IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: This offering circular is being sent to you at your request and by accepting the e-mail and accessing the attached offering circular, you shall be deemed to represent to J.P. Morgan (S.E.A.) Limited, UBS AG, Singapore Branch, CCB International Capital Limited, CLSA Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, Hong Kong International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited and Industrial and Commercial Bank of China Limited, Singapore Branch (the "Joint Lead Managers") that (1) you and any customers you represent are not located in the United States (as defined in Regulation S under the US Securities Act of 1933, as amended (the "Securities Act")) and the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, and (2) you consent to delivery of the attached offering circular and any amendments or supplements thereto by electronic transmission.

The attached offering circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Joint Lead Managers or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls the Joint Lead Managers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THIS OFFERING IS MADE SOLELY OUTSIDE OF THE UNITED STATES IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of any of the issuer of the securities or the Joint Lead Managers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any of their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

STRICTLY CONFIDENTIAL

HAINAN AIRLINES (HONG KONG) CO., LIMITED
海南航空（香港）有限公司

(incorporated with limited liability in Hong Kong)

CNY1,700,000,000 6.25% GUARANTEED BONDS DUE 2017

Unconditionally and Irrevocably Guaranteed by

海南航空
HAINAN AIRLINES

HAINAN AIRLINES CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(SHSE Stock Code: 600221)

ISSUE PRICE: 100%

The 6.25% guaranteed bonds due 2017 in the aggregate principal amount of CNY1,700,000,000 (the "Bonds") will be issued by Hainan Airlines (Hong Kong) Co., Limited (the "Issuer") and will be unconditionally and irrevocably guaranteed (the "Guarantee of the Bonds") by Hainan Airlines Co., Ltd. (the "Company" or the "Guarantor"). The Issuer is a wholly-owned subsidiary of the Guarantor.

The Bonds will bear interest from and including 22 May 2014 at the rate of 6.25% of their principal amount per year. Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Date (as defined in the Terms and Conditions of the Bonds) falling on or nearest to 22 May and 22 November in each year. Payments on the Bonds will be made without deduction for or on account of taxes of Hong Kong and the PRC (as defined herein) to the extent described under "Terms and Conditions of the Bonds – Taxation".

The Bonds mature on 22 May 2017 at their principal amount. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Hong Kong or the PRC. See "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Taxation Reasons". The Bonds may also be redeemed at the option of the holders at 101% of their principal amount, together with accrued interest, upon the occurrence of a Change of Control (as defined herein). See "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Change of Control". The Issuer shall redeem all, and not some only, of the Bonds at 100% of their principal amount, together with accrued interest, upon the occurrence of a Non-Registration Event (as defined herein). See "Terms and Conditions of the Bonds – Redemption and Purchase – Mandatory Redemption for Non-Registration".

Approval in-principle has been received from Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor, their respective subsidiaries, their respective associated companies (if any), the Guarantee of the Bonds or the Bonds.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 14 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds and the Guarantee of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States (as defined in Regulation S under the Securities Act ("Regulation S")). The Bonds are being offered only outside the United States in reliance on Regulation S.

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

The Bonds have not been rated.

The Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves and ranking at least pari passu with all its other present and future unsecured and unsubordinated obligations, other than any such obligations preferred by law. The denomination of the Bonds will be CNY1,000,000 each and integral multiples in excess of CNY10,000 thereof. The Bonds will be issued in registered form and represented by a global bond certificate (the "Global Bond Certificate") deposited on or about 22 May 2014 (the "Issue Date") with The Central Depository (Pte) Limited ("CDP" or the "Depository"). Clearance of the Bonds will be effected through an electronic book-entry clearance and settlement system for the trading of debt securities ("Depository System") maintained by CDP. For persons seeking to hold a beneficial interest in the Bonds through Euroclear Bank S.A./N.V. ("Euroclear") or Clearstream Banking, *société anonyme* ("Clearstream"), such persons will hold their interests though an account opened and held by Euroclear or Clearstream (as the case may be) with CDP.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

J.P. Morgan **UBS**

Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

CCB International **CLSA (A CITIC Securities Company)** **DBS Bank Ltd.** **Deutsche Bank** **Hong Kong International Securities Limited** **Industrial and Commercial Bank of China Limited**

Offering Circular dated 15 May 2014

IMPORTANT NOTICE

Each of the Issuer and the Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Company and its subsidiaries (collectively the "Group"), the Bonds and the Guarantee of the Bonds, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in it relating to the Issuer, the Company, the Group and the associated companies of the Company are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Company, the Group and the associated companies of the Company are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Issuer, the Company, the Group, the associated companies of the Company, the Bonds or the Guarantee of the Bonds the omission of which would, in the context of the issue and offering of the Bonds and the Guarantee of the Bonds, make any statement in this Offering Circular misleading in any material respect and (v) all reasonable enquiries have been made by the Issuer and the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Issuer and the Company accept full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular has been prepared by the Issuer and the Company solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Company, and J.P. Morgan (S.E.A.) Limited, UBS AG, Singapore Branch, CCB International Capital Limited, CLSA Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, Hong Kong International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited and Industrial and Commercial Bank of China Limited, Singapore Branch to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the People's Republic of China, Singapore and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Company, the Group, the Bonds or the Guarantee of the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Company, the Joint Lead Managers, the Trustee or the Agents (in each case as defined herein). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Company, the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or any of their respective affiliates, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents. To the fullest extent permitted by law, the Joint Lead Managers, the Trustee and the Agents do not accept any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this Offering Circular or any statement herein. None of the Joint Lead Managers, the Trustee or any Agent undertakes to review the financial condition or affairs of the Issuer, the Company or the Group after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Joint Lead Managers, the Trustee or any Agent. The Joint Lead Managers have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Company, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THE ISSUE OF THE BONDS, UBS AG, SINGAPORE BRANCH, AS THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS.

In making an investment decision, investors must rely on their own examination of the Issuer, the Company, the Group and the terms of the offering, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision.

All non-company specific statistics and data relating to the Group’s industry or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. The Company believes that the sources of this information are appropriate for such information and the Company has taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, this information has not been independently verified by the Company or the Joint Lead Managers, the Trustee or the Agents and none of the Company, the Joint Lead Managers, the Trustee or the Agents make any representation as to the correctness, accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

Unless otherwise indicated, all references in this Offering Circular to “China” or the “PRC” are to the People’s Republic of China and, for the purpose of this Offering Circular only, exclude, Hong Kong, Macau SAR of the PRC and Taiwan, and all references to “Hong Kong” are to the Hong Kong SAR of China.

Unless otherwise specified or the context requires, references herein to “Renminbi”, “RMB” or “CNY” are to the lawful currency of the PRC, references herein to “Hong Kong dollars”, “HK dollars”, “HK$”, “HK cents” or “HK¢” are to the lawful currency of Hong Kong, references herein to “US dollars”, “US$”, “US cents” or “US¢” are to the lawful currency of the United States of America, references herein to “S$” are to the lawful currency of Singapore and references herein to “PRC Accounting Standards” are to the Accounting Standards for

Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter. In addition, references herein to the financial ratios of the Company and defined terms used in the calculation of such ratios may differ from those in the "Terms and Conditions of the Bonds".

The contents of this Offering Circular have not been reviewed by any regulatory authority in Singapore, including the Monetary Authority of Singapore, or Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Offering Circular, you should obtain independent professional advice.

PRESENTATION OF FINANCIAL INFORMATION

The Company has prepared consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013 in accordance with the Accounting and Standards for Business Enterprises promulgated by MOF on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (the "**PRC Accounting Standards**"), and disclosure requirements in Preparation Convention for Information Disclosures by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting (2010 Revised) (公開發行證券的公司資訊披露編報規則第 15 號 — 財務報告的一般規定 (2010 年修訂)) issued by CSRC. The consolidated financial statements for the years ended 31 December 2011 and 2012 have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, auditor of the Company ("**PwC ZT CPAs Limited**"), and the consolidated financial statements for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers Zhong Tian LLP (successor of PwC ZT CPAs Limited, effective from 1 July 2013; collectively "**PwC ZT**") and are included elsewhere in this Offering Circular (the "**Audited Consolidated Financial Statements of the Company**").

The financial statements of the Issuer as of and for the years ended 31 December 2011, 2012 and 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

FORWARD-LOOKING STATEMENTS

The Issuer and the Company have made forward-looking statements in this Offering Circular regarding, among other things, the Group's financial conditions, future expansion plans and business strategy. These forward-looking statements are based on the Group's current expectations about future events. Although the Issuer and the Company believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- risks associated with general political, social and economic conditions globally, in the PRC and related to the aviation industry;
- changes in the price of aviation fuel;
- the Group's ability to finance future aircraft acquisitions;
- the Group's ability to manage working capital and operations-related expenditure requirements;
- the Group's ability to achieve its business strategies and plans of operation;
- the Group's ability to maintain code share agreements with partner airlines;
- the Group's ability to expand its route network and its customer base;
- foreign exchange controls and fluctuations in exchange rates and interest rates;
- certain government regulations, policies and other factors beyond the Group's control; and
- those other risks identified in the "Risk Factors" section of this Offering Circular.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Issuer and the Company undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Company's and the Group's actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

These forward-looking statements speak only as of the date of this Offering Circular. The Issuer and the Company expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

TABLE OF CONTENTS

GLOSSARY

In this Offering Circular, unless the context indicates otherwise, the following terms have the respective meanings set forth below.

Capacity measurements

"available seat kilometres" or "ASKs"	the number of seats made available for sale multiplied by the kilometres flown
"tonne"	a metric ton, equivalent to 2,204.6 pounds

Traffic measurements

"cargo traffic"	measured in RFTKs, unless otherwise specified
"passenger traffic"	measured in RPKs, unless otherwise specified
"revenue passenger kilometres" or "RPKs"	the number of passengers carried multiplied by the kilometres flown
"revenue freight tonne kilometres" or "RFTKs"	the revenue cargo and mail load in tonnes multiplied by the kilometres flown

Load factors

"passenger load factor"	RPKs expressed as a percentage of ASKs

Utilisation

"utilisation rates"	the actual number of flight and taxi hours per aircraft per operating day
"block hours"	each whole or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft

Others

"A Shares"	Shares issued by the Company to investors in the PRC for subscription in RMB
"B Shares"	Shares issued by the Company to investors for subscription in U.S. dollars
"CAAC"	Civil Aviation Administration of China

"CAGR"	compound annual growth rate
"CAOSC"	China Aviation Oil Supplies Company
"CSRC"	China Securities Regulatory Commission
"Foreign Security Measures"	the Administrative Measures for the Provision of Guarantees to Foreign Parties by Domestic Institutions (境內機構對外擔保管理辦法) promulgated by PBOC on 25 September 1996 and the Rules for Implementing the Administrative Measures for the Provision of External Security by Domestic Institutions (境內機構對外擔保管理辦法實施細則) promulgated by SAFE on 11 December 1997
"GDP"	Gross Domestic Product, refers to the market value of all final goods and services produced within a country in a given period
"HNA Group"	HNA Group Co., Ltd. (海航集團有限公司) and its affiliates
"IATA"	International Air Transport Association
"IMF"	International Monetary Fund
"MOF"	Ministry of Finance
"MOFCOM"	Ministry of Commerce
"NDRC"	National Development and Reform Commission of China
"PBOC"	People's Bank of China
"SAFE"	State Administration of Foreign Exchange of China
"SAR"	Special Administrative Region
"Total Debt"	including short-term borrowings and long-term borrowings (including long-term borrowings due within one year) and debentures payable

SUMMARY

The Group is a leading provider of air passenger, air cargo and airline-related services in China. It is the fourth-largest airline in China in terms of fleet size, number of passengers carried and revenue in 2013. The Group provides scheduled domestic, regional and international services using a hub and spoke strategy on 622 routes to 89 cities in 10 countries as of 31 December 2013. In addition to its main route bases in Haikou and Beijing, the Group has established seven route bases in Xi'an, Taiyuan, Urumqi, Guangzhou, Lanzhou, Dalian, and Shenzhen, as well as an extensive network across China, and connecting Asia-Pacific, Europe and North America.

The Group is one of seven airlines in the world ranked as a 5-Star airline by the independent airline benchmarking firm Skytrax in 2013. The first and only PRC airline to receive this rating, the Group received the rating for a third consecutive year. The Group is well-recognised for its outstanding service quality by independent awards and surveys of air travellers as a result of its highly trained employees, advance seat assignments, expedited check-in, attention to customer needs, frequent flyer programme, well-maintained aircraft and other amenities.

In addition to passenger services, the Group provides cargo and mail services through bellyhold space of its passenger aircraft. It also leases out a total of 54 aircraft to other HNA Group affiliated airline companies, and provides other airline-related services, including property leasing, lodging, catering, ticketing and ground services in Beijing, Haikou, Xi'an and other locations through its subsidiaries.

The Group has a fleet primarily comprising Boeing 737-800 aircraft, along with Boeing 787-8, Boeing 767-300, Boeing 737-700, Boeing 737-400, Airbus A340-600, Airbus A330-300, Airbus A330-200 and Airbus A330-200VIP aircraft for passenger and cargo transportation. As of 31 December 2013, the Group operated a fleet of 131 aircraft, serving 75 domestic and regional and 14 international destinations. In 2011, 2012 and 2013, the Group carried approximately 20.49 million, 22.55 million and 26.26 million passengers and had a RPK of 35,744.40 million, 39,063.44 million and 45,489.19 million, respectively.

The Group has experienced significant growth in both passenger and cargo traffic and has an established track record of improving financial performance. In 2011, 2012 and 2013, the Group's consolidated total revenue was RMB26,273.25 million, RMB28,867.59 million and RMB30,231.36 million, respectively, and its net profit attributable to equity shareholders was RMB2,631.31 million, RMB1,927.79 million and RMB2,105.05 million, respectively. The Group's consolidated total revenue and net profit attributable to equity shareholders increased by 4.72% and 9.20%, respectively, in 2013, despite an industry-wide slowdown in growth in the same period.

The Company's shares quoted in U.S. dollars in the form of B Shares were listed on the Shanghai Stock Exchange (the "Shanghai Stock Exchange") in 1997 and the Company's ordinary domestic shares in the form of A Shares were listed on the Shanghai Stock Exchange in 1999. As of 31 December 2013, the market capitalisation of the Company was RMB24,594.26 million (including RMB23,600.00 million in terms of its A Shares and USD164.34 million in terms of its B Shares converted at an exchange rate of RMB6.0537 to USD1.00 on 31 December 2013 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States).

Competitive strengths

The Group believes it has the following competitive strengths:

- *High operational efficiency, strong profitability and young fleet*
- *Strong brand recognition, high-quality service and excellent safety record and standards*

- *Well-positioned to benefit from the development of Hainan as an international tourist destination and strong sponsorship from shareholders*

- *Multiple financing channels and improved financial and liquidity position*

- *Strong and experienced management team*

Business strategies

The Group aims to become the airline of choice in China and one of the world's most competitive airlines by enhancing its existing strengths in providing passenger and cargo services, and by implementing the following strategies:

- *Maintain disciplined and rationalised fleet growth*

- *Further expand core domestic and international route network*

- *Continue development into a premium brand airline, to capture a greater share of premium passenger traffic*

- *Focus on cost discipline and routes with high profitability*

- *Continue to develop alliances with airlines affiliated with HNA Group and other airlines*

Risk factors

There are certain risks involved in the Group's operations and investing in the Bonds, including: (i) risks relating to the Group's business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Guarantee of the Bonds and the Bonds. See "Risk Factors".

THE ISSUE

The following contains summary information about the Bonds and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" and "The Global Certificate" shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see "Terms and Conditions of the Bonds".

Issuer	Hainan Airlines (Hong Kong) Co., Limited
Guarantor	Hainan Airlines Co., Ltd.
Principal amount of the Bonds	CNY1,700,000,000 aggregate principal amount of 6.25% Bonds due 2017.
Issue Price	100% of the principal amount.
Form and Denomination	The Bonds will be issued in registered form in the denomination of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof.
Interest	The Bonds will bear interest at a rate of 6.25% per year.
Interest Payment Dates	The Bonds bear interest from and including 22 May 2014, payable semi-annually in arrear on the Interest Payment Date falling on or nearest to 22 May and 22 November in each year starting on the Interest Payment Date falling on or nearest to 22 November 2014.
Issue Date	22 May 2014.
Maturity Date	22 May 2017.
Status of the Bonds	The Bonds constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
The Guarantee of the Bonds	The Guarantor will in the trust deed to be dated 22 May 2014 (the "**Trust Deed**") unconditionally and irrevocably guarantee the due and punctual payment in full of all sums expressed to be payable by the Issuer under the Bonds. The Guarantee of the Bonds constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save as provided under Condition 3 and save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Company obtained approval from the Hainan Bureau of SAFE to provide the Guarantee of the Bonds on 21 April 2014. The Company is required by the Foreign Security Measures to register the Guarantee

	of the Bonds within 15 calendar days after its execution. The Company may not be able to obtain the necessary SAFE approvals to remit Renminbi in order for the Company to fulfil its obligations under the Guarantee of the Bonds unless the registration of the Guarantee of the Bonds is completed in accordance with the provisions of the Foreign Security Measures.
	See "Terms and Conditions of the Bonds – "Form, Denomination, Status and Guarantee of the Bonds – Guarantee of the Bonds" and "The Guarantee of the Bonds".
Negative Pledge	The Bonds will contain certain negative pledge provisions as further described in "Terms and Conditions of the Bonds – Covenants – Negative Pledge".
Financial Covenants	So long as any Bond remains outstanding, the Guarantor shall not directly or indirectly permit Consolidated Tangible Net Worth as at the end of any Relevant Period to be less than RMB15 billion.
	See "Terms and Conditions of the Bonds – Covenants – Financial Covenants".
Events of Default	Upon the occurrence of certain events described under "Terms and Conditions of the Bonds – Events of Default", the Trustee at its discretion may and if so requested by holders of at least 25% of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution shall (subject to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction), by notice in writing given to the Issuer, declare the Bonds immediately due and payable at 100% of their principal amount together (if applicable) with accrued interest.
Taxation	All payments of principal and interest in respect of the Bonds or under the Guarantee of the Bonds by or on behalf of the Issuer or, as the case may be, the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, subject to certain exceptions. See "Terms and Conditions of the Bonds – Taxation".
Mandatory Redemption	The Issuer shall redeem all, but not some only, of the Bonds at 100% of their principal amount together with accrued interest up to, but

	excluding, the Non-Registration Event Redemption Date, in the event the Release Condition has not been satisfied on or prior to the Registration Deadline. See "Terms and Conditions of the Bonds – Redemption and Purchase – Mandatory Redemption for Non-Registration".
Tax Redemption	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with accrued interest, in the event that the Issuer or the Guarantor would be required to pay Additional Amounts as provided or referred to in Condition 5(b) in respect of the Bonds as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation thereof. See "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for tax reasons".
Redemption on a Change of Control	A Bondholder shall have the right, at such Bondholder's option, to require the Issuer to redeem all but not some only of its Bonds at 101% of their principal amount, together with accrued interest, upon the occurrence of a Change of Control with respect to the Guarantor. See "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Change of Control".
Further Issues	The Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds. See "Terms and Conditions of the Bonds – Further Issues".
Clearing Systems	The Bonds will be issued in registered form and will be initially represented by a Global Certificate deposited with CDP and will be exchangeable for definitive Certificates only in the limited circumstances set out therein. For persons seeking to hold a beneficial interest in the Bonds through Euroclear Bank S.A./N.V. ("Euroclear") or Clearstream Banking, société anonyme ("Clearstream"), such persons will hold their interests through an account opened and held by Euroclear or Clearstream with CDP.
Clearance and Settlement	The Bonds have been accepted for clearance by CDP. The ISIN Code of the Bonds is SG6QD4000001.
Governing Law	The Bonds, the Guarantee of the Bonds and the Trust Deed will be governed by and shall be construed in accordance with Hong Kong law.
Trustee	The Bank of New York Mellon, Hong Kong Branch

Principal Paying Agent, Registrar and Transfer Agent	The Bank of New York Mellon, Singapore Branch
Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Approval in-principle for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor, their respective subsidiaries, their respective associated companies (if any), the Guarantee of the Bonds or the Bonds. Subject to the approval of the SGX-ST, the Bonds will be traded on the SGX-ST in a minimum board lot size of not less than S$200,000 (or its equivalent in other currencies) as long as any of the Bonds are listed on the SGX-ST.
Rating	The Bonds will not be rated.
Use of Proceeds	See "Use of Proceeds".

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth (i) summary historical financial information of the Company as of and for the years ended 31 December 2011, 2012 and 2013; and (ii) summary historical financial information of the Issuer as of and for the period from 2 June 2011 (date of the Issuer's incorporation) to 31 December 2011 and for the years ended 31 December 2012 and 2013.

The consolidated income statement data of the Company for the years ended 31 December 2011, 2012 and 2013 (except for EBITDA and EBITDAR data) and the consolidated balance sheet data of the Company as of 31 December 2011, 2012 and 2013 set forth below have been derived from the Audited Consolidated Financial Statements of the Company. The summary historical financial information of the Company should be read in conjunction with such audited consolidated financial statements and the notes thereto.

The Audited Consolidated Financial Statements of the Company are prepared and presented in accordance with PRC Accounting Standards. The difference between PRC Accounting Standards and international financial reporting standards ("IFRS") is summarised in "Difference between PRC Accounting Standards and International Financial Reporting Standards".

The income statement data of the Issuer for the period from 2 June 2011 (date of its incorporation) to 31 December 2011 and for the years ended 31 December 2012 and 2013 and the balance sheet data of the Issuer as of 31 December 2011, 2012 and 2013 set forth below have been derived from the financial statements of the Issuer.

The financial statements of the Issuer are prepared and presented in accordance with HKFRS. There is no material difference between IFRS and HKFRS relevant to the preparation of the financial statements of the Issuer.

Selected financial information of the Company

Consolidated income statement data

		Year ended 31 December		
		2011	2012	2013
			(RMB'000)	
Revenue		**26,273,246**	**28,867,585**	**30,231,362**
Less:	Operating costs	(19,497,987)	(21,557,641)	(23,501,158)
	Business taxes and surcharges	(802,878)	(875,181)	(522,196)
	Selling and distribution expenses	(1,260,252)	(1,846,854)	(1,942,175)
	General and administrative expenses	(575,585)	(598,504)	(609,224)
	Finance expenses – net	(2,003,902)	(2,603,623)	(1,878,094)
	Assets impairment losses	(8,206)	(86,484)	(55,200)
Add:	(Loss)/gain on changes in fair value	869,871	504,363	(64,363)
	Investment income	197,884	188,241	606,265
	Including: share of results of associates	89,493	212,413	474,503
Operating profit		**3,192,191**	**1,991,902**	**2,265,217**
Add:	Non-operating income	580,720	674,449	410,861
Less:	Non-operating expenses	(76,855)	(12,637)	(3,423)
	Including: losses on disposal of non-current assets	(70,065)	(1,722)	(2,093)
Total profit		**3,696,056**	**2,653,714**	**2,672,655**
Less:	Income tax expenses	(861,848)	(708,768)	(564,523)
Net profit		**2,834,208**	**1,944,946**	**2,108,132**
	– Attributable to equity shareholders of the Company	2,631,312	1,927,787	2,105,052
	– Minority interests	202,896	17,159	3,080
Earnings per share				
	Basic earnings per share (RMB Yuan)	0.64	0.177	0.173
	Diluted earnings per share (RMB Yuan)	0.64	0.177	0.173
Other comprehensive income		(130,871)	101,501	54,729
Total comprehensive income		**2,703,337**	**2,046,447**	**2,162,861**
	– Attributable to equity shareholders of the Company	2,500,441	2,029,288	2,159,781
	– Minority interests	202,896	17,159	3,080
OTHER FINANCIAL DATA				
EBITDA[1]		6,448,336	6,491,600	6,468,665
EBITDAR[2]		8,571,806	8,450,166	8,964,781

[1] EBITDA for any period is calculated as profit before income tax expense, adjusted by adding back depreciation of fixed assets, amortisation of intangible assets, amortisation of long-term prepaid expenses and amortisation of deferred loss on sales and leaseback transaction, finance expenses-net, assets impairment losses, gain on changes in fair value, investment income, non-operating income and non-operating expenses. EBITDA is not a standard measure under PRC Accounting Standards. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or constructed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities.

[2] EBITDAR for any period is calculated as profit before income tax expense, adjusted by adding back depreciation of fixed assets, amortisation of intangible assets, amortisation of long-term prepaid expenses and amortisation of deferred loss on sales and leaseback transaction, finance expenses-net, assets impairment losses, gain on changes in fair value, investment income, non-operating income and non-operating expenses and rental expenses under aircraft operating leases. EBITDAR is not a standard measure under PRC Accounting Standards. EBITDAR is a widely used financial indicator of a company's ability to service and incur debt in the aviation industry. EBITDAR should not be considered in isolation or constructed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities.

Consolidated balance sheet data

	As of 31 December		
	2011	2012	2013
		(RMB'000)	
ASSETS			
Current assets			
Cash at bank and on hand	19,060,578	22,312,403	20,664,828
Notes receivable	3,117,336	–	25,000
Accounts receivable	598,332	541,651	578,203
Advances to suppliers	452,540	326,543	349,799
Interest receivable	190,147	230,288	345,541
Dividends receivable	6,016	1,865	6,730
Other receivables	1,535,984	203,561	468,460
Inventories	126,256	70,514	61,687
Other current assets	–	2,000,000	1,944,836
Total current assets	**25,087,189**	**25,686,825**	**24,445,084**
Non-current assets			
Available-for-sale financial assets	899,684	1,061,446	1,044,420
Long-term equity investments	5,145,199	9,077,138	13,663,620
Investment properties	6,839,112	7,256,342	6,830,375
Fixed assets	31,229,556	34,377,690	40,991,779
Construction in progress	8,839,069	12,001,162	11,519,223
Intangible assets	194,177	164,204	158,865
Goodwill	328,865	328,865	328,865
Long-term prepaid expenses	358,553	483,595	526,708
Other non-current assets	2,375,248	2,281,877	3,772,972
Total non-current assets	**56,209,463**	**67,032,319**	**78,836,827**
TOTAL ASSETS	**81,296,652**	**92,719,144**	**103,281,911**

	As of 31 December		
	2011	2012	2013
		(RMB'000)	
Liabilities and shareholders' equity			
Current liabilities			
Short-term borrowings	17,533,295	15,792,336	20,415,335
Financial liabilities held for trading	150	–	–
Notes payable	5,059,860	5,464,473	3,513,404
Accounts payable	3,764,821	4,924,949	5,016,892
Advances from customers	1,124,595	918,462	1,490,736
Employee benefits payable	240,297	198,248	276,095
Taxes payable	576,743	552,670	709,943
Interest payable	324,449	346,211	364,232
Dividends payable	24,617	68,521	59,381
Other payables	771,008	877,345	603,026
Current portion of non-current liabilities	4,603,564	6,184,770	7,342,925
Total current liabilities	**34,023,399**	**35,327,985**	**39,791,969**
Non-current liabilities			
Long-term borrowings	23,463,293	23,169,711	25,749,667
Debentures payable	5,918,309	6,430,063	7,944,060
Long-term payables	1,412,548	1,195,060	1,219,012
Deferred tax liabilities	1,429,928	2,054,148	2,312,925
Other non-current liabilities	478,006	632,948	740,444
Total non-current liabilities	**32,702,084**	**33,481,930**	**37,966,108**
Total liabilities	**66,725,483**	**68,809,915**	**77,758,077**
Shareholders' equity			
Share capital	4,125,491	6,091,091	12,182,182
Capital surplus	5,817,180	11,739,753	5,703,391
Surplus reserve	568,001	657,397	798,200
Undistributed profit	3,966,000	5,309,332	6,725,325
Total equity attributable to equity shareholders of the Company	**14,476,672**	**23,797,573**	**25,409,098**
Minority interests	94,497	111,656	114,736
Total shareholders' equity	**14,571,169**	**23,909,229**	**25,523,834**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**81,296,652**	**92,719,144**	**103,281,911**

Recent developments

On 30 April 2014, the Group published (in the Chinese language only) its unaudited consolidated financial statements (the "31 March 2014 Financial Statements") as of and for the three month period ended 31 March 2014 (with the inclusion, for comparison purposes, of similar information as of and for the three month period ended 31 March 2013) in accordance with PRC Accounting Standards and its obligations under the listing rules of the Shanghai Stock Exchange. These financial statements were prepared by the Company's management and approved by the Board of Directors, but were not reviewed, audited or verified by PwC ZT, auditor of the Company, or any other person, and are not directly comparable to the Company's annual audited consolidated financial statements. Consequently, the 31 March 2014 Financial Statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Company's financial condition and results of operations. The 31 March 2014 Financial Statements should not be taken as an indication of the expected financial condition or results of operations of the Company for the full financial year ending 31 December 2014.

In the 31 March 2014 Financial Statements, the Group reported an increase in revenue during the three month period ended 31 March 2014 as compared to the same period in 2013. The increase in the Group's revenue in its air passenger, air cargo and other airline related business operations was due primarily to an increased number of passengers as a result of growing demand for aviation services generated by the continued growth of the PRC economy, as well as an increase in passenger travel induced by the policy of the MOF establishing Hainan province as a pilot duty-free tourism destination. Corresponding to the increase in the Group's revenue, the Group's operating costs also increased during the period ended 31 March 2014 as compared to the same period in 2013. Nevertheless, the increase in operating costs was slightly lower than revenue growth on a percentage basis due primarily to a slight decrease in aviation fuel costs during the period. The Group reported an increase in operating profit during the three month period ended 31 March 2014 as compared to the same period in 2013, due to the above reasons, but offset in part by the Group's significant increase in finance expenses resulting from exchange losses caused by the devaluation of the Renminbi during the period. The Group reported a slight decrease in total profit during the three month period ended 31 March 2014 as compared to the same period in 2013, due primarily to a decrease in the local government's subsidies granted to the Group as a result of the new PRC policy to replace the business tax with a value-added tax during the period. The Group's net profit also decreased during the three month period ended 31 March 2014 as compared to the same period in 2013, primarily for the foregoing reasons and due also to an increase in the Group's income tax expenses. Income tax expenses increased, despite the decrease in total profit, due to the increased profitability of the Group's taxable air passenger, air cargo and other airline related business operations.

Selected financial information of the Issuer

Consolidated income statement data

	Period from 2 June 2011 (date of incorporation) to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	(HK$'000)		
Revenue	–	–	7,376
Cost of sales	–	–	(5,823)
Gross profit	–	–	1,553
Administrative expenses	–	(147)	–
Other gains	–	–	5,428
Operating (loss)/profit	–	(147)	6,981
Finance expenses	(22,665)	(109,429)	(332,730)
Share of results of investments accounted for using the equity method	–	–	86,050
Loss before income tax	(22,665)	(109,576)	(239,699)
Income tax expense	–	–	–
Loss for the period/year	(22,665)	(109,576)	(239,669)
Other comprehensive income, net of tax			
Currency translation differences	1,624	127	(60,026)
Total comprehensive income for the period/year	(21,041)	(109,449)	(299,725)

Consolidated balance sheet data

	As of 31 December		
	2011	2012	2013
		(HK$'000)	
ASSETS			
Non-current assets			
Property, plant and equipment	–	62,407	–
Investments in an associate	–	–	2,301,659
Available-for-sale financial asset	1,038,609	1,038,609	656,636
	1,038,609	1,101,016	2,958,295
Current assets			
Amount due from immediate holding company	230,418	360,782	2,267,123
Amounts due from related parties	–	33,204	5,829
Prepayments, deposits and other receivables	–	7,437	7,717
Cash and cash equivalents	13,811	502,993	42,617
	244,229	904,416	2,323,286
Total assets	1,282,838	2,005,432	5,281,581
EQUITY			
Share capital	70,200	70,200	70,200
Translation reserve	1,624	1,751	(58,275)
Other reserve	–	111,300	451,379
Accumulated losses	(22,665)	(132,241)	(371,940)
Total equity	49,159	51,010	91,364
LIABILITIES			
Non-current liabilities			
Bonds payable	1,214,353	1,833,063	3,792,098
Current liabilities			
Amounts due to related parties	–	72,915	29,522
Interest payable	19,326	48,444	102,391
Current portion of non-current liabilities	–	–	1,266,206
	19,326	121,359	1,398,119
Total liabilities	1,233,679	1,954,422	5,190,217
Total equity and liabilities	1,282,838	2,005,432	5,281,581
Net current assets	224,903	783,057	925,167
Total assets less current liabilities	1,263,512	1,884,073	3,883,462

RISK FACTORS

In addition to other information in this Offering Circular, you should carefully consider the following risk factors, together with all other information contained in this Offering Circular (including the financial statements and the notes thereto), before purchasing the Bonds. The risks and uncertainties described below may not be the only ones that the Group faces. Additional risks and uncertainties that the Group is not aware of or that the Company currently believes are immaterial may also adversely affect its business, financial condition or results of operations. If any of the possible events described below occur, the Group's business, financial condition or results of operations could be adversely affected, the trading price of the Bonds could decline and investors may lose all or part of their investment.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

Risks relating to the Group's businesses and industry

Any aviation fuel shortages or any increase in domestic or international aviation fuel prices may adversely affect the Group's financial condition and results of operations

The availability of aviation fuel has a significant influence on the Group's financial condition and results of operations. In the past, aviation fuel shortages have occurred in the PRC and, on some rare occasions prior to 1993, resulted in the Group's predecessor's delay or cancellation of flights. Although aviation fuel shortages have not occurred since the end of 1993, there can be no assurance that aviation fuel shortages will not occur in the future. If such a shortage occurs in the future and the Group has to delay or cancel flights, its operational reputation among passengers as well as the results of its operations may suffer.

In addition, aviation fuel costs constituted a significant portion of the Group's operating costs accounting, in 2013, for approximately 40.64% of the Group's operating costs. As such, the Group is sensitive to aviation fuel prices. Aviation fuel prices are susceptible to, among other factors, political unrest in various parts of the world, Organisation of Petroleum Exporting Countries policies, the rapid growth of the economies of certain countries, including the PRC and India, the levels of fuel inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities and weather conditions. These and other factors that affect the global supply and demand for aviation fuel are out of the Group's control. In particular, the recent political uncertainty in the Middle East continues to cause fluctuations in aviation fuel prices and may result in increases in aviation fuel prices. Further, China has implemented a more market-driven pricing mechanism for ex-refinery jet fuel since 1 August 2011, which introduced greater volatility to the Group's fuel cost and earnings. Due to the highly competitive nature of the aviation industry and government regulation on airfare pricing and the level of aviation fuel surcharges, the Group may be unable to fully or effectively pass on to its customers any increased aviation fuel costs that it may encounter in the future, which could negatively affect its financial performance.

The Company has entered into a master fixed price supply agreement to lock in its fuel price, which, however, may not ultimately prove beneficial to the Company

As a form of protection against potential increases in fuel prices, the Company entered into a master fixed price aviation fuel supply agreement in December 2012 with a Hong Kong supplier to lock in the fuel price for purchases within a period of up to six months. Pursuant to the agreement, the Company may purchase some or all of its fuel from the supplier on a fixed price basis for an agreed period. The agreement will remain in effect until it is terminated by either party by giving not less than three months' notice to the other party.

While the arrangement would prove useful to the Company if fuel prices increase after the Company agrees a particular price, quantity and duration under the agreement, it would not be economically beneficial if fuel prices decline after the price is fixed. If the Company does not purchase any agreed quantity of fuel under the agreement, it will be liable for the supplier's selling costs, administrative expenses and losses on the ultimate sales of such fuel. Further, if the Company chooses to purchase an insufficient quantity of fuel under the agreement, it could be subject to purchasing the remainder of its fuel needs at higher spot prices.

The Group faces increasingly intense competition both in the domestic aviation industry and in the international market, as well as from alternative means of transportation

The Group faces intense competition in each of the domestic, regional and international markets that it serves. In the domestic markets, the Group competes against airline companies that have the same routes, including smaller domestic airline companies that operate with costs that are lower than the Group. In the regional and international markets, the Group competes against certain PRC airlines and international airline companies that have significantly longer operating histories, greater name recognition, more resources or larger sales networks than the Group does, or utilise more developed reservation systems than the Group. In response to competition, the Group has, from time to time in the past, lowered its airfares for certain of its routes, and the Group may do the same in the future. Increased competition and pricing pressure from competition may have an adverse effect on the Group's financial condition and results of operations.

Further, for short-distance travel, trains and buses provide alternatives to air travel. High-speed railway has been rapidly developed in China in recent years. The PRC nationwide high-speed railway network has by far the longest operational route in the world. In addition, the PRC continues to grow its inter-city expressway network and has the largest scale of high-speed railway under construction. Given the recent development of high-speed train travel, the construction of the nationwide high-speed railway network and the improvement of the inter-city expressway network in the PRC, the PRC commercial aviation sector, as a whole, faces increasing competition from alternative means of transportation such as railways and highways. Even though the Group strives to develop its international network, most of its routes are domestic routes. As such, increased competition from PRC high-speed railway may adversely affect its financial condition and operating results.

Airline alliances may lead to a fiercely competitive environment and the Group may not obtain marketing alliances

Although the first airline alliance was formed in the 1930s, it was the establishment of Star Alliance in 1997 that started the modern trend of creating alliances. Star Alliance was followed by One World and SkyTeam, and together these three groups represent more than 70.00% of internationally scheduled flights. Currently, only two of the world's largest 20 airlines remain unallied.

Not only do alliances provide a network of connectivity and convenience for international passengers and international packages, they also provide convenient market branding to facilitate travellers making inter-airline code share connections within countries. Airlines joining an alliance also enjoy the benefit of cost reduction by sharing of sales offices, maintenance facilities, operational facilities, operational staff and certain investments and purchases.

Therefore, joining an alliance or developing strategic partnerships with other airlines is critical for unaligned airline companies. The Group maintains a frequent flyer programme for Grand China Airlines, Hainan Airlines, Lucky Air, Tianjin Airlines, West Air, Hong Kong Airlines, Hong Kong Express Airways, Beijing Capital Airlines and Aigle Azur under the name "Fortune Wing Club". There is no assurance that the Group will be able to join any other alliance or strategic partnership in the near future, or at all.

The Group's business is subject to extensive government regulation and unforeseeable changes in rules and regulations by the PRC government may affect the Group's business

The PRC commercial aviation industry is subject to a high degree of regulation by CAAC. Regulations and policies issued or implemented by CAAC encompass substantially all aspects of the PRC commercial aviation industry, including:

- route allocation;
- air fares;
- the level of aviation fuel surcharges;
- aircraft acquisition;
- aircraft registration and aircraft airworthiness certification;
- aviation fuel prices;
- standards for aircraft maintenance and airport operations; and
- administration of air traffic control systems and certain airports.

As a result of this high level of regulation, the Group may face significant constraints on its flexibility and ability to expand its business operations or to maximise its profitability. See "Regulation of the PRC Commercial Aviation Industry" for further details.

In addition, the regulations and policies applicable to the airline industry, including the Group, may change from time to time. Changes in regulations and policies may adversely affect the Group's operations. The cost of complying with government regulations may become substantial. Although the Group has obtained all the approvals required to conduct its present operations, a failure or delay in obtaining any additional regulatory approvals required in the future could harm the Group's business and financial results.

Any adverse public health developments, including SARS, avian flu or influenza A (H1N1), or the occurrence of natural disasters may, among other things, lead to travel restrictions and reduced levels of economic activity in the affected areas, which may in turn significantly reduce demand for the Group's services and have an adverse effect on its financial condition and results of operations

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where the Group does business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volume and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have recently encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, the outbreak of influenza A (H1N1), a highly contagious acute respiratory disease, in March 2009 has had an adverse influence on the aviation industry globally (including the Group). If there were another outbreak of a disease that affects travel behaviour in the future, it could adversely affect the Group's business operations.

Natural disasters, such as earthquakes, snowstorms, floods, volcanic eruptions or tsunami may disrupt or seriously affect air travel activity. In 2010, a number of large-scale natural disasters occurred globally, such as earthquakes in Haiti, Mexico and Qinghai province of China, and the volcanic eruption in Iceland in April 2010. In March 2011, Japan experienced a powerful earthquake, triggering a violent tsunami and seriously damaging the Fukushima nuclear power plant. During late October 2012, Hurricane Sandy affected 24 U.S. states, including the entire eastern seaboard from Florida to Maine and west across the Appalachian Mountains to Michigan and Wisconsin, with particularly severe damage in New Jersey and New York. All of these natural disasters adversely affected the aviation industry by reducing revenues and affecting travel behaviour. Any period of sustained disruption to the aviation industry may have an adverse effect on the Group's business, financial condition and results of operations.

Both international and domestic economic fluctuations and the PRC government's macroeconomic controls affect the demand for air travel, which can in turn cause volatility to the Group's business and results of operations

The aviation industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the domestic and global economies. Robust demand for air transportation services depends largely on favourable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession and China experienced a slowdown in overall economic growth, which led to a reduction in economic activity and the demand for air travel. The European Union has been facing uncertainty over the ability of certain nations to meet their debt obligations. Any such inability to meet debt obligations could have an adverse effect on the global economy, financial institutions and viability of the Euro. While some indicators have shown signs of an economic recovery, the global economy may not improve materially for an extended period of time. Stagnant or worsening global economic conditions in these areas and continued volatility in the global financial and credit markets may have a material adverse effect on the airline industry. Demand for air travel could continue to fall if the global economic recession continues, which could have an adverse effect on the Group's business, financial condition and results of operations.

In addition, the financial crisis and other global events may reduce consumer spending or cause shifts in spending. A general reduction or shift in discretionary spending could result in decreased demand for leisure and business travel and could also affect the Group's ability to raise fares to counteract increased fuel and labour costs. No assurance can be given that capacity reductions or other steps that the Group may take will be adequate to offset the effects of reduced demand.

The global economic slowdown has also negatively affected the growth rate of the PRC economy. Although the PRC government instituted certain initiatives in 2008 and 2009 in response to the slowdown in the PRC economy, the resulting rapid increase in liquidity in the market due to the fiscal stimulus measures prompted the PRC government recently to implement a number of measures to control such increase, including raising interest rates, financing adjustments, credit adjustments, price controls and exchange rate policies, all of which presented unexpected changes to the aviation industry. As a result, the continuing economic situation and PRC macroeconomic controls may continue to cause volatility to the Group's business and results of operations.

The Company has pledged a portion of its shares of its subsidiaries to third-party financial institutions and defaults under its obligations to such institutions could result in a change of control of the Company's subsidiaries

The Company has pledged a portion of its shares of its subsidiaries to certain third-party financial institutions in order to guarantee its indebtedness. In particular, as of 31 December 2013, the Company has pledged 1,098,000,000 shares of China Xinhua Airlines Co., Ltd. ("Xinhua Airlines"), 554,563,300 shares of Chang'an Airlines Co., Ltd. ("Chang'an Airlines") and 285,000,000 shares of Shanxi Airlines Co., Ltd. ("Shanxi Airlines") to China Development Bank.

Under the various pledge agreements, the pledgees are entitled to dispose of the pledged shares by auction or sale of the pledged shares following events of default as defined in such pledge agreements. As such, there is a risk of a change of control of the Company's subsidiaries, which could adversely affect the Company's financial condition and results of operations on a consolidated basis. In addition, if such an event were to occur, it may affect the Company's ability to satisfy its obligations under the Guarantee of the Bonds because as a holding company, the Company depends and will depend on the receipt of dividends from and the interest and principal payments on intercompany loans or advances to its subsidiaries to satisfy its obligations, including its obligations under the Guarantee of the Bonds.

The interests of the Company's controlling shareholders, Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd., may not align with the Group's interests and the interests of the holders of the Bonds

As of 31 December 2013, Grand China Air Co., Ltd., Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. directly held 28.18% (an additional 1.77% of the shares of the Company were held by American Aviation LDC, a wholly-owned subsidiary of Grand China Air Co., Ltd.), 4.89% and 4.89% of the shares of the Company, respectively. Since Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. also hold 24.97% and 23.11% of the shares of Grand China Air Co., Ltd., respectively, Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. indirectly control the Group. Consequently, Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. will be able to exercise substantial influence over matters requiring shareholders' approval, including election of directors, approval of significant corporate transactions and approval of final dividend payments.

Hainan Development Holdings Co., Ltd. is 100% owned by the State-owned Assets Supervision and Administration Committee of the Hainan provincial government. Hainan Development Holdings Co., Ltd. engages in various types of businesses including but not limited to project development, equity investment, asset management, project financing, business consultancy and provision of financial guarantees. HNA Group Co., Ltd. controls HNA Group, a large multi-industry enterprise group. HNA Group's core business sectors include air travel, logistics and financial services. Although HNA Group's current aviation business focuses on feeder line air passenger services, which are not competitive with the Group's core aviation business, trunk line air passenger services, there is a risk that HNA Group may change its business strategies and develop trunk line air passenger services in the future.

Therefore, the strategic goals and interests of Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. may not always be aligned with the Group's strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. The interests of the Group's controlling shareholders may also differ from those of the holders of the Bonds.

The Group engages in related party transactions, which may result in conflicts of interests

The Group has engaged, from time to time, and may continue to engage, in the future, in a variety of transactions with its shareholders and their various members, from whom the Group receives a number of important services, including support for sales of flight tickets, leases of aircraft and pilots, airport landing, and repair and maintenance services. The details of the Group's related party transactions in 2011, 2012 and 2013 have been disclosed in the Audited Consolidated Financial Statements of the Company.

The Group's transactions with its shareholders and their subsidiaries are conducted through a series of arm's length contracts, which the Group has entered into in the ordinary course of business. However, because its shareholders may have interests that are different from its interests, the Group cannot assure you that its shareholders will not take actions that will serve their interests or the interests of their members over the Group's interests.

The Group may not be successful in implementing its growth strategy

The Group's growth strategy involves increasing the frequency of flights to markets that it currently serves, linking the markets the Group currently serves by introducing flights between these markets and expanding its route portfolio, including through the establishment of new airlines and/or new bases.

The Group's success in implementing its growth strategy is affected by:

- the general condition of the global economy, the PRC economy and continued growth in demand for regional air transportation;
- the Group's ability to acquire additional licences and traffic rights to its targeted geographical markets in order to expand its route portfolio;
- the Group's ability to secure the necessary landing and takeoff slots at its targeted airports; and
- fulfilment of the Group's aircraft orders on a timely basis by the aircraft manufacturer and the Group's ability to finance the acquisition of such aircraft on acceptable terms.

Many of these factors are beyond the Group's control. In the future, the Group is likely to operate in countries where it has limited operating experience and where the operating, financial and legal challenges presented could be significantly different from those that it currently faces in its existing markets. There can be no assurance that it will succeed in implementing its strategy of expanding into these new markets. In addition, the Group has committed to purchase additional aircraft to increase its fleet size to 181 aircraft by 2017. In the event that the Group is unable to successfully implement its growth strategy, it may have to delay or cancel the scheduled deliveries of these aircraft and could incur penalties for such delay or cancellation, which may adversely affect its business and financial condition.

