman and the president deviates from code provision C.2.1 of the CG Code.

Notwithstanding the deviation from code provision C.2.1 of the CG Code, given that the Company has clearly set out in writing the respective duties of the chairman and the president (i.e. the duties of the general manager as stipulated in the Articles of Association) and that Mr. Wang Hong, as the president, is familiar with the business of the Company and has superior knowledge and experience of the business of the Company, the Board is therefore of the view that Mr. Wang Hong serving as both chairman and president has the benefit of ensuring consistent leadership with the Company and allows for more efficient overall business development strategic planning for the Company. The Board believes that the balance of power and authority for the present arrangement will not be impaired and this structure enables the Company to make and implement decisions in a timely and effective manner. Notwithstanding this, the Board will review the structure from time to time and consider appropriate actions to be taken where appropriate.

Save for the deviation disclosed above, for the six months ended 30 June 2023, the Company had complied with the other code provisions of the CG Code and met with all reasonable governance and disclosure requirements. The Company will continue to improve its corporate governance and enhance its transparency to the shareholders.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk as well as the Company's website www.mlairport.com. The 2023 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 Hong Kong Stock Exchange and the Company on or before 22 September 2023.

BOARD OF DIRECTORS

As at the date of this announcement, the members of the Board include:

Executive Directors

Wang Hong (*Chairman and President*)

Ren Kai

Xing Zhoujin

Independent Non-executive Directors

Fung Ching, Simon

Deng Tianlin

George F Meng

Ye Zheng

Non-executive Directors

Wu Jian

Li Zhiguo

Wang Zhen

By order of the Board

Hainan Meilan International Airport Company Limited*

Wang Hong

Chairman and President

Haikou, the People's Republic of China

25 August 2023

This announcement is published in English and Chinese.

In the event of any inconsistency between the two versions, the Chinese version shall prevail.

* *For identification purposes only*