The creation of any new airline will also involve start-up costs as well as additional administrative and staff costs associated with compliance with local regulations and operating requirements. These costs are likely to lead to initial losses that could have an adverse impact on the Group's results. Further, when the Group commences new routes, the Group's load factors initially tend to be lower than those on its established routes and costs related to compliance with local regulations as well as the Group's start-up costs tend to be higher, which may result in initial losses. The Group also routinely runs special promotional fare campaigns, in particular in connection with the opening of new routes.

Promotional fares may have the effect of increasing load factors but tend to reduce the Group's yield and passenger revenues on such routes during the periods that they are in effect.

The Group may experience difficulty integrating its acquisitions or operating joint ventures, which could result in an adverse effect on its operations, financial condition and growth

The Group may from time to time expand its business through acquisitions of airline companies or airline-related businesses or form joint ventures with strategic partners. For example, on 24 October 2012, the Company entered into a cooperative agreement to form a joint venture, Fuzhou Airlines Co., Ltd., with Fuzhou State Asset Investment Holdings Co. Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co. Ltd. The Company has agreed to invest a total of RMB1.20 billion in cash or in kind, or 60.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Fuzhou Airlines Co., Ltd. in February 2014. Expected to be formed before 11 February 2016, the joint venture is intended to utilise local aviation resources, expand local market share and build a strong service brand. In February 2013, the Company entered into a framework agreement to form a joint venture, Urumqi Airlines Co., Ltd., with Urumqi City Construction Investment Co., Ltd. The Company has agreed to invest a total of RMB2.10 billion in cash or in kind, or 70.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Urumqi Airlines Co., Ltd. in November 2013. Expected to be formed before 17 November 2015, the joint venture is intended to promote the development of the civil aviation and tourism industries in Xinjiang area. In January 2014, the Company entered into a cooperative agreement to form a joint venture, Qianhai Aviation and Maritime Trading Center Co., Ltd., with HNA Capital Holding Co., Ltd., Jinhai Heavy Industry Co., Ltd., Hong Kong Airlines Limited and Hong Kong International Financial Services. The Company has agreed to invest a total of RMB20.00 million in cash or in kind, or 20.00% of the aggregate capital commitments by the parties. Shenzhen Municipal Government Financial Development Services Office approved the formation of Qianhai Aviation and Maritime Trading Center Co., Ltd. in February 2014. Expected to be formed before June 2014, the joint venture is intended to conduct spot trading of aircraft and ships and provide related marketing and consultancy services.

The Group cannot assure you that it will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses nor can it assure you that it will make the newly acquired companies or businesses or newly formed joint ventures as profitable as it expects. In the event that the Group is unable to efficiently and effectively integrate newly acquired airline companies or airline-related businesses into its existing businesses or operate its newly formed joint ventures, the Group may be unable to achieve the objectives or anticipated synergies of such acquisitions or benefit from the newly formed joint ventures with its strategic partners, which may adversely affect the operations and financial results of its existing businesses and growth of its business.

The Group's failure to maintain a high utilisation rate for each aircraft may adversely affect its profitability and reputation

One of the key elements of the Group's profitability is to maintain a high utilisation rate for each aircraft. As of 31 December 2013, the Group's current utilisation rate for each aircraft is 10.24 hours per day, higher than the average level in the PRC commercial aviation industry. This is achieved in part by reducing turnaround time at airports. However, the Group may in its operations suffer from inferior quality infrastructure and facilities of less developed airports which would affect operational efficiency and delay turnaround time of the aircraft. This would affect the Group's ability to maximise aircraft utilisation and could adversely affect its financial results. Pursuing new routes and increasing flights on current routes could also increase the risk of delays in the Group's flight schedule.

High aircraft utilisation also increases the risk that, in the event that an aircraft falls behind schedule during the day, it will remain behind schedule for the rest of the day, which can disrupt timely operations and lead to passenger dissatisfaction. Therefore, such delays may reduce the Group's operating efficiency and utilisation rate, adversely affecting its profitability and reputation.

There is no assurance that the Group will maintain a high utilisation rate for each of its aircraft. If the Group fails to maintain high utilisation rates for its aircraft, its profitability and reputation may be adversely affected.

The Group has significant committed capital expenditures, but the Group may not be able to secure future financing at terms acceptable to it or at all

The Group's business and operations are capital intensive, requiring significant on-going capital expenditure to acquire aircraft and expand operations as well as enhance operating efficiency and comply with laws and regulations. As a result, the Group will require significant amounts of external financing to meet its capital commitments.

The Group generally acquires aircraft through either long-term capital leases or operating leases. In the past, the Group has obtained, sometimes with the assistance of CAAC, guarantees from reputable PRC banks in respect of payments under its foreign loan and capital lease obligations. Although the Group has secured financing for its aircraft scheduled for delivery in 2015, the Group is still in the process of obtaining financing for aircraft that it has scheduled for delivery in future years.

The Group also has significant committed capital expenditures to expand its business through acquisitions of airline companies or airline-related businesses or form joint ventures with strategic partners. See "– The Group may experience difficulty integrating its acquisitions or operating joint ventures, which could result in an adverse effect on its operations, financial condition and growth" and "Description of the Group – Business Strategies – Further expand core domestic and international route network". In addition, in order to eliminate potential competition with Grand China Air Co., Ltd. and HNA Group Co., Ltd., the Group has undertaken to acquire relevant airline businesses from Grand China Air Co., Ltd. and HNA Group Co., Ltd. in future years, subject to regulatory approvals and the Company's business needs and financial condition. In May 2013, the Company subscribed for 1,200,000,000 new shares of Tianjin Airlines for RMB1,680,000,000 in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, the Company acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co., Ltd. at a price of RMB1,093,000,000 which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%. In November 2013, the Company announced that it intended to subscribe for RMB1,000,000,000 new shares of West Air in cash and upon this subscription increased its shareholding in West Air to 29.40%. In December 2013, the Company announced that it intended to acquire a 52.90% shareholding in Lucky Air from HNA Group Co., Ltd. at a price of RMB1,702,000,000 payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. See "Description of the Group – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines" and "Principal Shareholders".

There is no assurance that the Group will be able to roll over its bank facilities or continue to obtain bank guarantees or new bank or other types of financing in the future. The unavailability of credit facilities or guarantees from reputable PRC banks or the increased cost of such guarantees may adversely affect its ability to borrow additional funds from banks or other sources or enter into international aircraft lease financings or other additional financings on acceptable terms. In addition, if the Group is not able to arrange financing for its aircraft on order, it may seek to defer aircraft deliveries or use cash from operations or other sources to acquire the aircraft, which will adversely affect its liquidity and operations. Further, if the Group is not able to secure sufficient financing to cover its committed capital expenditures, its business, prospects, financial condition and results of operations could be adversely affected.

The Group may not be able to generate sufficient cash flows to service its debt obligations

The Group's ability to make scheduled payments on, or to refinance its obligations with respect to, the indebtedness of any member of the Group, including the Bonds, will depend on its financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond its control. The Group's business may not generate sufficient cash flow from operations and future sources of capital may not be available to it in amounts sufficient to service the indebtedness of any member of the Group, including the Bonds, or to fund the Group's other liquidity needs.

If the Group is unable to generate sufficient cash flow to satisfy its debt obligations, it may have to adopt alternative strategies, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. There is no assurance that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that would be realised from those sales, or that additional financing could be obtained on acceptable terms, if at all.

The Group's inability to generate sufficient cash flows to satisfy its debt obligations, or inability to refinance its indebtedness on commercially reasonable terms, could adversely affect its financial condition and results of operations and the ability of the Issuer and the Company to satisfy their respective obligations under the Bonds and the Guarantee.

The Group may fail to comply with certain financial or restrictive covenants under its financing arrangements

Certain of the Group's financing arrangements require it to comply with various restrictive covenants including, in some cases, specified financial ratios and tests. Its failure to meet these covenants could result in default under these financing arrangements and would be likely to result in a cross default under other financing agreements. In the event of a default and its inability to obtain a waiver of the default, all amounts outstanding under these financing arrangements could be declared immediately due and payable. The Group's failure to comply with these covenants could adversely affect its results of operations and financial condition.

The Group's financing costs are subject to changes in interest rates

The Group maintains a substantial level of bank facilities with a number of PRC commercial banks to finance its operations. Changes in interest rates have affected and will continue to affect the Group's financing costs and, ultimately, its results of operations. Prior to 20 July 2013, the majority of the Group's bank borrowings were variable rate borrowings, and the interest rates for a large portion of the Group's bank borrowings were linked to the benchmark lending rates published by the PBOC. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times from 7.47% to 5.31% in December 2008. The benchmark rate remained unchanged from December 2008 to October 2010, when the PBOC increased the rate to 5.56%. The PBOC has further adjusted the benchmark rate six times since October 2010. Under the Notice of Further Promoting Market-Oriented Reform of Interest Rates (中國人民銀行關於進一步推進利率市場化改革的通知) issued by the PBOC on 19 July 2013, since 20 July 2013, the PBOC abolished the minimum rates for RMB-denominated loans (excluding interest rates for residential mortgage loans) and allowed financial institutions to charge interest rates based on commercial terms. The Group has and in the future will likely continue to have substantial debt. There can be no assurance that the Group can negotiate and obtain favourable interest rates for its bank facilities, and any increase in these rates will increase the Group's financing costs. As a result, the interest cost associated with this debt may adversely affect the Group's business, prospects, financial condition and results of operations.

Due to the Group's high degree of operating leverage, high fixed costs and competitive environment, any change in revenues of the Group could have a proportionately less positive or more negative effect on in its net income

The aviation industry is generally characterised by a high degree of operating leverage. In addition, due to high fixed costs, including payments made in connection with aircraft leases, the expenses relating to the operation of any given flight do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of such flight. Further, due to the competitive nature of the aviation industry, the Group may not be able to transfer all of its cost increases to its customers through higher ticket prices. Accordingly, any change in revenues could have a proportionately less positive or more negative effect on net income.

The success of the Group depends on its key personnel, including its experienced management team and skilled labour force

The success of the Group depends to a significant extent upon the continued services of its executive officers and other key management personnel. The loss of any of these executive officers or other key management personnel or failure to recruit suitable or comparable replacements could have an adverse effect on the business of the Group.

In addition, the business of the Group requires highly-skilled pilots, trained and competent cabin crew and other personnel. From time to time, the aviation industry may experience a shortage of skilled personnel, especially pilots, and the Group's competitors may be able to offer more competitive salaries to the same personnel the Group is trying to attract. If the Group is unable to hire, train and retain qualified employees at a reasonable cost, its ability to run its business and implement its development strategies may be adversely affected.

The Group relies on third-party service providers to perform many functions integral to its business

The Group relies on agreements with third-party service providers for significant aspects of its operations, including fuel supply, aircraft maintenance, ground handling, landing and parking, catering and cargo handling. Failure to renew any of its contracts with third-party service providers or negotiate replacement contracts with other service providers at comparable or acceptable rates on the termination or expiration of such contracts could harm its results of operations. The Group is likely to enter into similar service agreements in new markets that it decides to enter and there can be no assurance that it will be able to obtain the necessary services at acceptable rates.

Although the Group monitors the performance of these third-party services providers, the efficiency, timeliness and quality of their performance is not wholly within its control, and failure by its material service providers to perform their contracts in a timely manner and to the required standard may have an adverse impact on the Group's business and operations.

The Group's insurance coverage may not adequately protect it against the possible risk of loss

The operations of the Group are subject to risks inherent in the course of its operations, such as the discharge or release of hazardous substances and other environmental risks, mechanical failure of aircraft and natural disasters. In addition, many of these operating and other risks may cause personal injury and loss of life, severe damage to or destruction of properties and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties. While the Group believes that it maintains insurance coverage in amounts consistent with industry norms in China, there can be no assurance that such insurance policies will be adequate to cover the losses that may be incurred by it. If the Group suffers a large uninsured loss or any insured loss suffered significantly exceeds the insurance coverage the Group maintains, its business, financial condition and results of operations may be adversely affected.

The Group's insurance coverage and costs have increased substantially, and could have an adverse effect on its operations

As a result of the events of 11 September 2001, insurance providers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events, or war-risk coverage. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. The Group renews its insurance policies on a yearly basis and is currently insured through 5 April 2015. However, if the insurance providers further reduce the amount of insurance coverage available or increase the premium for such coverage when the Group renews its insurance coverage, its financial condition and results of operations may be adversely affected.

Terrorist attacks or the fear of such attacks, wars or international hostilities, even if not made directly on the aviation industry, could negatively affect the Group and the aviation industry as a whole; the travel industry continues to face on-going security concerns and cost burdens

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on 11 September 2001 in the United States. CAAC has also implemented increased security measures in relation to the potential threat of terrorist attacks. Terrorist attacks, even if not made directly towards the Group or on the aviation industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated threat warnings or selective cancellation or redirection of flights) could adversely affect the Group and the aviation industry. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by grounding of fleet, significant increases of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and revenue per revenue passenger kilometre.

Further, the recent tension arising from the territorial disputes between China and Japan over a group of uninhabited islands controlled by Japan in the East China Sea could lead to war or hostilities between the two countries, which could in turn have a serious impact on China's airline industry. The Company currently does not operate a route to or from a Japanese city but any such war or international hostilities could have a material adverse impact on the Company's financial condition, liquidity and results of operations.

Airport, transit and landing fees and security charges, along with other costs airlines must pay to ensure air traffic security, may increase further

Airport, transit and landing fees, along with security charges and costs, represent a significant portion of the operating costs of the Group and directly affect the fares that it must charge its passengers in order to operate cost-effectively. There can be no assurance that such costs will not rise in the future or that the Group will not incur additional costs. New costs could arise if, for example, airports levied noise or landing charges or fees based on environmental criteria such as aircraft noise or emission levels, or if airlines were required to assume additional security responsibilities. Future events or developments, such as terrorist acts or other conflicts, could also result in heightened security regulations for air traffic. Any of these developments could cause operating costs to increase. If the Group is unable to pass on increases in fees, charges or other costs to its customers, these increases could have a material adverse effect on its business, financial condition and results of operations.

The Group's operations are dependent on the PRC aviation infrastructure, which is currently under development and may be insufficient to meet increased air traffic volumes

The rapid increase in air traffic volume in the PRC in recent years has put pressure on many components of the PRC commercial aviation industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. However, the ability of the Group to increase utilisation rates and to provide safe and efficient air transportation in the future will depend in part on factors such as the improvement of national air traffic control and navigation systems and ground control operations at PRC airports, all of which are beyond the control of the Group.

In particular, the Group's ability to provide safe air transportation depends on the availability of qualified and experienced pilots in the PRC and the improvement of maintenance services, national air traffic control and navigational systems and ground control operations at PRC airports. If any of these are not available or are inadequate, the Group's ability to provide safe air transportation will be compromised and its financial condition and results of operations may be adversely affected. In addition, insufficient aviation infrastructure may cause relatively high amounts of time on the ground during turnaround, which may adversely affect the perception of the service provided by the Group and, consequently, its operating results.

Any real or perceived problem with aircraft manufactured by Airbus or Boeing could adversely affect the Group's operations

The Group currently operates only aircraft manufactured by Airbus and Boeing. The Group's dependence on these aircraft makes it particularly vulnerable to any problems that might be associated with such aircraft. No significant design defects or mechanical problems have to date been experienced with the Group's fleet. However, if any such defect or problem is discovered, the relevant aircraft may have to be withheld from service until such defect or problem is resolved. In particular, the Boeing 787 Dreamliner has experienced a number of operational problems since it first entered into commercial service in October 2011, including battery malfunctions, fuel leaks and faulty wiring. Due to serious safety concerns, the U.S. Federal Aviation Administration issued an emergency airworthiness directive on 16 January 2013 and grounded all Boeing 787 Dreamliners in the United States. The aviation regulatory authorities in Japan, India and Chile followed suit and grounded the Dreamliners in their jurisdictions. The grounding has caused significant losses to the airlines that operated these aircraft. There can be no assurance that these operational problems can be resolved quickly or at all or that the aviation regulatory authorities in different countries will not take further precautionary measures or impose stricter safety requirements. As the Group expects to take delivery of 11 Boeing 787 Dreamliners between 2014 and 2017, see "Description of the Group – Fleet – Future fleet development", it could experience significant delays in the delivery of the Dreamliners it has ordered. There can be no assurance that the Group can cancel any of its orders or can purchase replacement aircraft if necessary in a timely manner or at all. Further, the Group's business could be adversely affected if passengers avoid flying with the Group due to real or perceived safety concerns or other problems associated with aircraft manufactured by Airbus or Boeing, including any Dreamliners it will operate in the near future.

The Group may be adversely affected by weather conditions, traffic congestion at airports, increased security measures or other factors beyond its control

The Group's flight operations are subject to delays or cancellations caused by factors outside of its control, such as weather conditions, traffic congestion at airports and increased security measures. During periods of adverse weather conditions, such as during the typhoon season, it is possible that flights may be cancelled or significantly delayed. In the event that the Group delays or cancels flights for any of the above reasons, it may suffer a loss of reputation which could result in a loss of customers.

The Group's results of operations tends to be volatile and fluctuate due to seasonality

The Group's operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for the Group's flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo volume. In particular, the Group's airline revenue is generally higher in the first and third quarters than in the second and fourth quarters. As a result, the Group's results tend to be volatile and subject to rapid and unexpected change.

The Group's reputation and business could be adversely affected in the event of an emergency, accident or incident involving the Group's aircraft

The Group is exposed to potential significant adverse effects in the event that any of its aircraft is subject to an emergency, accident, terrorist incident or other disaster, and significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. There can be no assurance that the Group will not be affected by such events or that the amount of its insurance coverage will be adequate in the event such circumstances arise and any such event could cause a substantial increase in the Group's insurance premiums. In addition, any future aircraft accidents or incidents, even if fully insured, may create a public perception that the Group is less reliable or safe than other airlines, which could have an adverse impact on the Group's reputation and business.

Major litigation may affect the business and results of operations of the Group

As of the date of this Offering Circular, neither the Issuer nor the Company nor any member of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Company believes are material in the context of the Bonds, nor is the Issuer or the Company aware that any such proceedings are pending or threatened. However, due to the nature of its business and operations, the Group may be involved in major litigation in the future. The cost of pursuing and defending any legal proceeding in which it is involved may be substantial, and may divert its management from the effective operation of its business. In addition, if the Group is unsuccessful in defending any legal proceeding, or is unsuccessful in settling any legal proceeding on commercially reasonable terms, it may be liable for amounts that may have a material adverse effect on its business and results of operations.

Any failure or disruption of its computer, communications, flight equipment or other technology systems could have an adverse effect on the Group's business operations, profitability, reputation and customer services

The Group relies heavily on computer, communications, flight equipment and other technology systems to operate its business and enhance customer service. Substantially all of the Group's tickets are issued to passengers as electronic tickets, and the Group depends on its computerised reservation system to be able to issue, track and accept these electronic tickets. In addition, the Group relies on other automated systems for crew scheduling, flight dispatch and other operational needs. These systems could be disrupted due to various events, some of which are beyond its control, including natural disasters, power failures, terrorist attacks, equipment failures, software failures, computer viruses and hackers. The Group has taken certain steps to help reduce the risk of some of these potential disruptions. However, the Group cannot guarantee that the measures that it has taken to reduce the risk of some of these potential disruptions are adequate to prevent or remedy disruptions or failures of these systems. Any substantial or repeated failure of these systems could result in the loss of important data, loss of revenues, and increased costs, and generally harm the Group's business, profitability, reputation and customer services. Moreover, a failure of certain of the Group's vital systems could limit its ability to operate its flights, which could have an adverse effect on its business.

Limitations on foreign ownership of PRC airline companies may affect the Group's access to capital markets funding or business opportunities

The current CAAC policies limit foreign ownership of PRC airlines. Under these limits, foreign investors cannot hold a majority equity interest in a PRC airline company. As a result, the Group's access to international equity capital markets may be limited. This restriction may also limit the opportunities available to the Group to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. The Group cannot assure you that CAAC will increase these limits in the near future or at all.

Risks relating to the PRC

Substantially all of the Group's assets are located in the PRC and substantially all of the Group's revenue is sourced from the PRC. Accordingly, the Group's results of operations, financial position and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC.

Changes in the PRC economic, political and social conditions, as well as government policies may adversely affect the Group's financial condition and results of operations

Since the late 1970s, the PRC government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. Although the Group believes these reforms will have a positive effect on its overall and long-term development, these policies and measures may from time to time be modified or revised. Adverse changes in economic and social conditions in the PRC, in the policies of the PRC government or in the laws and regulations of the PRC, if any, may have an adverse effect on the overall economic growth of the PRC and investments in the domestic aviation industry. These developments, in turn, may have adverse effects on the Group's business operations and may also adversely affect its financial condition and results of operations.

Foreign exchange controls by the PRC government may adversely affect the Group's ability to satisfy its foreign exchange liabilities

The Group has significant exposure to foreign currency risk as substantially all of its obligations under aircraft leases are denominated in foreign currencies, principally U.S. dollars, and a portion of its capital expenditures and debt are denominated in U.S. dollars and other foreign currencies. Depreciation or appreciation of the Renminbi against foreign currencies affects its results significantly because a significant portion of its revenue and operating costs are denominated in Renminbi and its foreign currency payments generally exceed its foreign currency receipts. Even though the Group has a portion of its revenue that is denominated in U.S. dollars and other foreign currencies, it is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by SAFE, or subject to certain restrictive conditions, entering into foreign exchange forward option contracts with authorised banks.

On 5 August 2008, the State Council issued the revised Regulation of the People's Republic of China on Foreign Exchange Administration (中華人民共和國外匯管理條例) (the "**Revised Regulation on Foreign Exchange**"), which has made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Regulation on Foreign Exchange has adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Regulation on Foreign Exchange has improved the mechanism for determining the RMB exchange rate based on market supply and demand. Third, the Revised Regulation on Foreign Exchange has enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the PRC government may adopt necessary safeguard or control measures. Fourth, the Revised Regulation on Foreign Exchange has enhanced the supervision and administration of foreign exchange transactions and granted extensive authorities to the SAFE to enforce its supervisory and administrative powers. On 24 January 2014, SAFE issued the Circular on Further Improvement and adjustment of Foreign Exchange Administration Policies regarding Capital Account Items (Hui Fa [2014] No.2) (國家外匯管理局關於進一步改進和調整資本專案外匯管理政策的通知 (匯發[2014]2號)), which has simplified a series of foreign exchange administrative procedures regarding capital account items including the procedures in connection with domestic enterprises' overseas lending to its overseas affiliated companies and domestic enterprises' profit remittances outside the PRC.

Although new foreign exchange rules issued by SAFE shows a more market oriented trend to deregulate the foreign exchange controls in some areas, SAFE may still limit or eliminate the Group's ability to purchase and retain foreign currencies in the future. In addition, certain large foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect its ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. As such, the Group cannot assure you that it will be able to obtain sufficient foreign exchange to satisfy its foreign exchange liabilities.

Fluctuations in exchange rates may have an adverse effect on the Group's business, financial condition and results of operations

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the domestic and international economies, political conditions and the supply and demand of currency. On 21 July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of the Renminbi against the U.S. dollar. According to Announcement No.5 [2014] of the PBOC (中國人民銀行公告[2004]第5號) issued on 14 March 2014, since 17 March 2014, the fluctuation range of the RMB against the U.S. Dollar in the interbank spot foreign exchange market expanded from 1.00% to 2.00%, meaning that the daily exchange trading price of the RMB against the U.S. Dollar in the interbank spot foreign exchange market can fluctuate above or below the central parity of the RMB against the U.S. Dollar announced by China Foreign Exchange Trading System & National Interbank Funding Center up to 2.00%. It is possible that the PRC government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency.

The Group plans to grow its operations in the international markets and it currently operates its business in many countries. The Group generates revenue in different currencies, and its foreign currency liabilities at the end of the period are typically much higher than its foreign currency assets. Its purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. Fluctuations in exchange rates will affect its costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. Where fluctuations in exchange rates are significant, the exchange losses resulting from the translation of foreign currency denominated liabilities would be greater and would affect the profitability of the Group.

Uncertainty with respect to the PRC legal system, lack of uniform interpretation and effective enforcement may cause significant uncertainties to the Group's operations

As most of the Group's businesses are conducted, and most of the Group's assets are located, in the PRC, its operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes while prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade (including with respect to the commercial aviation industry), with a view to developing a comprehensive system of commercial law. However, the PRC has not developed a fully integrated legal system and recently enacted laws and regulations that may not sufficiently cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Group may not be aware of its violation of these policies and rules until some time after the violation. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

The operations of the Group may be affected by rising inflation rates within the PRC

Inflation rates within the PRC have been on an uptrend in recent years. The PRC government has taken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic growth and control price rises. Increasing inflationary rates are due to many factors beyond the Group's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Group's expectations, the costs of its business operations may become significantly higher than it has anticipated for the future, and the Group may be unable to pass on such higher costs to its customers in amounts that are sufficient to cover increasing operating costs. As a result, further inflationary pressures within the PRC may have a material adverse effect on the Group's business, financial condition and results of operations, as well as its liquidity and profitability.

Risks relating to the Guarantee of the Bonds and the Bonds

If the Issuer or the Company is unable to comply with the restrictions and covenants in its debt agreements, or the Bonds, there could be a default under the terms of these agreements, or the Bonds, which could cause repayment of the Issuer's or the Company's debt to be accelerated

If the Issuer or the Company is unable to comply with the restrictions and covenants in the Bonds, or if the Issuer or the Company is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Company, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Further, some of the Issuer's or the Company's debt agreements, including the Bonds, contain cross-acceleration or cross-default provisions. As a result, the default by the Issuer or the Company under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that the

Group's assets and cash flows would be sufficient to repay in full all of the Issuer's or the Company's indebtedness, or that it would be able to find alternative financing. Even if the Issuer or the Company could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or the Company.

The Issuer may not be able to redeem the Bonds upon the due date for redemption thereof

The Issuer may, and at maturity will, be required to redeem all or, in the case of a Change of Control all or some only, of the Bonds. When such event occurs, the Issuer may not have sufficient cash on hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Company's other indebtedness.

The Issuer has not been generating and is not expected to generate sufficient profits or cash flows to service and repay the Bonds

As of the date of this Offering Circular, the Issuer did not have any material business and had not entered into any material contracts other than in connection with a series of bond offerings and investing activities. See "Description of the Issuer – Corporate activities". The Issuer has not been generating sufficient profits or cash flows to service and repay its bonds since its incorporation and is not expected to generate sufficient profits or cash flows as recourse for Bondholders during the term of the Bonds. Its ability to make payment under the Bonds will primarily depend on its receipt of timely remittance of funds from the Guarantor and/or its other subsidiaries and other member of the Group.

There may be uncertainty relating to the enforceability of the Guarantee of the Bonds

Under the Guarantee of the Bonds, the Company will undertake to guarantee all payments due under the Bonds and the Trust Deed between the Issuer, the Company and the Trustee and payments under the guarantee will be made in Renminbi. The Company, as a PRC incorporated entity, is required to obtain SAFE approval in order to guarantee any indebtedness incurred by a foreign incorporated subsidiary. On 21 April 2014, the Company obtained approval from the Hainan Bureau of SAFE to guarantee up to CNY3.00 billion of three year term bonds to be issued by the Issuer ("SAFE Approval").

The Company understands from its discussion with SAFE and the advice of PRC legal counsel that:

(i) the Guarantee of the Bonds will, upon registration, be legal, valid, binding and enforceable against the Company under PRC law; and

(ii) the approval for the Guarantee of the Bonds will cover all sums due under the Bonds (including any Renminbi principal, interest and relevant expenses) so long as the principal amount of the Bonds does not exceed CNY3.00 billion.

The Company is required by the Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions《境內機構對外擔保管理辦法》promulgated by the PBOC on 25 September 1996 to register the Guarantee of the Bonds and will register the Guarantee of the Bonds with the Hainan Bureau of SAFE within 15 days after the date of execution of the Guarantee of the Bonds. Until the registration of the Guarantee of the Bonds is completed, the Company may not be able to perform its obligations under the Guarantee of the Bonds in light of the provisions of the Foreign Security Measures and the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions promulgated by SAFE on 30 July 2010 (the "SAFE Notice"), such as obtaining the necessary SAFE approvals to remit Renminbi in order for the Company to fulfil its obligations to make payments under the Guarantee of the Bonds. If the Guarantor fails to fulfil the Release Condition on or before the Registration Deadline, the Issuer may be required to redeem all of the Bonds pursuant to the bondholders' redemption option under the Terms and Conditions of the Bonds. In such an event, the Bondholders will need to rely on the Issuer to source sufficient Renminbi from other sources to fully discharge its obligations under the Bonds. Prior to the performance or discharge of its obligations under the Guarantee of the Bonds, the Company is required to complete a verification process with the Hainan Bureau of SAFE for each remittance under the Guarantee of the Bonds.

Notwithstanding the foregoing, the interpretation of the SAFE Notice may involve significant uncertainty, which may adversely affect the enforceability of the Guarantee of the Bonds in the PRC. In addition, the administration of the SAFE Notice may be subject to a certain degree of executive and policy discretion by SAFE. There is also no assurance that the approval obtained by the Company will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the validity and enforceability of the Guarantee of the Bonds in the PRC.

The Company's obligations under the Guarantee of the Bonds are structurally subordinated to all existing and future liabilities and obligations of the Company's subsidiaries

As the Company holds the equity interest of several subsidiaries, the Company partially depends and will partially depend on the receipt of dividends from and the interest and principal payments on intercompany loans or advances to its subsidiaries to satisfy its obligations, including its obligations under the Guarantee of the Bonds. The ability of the Company's subsidiaries to pay dividends to and make payments on intercompany loans or advances from their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. For example, certain debt instruments of the Company's subsidiaries limit their abilities to distribute dividends before repayment of the principal and interest of such debt. There can be no assurance that the Company's subsidiaries will have distributable earnings or will be permitted to distribute their distributable earnings to the Company as they and the Company anticipate, or at all. In addition, dividends payable to the Company by these companies are limited by the percentage of the Company's equity ownership in these companies. Further, if any of these companies raise capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Company to make payments on the Bonds. These factors could reduce the payments that the Company receives from its subsidiaries, which could restrict the Company's ability to meet its payment obligations under the Guarantee of the Bonds.

Further, the Bonds and the Guarantee of the Bonds will be structurally subordinated to the claims of the lenders, holders of debt securities and other creditors, including trade creditors, of the Company's subsidiaries, and to the secured creditors of the Company and the Company's subsidiaries. In the event of an insolvency, bankruptcy, liquidation, reorganization, dissolution or winding-up of the business of any of the Company's subsidiaries, the creditors of such subsidiaries generally will have the right to be paid in full before any distribution is made to the Company or to the Issuer.

An active trading market for the Bonds may not develop

Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the Official List of the SGX-ST, there can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. None of the Joint Lead Managers is obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of any Joint Lead Manager. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, investors will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The liquidity and price of the Bonds following the offering may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Issuer's and the Company's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There is no assurance that these developments will not occur in the future.

The Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC

The Issuer and the Company do not intend to remit any proceeds from the issue of the Bonds into the PRC. To the extent the Company is required to make any payments under the Guarantee of the Bonds, such payments will be remitted by the Company out of the PRC under the SAFE Approval. The Company may also from time to time make remittances out of the PRC to the Issuer either as intercompany loans to or capital increases in the Issuer in order for the Issuer to meet its payment obligations under the Bonds. The Renminbi is not a freely convertible currency and as the remittance on Renminbi into and outside the PRC is subject to controls imposed under PRC law. For a summary of relevant PRC laws and regulations, see "Remittance of Renminbi into and outside the PRC".

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Bonds and the ability of the Issuer and the Guarantor to source Renminbi outside China to service the Bonds and the Guarantee of the Bonds

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

As of 31 January 2014, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB893,359 million. As of 31 January 2014, the total amount of Renminbi deposits held by Taiwan foreign exchange banks and offshore banking units amounted to approximately RMB 214,522 million.

While PBOC has established Renminbi clearing and settlement mechanisms for participating banks in Hong Kong and Singapore through the settlement agreement on the clearing of Renminbi business (the "**Settlement Agreement**") with Bank of China (Hong Kong) Limited and Industrial and Commercial Bank of China Limited, Singapore Branch (the "**Renminbi Clearing Banks**"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Further, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Bonds. To the extent the Bank is required to source Renminbi outside the PRC to service the Bonds, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

The Issuer may be deemed to be a PRC tax resident enterprise by the PRC tax authorities and certain withholding taxes may be applicable

The Issuer is incorporated under the laws of Hong Kong. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of China will be deemed as PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and must pay enterprise income tax at the rate of 25.00% in respect of their income sourced from both within and outside China. The "de facto management body" is defined as the organisational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of PRC, the Issuer may be deemed as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to PRC enterprise income tax at the rate of 25.00% in respect of its income sourced from both within and outside PRC.

As confirmed by the Issuer, as of the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as "a PRC tax resident enterprise" for the purpose of the New Enterprise Income Tax Law. As such, non-resident enterprise holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon by the Issuer. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment within the PRC must pay enterprise income tax at the rate of 10.00% on its income sourced inside the PRC, and such income tax must be withheld by sources with the PRC payer acting as the obligatory withholder, withholding the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer will be required to withhold income tax from the payments of interest in respect of the Bonds to any non-PRC enterprise Bondholder, and any gain realised by non-PRC enterprise Bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to a 10.00% PRC withholding tax.

Investment in the Bonds is subject to exchange rate risks

The value of the Renminbi against the US dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the Bonds in Renminbi. As a result, the value of these Renminbi payments may vary with the prevailing exchange rates in the marketplace. If the value of the Renminbi depreciates against the US dollar or other foreign currencies, the value of a Bondholder's investment in US dollars or other applicable foreign currency terms will decline.

Payments in respect of the Bonds will only be made to investors in the manner specified in the Bonds

Except in the limited circumstance where Renminbi are not available for delivery outside the PRC, all payments to investors in respect of the Bonds will be made solely by (i) when the Bonds are represented by a global certificate, transfer to a Renminbi bank account in accordance with prevailing rules and procedures of CDP, or (ii) when the Bonds are in definitive form, transfer to a Renminbi bank account in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in bank notes, by cheque or draft, or by transfer to a bank account in the PRC).

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances (including the giving of notice to the Issuer and the Guarantor pursuant to Condition 15 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee will not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

Developments in the international financial markets may adversely affect the market price of the Bonds

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of entities with PRC operations is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

The Company's financial statements were prepared in conformity with PRC Accounting Standards; even though there are no significant differences between the principal accounting policies adopted by the Company and IFRS, investors may have less confidence in the reliability of the Company's financial statements and adversely affect the market price of the Bonds

The Audited Consolidated Financial Statements of the Company and the financial information of the Company included elsewhere in this Offering Circular were prepared in conformity with PRC Accounting Standards. Even though there are no significant differences between the principal accounting policies adopted by the Company and IFRS (see "Difference between PRC Accounting Standards for Business Enterprises and International Financial Reporting Standards"), investors may have less confidence in the Audited Consolidated Financial Statements of the Company and the financial information of the Company included elsewhere in this Offering Circular, which may adversely affect the market price of the Bonds.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Bonds:

The CNY1,700,000,000 6.25% guaranteed bonds due 2017 (the "**Bonds**", which expression includes any further bonds issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Hainan Airlines (Hong Kong) Co., Limited (the "**Issuer**") are subject to, and have the benefit of, a trust deed dated 22 May 2014 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, Hainan Airlines Co., Ltd. (the "**Guarantor**") and The Bank of New York Mellon, Hong Kong Branch as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 22 May 2014 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon, Singapore Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Bonds), The Bank of New York Mellon, Singapore Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Paying Agents, the Transfer Agents and the CMU Lodging and Paying Agent and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Bonds (the "**Bondholders**") are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Bondholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the registered office for the time being of the Trustee and at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee of the Bonds

(a) *Form and Denomination*: The Bonds are in registered form in the denominations of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof (an "**Authorised Denomination**").

(b) *Status of the Bonds*: The Bonds constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Bonds*: The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds. This guarantee (the "**Guarantee of the Bonds**") constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save as provided under Condition 3 (*Covenants*) and save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*The Bonds will be represented by a global bond certificate (the "**Global Bond Certificate**") substantially in the form scheduled to the Agency Agreement. The Global Bond Certificate will be* *lodged with CDP and will be exchangeable for definitive Bond Certificates only in the circumstances set out therein.*

*For so long as any of the Bonds are represented by the Global Bond Certificate, each person who is for the time being shown in the records of CDP as the holder of a particular principal amount of Bonds (the "**account holder**") (in which regard any certificate or other documents issued by CDP as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee, the Registrar, the Transfer Agent, the Paying Agents and CDP as the holder of such principal amount of such Bonds for all purposes. For so long as any of the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held with CDP, any transfer of principal and interest amounts of Bonds shall be effected in accordance with the rules and procedures for the time being of CDP.*

2. **Register, Title and Transfers**

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Bonds outside the United Kingdom and the PRC in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Bond means the person in whose name such Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Bondholder**" shall be construed accordingly. A certificate (each, a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Bond shall (except as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Bond may not be transferred unless the principal amount of Bonds transferred and (where not all of the Bonds held by a Holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor.

(d) *Registration and delivery of Bond Certificates*: Within five business days of the surrender of a Bond Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Bond Certificate of a like principal amount to the Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Bond will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Bondholders may not require transfers to be registered during the period of 7 days ending on the due date for redemption or any payment of principal or interest in respect of the Bonds.

(g) *Regulations concerning transfers and registration*: All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder) by the Registrar to any Bondholder who requests in writing a copy of such regulations.

3. **Covenants**

(a) *Negative Pledge*

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (i) at the same time or prior thereto securing the Bonds equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

(b) *Financial Covenant*

So long as any Bond remains outstanding, the Guarantor shall not directly or indirectly, permit Consolidated Tangible Net Worth as at the end of any Relevant Period to be less than RMB15.00 billion.

The financial covenant set out in this Condition shall be (where applicable) calculated in accordance with PRC Accounting Standards and tested by reference to the audited (or, as the case may be, unaudited) consolidated balance sheet and income statements of the Guarantor as at the end of the Relevant Period.

(c) *Undertakings in relation to the Guarantee of the Bonds*

(i) the Guarantor undertakes not to guarantee any further indebtedness of the Issuer (including, without limitation, any further Bonds issued pursuant to Condition 14 (*Further Issues*)) which, together with the Bonds issued on the Issue Date, at any time exceed an aggregate principal amount of CNY3.00 billion, unless the Guarantor shall have obtained the prior approval of SAFE for its guarantee of such further indebtedness of the Issuer or is permitted to guarantee such further indebtedness of the Issuer under the laws and regulations of the PRC from time to time; and

(ii) the Guarantor undertakes to (A) register or cause to be registered with SAFE the Guarantee of the Bonds within 15 days after the execution of the Guarantee of the Bonds in accordance with the

Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions (國家外匯管理局關於境內機構對外擔保管理問題的通知(匯發[2010]39號)), (B) use its best endeavours to complete the registration of the Guarantee of the Bonds on or before the Registration Deadline and obtain a certificate of registration from SAFE and (C) comply with all applicable PRC laws and regulations in relation to the Guarantee of the Bonds.

(d) *Financial Statements*

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor shall send to the Trustee:

(i) as soon as practicable after their date of publication and in any event not more than 150 days after the end of each financial year, two copies of their audited annual financial statements (audited by an internationally recognised firm of independent accountants) (in the case of the Issuer) in English and (in the case of the Guarantor) if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally recognised firm of accountants or (B) a professional translation service provider and checked by an internationally recognised firm of accountants, together with a certificate signed by a director of the Guarantor, certifying that such translation is complete and accurate; and

(ii) as soon as practicable after their date of publication and in any event not more than 120 days after the end of each financial period, two copies of the unaudited semi-annual and quarterly financial statements of the Guarantor in the Chinese language.

In these Conditions:

"**China Business Day**" means a day (other than a Saturday, Sunday or a public holiday) on which banks in Beijing, the PRC are not authorised or obligated by law of executive order to be closed;

"**Consolidated Tangible Net Worth**" means at any time the aggregate of the amounts paid up or credited as paid up on the issued ordinary share capital of the Guarantor and the aggregate amount of the reserves of the Group, including:

(i) any amount credited to the share premium account;

(ii) any capital redemption reserve fund; and

(iii) any balance standing to the credit of the consolidated profit and loss account of the Group,

but deducting:

(a) any debit balance on the consolidated profit and loss account of the Group;

(b) (to the extent included) any amount shown in respect of goodwill (including goodwill arising only on consolidation) or other intangible assets of the Group;

(c) any amount in respect of interests of non-Group members in Group subsidiaries;

(d) (to the extent included) any amount set aside for taxation, deferred taxation or bad debts;

(e) (to the extent included) any amounts arising from an upward revaluation of assets made at any time after 31 December 2013;

(f) any amount in respect of any dividend or distribution declared, recommended or made by any member of the Group to the extent payable to a person who is not a member of the Group and to the extent such distribution is not provided for in the most recent financial statements; and

(g) any amount due from shareholders, directors and/or related companies,

provided so that no amount shall be included or excluded more than once;

"**Group**" means the Guarantor and its Subsidiaries, taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Net Proceeds**" means the net sum representing the gross proceeds from the issue of the Bonds (being approximately CNY1,679,000,000) less all relevant fees, commission and expenses payable by the Issuer and/or the Guarantor in connection with the issue and offering of the Bonds;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC Accounting Standards**" means the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter;

"**Relevant Indebtedness**" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Period**" means each period of 12 months ending on the last day of the Guarantor's financial year and each period of six months ending on the last day of the first half of the Guarantor's financial year;

"**SAFE**" means the Hainan Bureau of the State Administration of Foreign Exchange of the PRC;

"**SAFE Approval**" means the approval issued by SAFE to the Guarantor dated 21 April 2014;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; and

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

For the purposes of this definition, "**control**" means the right to appoint and/or remove all or the majority of the members of the board of directors or other governing body of a Person, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

4. Interest

The Bonds bear interest from, and including, 22 May 2014 (the "**Issue Date**") at the rate of 6.25% per year, (the "**Rate of Interest**") payable in arrear on 22 May and 22 November in each year (each, an "**Interest Payment Date**"); *provided that* if any Interest Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

Interest in respect of any Bond shall be calculated per Calculation Amount. The amount of interest payable per Calculation Amount for each Interest Period shall be the product of (i) 6.25%, (ii) CNY10,000, and (ii) the actual number of days in the Interest Period divided by 365, and rounding the resulting figure to the nearest CNY0.01 (CNY0.005 being rounded upwards).

In these Conditions:

"**business day**" means any day (other than a Sunday or a Saturday) on which commercial banks in Singapore settle Renminbi payments and banks in Beijing, PRC are not authorised or obligated by law or executive order to be closed;

"**Calculation Amount**" means CNY10,000; and

"**Interest Period**" means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date.

5. **Redemption and purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 22 May 2017, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 15 May 2014; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) (if a demand was made under the Guarantee of the Bonds) the Guarantor has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 15 May 2014; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor (as the case may be) would be obliged to pay such

Additional Amounts if a payment in respect of the Bonds (or the Guarantee of the Bonds, as the case may be) were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

(A) a certificate signed by two directors of the Issuer or the Guarantor (as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or the Guarantor (as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) above (or as the case may be) (ii)(A) and (ii)(B) above, in which event such evidence shall be conclusive and binding on the Bondholders and the Trustee shall be protected and shall have no liability to any Bondholder or any other person for so accepting and relying on such certificate or opinion.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 5(b).

In this Condition 5(b) (*Redemption for tax reasons*):

"**Additional Amounts**" means the additional amounts provided or referred to in Condition 7 (*Taxation*) which are in respect of any withholding or deduction (i) at a rate greater than the applicable withholding tax rate as a result of the Issuer or the Guarantor, as the case may be, being deemed by the tax authorities of the PRC to be a PRC tax resident in accordance with any applicable tax laws, treaties or regulations or (ii) by or within Hong Kong or any other jurisdiction through which payments on the Bonds are made or any authority thereof or therein having power to tax, other than the PRC.

(c) *Redemption for Change of Control*: At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date at 101% of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the holder of the relevant Bond must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Bond Certificates evidencing the Bonds to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Bondholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 5(c) (*Redemption for Change of Control*).

In this Condition 5(c) (*Redemption for Change of Control*):

a "**Change of Control**" occurs when:

(i) any Person or Persons acting together acquires Control of the Guarantor if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Guarantor on the Issue Date; or

(ii) one or more Persons acting together acquires the legal or beneficial ownership (directly or indirectly) of the issued share capital of the Guarantor greater than such beneficial ownership (directly or indirectly) held by the Substantial Shareholders in aggregate; or

(iii) the Substantial Shareholders in aggregate beneficially own (directly or indirectly) less than 35% of the issued share capital of the Guarantor; or

(iv) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity;

"**Control**" means (a) the acquisition or control of more than 35% of the voting rights of the issued share capital of the Guarantor or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms "**Controlling**" and "**Controlled**" shall have meanings correlative to the foregoing;

"**Grand China**" means Grand China Air Co., Ltd.;

"**Haikou Meilan**" means Haikou Meilan International Airport Co., Ltd.;

"**Hainan SASAC**" means the Hainan Bureau of SASAC;

"**issued share capital**" means issued and outstanding ordinary shares having voting rights, but does not include ordinary or preference shares without voting rights;

a "**Person**", as used in this Condition 5(c) (*Redemption for Change of Control*), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Substantial Shareholders;

"**SASAC**" means the State-owned Assets Supervision and Administration of the State Council of the PRC or its successor; and

"**Substantial Shareholders**" means Hainan SASAC, HNA Group Co., Ltd., Grand China and Haikou Meilan, *provided that* with respect to each of Grand China and Haikou Meilan, SASAC and any municipal or provincial bureau of SASAC together constitute (directly or indirectly) its single largest shareholder, failing which the definition of "**Substantial Shareholders**" shall exclude Grand China or Haikou Meilan, as the case may be.

(d) *Mandatory Redemption for Non-Registration*: Upon the occurrence of a Non-Registration Event, the Issuer shall redeem on the Non-Registration Event Redemption Date all, and not some only, of the Bonds at 100% of their principal amount together with accrued interest up to, but excluding, the Non-Registration Event Redemption Date.

In this Condition 5(d) (*Mandatory Redemption for Non-Registration*):

a "**Non-Registration Event**" occurs when the Release Condition has not been satisfied on or prior to the Registration Deadline;

"**Non-Registration Event Redemption Date**" means seven business days after the Registration Deadline;

"**Registration Deadline**" means the day falling 30 China Business Days after the Issue Date; and

"**Release Condition**" means the receipt by the Trustee of:

(i) a certificate in substantially the form set out in the Trust Deed of any two directors or duly authorised officers of the Guarantor confirming (A) the completion of the registration of the Guarantee of the Bonds with SAFE as described in Condition 3(c) (*Covenants*) and (B) no Event of Default has occurred; and

(ii) a certified true copy of the relevant SAFE registration certificate and the particulars of registration and an English translation thereof and a certificate signed by a director of the Guarantor certifying that such translation is complete and accurate.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Bonds otherwise than as provided in paragraphs (a) (*Scheduled redemption)* to (d) (*Mandatory Redemption for Non-Registration*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price.

(g) *Cancellation*: All Bonds so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6. Payments

(a) *Principal*: Payments of principal shall be in Renminbi made by transfer to a CNY account maintained by the payee and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made in Renminbi by transfer to a CNY account maintained by the payee and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment but without prejudice to the provisions of Condition 7 *(Taxation*). No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(d) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Bond Certificate.

(e) *Record date*: Each payment in respect of a Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. Taxation

All payments of principal and interest in respect of the Bonds or under the Guarantee of the Bonds by or on behalf of the Issuer or, as the case may be, the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(i) by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; or

(ii) by or on behalf of a Holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(iii) which is surrendered (where required to be surrendered) more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such additional amounts if it had presented such Bond for payment on the last day of such period of 30 days.

"**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due, and (b) if the full amount payable has not been received by the Principal Paying Agent in accordance with the provision of the Agency Agreement on or prior to such due date, the date on which the full amount has been received and notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed**.**

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Hong Kong or the PRC, respectively, references in these Conditions to Hong Kong or the PRC shall be construed as references to Hong Kong or, as the case may be, the PRC, and/or such other jurisdiction.

8. **Events of default**

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by holders of at least 25% of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer or the Guarantor fails to pay any amount of principal in respect of the Bonds or the Guarantee of the Bonds, as the case may be, on the due date for payment thereof or fails to pay any amount of interest in respect of the Bonds or the Guarantee of the Bonds, as the case may be, within 14 business days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Bonds or the Trust Deed and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Guarantor, as the case may be; or

(c) *Cross-default of Issuer, Guarantor or Subsidiaries*:

(i) any Indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds US$20,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an aggregate amount in excess of US$5,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer, the Guarantor or any of their respective Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Subsidiaries and such action is not discharged within 45 days after the date thereof; or

(f) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any of their respective Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any of their respective Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any of their respective Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business, except (a) in the case of any Subsidiary, where the cessation is for the purpose of and followed by a solvent winding up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor, and/or another Subsidiary or (b) on terms approved by an Extraordinary Resolution of the Bondholders; or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Subsidiaries, except (i) in the case of any Subsidiary, for the purpose of and followed by a solvent winding up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor and/or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Bondholders; or

(h) *Government intervention*: (i) all or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of their respective Subsidiaries is prevented by any such person from exercising normal control over all or any part of its undertaking, assets and revenues; or

(i) *Analogous event*: any event occurs which under the laws of Hong Kong or the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (h) (*Government intervention*) above; or

(j) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Bonds, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bonds, the Trust Deed, the Guarantee of the Bonds or the Agency Agreement admissible in evidence in the courts of Hong Kong or the PRC is not taken, fulfilled or done; or

(k) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Bonds, the Trust Deed or the Agency Agreement; or

(l) *Guarantee*: the Guarantee of the Bonds is not (or is claimed by the Guarantor not to be) in full force and effect; or

(m) *Ownership*: the Issuer ceases to be a wholly-owned subsidiary of the Guarantor.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Bond Certificates are presented for payment within ten years of the appropriate Relevant Date.

10. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or such Agent may require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual holders of Bonds as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent in Singapore and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

12. Meetings of Bondholders; Modification and Waiver

(a) *Meetings of Bondholders*: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, to change the currency of payments under the Bonds, to effect the exchange, conversion or substitution of the Bonds for other obligations or securities, to amend Condition 3 (*Covenants*), to amend the terms of the Guarantee of the Bonds or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders**,** whether present or not.

In addition, a resolution in writing signed by or on behalf of holders holding not less than 90% of the aggregate principal amount of the Bonds outstanding shall for purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Bondholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Bondholders and to any modification of the Bonds or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders authorise or waive any proposed breach or breach of the Bonds or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Bondholders as soon as practicable thereafter and shall be binding on all Bondholders.

(c) *Directions from Bondholders*: Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

(d) *Certificates and Reports*: The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

13. Enforcement

The Trustee may at any time, at its absolute discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed in respect of the Bonds or the Guarantee of the Bonds, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least 25% of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

Subject to compliance with the undertaking in Condition 3(c)(i) (*Covenants*), the Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds.

15. Notices

Notices to the Bondholders will be validly given if sent to them at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of being sent.

16. Currency Indemnity

If any sum due from the Issuer or the Guarantor in respect of the Bonds or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Bonds, the Issuer and the Guarantor shall indemnify the Trustee and each Bondholder, on the written demand of the Trustee or such Bondholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of each of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

17. **Governing Law and Jurisdiction**

(a) *Governing law*: The Bonds, the Guarantee of the Bonds and the Trust Deed are governed by the laws of Hong Kong.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor has in the Trust Deed (i) agreed for the benefit of the Trustee and the Bondholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Bonds or the Guarantee of the Bonds; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient to accept service of any process on its behalf.

(c) *Waiver of immunity*: To the extent that the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or the Guarantor or their respective assets or revenues, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

THE GLOBAL CERTIFICATE

Initial Issue of Bonds

Upon registration of the Bonds in the name of CDP and delivery of the Global Bond Certificate to CDP, CDP will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of CDP as the Holder represented by the Global Bond Certificate must look solely to CDP for his share of each payment made by the Issuer to the Holder of the underlying Bonds and in relation to all other rights arising under the Global Bonds Certificate, subject to and in accordance with the respective rules and procedures of CDP. Such persons shall have no claim directly against the Issuer in respect of payments due on the bonds for so long as the Bonds are represented by the Global Bond Certificate and such obligations of the Issuer will be discharged by payment to the Holder of the underlying Bonds in respect of each amount so paid.

Deposit and Exchange

For so long as any of the Bonds is represented by the Global Bond Certificate and the Global Bond Certificate is held by CDP, each person who is for the time being shown in the records of CDP as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by CDP as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and their agents as the holder of such principal amount of Bonds other than with respect to the payment of principal, distributions and any other amounts in respect of the Bonds, for which purpose the holder of the Global Bond Certificate shall be treated by the Issuer, the Trustee and their agents as the holder of such Bonds in accordance with and subject to the terms of the Global Bond Certificate. Bonds which are represented by the Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of CDP. These provisions will not prevent the transfers of interests in the Bonds within CDP whilst they are held on behalf of CDP, but will limit the circumstances in which the Bonds may be withdrawn from CDP.

The Global Bond Certificate will become exchangeable in whole, but not in part, for individual bond certificates ("**Individual Bond Certificates**") if (i) CDP (or an alternative clearing system, as shall have been designated by the Issuer) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise), (ii) CDP announces its intention to permanently cease business and no alternative clearing system is available or (iii) CDP has notified the Issuer that it is unable or unwilling to act as depository for the Bonds and to continue performing its duties and no alternative clearing system is available.

Amendment to Conditions

The Global Bond Certificate contains provisions that apply to the Bonds that they represent, some of which modify the effect of the Terms and Conditions of the Bonds. The following is a summary of certain of those provisions:

Payments

All payments in respect of the Global Bond Certificate which, according to the Terms and Conditions of the Bonds, require presentation and/or surrender of an Individual Bond Certificate will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the

Global Bond Certificate to or to the order of the Principal Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Global Bond Certificate, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Record Date

Each payment in respect of a Global Bond Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the date falling five Clearing System Business Days before the due date for such payment where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Bond Certificate is being held is open for business.

CDP

Clearance of the Bonds will be effected through an electronic book-entry clearance and settlement system for the trading of debt securities maintained by CDP.

CDP, a wholly-owned subsidiary of Singapore Exchange Limited, is incorporated under the laws of Singapore and acts as a depository and clearing organisation. CDP holds securities for its accountholders and facilitates the clearance and settlement of securities transactions between accountholders through electronic book-entry changes in the securities accounts maintained by such accountholders with CDP.

The entire issue of the Bonds is to be held by CDP in the form of the Global Bond Certificate for persons holding the Bonds in securities accounts with CDP ("**Depositors**"). Delivery and transfer of Bonds between Depositors is by electronic book-entries in records of CDP only, as reflected in the securities accounts of Depositors.

Although CDP encourages settlement on the third business day following the trade date of debt securities, market participants may mutually agree on a different settlement period if necessary.

Settlement of over-the-counter trades in the Bonds through the Depository System may only be effected through certain corporate depositors ("**Depository Agents**") approved by CDP under the Companies Act, Chapter 50 of Singapore to maintain securities sub-accounts and to hold the securities in such securities sub-accounts for themselves and their clients. Accordingly, Bonds for which trade settlement is to be effected through the Depository System must be held in securities sub-accounts with Depository Agents. Depositors holding the Bonds in direct securities accounts with CDP, and who wish to trade Bonds through the Depository System, must transfer the Bonds to be traded from such direct securities accounts to a securities sub-account with a Depository Agent for trade settlement.

CDP is not involved in money settlement between Depository Agents (or any other persons) as CDP is not a counterparty in the settlement of trades of debt securities. However, CDP will make payment of interest and repayment of principal on behalf of issuers of debt securities.

Although CDP has established procedures to facilitate transfer of interests in the Bonds in global form among Depositors, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantor, the Paying Agents or any other agent will be responsible for the performance by CDP of its obligations under the rules and procedures governing its operations.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds will be approximately CNY1,679 million after deducting the commission to be charged by the Joint Lead Managers and other expenses related to the offering, and will be used for the Group's capital expenditure outside of the PRC and the Issuer's working capital and general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and indebtedness of the Company

As of 31 December 2013, there was a total issued share capital of 12,182,181,790 shares of the Company (the "**Shares**") which include:

	Number of Shares	Approximate percentages of share capital
A Shares	11,812,735,388	96.97%
B Shares	369,446,402	3.03%
	12,182,181,790	100.00%

The following table sets forth the consolidated total borrowings (both current and non-current portions), equity attributable to the equity holders of the Company and total capitalisation of the Company as of 31 December 2013 and adjusted to give effect to the issue of the Bonds before deducting underwriting discounts and commissions and other offering expenses:

	As of 31 December 2013	
	Actual	As adjusted
	(RMB'000)	
Borrowings – current portion(1)		
Short-term borrowings (unsecured)	371,620	371,620
Short-term borrowings (secured)(2)	25,962,339	25,962,339
CNY1,000,000,000 guaranteed bonds due 2014	997,476	997,476
Total borrowings – current portion	27,331,435	27,331,435
Borrowings – non-current portion(3)		
Long-term borrowings (unsecured)	74,418	74,418
Long-term borrowings (secured)(4)	25,675,249	25,675,249
Corporate bond	4,951,977	4,951,977
US$500,000,000 3.625% credit enhanced bonds due 2020(5)	2,992,083	2,992,083
The Bonds to be issued(6)	–	1,700,000
Total borrowings – non-current portion	33,693,727	35,393,727
Shareholders' equity		
Share capital	12,182,182	12,182,182
Capital surplus	5,703,391	5,703,391
Surplus reserves	798,200	798,200
Undistributed profits	6,725,325	6,725,325
Total equity attributable to the equity holders of the Company	25,409,098	25,409,098
Minority interests	114,736	114,736
Total shareholders' equity	25,523,834	25,523,834
Total capitalisation(7)	86,548,996	88,248,996

Notes:

(1) Borrowings – current portion includes short-term borrowings and long-term borrowings due within one year.

(2) Secured short-term borrowings comprise short-term borrowings of secured loans, pledged loans, guaranteed loans and loans with guarantee and pledge securities and long-term borrowings within one year of mortgaged loans, pledged loans, guaranteed loans and guaranteed and mortgaged or pledged loans.

(3) Borrowings – non-current portion represents long-term borrowings excluding long-term borrowings due within one year.

(4) Secured long-term borrowings comprise mortgaged loans, pledged loans, guaranteed loans and guaranteed and mortgaged or pledged loans.

(5) The translation of Renminbi amounts into U.S. dollar amounts has been made at the exchange rate of RMB6.0537 to USD1.00 on 31 December 2013 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

(6) The aggregate principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.
(7) Total capitalisation represents the sum of total borrowings and total shareholders' equity.

Except as otherwise disclosed in this Offering Circular, there has been no material change in the consolidated capitalisation and indebtedness of the Company since 31 December 2013.

Capitalisation and indebtedness of the Issuer

As of the date of this Offering Circular, the paid-up share capital of the Issuer is HKD70,200,000.

The following table sets forth the capitalisation of the Issuer as of 31 December 2013, as adjusted to give effect to the issue of the Bonds before deducting underwriting discounts and commissions and other offering expenses:

	As of 31 December 2013	
	Actual	**As adjusted**
	(HK$'000)	
Borrowings – current portion[1]		
CNY1,000,000,000 guaranteed bonds due 2014	1,266,206	1,266,206
Borrowings – non-current portion		
USD500,000,000 guaranteed bonds due 2020[2]	3,792,098	3,792,098
The Bonds to be issued[3]	–	2,176,000
Total borrowings – non-current portion	**3,792,098**	**5,968,098**
Equity		
Share capital	70,200	70,200
Translation reserve	(58,275)	(58,275)
Other reserve	451,379	451,379
Accumulated losses	(371,940)	(371,940)
Total equity	**91,364**	**91,364**
Total capitalisation[4]	**5,149,668**	**7,325,668**

Notes:

(1) Borrowings – current portion includes short-term borrowings and long-term borrowings due within one year.
(2) The translation of HK dollar amounts into U.S. dollar amounts has been made at the exchange rate of HKD7.7539 to USD1.00 on 31 December 2013 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.
(3) The principal amount of the Bonds to be issued has been translated from Renminbi to HK dollars at the rate of CNY1.00 to HKD1.2800 on 31 December 2013 as set forth in the Monthly Statistical Bulletin of Hong Kong Monetary Authority, which was compiled based on the average closing middle market telegraphic transfer rates supplied by the Hang Seng Bank Limited.
(4) Total capitalisation represents the sum of total borrowings and total equity.

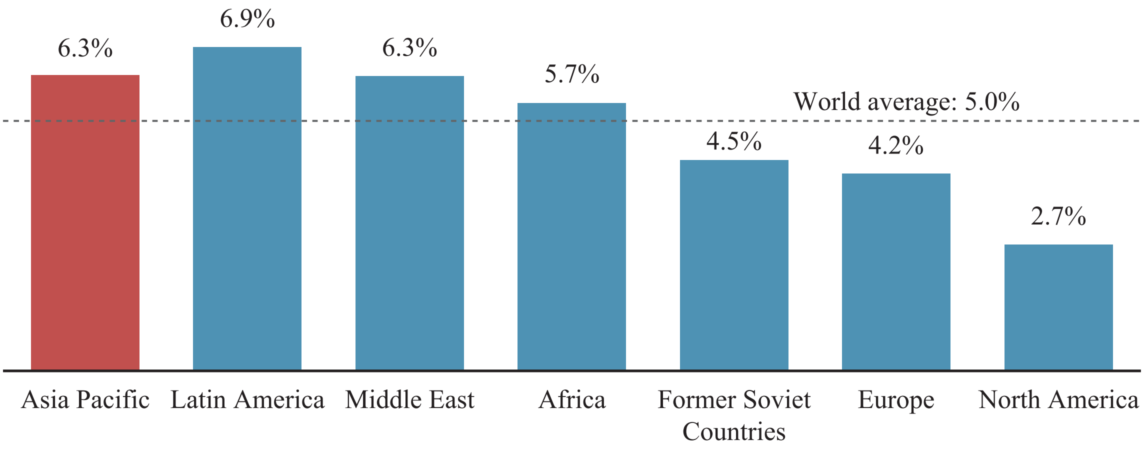
Other than as disclosed above, there has been no material change in the consolidated capitalisation and indebtedness of the Issuer since 31 December 2013.

Global aviation industry outlook

For the near-term outlook, IATA predicts growth of 6.00% in RPK for global air traffic in 2014. However, the aviation industry – like the global economy – generally remains fragile. Challenges may recur as a result of the rebound in oil prices and geopolitical tensions in the Middle East.

In the long run, The Airline Monitor projects an average annual growth rate of 5.95% in passenger traffic between 2010 and 2020, and an average annual growth rate of 5.03% between 2020 and 2030, for a 20-year average annual growth rate of 5.49% between 2010 and 2030. This forecast is largely consistent with other more recent long-term industry forecasts. The Boeing 2013 Current Market Outlook projects a global 5.0% RPK CAGR between 2012 and 2032, and a 6.3% RPK CAGR for Asia Pacific between 2012 and 2032.

2012-2032 RPK CAGR



Source: Boeing 2013 Current Market Outlook

PRC aviation industry overview

Overview

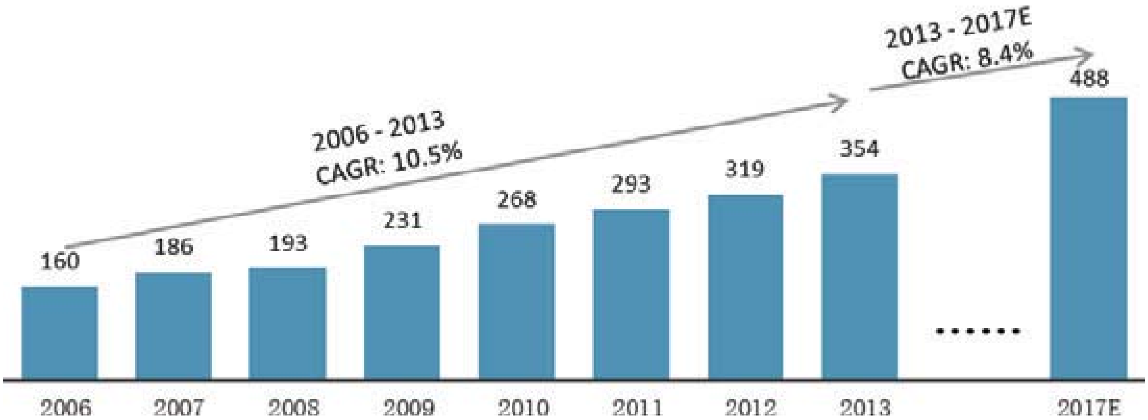
Since 2006, air traffic within China, to and from China has grown at rates substantially above the worldwide average. While European and former Soviet countries traffic grew by 3.72% per year from 2006 to 2012, North American traffic grew by 0.39% per year, and China traffic grew by 10.22% per year over the same time period.

Historical air traffic by region (RPK billions)

Region	2006	2007	2008	2009	2010	2011	2012	2006-2012 CAGR (%)
Asia ex. China	318	346	351	333	374	409	460	6.31
China	423	487	502	537	623	706	758	10.22
Europe & CIS (former soviet countries)	1,514	1,618	1,676	1,608	1,690	1,778	1,885	3.72
Other	667	723	773	821	932	990	1,046	7.79
North America	1,209	1,262	1,208	1,137	1,181	1,228	1,237	0.39
Oceania	123	127	129	128	140	151	165	5.06
World Totals	**4,254**	**4,562**	**4,639**	**4,564**	**4,939**	**5,262**	**5,552**	**4.54**

According to CAAC, air passenger traffic in China was 354.00 million people in 2013 and achieved a 10.50% CAGR between 2006 and 2013. Air passenger traffic will reach 488.00 million people in 2017, according to an IATA forecast.

Air passenger traffic (million people)



Sources: CAAC and IATA

With a population of over 1.34 billion people and a rapidly growing economy, China has become a global economic power and a leader in the global economic recovery. According to IMF World Economic Outlook published in October 2013, China's GDP grew by over 9.20% from 2005 to 2011 before declining to 7.70% in 2012, which was still more than twice the global average GDP increase over the same period, and is projected to increase by over 7.00% per year through 2017.

In addition, China is experiencing rapid urbanisation. The urban population in China has increased from 302.00 million in 1990 to 699.00 million in 2012, and it is projected to reach one billion by 2025 according to China's Air Transport Plan published by Flightglobal.

The ongoing urbanisation and rapid economic growth in China have stimulated strong revenue growth in air transport. In 2012, according to CAAC, the total revenue of all PRC airlines was USD90.65 billion (approximately RMB556.14 billion), an increase of 10.50% from 2011 (calculated based on RMB equivalent amounts), while the total profit was USD4.82 billion (approximately RMB29.59 billion), a decrease of 20.50% from 2011 (calculated based on RMB equivalent amounts). According to IATA and CAAC, in 2012, PRC airlines accounted for approximately 14.20% of worldwide airline revenues. One of the drivers for the rapid growth of the aviation sector in China is that the aviation market is immature. The air travel penetration rate in China is 282.00 RPKs per resident, compared to 809.00 in Europe and former Soviet countries, and 2,748.00 in North America according to Boeing Current Market Outlook 2012. The current low level of air traffic relative to population is one of the factors behind China's high expected growth rates in China's aviation industry forecasts. If China's aviation industry were as mature as the United States's aviation industry, it would be more than ten times as large as it is today.

In early 2011, the PRC government announced plans to implement the 12th Five-Year plan, focusing on the all-around development of a well-off society. One major focus of the 12th Five-Year Plan is infrastructure construction, including that of the aviation industry, in order to keep up with the nation's rapid economic development and urbanisation. The 12th Five-Year Plan calls for China to invest USD228.00 billion in its aviation industry over the next five years. Not only does the PRC government plan to build at least 45 new airports within the next five years, it will also renovate or expand existing airports. According to the 12th Five-Year Plan, by 2015, China will operate over 230 airports. China currently operates over 160 airports, and Beijing Capital International Airport, as the busiest airport, served approximately 83.70 million passengers in 2013.

The cargo services of the PRC airlines have also rapidly expanded over the last few years with an average annual growth rate of 7.69% from 2006 to 2012. The cargo services provided by PRC airlines hauled a total of approximately 5.50 million tons in 2012, staying around the same level as in 2010. According to the IATA, Hong Kong is projected to be the fastest-growing international cargo market in the world from 2009 to 2014, with a compound annual growth rate of 12.30%, followed by mainland China with a compound annual growth rate of 11.70%. The chart below shows the cargo carried by PRC airlines from 2006 to 2012.

Cargo carried by PRC airlines 2006-2012 (10,000 ton units)

Year	Cargo volume	% Change (from prior year)
2006	349.40	13.81
2007	401.80	15.00
2008	407.60	1.44
2009	445.50	9.30
2010	563.00	26.37
2011	557.50	(1.00)
2012	545.00	(2.20)

Source: CAAC

PRC domestic aviation market

According to CEIC China Aviation, the domestic aviation market contributed the most to the growth of the PRC aviation industry and accounted for 92.70% of all passengers flown by all PRC airlines in 2012. Although there were approximately 2,076 routes served as of 2012, the domestic aviation market however, is highly concentrated. The routes between Beijing in northern China, Shanghai in eastern China, and Shenzhen and Guangzhou in southern China, account for roughly 6.20% of total China passenger traffic.

Over the past decade, the "Big Four" airlines, namely Air China, China Southern Airlines, China Eastern Airlines and the Group, have become more focused on trunk lines and international routes, and have made equity investments in smaller airlines, which more often focus on domestic and regional feeder line markets.

Therefore, the PRC domestic market, to an extent, is controlled by the "Big Four" airlines because they have majority ownership interests in a number of other smaller PRC airlines, in addition to controlling their own operations. The following table sets forth certain smaller PRC airlines controlled by the "Big Four" airlines as of 31 December 2013.

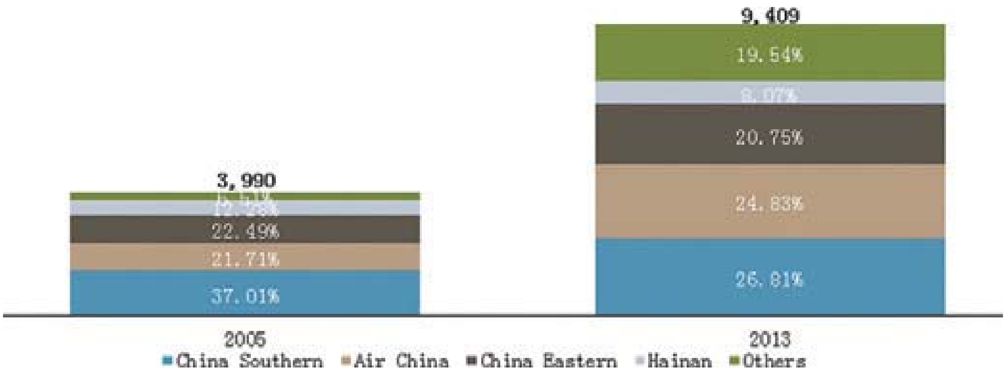
Ownership of other passenger airlines by "Big Four" PRC airlines

"Big Four" Airline	Ownership relationships	Ownership (%)
Air China	Shenzhen Airlines	51
	Dalian Airlines	80
	Kunming Airlines (through Shenzhen Airlines)	80
	Beijing Airlines	51
	Air Macau	67
	Shandong Airlines	23
China Southern Airlines	Xiamen Airlines	51
	Chongqing Airlines	60
	Guizhou Airlines	60
	Shantou Airlines	60
	Zhuhai Airlines	60
China Eastern Airlines	China Eastern Airlines Yunnan	90
	China Eastern Airlines Wuhan	72
	China United Airlines	100
	China Eastern Airlines Jiangsu	63
	Shanghai Airlines	100
The Group	Chang'an Airlines	100
	Shanxi Airlines	100
	Xinhua Airlines	100

Sources: Latest public filings of Air China, China Southern Airlines, China Eastern Airlines and the Group

Driven by strong growth of the PRC economy, all of the "Big Four" airlines (inclusive of their wholly owned subsidiaries) have grown substantially since 2005. The chart below shows the domestic capacity shares of the PRC airlines.

PRC domestic capacity share by Airline, 2005 vs. 2013 (Weekly ASKs, millions)



Source: Diio Mi

Notes:

1 Airlines majority-owned by other airlines were reported under their respective parent airlines.

2 Others in 2013 include China Express Airlines, Grand China Air Company, Hebei Airlines, Chengdu Airlines, Okay Airways, West Air, Luck Air, Tianjin Airlines, Juneyao Airlines, Spring Airlines, Shandong Airlines and Sichuan Airlines. Others in 2005 include Sichuan Airlines, Shandong Airlines, Aircompany Yakutia and Turkish Airlines.

Besides the "Big Four" airlines and their respective subsidiaries, smaller independent airlines also offer scheduled services within China, including Juneyao Airlines, Spring Airlines and China Express. According to Diio Mi data, collectively, these independent airlines operated 9.80% of the total number of scheduled passenger flights in China in 2013. This share has fallen from 13.90% in 2005 because some previously independent airlines, such as Shanghai Airlines and Shenzhen Airlines, have been acquired by the "Big Four" airlines. Most of the remaining independent airlines started services after 2005.

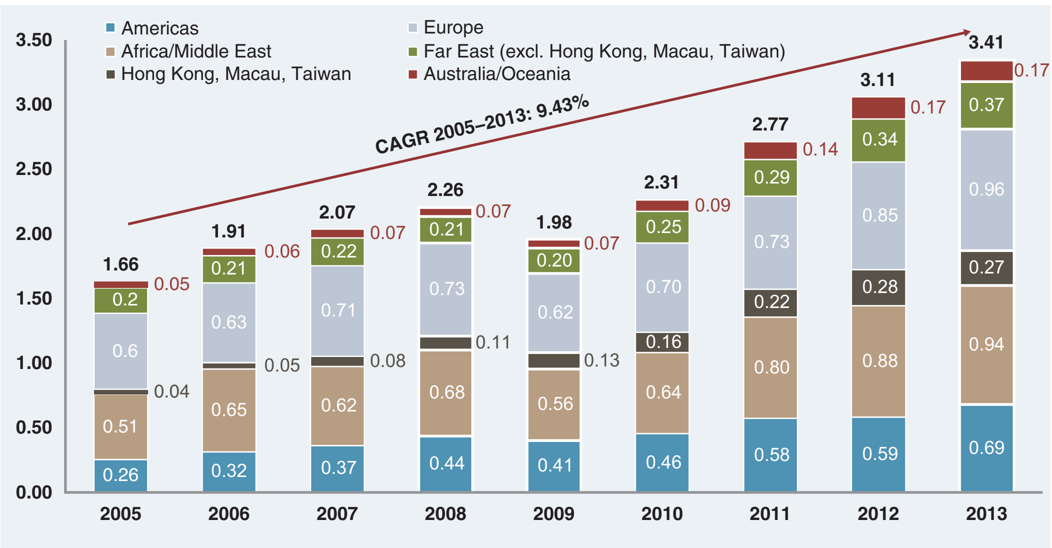
On certain routes, particularly in eastern China, airlines are starting to face increased competition from high-speed railways. The competition from high-speed railways is limited to city pairs close to each other where such high-speed railway infrastructure exists.

Although the development of high-speed railways will reduce the demand for domestic air transport services, domestic air transport is nonetheless projected to grow by 6.90% on average per year from 2012 to 2032, as measured by RPKs. According to Airbus Global Market Forecast, it is projected that, by 2029, the PRC domestic aviation market will be the second largest in the world by traffic flow.

China international aviation market

The strong growth of the PRC economy has stimulated growth of international air travel between China and other countries around the world. From 2005 to 2013, passengers carried by the PRC airlines on international routes grew at an average annual growth rate of 9.43% according to the PRC National Bureau of Statistics. The chart below shows the increase in capacity on international routes to and from China.

Trends in passenger capacity on international routes to and from China 2005–2013, billions of ASKs/Week



Source: Diio Mi

Along with the strong growth of the PRC economy, tourism is also expected to stimulate the PRC international air transport market. The UN World Tourism Organisation ("WTO") predicts that China will become the world's largest inbound travel country and fourth largest outbound travel country by 2015.

Another stimulant of international traffic growth has been the PRC government's decision to relax limitations on travel between mainland China and Hong Kong, Taiwan and Macau.

According to CAAC, passengers carried by the PRC airlines on routes to Hong Kong, Taiwan, and Macau increased by 9.70% since 2011, to 8.30 million people in 2012. Continued growth of these routes is widely expected by industry analysts.

The PRC government has indicated its intent to increase the competitiveness of PRC airlines in the international markets through its 12th Five-Year Plan. Over the next five years, the PRC airlines aim to improve their international route networks to Europe and North America, as well as to South America and Africa. Additionally, according to the CAAC's Five-Year Plan, the PRC government plans to turn three of China's largest airports, in Beijing, Shanghai and Guangzhou, into international hubs. It is estimated that the share of the PRC airlines in the international markets will reach 50.00% by the end of this decade, and 60.00% by 2030.

Over the next 20 years, the traffic on international routes is projected to grow at an average annual rate of 6.30%, driven by the continued growth of the PRC economy and trade activities and the expansion of international routes by the PRC airlines.

Major PRC airlines

Air China—Beijing-based Air China was the largest of the "Big Four" airlines as measured by total traffic volume, and the third largest in terms of passenger traffic in 2013. Air China owns stakes in Cathay Pacific, Shenzhen Airlines and Shangdong Airlines among other airlines. Cathay Pacific also owns a reciprocal minority stake in Air China. Air China's parent company is China National Aviation Holding Company, a state-owned enterprise, which owns 41.47% of Air China. Air China joined the Star Alliance in 2007.

China Southern Airlines—China Southern Airlines was the largest of the "Big Four" airlines in terms of passenger traffic and the second largest in terms of total traffic volume in 2013. The Guangzhou-based China Southern Airlines has a secondary hub in Beijing and is a member of the Skyteam Alliance.

China Eastern Airlines—China Eastern Airlines was the second largest of the "Big Four" airlines in terms of passenger traffic and the third largest in terms of total traffic in 2013. China Eastern Airlines dominates its home market of Shanghai since its purchase of Shanghai Airlines in 2010. China Eastern joined the Skyteam Alliance in June 2011.

The Group—The Group was the fourth largest airline in China in terms of both passenger traffic and total traffic in 2013, with a substantial ownership stake by Grand China Air Co., Ltd. The Group has its largest route bases at Haikou Meilan International Airport in Hainan province and Beijing Capital International Airport. The Group is not a member of any global alliance as of the date of this Offering Circular.

REGULATION OF THE PRC COMMERCIAL AVIATION INDUSTRY

The PRC commercial aviation industry is subject to a high degree of regulation and oversight by CAAC. Regulations and policies issued or implemented by CAAC encompass substantially all aspects of airline operations, including the approval of domestic, regional and international route allocation, published air fares, aircraft acquisition, aviation fuel prices and standards for aircraft maintenance, airport operations and air traffic control. The Civil Aviation Law, which became effective in March 1996, provides a framework for regulation of many of these aspects of commercial aviation activities. Some of the clauses of the Civil Aviation Law have been amended by the Decision of the Standing Committee of the National People's Congress on Amending Some Laws issued on 27 August 2009 and the Decision of the State Council on Matters concerning a Collection of Administrative Approval Items to be Cancelled and Delegated to Lower Levels (Guo Fa (2014) No.5) issued on 28 January 2014. Although China's airlines operate under the supervision and regulation of CAAC, they are accorded an increasingly significant degree of operational autonomy, including with respect to the application for domestic, regional and international routes, the allocation of aircraft among routes, the purchase of flight equipment, the pricing of air fares within a certain range, the training and supervision of personnel and their day-to-day operations.

As an airline providing services on international routes, the Group is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between China and various other countries. In addition, China is a contracting state, as well as a permanent member, of the International Civil Aviation Organisation (the "ICAO"), an agency of the United Nations established in 1947 to assist in the planning and development of international air transport, and is a party to many other international aviation conventions. The ICAO establishes technical standards for the international aviation industry. The Group believes that it, in all material respects, complies with all such technical standards.

Route rights

Domestic routes

The right of any PRC airline to carry passengers or cargo on any domestic route must be obtained from CAAC. Non-PRC airlines are not permitted to provide domestic air service between destinations in China. CAAC's policy is to assign a domestic route to the PRC airline that is best suited to serve the route based, in part, on the location of the airline's main or regional base at the point of origin. Under current regulations, airlines are generally expected to operate mainly from their route bases, and flights within a particular region are expected to be served by airlines based in that region. CAAC also considers other factors that may make a particular airline suitable to operate a domestic route, including the applicant's general operating authority, compliance with pricing regulations and regulations applicable to safety and service quality, market demand, the ability of the applicant in terms of its existing routes, and airport facilities and related support services.

CAAC considers market conditions for a domestic route in determining whether the route should be allocated to one or more airlines. Generally, CAAC requires the passenger load factor on certain route should be above the average rate of the whole market in the last flight season before additional flights and participants may be put on that route.

Regional routes

Hong Kong and Macau routes and landing rights are derived from agreements between the PRC government and the government of the Hong Kong SAR, and between the PRC government and the government of Macau SAR. Such rights are allocated by CAAC among limited number of PRC airlines, including the Company permitted to fly to Hong Kong or Macau. The Group understands that the criteria for determining whether a Hong Kong and Macau route will be allocated to a particular airline include market demand, the ability of the airline to service the route and the appropriateness of the airline's aircraft for such route.

A number of Hong Kong routes are operated by PRC airlines on a “charter” flight basis. Permission to operate these flights is in theory subject to monthly review by CAAC and the Hong Kong Civil Aviation Department. CAAC has informally indicated that it primarily considers market demand and airline capability in granting permission for such flights.

Previously, direct flights between Taiwan and Mainland China had only been available during certain festivals. Since 4 July 2008, however, the limitation on direct flights has been further liberalised to allow direct charter flights on weekends. On 4 November 2008, the Mainland China and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On 31 August 2009, the Mainland China and Taiwan extended the number of regular cross-Strait direct passenger flights from 108 to 270 a week. The 108 direct passenger flights previously operating were all classed as charter flights. The new services comprise both regular charter and scheduled flights. The Company became the first PRC carrier to fly nonstop to Taiwan. Previously, travellers between Taiwan and China have had to make use of intermediate stops in Hong Kong or elsewhere.

International routes

International route rights, as well as the corresponding landing rights, are derived from air services agreements negotiated between the PRC government, through CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled service between certain destinations within each of such countries. Upon entering into an air services agreement, CAAC determines the airline to be awarded such routes based on various criteria, including the availability of appropriate aircraft, flight and management personnel, safety record, the overall size of the airline, financial condition and sufficiency of assets to bear civil liabilities in international air services. These route rights may be terminated by CAAC under special circumstances.

The criteria for determining whether an international route will be allocated to a second airline generally include (i) the terms of the relevant bilateral civil aviation agreement; (ii) consistency with overall national plans and the national interest and the enhancement of reasonable competition; and (iii) whether the international airports to be used are sufficient for the aircraft flown and employ security measures consistent with international standards.

In addition, if the relevant bilateral civil aviation agreement permits more than one PRC airline to operate a particular international route, CAAC will only permit a second airline to operate on such route if the number of passengers carried annually exceeds 100,000 and if there is a minimum average load factor of 68.00% for routes with at least five weekly flights by the PRC airlines, or 80.00% for routes with four weekly flights by the PRC airlines.

Air fare pricing policy

Pursuant to “Pricing Reform of Domestic Civil Aviation” as approved by the State Council of the PRC effective on 20 April 2004, prices on domestic routes fluctuate freely within a predetermined range. Instead of direct supervision by setting prices of air tickets through a local price bureau, the government now provides guidance on domestic flights and domestic civil aviation is controlled by the government indirectly. Market-oriented pricing policy was introduced and pricing system has been adjusted as a result of the above pricing reform. The pricing regulation was further eased in 2010. According to a new regulation jointly issued by CAAC and NDRC in 2010, the PRC airlines can now decide the price of first-class and business-class fares for domestic flights. Previously, first-class and business-class fares were fixed at 1.5 times and 1.3 times the full fare of an economy class ticket. Further, pursuant to the Notice of Transport Price Policy Relevant Issues on Domestic Civil Aviation jointly issued by CAAC and NDRC on 9 October 2013, the PRC airlines now have greater freedom to determine their pricing for domestic flights: (i) there is no limit on their price reductions; (ii) they can increase their prices up to 25.00% more than the standard prices; and (iii) the prices for certain domestic routes jointly operated by at least two airlines and under competition with principle ground transportation are now market-oriented prices rather than government guided prices.

Published air fares of the PRC airlines for the Hong Kong and Macau routes are determined by CAAC and the relevant civil aviation authorities in Hong Kong or Macau, subject to consultation between the relevant PRC airlines and Hong Kong or Macau airlines. Airlines may offer discounts on flights on their Hong Kong regional routes. With respect to the Taiwan routes, the air fares are currently determined by the PRC airlines at their own discretion and may be subject to certain pricing guidance to be issued by CAAC in the future.

Published air fares of the PRC airlines for international routes are determined through consultation between the relevant PRC airlines and foreign airlines in accordance with the civil aviation agreements between the PRC government and the relevant foreign government, taking into account the international air fare standards established through the International Air Transport Association. All air fares for international routes must be approved by CAAC. Discounting of published international air fares is permitted.

Acquisition of aircraft and flight equipment

CAAC requires all PRC airlines to acquire their aircraft through China Aviation Supplies Import and Export Corporation ("CASC"), an entity controlled by CAAC. If a PRC airline plans to acquire an aircraft, the airline must first seek approval from CAAC and NDRC. The airline must, as a condition of approval, provide specific acquisition plans, which are subject to modification by CAAC and NDRC. If CAAC and NDRC approve an aircraft acquisition, the airline negotiates the terms of the acquisition with the manufacturer together with CASC because CASC possesses the license required to import or export aircraft, and CASC receives a commission in respect thereof. Most of the PRC airlines are also required to acquire their aircraft engines, spare parts and other flight equipment through CASC. The Company and a few other PRC airlines are permitted to import jet engines and other flight equipment for their own use without the participation of CASC. In the case of the Company, HNA Import and Export Corporation, an entity under HNA Group, which has the relevant import and export rights, acts as its import agent and is paid an agency fee for its services.

Aviation fuel supply and pricing

CAOSC and Bluesky Oil Supplies Company, companies controlled and supervised by CAAC, are the only aviation fuel supply companies in China, with the exception of the joint venture aviation fuel supply companies that supply the Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports, in each of which CAOSC is a partner. Airlines are generally not permitted to buy aviation fuel from other suppliers in their domestic operations, since the direct import of aviation fuel for domestic purposes is prohibited. As a result, all PRC airlines purchase their domestic aviation fuel supply requirements (other than the above mentioned exceptions) from the seven regional branches of CAOSC. Aviation fuel obtained from such regional branches is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of CAAC and the pricing department of NDRC based on market conditions and other factors.

Safety

CAAC has made the improvement of air traffic safety in China a high priority and is responsible for the establishment of operational safety, maintenance and training standards for all PRC airlines. The PRC airlines are required to provide monthly flight safety reports to CAAC, including reports of flight or other incidents or accidents and other safety related problems involving such airline's aircraft occurring during the relevant reporting period. CAAC periodically conducts safety inspections on individual airlines.

CAAC oversees the standards of all PRC airline pilots through its operation of CAAC Aviation College. CAAC Aviation College is a monitoring unit located in Tianjin which implements a uniform pilot certification process applicable to all PRC airline pilots and is responsible for the issuance, renewal, suspension and cancellation of pilot licenses. Every pilot is required to pass CAAC-administered examinations before obtaining a pilot license and is subject to an annual recertification examination.

All aircraft operated by the PRC airlines, other than a limited number of leased aircraft registered in foreign countries, are required to be registered with CAAC. All aircraft operated by the PRC airlines must have a valid certificate of airworthiness, which is issued annually by CAAC. In addition, maintenance permits are issued to a PRC airline only after its maintenance capabilities have been examined and assessed by CAAC. Such maintenance permits are renewed annually. All aircraft operated by the PRC airlines may be maintained and repaired only by CAAC-certified maintenance facilities, whether located within or outside China. Aircraft maintenance personnel must be certified by CAAC before assuming aircraft maintenance posts.

Security

CAAC establishes and supervises the implementation of security standards and regulations for the PRC commercial aviation industry. Such standards and regulations are based on the PRC laws, as well as standards developed by international commercial aviation organisations. Each airline and airport in China is required to submit to CAAC an aviation security handbook describing specific security procedures established by such airline or airport for the day-to-day operations of commercial aviation and procedures for staff training on security. Such security procedures must be based on relevant CAAC regulations and international commercial aviation treaties. the PRC airports and airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements.

Noise and environmental regulation

All airlines in China must comply with the noise and environmental regulations of the PRC State Environmental Protection Agency. Applicable regulations of CAAC permit the PRC airports to refuse take-off and landing rights to any aircraft that does not comply with noise regulations.

The PRC airport policy

CAAC supervises and regulates all civilian airports in China. Local governments of the PRC manage the administration of most civilian airports in China, with limited exceptions. Airports in China are also subject to regulation and ongoing review by CAAC, which determines take-off and landing charges, as well as charges for the use of airports and airport services.

DESCRIPTION OF THE ISSUER

Formation

The Issuer is an "existing company" (CR No. 1611211) under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and was incorporated in Hong Kong on 2 June 2011 as a limited liability non-private company under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force before 3 March 2014. Its registered office is Rooms 1105-12, 11th Floor, Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong. The Issuer is a wholly-owned subsidiary of the Company.

Corporate activities

As of the date of this Offering Circular, the Issuer did not have any material business and had not entered into any material contracts other than in connection with a series of bond offerings and investing activities.

The Issuer issued CNY1,000,000,000 6.00% guaranteed bonds due 2014 in September 2011, CNY500,000,000 5.25% guaranteed bonds due 2015 in January 2012 and USD500,000,000 3.625% credit enhanced bonds due 2020 in February 2013. Pursuant to the terms and conditions of the CNY500,000,000 5.25% guaranteed bonds due 2015, the bondholders had the option to require the Issuer to redeem all the bonds at a price equal to the principal amount together with the accrued interest on 20 January 2013, the first anniversary of the issuance of the bonds. As the bondholders exercised this option, the Issuer paid an aggregate amount of approximately CNY513,305,000 to the bondholders on 20 January 2013 in full redemption of these bonds.

The Issuer acquired a 19.02% shareholding in HKA Group Holdings Company Limited ("HKAGH"), which is now the parent of Hong Kong Airlines Limited and Hong Kong Express Airways Limited, at a price of CNY842,000,000 in December 2011 through its wholly-owned subsidiary, Hainan Airlines Investment Holding Co., Limited ("HAIH"). The Issuer further acquired an additional 8.00% shareholding in HKAGH at a price of USD152,000,000 in June 2013 through HAIH. As of the date of this Offering Circular, the Issuer has a 27.02% shareholding in HKAGH.

Hong Kong Airlines Limited is a full service airline incorporated and based in Hong Kong. As of 31 December 2013, it operated a fleet of 20 aircraft, offering scheduled passenger service to 22 destinations and cargo service to 12 destinations across the Asia-Pacific. It has been awarded a 4-Star airline rating by Skytrax since 2010. As of 31 December 2013, Hong Kong Express Airways Limited operated a fleet of five aircraft, serving nine destinations. The Group believes that these investments by the Issuer can help the Group build its core business, market share and competitiveness. The Issuer currently does not have any representation on the board of Hong Kong Airlines Limited or Hong Kong Express Airways Limited and is not involved in their management or business operations.

The Issuer acquired a 9.87% shareholding in Hong Kong International Aviation Leasing Co., Ltd. ("HKIAL") at a price of USD50,000,000 in June 2013. HKIAL was incorporated in 2007. Its main business covers the leasing of aircraft, engines, equipment, ships and yachts.

As of the date of this Offering Circular, the Issuer did not have any employees.

In the future, the Issuer may engage in business in Hong Kong and Macau, including import and export trading, equipment leasing, information technology services, high technology development and capital financing, and may incur substantial liabilities and indebtedness.

Directors and officers

The directors of the Issuer are Li Tie, Wang Ying Ming, Chen Ming, Wang Hao and Xu Zhou Jin. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer.

Issued Shares

The Issuer does not have an authorised share capital. As of the date of this Offering Circular, the paid-up share capital of the Issuer is HKD70,200,000.

As of the date of this Offering Circular, the Issuer has 70,200,000 fully paid shares issued and outstanding, all of which are held by the Company. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Financial information of the Issuer

The Issuer has prepared its financial statements as of and for the period from 2 June 2011 (date of incorporation) to 31 December 2013.

DESCRIPTION OF THE GROUP

Overview

The Group is a leading provider of air passenger, air cargo and airline-related services in China. It is the fourth-largest airline in China in terms of fleet size, revenue and number of passengers carried in 2013. As of 31 December 2013, the Group provided scheduled domestic, regional and international services using a hub and spoke strategy on 622 routes to 89 cities in 10 countries. In addition to its main route bases in Haikou and Beijing, the Group has established seven route bases in Xi'an, Taiyuan, Urumqi, Guangzhou, Lanzhou, Dalian, and Shenzhen, as well as an extensive network across China, and connecting locations in Asia-Pacific, Europe and North America.

The Group is one of seven airlines in the world ranked as a 5-Star airline by the independent airline benchmarking firm Skytrax in 2013. The first and only PRC airline to receive this rating, the Group received the rating for a third consecutive year. The Group has been well-recognised for its service quality by independent awards and surveys of air travellers, in particular for its highly trained employees, advance seat assignments, expedited check-in, attention to customer needs, frequent flyer programme, well-maintained aircraft and other amenities.

In addition to passenger services, the Group provides cargo and mail services through bellyhold space of its passenger aircraft. It also leases out a total of 54 aircraft to other HNA Group affiliated airline companies, and provides other airline-related services, including property leasing, lodging, catering, ticketing and ground services in Beijing, Haikou, Xi'an and other locations through its subsidiaries.

The Group has a fleet primarily comprising Boeing 737-800 aircraft, along with Boeing 787-8, Boeing 767-300, Boeing 737-700, Boeing 737-400, Airbus A340-600, Airbus A330-300, Airbus A330-200 and Airbus A330-200VIP aircraft for passenger and cargo transportation. As of 31 December 2013, the Group operated a fleet of 131 aircraft, serving 75 domestic and regional and 14 international destinations. In 2011, 2012 and 2013, the Group carried approximately 20.49 million, 22.55 million and 26.26 million passengers and had a RPK of 35,744.40 million, 39,063.44 million and 45,489.19 million, respectively.

The Group has experienced significant growth in both passenger and cargo traffic and has an established track record of improving financial performance. In 2011, 2012 and 2013, the Group's consolidated total revenue was RMB26,273.25 million, RMB28,867.59 million and RMB30,231.36 million, respectively, and its net profit attributable to equity shareholders was RMB2,631.31 million, RMB1,927.79 million and RMB2,105.05 million, respectively. The Group's consolidated total revenue and net profit attributable to equity shareholders increased by 4.72% and 9.20%, respectively, in 2013, despite an industry-wide slowdown in growth in the same period.

History and development

The Company's predecessor Hainan Provincial Airlines was established in October 1989 by the Hainan provincial government, as a government initiative to promote the development of Hainan, a then newly established island province, and the largest special economic zone in China. Following a restructuring in January 1993, Hainan Provincial Airlines became China's first joint-stock air-transport company and began scheduled services on 2 May 1993.

In 1995, Hainan Provincial Airlines was approved by the Ministry of Foreign Trade and Economic Cooperation to issue 100,040,001 shares to American Aviation LDC, an entity then ultimately controlled by George Soros' Quantum Fund, raising approximately USD$25.00 million and becoming China's first joint venture airline.

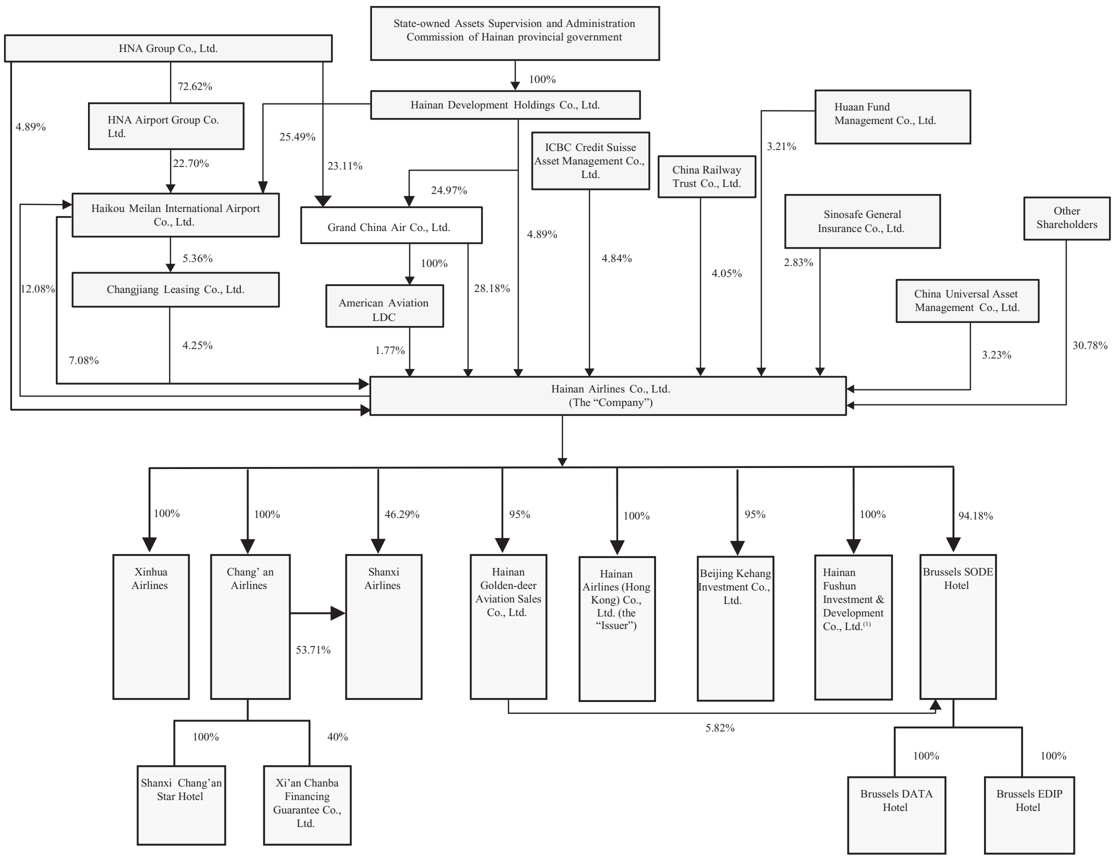
In 1996, Hainan Provincial Airlines was renamed Hainan Airlines.

In 1997, the Company completed a public offering of 71,000,000 shares quoted in U.S. dollars in the form of B Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. Subsequently, in 1999, the Company completed a public offering of 205,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. In August 2012, the Company completed a private placement of 1,965,600,000 new ordinary domestic shares in the form of A shares in the PRC. In June 2013, the Company increased its share capital by 6,091,090,895 shares by capitalisation from its capital surplus. As of 31 December 2013, the Company had a total issued share capital of 12,182,181,790 shares and its market capitalisation was RMB24,594.26 million (including RMB23,600.00 million in terms of its A Shares and USD164.34 million in terms of its B Shares converted at an exchange rate of RMB6.0537 to USD1.00 on 31 December 2013 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States).

As part of the PRC government's industry consolidation plan, the Group was given approval by CAAC in 2000 to reorganize Chang'an Airlines, a local airline operated by the Shaanxi provincial government, and was approved by CAAC in 2002 to reorganize Xinhua Airlines, a government airline operated by China Aviation Service Limited serving solely the PRC National Economic Commission and the Disciplinary Commission of the Communist Party of China, and Shanxi Airlines, a local airline operated by the Shanxi provincial government. In 2002, the Group was approved by CAAC to operate the Company and its three subsidiary airlines under the uniform code "HU".

Corporate structure

The following chart sets forth the organisational structure of the Group, its principal shareholders and its principal subsidiaries as of 31 December 2013:



Note:

(1) as of the date of this Offering Circular, the Group has not completed the registration of its equity interest in Hainan Fushun Investment & Development Co., Ltd.

Recent developments

On 30 April 2014, the Group published (in the Chinese language only) its unaudited consolidated financial statements (the "31 March 2014 Financial Statements") as of and for the three month period ended 31 March 2014 (with the inclusion, for comparison purposes, of similar information as of and for the three month period ended 31 March 2013) in accordance with PRC Accounting Standards and its obligations under the listing rules of the Shanghai Stock Exchange. These financial statements were prepared by the Company's management and approved by the Board of Directors, but were not reviewed, audited or verified by PwC ZT, auditor of the Company, or any other person, and are not directly comparable to the Company's annual audited consolidated financial statements. Consequently, the 31 March 2014 Financial Statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Company's financial condition and results of operations. The 31 March 2014 Financial Statements should not be taken as an indication of the expected financial condition or results of operations of the Company for the full financial year ending 31 December 2014.

In the 31 March 2014 Financial Statements, the Group reported an increase in revenue during the three month period ended 31 March 2014 as compared to the same period in 2013. The increase in the Group's revenue in its air passenger, air cargo and other airline related business operations was due primarily to an increased number of passengers as a result of growing demand for aviation services generated by the continued growth of the PRC economy, as well as an increase in passenger travel induced by the policy of the MOF establishing Hainan province as a pilot duty-free tourism destination. Corresponding to the increase in the Group's revenue, the Group's operating costs also increased during the period ended 31 March 2014 as compared to the same period in 2013. Nevertheless, the increase in operating costs was slightly lower than revenue growth on a percentage basis due primarily to a slight decrease in aviation fuel costs during the period. The Group reported an increase in operating profit during the three month period ended 31 March 2014 as compared to the same period in 2013, due to the above reasons, but offset in part by the Group's significant increase in finance expenses resulting from exchange losses caused by the devaluation of the Renminbi during the period. The Group reported a slight decrease in total profit during the three month period ended 31 March 2014 as compared to the same period in 2013, due primarily to a decrease in the local government's subsidies granted to the Group as a result of the new PRC policy to replace the business tax with a value-added tax during the period. The Group's net profit also decreased during the three month period ended 31 March 2014 as compared to the same period in 2013, primarily for the foregoing reasons and due also to an increase in the Group's income tax expenses. Income tax expenses increased, despite the decrease in total profit, due to the increased profitability of the Group's taxable air passenger, air cargo and other airline related business operations.

Competitive strengths

The Group's primary business strengths in the commercial aviation industry include the following:

High operational efficiency, strong profitability and young fleet

The Group's revenue increased by 4.72%, from RMB28,867.59 million in 2012 to RMB30,231.36 million in 2013, and its net profit attributable to equity shareholders increased by 9.20%, from RMB1,927.79 million to RMB2,105.05 million over the same period. The Group achieved a record high operating margin of 7.50% in 2013. Despite an industry-wide slowdown in growth in 2013, the Company's profitability remained among the highest of all major PRC airlines. Based upon the publicly available information, the Group was the best performing airline in terms of operating profit margin among all major PRC airlines in 2013 and for the past ten years.

The Group has improved financial performance and lowered its operating costs in large part due to its high operational efficiency, passenger load factor and aircraft utilisation rate. In 2011, 2012 and 2013, respectively, the Group maintained high operating efficiency with a relatively low 79, 81 and 79 employees per aircraft, respectively. The Group achieved passenger load factors of 84.21%, 84.44% and 86.45% in 2011, 2012 and 2013, each number the highest figure reported by major PRC airlines for the same periods. The Group achieved aircraft utilisation of 9.81 hours, 9.90 hours and 10.24 hours per aircraft per day in 2011, 2012 and 2013, respectively, among the highest reported by major PRC airlines, compared with the PRC industry average of 9.15 hours per aircraft per day.

The Group's strong profitability also derives from its dominant position in Hainan related routes and minimal route overlaps with other PRC airlines and high-speed railways. Unlike other three major PRC airlines, which compete fiercely as many of their routes are overlapping, the Group has minimal route overlaps with other PRC airlines. Among all the PRC airlines, the Group has a major market share in the domestic, international and regional routes to and from Hainan province. In 2011, 2012 and 2013, the Group had an approximately 46.76%, 46.10% and 48.20% market share of total passenger throughput at Haikou Meilan International Airport and Sanya Phoenix International Airport, respectively. The Group carried approximately 4.77 million, 5.00 million and 5.95 million passengers to and from Hainan province, respectively, in 2011, 2012 and 2013, accounting for 23.28%, 22.17% and 22.66% of its total carried passengers for the same period. As China's southernmost and only tropical island-based province, Hainan province has become one of the most popular vacation destinations in Asia, attracting both international and domestic tourists. The Group's leading position in Hainan province enables it to benefit from the fast-growing demand for aviation services to and from Hainan province. See "– Well-positioned to benefit from the development of Hainan as an international tourist destination and strong sponsorship from shareholders". In addition, according to industry consensus, airlines are more competitive on long-haul routes, while high-speed railways are more competitive on short-haul routes. The Group believes that it will be the least affected airline by high-speed railways among all PRC major airlines as its long haul routes originating from its nine route bases, together with its routes originating from Hainan Island, constitute a majority of its domestic routes. Further, only a limited number of the Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. See "– Competition". As a result, despite an industry-wide slowdown in growth in 2013, the Company's profitability remained among the highest of all major PRC airlines.

The Group's route network and relationships with airports have further helped improve its financial performance. The Group's domestic route network reaches all first tier PRC cities and is expanding to the second and third tier high-growth cities, growing into one of the largest networks in the country. The Group's international network is fledgling with a growing number of international routes and differentiating services. The Group strives to form long-term partnerships with the airports in its major route bases (such as Beijing, Haikou and Sanya), which have increased the Group's control over and flexibility of operating its routes, making flight changes and providing customer services.

The Group has one of the youngest fleets among the major PRC airlines, with an average aircraft age of 4.92 years as of 31 December 2013. Generally, a more youthful fleet corresponds to higher performance reliability, greater fuel efficiency and lower maintenance costs, as compared to airlines with an older fleet. The Group's fleet primarily comprises Boeing 737-800 aircraft. Boeing aircraft have a strong track record of reliability in high-frequency operations. In addition, having a standardised fleet reduces the Group's inventory costs, as it requires smaller inventories for spare parts, and reduces the need to train the Group's pilots to operate different types of aircraft. A standardised fleet also reduces maintenance costs and operation-related processes.

Strong brand recognition, high-quality service and excellent safety record and standards

Although the Group has a shorter operating history than many other major PRC airlines, the Group enjoys strong domestic and worldwide brand recognition. In 2011, the Group became one of seven airlines in the world and the first and only airline in the PRC to receive the Skytrax 5-Star Airline certification, a rating that an airline receives in recognition of its front-line product and service quality. A 5-Star rating means that the Group provides the highest standard of service across all travel categories and meets the highest qualifying standards of services both on-board and at airports. The Group received the Skytrax 5-Star Airline certification for a third time in April 2013, becoming one of only seven global winners in the year. In addition, in June 2013, the Group was awarded the "Best Airline in China and Outstanding Service Award for China" by Skytrax for a fourth consecutive year. Further, the Group is the only PRC airline to have received the "Civil Aviation Customer Satisfaction Quality Award" from CAAC for a tenth consecutive year.

In October 2013, the Group was awarded "Asia's Leading Airline Economy Class" by the World Travel Awards ("WTA") and in November 2013, the Group was further awarded "World's Leading Airline Economy Class" by the WTA. Also, in November 2013, the Group was awarded "Mercury Award" in "On Board Service Category" by the International Travel Catering Association ("ITCA"). In December 2013, the Group was awarded the "Best Airline in China" by Global Traveller and Premier Traveller. In addition, in December 2013, the Group was awarded "2013 China Best Employer Award" by Peking University's Corporate Social Responsibility and Employer Brand Communication Research Center and Zhaopin.com, one of the leading human resource solutions providers in China. In February 2014, the Group was awarded the "Best Airline Service in China" by the travel channel of People.com.cn, China Tourism Academy and Tourism Tribune.

The Group was named as one of China's Top 50 Brands in 2011 and ranked 46th with a brand value of USD427.00 million by Millward Brown Optimor, a global research agency analysing the world's leading brands. The Group improved to a ranking of 41st in December 2012 with a brand value of USD524.00 million, a 23.00% increase. In December 2013, the Group was again named as one of China's Top 50 Brands by Millward Brown Optimor.

The Group has established a strong safety record during its 20 years of operation, during which it has flown over 4.12 million accumulated safe block hours and transported over 207.07 million passengers. There have been no significant incidents involving casualty or flight damage in the Group's operations since they commenced. The Group has also kept the number of minor incidents (including various events and conditions prescribed by CAAC and not involving serious personal injury or material damage to flight equipment) consistently below the standard prescribed by CAAC. For example, the Group's "Accidents Per Ten Thousand Hours Ratio" has been less than 0.1 since it started operations in 1993. In comparison, CAAC's published maximum acceptable Accidents Per Ten Thousands Hours Ratio is 0.6. The Group has been awarded the "Golden Eagle Award" and "Golden Roc Award" for airline safety , both of which are the highest civil aviation safety awards from CAAC, several times. It received the 1-Star Civil Aviation Safety Award from CAAC in 2007 for its 15 years of operations flying over 1.66 million safe block hours and the 3-Star Civil Aviation Safety Award in 2011 for its 18 years of operations flying over 3.00 million safe block hours. In January 2014, it received the 4-Star Civil Aviation Safety Award from CAAC. The Group was also a pilot airline selected by CAAC to adopt the Safety Management System ("SMS") in 2005, a safety standard widely used throughout the aviation industry worldwide. The Group is currently a model airline for other PRC airlines to study as CAAC gradually phases in the SMS for all PRC airlines.

The Group's high safety standards were recognised in 2005, when the Group passed the IATA Operational Safety Audit ("IOSA"), an auditing standard focusing on key aspects of airlines and airline support operations. In January 2012, the Group was ranked the fifth safest airline in the world and the safest PRC domestic airline by the German aviation accident investigation agency Jet Airliner Crash Data Evaluation Centre ("JACDEC"), which published its aviation safety ranking in Aero International, a German aviation industry journal. The Group was again ranked as one of the world's top fifteen safest airlines and the safest PRC domestic airline by JACDEC in January 2014. See "– Safety".

Well-positioned to benefit from the development of Hainan as an international tourist destination and strong sponsorship from shareholders

As China's southernmost and only tropical island-based province, Hainan province has become one of the most popular vacation destinations in Asia, attracting both international and domestic tourists. In 2013, the island received approximately 36.73 million visitors from all over the world. In early 2011, the State Council of the PRC announced plans to transform Hainan province into an international resort destination by 2020. To facilitate the development of Hainan as an international tourism destination, the 12th Five-Year Plan issued by the PRC National People's Congress includes a plan to reconstruct and expand Haikou Meilan International Airport and Sanya Phoenix International Airport by 2015. In addition, the Ministry of Finance of the PRC has issued a policy establishing Hainan province as a pilot duty-free tourism destination for international and domestic tourists to shop for imported goods. This duty-free scheme was officially launched in January 2011 for international tourists and in April 2011 for domestic tourists. In connection with the scheme, the finance department of Hainan province issued a tax refund letter to the Group in 2011, as a result of which the Group received a tax refund of RMB70.00 million for that year.

The Group had an approximately 46.76%, 46.10% and 48.20% market share of total passenger throughput at Haikou Meilan International Airport and Sanya Phoenix International Airport in 2011, 2012 and 2013, respectively. The Group's leading position in Hainan province enables it to benefit from the fast-growing demand for aviation services to and from Hainan province.

The Group has received substantial support from its significant shareholders, including its beneficial shareholders HNA Group and the Hainan provincial government. The Group is one of the largest enterprises in Hainan province in terms of revenue and tax contribution. Hainan Development Holdings Co., Ltd., a wholly owned subsidiary of the State-owned Assets Supervision and Administration Commission of the Hainan provincial government, is a shareholder of the Company, as well as a significant shareholder holding 24.97% of the share capital of Grand China Air Co., Ltd. As the ultimate shareholder of the Group, the Hainan provincial government's policies favour the growth of the Group as the dominant for airline Hainan province given its current focus to promote Hainan as an international resort destination. In 2010, Hainan Development Holdings Co., Ltd, further contributed RMB1.50 billion to the Company through its subscription of 297,619,047 additional A Shares.

HNA Group is a large conglomerate whose core business sectors include air travel, logistics and financial services. Through a variety of means, HNA Group has provided the Group with both strategic benefits and operating efficiency. The Group will develop new routes exploiting the existing route network of HNA Group and has entered into codeshare agreements with affiliated airlines under HNA Group, so as to further expand its route network and distribution channels within China. For example, Grand China Airlines and its subsidiaries under HNA Group have together been the primary provider of feeder line air passenger services in China. Through cooperation with Grand China Airlines and its subsidiaries, the Group is able to access the fast-growing feeder line transfer markets. In addition, the Group is also able to take advantage of HNA Group's airline-related businesses such as aircraft maintenance services, aircraft equipment and spare parts procurement, and crew training programmes. The Group is able to phase out its older model aircraft which no longer meet its requirements for passenger services, by selling or leasing those aircraft to affiliated cargo service companies under HNA Group. Through cooperation with affiliated airlines and other entities under HNA Group, the Group is also able to modernise and rationalise its fleet at a lower cost, centralise the procurement and inventory management of aircraft components and integrate maintenance resources. HNA Group also has controlling or substantial interests in 13 airports, including Haikou Meilan International Airport and Sanya Phoenix International Airport. As a result of its coordination with HNA Group, the Group has been able to improve its operating efficiency and to achieve better financial performance.

Multiple financing channels and improved financial and liquidity position

The Group believes that a strong liquidity and cash position is critical to its success. It has strived to maintain strong relationships with the major PRC banks including China Development Bank, the Export-Import Bank of China, Bank of China, Industrial and Commercial Bank of China Limited, China Construction Bank, Agricultural Bank of China, Bank of Communications, Beijing Rural Commercial Bank and China Everbright Bank. It has transacted business with the major aircraft lease financing companies including ILFC, GE Capital Aviation Services, Aviation Capital Group, Aircastle, BOC Aviation, CIT and HKAC. As the first PRC airline to issue bonds guaranteed by the Export-Import Bank of the United States, it has completed 12 issues of its bonds in United States bond markets since 2000. The Group has been able to take advantage of the multiple financing channels available to the Company and the Issuer in and outside of the PRC, through which it has improved its capital structure and lowered financing costs.

The Group's financial and liquidity position have improved significantly since 2010. In May 2011, the Company issued five year corporate bonds and ten year corporate bonds in the PRC, which have been listed on the Shanghai Stock Exchange, in an aggregate amount of CNY5,000,000,000. In August 2012, the Company completed a private placement of 1,965,600,000 new ordinary domestic shares in the form of A shares in the PRC, raising approximately RMB8.00 billion. In April 2014, the Company further issued CNY400,000,000 one year short-term financial notes in the PRC. The Issuer further issued CNY1,000,000,000 and CNY500,000,000 guaranteed bonds outside of the PRC in 2011 and 2012, respectively. The bondholders of CNY500,000,000 guaranteed bonds exercised their option to require the Issuer to redeem their bonds. The Issuer paid an aggregate amount of approximately CNY513,305,000 to the bondholders on 20 January 2013 in full redemption of these bonds. The Issuer further issued USD500,000,000 credit enhanced bonds outside of the PRC in 2013.

The Group's gearing ratio (defined as Total Debt divided by total assets) was 62.85%, 54.98% and 59.09% as of 31 December 2011, 2012 and 2013, respectively. The Group's total cash at bank and on hand was RMB19,060.58 million, RMB22,312.40 million and RMB20,664.83 million as of 31 December 2011, 2012 and 2013, respectively. As of 31 December 2013, the Group's unused revolving line of credit granted by PRC banks is approximately 48.48 billion.

The Group is also committed to having sufficient cash and cash equivalents to repay any significant financial debt coming due within a three-year horizon. In this regard, the Group believes that a prudent capital structure and a strong balance sheet, combined with its operating cash flow generation, will improve its operational flexibility to allow rapid responses to market changes and exploration of new opportunities.

Experienced and innovative management team

The core members of the Group's senior management team have been in the aviation industry for over 20 years on average and each has extensive experience in both airline managerial and operating roles. See "Directors and Management". The Group's senior management team has created a modernised management system by employing advanced technologies and experience, and has a proven track record of sound decision-making which helped transform the Group from a small regional airline to a profitable and well known national airline.

Business strategies

The Group aims to become the airline of choice in China and one of the world's most competitive airlines by enhancing its existing strengths, and by implementing the following strategies:

Maintain disciplined and rationalised fleet growth

To meet the expected growing demand for air travel, the Group plans to increase its total fleet to 181 aircraft by 2017 through its aircraft acquisition programme. See "– Fleet – Fleet Composition". The Group employs a disciplined fleet expansion strategy. The Group's goal is to react quickly to changes in the economic environment and market conditions so each aircraft it operates delivers high operating profitability. The Group intends to rationalise its fleet to focus on limited types of aircraft, engines and equipment and modernise its fleet. Rationalisation of the Group's fleet is one of the key elements of its business strategy in order to allow greater efficiencies and reduce operating costs. Having a standardised fleet reduces inventory costs, as it limits the required size of physical inventories, and reduces the need to train the Group's pilots to operate different types of aircraft. A standardised fleet also reduces maintenance costs and operation-related processes. Currently, the Group maintains a young fleet primarily comprising Boeing 737-800 aircraft. Boeing aircraft have a strong track record of reliability in high-frequency operations. The Group is scheduled to purchase 48 additional Boeing 737-800 aircraft from 2015 to 2017. The scheduled purchase of these aircraft will be monitored carefully while the Group expands its network in order to reduce the risk of over-expansion and undue exposure to market downturns. The Group expects to use its additional aircraft to add capacity on existing routes in both its targeted growth markets and its higher demand domestic routes, as well as to expand its network footprint. The Group also plans to replace older aircraft with new models, replacing a total of 29 aircraft from 2014 to 2017. In addition, the Group plans to carry out a reconfiguration and refurbishment programme to modernise its existing fleet, eliminate product inconsistencies and improve operational inflexibilities to further enhance the travel experience of its passengers.

Further expand core domestic and international route network

The Group intends to further expand its core domestic route network and to strengthen its leading position in Hainan province by continuing to optimise its route network structure. In particular, the Group plans to (i) increase and coordinate its fleet deployment in Haikou and Sanya to a size and structure necessary to satisfy the increasing market demand, (ii) expand its route network radiating from Hainan Island, (iii) centralise the allocation of its operating resources and (iv) optimise flight connections and improve ground services.

In addition, the Group plans to strengthen its leading position in strategically important regions and destinations by selectively establishing new route bases and introducing additional routes, both independently and through codeshare arrangements with external airlines and airlines affiliated with HNA Group, as well as overseas acquisitions and investments. For example, the Group intends to strengthen its route network coverage in western China and increase connections between eastern and western China to serve the increasing number of passengers resulting from the PRC government's "Develop-the-West" policy to advance economic development in western China. The Group plans to cooperate with HNA Group to build an extensive route network covering western China, through connecting the Group's two hubs in Xi'an and Urumqi with HNA Group's feeder line route network in that region and expanding the route network radiating from these two hubs. The Group intends to develop Guangzhou as its southern hub and expand its route network radiating from Guangzhou and Shenzhen. The Group intends to integrate its Beijing and Tianjin operations into hubs in central China. The Group is also contemplating ten routes connecting cities including Guangzhou, Shanghai, Shenzhen, Xi'an, Kunming, Chengdu, Chongqing and Urumqi.

In October 2012, the Company entered into a cooperative agreement to form a joint venture, Fuzhou Airlines Co., Ltd., with Fuzhou State Asset Investment Holdings Co. Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co. Ltd. The Company has agreed to invest a total of RMB1.20 billion in cash or in kind, or 60.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Fuzhou Airlines Co., Ltd. in February 2014. Expected to be formed before 11 February 2016, the joint venture is intended to utilise local aviation resources, expand local market share and build a strong service brand.

In February 2013, the Company entered into a framework agreement to form a joint venture, Urumqi Airlines Co., Ltd., with Urumqi City Construction Investment Co., Ltd. The Company has agreed to invest a total of RMB2.1 billion in cash or in kind, or 70.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Urumqi Airlines Co., Ltd. in November 2013. Expected to be formed before 17 November 2015, the joint venture is intended to promote the development of the civil aviation and tourism industries in Xinjiang area.

The Group intends to further expand its international route network, especially the routes to Southeast Asia, Europe and North America, in the next five years. The Group also intends to further develop Beijing as a key international hub for its flights to Southeast Asia, Europe and North America. As China's capital city, Beijing is China's political centre and one of its most important economic and cultural centres. Beijing Capital International Airport is China's busiest air hub and one of its most important aviation gateways. In addition to Beijing, the Group intends to develop Urumqi as another key international departure base in western China, connecting its domestic routes to major cities in northern, southern and eastern China and its international routes to former Soviet countries. In October 2012, HNA Group took a 48.00% stake in Aigle Azur, a French airline, at a price of USD40.00 million. By having an interest in a French airline, HNA Group hopes to open services between France and the PRC, which HNA has been unable to do as a result of PRC restrictions that limit the number of local carriers on intercontinental routes. The Group intends to exploit this resource to further expand its international routes. The Group and Aigle Azur have planned to add a codeshare route between Beijing and Paris with three scheduled flights every week in June 2014, which will be operated by Aigle Azur.

Continue development into a premium brand airline, to capture a greater share of premium passenger traffic

The Group aims to continue to evolve into a premium brand airline by maintaining its safety track record, improving on-time performance and differentiating its products and services. The Group's goal is to deliver friendly, professional and "best-in-class" service on a consistent basis to all its customers. Specifically, the Group plans to optimise its fleet deployment and streamline check-in and other ground services. For certain long-haul routes, the Group plans to reconfigure its first-class and business-class cabins by installing larger and more comfortable seats and upgrading the in-flight entertainment system. The Group will continuously strive to improve overall cabin service by emphasising training for and enhancing the communication skills of its flight crews. The Group will also continue to adhere to recognised industry standards and procedures for aircraft maintenance. The Group aims to create a widely recognised brand that is distinguished from its competitors and associated with a safe and reliable airline focused on customer services and high quality travel experiences.

The Group believes that customer recognition will be the key for it to use its brand power in marketing efforts and position itself to be a preferred partner with business travellers. The Group plans to continue to seek ways to improve its business-class travel experience as this customer segment plays an important role in maintaining profitability. The Group plans to place further emphasis on delivering enhancements and travel preferences that business travellers value most as well as identifying areas for further improvement.

Focus on cost discipline and routes with high profitability

The commercial aviation industry is characterised by high fixed costs. The Group believes that cost control and efficiency improvements are key to maintaining its competitiveness. The Group has adopted a performance improvement programme intended to reduce its operating costs, primarily by:

- further increasing aircraft utilisation by achieving better alignment: (i) between route structure and market demand; (ii) between fleet allocation and route networks; and (iii) between maintenance capabilities and fleet deployment; and

- optimising inventory levels for aviation spare parts and centralising its procurement activities.

The Group also plans to improve its profitability across its route network. In particular, the Group continuously analyses the profitability of each route, and selectively increases or reduces the number of flights to focus on higher margin routes. As of 31 December 2013, the Group provided regular scheduled domestic flights between Haikou and Beijing, and scheduled regional flights from several cities in mainland China to Taipei, each of which have a track record of profitability for the Group.

Continue to develop alliances with airlines affiliated with HNA Group and other airlines

The Group plans to exploit its own extensive PRC route network and take advantage of HNA Group's route network to offer connecting flights to and from destinations in the PRC not already served by the Group by way of codeshare agreements and special pro-rate agreements between the Company and HNA Group or other airlines. The Company plans to increase passenger traffic by increasing the number of PRC cities in its route network and attracting passengers who will be transiting from the major PRC cities served by the Group to other lower tier PRC cities on flights offered by HNA Group. Similarly, passengers arriving on domestic flights offered by HNA Group can then be served by the regional or international flights offered by the Group. The Group also plans to maximise its passenger traffic and aircraft utilisation by selectively expanding its regional and international network in coordination with the network of HNA Group. It also plans to take advantage of the route base currently operated in Hong Kong by HNA Group in addition to the nine route bases operated by the Group to achieve greater connectivity between the flight routes of the two groups. The Group believes that this will enable it to expand its customers' choices, increase consumers' brand awareness and increase its market share in the PRC and international markets.

In August 2012, the Company was authorised by its board and shareholders to hold the shares in several airlines on behalf of their beneficial owners, Grand China Air Co., Ltd. and HNA Group Co., Ltd. The Company will exercise shareholders' rights on their behalf and manage and operate these airlines for certain fees during the agreed periods. The airlines to be managed by the Company include Beijing Capital Airlines, West Air, Tianjin Airlines, HKAGH, Lucky Air and Grand China Airlines (only in respect of its aviation transportation business). The Company believes that the arrangements will help satisfy regulatory and governance requirements for the contribution of these interests to the Company in the future.

In May 2013, the Company subscribed for 1,200,000,000 new shares of Tianjin Airlines for RMB1,680,000,000 in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, the Company acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co., Ltd. at a price of RMB1,093,000,000 which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%. In November 2013, the Company announced that it intended to subscribe for RMB1,000,000,000 new shares of West Air in cash and upon this subscription increased its shareholding in West Air to 29.40%. In December 2013, the Company announced that it intended to acquire a 52.90% shareholding in Lucky Air from HNA Group Co., Ltd. at a price of RMB1,702,000,000 payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. As of 31 March 2014, the proposed investment in West Air had not been completed. In the future, the Group plans to develop West Air and Lucky Air into low-cost airlines to meet the increasing competition from alternative means of transportation, such as highways and railways. The Company has entered into or plans to enter into these investments to help the Group build its core business, market share and competitiveness and eliminate potential competition issues among the Group, Grand China Air Co., Ltd. and HNA Group Co., Ltd.. See "Principal Shareholders".

Business activities

The Group provides passenger, cargo and mail and aircraft leasing services and other airline-related services including property leasing, lodging, catering, ticketing and ground services.

Passenger services

The Group provides domestic, regional and international passenger services. Also, as of 31 December 2013, the Group operated charter flights to 40 domestic destinations and 38 international destinations for business, government, educational or tourist groups travelling to international, regional and domestic destinations. The Group determines its charter flight arrangements, including pricing and locations, primarily in accordance with market demand.

The Group's passenger services have historically provided its largest source of revenue.. In 2011, 2012 and 2013, the Group generated revenue of approximately RMB23,275.88 million, RMB25,794.03 million and RMB26,476.89 million, respectively, from its air passenger services, accounting for 88.59%, 89.35% and 87.58% of its total revenue for the same periods.

The following table sets forth certain passenger operating statistics of the Group by route for the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	**2012**	**2013**
	(RMB million)		
Passenger Revenue	23,275.88	25,794.03	26,476.89
Domestic	20,086.93	22,569.82	23,188.24
Regional (Taiwan)	205.30	251.87	280.79
International	2,983.65	2,972.34	3,007.86

The following table sets forth certain passenger operating statistics of the Group by route for the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	**2012**	**2013**
Passenger Traffic (in RPKs) (millions)	35,744.40	39,063.44	45,489.19
Domestic	30,024.10	33,317.05	39,268.89
Regional (Taiwan)	286.21	377.12	430.81
International	5,434.09	5,369.27	5,789.49
Passenger Capacity (in ASKs) (millions)	42,447.92	46,259.14	52,621.84
Domestic	34,652.59	38,931.71	44,899.84
Regional (Taiwan)	359.56	496.81	536.12
International	7,435.77	6,830.62	7,185.88
Passenger Load Factor (%)	84.21	84.44	86.45
Domestic	86.64	85.58	87.46
Regional (Taiwan)	79.60	75.91	80.36
International	73.08	78.61	80.57

Route bases

The Group operates most of its flights using a hub and spoke strategy through its nine route bases, including Beijing, Dalian and Taiyuan in north China, Haikou, Guangzhou and Shenzhen in south China, and Xi'an, Lanzhou and Urumqi in northwestern China. Each of the route bases is a hub for the Group to transfer its passengers and has facilities for the maintenance of the Group's aircraft and parking spaces exclusively used by the Group's aircraft. By providing services between these locations and other major cities in China, the Group believes that it will benefit from the level of development and growth opportunities in northern and southern China, and benefit from the increased passenger growth resulting from the PRC government's "Develop-the-West" policy to advance economic development in western China. The Group's aircraft used for regional operations are mainly maintained on these nine route bases, and the Group's sales offices are also based at each route base. The Group believes that its nine route bases enable it to coordinate flights and deploy its aircraft more effectively and to provide more convenient connecting flight schedules and access service and maintenance facilities for its aircraft.

Route network

As of 31 December 2013, the Group operated 622 routes consisting of 548 domestic routes, 12 regional routes and 62 international routes.

The Group has established a highly integrated, multiple-hub domestic route network, which allows it to offer frequent, non-stop flights between China's most important provincial capitals and major commercial cities. The Group also offers a large number of interconnections through its nine route bases linking city pairs with a combination of two or more flights with limited connecting or stop-over time. In addition, the Group's network allows it to increase the load factors on its most popular routes through offering stop-over rather than only direct flights. The Group's multi-hub domestic network allows it to build its flight routes to add destinations to cities that would not, individually, be economically viable to serve in the traditional point-to-point model, but become feasible to serve when added as additional points on its multi-stop route network.

With 62 existing international routes, the Group has built an international route network worldwide consisting of short- and medium-haul flights to Thailand, Singapore and Kazakhstan, and long-haul flights to the United States, Canada, Belgium, Germany, Russia and the Maldives. In order to expand the Group's international route network, the Group has entered into codeshare agreements with several international airlines, including American Airlines, Air Berlin, Brussels Airlines, Hong Kong Airlines, Korean Air, EVA AIR, UNI Air, Aigle Azur, S7 Airlines and Etihad Airways. Under the codeshare agreements, the participating airlines are permitted to sell tickets on certain international routes operated by the Group to passengers using the Group's codes. See " – Codeshare Agreements". Similarly, the Group is permitted to sell tickets for the other participating airlines using its "HU" code. The code sharing agreements help increase the number of the Group's international sales outlets.

The Group continually evaluates its network of domestic, regional and international routes in light of its operating profitability and efficiency. The Group seeks to coordinate flight schedules within the Group and with other airlines under HNA Group on shared routes to maximise load factors and utilisation rates. See " – Codeshare Agreements".

Domestic routes

The Group operates 548 domestic routes and has traditionally focused on short-haul (less than 800 kilometres) to medium-haul (from 800 to 1,500 kilometres) flights originating from its nine route bases. The Group provides scheduled service to 74 provincial capitals, major commercial cities and tourist destinations in China.

In addition, to avoid direct competition with its three major competitors in China, the Group has focused on developing its routes originating from the northwestern region in China, where its competitors have less coverage. For example, the Group has the most extensive route network originating from Lanzhou and Urumqi among all airlines in China with passenger load factor of 88.00% and 89.00% in 2013, the highest figure reported by all PRC airlines for such routes.

Regional routes

The Group services 12 regional routes providing scheduled service between Taipei and six cities in mainland China, namely Haikou, Beijing, Guangzhou, Xi'an, Dalian and Lanzhou, with approximately 14 scheduled flights per week.

Before 2008, direct flights between Taiwan and Mainland China were only available during certain holidays, and travellers between Taiwan and China have generally had to go through intermediate stops in Hong Kong or elsewhere. Since July 2008, however, the limitation on direct flights has been further eased to allow direct charter flights on weekends. The Company became the first PRC carrier to fly nonstop to Taiwan. On 4 November 2008, Mainland China and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On 31 August 2009, Mainland China and Taiwan increased the number of regular cross-Strait direct passenger flights from 108 to 270 per week. The 108 direct passenger flights previously operating were all charter flights. The new services comprise both regular charter and scheduled flights.

In order to further strengthen its presence in Taiwan, the Group opened a branch office in Taipei in 2008.

The map below sets out the Group's domestic and regional routes as of 31 December 2013:

HAINAN AIRLINES DOMESTIC & REGIONAL (TAIWAN) ROUTES

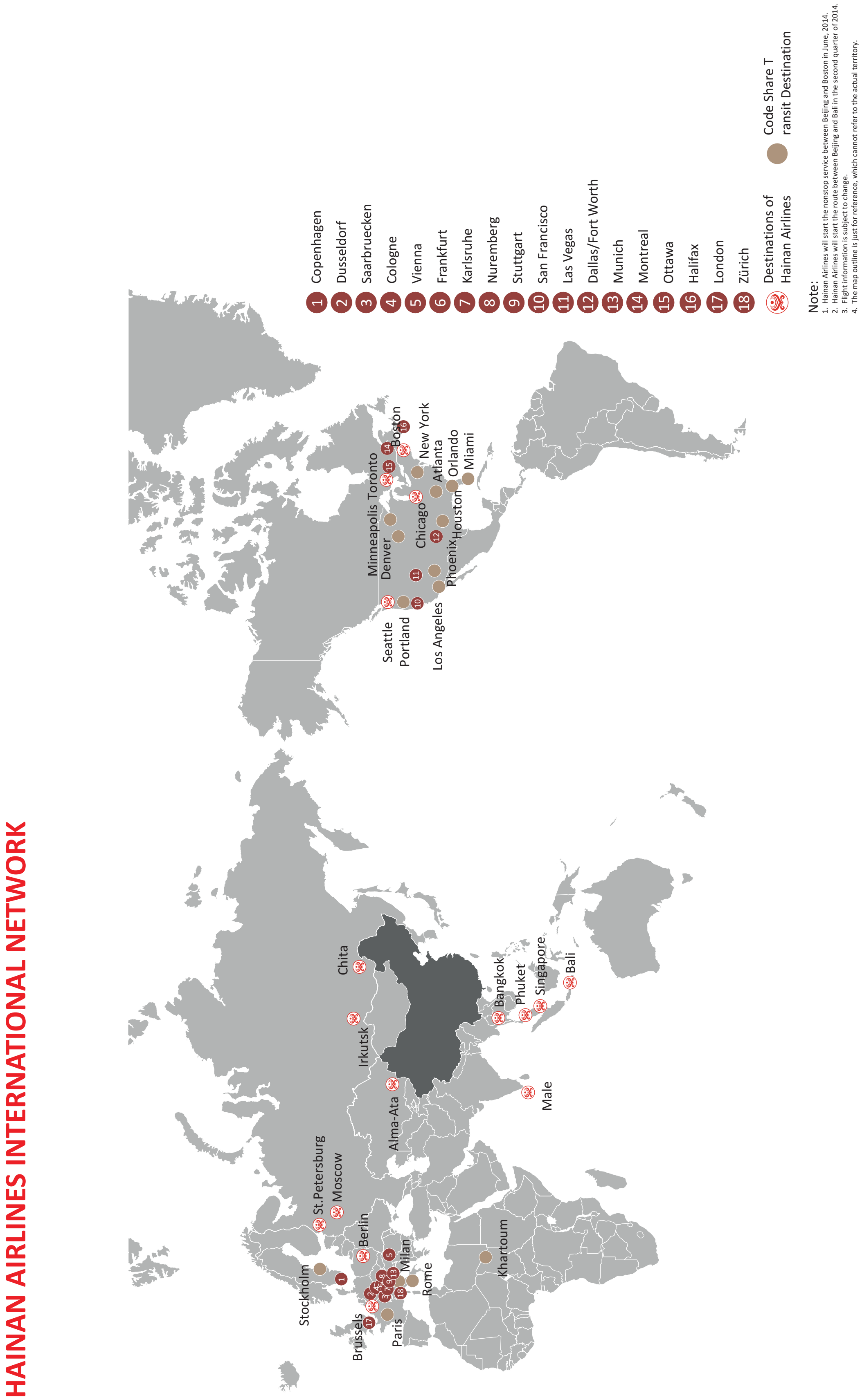
International routes

The Group services 62 international routes and operates approximately 160 scheduled international flights per week, serving 14 cities in nine countries.

The Group provides scheduled service to Europe between Beijing and Berlin and Brussels. The Group provides scheduled service to Southeast Asian destinations including Singapore and Thailand. The Group provides scheduled service to North American destinations including the United States and Canada. The Group also provides scheduled service to Russia and Kazakhstan. In addition, the Group provides scheduled service between Beijing and the Maldives.

The Group added one international route between Beijing and Chicago in 2013. The Group plans to add two international routes to provide scheduled service to Boston and Bali in 2014. The Group and Aigle Azur have also planned to add a codeshare route between Beijing and Paris with three scheduled flights every week in June 2014, which will be operated by Aigle Azur.

The map below sets out the Group's international routes as of 31 December 2013:



Cargo and mail

The Group's cargo and mail services are combined with passenger flight services as the Group does not own or operate any cargo freighters. Therefore, the Group's cargo route network overlaps with its passenger route network, serving 508 domestic cargo routes, 12 regional cargo routes and 34 international cargo routes.

At present, the Group conducts its cargo business primarily through its nine route bases. In 2011, 2012 and 2013, the Group generated revenue of RMB922.91 million, RMB934.11 million and RMB885.64 million, respectively, from its cargo and mail services, constituting 3.51%, 3.24% and 2.93% of its total revenue for the same period.

Aircraft leasing services

The Group has leased aircraft to airlines affiliated with HNA Group. As of 31 December 2013, in addition to its fleet of 131 aircraft, the Group leased 54 aircraft to other HNA Group affiliated airline companies. In 2011, 2012 and 2013, the Group generated revenue of RMB1,221.75 million, RMB1,192.90 million and RMB1,262.12 million, respectively, from its aircraft leasing services, constituting 4.65%, 4.13% and 4.17% of its total revenue for the same period. The Group plans to gradually phase out its aircraft leasing services to affiliated airlines as they become capable of purchasing aircraft on their own.

General aviation services and ancillary activities

In addition to its airline operations, the Group also generates commission revenue from tickets sold on behalf of other airlines. Commission rates for these sales are determined by CAAC and are based on the price of the tickets sold. In 1995, the Group acquired Hainan Golden Deer Aviation Sales Co. Ltd. to serve as its agent in collecting flight booking fees. In 2011, 2012 and 2013 the Group generated commission revenue of RMB36.63 million, RMB39.80 million and RMB46.79 million, respectively, from its flight booking business.

The Group also derives revenue from the provision of airport ground services for other airlines operating to or from its nine route bases, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present, the Group is the principal provider of these services at Haikou Meilan International Airport, Xi'an Xianyang International Airport and Sanya Phoenix International Airport. The Group provides these services to foreign carriers generally pursuant to one-year renewable contracts. In 2011, 2012 and 2013 the Group generated revenue of RMB28.33 million, RMB41.59 million and RMB56.85 million, respectively, from its airport ground services and cargo handling services.

The Group conducts real estate related business, including the provision of property leasing, lodging and catering services through its subsidiaries including Beijing Kehang Investment Co., Ltd, Brussels DATA Hotel, Brussels EDIP Hotel, Brussels SODE Hotel and Shaanxi Chang'an Star Hotel. Beijing Kehang Investment Co., Ltd. holds certain real estate properties in Beijing and has leased such real estate properties to Marriott as a luxury hotel. In October 2013, the Group acquired a 100% shareholding in Hainan Fushun Investment & Development Co., Ltd., which holds certain real estate properties in HNA Plaza, the Group's headquarter in Haikou, with an aggregate gross floor area of approximately 41,257.46 square meters. The Group is currently in the process of registering its equity interest in such company. The Group generated revenue of RMB348.66 million, RMB397.14 million and RMB385.51 million from its real estate related business in 2011, 2012 and 2013, respectively.

In 2011, 2012 and 2013, the Group generated revenue of RMB852.70 million, RMB 946.55 million and RMB 1,606.71 million, respectively, from its other businesses (excluding its passenger services, cargo and mail services and aircraft leasing services), accounting for 3.25%, 3.28% and 5.31% of its total revenue for the same period.

Operations

Flight scheduling

The Group's marketing and sales department formulates flight schedules to meet market demands for various routes. Consistent with market practice and with IATA guidelines, the Group publishes summer and winter schedules each year. The winter schedule runs from the last Sunday of October to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October of each year. From time to time, the Group also makes adjustments to the flight frequency and type of aircraft utilised on scheduled routes based on anticipated seasonal demand.

Flight operations

The Group's operations and control centre supervises and controls its flight activities in accordance with its flight operation schedules. The centre collects and analyses information relating to the projected payload, the weather condition and status of aircraft equipment; approves flight dispatches; and coordinates necessary ground services. The centre monitors flights by radio communications and air-to-ground datalink communications. In the event of irregular flights (flights that are cancelled or delayed or that land at alternative airports), the centre may adjust flight schedules, combine flights and, if necessary, cancel flights.

On-time departure and arrival are important to customer satisfaction, the Group's brand reputation and cost control. According to data published by CAAC, the Group's average on-time departure rate was 74.74%, 70.44% and 69.47% compared with the PRC industry average of 77.15%, 74.83% and 72.34% in 2011, 2012 and 2013, respectively. In the same periods, 9.84%, 11.78% and 11.88% of the Group's flight irregularities were attributable to factors within its control (such as flight scheduling, mechanical incidents and passenger services) compared with the PRC industry average of 8.78%, 9.68% and 10.34%, respectively. Also in 2011, 2012 and 2013, 15.42%, 17.78% and 18.65% of the Group's flight irregularities were due to factors beyond its control (such as poor weather, airport congestion, limitations of airport facilities, air traffic control and no-flight orders) compared with the PRC industry average of 14.06%, 15.49% and 17.32%, respectively.

Aviation fuel

Aviation fuel costs typically represent a major component of an airline's operating costs. The Group's aviation fuel costs were RMB8,264.50 million, RMB9,403.08 million and RMB9,550.18 million in 2011, 2012 and 2013, respectively, accounting for 42.39%, 43.62% and 40.64% of the Group's operating costs for the same period, respectively. Like all PRC airlines, the Group is generally required by the PRC government to purchase its aviation fuel requirements from regional branches of CAOSC and Bluesky Oil Supplies Company, except at the Shenzhen, Zhuhai, Sanya, Haikou, and Shanghai Pudong airports, where aviation fuel is supplied by Shenzhen Chengyuan Oil Company, Pacific Oil Co., Ltd. and Shanghai Pudong Airport Oil Company, each a Sino-foreign joint venture in which CAOSC is a joint venture partner. CAOSC is a state-owned organisation controlled and supervised by CAAC that controls the importation and distribution of aviation fuel throughout China.

Aviation fuel obtained from CAOSC's regional branches and its joint ventures is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of CAAC and the pricing department of the NDRC based on market conditions and other factors. As a result, the costs of transportation and storage of aviation fuel in all regions of China are spread among all domestic airlines. Aviation fuel costs in China are influenced by costs at state-owned oil refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China.

In addition to purchases of aviation fuel from CAOSC, the Group is also permitted by the PRC government to purchase a portion of its aviation fuel requirements for its international flights from foreign fuel suppliers located outside China at prevailing international market prices. Aviation fuel purchased from such sources outside China were RMB1,608.96 million, RMB1,467.74 million and RMB1,500.16 million in 2011, 2012 and 2013, respectively, accounting for approximately 19.47%, 15.61% and 15.71% of the Group's total aviation fuel costs for the same period.

Prior to 1994, domestic aviation fuel prices were generally below international aviation fuel prices. The PRC government has gradually increased domestic aviation fuel prices in order to reflect more accurately the costs of supplying aviation fuel in China. As a result, domestic aviation fuel prices have become higher than those in the international market since the beginning of 1994. In 2007 through the first half of 2008, crude oil prices in the international markets reached historic highs. In response to the pressure imposed by such increasing prices, on 1 November 2007 and 20 June 2008, respectively, NDRC increased the domestic price for aviation fuel. Thereafter, in order to cushion fuel cost pressure faced by PRC airlines, on 19 December 2008 and 1 January 2009, respectively, NDRC approved reductions in domestic prices for aviation fuel. However, starting from February 2009, crude oil prices in the international markets started to pick up gradually. As a result, NDRC increased the domestic price for aviation fuel in July 2009 and made several subsequent adjustments thereafter. The NDRC further adjusted the domestic price for aviation fuel multiple times in 2010, which resulted in increases in the price during 2010.

Fuel surcharge

According to relevant regulations promulgated by NDRC and CAAC, domestic airlines imposed fuel surcharges, based on flight time, for all domestic routes (excluding those from Mainland China to Hong Kong and Macau) with effect from 1 August 2005. The imposition of the fuel surcharge permits the airline to have passengers share a portion of the high aviation fuel cost of the Group. The level of fuel surcharges, and any adjustments of which, are determined by CAAC and the NDRC based on such factors as aviation fuel price, route miles and the location of the relevant destination. As international fuel prices gradually increased, and in response to increases in fuel cost, on 11 November 2009, the NDRC issued a notice to introduce a new pricing mechanism of fuel surcharge that links it with airlines' aviation fuel costs. According to the new mechanism, when the purchase cost of aviation fuel is lower than RMB4,140.00 per ton (i.e., the benchmark price of aviation fuel), airlines may not charge any fuel surcharge. When the purchase cost of aviation fuel exceeds RMB4,140.00 per ton, the airlines may charge a set fuel surcharge. The NDRC and CAAC have recently jointly set the maximum rate of fuel surcharge at RMB0.002656 per passenger kilometre for the period from 1 April 2014 to 31 March 2015. Based on that rate, for every RMB100.00 by which the cost of aviation fuel exceeds RMB4,140.00 per ton, the airlines are allowed to charge a maximum of RMB0.002656 per passenger kilometre for the flight distance.

Fuel costs

Fuel costs have historically been extremely volatile, as they are subject to many global economic and geopolitical factors which cannot be controlled or accurately predicted by the Group. Because international prices for aviation fuel are denominated in U.S. dollars, the Group's fuel costs, payable in RMB, are subject not only to price fluctuations but also to exchange rate fluctuations. The fluctuations in aviation fuel prices expose the Group to fuel price risks. In addition to risks relating to price increases, a rapid fall in the price of fuel such as witnessed in the autumn of 2008 can also have a negative impact on the profitability of airlines with a significant level of fuel hedging, both in terms of volume and duration, because these airlines are contractually bound by the terms of their hedging arrangements and cannot fully enjoy any fall in the price of fuel. Considering the current market conditions, the Group does not currently engage in fuel hedging activities using derivative instruments. At present, the management of the Group believes that it is able to pass on any significant increases in aviation fuel costs to passengers through fuel surcharges. However, management will monitor the fuel price risk exposure and consider using hedging instruments if and when such need arises.

Fleet

Aircraft procurement and disposal policy

The Group seeks to maintain a rationalised and modern fleet to serve its route network and various markets. When evaluating its aircraft procurement and disposition plan, the Group considers a number of factors, including aviation market demand forecasts, current fleet capacity, current and future aircraft requirements, capital structure, cash flow, purchase and leasing costs, prevailing interest rates and other market conditions that may affect financing costs. The Group evaluates on a case-by-case basis the retirement or disposal of a particular aircraft based on a number of factors, including operating and safety efficiency and market demand for a particular aircraft type. Moreover, the Group carefully balances the aviation fuel consumption and maintenance costs of ageing aircraft against the finance costs and depreciation expense for acquiring newer aircraft.

Fleet composition

As of 31 December 2013, the Group operated a fleet of 131 aircraft with an average age of 4.92 years. Most of these aircraft were manufactured by Boeing and Airbus. The Group has the fourth largest fleet among all PRC airlines. Out of the 131 aircraft, 66 were owned by the Group, and 65 were leased to the Group pursuant to various types of finance and operating leasing arrangements.

The following table sets forth the details of its fleet as of 31 December 2013:

	Number of Aircraft	Number of Seats	Average age (in years)
Wide-body:			
Airbus A340-600	3	295	5.08
Airbus A330-300	7	1,995	1.98
Airbus A330-200	6	1,518	5.51
Airbus A330-200VIP	1	110	1.2
Boeing 767-300	3	654	11.5
Boeing 787-8	6	1,290	0.27
Narrow-body:			
Boeing 737-800	99	16,236	5.01
Boeing 737-700	5	770	6.89
Boeing 737-400	1	159	14.9
Total/Average:	**131**	**23,027**	**4.92**

The Group's daily average aircraft utilisation rate was 9.81, 9.90 and 10.24 hours in 2011, 2012 and 2013, the highest among all PRC airlines. The table below sets forth the daily average utilisation rates of its aircraft for each of the three years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	2012	2013
		(in hour)	
Wide-body:			
Airbus A340-600	10.22	9.48	9.71
Airbus A330-300	10.68	10.85	11.28
Airbus A330-200	11.87	12.37	12.26
Airbus A330-200VIP	–	6.29	6.94
Boeing 767-300	11.48	11.12	11.31
Boeing 787-8	–	–	9.60
Narrow-body:			
Boeing 737-800	9.87	9.89	10.19
Boeing 737-700	8.43	8.15	10.02
Boeing 737-400	8.18	8.34	9.68
Boeing 737-300	7.82	8.37	–

Future fleet development

The Group's aircraft acquisition programme focuses on aircraft that will modernise and rationalise its fleet to better meet the anticipated requirements of its route structure, taking into account aircraft size and fuel efficiency. The Group's aircraft acquisition programme, however, is subject to the approval of CAAC and the NDRC. The following table summarizes its anticipated aircraft deliveries from 2014 to 2017 as of 31 December 2013:

	2014E	2015E	2016E	2017E	Total
Aircraft					
Airbus A330	3	5	3	4	15
Boeing 737-8	16	15	20	21	72
Boeing 747	–	–	1	2	3
Boeing 787	2	2	3	4	11
Total	**21**	**22**	**27**	**31**	**101**

The actual acquisition of any of these aircraft or any additional aircraft may depend on factors such as general economic conditions, the Group's operating results and other capital requirements. The Group believes that its aircraft acquisition plan will help it to accomplish its expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

Aircraft purchase and leasing arrangements

The Group's fleet and the aircraft leased by the Group to HNA Group consist of aircraft purchased as well as leased pursuant to finance and operating leases. As of 31 December 2013, of the 131 aircraft operated by the Group, 66 aircraft were owned by the Group, 7 aircraft were leased under finance leases and 58 aircraft were leased under operating leases.

The following table sets forth, as of 31 December 2013, the number of aircraft operated by the Group's fleet pursuant to finance and operating leases:

			Leased	
Model	**Total**	**Owned**	**Finance Lease**	**Operating Lease**
Wide-body:				
Airbus A340-600	3	–	–	3
Airbus A330-300	7	1	–	6
Airbus A330-200	6	–	–	6
Airbus A330-200VIP	1	–	–	1
Boeing 767-300	3	1	2	–
Boeing 787-8	6	6	–	–
Narrow-body:				
Boeing 737-800	99	56	4	39
Boeing 737-700	5	2	–	3
Boeing 737-400	1	–	1	–
Total	**131**	**66**	**7**	**58**

The Group's planned acquisition of aircraft in the foreseeable future will generally be made through acquisition by bank loans and the Group's own funds, and pursuant to operating leases or finance leases. The Group's determination as to its acquisition strategy depends on the Group's evaluation at the time of its capacity requirements, anticipated deliveries of aircraft, the Group's capital structure and cash flow, prevailing interest rates and other general market conditions.

Finance leases

The Group enters into the majority of its finance leases in China with Changjiang Leasing Co. Ltd. an entity affiliated with HNA Group. Under finance leases, the Group makes lease payments that finance most of the purchase price of an aircraft over the lease term and bears substantially all of the economic risks and rewards of owning the aircraft. Under a finance lease, the Group has the option to purchase the aircraft upon the expiration of the lease and the right to obtain title to the aircraft upon payment of all amounts owed under such lease.

The terms of the Group's finance leases vary depending on the financing structures and the commercial agreements reached by the parties concerned. Generally, the Group is given an option between floating rate financing and fixed rate financing. The level of interest rates for fixed rate loans depends on the loan market at the time the loans are drawn. Lease payments are generally paid on a quarterly or semi-annual basis. The terms of the Group's finance leases are typically ten to 15 years. Depending on the financing structures, an early termination of a finance lease may result in a penalty payable by the Group. However, under certain leases, the Group is given an option to terminate the lease early on a voluntary basis if certain conditions are satisfied and in those cases, no penalty is payable. Circumstances under which a lessor may have the right to terminate a lease early and the Group be required to surrender the aircraft include the occurrence of an event of default such as nonpayment of rent, failure to maintain insurance coverage for the aircraft and insolvency. To date, the Group's lessors have not terminated any applicable lease or required it to return an aircraft as a result of a breach or default by the Group.

Operating leases

The Group enters into operating leases with various international aircraft leasing service providers, including, among others, ILFC, GE Capital Aviation Services, Aviation Capital Group, Aircastle, BOC Aviation, CIT and HKAC. The Group's operating leases generally have original terms ranging from 5 to 7 years from the aircraft's delivery. Under operating leases, the Group is entitled to use the aircraft and is obligated to make rental payments according to the relevant lease agreements. The Group's operating leases typically have no purchase options, although the Group may enter into different arrangements according to its fleet requirements. The lessor bears the economic benefits and obligations associated with ownership, including the residual value of the aircraft at the end of the lease term. The Group is required to return the aircraft in the agreed condition at the end of the lease term. Although the title remains with the lessor, the Group is responsible during the lease term for legal and regulatory compliance, maintenance, servicing, insurance, taxes and repair of the aircraft. The operating leases allocate responsibilities for the overhaul of the aircraft and the related contributions from the lessor or the Group.

The Group's rental expenses under its aircraft operating leases in the cost were RMB2,123.47 million, RMB1,958.57 million and RMB2,496.12 million in 2011, 2012 and 2013, respectively.

Purchase

The Group prepares a long-term fleet expansion plan every five years and submits it to CAAC for approval. Within the framework of the five-year plan approved by CAAC, the Group typically initiates negotiations to purchase or lease aircraft one to two years prior to the aircraft's delivery. Once the key terms have been finalised, the Group submits an application to NDRC and CAAC for approval. NDRC and CAAC consider a number of factors in granting approval for aircraft acquisition, including the requirements of the PRC aviation market as well as each airline's safety record and resources. Upon receipt of such approvals, the Group enters into agreements for the acquisition of aircraft. The Group typically finances its aircraft purchases through bank loans and cash from operations.

Aircraft equipment and spare parts

The purchase of aircraft and aircraft equipment is subject to rules and regulations in China, and PRC airlines without import and export rights are required to purchase their aircraft equipment and spare parts through the CASGC. The Group has been in compliance with relevant rules and regulations by purchasing or leasing aircraft engines, spare parts and other aircraft equipment mainly through HNA Import and Export Corporation, an entity within HNA Group, which has the relevant import and export rights. The Group believes that its ability to purchase aircraft parts and equipment through HNA Import and Export Corporation gives it flexibility in procurement and allows it to maintain a relatively limited inventory of aircraft parts and equipment.

Aircraft maintenance, repair and overhaul

Aircraft maintenance, repair and overhaul, also known as MRO, is critical to the safety and comfort of the Group's passengers, the efficient use and maintenance of the Group's aircraft and the optimisation of the Group's fleet utilisation. The schedule and cycle of MRO services for the Group's fleet varies depending on certain factors, including the age and type of aircraft and the manufacturers' specifications.

A majority of the maintenance for the Group's fleet is performed by HNA Aviation Technology Co. Ltd. ("HNA Technology"), an entity within HNA Group. The remaining part of the maintenance for the Group's fleet is performed by service providers in China and overseas. HNA Technology performs all types of maintenance services, ranging from maintenance inspections performed on aircraft to major overhauls performed at specified intervals. HNA Technology is able to perform checks on Boeing 767 and Airbus A319, D328 and EMB-145/190 aircraft, and is able to perform maintenance service on 25 chapters and 815 parts. HNA Technology has three regional aircraft maintenance centres in Haikou, Beijing and Xi'an, respectively. HNA Technology also has additional maintenance bases in Guangzhou, Shenzhen, Lanzhou, Dalian, and Urumqi. All of HNA Technology's maintenance centres and bases have received JMM accreditation, an accreditation jointly granted by CAAC, the Civil Aviation Department of Hong Kong, and the Civil Aviation Authority of Macau, which permits the accredited unit to provide maintenance services to clients from Mainland China, Hong Kong and Macau.

The Group's expenses incurred for the MRO of its fleet were RMB1,573.03 million, RMB1,664.21 million and RMB1,883.36 million in 2011, 2012 and 2013, respectively.

Marketing, sales and reservations

Passenger services

Marketing

The Group's marketing strategy with respect to passenger services is primarily aimed at increasing its market share for all categories of air travellers, through exploiting its strong brand name. The Group believes that the "Hainan Airlines" brand has become increasingly widely recognised in China and abroad as a safe and reliable airline focused on customer service and providing a high quality travel experience.

The Group's promotional and marketing activities for domestic routes emphasize safety, passenger comfort and the frequency of the Group's flights. The Group's promotional and marketing activities for international and regional passengers emphasize the Group's quality of service, extensive route network in China and greater frequency of flights relative to other PRC airlines. In addition, the Group also promotes and markets its regional and international routes on the basis of price.

The Group advertises mainly through outdoor billboards, newspapers and magazines and television and radio commercials. The Group also engages in numerous promotional activities, including sponsorship of important cultural and sporting events.

The Group has also adopted customised strategies to market its services to business travellers. The Group seeks to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travellers, the Group focuses on the frequency of flights between major business centres, convenient transit services and an extensive sales network. The Group launched its frequent flyer programme "Fortune Wings Club" in 1999 to attract and retain business travellers and frequent flyers. The "Fortune Wing Club" covers the Group as well as its partners Grand China Airlines, Lucky Air, Tianjin Airlines, West Air, Hong Kong Airlines, Hong Kong Express Airways, Beijing Capital Airlines and Aigle Azur. Members can earn miles by flying with the Group or any of its partner airlines, and through purchases from a wide range of the Group's business travel partners including hotels, car rental services and restaurants. Members can also earn miles by using the Group's co-branded credit cards issued by Industrial and Commercial Bank of China Limited, China Merchants Bank, or Agricultural Bank of China. As a result of the Group's efforts to develop the "Fortune Wing Club" programme, the number of members of the frequent flyer programme reached approximately 14.56 million as of 31 December 2013.

Sales and reservations

In 1998, the Group upgraded its online ticket booking and payment system to facilitate customer purchases of tickets via the internet. While the Group continues to encourage its customers to book and purchase tickets online, the Group also maintains an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of the Group's airline tickets are sold by domestic and international sales agents. The Group's tickets for domestic routes are sold throughout China through over 3,500 domestic sales agents, 57 of which are the Group's direct domestic ticket sales agents. Currently, the Group's direct domestic ticket sales are handled primarily through its sales offices located at all of its destination cities, and regional sales offices located in Xi'an, Lanzhou, Urumqi and Yinchuan in western China, Chongqing, Kunming, Guiyang and Chengdu in southwestern China, Shanghai, Suzhou, Nanjing and Hangzhou in southeastern China, Dalian, Shenyang, Beijing, Tianjin and Harbin in northeastern China, Hefei, Jinan, Qingdao, Changsha, Nanning, Haikou, Sanya, Guangzhou, Xiamen and Shenzhen in southern China, and Zhengzhou, Wuhan and Taiyuan in central China. The Group's direct domestic ticket sales are also handled by employees based at its ticket counters located at 20 airports in China, namely Haikou Meilan International Airport, Beijing International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Sanya Phoenix International Airport, Shenzhen Bao'an Airport, Hangzhou Xiaoshan Airport, Changsha Airport, Taiyuan Airport, Ningbo Airport, Urumqi Airport, Dalian Airport, Shenyang Airport, Nanjing Airport, Wenzhou Airport, Wuhan Airport, Zhengzhou Airport, Chengdu Airport, Guilin Airport and Xian Airport. Direct sales are also promoted through the availability of the Group's telephone reservation and confirmation services. In addition to its domestic sales agents, the Group's tickets for overseas routes are sold through over 4,100 overseas sales agents, 16 of which are the Group's direct overseas ticket sales agents. the Group maintains overseas sales or representative offices worldwide, including European locations such as Berlin and Brussels, North American locations such as Seattle and Toronto, and Asia-Pacific locations such as Hong Kong, Singapore and Bangkok, which facilitate the sale of international and regional air tickets and provide reservation confirmation and other services. In addition, the Group opened its Taipei branch office in 2008 to facilitate its marketing and sales in Taiwan and to provide administrative and support services for passengers, as well as to prepare assistance for its flight crew.

As of 1 June 2008, the Group stopped issuing paper tickets for air travel in accordance with a mandate from the IATA. As a result of the mandate, the Group now issues electronic itineraries and receipts as well as electronic tickets to its passengers. The Group believes the transition to 100% electronic ticketing has decreased administrative costs and increased flexibility and travel options for passengers in addition to benefiting the environment through the reduced need for paper. All of the Group's direct passenger ticket sales are recorded on its computer systems. Most PRC airlines, including the Group, are required to use the passenger reservation service system provided by CAAC's computer information management centre, which is linked with the computer systems of major PRC commercial airlines. The Group has also entered into membership agreements with several international reservation systems, including BSP, which have made it easier for customers and sales agents to make reservations and purchase tickets for its international flights.

Cargo and mail services

The Group maintains a network of cargo sales agents domestically and internationally. The Group has established domestic sales offices in all of its destination cities, and other major transportation hubs in China, and international cargo sales offices in Berlin, Cairo, Hong Kong, Brussels, Budapest, Seattle, Zurich and its other overseas flight destinations. The Group has also established regional cargo sales offices in Xi'an, Lanzhou, Urumqi and Yinchuan in western China, Chongqing, Kunming, Guiyang and Chengdu in southwestern China, Shanghai, Suzhou, Nanjing and Hangzhou in southeastern China, Dalian, Shenyang, Beijing, Tianjin and Harbin in northeastern China, Hefei, Jinan, Qingdao, Changsha, Nanning, Haikou, Sanya, Guangzhou, Xiamen and Shenzhen in southern China, and Zhengzhou, Wuhan and Taiyuan in central China, to improve coordination among its sales offices within each region.

Codeshare agreements

Code sharing is a marketing arrangement through which the non-operating airline sells seats and/or space on flights operated by its codeshare partner as its own product using its own two-letter airline designator code.

The Group has successfully established codeshare partnerships with ten international airlines and three domestic airlines. The Group has also established special pro-rate agreements with 73 international and PRC airlines. The Group believes that code sharing is a cost-effective means to expand the scope of its passenger services, increase its revenue and enhance its image in the international market. The Group also cooperated with 113 international airlines on combined transportation.

The Group has codeshare agreements with ten international airlines including American Airlines, Air Berlin, Brussels Airlines, Hong Kong Airlines, Korean Air, EVA AIR, UNI Air, Aigle Azur, S7 Airlines and Etihad Airways. The Group has codeshare agreements with three domestic airlines including Grand China Airlines, Lucky Air and Tianjin Airlines. As of 31 December 2013, on average, the Group had 2,527 scheduled codeshare flights every week operated by its codeshare partners and it operated 221 scheduled codeshare flights every week.

Competition

Domestic

CAAC's extensive regulation of the PRC commercial aviation industry has had the effect of managing competition among PRC airlines. Nevertheless, competition has become increasingly intense in recent years due to a number of factors, including relaxation of certain regulations by CAAC, an increase in the number of PRC airlines and an increase in the capacity, routes and flights of PRC airlines.

The Group expects that competition in China's commercial aviation industry will continue to be intense. The Group competes with the other three major airlines, namely China Southern Airlines, Air China and China Eastern Airlines. In 2013, these three airlines together controlled approximately 53.40% of the commercial aviation market in China as measured by passengers carried, while the Group had a market share of 7.60%. Most major PRC airlines including the Group have in recent years significantly expanded their fleets, although at the same time passenger traffic has not increased proportionately. As a result, PRC airlines are required to be more competitive with respect to, for example, quality of service including ticketing and reservations, in-flight services, flight scheduling and timeliness.

The Group also expects to face increasing competition from alternative means of transportation, such as highways and railways, as China's transportation infrastructure improves. In particular, the so-called "Four Longitudinal and Four Horizontal" high-speed railways under construction may have a huge negative impact on the domestic commercial aviation sector once they go into full operation. According to industry consensus, airlines are more competitive on long-haul routes, while high-speed railways are more competitive on short-haul routes. The Group believes that it will be the least affected airline by high-speed railways among all PRC major airlines. The Group's long haul routes originating from its nine route bases, together with its routes originating from Hainan Island, constitute a majority of its domestic routes. In addition, only a limited number of the Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. Further, the Group has planned to invest in West Air and Lucky Air and develop them into low-cost airlines to meet the increasing competition from alternative means of transportation, such as highways and railways. See "– Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines" and "Principal Shareholders".

The Group competes against its domestic competitors primarily on the basis of safety, quality of service and its highly integrated multiple-hub route network. With the combination of the Group's highly integrated multiple-hub route and its continued commitment to safety and service quality, the Group believes that it is well-positioned to compete against its domestic competitors in the growing commercial aviation industry in China. In light of increasing competition from high speed railways, the Group also believes that its optimised route network, increased operational efficiency and improved service quality will attract more travellers, particularly business travellers.

International

The Group competes with Air China, China Eastern Airlines and a number of foreign airlines on its international routes. Most of these international competitors have significantly longer operating histories, substantially greater financial and technological resources and greater name recognition than the Group. In addition, the public's perception of the safety and service records of PRC airlines may adversely affect the Group's ability to compete against its regional and international competitors. Many of the Group's international competitors have larger sales networks and participate in reservation systems that are more comprehensive and convenient than those of the Group, or engage in promotional activities that may enhance their ability to attract international passengers.

The Group competes against, among other airlines, Singapore Airlines and Air China on flights to Southeast Asian destinations. In the case of its European routes, the Group's competitors include Air China and China Eastern Airlines. The Group faces competition on its North American routes from Air China and other international airlines within that region. Air China has the most extensive international route network among PRC airlines. Beijing, the hub of Air China's operations, has been the destination for most international flights to China. The Group competes in the international market primarily on the basis of its higher level of customer service as one of seven Skytrax 5-Star airlines in the world, and its exclusive international routes.

Insurance

The Group maintains its fleet and legal liability insurance with PICC Property and Casualty PRC Limited, PingAn Property and Casualty Insurance Company of China Limited, Minan Insurance (China) Limited and China Pacific Property Insurance Company Ltd. The Group maintains aviation hull all risks, spares and airline liability insurance, aircraft hull all risks and spare engines deductible insurance and aviation hull war and allied perils policies of the type and in the amounts customary in the PRC aviation industry.

Under the relevant PRC laws, civil liability of PRC airlines for death or injuries suffered by passengers on domestic flights is limited to RMB400,000.00 per passenger. As of 31 July 2006, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or the Montreal Convention, became effective in China. Under the Montreal Convention, carriers of international flights are strictly liable for proven damages up to 100,000 Special Drawing Rights and beyond that, carriers are only able to exclude liability if they can prove that the damage was not due to negligence or other wrongful act of the carrier (and its agents), or the damage arose solely from the negligence or other wrongful act of a third party. The Group believes that it maintains adequate insurance coverage for the civil liability that can be imposed in respect of death or injuries to passengers under PRC law, the Montreal Convention and any agreement which the Group is subject to.

The Group believes its insurances policies are of the types consistent with industry practice in the PRC and in amounts that are adequate to protect it against material loss.

Safety

The Group has maintained a strong safety record during its 20 years of operation. In January 2012, the Group was ranked the fifth safest airline in the world and the safest PRC domestic airline by JACDEC. The Group was again ranked as one of the world's top fifteen safest airlines and the safest PRC domestic airline by JACDEC in January 2014. In January 2014, it received the 4-Star Civil Aviation Safety Award from CAAC. The Group has been awarded the "Golden Eagle Award" and "Golden Roc Award" for airline safety, both of which are the highest civil aviation safety awards from CAAC, several times. See "– Competitive Strengths – Consistently excellent safety record and standard". In 2011, the provision of safe and reliable air services for all of its customers is one of the Group's primary operating objectives. The Group endeavours to maintain strict compliance with all laws and regulations applicable to flight safety. In addition, the Group has adopted measures to eliminate or minimise factors that may impair flight safety, including implementation of uniform safety standards and safety-related training programmes in all operations. In 2005, the Group was selected by CAAC as a pilot airline to adopt the SMS safety system, a safety standard widely used throughout the aviation industry worldwide. The SMS safety system covers each operating aspect of the Company's business. Under the SMS safety system, the Group's flight safety management division identifies, monitors and manages risks as they may occur from time to time and ensures that each particular aspect of the business is compliant with the relevant regulations and protocol to prevent risk from materialising or mitigating it when it occurs. The flight safety management division also implements safety-related training programmes on an ongoing basis in all of the Group's operations to raise the safety awareness of all employees. The Group also has a flight safety committee, comprising members of its senior management, to formulate policies and implement routine safety checks at all nine route bases. The flight safety committee meets periodically to review the Group's overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. The Group periodically evaluates the skills, experience and safety records of its pilots in order to maintain strict control over the quality of its pilot crews. Currently, CAAC requires all PRC airlines to adopt the SMS and sets the Group as a model airline for the other PRC airlines when CAAC gradually phases in SMS for all PRC airlines. In 2005, the Group also passed the IOSA, an auditing standard focusing on key aspects of airline and airline support operations.

Properties and facilities

The Group currently occupies 21 parcels of land with an aggregate gross floor area of approximately 1,503,414.40 square meters in China.

The Group currently occupies 52 buildings with an aggregate gross floor area of approximately 503,844.66 square meters in China.

The Group currently holds and occupies three properties in Brussels (the "Overseas Properties"). The Overseas Properties are used as lodgings for the Group's pilots, crew and other staff when staying in Brussels.

The Group has entered into lease agreements with affiliates of the HNA Group and other third parties both domestically and overseas for the properties that the Group uses to conduct its operations, which generally include leasing ticket counters, terminal space and other ancillary airport facilities.

The following table sets forth certain information with respect to the Group's principal properties at its nine route bases as of 31 December 2013:

	Land (in square meters)		Buildings (in square meters)	
	Owned	**Leased**	**Owned**	**Leased**
Haikou	349,040.30	–	106,935.74	–
Beijing	853,289.22	–	346,245.49	–
Xi-an	183,725.21	–	24,278.43	–
Taiyuan	15,333.00	–	–	9,435.00
Urumqi	102,026.67	–	12,820.00	–
Guangzhou	–	–	–	6,704.77
Dalian	–	–	–	420.01
Lanzhou	–	–	13,565.00	750.02
Shenzhen	–	–	–	1,023.47
Total	**1,503,414.40**	**–**	**503,844.66**	**18,333.27**

Environmental

The Group is subject to PRC environmental and noise regulations, including regulations relating to discharges to surface and subsurface waters, the management of hazardous substances, oils and waste materials, and noise levels. The Group is also subject to the environmental and noise regulations in each country where it flies. The Group believes that it is in compliance in all material respects with all applicable environmental laws.

Intellectual property

The Group owns or has obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to its business. While patents, patent applications and trademarks are important to its competitive position, no single one is material to the Group as a whole.

The Group owns various trademarks related to its business. The most important trademark is the service trademark of "Hainan Airlines". All of the Group's trademarks are registered in China.

Employees

As of 31 December 2013, the Group had a total of 10,347 employees, including 1,967 pilots and 3,109 flight attendants. Approximately 2.30% and 49.48% of the employees received master's degrees or above and undergraduate education, respectively. The following table sets forth, as of the dates indicated, the number of employees of the Group, set out by job function:

Information Technology	58
Finance	408
Procurement and Warehouse	274
Flight Attendants	3,109
Ground Services	1,588
Pilots (including pilot and flight cadet)	1,967
Aviation Affairs	283
Airport Operations	456
Maintenance	28
Construction, Real Estate and Subcontracting	28
Safety and Security	194
Education and Training	130
Aircrew Support	337
Management (include management of subsidiaries and branches)	78
Human Resources	158
Marketing and Sales	819
Administrative	109
Medical Staff	37
Property Services	153
Other	133
Total	**10,347**

The Group organised a labour union on behalf of its employees, which represents the interests of the employees and works closely with the Group's management on labour-related issues. The Group believes its relationship with its employees and the labour union is satisfactory.

The Group's employees receive cash remuneration consisting of salary and other cash subsidies. In general, employee salaries are determined based on the employee's qualification, position, seniority and performance. Cash subsidies may include living subsidies, and may vary depending on circumstances. The Group also provides non-cash benefits, including medical insurance, unemployment insurance, early retirement and other social welfare benefits. In addition, all of the Group's full-time employees in the PRC are covered by a defined contribution retirement scheme administered by the PRC government, to which the Group is required to make annual contributions at rates ranging from 15.00% to 25.00% of its employees' base salaries.

Legal proceedings

The Group is not party to any legal or administrative proceedings that are material to the Group's financial condition or results of operations, nor is the Group aware of any potential legal or administrative proceedings that would have a material adverse effect on the Group's financial condition or results of operations.

DIRECTORS AND MANAGEMENT

The members of the board of directors (the "Board of Directors"), the supervisors and senior management as of the date of this Offering Circular are as follows:

Name	Age	Positions
Directors		
Xin Di (辛笛)	45	Executive Director (Chairman)
Mu Weigang (牟偉剛)	51	Executive Director (Vice Chairman)
Liu Lu (劉璐)	43	Executive Director
Gu Gang (顧剛)	36	Executive Director
Deng Tianlin (鄧天林)	64	Independent non-executive Director
Wu Banghai (吳邦海)	71	Independent non-executive Director
Lin Shiluan (林詩鑾)	65	Independent non-executive Director
Supervisors		
Hu Mingzhe (胡明哲)	31	Supervisor
Tong Fu (童甫)	31	Supervisor
Zhou Meng (周猛)	41	Supervisor
Li Fanghui (李方輝)	45	Supervisor
Xu Jing (許靜)	30	Supervisor
Senior management		
Xie Haoming (謝皓明)	39	President
Pu Ming (蒲明)	51	Vice President
Hou Wei (侯偉)	46	Vice President
Du Liang (杜亮)	32	Chief Financial Officer
Huang Qijun (黃琪君)	36	Secretary of the Board of Directors

Executive directors

Xin Di (辛笛), aged 45, has been chairman of the Board of Directors of the Company since March 2014. Mr. Xin joined HNA Group in 1992 and has approximately 20 years of relevant experience in aviation industry. Prior to his appointment as our chairman of the Board of Directors, Mr. Xin served as aircraft design engineer of the development department of AVIC Xi'an Aircraft Industry Company Ltd, and served in various managerial positions including general manager of our operating control department, general manager of our aviation department, general manager of the investment banking department of HNA Industrial Holdings Co., Ltd., president of Easy Life Holding, as well as president and chairman of the board of directors of Tianjin Airlines Co., Ltd.. Mr. Xin graduated from Nanjing University of Aeronautics and Astronautics.

Mu Weigang (牟偉剛), aged 51, has been vice chairman of the Board of Directors of the Company since December 2012. Mr. Mu joined HNA Group in 1992 and has approximately 30 years of relevant experience in aviation industry. He has served as deputy general manager, chief pilot and deputy chief pilot of our aviation department. Prior to his appointment with HNA Group, Mr. Mu served in a division of the air force as chief pilot and deputy chief of staff. Mr. Mu graduated from the First Air Force Flight Academy.

Liu Lu (劉璐), aged 43, has been an executive director of the Company since September 2012. Mr. Liu joined HNA Group in 1994. Mr. Liu held various managerial positions such as president of the Company, chief financial officer, president and chairman of the board of directors of Haikou Meilan International Airport Co., Ltd., president of Gansu Airport Group Co., Ltd., chairman of the board of directors of HNA Airport Group Co., Ltd.. Mr. Liu obtained his bachelor's degree from the Finance College of Anhui Province and degree of master of business administration from Beihang University.

Gu Gang (顧剛), aged 36, has been an executive director of the Company since April 2012. Mr. Gu is also a director of Hainan Expressway Co., Ltd., and vice president of Hainan Development Holdings Co., Ltd.. Prior to these managerial positions, Mr. Gu served as chief financial officer of Beijing Yintai Zhiye Co., Ltd., Hunan Jinguo Industrial Co., Ltd., and Sanya Ruida Zhiye Co., Ltd.. Mr. Gu graduated from the accounting department of Dongbei University of Finance and Economics.

Independent non-executive directors

Deng Tianlin (鄧天林), aged 64, is a registered accountant, senior accountant and an guest professor at Hainan University, and has been an independent non-executive director of the Company since April 2012. Mr. Deng was an official at the office of human resources of the Finance Department, deputy bureau chief of the taxation bureau of Fangxian County, head of the office of the World Bank loans, a deputy director at the office of agricultural taxation, of Hubei Province. He was assigned to the Finance Department of Hainan Province in 1990 and became the head of its accounting office. He also served as secretary of the Association of the Registered Accountants of Hainan Province. He retired in 2009. Mr. Deng graduated from Dongbei University of Finance and Economics, majoring in accounting.

Wu Banghai (吳邦海), aged 71, is a postgraduate, and has been an independent non-executive director of the Company since April 2012. Mr. Wu has served as deputy secretary general of the Politics and Law Committee of Hainan Province, chief judge of the Intermediate People's Court of Hainan Province Haikou City, chief judge of the Economic Chamber of Hainan Province Higher People's Court, and deputy chief judge of the Intermediate People's Court of Hebei Province Zhangjiakou City.

Lin Shiluan (林詩鑾), aged 65, is a postgraduate and senior economist, and has been an independent non- executive director of the Company since April 2012. Mr. Lin served as director of Hainan Provincial People's Congress Standing Committee of Finance and Economy. Mr. Lin has many years of working experience in various governmental agencies including serving as director of the Land Environment and Resources Department of Hainan Province, party secretary and mayor of Hainan Province Wenchang city, vice director of Hainan Provincial Land Reclamation Bureau, and vice manager of Guilin Yang Farm in Hainan Province.

Supervisors

Hu Mingzhe (胡明哲), aged 31, has been a supervisor and convener of our board of supervisors of the Company since April 2012. Mr. Hu joined HNA Group in July 2004. He severed as assistant to the general manager and deputy general manager of the human resources department of HNA Group Co., Ltd.. He is currently the general manager of the department of human resources and administration of HNA Airlines Holdings Co., Ltd.. Mr. Hu obtained his degree of master of business administration from City university.

Tong Fu (童甫) aged 31, has been a supervisor of the Company since April 2012. Mr. Tong joined HNA Group in July 2004. He has served as the secretary of the board of directors of HNA Group Co., Ltd., executive deputy director of the office of administration of HNA Group Co., Ltd.. He is currently the director of the office of administration of HNA Group Co., Ltd. and supervisor of the Company. Mr. Tong obtained his bachelor's degree from Peking University.

Zhou Meng (周猛), aged 41, has been a supervisor of the Company since April 2012. Mr. Zhou is a registered property appraiser. He was a manager at the general affairs department of Qionghai Wanquanhe Hotel, vice president of Datong Express (Hainan), vice president of Datong Express (Zhanjiang), property appraiser at Hainan Zhonghengxin Certified Public Accountants, project manager at the auditing and risk management department and the asset management department of Hainan Development Holdings Co., Ltd.. He is currently an assistant to the general manager of the asset management department of Hainan Development Holding Co., Ltd.. Mr. Zhou obtained his bachelor's degree from Huazhong University of Science and Technology.

Li Fanghui (李方輝) aged 45, has been a supervisor of the Company since April 2012. Mr. Li has been executive deputy general manager of the planning and accounting department and employee supervisor of the Company. Mr. Li obtained his bachelor's degree in accounting from Guangxi University.

Xu Jing (許靜), aged 30, has been a supervisor of the Company since April 2012. Mr. Xu had been secretary to the executive president of HNA Group Co., Ltd. and now is the general manager of the human resources department of the Company's Xi'an Operation Base, as well as employee supervisor of the Company. Mr. Xu obtained his bachelor's degree from Northwestern University of China, majoring in public administration.

Senior management

Xie Haoming (謝皓明), aged 39, has been president of the Company since March 2014. Mr. Xie joined HNA Group in 1997 and has approximately 15 years of relevant experience in aviation industry. He served in various managerial positions, including vice president of the Company, deputy general manager, general engineer of our maintenance engineering department, office director of safety management office of HNA Group Co., Ltd., and vice president of HNA Airlines Holdings Co., Ltd.. Mr. Xie graduated from Nanjing University of Aeronautics and Astronautics, majoring in Aircraft Environment Control.

Pu Ming (蒲明), aged 51, has been vice president of the Company since December 2012 and is also the Chief Safety Officer of the Company. Mr. Pu joined HNA Group in 1994 and has approximately 30 years of relevant experience in aviation industry. He served in various managerial positions in the Company including deputy general manager, general manager of our flight department and general manager of our department of safety supervision. Mr. Pu had acted as an instructor in an air force unit.

Hou Wei (侯偉), aged 46, has been vice president of the Company since March 2013. Mr. Hou has approximately 20 years of relevant experience in aviation industry. He served in various managerial positions in the Company including deputy general manager of Beijing office of our marketing & sales department, as well as manager of our international business department. Mr. Hou also worked at the Department of International Cooperation of CAAC and International Air Transport Association. Mr. Hou graduated from Beijing Language and Culture University, majoring in Chinese Language and Literature.

Du Liang (杜亮), aged 32, has been Chief Financial Officer of the Company since February 2014. Mr. Du joined HNA Group in 2004 and has approximately 10 years of experience in finance and aviation industry. He served in various managerial positions including accounting manager of Brussels office of our marketing & sales department, manager of foreign exchange management office in the cash flow management centre of our planning and accounting department, manager of tax planning office of our financial audit centre, as well as general manager of planning and accounting department of HNA Group Northern Headquarters (Tianjin) Co., Ltd.. Mr. Du graduated from Xi'an Jiaotong University.

Huang Qijun (黃琪君), aged 36, has been secretary of the Board of Directors of the Company since December 2011. Prior to his appointment as secretary of the Board of Directors of the Company, Mr. Huang served in various managerial positions including assistant to the general manager and executive deputy general manager of securities affairs department of HNA Group Co., Ltd., general manager of investment banking department of HNA Industrial Holdings Co., Ltd., deputy general manager and general manager of department of project development and management of HNA Group Co., Ltd.. Mr. Huang obtained his master's degree from Dalian University of Technology.

Board committees

There are four standing committees of the Company's Board of Directors: audit and risk management committee, remuneration and assessment committee, nominee committee and strategy committee.

Audit and risk management committee

The audit and risk management committee makes recommendations to the Board of Directors on the appointment of the Group's external auditors, supervises the Group's internal audit, reviews the Group's internal control system and operational risks such as the risk in connection with the Group's significant on-going investment projects and provides advice and comments to the Board of Directors. The audit and risk management committee comprises five directors, of whom the independent directors are a majority and at least one independent director is an accounting professional. The Company's audit and risk management committee currently comprises the following five members: Lin Shiluan, Wu Banghai, Deng Tianlin, Xin Di and Mu Weigang.

Remuneration and assessment committee

The remuneration and assessment committee makes recommendations to the Board of Directors on the Group's compensation policy including the Group's annual compensation plan, the formulation and reviewing of the specific remuneration for directors, supervisors and senior management, and the performance and selection procedures of directors, supervisors and managerial staff. The remuneration and assessment committee comprises three directors, at least two of whom are independent directors. The Company's remuneration and assessment committee currently comprises the following three members: Wu Banghai, Deng Tianlin and Liu Lu.

Nominating committee

The nominating committee makes recommendations to the Board of Directors on the candidates, selecting criteria and procedures of the Group's directors and senior managements. The nominating committee comprises three directors, at least two of whom are independent directors. The Company's nominating committee currently comprises the following three members: Deng Tianlin, Lin Shiluan and Xin Di.

Strategy committee

The strategy committee conducts research and makes recommendations to the Board of Directors on the Group's medium-to-long term strategic development plans, significant investment and financing plans, significant capital operational projects, significant business operational projects including procurement of aircrafts and development of new flight routes and other significant matters as well as reviews and evaluates such significant matters. The strategy committee comprises five directors. The Company's strategy committee currently comprises the following five members: Xin Di, Mu Weigang, Liu Lu, Gu Gang and Deng Tianlin.

THE GUARANTEE OF THE BONDS

The Company will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds. Its obligations in respect of the Guarantee of the Bonds will be contained in a trust deed (the "Trust Deed") to be dated on or about 22 May 2014.

Any guarantee of foreign indebtedness by a PRC incorporated entity is subject to approval by SAFE. On 21 April 2014, the Company obtained approval from the Hainan Bureau of SAFE to provide the Guarantee for up to CNY3.00 billion of three-year term bonds to be issued by the Issuer. The approval was granted by the Hainan Bureau of SAFE pursuant to the SAFE Notice promulgated by SAFE on 30 July 2010. The Company will discharge its obligations under the Guarantee of the Bonds in reliance on, and in accordance with, the SAFE Approval.

The Company understands from its discussion with SAFE and the advice of PRC legal counsel that:

(i) the Guarantee of the Bonds will, upon registration, be legal, valid, binding and enforceable against the Company under PRC law; and

(ii) the approval for the Guarantee of the Bonds will cover all sums due under the Bonds (including any Renminbi principal, interest and relevant expenses) so long as the principal amount of the Bonds does not exceed CNY3.00 billion.

The Company is required by the Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions《境內機構對外擔保管理辦法》promulgated by the PBOC on 25 September 1996 to register the Guarantee of the Bonds and will register the Guarantee of the Bonds with the Hainan Bureau of SAFE within 15 days after the date of execution of the Guarantee of the Bonds. The Company may not be able to obtain the necessary SAFE approvals to remit Renminbi in order for the Company to fulfil its obligations under the Guarantee of the Bonds unless the registration of the Guarantee of the Bonds is completed in accordance with the provisions of the Foreign Security Measures. If the Guarantor fails to fulfil the Release Condition on or before the Registration Deadline, the Issuer may be required to redeem all of the Bonds pursuant to the bondholders' redemption option under the Terms and Conditions of the Bonds. The Bondholders will need to rely on the Issuer to source sufficient Renminbi from other sources to fully discharge its obligations under the Bonds. See "Risk Factors – Risks relating to the Guarantee of the Bonds and the Bonds – There may be uncertainty relating to the enforceability of the Guarantee of the Bonds". Prior to the performance or discharge of its obligations under the Guarantee of the Bonds, the Company is required to complete a verification process with the Hainan Bureau of SAFE for each remittance under the Guarantee of the Bonds.

Any payment by the Company under the Guarantee of the Bonds in respect of interest under the Bonds will be subject to withholding taxes in the PRC at a rate up to 10.00% as such payments of interest will be regarded as being derived from sources within the PRC. See "Taxation – PRC". The Company is obliged under the Terms and Conditions of the Bonds to pay such Additional Amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding been required.

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers. Prior to July 2009, all current account items were required to be settled in foreign currencies. In July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. In June 2010, August 2011 and February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades and the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement, Notice on Matters Relevant to the Administration of Enterprise Engaged in Renminbi Settlement of Export Trade in Goods, Circulars with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades. Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted, and (iv) any enterprise qualified for the export and import business is permitted to effect Renminbi remittance for exports of goods, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the "**Supervision Lists**"). Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by (a) enterprises with the foreign trading right and incorporated in a province which has already submitted the Supervision List (for the avoidance of doubt, that PRC enterprise does not necessarily need to be included in the Supervision List) or (b) enterprises that have been approved as a pilot enterprise for using Renminbi for exports if the relevant province has not submitted the Supervision List.

As new regulations, the circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these circulars and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include crossborder transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

On 7 April 2011, SAFE issued the Notice on Relevant Issues regarding Streamlining the Business Operation of Cross-border RMB Capital Account Items, which clarifies that the borrowing by an onshore entity (including a financial institution) of Renminbi loans from an offshore creditor shall in principle follow the current regulations on borrowing foreign debts and the provision by an onshore entity (including a financial institution) of external guarantees in Renminbi shall in principle follow the current regulations on the provision of external guarantees in foreign currencies.

On 3 December 2013, MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (the "**MOFCOM Renminbi FDI Circular**"), which became effective on 1 January 2014, to further facilitate Renminbi FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Renminbi FDI Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each Renminbi FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on Renminbi FDI, the MOFCOM Renminbi FDI Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Renminbi FDI Circular also clearly prohibits the Renminbi FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

On 13 October 2011, the PBOC issued Administrative Measures on Renminbi Settlement for Foreign Direct Investment (the "**PBOC RMB FDI Measures**") which set out operating procedures for PRC banks to handle RMB settlement relating to RMB FDI and borrowing by foreign invested enterprises of offshore RMB loans. Prior to the PBOC RMB FDI Measures, cross-border RMB settlement for RMB FDI has required approvals on a case-by-case basis from the PBOC. The new rules replace the PBOC approval requirement with less onerous post-event registration and filing requirements. Foreign invested enterprises, whether established or acquired by foreign investors, shall complete the corporate information registration after the completion of relevant RMB FDI transactions, and shall make post-event registration or filing with the PBOC of increases or decreases in registered capital, equity transfers or swaps, merger or acquisition or other changes to registered information.

On 5 July 2013, the PBOC promulgated the Notice on Simplifying the Procedures of Cross-border Renminbi Business and Improving Relevant Policies (the "**Notice**"), which simplifies the operating procedures on current account cross-border Renminbi settlement and further publishes policies with respect to issuance of offshore Renminbi bonds by onshore non-financial institutions. The Notice intends to improve the efficiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

As new regulations, such notices will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future. Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant MOFCOM and PBOC rules.

PRINCIPAL SHAREHOLDERS

The largest shareholder of the Company is Grand China Air Co., Ltd. As of 31 December 2013, Grand China Air Co., Ltd. directly owned 28.18% of the issued share capital of the Company. Additionally, American Aviation LDC, a wholly-owned subsidiary of Grand China Air Co., Ltd., owned 1.77% of the issued share capital of the Company.

In order to reorganize Hainan Airline Co., Ltd., Grand China Air Co., Ltd. was incorporated in 2004 by Hainan Development Holdings Co., Ltd., an entity wholly-owned by State-owned Assets Supervision and Administration Commission of Hainan provincial government. In June 2006, Grand China Air Co., Ltd. subscribed 1,650,000,000 new ordinary domestic shares of the Company in the form of A Shares, and became the largest shareholder of the Company, holding 46.74% of the Company's then issued share capital.

In August 2012, the Company completed a private placement of 1,965,600,000 new ordinary domestic shares in the form of A shares in the PRC, raising approximately RMB8.00 billion. As a result of this private placement, the respective direct shareholding interests in the Company held by each of Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. decreased from 7.21% to 4.89%. The direct shareholding interest held by Changjiang Leasing Co., Ltd. decreased from 6.27% to 4.25%. The shareholding interests acquired by the investors in the private placement ranged from 1.54% to 4.84% and aggregated 32.27%.

In June 2013, the Company increased its share capital by 6,091,090,895 shares by capitalisation from its capital surplus. As of 31 December 2013, the Company had a total issued share capital of 12,182,181,790 shares.

As of 31 December 2013, Hainan Development Holding Co., Ltd. held 24.97% of the issued share capital of Grand China Air Co., Ltd., and directly owned 4.89% of the issued share capital of the Company. As of 31 December 2013, HNA Group Co., Ltd., held 23.11% of the issued share capital of Grand China Air Co., Ltd., and directly owned 4.89% of the issued share capital of the Company.

As of 31 December 2013, the following shareholders had a direct interest of 5% or more in the Company's shares:

Name	Number of Aircraft	Approximate Percentage of the Total Number of Shares
Grand China Air Co., Ltd.	3,432,938,828 Shares	28.18%
Haikou Meilan International Airport Co., Ltd.	862,498,471 Shares	7.08%

As of 31 December 2013, 3,402,000,000 of 3,432,938,828 shares held by Grand China Air Co., Ltd., 346,000,000 of 862,498,471 shares held by Haikou Meilan International Airport Co., Ltd. and 595,240,000 of 595,708,690 shares held by HNA Group Co., Ltd. were pledged by the holders to PRC banks as collateral for certain bank loans.

Significant shareholders

Hainan Development Holdings Co., Ltd., a shareholder of the Company, was also a significant shareholder holding 24.97% of the share capital of Grand China Air Co., Ltd. and directly owned 4.89% of the issued share capital of the Company as of 31 December 2013. Hainan Development Holdings Co., Ltd. is a wholly owned subsidiary of the State-owned Assets Supervision and Administration Commission of Hainan provincial government, engaging in various types of businesses including but not limited to project development, equity investment, asset management, project financing, business consultancy and guarantee business. The

Hainan provincial government's policies favour the growth of the Group as the home airline for Hainan province given its current focus to promote Hainan as an international resort destination. See "Description of the Group – Competitive Strengths – Strong Sponsorship from Shareholders".

HNA Group Co., Ltd., a shareholder of the Company is also a significant shareholder holding 23.11% of the share capital of Grand China Air Co., Ltd. and directly owned 4.89% of the issued share capital of the Company as of 31 December 2013. HNA Group, a PRC conglomerate, is a large multi-industry enterprise group controlled by HNA Group Co., Ltd.. HNA Group's core business sectors include air travel, logistics and financial service. HNA Group's business scope covers air transportation, airport investment and management, hotel and golf course investment and management, information technology service, import and export of aircraft and aviation equipment, investment, development and equity management in the areas of energy, logistics, new technology and new material, including domestic labour and commercial agency service.

Although HNA Group also provides aviation services, the Group believes that HNA Group's aviation resources are complementary and its relationship with HNA Group has been beneficial to the Group's operations. The Group has been able to exploit the resources of HNA Group, particularly with HNA Group's existing route network as well its air related services including aircraft maintenance services, aircraft equipment and spare parts procurement, and crew training programmes. See "Description of the Group – Competitive Strengths – Strong sponsorship from shareholders", "Description of the Group – Aircraft equipment and spare parts", "Description of the Group – Aircraft maintenance, repair and overhaul", and "Description of the Group – Employees".

To eliminate potential competition issues arising from their shareholding interests in the Company, Grand China Air Co., Ltd. and HNA Group Co., Ltd. gave their respective undertakings to the Company in April 2012. In its undertakings, Grand China Air Co., Ltd. agreed to entrust the Company, before the publication of the Company's half-year report of 2012, to manage its air transportation business and exercise shareholder's rights on its behalf in respect of its shareholding interest in Lucky Air. It has further undertaken to transfer the above business and interest to the Company within 36 months and the rest of its airline business to the Company within 60 months of the Company's private placement of its ordinary shares, subject to regulatory approvals and the Company's business needs and financial condition. Similarly, HNA Group Co., Ltd. undertook to entrust the Company, before the publication of the Company's half-year report of 2012, to exercise shareholder's rights on its behalf in respect of its shareholding interests in several airlines, including Beijing Capital Airlines, West Air, Tianjin Airlines and HKAGH. It has also undertaken to transfer its shareholding interests in these airlines to the Company within 36 months of the Company's private placement of its ordinary shares, subject to regulatory approvals and the Company's business needs and financial condition.

In August 2012, the Company was authorised by its board and shareholders to hold the shares in several airlines on behalf of their beneficial owners, Grand China Air Co., Ltd. and HNA Group Co., Ltd. The Company will exercise shareholders' rights on their behalf and manage and operate these airlines for certain fees during the agreed periods. The airlines to be managed by the Company include Beijing Capital Airlines, West Air, Tianjin Airlines, HKAGH, Lucky Air and Grand China Airlines (only in respect of its aviation transportation business). The Company believes that the arrangements will help satisfy regulatory and governance requirements for the contribution of these interests to the Company in the future.

In May 2013, the Company subscribed for 1,200,000,000 new shares of Tianjin Airlines for RMB1,680,000,000 in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, the Company acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co., Ltd. at a price of RMB1,093,000,000 which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%. In November 2013, the Company announced that it intended to subscribe for RMB1,000,000,000 new shares of West Air in cash and upon this subscription increased its shareholding in West Air to 29.40%. In December 2013, the Company announced that it intended to acquire a 52.90% shareholding in Lucky Air from HNA Group Co., Ltd. at a price of RMB1,702,000,000 payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. As of 31 March 2014, the proposed investment in West Air had not been completed. In the future, the Group plans to develop West Air and Lucky Air into low-cost airlines to meet the increasing competition from alternative means of transportation, such as highways and railways. The Company has entered into or plans to enter into these investments to help the Group build its core business, market share and competitiveness and eliminate potential competition issues among the Group, Grand China Air Co., Ltd. and HNA Group Co., Ltd. See " Description of the Group – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines".

Certain transactions may occur between the Company and/or subsidiaries of the Group and the Company's principal shareholders, or entities associated with its principal shareholders, which are related parties of the Company. See note 7 to the Audited Consolidated Financial Statements of the Company for the year ended 31 December 2013 for details of related party transactions.

DIFFERENCE BETWEEN PRC ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Audited Consolidated Financial Statements of the Company have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter. Other than on reversal of impairment provisions taken on assets, PRC Accounting Standards have substantively converged with International Financial Reporting Standards. Accordingly, there are no other significant differences between the principal accounting policies adopted by the Company and IFRS. The difference on reversal of impairment provisions taken on assets is discussed in further detail in this section.

Reversal of impairment losses on assets

In accordance with to "PRC Accounting Standards No. 8 – Impairment of Assets", an asset impairment loss that has been recognised shall not be reversed in subsequent accounting periods, while in accordance with IAS36 "Impairment of Assets", an entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognised in prior periods for an asset other than goodwill can be reversed if, and only if, there has been a change in the estimates used to determine the recoverable amount of that asset since the last impairment loss was recognised.

For the years ended 31 December 2011, 2012 and 2013, respectively, the Company had no such reversal of impairment losses on assets. Therefore, the above technical difference had no substantial impact on the Audited Consolidated Financial Statements of the Company included elsewhere in this Offering Circular.

The above analysis is not meant to be an exhaustive description of all significant differences between PRC Accounting Standards and IFRS. In making an investment decision, investors must rely upon their own examination of the Company, the Group, the terms of the offering and the financial information included herein. Potential investors should consult their own professional advisors for an understanding of any differences that may exist between PRC Accounting Standards and IFRS, and how those differences might affect the financial information included herein.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, professional or business carried on in Hong Kong in the following circumstances:

(a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of the holders is maintained outside Hong Kong) of a Bond.

Estate duty

No Hong Kong estate duty is payable in respect of the Bonds.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this section. In considering whether to invest in the Bonds, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from imposed the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management bodies" are within the territory of China shall be treated as PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25.00% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25.00% for its income sourced from both within and outside PRC. As confirmed by the Issuer, as of the date of this Offering Circular, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its income have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10.00% on the income sourced inside the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Bonds for any non-PRC enterprise Bondholder. However, despite the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

In addition, in the event that the Guarantor is required to discharge its obligations under the Guarantee of the Bonds, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10.00% on the payments of interest made by it under the Guarantee of the Bonds to non-PRC resident enterprise Bondholders as such interest payment obligations will be regarded as being derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. Repayment of the principal will not be subject to PRC withholding tax.

Non-PRC Bondholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Bonds consummated outside mainland China between non-PRC Bondholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to PRC withholding tax at a rate of up to 10.00%.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Bondholders is maintained outside China) of a Bond.

EU directive on the taxation of savings income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the Directive on 24 March 2014 (the "Amending Directive"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

Singapore

The statements below are general in nature and are based on certain aspects of current tax laws in Singapore, administrative guidelines and circulars issued by the Monetary Authority of Singapore in force as of the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, administrative guidelines or circulars, occurring after such date, which changes could be made on a retroactive basis. These laws, administrative guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Bonds or of any person acquiring, selling or otherwise dealing with the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. The statements made herein do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Bonds and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s)) may be subject to special rules or tax rates. Prospective holders of the Bonds are advised to consult their own tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Bonds, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasized that neither the Issuer, the Guarantor nor any other persons involved in the issuance of the Bonds accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Bonds.

Interest and Other Payments

Subject to the following paragraphs, under Section 12(6) of the Income Tax Act, Chapter 134 of Singapore (the "**ITA**"), the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15% final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17%. The applicable rate for non-resident individuals is currently 20%. However, if the payment is derived by a person not resident in Singapore otherwise than from any trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15%. The rate of 15% may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after 1 January 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after 17 February 2006; and

(c) prepayment fee, redemption premium and break cost from debt securities derived on or after 15 February 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession in Singapore.

In addition, as more than half of the principal amount of the Bonds are distributed by such Joint Lead Managers which are Financial Sector Incentive – Standard Tier, Financial Sector Incentive – Bond Market or Financial Sector Incentive – Capital Market Companies (as defined in the ITA), and the Bonds are issued as debt securities before 31 December 2018, the Bonds would be, pursuant to the ITA and the MAS Circular FSD Cir 02/2013 entitled "Extension and Refinement of Tax Concessions for Promoting the Debt Market" issued by the MAS on 28 June 2013 (the "**MAS Circular**"), qualifying debt securities ("**QDS**") for the purposes of the ITA, to which the following treatment shall apply:

(i) subject to certain prescribed conditions having been fulfilled (including the furnishing of a return on debt securities for the Bonds in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with such Bonds as the relevant authorities may require to the MAS and such other relevant authorities as may be prescribed and the inclusion by the Issuer in all offering documents relating to such Bonds of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Bonds is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires such Bonds using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the Bonds paid by the Issuer and derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Bonds are not obtained from such person's operation through a permanent establishment in Singapore, are exempt from Singapore tax; and

(ii) subject to certain conditions having been fulfilled (including the furnishing of a return on debt securities for the Bonds in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with the Bonds as the relevant authorities may require to the MAS and such other relevant authorities as may be prescribed), Qualifying Income from such Bonds paid by the Issuer and derived by any company or a body of persons (as defined in the ITA) in Singapore is subject to tax at a concessionary rate of 10% (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates).

Notwithstanding the foregoing:

(A) if during the primary launch of the Bonds, the Bonds are issued to fewer than four persons and 50% or more of the issue of the Bonds is beneficially held or funded, directly or indirectly, by related parties of the Issuer, the Bonds would not qualify as QDS; and

(B) even though the Bonds are QDS, if, at any time during the tenure of the Bonds, 50% or more of the issue of the Bonds is held beneficially or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from the Bonds held by:

(i) any related party of the Issuer; or

(ii) any other person where the funds used by such person to acquire the Bonds are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term "related party", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "break cost", "prepayment fee" and "redemption premium" are defined in the ITA as follows:

- "break cost", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

- "prepayment fee", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

- "redemption premium", in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to "break cost", "prepayment fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the ITA.

IMPORTANT NOTICE TO HOLDERS OF BONDS

Where Qualifying Income (whether it is interest, discount income, prepayment fee, redemption premium or break cost) is derived from any of the Bonds by any person who (i) is not resident in Singapore and (ii) carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities (subject to certain conditions) under the ITA shall not apply if such person acquires such Bonds using the funds and profits of such person's operations through the permanent establishment in Singapore. Any person whose Qualifying Income (whether it is interest, discount income, prepayment fee, redemption premium or break cost) derived from the Bonds is not exempt from tax (including for the reasons described above) shall include such income in a return of income made under the ITA.

Gains on Disposal of the Bonds

Any gains considered to be in the nature of capital made from the disposal of the Bonds will not be taxable in Singapore. However, any gains derived by any person from the disposal of the Bonds which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Bonds who apply or who are required to apply Singapore Financial Reporting Standard 39 Financial Instruments: Recognition and Measurement ("FRS 39") may for Singapore income tax purposes be required to recognize gains or losses (not being gains or losses in the nature of capital) on the Bonds, irrespective of disposal, in accordance with FRS 39. Please see the section below on "Adoption of FRS 39 Treatment for Singapore Income Tax Purposes."

Adoption of FRS 39 Treatment for Singapore Income Tax Purposes

The Inland Revenue Authority of Singapore has issued a circular entitled "Income Tax Implications Arising from the Adoption of FRS 39 – Financial Instruments: Recognition and Measurement" (the "FRS 39 Circular"). The ITA has since been amended to give effect to the FRS 39 Circular.

The FRS 39 Circular generally applies, subject to certain "opt-out" provisions, to taxpayers who are required to comply with FRS 39 for financial reporting purposes.

Holders of the Bonds who may be subject to the tax treatment under the FRS 39 Circular should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Bonds.

Estate Duty

Singapore estate duty was abolished with respect to all deaths occurring on or after 15 February 2008.

SUBSCRIPTION AND SALE

The Issuer and the Company have entered into a subscription agreement with J.P. Morgan (S.E.A.) Limited, UBS AG, Singapore Branch, CCB International Capital Limited, CLSA Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, Hong Kong International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited and Industrial and Commercial Bank of China Limited, Singapore Branch (the "**Joint Lead Managers**") dated 15 May 2014 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Joint Lead Managers, which have severally agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds at an issue price of 100% of their principal amount (the "**Issue Price**") in the amount set forth below. Any subsequent offering of the Bonds to investors may be at a price different from such Issue Price:

	Principal amount of Bonds
	(CNY)
J.P. Morgan (S.E.A.) Limited	340,000,000
UBS AG, Singapore Branch	340,000,000
CCB International Capital Limited	238,000,000
CLSA Limited	238,000,000
DBS Bank Ltd.	102,000,000
Deutsche Bank AG, Singapore Branch	102,000,000
Hong Kong International Securities Limited	102,000,000
Industrial and Commercial Bank of China (Asia) Limited	119,000,000
Industrial and Commercial Bank of China Limited, Singapore Branch	119,000,000
Total	1,700,000,000

The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate the Subscription Agreement in certain circumstances at any time prior to the payment of the net proceeds of the issue of the Bonds to the Issuer on the Closing Date.

Other relationships

Hong Kong International Securities Limited, as an indirectly held subsidiary of the HNA Group, is an affiliate of the Issuer and the Company, and has received certain fees from the Issuer in relation to its subscription of the Bonds. Each Joint Lead Manager or its affiliates may purchase the Bonds for its own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swap relating to the Bonds at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchaser of the Bonds). Each of the Joint Lead Managers and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company, the Issuer or their respective subsidiaries or associates from time to time.

Each Joint Lead Manager may receive customary fees and commissions for these transactions. Each Joint Lead Manager or certain of its affiliates may purchase Bonds and be allocated Bonds for asset management and/or proprietary purposes but not with a view to distribution. In addition to the transactions noted above, each Joint Lead Manager and its affiliates may, from time to time, engage in other transactions with, and perform services for, the Company, the Issuer or their respective subsidiaries or affiliates in the ordinary course of their business. In addition, each Joint Lead Manager and certain of its subsidiaries and affiliates may hold shares or other securities in the Company as beneficial owners, on behalf of clients or in the capacity of investment advisors.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer or the Company or the Joint Lead Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Issuer or the Company or the Joint Lead Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer or the Company or the Joint Lead Managers.

United States

The Bonds and the Guarantee of the Bonds have not been and will not be registered under the Securities Act and may not be offered, marketed, sold or delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer that is not participating in the Offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

PRC

Each Joint Lead Manager has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Bonds shall not be sold within the period of six months from the date of the initial acquisition of the Bonds, except to any of the following persons:

(i) an institutional investor (as defined in Section 4A of the SFA);

(ii) a relevant person (as defined in Section 275 (2) of the SFA); or

(iii) any person pursuant to an offer referred to in Section 275 (1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (under Section 274 of the SFA), or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions specified in Section 275 of the SFA;

(2) (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(3) where no consideration is or will be given for the transfer;

(4) where the transfer is by operation of law;

(5) as specified in Section 276(7) of the SFA; or

(6) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, or Financial Instruments and Exchange Act, and, accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

1 **Clearing Systems:** The Bonds will be lodged and cleared through CDP. For persons seeking to hold a beneficial interest in the Bonds through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with CDP. The ISIN code for the Bonds is SG6QD4000001.

2 **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer on 8 April 2014 and by the shareholders of the Issuer on 17 April 2014. The Company has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee of the Bonds. The giving of the Guarantee of the Bonds was authorised by resolutions of the Board of Directors on 1 April 2014 and by the shareholders of the Company on 18 April 2014.

3 **No Material Adverse Change:** There has been no material adverse change in the trading position, condition (financial or otherwise), results of operations, profitability, shareholders' equity, business, properties, general affairs, management or prospects of the Issuer, the Company or the Group since 31 December 2013.

4 **Litigation:** Neither the Issuer nor the Company nor any member of the Group is involved in any litigation or arbitration proceedings that are material in the context of the Bonds nor is the Issuer or the Company aware that any such proceedings are pending or threatened.

5 **Available Documents:** Copies of the Company's annual reports for the years ended 31 December 2011, 2012 and 2013, the Trust Deed, the deed of covenant to be dated the Issue Date and entered into by the Issuer and the Agency Agreement relating to the Bonds and the Articles of Association of the Issuer and the Company will be available for inspection from the Issue Date at the principal office of the Company in the PRC at HNA Plaza, No.7 Guoxing Road, Haikou City, Hainan Province, 570203, PRC and at the specified office of the Trustee during normal business hours, so long as any of the Bonds is outstanding. The Company prepares and publishes an annual report every year and an interim report semiannually. Copies of the Company's annual report and interim report in respect of the latest year and period can be obtained from its corporate website.

6 **Audited Consolidated Financial Statements of the Company:** The Audited Consolidated Financial Statements of the Company are the consolidated financial statements of the Company for the years ended 31 December 2011, 2012 and 2013 in English, which have been audited by PwC ZT, auditor of the Company, as stated in its report.

7 **Listing:** Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the Official List of the SGX-ST. Subject to the approval of the SGX-ST, the Bonds will be traded on the SGX-ST in a minimum board lot size of not less than S$200,000 (or its equivalent in other currencies) as long as any of the Bonds are listed on the SGX-ST. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Bonds in definitive form. In addition, in the event that the Global Certificate is exchanged for Bonds in definitive form, announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the Bonds in definitive form, including details of the paying agent in Singapore, so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require.

INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY

Audited consolidated financial statements of the Company as of and for the year ended 31 December 2012[(1)]

Audited consolidated financial statements of the Company as of and for the year ended 31 December 2013[(2)]

Notes:

(1) The audited consolidated financial statements of the Company as of and for the year ended 31 December 2012 set out herein have been reproduced from the Audited Consolidated Financial Statements of the Company for the year ended 31 December 2012 and page references are reference to pages set forth in such consolidated financial statements.

(2) The audited consolidated financial statements of the Company as of and for the year ended 31 December 2013 set out herein have been reproduced from the Audited Consolidated Financial Statements of the Company for the year ended 31 December 2013 and page references are reference to pages set forth in such consolidated financial statements.

REPORT OF THE AUDITORS

PwC ZT Shen Zi (2013) No. 10071

To the shareholders of Hainan Airlines Co., Ltd.:

We have audited the accompanying financial statements of Hainan Airlines Co., Ltd. (hereinafter "Hainan Airlines"), which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of Hainan Airlines is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

普華永道中天會計師事務所有限公司
PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com

普华永道

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Hainan Airlines as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with the requirement of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China
14 March 2013

HAINAN AIRLINES CO., LTD.
CONSOLIDATED AND COMPANY'S
BALANCE SHEETS AS AT 31 DECEMBER 2012
(All amounts in RMB Thousand Yuan unless otherwise stated)

	Notes	31 December 2012 Consolidated RMB'000	31 December 2011 Consolidated RMB'000	31 December 2012 Company RMB'000	31 December 2011 Company RMB'000
ASSETS					
Current assets					
Cash at bank and on hand	5(1)	22,312,403	19,060,578	17,433,182	12,975,573
Notes receivable	5(2)	–	3,117,336	–	3,117,336
Accounts receivable	5(3), 15(1)	541,651	598,332	326,636	711,977
Advances to suppliers	5(6)	326,543	452,540	348,636	386,739
Interest receivable	5(5)	230,288	190,147	90,937	68,048
Dividends receivable		1,865	6,016	1,865	6,016
Other receivables	5(4), 15(2)	203,561	1,535,984	1,087,544	1,402,439
Inventories	5(7)	70,514	126,256	60,924	122,031
Other current assets	5(8)	2,000,000	–	1,000,000	–
Total current assets		**25,686,825**	**25,087,189**	**20,349,724**	**18,790,159**
Non-current assets					
Available-for-sale financial assets	5(9)	1,061,446	899,684	1,061,446	899,559
Long-term equity investments	5(10), 15(3)	9,077,138	5,145,199	12,019,732	11,375,327
Investment properties	5(11)	7,256,342	6,839,112	2,452,974	2,334,579
Fixed assets	5(12)	34,377,690	31,229,556	27,731,799	25,887,414
Construction in progress	5(13)	12,001,162	8,839,069	11,543,185	7,071,468
Intangible assets	5(14)	164,204	194,177	66,691	92,816
Goodwill	5(15)	328,865	328,865	–	–
Long-term prepaid expenses	5(16)	483,595	358,553	457,364	331,144
Other non-current assets	5(17)	2,281,877	2,375,248	1,945,181	2,026,215
Total non-current assets		**67,032,319**	**56,209,463**	**57,278,372**	**50,018,522**
TOTAL ASSETS		**92,719,144**	**81,296,652**	**77,628,096**	**68,808,681**

	Notes	31 December 2012 Consolidated RMB'000	31 December 2011 Consolidated RMB'000	31 December 2012 Company RMB'000	31 December 2011 Company RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	5(20)	15,792,336	17,533,295	11,706,561	12,718,250
Financial liabilities held for trading		–	150	–	150
Notes payable	5(21)	5,464,473	5,059,860	3,554,473	3,066,621
Accounts payable	5(22)	4,924,949	3,764,821	7,537,384	8,943,296
Advances from customers	5(23)	918,462	1,124,595	22,060	22,060
Employee benefits payable	5(24)	198,248	240,297	110,600	131,538
Taxes payable	5(25)	552,670	576,743	226,351	112,616
Interest payable	5(26)	346,211	324,449	299,467	291,330
Dividend payable		68,521	24,617	68,521	24,617
Other payables	5(27)	877,345	771,008	332,938	179,867
Current portion of non-current liabilities	5(28)	6,184,770	4,603,564	5,085,484	3,760,545
Total current liabilities		**35,327,985**	**34,023,399**	**28,943,839**	**29,250,890**
Non-current liabilities					
Long-term borrowings	5(29)	23,169,711	23,463,293	18,452,711	17,931,380
Debentures payable	5(30)	6,430,063	5,918,309	4,939,440	4,927,151
Long-term payables	5(31)	1,195,060	1,412,548	1,195,060	1,397,460
Deferred tax liabilities	5(18)	2,054,148	1,429,928	1,225,396	821,932
Other non-current liabilities	5(32)	632,948	478,006	408,937	304,548
Total non-current liabilities		**33,481,930**	**32,702,084**	**26,221,544**	**25,382,471**
Total liabilities		**68,809,915**	**66,725,483**	**55,165,383**	**54,633,361**
Shareholders' equity					
Share capital	5(33)	6,091,091	4,125,491	6,091,091	4,125,491
Capital surplus	5(34)	11,739,753	5,817,180	12,020,868	6,097,975
Surplus reserve	5(35)	657,397	568,001	657,397	568,001
Undistributed profits	5(36)	5,309,332	3,966,000	3,693,357	3,383,853
Total equity attributable to equity shareholders of the Company		**23,797,573**	**14,476,672**	**22,462,713**	**14,175,320**
Minority interests	5(37)	111,656	94,497	–	–
Total Shareholders' equity		**23,909,229**	**14,571,169**	**22,462,713**	**14,175,320**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**92,719,144**	**81,296,652**	**77,628,096**	**68,808,681**

The accompanying notes form an integral part of these financial statements.

Legal representative: Chen Ming

Person in charge of accounting function: Xu Zhoujin

Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.
CONSOLIDATED AND COMPANY'S
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RMB Thousand Yuan unless otherwise stated)

	Notes	2012 Consolidated RMB'000	2011 Consolidated RMB'000	2012 Company RMB'000	2011 Company RMB'000
Revenue	5(38), 15(4)	28,867,585	26,273,246	20,013,287	18,160,988
Less: Operating cost	5(38), 15(4)	(21,557,641)	(19,497,987)	(14,933,594)	(13,525,784)
Business taxes and surcharges	5(39)	(875,181)	(802,878)	(607,748)	(532,624)
Selling and distribution expenses	5(40)	(1,846,854)	(1,260,252)	(1,253,483)	(885,397)
General and administrative expenses	5(41)	(598,504)	(575,585)	(434,827)	(412,101)
Financial expenses – net	5(42)	(2,603,623)	(2,003,902)	(2,149,095)	(1,573,533)
Assets impairment losses	5(43)	(86,484)	(8,206)	(86,104)	–
Add: Gain on changes in fair value	5(44)	504,363	869,871	118,396	189,536
Investment income	5(45), 15(5)	188,241	197,884	96,148	433,020
Including: share of results of associates		212,413	89,493	125,785	39,754
Operating profit		**1,991,902**	**3,192,191**	**762,980**	**1,854,105**
Add: Non-operating income	5(46)	674,449	580,720	618,502	490,058
Less: Non-operating expenses	5(47)	(12,637)	(76,855)	(7,284)	(29,381)
Including: losses on disposal of non-current assets		(1,722)	(70,065)	(1,081)	(28,851)
Total profit		**2,653,714**	**3,696,056**	**1,374,198**	**2,314,782**
Less: Income tax expenses	5(48)	(708,768)	(861,848)	(480,239)	(473,953)
Net profit		**1,944,946**	**2,834,208**	**893,959**	**1,840,829**
- Attributable to equity shareholders of the Company		1,927,787	2,631,312	893,959	1,840,829
- Minority interests		17,159	202,896	–	–
Earnings per share (EPS)					
Basic earnings per share (RMB Yuan)	5(49)	0.40	0.64		
Diluted earnings per share (RMB Yuan)	5(49)	0.40	0.64		
Other comprehensive income	5(50)	101,501	(130,871)	101,501	(130,871)
Total comprehensive income		**2,046,447**	**2,703,337**	**995,460**	**1,709,958**
- Attributable to equity shareholders of the Company		2,029,288	2,500,441		
- Minority interests		17,159	202,896		

The accompanying notes form an integral part of these financial statements.

Legal representative: Chen Ming | Person in charge of accounting function: Xu Zhoujin | Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.
CONSOLIDATED AND COMPANY'S
CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	2012 Consolidated RMB'000	2011 Consolidated RMB'000	2012 Company RMB'000	2011 Company RMB'000
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		30,180,082	27,799,258	20,527,144	19,292,000
Cash received relating to other operating activities	5(51)(a)	3,060,066	1,890,338	2,643,047	569,145
Sub-total of cash inflows		33,240,148	29,689,596	23,170,191	19,861,145
Cash paid for goods and services		(14,135,493)	(15,063,957)	(12,897,088)	(8,461,817)
Cash paid to and on behalf of employees		(1,852,373)	(1,455,715)	(1,141,635)	(539,169)
Payments of taxes and surcharges		(2,899,732)	(2,549,650)	(1,141,329)	(1,049,080)
Cash paid relating to other operating activities	5(51)(b)	(4,156,639)	(4,631,907)	(3,538,716)	(4,046,860)
Sub-total of cash outflows		(23,044,237)	(23,701,229)	(18,718,768)	(14,096,926)
Net cash flows from operating activities	5(52)(a)	**10,195,911**	**5,988,367**	**4,451,423**	**5,764,219**
2. Cash flows from investing activities					
Cash received from disposal of investments		4,490,842	13,236	4,408,586	3,236
Cash received from returns on investments		17,799	12,359	14,630	9,014
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		546,675	4,109,182	514,064	3,504,160
Cash received relating to other investing activities	5(51)(c)	2,354,482	2,835,367	561,664	295,130
Sub-total of cash inflows		7,409,798	6,970,144	5,498,944	3,811,540
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(8,261,080)	(7,951,498)	(7,050,408)	(6,855,361)
Cash paid to acquire investments		(5,502,131)	(6,363,627)	(2,540,760)	(4,278,290)
Net cash paid to acquire subsidiaries and other business units		–	–	–	(508,417)
Cash paid relating to other investing activities	5(51)(d)	(1,525,000)	(2,086,397)	–	(200,000)
Sub-total of cash outflows		(15,288,211)	(16,401,522)	(9,591,168)	(11,842,068)
Net cash flows from investing activities		**(7,878,413)**	**(9,431,378)**	**(4,092,224)**	**(8,030,528)**
3. Cash flows from financing activities					
Cash proceeds from capital contributions	5(33)(a)	7,786,992	–	7,786,992	–
Cash received from borrowings		25,864,823	31,129,042	21,265,302	24,452,615
Cash received from issuance of bonds		494,979	5,910,371	–	4,920,000
Cash received relating to other financing activities	5(51)(e)	2,753,000	4,272,000	2,753,000	2,621,010
Sub-total of cash inflows		36,899,794	41,311,413	31,805,294	31,993,625
Cash repayments of borrowings		(26,459,697)	(30,050,201)	(20,607,194)	(22,586,715)
Cash payments for interest expenses and distribution of dividends		(3,651,174)	(2,655,058)	(3,061,595)	(2,069,170)
Cash payments relating to other financing activities	5(51)(f)	(5,070,275)	(3,252,741)	(3,304,603)	(3,058,291)
Sub-total of cash outflows		(35,181,146)	(35,958,000)	(26,973,392)	(27,714,176)
Net cash flows from financing activities		**1,718,648**	**5,353,413**	**4,831,902**	**4,279,449**
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(475)**	**(25,825)**	**(444)**	**(14,850)**
5. Net increase in cash and cash equivalents	5(52)(a)	**4,035,671**	**1,884,577**	**5,190,657**	**1,998,290**
Add: Cash and cash equivalents at beginning of year	5(52)(a)	**14,598,317**	**12,713,740**	**10,915,876**	**8,917,586**
6. Cash and cash equivalent at end of year	5(52)(b)	**18,633,988**	**14,598,317**	**16,106,533**	**10,915,876**

The accompanying notes form an integral part of these financial statements.

Legal representative: Chen Ming

Person in charge of accounting function: Xu Zhoujin

Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RMB Thousand Yuan unless otherwise stated)

		Attributable to equity shareholders of the Company					
Items	**Notes**	**Share capital RMB'000**	**Capital surplus RMB'000**	**Surplus reserves RMB'000**	**Undistributed profits RMB'000**	**Minority interests RMB'000**	**Total shareholders' equity RMB'000**
Balance at 31 December 2010		4,125,491	6,231,028	383,918	1,725,046	973,866	13,439,349
Movements for the year ended 31 December 2011							
– Net profit		–	–	–	2,631,312	202,896	2,834,208
– Other comprehensive income	5(50)	–	(130,871)	–	–	–	(130,871)
– Acquisition of minority interests in subsidiaries		–	(282,977)	–	–	(1,079,013)	(1,361,990)
– Profit distribution							
– Appropriation to surplus reserves	5(35)	–	–	184,083	(184,083)	–	–
– Profit distribution to shareholders	5(36)	–	–	–	(206,275)	–	(206,275)
– Others		–	–	–	–	(3,252)	(3,252)
Balance at 31 December 2011		4,125,491	5,817,180	568,001	3,966,000	94,497	14,571,169
Movements for the year ended 31 December 2012							
– Capital contribution by shareholders	5(33)(a)	1,965,600	5,821,392	–	–	–	7,786,992
– Net profit		–	–	–	1,927,787	17,159	1,944,946
– Other comprehensive income	5(50)	–	101,501	–	–	–	101,501
– Profit distribution							
– Appropriation to surplus reserves	5(35)	–	–	89,396	(89,396)	–	–
– Profit distribution to shareholders	5(36)	–	–	–	(495,059)	–	(495,059)
–Others		–	(320)	–	–	–	(320)
Balance at 31 December 2012		6,091,091	11,739,753	657,397	5,309,332	111,656	23,909,229

The accompanying notes form an integral part of these financial statements.

Legal representative: Chen Ming   Person in charge of accounting function: Xu Zhoujin   Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.
COMPANY'S STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 31 December 2010		4,125,491	6,228,846	383,918	1,933,382	12,671,637
Movements for the year ended 31 December 2011						
– Net profit		–	–	–	1,840,829	1,840,829
– Other comprehensive income	5(50)	–	(130,871)	–	–	(130,871)
– Profit distribution						
– Appropriation of surplus reserves	5(35)	–	–	184,083	(184,083)	–
– Profit distribution to shareholders	5(36)	–	–	–	(206,275)	(206,275)
Balance at 31 December 2011		4,125,491	6,097,975	568,001	3,383,853	14,175,320
Movements for the year ended 31 December 2012						
– Capital contribution by shareholders	5(33)(a)	1,965,600	5,821,392	–	–	7,786,992
– Net profit		–	–	–	893,959	893,959
– Other comprehensive income	5(50)	–	101,501	–	–	101,501
– Profit distribution						
– Appropriation of surplus reserves	5(35)	–	–	89,396	(89,396)	–
– Profit distribution to shareholders	5(36)	–	–	–	(495,059)	(495,059)
Balance at 31 December 2012		6,091,091	12,020,868	657,397	3,693,357	22,462,713

The accompanying notes form an integral part of these financial statements.

Legal representative: Chen Ming

Person in charge of accounting function: Xu Zhoujin

Person in charge of accounting department: Xu Zhoujin

1 GENERAL INFORMATION OF THE COMPANY

Hainan Airlines Co., Ltd. (the "Company") was a joint stock limited company established on 18 October 1993 by Hainan Provincial Airlines, China Everbright International Trust and Investment Co. Ltd, Hainan Branch of Bank of Communications etc. The Company's registered address is Haikou, Hainan Province, the People's Republic of China (the "PRC"). The Company's registered capital was RMB250 million when it was initially established.

In March 1994, a bonus dividend was approved by a resolution passed at the general meeting of shareholders whereby 50 million shares were issued, and thereafter the Company's total share capital was increased to RMB300 million.

On 2 November 1995, the Company issued 100 million shares to American Aviation LTD. After the share issuance, the Company's total share capital was increased to RMB400 million.

On 26 June 1997, the Company issued 71 million B Shares (i.e. domestic listed ordinary shares issued to foreign investors for subscription in US dollars). Upon completion of the share issuance, the Company's total share capital was increased to RMB471 million.

On 11 October 1999, the Company completed a public offering of 205 million A Shares (i.e. domestic listed ordinary shares issued to PRC domestic investors for subscription in RMB). After the above public offering, the Company's total share capital was increased to RMB676 million.

On 18 May 2000, the Company distributed a bonus dividend of 0.8 share for every ten shares to all shareholders with total of 54 million shares being issued. After the bonus shares were distributed, the Company's total share capital was increased to RMB730 million.

On 29 June 2006, the Company completed a non-public offerings with 2,800 million shares issued, of which 1,650 million shares were issued to Grand China Air. Together with previously owned 53 million shares, Grand China Air held 1,703 million shares of the Company after the issuance. After the above share issuance, the Company's share capital was increased to RMB3,530 million. In December 2006, HNA Group Co., Ltd. ("HNA Group") and Hainan Qixing, shareholders of the Company, increased their capital investments in Grand China Air with 8,917,118 and 4,369,582 shares of the Company they held respectively. Thereafter, Grand China Air and its subsidiary, American Aviation LTD, held 1,716 million shares and 108 million shares of the Company respectively, which represent total 51.86% of the share capital of the Company, and Grand China Air became the parent company of the Company.

On 29 September 2006, the Company implemented the share reform scheme and the original non-circulating shareholders paid 3.3 shares for each 10 shares to exchange for the circulating right. The original non-circulating shares of the Company were granted with the circulating status subject to lock-up periods ranging from 1 to 3 years. As at 31 December 2011, all above non-circulating shares became tradable in Shanghai Stock Exchange.

On 12 February 2010, approved by China Securities Regulatory Commission ("CSRC"), the Company completed a share offering, in which each of Hainan Development Holding and HNA Group were offered approximately 298 million A shares of the Company with lock-up period of 36 months. After the completion of the above share issuance, the Company's share capital was increased to RMB4,125 million, among which Grand China Air, the parent company, owned RMB1,716 million shares or 41.60% of the share capital.

On 3 May 2012, as approved by CSRC, the Company completed a non-public share offerings of 1,965.6 million A shares with lock-up period of 12 months (Note 5(33)). After the completion of the above share issuance, the Company's share capital was increased to RMB6,091 million, RMB1,716 million of which is held by Grand China Air, whose shareholding of the Company was diluted to 28.18%, but remained as the single largest shareholder of the Company.

The Company and its subsidiaries (collectively referred to as the "Group" hereinafter) are principally engaged in the civil aviation business, and the approved scope of business including the provision of domestic and international passenger and cargo air transportation, and other air transportation related services.

The financial statements were approved for issuance by the Company's Board of Directors on 14 March 2013.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation

(i) Basis of preparation

These financial statements were prepared in accordance with i) the Basic Standard and 38 specific standards of the "Accounting Standards for Business Enterprises" promulgated by Ministry of Finance ("MoF") on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereinafter referred to as "the Accounting Standards for Business Enterprises"), and ii) "Preparation Convention for Information Disclosures by Companies Offering Securities to the Public, No.15 – General Provisions on Financial Reporting" (2010 Revised) (《公開發行證券的公司資訊披露編報規則第15號—財務報告的一般規定》(2010修訂)) issued by CSRC.

(ii) Going concern basis

As at 31 December 2012, the current liabilities of the Group exceed its current assets by approximately RMB9,641 million. In preparing these financial statements, the Board has thoroughly assessed the going concern ability of the Group in association with the Group's current financial situation.

The Company's Board has already taken positive actions in dealing with the net working capital deficit mentioned above, and has been continuously seeking new financing channels and has obtained sufficient banking facilities to improve the Group's liquidity position. In light of the available banking facilities, the Group's raising fund history and the established good cooperation relationship with banks and financial institutions, the Board believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2012 are in compliance with the Accounting Standards for Business Enterprises, and present truly and completely the financial position as at 31 December 2012 and the operating results, cash flows and other information of the Group and the Company for the year then ended.

(3) Accounting period

The Group's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combination

(a) Business combinations involving enterprise under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period when they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(b) Business combinations involving enterprises not under common control

The business combination cost incurred to an acquirer and identifiable assets obtained from business combination are measured at fair values at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period when they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(c) Purchase of minority interests of a subsidiary

After acquisition of minority interests of a subsidiary, the assets and liabilities of the subsidiary are stated in the consolidated financial statements at amounts calculated from the acquisition date (or the consolidation date) on an on-going basis. The difference between the additional long-term equity investments acquired by the Company and the share of net book value of the subsidiary calculated from the date of acquisition (or the consolidation date) is adjusted to capital surplus (share premium) of the consolidated financial statements, then undistributed profits if no sufficient capital surplus (share premium) to offset.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-company balances, transactions and unrealised gain on transactions between the group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the parent are treated as minority interests and minority interest income respectively and presented separately in the consolidated financial statements within equity and net profits respectively.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the owners' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments, which classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term, which are presented as financial assets held for trading on the balance sheet.

Receivables

Receivables, including accounts receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months from the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. The receivables and held-to-maturity investments are measured at amortised costs using the actual interest method.

A gain or loss arising from a change in fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

A gain or loss arising from a change in fair value of available-for-sale financial assets is recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

The objective evidence that a equity instrument is impaired includes significant or non-temporary decline in fair value of equity instrument investment. The Group assesses the impairment of available-for-sale equity instrument item by item on balance sheet date. If the decline in fair value of equity instrument exceeds more than 50% (including 50%) of it's initial investment cost or the decline in fair value of equity instrument persists for more than one year (including one year), it is concluded as impaired. If the decline in fair value of equity instrument exceeds more than 20% (including 20%) but less than 50% of it's initial investment cost, the Group will consider other factors such as price fluctuation rate etc., to assess whether an impairment loss on equity instruments incurred.

When an impairment loss on available-for-sale financial assets incurred, the cumulative losses arising from the decline in fair value that had been recognised directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

(iv) Derecognition of financial assets

Where a financial asset satisfies any of the following conditions, the recognition of it shall be terminated: (1) the contractual rights for collecting the cash flow of the said financial asset are terminated; or (2) the said financial asset has been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets to the transferee; or (3) the said financial asset has been transferred and although the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, it has not retained the control of the said financial asset.

When the recognition of the financial assets is terminated, the difference between the book value of the financial assets and the sum of the consideration and the accumulated fair value changes directly recorded into the owner's equity shall be recognised in profit or loss for the current period.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities at fair value through profit or loss are mainly derivatives financial liabilities. They are disclosed as financial liabilities held for trading on the balance sheet. Other financial liabilities are payables, borrowings, debentures and finance lease payables etc.

Payables include accounts payable and other payables, etc., which are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and debentures are initially recognised at fair value, netting of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with repayment date within one year (one year included) are classified as current liabilities; other financial liabilities with repayment date over one year but within one year from the balance sheet date (one year included) are classified as current portion of non-current liabilities; other financial liabilities are classified as non-current liabilities.

Financial liabilities or obligation are fully or partially derecognised when the present obligations are fully or partially relieved, and the differences between the carrying amount of the derecognised financial liabilities and consideration paid are recognised in profit or loss for the current period.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable, willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, market data is used as much as possible and data that is particularly related to the Group is rarely used.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value by the Group in accordance with the consideration receivable from the buyer or service receiver under contract or agreement.

(a) Receivables that are individually significant are subject to separate assessment for impairment

Receivables that are individually significant are subject to individual impairment assessment. If there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debt of the receivable is established.

The criteria to determine whether an individual amount is significant: whether the balance is more than RMB10 million.

Methodology for establishing bad debt provision: according to the excess of the carrying amount of the receivables over the present value of estimated future cash flows.

(b) Provisions for bad debts for accounts receivable by group

Receivables that are not individually significant together with those receivables that have been individually assessed for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The provisions for bad debts for the current year are determined, taking into consideration of the current conditions, on the basis of historical loss experience for the groups of receivables with the similar credit risk characteristics.

Groups for the purpose of bad debt provision assessment are determined as follows:

Group 1	Amounts due from related parties
Group 2	Aircraft leasing deposits and maintenance funds receivable
Group 3	Other receivables excluding receivable within Group 1 and Group 2

Provision method for each group:

Group 1	Based on historical loss ratio
Group 2	Based on historical loss ratio
Group 3	Aging analysis method

For Group 3, the provision percentages of receivables with aging analysis method is as follows:

	Provision % of accounts receivable	**Provision % of other receivables**
Within 1 year	0%	0%
1 - 2 years	5%	5%
2 - 3 years	10%	10%
3 - 4 years	30%	30%
4 - 5 years	50%	50%
5 - 6 years	80%	80%
Over 6 years	100%	100%

(c) Amounts that are not individually significant but provisions for bad debts are assessed individually:

Criteria of recognising provisions for bad debts for accounts receivable individually: if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debts of the receivable is established.

Methodology for making bad debt provision: according to the excess of the carrying amount of the receivable over the present value of estimated future cash flows.

(d) If the Group transfers the accounts receivable to the financial institutions without right of recourse, then the difference between the transaction amount and the carrying amount of the transferred accounts receivable (plus any relevant taxes) is recorded in the profit or loss for the current period.

(11) Inventories

(a) Classification

Inventories include consumables, cabin supplies and low valuable consumables, etc., and are measured at the lower of cost and net realisable value.

(b) Valuation method of delivered inventories

Consumables are first accounted using standard cost and the difference between standard cost and actual cost is considered as ‘Cost Variance’, and the standard cost is adjusted to actual cost at each month end.

Cabin supplies are determined using the weighted average method.

(c) Basis of determining net realisable value of inventories and the method to make provision for obsolete stock

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates, as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are the investees over which the Company is able to exercise control, i.e. having the power to govern their financial and operating policies so as to obtain benefits from their operating activities; associates are the investees that the Group has significant influence on their financial and operating policies.

The Company accounts for investments in subsidiaries using the cost method in its individual financial statements, and makes the appropriate adjustments using equity method when preparing the consolidated financial statements. Investments in associates are initially measured using the equity method. For the long-term equity investments in investees (i) over which the Group does not have control, joint control or significant influence; (ii) prices of which are not quoted in an active market; and (iii) fair value of which cannot be reliably measured, the cost method is used.

(a) Recognition of initial investment cost

Long-term equity investments acquired through business combination: long-term equity investments acquired through business combinations under common control are initially measured at the Group's equity share of the investee's net equity as at incorporation date; long-term equity investments acquired through business combination under non-common control are measured at the combination cost.

Long-term equity investments acquired other than business combination: long-term equity investments acquired by cash are initially measured at the amount of actually paid; long-term equity investments acquired by the issuance of equity shares are initially measured at the fair value of equity shares issued.

(b) Subsequent measurement and recognition of gain or loss

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. Investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investees.

Long-term equity investments accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

When using the equity method of accounting, the Group recognises the investment income based on its share of net gain or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has incurred obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standard on contingencies, the Group continues recognising the investment losses and the provision. Under the circumstance that the Group's proportion of shareholding in an investee remains unchanged, the Group shall record directly in capital surplus its share of the changes in the investee's owner's equity other than those arising from net gain or loss. The carrying amount of the investment is reduced by Group's share of the profit or cash dividends declared by an investee. The gains or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment income or losses are recognised. The loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not eliminated.

(c) Basis of determining to have control or significant influence over the investee

The term "control" refers to the power to govern the financial and operating polices of an investee so as to obtain benefits from its operating activities of the enterprise. When ascertaining whether or not it is able to control a investee, an investor shall take into consideration the existence and effect of potential voting rights, including that derived from the convertible bonds and warrants that are currently convertible or exercisable.

Significant influence usually translates into participation in the financial and operating policies without necessarily having full control or joint control over an investee.

(d) Impairment of long-term equity investments

For the long-term equity investment in the subsidiary and associated enterprises, when its recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2(19)). For the impairment of other long-term equity investments which are not quoted in an active market and the fair value of which cannot be reliably measured, the impairment loss is recognised according to the difference between its carrying amount and present value determined by the discounted cash flow according to the market profitability of similar financial assets at that time. Once an impairment loss is recognised, it is not allowed to be reversed, even if the value of such asset is recovered in the subsequent periods.

(13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

After initial recognition, investment property is subsequently measured using fair value mode and no depreciation or amortisation is provided for investment property. The carrying amount of investment property is adjusted to fair value at balance sheet date and any difference between the fair value of the property at that date and its original carrying amount is recognised in the profit or loss.

If an investment property becomes owner-occupied property, it is reclassified as fixed assets or intangible assets at the date of transfer. The fair value of the investment property at the date of transfer becomes its carrying amount for subsequent accounting purposes. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. If an item of owner-occupied property becomes a property held for operating lease, it is reclassified as investment property from fixed assets or intangible assets from the date of transfer and will be carried at fair value at the date of transfer. If the fair value at the date of transfer is less than the previous carrying amount, the difference is recognised in the profit or loss; if the fair value at the date of transfer is higher than the previous carrying amount, the difference is included directly in owners' equity. On subsequent disposal of an investment property, the amount that was previously included in owners' equity as the result of reclassification is transferred to profit or loss.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, aircrafts and engines, rotables, motor vehicles and other equipment.

The fixed assets are recognised when it is probable that economic benefits associated with the fixed assets will flow to the Group and their cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Method of fixed assets depreciation

Fixed assets are depreciated using the straight-line method. The fixed assets are depreciated according to the initial costs less their estimated residual values within their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted net book values over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	40 years	5%	2.375%
Aircraft and engines' core components	20 years	5%	4.75%
Aircraft and engines' replacement components	5 - 7 years	0%	14.29% to 20%
Rotables	12 years	5%	7.9%
Motor vehicles	10 years	5%	9.5%
Machinery and equipment	8 - 14 years	5%	6.78% to 11.875%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) When the recoverable amount of the fixed assets is less than its book value, the book value is reduced to the recoverable amount (Note 2(19)).

(d) Basis of recognition and method of valuation of fixed assets acquired under finance leases

The lease which actually transfers all risks and rewards relating to the ownership of the assets refers to finance lease. The lower of the fair value of leased assets and present value of lowest leasing expenses is used as the initial book value of the leased assets. Differences between book value of leased assets and minimum lease payments are recorded as unrecognised finance charge.

The fixed assets acquired under finance leases adopt same depreciation policy with self-owned fixed assets. Fixed asset under lease is depreciated within its expected life if it is reasonably certain that the Group will be able to obtain the ownership of the leased asset upon the expiry of the lease term; otherwise, the leased asset is depreciated within lease term or expected life of the asset, whichever is shorter.

(e) Disposal of fixed assets

The book value of a fixed asset is derecognised on disposal or when no future economic benefit is expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2(19)).

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For specific borrowings funded for constructing of any qualifying assets that satisfy the requirements of capitalisation, the capitalised borrowing costs are the amount of interest expenses incurred less interest income generated from unused loans or investment income/loss earned from temporary investment.

For general borrowings used to acquire or construct any qualifying assets that satisfy the capitalisation requirements, the capitalised amount of borrowing costs is determined based on the excess of accumulated capital expenditure over the weighted average of capital expenditure funded by specific borrowings multiplied by the weighted average of actual interest rate of the general borrowings. The actual interest rate is used to discount the future cash flows during anticipated period or applicable shorter time to the originally recognised amount of the borrowings.

(17) Intangible assets

Intangible assets stand for land use rights, which are measured at actual cost.

Land use rights are amortised on the straight-line basis over the period of the land use rights of 40 to 70 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

Review of estimated useful life and amortisation method for land use rights is performed at each year-end, with adjustment made as appropriate.

If the recoverable amount of intangible asset is less than its carrying amount, the carrying amount can be reduced to the recoverable amount (Note 2(19)).

(18) Long-term prepaid expenses

Long-term prepaid expenses include costs on pilot recruiting and training and other expenditures that have been made but should be recognised as expenses over more than one year in the current and subsequent periods. Long term prepaid expenses are amortised on a straight line basis over the beneficial periods and stated at net amount after deducting accumulated amortisation from the actual expenses.

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested for impairment at least every year, irrespective of whether there is any indication that the assets may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Except for the compensation paid to the employee due to termination of the employment relationship, employee benefits are recognised as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

(21) Profit distribution

Cash dividend is recognised as a liability in the period in which it is approved by shareholders meeting.

(22) Provisions

Provisions for onerous contracts etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(23) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

(a) Rendering of services

(i) Traffic revenue

Passenger and cargo revenue are recognised as traffic revenue when the transportation services are provided. The proceeds from sold but unused tickets for services pending to render is recognised as liabilities and to be recorded as advances from customers – sales in advance of carriage ("SIAC").

(ii) Commission income

Commission income is arisen from sales of tickets, acting as the agent of other airline companies, and is recognised when the tickets are sold.

(iii) Other revenue

Other revenues include cancelled ticket processing fee etc. These revenues are recognised at the time when the corresponding services are provided.

(b) Frequent flyer programme

The Group operates a frequent flyer programme, under a name of "Fortune Wind Club", which provides travel awards to programme members based on accumulated mileages. According to the rewarding policy of the programme, programme members are eligible to redeem the mileages for gifts or free air tickets. The Group accounts for the frequent flyer mileages using deferred revenue method, under which revenue received in relation to mileage earning flight is allocated, based on the fair value, between the flight and mileages earned by the programme member. The value attributed to the award mileages is deferred as a liability – deferred revenue until the mileages are redeemed or expired upon which the relevant deferred revenues are recognised as revenue.

(c) Transfer of asset use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

Aircraft lease income and other rental income under operating leases are recognised on a straight-line basis over the lease periods.

(24) Government grants

Government grants represent monetary or non monetary assets freely offered by government, including tax refund and flight routes subsidy.

Government grants are recognised when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grant in monetary asset are recognised at the amount of receipt or to be received. Government grant in non-monetary asset are recognised at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount.

Government grants related to assets are recognised as deferred revenue and credited to the income statement over the expected useful lives of the related assets. The government grants which are measured at nominal amount are directly recorded into profit or loss in the period when they are recognised.

Government grants related to income, that used to compensate future related expenses or losses, are recognised as deferred revenue and credited to income over the years in which related expenses or losses are recognised. Government grants to compensate expenses or losses that already incurred are recognised as income directly.

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, and deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and deferred tax liabilities which meet the following conditions at the same time can be stated at the net amount after offset:

- Deferred tax assets and deferred tax liabilities are related with the same taxpayer and imposed by the same tax administration.

- The Group is entitled to settle its tax assets and tax liabilities with the net amount.

(26) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Assets leased in under operating lease (the Group is a lessee)

Lease payments under an operating lease are charged to the profit and loss on a straight-line basis over the period of the lease.

(b) Assets leased out under operating lease (the Group is a lessor)

Lease rental income arising from operating lease is recognised using the straight-line method over the lease term. Direct costs relating to a lease transaction, if significant, are first capitalised then amortised in the profit and loss over the lease term along with the recognition of the related lease income. If the direct costs for the lease are small, the amounts should be directly expensed off. Contingent rentals are recognised in the period which it actually incurs.

(c) Assets acquired under finance lease (the Group is a lessee)

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(d) Sales and leaseback

For sales and leaseback transaction resulting in finance lease, the difference between the sales proceed and the carrying amount of the asset is deferred and amortised over the depreciation period of the leased assets, as the adjustment to the depreciation charges.

For sales and leaseback transaction resulting in an operating lease, the difference between the sales proceeds and the carrying amount of the asset is recognised immediately in the income statement, if there is conclusive evidence that the transaction is entered at fair value. If the transaction is not entered at the fair value and the selling price is below the fair value, the loss is recognised in the income statement; however, if the loss will be compensated by future lease rental below the market price, the loss is deferred and amortised over the leasing period. If the selling price is higher than the fair value, the difference between fair value and the selling prices is deferred and amortised over the lease period.

(27) Routine maintenance and overhaul costs

Routine repairs and maintenance costs are charged to the income statement as and when incurred.

For aircraft and engines owned or held under finance leases by the Group, overhaul costs which meet the definition of fixed assets are capitalised as a component of fixed assets and depreciated over the overhaul cycles. In respect to aircrafts and engines under operating leases, the Group has obligations to fulfil certain return conditions upon expiration of the leases. Provisions for the estimated costs of the overhauls and checks for the return conditions are based on the actual usages (i.e. flying hours/cycles) over the estimated periods between overhauls. All other overhaul expenses incurred during the operating lease periods are charged to the income statement as and when incurred.

(28) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(29) Critical accounting estimates and judgments

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Taxation

The Group operates businesses in various regions and pays various taxes. There are many transactions and events for which the ultimate tax determination is uncertain during the Group's ordinary course of business. Significant judgment is required from the Group in determining the provision for taxes in accordance with applicable tax rules and other relevant policies. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the initially recognised amount of tax payable and relevant profit and loss.

Moreover, recognition of deferred income tax assets for tax losses depends, to a large extent, upon management's judgment as to the ability to generate sufficient future taxable profit to offset the tax losses and deductible temporary differences. Calculation of future taxable profits involves a lot of judgments and estimations, together with the consideration of the tax planning strategies and overall economic environment. Different judgments and estimates will affect the recognition and measurement of deferred income tax assets.

(b) Fixed assets depreciation

Depreciation of components related to overhauls of aircraft and engine is calculated based on estimated overhaul costs and overhaul interval. Such estimates are conducted in accordance with the Group's historical experience with similar aircraft and engine models. Depreciation of other fixed assets is calculated based on estimated useful life. The estimated useful life, the estimated net residual value of the fixed assets and the depreciation method applied to the assets are reviewed, and adjusted at each year-end. Different estimation may affect the depreciation amount and the profit and loss for the period.

(c) Provision for checks and overhauls for return conditions for aircraft and engines under operating leases

Provision for checks and overhauls to be conducted to fulfil the return conditions for aircraft and engines under operating leases is made based on the estimated costs of checks and overhaul to be required at the end of the leases. Such estimates need to take into account anticipated flying hours, flying cycles, overhaul interval and overhaul costs to be incurred at the end of the lease. These judgments or estimates are based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Different judgments or estimates would affect the estimated provision for the costs of return condition checks and overhauls.

(d) Fair value of frequent flyer mileage points

The fair value of frequent flyer mileage points is estimated based on redemption rates and the fair value of redeemable items. The redemption rate is estimated based on historical experience and projections for the future. The fair value of the redeemable item is estimated with reference to the contracted prices and the average ticket prices throughout the year. Should different redemption rates and the fair value of redeemable items are applied, the fair value of frequent flyer mileage points will change significantly.

(e) Fair value of investment property

The fair value of an investment property is determined by either the income capitalisation approach or direct comparison approach. The income capitalisation approach is a method of valuation under which the fair value of an investment property is determined by analysing the net rental income derived from the existing and prospective tenancies. The direct comparison approach is to estimate the market value of an investment property by making reference to comparable properties and sales transactions as available in the relevant market. The variance in future rental income and selected property prices may have significant impact on the Group's assessment of the fair value of the investment property.

(f) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(23) to the financial statements. Unused tickets are recognised in traffic revenues when management believes that the uplift obligation ceases. Management evaluates the balance of SIAC periodically and records any adjustments, which can be material, in the period the evaluation is completed. These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognising revenue for any unused air tickets and the related sales price, which affect the timing and amount of revenue recognition.

3 TAXATION

(1) Corporate income tax

In accordance with "Corporate Income Tax Law of the People's Republic of China"《中華人民共和國企業所得稅法》, the applicable corporate income tax rates of the Company and Golden Deer, a subsidiary incorporated in Special Economic Zone of Hainan Province, gradually increased to 25% within for years from 2008 to 2012. The applicable corporate income tax rates for 2012 are 25% (2011: 24%).

Pursuant to the "Notes on relevant procedures for changing the implementation of West Development Strategy"《關於深入實施西部大開發戰略有關企業所得稅問題的公告》(2012 No.12) issued by the State Administration of Taxation, enterprises located in western region and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in West Region"《西部地區鼓勵類產業目錄》, main operation revenue accounts for over 70% of its total revenue, will be entitled to a reduced income tax rate of 15% from January 2011 to 31 December 2020 upon approval from tax authorities. As approved by Shanxi province Development and Reform Committee and Tax Bureau (2012 No.007), the applicable corporate income tax rate for the Company's subsidiary, Chang'an Airlines, is 15% starting from 2012.

For the subsidiaries established in other regions, the applicable corporate income tax rates for 2012 are 25%.

(2) Business tax

Traffic revenues, commission income and certain other revenues generated by the Group are subject to business tax. The applicable tax rate of traffic revenues is 3%. Effective from 1 September 2012, the domestic traffic revenues of Xinhua Airlines, a subsidiary of the Company, are subject to value added tax (Note 3(4)). The applicable tax rate of commission income and certain other revenues is 5%.

Pursuant to the "Notice of exemption of business tax on the provision of international transportation services" Caishui [2010] No. 8 ("《財政部、國家稅務總局關於國際運輸勞務免征營業稅的通知》(財稅【2010】8號)") jointly issued by MoF and the State Administration of Taxation on 23 April 2010, effective from 1 January 2010, the Group's revenues from the provision of international transportation services are exempt from business tax.

(3) City maintenance and construction tax and education surcharges

In accordance with "Notice of alignment of the institution of city maintenance and construction tax and education surcharges of foreign and domestic enterprises and individuals – Guofa 2010 No.35" issued by the State Council on 18 October 2010 ("國發【2010】35號《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》"), the Company is subject to city maintenance and construction tax and education surcharges which is calculated based on the payments of the business tax and VAT starting from 1 December 2010. The applicable city maintenance and construction tax and education surcharges rates of the Group are 7% and 5% respectively.

(4) Value added tax ("VAT")

According to the related tax regulation, the imported aircraft and aircraft flight equipment of the Group are subject to VAT of 4%.

According to "The Notice issued by the Ministry of Finance regarding tax issues in 2011 on imported aircraft and engine maintenance equipment used by domestic airline companies on international routes, Hong Kong and Macao routes" CaiGuaiShui [2011] No. 1 ("《財政部關於2011年度對營運國際航線、港澳航線和支線航線的國內航空公司進口維修用航空器材稅收問題的通知》(財關稅【2011】1號)"), issued by MoF on 26 January 2011, by approval of the State Council, the imported aircraft and engine maintenance equipment (including parts and components sent to overseas for maintenance) used by domestic airline companies on international routes, Hong Kong and Macau routes are exempt from import tariffs and VAT on imports or enjoy a lower tax rate in 2011.

The Company was qualified VAT general taxpayer from September 2012. Import and export of commodities and materials transfers are subject to value added tax of 17%.

Pursuant to the "Notice of Issuing the Pilot Plan for Levying Value Added Tax in Lieu of Business Tax" Caishui [2011] No. 110 ("《關於印發《營業稅改征增值稅試點方案》的通知》(財稅【2011】110號)") and the "Notice of Nominating 8 Pilot Cities Including Beijing for Levying Value Added Tax in Lieu of Business Tax on

Transportation Industry and Partial Modern Service Industry" Caishui [2012] No. 71 ("《關於在北京等8省市開展交通運輸業和部分現代服務業營業稅改征增值稅試點的通知》(財稅【2012】71號)") jointly issued by Ministry of Finance and the State Administration of Taxation, effective from 1 September 2012, the domestic traffic revenues of Xinhua Airlines, a subsidiary of the Company, are subject to value added tax. The applicable output tax rate of domestic traffic revenues is 11%, and the VAT input arising from purchases of fuel, inflight catering and fixed assets can be used to deduct VAT output.

Certain subsidiaries of the Company are small-scale VAT taxpayer and the applicable VAT rate is 3%.

(5) Custom duty

According to "The Notice on the Tariff Classification of Aircrafts and Related Parts and questions on the tax rates applicable to leased aircrafts after adjustment of import duty rate" Shushui [1998] No. 472 ("署稅【1998】472號文《關於飛機及其零部件稅則歸類和進口稅率調整後租賃飛機適用稅率問題的通知》") issued by State Customs Department on 12 August 1998, the aircraft leased and airframe imported after 1 October 1997 are subject to custom duty at a rate of 1%. The aircraft equipments, cabin equipments and spare parts are subject to custom duties according to rates specified by "The Notice on the adjustment of import and export duty rates of several categories of goods" Shuiweihui [1999] No. 1 ("《關於調整若干商品進出口關稅稅率的通知》(稅委會【1999】1號)").

(6) Domestic infrastructure levies, Civil aviation airport construction fee and aviation Development Fund

Prior to 1 April 2012, according to the "Notice of Domestic Infrastructure Levies Collection Rules Minhang Guicaifa [2004] No. 94" ("民航規財發【2004】94號關於印發《民航基礎設施建設基金徵收細則》的通知"), the Group is required to pay domestic infrastructure levies in accordance with Caizong [2004] No. 38 ("財綜【2004】38號") issued by Ministry of Finance (hereafter referred to as "MOF"). Domestic infrastructure levies are calculated according to type of the route, maximum flight weight, flying distance etc. and charged to costs as and when incurred.

According to "Notice on the Changes In Collection Method of Civil Aviation Airport Construction Fee " (Minhangguicaifa [2004] No. 109) ("民航規財發【2004】109號《關於改變民航機場管理建設費徵收方式的通知》"), "Notice on the Reform of The Collection and Management Method of Civil Aviation Airport Construction Fee issued by MOF and ACCA" Caizong [2004] No. 51 ("財綜【2004】51號《財政部、民航總局關於改革民航機場管理建設費徵收管理方式等有關問題的通知》") and "The Regulations on Related Accounting Treatment on the Civil Aviation Airport Construction Fee after Reform of Collection Management Method" Caikuai [2004] No. 8 ("財會 [2004]號財政部關於印發《民航機場管理建設費徵收管理方式改革後有關會計處理規定》") issued by MOF, passengers are required to pay civil aviation airport construction fee when purchasing air tickets. The fee for domestic route is RMB 10 Yuan or 50 Yuan for each person and for international routes is RMB 90 Yuan for each person. Civil aviation airport construction fee is separately shown in the ticket, and is collected by airline companies on behalf of the government.

In addition, according to "Notice for the Collection, Use and Management of the Civil Aviation Development Fund" (Caizong [2012] No. 17) ("財綜【2012】17號《民航發展基金徵收使用管理暫行辦法》") issued by MoF, effective from 1 April 2012, the former regulations related to Civil Aviation Airport Construction Fee and Civil Aviation Infrastructure Construction Fund as described above are annulled. The Civil Aviation Airport Construction Fee and Civil Aviation Infrastructure Construction Fund as defined in the former regulations are merged as Civil Aviation Development Fund under the new rule. Airline companies are required to pay the Civil Aviation Development Fund according to types of routes, maximum flight weight, flying distance and the relevant collection standards, payments of such fund are charged to operating costs. The passengers are required to pay Civil Aviation Development Fund and the relevant rates are 50 Yuan per passenger for domestic route; 90 Yuan per passenger (including 20 Yuan of tourism development fund) for international and regional routes. Airline companies or ticket sales agencies collect the Civil Aviation Development Fund from passengers when air tickets are sold, and the amount of the fund is showed separately from the air fare.

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries obtained through establishment or investment as at 31 December 2012

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Hainan Hang Xiang	Direct control	Haikou	Investment	RMB10,000,000	Project planning and management service of industrial and civil construction project; hotel, tourism investment management and consulting; construction machinery and equipment leasing; sales of machineries, electronic equipments, building and ornamental materials	Limited liability company	Li Fanghui	708876980
Hainan Airlines (Hongkong)	Direct control	Hong Kong	Investment	HKD70,200,000	Acting as the agent of Hainan Airlines in Hong Kong and Macao, such as import and export, equipment lease, information technology services, high technology development, consulting, investment and capital operations, etc.	Limited liability company	Wang Yingming	636400456
Golden-Deer Sales	Direct control	Haikou	Transportation	RMB8,000,000	Agency of flight ticket sales, air freight and airplane charter business.	Limited liability company	Du Xiaoping	28402951-7

	Accumulated capital contribution as at 31 December 2012	Balances of other items forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests as at 31 December 2012	Amount offsetting minority interests (profit and loss) included in minority interest (balance sheet)
	RMB'000						
Hainan Hang Xiang	10,000	–	100%	100%	Yes	–	–
Hainan Airlines (Hongkong)	58,417	–	100%	100%	Yes	–	–
Golden-Deer Sales	7,600	–	95%	95%	Yes	5,982	–
	76,017	–				5,982	–

(b) Subsidiaries obtained through establishment or investment as at 31 December 2012

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Xinhua Airlines	Direct control	Beijing	Transportation	RMB2,258,570,000	Domestic and international passenger and cargo air transportation	Limited liability company	Yang Jinglin	10001095-1
Chang'an Airlines	Direct control	Xi'an	Transportation	RMB1,754,390,000	Domestic and international passenger and cargo air transportation	Limited liability company	Wang Jinsheng	71974795-7
Beijing Kehang	Direct control	Beijing	Real estate development	RMB150,000,000	Catering, accommodation, project investment management, real estate development, property management, hotel management, etc	Limited liability company	Deng Yao	75131148-3
Shanxi Airlines	Direct control & indirect control	Taiyuan	Transportation	RMB658,400,000	Domestic and international passenger and cargo air transportation	Limited liability company	Wang Xiaodong	73190009-6
Brussels EDIP	Direct control	Brussels	Hotel operation	EUR7,716,000	Hotel management, finance, real estate development	Limited liability company	Zhang Jinsong	BE0435779032
Brussels DATA	Direct control	Brussels	Hotel operation	EUR248,000	Hotel management, tour service	Limited liability company	Zhang Jinsong	BE0860905979
Brussels SODE	Direct control	Brussels	Hotel operation	EUR2,163,000	Hotel management, tour service, finance, real estate development agency	Limited liability company	Zhang Jinsong	BE0407675657

	Accumulated capital contribution as at 31 December 2012	Balances of other items in substance forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests	Amount offsetting minority interests (profit & loss) included in minority interests (balance sheet)
	RMB'000					RMB'000	
Xinhua Airlines	3,746,107	–	100%	100%	Yes	–	–
Chang'an Airlines	1,799,408	–	100%	100%	Yes	–	–
Beijing Kehang	1,728,341	–	95%	95%	Yes	105,674	–
Shanxi Airlines	761,880	–	100%	100%	Yes	–	–
Brussels EDIP	62,996	–	100%	100%	Yes	–	–
Brussels DATA	61,764	–	100%	100%	Yes	–	–
Brussels SODE	59,918	–	100%	100%	Yes	–	–
	8,220,414	–				105,674	–

(2) Entities newly included in consolidation scope current year

	Incorporation Date	Net assets as at 31 December 2012	Net loss in 2012
		RMB'000	RMB'000
Hainan Hang Xiang (Note 4 (1)(a))	23 October 2012	8,089	(1,911)

(3) Entities no longer included in consolidation scope current year

In December 2012, HNA Aviation Holding Company increased its investment in Hunan Golden-Deer, which previously was a wholly owned subsidiary of the Company. After the capital increase, the Company's percentage of shares in Hunan Golden-Deer was diluted to 47.73%. Thereafter, the investment in Hunan Golden-Dear was transferred from subsidiary to associate and measured by using equity method of accounting.

	Disposal date	Net asset as at disposal date	Net loss from 1 January 2012 to disposal date
		RMB'000	RMB'000
Hunan Golden-Deer (Note 5 (10)(a)(ii))	24 December 2012	449,757	(243)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
	('000)		RMB'000	('000)		RMB'000
Cash on hand						
RMB			1,901			579
USD	35	6.2855	220	50	6.3009	314
Others			288			1,067
Subtotal			2,409			1,960
Cash at banks and financial institutions[(a)]						
RMB			18,365,549			14,133,939
USD	30,730	6.2855	193,153	56,243	6.3009	354,379
Others			72,877			108,039
Subtotal			18,631,579			14,596,357
Other cash balances[(b)]						
RMB			3,678,415			4,462,261
Total			22,312,403			19,060,578

(a) As at 31 December 2012, the cash at bank and on hand included deposits of RMB4,699,439 thousand (31 December 2011: RMB4,449,149 thousand) placed in HNA Finance, a related party of the Group (Note 7(6)), among which, RMB3,213,042 thousand (31 December 2011: RMB2,862,752 thousand) was recorded in cash at banks and financial institutions, and RMB1,486,397 thousand (31 December 2011: RMB1,586,397 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Term deposits (Note)	1,525,000	1,750,000
Security deposits for notes payable	1,566,038	1,390,599
Other restricted deposits	587,377	1,321,662
	3,678,415	4,462,261

Note: As at 31 December 2012, term deposit of RMB1,165,000 thousand (31 December 2011: RMB1,250,000 thousand) was pledged for short-term borrowings of RMB361,500 thousand and long-term borrowings of RMB599,250 thousand (Note 5(20)&(29)).

(c) The Company borrowed in USD borrowings pledged with RMB payments through domestic banks to pay aircraft rentals and prepayments which are denominated in USD. Pursuant to the arrangements and the agreements signed between the Company and the banks, upon maturities, the impawned RMB deposits and USD borrowings would be settled on net basis at pre-agreed exchange rates. According to the Accounting Standards for Business Enterprises, the Company presents the financial assets and financial liabilities under the above agreements with net balance in the balance sheet. The corresponding balances of such financial assets and financial liabilities before offset are as follows:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Other cash balances – restricted cash deposits	–	381,352
Short-term borrowings	–	(381,352)

(2) Notes receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Trade acceptance notes	–	3,117,336

As at 31 December 2011, the balance of notes receivable represented the trade acceptance notes issued by Grand China Air, the major shareholder of the Company, for acquiring the subsidiaries (i.e. Hainan Guoshan and Hainan Hangpeng) and an associate (i.e. Haidao Construction) of the Company. The balance was settled in 2012.

(3) Accounts receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Accounts receivable	570,454	626,755
Less: Provisions for bad debts	(28,803)	(28,423)
	541,651	598,332

(a) The aging of accounts receivable is analysed below:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	534,431	598,332
1 to 2 years	7,600	–
2 to 3 years	–	–
3 to 4 years	–	–
4 to 5 years	–	–
5 to 6 years	–	–
Over 6 years	28,423	28,423
	570,454	626,755

(b) Accounts receivable are analysed by categories as follows:

	31 December 2012				31 December 2011			
	Amount	% of total balance	Amount	% of total provision for bad debts	Amount	% of total balance	Amount	% of total provision for bad debts
	RMB'000		RMB'000		RMB'000		RMB'000	
Provisions for bad debts by group								
– Group by aging analysis method	477,160	83%	(1,506)	0%	380,138	61%	(1,126)	0%
– Group by related parties	65,997	12%	–	–	219,320	35%	–	–
Amounts that are not individually significant but with provisions for bad debts assessed individually	27,297	5%	(27,297)	100%	27,297	4%	(27,297)	100%
	570,454	100%	(28,803)	5%	626,755	100%	(28,423)	5%

(c) At 31 December 2012, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2011: Nil).

(d) Provisions for bad debts for accounts receivable grouped using aging analysis method are as follows:

	31 December 2012				31 December 2011			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Within 1 year	468,434	98%	–	–	379,012	100%	–	–
1 to 2 years	7,600	2%	(380)	5%	–	–	–	–
2 to 3 years	–	–	–	–	–	–	–	–
3 to 4 years	–	–	–	–	–	–	–	–
4 to 5 years	–	–	–	–	–	–	–	–
5 to 6 years	–	–	–	–	–	–	–	–
Over 6 years	1,126	0%	(1,126)	100%	1,126	0%	(1,126)	100%
	477,160	100%	(1,506)	0.3%	380,138	100%	(1,126)	0.3%

(e) As at 31 December 2012, accounts receivable that were not individually significant but with specific provisions for bad debts are analysed as follows:

	Gross amount	Provisions for bad debts	% of provisions for bad debts
Customer A	8,184	(8,184)	100%
Customer B	4,478	(4,478)	100%
Customer C	2,791	(2,791)	100%
Customer D	1,693	(1,693)	100%
Others	10,151	(10,151)	100%
	27,297	(27,297)	100%

As at 31 December 2012, as these accounts receivables had been long outstanding and the Group was unable to get contact with the debtors, the management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(f) No receivables for which full or large portion bad debt provisions were made in prior years have been recovered or reversed during the current year.

(g) As at 31 December 2012, accounts receivable did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2011: Nil).

(h) As at 31 December 2012, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total accounts receivable balance
Customer 1	Third party	101,120	Within 1 year	18%
Customer 2	Third party	48,684	Within 1 year	9%
Yisheng Holding	Under HNA Group's control	34,597	Within 1 year	6%
Customer 3	Third party	31,326	Within 1 year	5%
Customer 4	Third party	25,990	Within 1 year	5%
		241,717		43%

(i) Accounts receivable from related parties are analysed below:

		31 December 2012			31 December 2011		
	Relationship with the Group	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Yisheng Holding	Under HNA Group's control	34,597	6%	–	45,274	7%	–
Xinsheng Info Tech	Under HNA Group's control	19,087	3%	–	102,896	17%	–
HNA Cargo	Under HNA Group's control	4,333	1%	–	19,903	3%	–
Tianjin Airlines	Under HNA Group's control	–	–	–	42,479	7%	–
Others		7,980	1%	–	8,768	1%	–
		65,997	11%	–	219,320	35%	–

(j) Accounts receivable include the following balances demonstrated in foreign currency:

	31 December 2012			31 December 2011		
Foreign currency	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	4,535	6.2855	28,506	2,568	6.3009	16,181
Others			10,450			13,973
			38,956			30,154

(4) Other receivables

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Amounts due from related parties (Note)	19,503	1,363,426
Others	239,322	227,822
	258,825	1,591,248
Less: Provision for bad debts	(55,264)	(55,264)
	203,561	1,535,984

Note: As at 31 December 2011, among the balance of amounts due from related parties, RMB1,209,574 thousand and RMB155,875 thousand were due from Grand China Air and HNA Real Estate Holding respectively, which represented the unsettled considerations for the equity shares disposed. The balance was settled in 2012.

(a) The aging of other receivables is analysed below:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Within 1 year	176,345	1,528,422
1 to 2 years	20,681	9,222
2 to 3 years	9,160	1,465
3 to 4 years	1,276	1,505
4 to 5 years	1,446	870
5 to 6 years	701	2,080
Over 6 years	49,216	47,684
	258,825	1,591,248

(b) Other receivables are analysed by category as follows:

	31 December 2012				31 December 2011			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Amounts that are individually significant and with specific provision for bad debts (c)	11,799	5%	(11,799)	100%	11,799	1%	(11,799)	100%
Provision for bad debts by group								
– Group by aging analysis method (d)	79,278	31%	(14,382)	18%	115,945	7%	(14,382)	12%
– Aircraft leasing security deposits and maintenance funds receivable	119,162	45%	–	–	70,995	4%	–	–
– Group by related parties (i)	19,503	8%	–	–	1,363,426	86%	–	–
Amounts that are not individually significant but with specific provision for bad debts (e)	29,083	11%	(29,083)	100%	29,083	2%	(29,083)	100%
	258,825	100%	(55,264)	21%	1,591,248	100%	(55,264)	3%

(c) As at 31 December 2012, other receivables that were individually significant and with specific provisions for bad debts are analysed below:

	Book balance	Provision for bad debts	% of provision for bad debts
	RMB"000	RMB"000	
Other receivable A	11,799	(11,799)	100%

As at 31 December 2012, as these other receivables have been long outstanding and the Group was unable to get contact with the debtors, management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(d) Provision for bad debts for other receivables grouped using aging analysis method are as follows:

	31 December 2012				31 December 2011			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Within 1 year	53,093	67%	–	–	89,724	77%	–	–
1 to 2 years	2,933	4%	(75)	3%	7,640	7%	(229)	3%
2 to 3 years	7,597	10%	(324)	4%	2,656	2%	(186)	7%
3 to 4 years	1,144	1%	(283)	25%	1,220	1%	(312)	26%
4 to 5 years	1,207	1%	(553)	46%	1,089	1%	(481)	44%
5 to 6 years	634	1%	(477)	75%	1,755	2%	(1,313)	75%
Over 6 years	12,670	16%	(12,670)	100%	11,861	10%	(11,861)	100%
	79,278	100%	(14,382)	18%	115,945	100%	(14,382)	12%

(e) As at 31 December 2012, debtors that were not individually significant but with specific provision for bad debts are analysed below:

	Book balance	Provision for bad debts	% of provision for bad debts
	RMB'000	RMB'000	
Debtor 1	6,354	(6,354)	100%
Debtor 2	5,457	(5,457)	100%
Debtor 3	5,280	(5,280)	100%
Debtor 4	3,185	(3,185)	100%
Debtor 5	2,500	(2,500)	100%
Others	6,307	(6,307)	100%
	29,083	(29,083)	

As at 31 December 2012, as these other receivables have been long outstanding and the Group was unable to get contact with the debtors, management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(f) No other receivables for which full or substantial large portion bad debts for provision were made in prior years have been recovered or reversed during the current year.

(g) Other receivables due from the entities that hold over 5% (5% inclusive) voting shares of the Company are analysed as follows:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Grand China Air	–	1,135,375

(h) As at 31 December 2012, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount	Aging	% of total balance
		RMB'000		
Other Receivable 2	Third party	47,228	Within 1 year	18%
Other Receivable 3	Third party	24,498	Within 1 year	9%
Other Receivable 4	Third party	24,000	Within 1 year	9%
Other Receivable 5	Third party	13,681	Within 1 year	5%
Other Receivable 6	Third party	11,799	Within 1 year	5%
		121,206		46%

(i) Other receivables due from related parties are analysed below:

		31 December 2012		31 December 2011	
	Relationship with the Group	Amount	% of total balance	Amount	% of total balance
		RMB'000		RMB'000	
HNA Real Estate Holding	Under HNA Group's control	169	–	156,069	10%
Grand China Air	Shareholder holding over 5% voting shares	–	–	1,135,375	71%
Yangtze River Express	Under HNA Group's control	–	–	44,802	3%
Others		19,334	8%	27,180	2%
		19,503	8%	1,363,426	86%

(j) Other receivables include the following balances denominated in foreign currencies:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	14,758	6.2855	92,762	12,276	6.3009	77,350
Others			2,207			4,110
			94,969			81,460

(5) Interest receivable

	31 December 2012	31 December 2011
	RMB'000	RMB'000
HNA Finance (Note 7(6))	169,806	121,444
Others	60,482	68,703
	230,288	190,147

(6) Advances to suppliers

(a) The aging of the advances to suppliers is analysed as follows:

	31 December 2012		31 December 2011	
Aging	**Amount**	**% total balance**	**Amount**	**% total balance**
	RMB'000		**RMB'000**	
Within 1 year	267,167	82%	413,969	91%
1 to 2 years	50,544	15%	22,186	5%
2 to 3 years	6,255	2%	7,824	2%
Over 3 years	2,577	1%	8,561	2%
	326,543	100%	452,540	100%

As at 31 December 2012, advances to suppliers with aging over 1 year amounted to RMB59,376 thousand (31 December 2011: RMB38,571 thousand), which mainly represented the prepayment for maintenance expenses. As the related services have not yet been rendered by the suppliers, such amounts have not been cleared.

(b) As at 31 December 2012, the top 5 largest advances to suppliers with are analysed below:

	Relationship with the Group	**Amount**	**% to the total balance**	**Time of payment**	**Reasons for unsettlement**
		RMB'000			
Company 1	Third party	54,585	17%	2012	Prepayment for flight equipment, goods not yet delivered
Company 2	Third party	40,240	12%	2012	Prepaid fuel cost, goods not yet delivered
Company 3	Third party	22,471	7%	2012	Prepaid fuel cost, goods not yet delivered
Company 4	Third party	21,806	7%	2012	Prepaid fuel cost, goods not yet delivered
Company 5	Third party	18,706	6%	2012	Prepaid custom duty and VAT, not yet cleared
		157,808	49%		

(c) As at 31 December 2012, no advanced payments to entities which hold over 5% (5% inclusive) of voting shares of the Company were included in the advances to suppliers (31 December 2011: Nil).

(d) The advances to suppliers include the following balances denominated in foreign currencies:

	31 December 2012			31 December 2011		
Foreign currency	**Original currency**	**Exchange rate**	**RMB equivalent**	**Original currency**	**Exchange rate**	**RMB equivalent**
	('000)		**RMB'000**	**('000)**		**RMB'000**
USD	40,899	6.2855	257,073	40,912	6.3009	257,782
EUR	540	8.3176	4,494	622	8.1625	5,077
Others			342			1,931
			261,909			264,790

(7) Inventories

	31 December 2012			31 December 2011		
	Gross amount	Provision for declines in value of inventories	Net book value	Gross amount	Provision for declines in value of inventories	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cabin supplies	42,415	–	42,415	42,482	(83)	42,399
Consumables	–	–	–	58,714	–	58,714
Others	28,099	–	28,099	25,143	–	25,143
	70,514	–	70,514	126,339	(83)	126,256

(8) Other current assets

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Available-for-sale financial assets with maturity within 1 year (a)	2,000,000	–

(a) In December 2012, the Group purchased short-term financial products from a third party commercial bank at an aggregate amount of RMB 2 billion. These financial products are not capital guaranteed and with a maximum annual yield of 5.5%. The investment of the financing products are limited to financial instruments identified by supervision department of the financial market, including but not limited to cash, bank deposits by agreement, bond repurchase, government loans, financial bond, central bank bill, SCP, short-term commercial paper, corporate bond, MTN, ABS and financial instrument with fixed income and low risk.

(9) Available-for-sale financial assets

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Yanshan Funds (a)	500,000	500,000
Available-for-sale equity instruments (b)	361,446	399,684
Guokaijingcheng investment fund (c)	200,000	–
	1,061,446	899,684

(a) The Company and a third party (the "Partner") set up a limited partnership enterprise with a period of 10 years. The Company contributed capital of RMB500 million and taken limited liabilities. The Partner contributed capital of RMB3 million and owned management and control rights to the partnership enterprise. As the Company has no control, jointly control or significant influences to the partnership enterprise, the investment in the partnership enterprise was classified as available-for-sale financial assets.

(b) As at 31 December 2012, the Group held 34,260,268 shares of China Merchants Securities (31 December 2011: 38,704,245 shares) which was presented in fair value. The fair value of these shares as at 31 December 2012 were determined based on the closing price of the trading shares quoted on Shanghai Stock Exchange at 31 December 2012. In 2012, China Merchants Securities passed a profit appropriation resolution of RMB1.5 Yuan cash dividend for each 10 shares. The cash dividend of RMB4,636 thousand was received in 2012 and recorded as investment income (Note 5(45)). During the year 2012, the Company sold 7,796,291 shares of China Merchants Securities and incurred a loss of RMB 40,116 thousand. which has been recorded in investment loss for the current year (Note 5(45)).

In 2012, since the share price of China Merchants Securities have been constantly lower than the average purchase price of the Company for over a year, the Company has performed an impairment assessment. In consideration of the price fluctuation rate and subsequent share price fluctuation etc., a loss of RMB 86,104 thousand caused by the decline in fair value in 2012 was transferred out from the capital reserve and charged to impairment loss of the income statement (Note 5(43)).

(c) In 2012, the Company and other parties jointly set up Guokaijingcheng investment fund and the Company contributed RMB200 million to the fund. The registrated capital of the fund is RMB6,840 million with an operation period of 10 years. Each investor enjoyed the voting rights based on their respective ownership percentages. Since the Company only has 3% ownership in the fund, the Company has no control, common control or significantly impact on the fund. Therefore, this investment was recognised as available-for-sale financial assets.

(10) Long-term equity investments

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Associates – without quoted prices (a)	6,565,997	3,142,678
Other long-term equity investments (b)	2,517,915	2,009,295
	9,083,912	5,151,973
Less: Provision for impairment of long-term equity investments	(6,774)	(6,774)
	9,077,138	5,145,199

The long-term equity investments held by the Group do not have any significant liquidity limitations.

(a) Associates

	Accounting method	Original investment cost	31 December 2011	Current year movements: Transferred from other investments	Current year movements: Addition or reduction of investment cost	Current year movements: Share of results of associate	Current year movements: Cash dividends declared	31 December 2012	% share-holding	% voting rights	Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in the current year
Bohai Trust[(i)]	Equity method	2,760,906	–	–	2,760,906	–	–	2,760,906	39.78%	39.78%	N/A	–	–
HNA Technology	Equity method	1,000,000	1,000,000	–	–	12,209	–	1,012,209	48.08%	48.08%	N/A	–	–
Lucky Air	Equity method	842,000	842,000	–	–	111,005	–	953,005	40.00%	40.00%	N/A	–	–
HNA Finance	Equity method	865,578	865,578	–	–	70,890	–	936,468	23.70%	23.70%	N/A	–	–
Hunan Golden-Deer[(ii)]	Equity method	450,000	–	450,000	–	–	–	450,000	47.37%	47.37%	N/A	–	–
Xi'an Chanba	Equity method	400,000	400,101	–	–	7,838	–	407,939	40.00%	40.00%	N/A	–	–
Other			34,999	–	–	10,471	–	45,470					
			3,142,678	450,000	2,760,906	212,413	–	6,565,997					

(i) In December 2012, the Group purchased 39.78% shares of Bohai Trust from the related parties namely, Haikou Meilan, HNA Hotel Holding, Yangtze Real Estate, Yanjing Hotel, HNA Technology at a total consideration of RMB2,761 million. Bohai Trust is mainly engaged in trust services and more details about its operation are set out in Note 7(3).

(ii) In December 2012, HNA Aviation Holding Company increased investment in Hunan Golden-Deer, which was a wholly subsidiary of the Company. After the capital increase, the Company's ownership percentage in Hunan Golden-Deer has been diluted to 47.73%. Thereafter, Hunan Golden-Deer has been classified as an associate of the Company and is accounted for by equity method of accounting.

(b) Other long-term equity investments

	Accounting method	Original investment cost	31 December 2011	Current year movement	31 December 2012	% Shareholding	% voting right	Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in current year	Cash dividends declared in current year
		RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000	RMB'000
HKAGH	Cost method	842,000	842,000	–	842,000	15.81%	15.81%	N/A	–	–	–
Tianjin Airlines	Cost method	19,000	713,000	–	713,000	17.59%	17.59%	N/A	–	–	–
Capital Airlines Holding(i)	Cost method	508,620	–	508,620	508,620	19.60%	19.60%	N/A	–	–	–
Haikou Meilan	Cost method	304,765	304,765	–	304,765	12.08%	12.08%	N/A	–	–	966
HNA Hotel Group	Cost method	58,161	58,161	–	58,161	19.00%	19.00%	N/A	–	–	–
Xin Guo Hotel	Cost method	40,000	31,952	–	31,952	13.33%	13.33%	N/A	–	–	–
Civil Aviation Information Network of China	Cost method	29,860	29,860	–	29,860	1.68%	1.68%	N/A	–	–	6,986
Yangtze River Express	Cost method	10,000	10,000	–	10,000	2.00%	2.00%	N/A	–	–	–
Others	Cost method	19,557	19,557	–	19,557				(6,774)	–	1,060
			2,009,295	508,620	2,517,915				(6,774)	–	9,012

(i) In December 2012, the Company purchased 19.60% shareholdings of Capital Airlines from related party HNA Tourism, a related party of the Company, at a consideration of RMB508,620 thousand.

(c) Investments in associates

Major financial information of the associates held by the Company in 2012 is outlined as below:

	% equity interest	% of voting right	31 December 2012 Total assets	31 December 2012 Total liabilities	31 December 2012 Net Assets	2012 Total assets	2012 Total liabilities
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bohai Trust	39.78%	39.78%	2,833,099	94,925	2,738,174	702,653	412,026
HNA technology	48.08%	48.08%	2,406,909	256,600	2,150,309	1,065,428	25,392
Lucky Air	40.00%	40.00%	7,122,967	5,170,561	1,952,406	3,303,043	277,513
HNA Finance	23.70%	23.70%	21,047,292	17,279,237	3,768,055	605,639	299,114
Hunan Golden Deer	47.37%	47.37%	450,007	250	449,757	–	(243)
Xi'an Chanba	40.00%	40.00%	1,026,361	6,531	1,019,830	26,125	19,593

(11) Investment properties

Items	Fair value as at 1 January 2012	Current year additions: Current year new additions	Current year additions: Changes in fair value	Current year reductions	Fair value as at 31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	5,468,083	9,966	–	(97,099)	5,380,950
Buildings	5,183,508	9,966	–	(97,099)	5,096,375
Land use rights	284,575	–	–	–	284,575
Changes in fair value	1,371,029	–	504,363	–	1,875,392
Buildings	1,239,551	–	504,363	–	1,743,914
Land use rights	131,478	–	–	–	131,478
Net book value	6,839,112	9,966	504,363	(97,099)	7,256,342
Buildings	6,423,059	9,966	504,363	(97,099)	6,840,289
Land use rights	416,053	–	–	–	416,053

For the investment properties located with active trading market, the fair values are valued using income projection or market comparison model.

As at 31 December 2012, the net book value of the investment properties was RMB7,256,342 thousand (31 December 2011: RMB6,839,112 thousand). The valuation of the investment properties with valuation date of 30 November 2012 was conducted by an independent appraiser and the market values of the investment properties were determined by the Company's management with reference to the valuation results.

In 2012, the total changes in the fair value of the investment properties of the Group amounted to RMB504,363 thousand (2011: RMB869,845 thousand), and was fully recognised in profit or loss for the year.

As at 31 December 2012, investment properties with book value of RMB4,229,656 thousand (31 December 2011: RMB3,217,121 thousand) were pledged for long-term borrowings (Note 5(29)(a)(i) and Note5(29)(d)(ii)).

As at 31 December 2012, the title certificates of certain buildings and land use rights with carrying amount of RMB2,442,344 thousand (31 December 2011: RMB2,410,321 thousand) were under the process of application. The Company's management believes that the lack of certificates of the buildings and land use rights has no material impact on the Group's operations.

(12) Fixed assets

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	41,623,649	5,991,349	(1,333,882)	46,281,116
Buildings	1,692,250	1,919,888	(136,273)	3,475,865
Aircraft and engines	36,786,747	3,867,068	(1,132,017)	39,521,798
Rotables	2,384,834	142,914	(1,388)	2,526,360
Motor vehicles	214,468	23,706	(16,243)	221,931
Machinery and equipment	545,350	37,773	(47,961)	535,162
Accumulated depreciation	(10,377,715)	(2,330,061)	820,728	(11,887,048)
Buildings	(380,708)	(41,536)	45,842	(376,402)
Aircraft and engines	(8,056,418)	(2,068,982)	733,681	(9,391,719)
Rotables	(1,435,225)	(159,876)	682	(1,594,419)
Motor vehicles	(151,816)	(13,469)	8,597	(156,688)
Machinery and equipment	(353,548)	(46,198)	31,926	(367,820)
Book value before impairment	31,245,934	–	–	34,394,068
Buildings	1,311,542	–	–	3,099,463
Aircraft and engines	28,730,329	–	–	30,130,079
Rotables	949,609	–	–	931,941
Motor vehicles	62,652	–	–	65,243
Machinery and equipment	191,802	–	–	167,342
Provision for impairment loss	(16,378)	–	–	(16,378)
Buildings	–	–	–	–
Aircraft and engines	–	–	–	–
Rotables	(16,378)	–	–	(16,378)
Motor vehicles	–	–	–	–
Machinery and equipment	–	–	–	–
Net book value	31,229,556	–	–	34,377,690
Buildings	1,311,542	–	–	3,099,463
Aircraft and engines	28,730,329	–	–	30,130,079
Rotables	933,231	–	–	915,563
Motor vehicles	62,652	–	–	65,243
Machinery and equipment	191,802	–	–	167,342

As at 31 December 2012, fixed assets with net book value of RMB21,546,792 thousand (31 December 2011: RMB20,279,400 thousand) and original cost of RMB27,022,311 thousand (31 December 2011: RMB24,852,368 thousand) were pledged for short-term borrowings of RMB625,000 thousand and long-term borrowings of RMB18,406,043 thousand (Note 5(20)&(29)).

For the year ended 31 December 2012, total amount of depreciation charges for fixed assets amounted to RMB2,330,061 thousand (2011: RMB2,173,908 thousand), which were charged to operating costs, selling and distribution expense, general and administrative expense at RMB2,288,391 thousand, RMB5,148 thousand and RMB36,522 thousand respectively (2011: RMB2,111,485 thousand, RMB4,740 thousand and RMB57,683 thousand respectively).

For the year ended 31 December 2012, constructions in progress with original cost of RMB4,373,498 thousand (2011: RMB3,284,746 thousand) were transferred to fixed assets.

(a) Fixed assets under financial leases

	Cost	Accumulated depreciation	Book value
	RMB'000	**RMB'000**	**RMB'000**
31 December 2012			
Aircraft and engines	8,468,737	(2,932,672)	5,536,065
Rotables	50,000	(12,292)	37,708
	8,518,737	(2,944,964)	5,573,773
31 December 2011			
Aircraft and engines	8,033,324	(2,497,923)	5,535,401
Rotables	50,000	(8,125)	41,875
	8,083,324	(2,506,048)	5,577,276

(b) Fixed assets without property certificates

As at 31 December 2012, property certificates of certain buildings with net book value of RMB1,004,349 thousand and original cost of RMB1,006,043 thousand (31 December 2011: net book value of RMB53,308 thousand and original cost of RMB65,881 thousand) have not been obtained by the Group. The management believes that there is no legal obstacle in substance to obtain these certificates and the lack of certificates of the buildings will have no material impact on the Group's operations.

(13) Construction in progress

	31 December 2012			31 December 2011		
	Book value before impairment	**Provision for impairment**	**Net book value**	**Book value before impairment**	**Provision for impairment**	**Net book value**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advanced payments for aircraft acquisitions	11,525,757	–	11,525,757	7,673,230	–	7,673,230
Beijing base expansion project	455,351	–	455,351	1,077,882	–	1,077,882
Others	22,361	(2,307)	20,054	90,264	(2,307)	87,957
	12,003,469	(2,307)	12,001,162	8,841,376	(2,307)	8,839,069

(a) Movements of major construction in progress

Name of project	Budget	31 December 2011	Current year additions	Transfer to fixed assets during current year	Other transfer during current year (Note)	31 December 2012	% completion of construction project	Construction progress	Accumulated borrowing costs capitalised	Capitalized amount during the year: Interests	Capitalized amount during the year: Exchange gain or loss of special borrowings	Annual interest rate for capitalisation	Source of fund
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000	RMB'000	RMB'000		RMB'000
Advanced payments for aircraft acquisitions	86,275,791	7,673,230	7,196,669	(3,344,142)	–	11,525,757	12%	12%	877,275	400,114	(17,464)	4.84%	Bank loans
Beijing base expansion project	477,095	1,077,882	285,196	(897,761)	(9,966)	455,351	73%	73%	106,629	59,186	–	5.70%	Bank loans and self generated fund
Others		90,264	76,032	(131,595)	(12,340)	22,361			–	–	–		
		8,841,376	7,557,897	(4,373,498)	(22,306)	12,003,469			983,904	459,300	(17,464)		

(b) The progress of the major constructions in progress as at 31 December 2012 is as follows:

	Construction progress	Remarks
Beijing base expansion project	73%	The construction progress is estimated based on the budgeted project costs.

(14) Intangible assets

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Original cost	256,986	39	(29,352)	227,673
Land use rights	256,411	–	(29,336)	227,075
Software	575	39	(16)	598
Accumulated amortisation	(62,809)	(5,783)	5,123	(63,469)
Land use rights	(62,616)	(5,634)	5,122	(63,128)
Software	(193)	(149)	1	(341)
Net book value	194,177	–	–	164,204
Land use rights	193,795	–	–	163,947
Software	382	–	–	257

For the year ended 31 December 2012, total amortisations of the intangible assets amounted to RMB5,783 thousand (2011: RMB5,779 thousand).

As at 31 December 2012, the land use rights with net book value of RMB31,170 thousand and original cost of RMB40,421 thousand (31 December 2011: net book value of RMB35,531 thousand and original cost of RMB45,000 thousand) were pledged for long-term borrowings of RMB2,111,407 thousand (Note 5(29)(a)(ii)).

(15) Goodwill

As at 31 December 2012, the book value of goodwill is generated from the acquisition of Beijing Kehang. The goodwill is attributable to strengthening the competitiveness of the Group, aligning synergy through integration with the Company's other resources. For the purpose of impairment testing, the goodwill is allocated to the group of airline operation segment and other business segment. Based on the impairment testing result, the Group did not identify any impairment indicators.

(16) Long-term prepaid expenses

	31 December 2011	Current year additions	Amortisation for the year	Other reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred pilot recruitment costs	338,536	210,811	(88,267)	–	461,080
Others	20,017	14,581	(12,083)	–	22,515
	358,553	225,392	(100,350)	–	483,595

(17) Other non-current assets

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Maintenance reserve fund for aircraft and engines	1,290,691	1,149,746
Security deposits for leased aircraft and engines	739,285	901,482
Deferred losses on sales and lease back transactions	231,901	304,020
Others	20,000	20,000
	2,281,877	2,375,248

(18) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2012		31 December 2011	
	Deferred tax assets	**Deductible temporary differences and tax losses**	**Deferred tax assets**	**Deductible temporary differences and tax losses**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Accrued aircraft and engines overhaul and maintenance cost	260,771	1,043,085	188,721	754,886
Changed in fair value of available-for-sale financial assets	36,828	147,310	49,135	196,540
Tax losses	5,834	38,891	83,807	335,229
	303,433	1,229,286	321,663	1,286,655

(b) Deferred tax liabilities before offsetting

	31 December 2012		31 December 2011	
	Deferred tax liabilities	**Taxable temporary differences**	**Deferred tax liabilities**	**Taxable temporary differences**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Fixed assets depreciation	1,481,458	6,135,074	1,019,559	4,078,235
Business combinations under non-common control	346,294	1,385,175	346,294	1,385,175
Differences between book value and tax base of investment properties	529,829	2,119,295	385,738	1,542,956
	2,357,581	9,639,544	1,751,591	7,006,366

(c) Unrecognised deductible temporary differences and tax losses of the Group are analysed as follows:

	31 December 2012	**31 December 2011**
	RMB'000	**RMB'000**
Deductible temporary differences	–	–
Tax losses	1,911	91,819
	1,911	91,819

For certain subsidiaries, there are uncertainties as to whether these subsidiaries could generate sufficient future taxable profits to utilise the tax losses in the future, hence the Group did not recognise the related deferred tax assets for these tax losses.

(d) The unrecognised tax losses will be expired in the following years:

	31 December 2012	**31 December 2011**
	RMB'000	**RMB'000**
2015	–	27,356
2016	–	64,463
2017	1,911	–
	1,911	91,819

(e) Offset between deferred tax assets and deferred tax liabilities:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Deferred tax assets	303,433	321,663
Deferred tax liabilities	303,433	321,663

Net balance after offsetting deferred tax assets with deferred tax liabilities is as follows:

	31 December 2012		31 December 2011	
	Net deferred tax assets or liabilities	Net deductible or taxable temporary differences	Net deferred tax assets or liabilities	Net deductible or taxable temporary differences
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities	2,054,148	8,410,258	1,429,928	5,719,711

(19) Provisions for asset impairment

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Provisions for available-for-sale financial assets impairment (Note 5 (9)(b))	–	86,104	–	86,104
Provisions for bad debts	83,687	380	–	84,067
Including: Accounts receivable	28,423	380	–	28,803
Other receivables	55,264	–	–	55,264
Provision for declines in value of inventories	83	–	(83)	–
Provisions for impairment of long-term equity investment	6,774	–	–	6,774
Provisions for impairment of fixed assets	16,378	–	–	16,378
Provisions for impairment of construction in progress	2,307	–	–	2,307
	109,229	86,484	(83)	195,630

(20) Short-term borrowings

	Currency	31 December 2012	31 December 2011
		RMB'000	RMB'000
Pledged[(a)]	RMB	500,000	330,000
Impawn[(b)]		4,965,890	6,943,250
	RMB	3,834,500	6,313,160
	USD	1,131,390	630,090
Guaranteed[(c)]		6,474,275	7,895,045
	RMB	6,160,000	7,580,000
	USD	314,275	315,045
Borrowings with guarantee and pledge/impawn[(d)]	RMB	3,615,500	2,245,000
Unsecured	RMB	236,671	120,000
Total		15,792,336	17,533,295

(a) As at 31 December 2012, the pledged borrowings of RMB500,000 thousand (31 December 2011: Nil) are secured by aircraft of the Company with a net book value of RMB310,505 thousand (original cost of RMB356,602 thousand) (Note 5(12)).

    As at 31 December 2011, the pledged borrowings of RMB330,000 thousand are secured by investment properties of related parties which has been settled in 2012.

(b) As at 31 December 2012, impawn borrowings comprise:

    (i) Borrowings of RMB361,500 thousand (31 December 2011: RMB490,000 thousand) is impawned by the term deposit of RMB415,000 thousand (31 December 2011: RMB580,000 thousand) (Note 5(1)).

    (ii) Borrowings of RMB2,152,390 thousand (including RMB1,021,000 thousand and USD180,000 thousand) (31 December 2011: RMB2,160,090 thousand) is impawned by certain equity interests held by related parties of the Group (Note7 (5)(c)).

    (iii) Borrowings of RMB1,952,000 thousand (31 December 2011: Nil) represents the letter of credit, which is impawned by certain equity interests held by related parties (Note7 (5)(c)) and 3rd parties of the Group.

    (iv) Borrowings of RMB500,000 thousand (31 December 2011: Nil) represents the letter of credit, which is impawned by certain equity interests held by related parties (Note7 (5)(c)) and third parties of the Group.

    As at 31 December 2011, borrowings of RMB2,072,160 thousand represents the letter of credit impawned by deposit of RMB867,800 thousand, borrowings of RMB110,000 thousand impawned by certain equity interests in HNA Finance held by the Group, and borrowings of RMB2,111,000 thousand impawned by certain equity interests held by third parties were matured and repaid in 2012.

(c) As at 31 December 2012, guaranteed borrowings comprise:

    (i) Borrowings of RMB3,195,000 thousand (31 December 2011: RMB4,330,000 thousand) is guaranteed by related parties of the Group (Note 7(5)(c)).

    (ii) Borrowings of RMB3,279,275 thousand (including RMB 2,965,000 thousand and USD50,000 thousand) (31 December 2011: USD50,000 thousand, equivalent to RMB315,045 thousand), is guaranteed by the Company.

    As at 31 December 2011, borrowings of RMB300,000 thousand guaranteed by the Group and related parties of the Group and borrowings of RMB2,950,000 thousand guaranteed by the Group were matured and repaid in 2012.

(d) As at 31 December 2012, borrowings with guarantee and pledge/impawn comprise:

    (i) Borrowings of RMB2,330,000 thousand (31 December 2011: RMB1,550,000 thousand) is impawned by certain equity interests held by a related party of the Group and guaranteed by a related party of the Group (Note 7(5)(c)).

    (ii) Borrowings of RMB560,500 thousand (31 December 2011: Nil) represents the letter of credit, which is impawned by deposit of RMB168,150 thousand and secured by related parties of the Group (Note7 (5)(c)).

    (iii) Borrowings of RMB300,000 thousand (31 December 2011: Nil) are impawned by certain equity interests held by related parties of the Group (Note7 (5)(c)) and guaranteed by the Company.

    (iv) Borrowing of RMB125,000 thousand (31 December 2011: RMB125,000 thousand) is pledged by fixed assets of the Group (Note 5(12)) with net book value of RMB94,422 thousand and original cost of RMB118,587 thousand (31 December 2011: Net book value of RMB84,871 thousand and original cost of RMB108,380 thousand) and is guaranteed by the Company.

    (v) Borrowings of RMB150,000 thousand (31 December 2011: Nil), are impawned by certain equity interests held by the Company (Note7 (5)(c)) and guaranteed by related parties of the Group.

    (vi) Borrowings of RMB150,000 thousand (31 December 2011: Nil), are impawned by certain equity interests held by third parties and guaranteed by related parties of the Group (Note7 (5)(c)).

    As at 31 December 2011, borrowings of RMB250,000 thousand impawned by certain equity interests held by related parties of the Group and guaranteed by related parties of the Group; borrowings of RMB200,000 thousand impawned by RMB100,000 thousand security deposit of the Group and guaranteed by the Company, and borrowings of RMB120,000 thousand impawned by certain equity interests held by the Company and guaranteed by the Company were matured and repaid in 2012.

(e) As at 31 December 2012, the annual weighted average interest for the short-term borrowings of the Group is 6.89% per annum (31 December 2011: 6.59%).

(f) As at 31 December 2012, there are no short-term borrowings which are matured but not repaid by the Group.

(21) Notes payable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Bank acceptance notes	4,782,981	4,506,488
Commercial acceptance notes	681,492	553,372
	5,464,473	5,059,860

As at 31 December 2012 and 31 December 2011, all notes payable will be matured within one year.

(22) Accounts payable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Aircraft and engines maintenance fees payable	1,864,348	1,530,151
Fuel cost payable	1,225,628	710,098
Taking-off and landing fees payable	631,558	523,107
Ticket reservation fees payable	284,060	211,113
In-flight catering payable	181,686	83,250
Flight equipment payable	118,739	118,856
Others	618,930	588,246
	4,924,949	3,764,821

(a) Creditors which hold over 5% (5% inclusive) voting shares of the Company are as follows:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Grand China Air	25,112	–
Haikou Meilan	2,147	31,905
	27,259	31,905

(b) Accounts payable to related parties:

	31 December 2012 RMB'000	31 December 2011 RMB'000
HNA Technology	54,231	–
Lucky Air	38,079	–
Grand China Air	25,112	–
HNA Aviation Sales	18,888	–
Western Airlines	16,194	1,670
Haikou Meilan	2,147	31,905
HNA Airlines Holding	–	27,207
Meilan Airport	–	25,374
HNA Airport Holding	–	10,829
HNA Group (Hong Kong)	–	10,005
Others	97,169	32,730
	251,820	139,720

(c) As at 31 December 2012, the accounts payable with aging over 1 year amounted to RMB417,595 thousand (31 December 2011: RMB405,245 thousand), mainly comprised of payable of fuel costs, take-off and landing fees, in-flight catering fees and maintenance fees. Due to the long-term business relationship with these suppliers, such payable amounts have not been finally settled yet.

(d) The accounts payable include the following amounts in foreign currencies:

	31 December 2012			31 December 2011		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	389,196	6.2855	2,446,291	244,627	6.3009	1,541,372
Others			338,653			81,317
			2,784,944			1,622,689

(23) Advances from customers

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Sales in advance of carriage	862,207	1,026,370
Other advances received	56,255	98,225
	918,462	1,124,595

(a) As at 31 December 2012, advances from customers did not include any balances from companies which hold over 5% (5% inclusive) of the voting shares in the Company (31 December 2011: Nil).

(b) As at 31 December 2012, advances from customers aging over 1 year amounted to RMB108,116 thousand, which mainly represented sales in advances of carriage. As the related services have not been rendered, the related balances have not yet recognised as the revenue.

(c) As at 31 December 2012, there is no significant balance denominated in foreign currency included in advances from customers.

(24) Employee benefits payable

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Wages and salaries, bonuses, allowances and subsidies	173,370	1,379,463	(1,409,152)	143,681
Social security contributions	7,816	260,036	(259,946)	7,906
Including: Medical insurance	1,952	64,895	(65,145)	1,702
Basic pensions	4,381	162,238	(161,743)	4,876
Unemployment insurance	668	16,224	(16,489)	403
Work injury insurance	148	8,112	(8,111)	149
Maternity insurance	64	4,867	(4,867)	64
Annuity	603	3,700	(3,591)	712
Housing funds	31,188	131,171	(134,151)	28,208
Labour union funds and employee education funds	27,923	39,654	(49,124)	18,453
	240,297	1,810,324	(1,852,373)	198,248

As at 31 December 2012, the employee benefits payable does not include any overdue amounts and the payable balance is expected to be paid in 2013.

(25) Taxes payable

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Aviation development fund payable	292,327	252,574
Corporate income tax payable	140,068	86,619
Business tax payable	42,911	113,467
Others	77,364	124,083
	552,670	576,743

(26) Interest payable

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Interests on debentures (Note 5(30)(b))	188,873	178,589
Interests on borrowings	157,338	145,860
	346,211	324,449

(27) Other payables

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Amounts due to related parties (b)	298,921	70,723
Security deposits and funds	234,283	160,484
Aircraft acquisition	47,100	52,847
Pilot training fees	33,545	47,216
Construction project payable	6,940	193,279
Others	256,556	246,459
	877,345	771,008

(a) Other payables include the following amounts payable to entities which hold over 5% (5% inclusive) voting shares of the Company:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
HNA Group	180,456	8,612

(b) Other payables to related parties:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
HNA Group	180,456	8,612
Capital Airlines	33,044	18,014
Changjiang Leasing	20,967	790
HNA Aviation Holding	20,477	–
HNA Group (Hong Kong)	12,453	–
Yangtze River Leasing	–	14,146
Others	31,524	29,161
	298,921	70,723

(c) As at 31 December 2012, other payables aging over one year amounted to RMB216,816 thousand (31 December 2011: RMB149,979 thousand) and mainly comprised ticket deposits placed by ticket sales agents and other payables. As the Group has long-term relationships with these agents, such payable amounts have not yet been settled.

(d) Other payables include the following balances in foreign currency:

	31 December 2012			31 December 2011		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	8,701	6.2855	54,689	11,618	6.3009	73,204
EUR	2,273	8.3176	18,905	–	–	–
			73,594			73,204

(28) Non-current liabilities within one year

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Long-term borrowings within one year (a)	5,587,758	4,181,995
Long-term payables within one year (b)	597,012	421,569
	6,184,770	4,603,564

(a) Long-term borrowings within one year

	Currency	31 December 2012	31 December 2011
		RMB'000	RMB'000
Pledged (Note 5(29)(a))		2,975,479	2,330,609
	RMB	1,712,339	774,754
	USD	1,254,471	1,555,361
	EUR	8,669	494
Impawn (Note 5(29)(b))	RMB	1,129,250	513,900
Guaranteed (Note 5(29)(c))		636,678	418,410
	RMB	149,130	418,410
	USD	487,548	–
Guaranteed and pledged/ impawn (Note 5(29)(d))		656,715	899,076
	RMB	383,798	813,384
	USD	272,917	85,692
Unsecured		189,636	20,000
	RMB	152,112	20,000
	USD	37,524	–
		5,587,758	4,181,995

The top 5 lenders with the largest balances of the long-term borrowings within one year are as follows:

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2012 Currency	Amount in foreign currency	RMB equivalent
					('000)	RMB'000
BANK A	30/11/2010	29/11/2013	Benchmark rate	RMB	–	700,000
BANK B	24/02/2011	23/08/2013	Benchmark rate	RMB	–	545,000
BANK C	30/11/2010	29/05/2013	Benchmark rate	RMB	–	249,000
BANK D	25/11/2011	25/11/2013	Benchmark rate plus 15%	RMB	–	230,000
BANK E	18/04/2011	18/04/2013	6 month LIBOR plus 4%	USD	33,500	210,564
						1,934,564

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2011 Currency	Amount in foreign currency	RMB equivalent
					('000)	RMB'000
BANK A	26/03/2008	31/01/2012	1 month LIBOR plus 1.07%	USD	50,456	317,915
BANK B	29/06/2010	22/06/2012	Benchmark rate plus 10%	RMB	–	300,000
BANK C	18/05/2010	18/05/2012	5.40%	RMB	–	270,000
BANK D	11/05/2010	10/05/2012	Benchmark rate	RMB	–	249,400
BANK E	24/08/2009	23/08/2012	4.86%	RMB	–	200,000
						1,337,315

(b) Long-term payables within one year

The top 5 creditors with the largest balances of the long-term payables within one year are as follows:

	Lease term	Initial amount	Interest rate (%)	Accrued interest in current year	31 December 2012 Currency	Amount in foreign currency	RMB equivalent	Borrowing conditions
		RMB'000		RMB'000		('000)	RMB'000	
Lessor of finance lease 1	10 years	177,196	Floating interest rate	3,560	RMB	–	173,636	Aircraft finance lease
Lessor of finance lease 2	5 years	120,377	Fixed interest rate	13,199	RMB	–	107,178	Aircraft finance lease
Lessor of finance lease 3	12 years	100,095	Floating interest rate	1,023	USD	15,762	99,072	Aircraft finance lease
Lessor of finance lease 4	5 years	79,806	Benchmark rate	275	RMB	–	79,531	Aircraft finance lease
Lessor of finance lease 5	5 years	56,416	Floating interest rate	13,896	RMB	–	42,520	Aircraft finance lease
							501,937	

(29) Long-term borrowings

		31 December 2012			31 December 2011		
		Total amount	Less: long-term borrowings due within 1 year	Balance after deducting the amount due within 1 year	Total amount	Less: long-term borrowings due within 1 year	Balance after deducting the amount due within 1 year
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged[(a)]		18,750,133	(2,975,479)	15,774,654	19,478,055	(2,330,609)	17,147,446
	RMB	5,032,387	(1,712,339)	3,320,048	5,999,617	(774,754)	5,224,863
	USD	13,631,893	(1,254,471)	12,377,422	13,384,319	(1,555,361)	11,828,958
	EUR	85,853	(8,669)	77,184	94,119	(494)	93,625
Impawn[(b)]		1,799,250	(1,129,250)	670,000	1,804,587	(513,900)	1,290,687
	RMB	1,799,250	(1,129,250)	670,000	1,593,750	(513,900)	1,079,850
	USD	–	–	–	210,837	–	210,837
Guaranteed[(c)]		2,023,327	(636,678)	1,386,649	2,229,549	(418,410)	1,811,139
	RMB	677,376	(149,130)	528,246	712,308	(418,410)	293,898
	USD	1,345,951	(487,548)	858,403	1,451,941	–	1,451,941
	EUR	–	–	–	65,300	–	65,300
Guaranteed and pledged/ impawn[(d)]		5,853,799	(656,715)	5,197,084	3,145,476	(899,076)	2,246,400
	RMB	3,870,786	(383,798)	3,486,988	2,669,991	(813,384)	1,856,607
	USD	1,983,013	(272,917)	1,710,096	475,485	(85,692)	389,793
Unsecured		330,960	(189,636)	141,324	987,621	(20,000)	967,621
	RMB	285,445	(152,112)	133,333	901,227	(20,000)	881,227
	USD	45,515	(37,524)	7,991	86,394	–	86,394
Total		28,757,469	(5,587,758)	23,169,711	27,645,288	(4,181,995)	23,463,293

(a) As at 31 December 2012, pledged borrowings comprise:

(i) The pledged borrowings of RMB13,521,806 thousand (including: RMB2,663,887 thousand, USD1,713,796 thousand and EUR10,516 thousand) (31 December 2011: RMB16,834,442 thousand) are pledged by the following fixed assets and investment properties individually or collectively:

	31 December 2012		31 December 2011	
	Cost	Net book value	Cost	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets – buildings	512,384	398,180	325,064	229,026
Fixed assets – aircraft	18,955,890	15,938,709	19,838,755	16,956,549
Subtotal (Note 5(12))	19,468,274	16,336,889	20,163,819	17,185,575
Investment properties (Note 5(11))		763,156		3,217,121
Total		17,100,045		20,402,696

(ii) The pledged borrowings of RMB2,111,407 thousand (including: RMB1,054,500 thousand and USD168,150 thousand) (31 December 2011: RMB 2,326,062 thousand) are pledged by aircrafts owned by the Group's related parties and the intangible assets of the Company with net book value of RMB31,170 thousand and original cost of RMB40,421 thousand (31 December 2011: net book value of RMB35,531 thousand and original cost of RMB45,000 thousand) (Note 5(14)), and the fixed assets of the Company with net book value of RMB342,814 thousand and original cost of RMB465,563 thousand (31 December 2011: Nil) (Note 5(12)).

(iii) The pledged borrowings of RMB3,116,920 (including RMB1,314,000 thousand and USD286,838 thousand) (31 December 2011: RMB317,551 thousand) are pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed.

(b) As at 31 December 2012, impawn borrowings comprise:

(i) The impawn borrowings of RMB599,250 thousand (31 December 2011: RMB579,750 thousand) are impawned by term deposits of RMB750,000 thousand of the Group (Note 5(1)).

(ii) The impawn borrowings of RMB500,000 thousand (31 December 2011: RMB524,837 thousand) are impawned by certain equity interests held by related parties of the Group and third parties (Note 7(5)(c)).

(iii) The impawn borrowings of RMB700,000 thousand (31 December 2011: RMB700,000 thousand) are impawned by certain equity interests held by related parties of the Group (Note 7(5)(c)).

(c) As at 31 December 2012, guaranteed borrowings of RMB2,023,327 thousand (Including: RMB677,376 thousand and USD214,136 thousand) (31 December 2011: RMB2,229,549 thousand) are guaranteed by related parties of the Company and of the Group (Note 7(5)(c)), among which, RMB654,079 thousand is guaranteed by the Company, RMB1,158,684 is guaranteed by related parities of the Group and RMB210,564 thousand is guaranteed by third parties.

(d) As at 31 December 2012, borrowings with guarantee and pledge/impawn comprise:

(i) Borrowings of RMB2,759,870 thousand (including RMB1,260,526 thousand, USD238,540 thousand) (31 December 2011: RMB850,590 thousand) are pledged by aircrafts of the Group with net book value of RMB3,806,561 thousand and original cost of RMB5,293,670 thousand (31 December 2011: net book value of RMB2,268,552 thousand and original cost of RMB3,260,545 thousand) (Note 5(12)), and also guaranteed by related parties of the Group (Note 7(5)(c)).

(ii) Borrowings of RMB1,240,000 thousand (31 December 2011: RMB1,000,000 thousand) are pledged by the Group's investment properties with fair value of RMB3,466,500 thousand (31 December 2011: RMB3,217,121 thousand) (Note 5(11)), and also guaranteed by the Company and related parties of the Group (Note 7(5)(c)), among which, RMB300,000 thousand is guaranteed by the related parties of the Group.

(iii) Borrowings of USD30,750 thousand (RMB193,279 thousand equivalent) (31 December 2011: RMB269,053 thousand) are pledged by aircrafts of the Group with net book value of RMB655,601 thousand and original cost of RMB1,319,615 thousand (31 December 2011: net book value of RMB740,402 thousand and original cost of RMB1,319,615 thousand) (Note 5(12)), and are impawned by certain equity interests held by related parties of the Group (Note 7(5)(c)).

(iv) Borrowings of RMB1,214,542 thousand (31 December 2011: Nil) are pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed, and also guaranteed by related parties of the Group (Note 7(5)(c)).

(v) Borrowings of RMB250,000 thousand (31 December 2011: Nil) are pledged by fixed assets of related parties of the Group, and also guaranteed by related parties of the Group (Note 7(5)(c)).

(vi) Borrowings of USD31,200 thousand (RMB196,108 thousand equivalent) (31 December 2011: RMB206,432 thousand) are impawned by equity interests held by the Company and related parties of the Group, and also guaranteed by the related parties of the Group (Note 7(5)(c)).

As at 31 December 2011, borrowings of RMB249,400 thousand pledged by certain equity interests held by related parties of the Group and also guaranteed by the Group; borrowings of RMB300,000 thousand impawned by certain equity interests held by the Company and also guaranteed by related parties of the Group, and borrowings of RMB270,000 thousand pledged by buildings of related parties of the Group and also guaranteed by related parties of the Group, which were all matured and repaid in 2012.

(e) The top 5 lenders of the Group with the largest long-term borrowings balances (portion within 1 year exclusive) are as follows:

	Loan commencement date	Loan maturity date	Interest rate (%)	Currency	31 December 2012 Amount in foreign currency	31 December 2012 RMB equivalent
					('000)	RMB'000
BANK A	28/12/2007	27/12/2022	3 month LIBOR plus 1.3%	USD	259,000	1,627,945
BANK B	31/10/2008	29/10/2023	3 month LIBOR plus 4%	USD	246,000	1,546,233
BANK C	31/10/2012	31/10/2027	3 month LIBOR plus 5.7%	USD	138,510	870,605
BANK D	28/08/2003	07/07/2018	LIBOR plus 1.45%	USD	136,150	855,771
BANK E	30/06/2003	30/06/2018	Benchmark rate	RMB	–	854,500
						5,755,054

	Loan commencement date	Loan maturity date	Interest rate (%)	Currency	31 December 2011 Amount in foreign currency	31 December 2011 RMB equivalent
					('000)	RMB'000
BANK A	28/08/2003	07/07/2018	LIBOR plus 1.45%	USD	186,150	1,172,913
BANK B	30/06/2003	30/06/2018	Benchmark rate	RMB	–	1,154,500
BANK C	19/11/2009	18/11/2021	Benchmark rate plus 5%	RMB	–	1,000,000
BANK D	30/11/2010	29/11/2013	5.6%	RMB	–	700,000
BANK E	30/11/2010	29/05/2013	5.6%	RMB	–	549,000
						4,576,413

(f) The long-term borrowings (portion within 1 year exclusive) are repayable as follows:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
1 to 2 years	4,239,331	5,612,833
2 to 5 years	9,398,720	8,127,951
Over 5 years	9,531,660	9,722,509
	23,169,711	23,463,293

As at 31 December 2012, the weighted average interest rate of long-term borrowings is 4.65% per annum (31 December 2011: 4.3% per annum).

(30) Debentures Payable

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate bonds	4,927,151	12,289	–	4,939,440
RMB bonds	991,158	504,486	(5,021)	1,490,623
	5,918,309	516,775	(5,021)	6,430,063

(a) The related information of bonds is outlined as follows:

	Face value	Issuing date	Term	Issuing amount
	RMB'000			RMB'000
Corporate bonds[(i)]	5,000,000	24/05/2011	5/10 years	4,920,000
RMB bonds[(ii)]	1,000,000	27/09/2011	3 years	990,371
RMB bonds[(iii)]	500,000	20/01/2012	3 years	494,979

(i) On 24 May 2011, as approved by CSRC [2001] No. 721 (中國證券監督管理委員會證監許可【2011】721號文), the Company issued five-year and ten-year corporate bonds with total principle amount of RMB5 billion. The bonds bear interest at rate of 5.6% (five-year bond) and 6.2% (ten-year bond) per annum and payable annually.

(ii) In September 2011, HNA Hongkong, a wholly-owned subsidiary of the Company, issued three year RMB corporate bonds of RMB1 billion with final maturity in 2014 and bearing interest at 6% per annum. The bonds are listed in Singapore and with an unconditional and irrevocable guarantee provided by the Company for a period of three years.

(iii) In January 2012, HNA Hongkong, a wholly-owned subsidiary of the Company, issued three year RMB corporate bonds of RMB0.5 billion with final maturity in 2015 and bearing interest at 5.25% per annum. The bonds are with an unconditional and irrevocable guarantee provided by the Company for a period of three years.

(b) Interest payable of bonds is analysed as follows:

	31 December 2011	Interest accrued in current year	Interest paid in current year	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate bonds	162,922	288,640	(288,640)	162,922
RMB bonds	15,667	83,625	(73,341)	25,951
	178,589	372,265	(361,981)	188,873

(31) Long-term payables

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Finance lease obligations	1,792,072	1,834,117
Less: portion within 1 year (Note 5(28))	(597,012)	(421,569)
	1,195,060	1,412,548

(a) Breakdown of finance lease obligations by lessor:

	31 December 2012			31 December 2011		
	Currency	Amount in foreign currency	RMB equivalent	Currency	Amount in foreign currency	RMB equivalent
		('000)	RMB'000		('000)	RMB'000
Changjiang Leasing	USD	65,178	409,678	USD	65,947	415,523
Lessor No. 1	RMB	–	324,533	RMB	–	422,119
Lessor No. 2	RMB	–	249,531	RMB	–	191,343
Lessor No. 3	RMB	–	223,873	RMB	–	–
Lessor No. 4	RMB	–	194,655	RMB	–	203,302
Lessor No. 5	RMB	–	186,212	RMB	–	200,000
Lessor No. 6	USD	15,762	99,072	USD	34,793	219,226
Yangtze River Leasing	USD	14,217	89,360	USD	16,793	105,808
Others			15,158			76,796
			1,792,072			1,834,117

Finance lease obligations are the amounts paid to leasing companies for finance leased aircraft and engines by the Group. The finance lease period is ranged from 3 to 12 years. Finance lease obligations represent the balance of minimum lease payments of finance leased fixed assets less unrecognised finance charges (Note 10).

	2012	2011
	RMB'000	RMB'000
Beginning balance of the year	1,834,117	2,157,670
Add: current year additions	393,873	200,000
Less: current year payment	(435,918)	(523,553)
Ending balance of the year	1,792,072	1,834,117
Less: finance lease obligations within one year	(597,012)	(421,569)
	1,195,060	1,412,548

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Minimum lease payments	2,139,167	2,209,051
Less: unrecognised finance charge	(347,095)	(374,934)
Net balance of lease obligations	1,792,072	1,834,117

(b) The Group's top 5 lessors with the largest finance lease obligation balances are as follows:

	Term	Principle amount	Interest rate (%)	Accrued interest	Ending balance	Borrowing conditions
		RMB'000		RMB'000	RMB'000	
Changjiang Leasing	13 years	569,971	Floating interest rate	160,293	409,678	Finance lease
Lessor No.1	5 years	352,976	Fixed interest rate	28,443	324,533	Finance lease
Lessor No.2	5 years	283,120	Floating interest rate	33,589	249,531	Finance lease
Lessor No.3	5 years	260,977	Floating interest rate	37,104	223,873	Finance lease
Lessor No.4	5 or 10 years	198,810	Floating interest rate	4,155	194,655	Finance lease
		1,665,854		263,584	1,402,270	

(c) The long-term payables (portion within 1 year exclusive) are repayable according to the following payable schedules:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
1 to 2 years	231,885	531,274
2 to 5 years	473,921	349,108
Over 5 years	489,254	532,166
	1,195,060	1,412,548

(32) Other non-current liabilities

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Deferred revenue – Unredeemed mileages under frequent flyer programme (a)	603,169	437,219
Deferred revenue – Unrealised gain on sales and leaseback transaction (b)	22,420	26,317
Customs duties and VAT relating to finance lease	7,359	14,470
	632,948	478,006

(a) Unredeemed mileages under frequent flyer programme

	2012	2011
	RMB'000	RMB'000
As at 1 January	437,219	280,850
Current year additions	287,306	337,271
Current year redemption/(expiration)	(121,356)	(180,902)
As at 31 December	603,169	437,219

(b) The balances mainly represent the differences between the selling price and net book value of certain sales-and-leased-back aircrafts. The differences arisen from sales and finance leased back transactions are amortised over the useful lives of the relevant assets.

(33) Share capital

	31 December 2011	Current year movement[a]	31 December 2012
	RMB'000	RMB'000	RMB'000
Shares with trading restrictions –			
Shares held by domestic non-state-owned legal persons	297,956	1,965,600	2,263,556
Shares held by domestic state-owned legal persons	297,619	–	297,619
	595,575	1,965,600	2,561,175
Shares without trading restrictions –			
A shares	3,345,193	–	3,345,193
B shares	184,723	–	184,723
	3,529,916	–	3,529,916
	4,125,491	1,965,600	6,091,091

	31 December 2010	Current year movement	31 December 2011
	RMB'000	RMB'000	RMB'000
Shares with trading restrictions –			
Shares held by domestic non-state-owned legal persons	297,956	–	297,956
Shares held by domestic state-owned legal persons	297,619	–	297,619
	595,575	–	595,575
Shares without trading restrictions –			
A shares	3,345,193	–	3,345,193
B shares	184,723	–	184,723
	3,529,916	–	3,529,916
	4,125,491	–	4,125,491

(a) The Company obtained the approval from CSRC (關於核准海南航空股份有限公司非公開發行股票的批復》([2012] No. 612) for the Company's non-public share issuance for no more than 1,965,600 thousand shares. In August 2012, the Company completed the share offering. The offering price was set at RMB4.07 per share and the total proceeds raised from this share issuance amounted to RMB7,786,992 thousand after deducting the related share issuing costs of RMB213,000 thousand. The capital surplus (share premium) increased by RMB5,821,392 thousand, which was the difference between the total proceeds and the share capital. The shares issued in this offering are restricted for trading with a lock-up period of 12 months, from 13 August 2012 to 12 August 2013.

(34) Capital surplus

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Share premium (Note 5(33))	5,930,452	5,821,392	–	11,751,844
Other capital surplus				
– Change in fair value of available-for-sale financial assets (Note 5(50))	(147,406)	101,501	–	(45,905)
– Investment properties transferred from self-used properties	31,168	–	–	31,168
– Long-term investments accounted for by equity method	1,850	–	–	1,850
– Others	1,116	–	(320)	796
	5,817,180	5,922,893	(320)	11,739,753

	31 December 2010	Current year additions	Current year reductions	31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Share premium	6,213,429	–	(282,977)	5,930,452
Other capital surplus				
– Change in fair value of available-for-sale financial assets (Note 5(50))	(16,535)	–	(130,871)	(147,406)
– Investment properties transferred from self-used properties	31,168	–	–	31,168
– Long-term investments accounted for by equity method	1,850	–	–	1,850
– Others	1,116	–	–	1,116
	6,231,028	–	(413,848)	5,817,180

(35) Surplus reserve

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Statutory surplus reserve	568,001	89,396	–	657,397

	31 December 2010	Current year additions	Current year reductions	31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Statutory surplus reserve	383,918	184,083	–	568,001

In accordance with Company Law of the People's Republic of China and the Company's Articles of the Association, the Company shall appropriate 10% of net profit to statutory surplus reserve, and the Company can cease appropriation when accumulated statutory surplus reserve up to more than 50% of registered capital. Statutory surplus reserve can be used to make up for the losses or increase share capital after appropriate approval. The Company appropriated 10% of net profit, amounted to RMB89,396 thousand (2011: RMB184,083 thousand), to statutory surplus reserve for the year ended 31 December 2012.

(36) Undistributed profits

	2012 RMB'000	2011 RMB'000
Undistributed profits as at January 1	3,966,000	1,725,046
Add: Net profits attributable to the equity shareholders of the Company	1,927,787	2,631,312
Less: Appropriation to surplus reserves	(89,396)	(184,083)
Dividends to ordinary shares	(495,059)	(206,275)
Undistributed profits as at December 31	5,309,332	3,966,000

As at 31 December 2012, undistributed profits included surplus reserve of RMB161,346 thousand attributable to the Company's subsidiaries (31 December 2011: RMB124,751 thousand).

According to the shareholders meeting resolution passed on 26 April 2012, a cash dividend of RMB1.2 yuan per 10 shares (tax inclusive) to all shareholders was proposed. Based on a total of 4,125,490,895 outstanding shares in issue, the total cash dividends proposed amount to RMB495,059 thousand. As at 31 December 2012, RMB68,521 thousand has not been paid yet.

According to the Board's resolution passed on 14 March 2013, a cash dividend of RMB1 yuan per every 10 shares (tax inclusive), and 10 extra shares per 10 shares to all shareholders were proposed. Based on a total of 6,091,091,085 outstanding shares in issue, the total cash dividends proposed amounted to RMB609,109 thousand. The above proposal is still subject to the approval of annual shareholders meeting (Note 9).

(37) Minority interests

Minority interests attributable to minority holders of subsidiaries are outlined as follows:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Beijing Kehang	105,674	88,515
Others	5,982	5,982
	111,656	94,497

(38) Revenue and operating costs

	2012 RMB'000	2011 RMB'000
Revenue from main operations (a)	26,870,275	24,280,510
Revenue from other operations (b)	1,997,310	1,992,736
	28,867,585	26,273,246
Operating costs of main operations	(20,671,305)	(18,508,261)
Operating costs of other operations (b)	(886,336)	(989,726)
	(21,557,641)	(19,497,987)

(a) Revenue from main operations

Revenue from main operations by categories is analysed as follows:

	2012 RMB'000	2011 RMB'000
Passenger	25,794,029	23,275,882
Cargo and Mail	934,105	922,910
Others	142,141	81,718
	26,870,275	24,280,510

(b) Revenue and operating costs of other operations

	2012		2011	
	Revenue of other operations	Operating costs of other operations	Revenue of other operations	Operating costs of other operations
	RMB'000	RMB'000	RMB'000	RMB'000
Aircraft leasing income (Note 7(5)(b))	1,192,902	(757,056)	1,221,751	(763,112)
Property rental income	397,135	(68,776)	348,657	(89,381)
Processing fee for cancelled tickets	186,669	–	146,837	–
Commission income	39,802	–	36,632	–
Gain on disposal of investment properties	–	–	92,066	(75,800)
Others	180,802	(60,504)	146,793	(61,433)
	1,997,310	(886,336)	1,992,736	(989,726)

The costs of aircraft leasing did not include interest charge of RMB327,273 thousand (2011: RMB340,063 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(c) Revenues of the top 5 customers of the Group

For the year ended 31 December 2012, total revenue of the top 5 customers of the Group amounted to RMB6,840,314 thousand (2011: RMB6,670,439 thousand), accounting for 24% of the total revenues of the Group (2011: 25%).

(39) Business tax and surcharges

	2012 RMB'000	2011 RMB'000
Business tax	777,399	716,723
City maintenance and construction tax	54,421	47,177
Education surcharges	40,768	32,859
Others	2,593	6,119
	875,181	802,878

The taxation bases of business tax and surcharges are set out in Note 3.

(40) Selling and distribution expenses

	2012 RMB'000	2011 RMB'000
Commissions tickets sales	1,388,371	766,819
Tickets reservation fee	172,080	155,490
Wages, bonuses and welfares	120,842	120,004
Sales branches expenses	68,979	76,609
Rentals	40,530	53,278
Others	56,052	88,052
	1,846,854	1,260,252

(41) General and administrative expenses

	2012 RMB'000	2011 RMB'000
Wages, bonuses and welfares	128,379	142,520
Various types of taxes	90,535	55,599
Insurances	41,108	36,887
Rents	37,811	45,418
Depreciation	36,522	57,683
Others	264,149	237,478
	598,504	575,585

(42) Finance expenses – net

	2012 RMB'000	2011 RMB'000
Interest expenses	3,645,329	3,091,318
Less: Interest capitalised	(459,300)	(287,676)
Less: Interest income	(644,623)	(363,042)
Net exchange gains	(60,904)	(637,883)
Others	123,121	201,185
	2,603,623	2,003,902

Interest income includes interests received from related parties (Note 7(5)(a)).

(43) Impairment losses

	2012 RMB'000	2011 RMB'000
Provision for available-for-sale financial assets (Note 5 (9)(b))	86,104	–
Provision for bad debts	380	8,206
	86,484	8,206

(44) Gains on changes in fair value

	2012 RMB'000	2011 RMB'000
Investment properties (Note 5(11))	504,363	869,845
Other financial assets held for trading	–	26
	504,363	869,871

(45) Investment income

	2012 RMB'000	2011 RMB'000
Share of results of investees accounted for under equity method (Note 5(10)(a))	212,413	89,493
Dividend income from investees accounted for under cost method (Note 5(10)(b))	9,012	3,427
Dividend income from available-for-sale financial assets (Note 5(9)(b))	4,636	8,932
Gain on disposal of long-term equity investments	2,296	96,032
Loss on disposal of available-for-sale financial assets (Note 5(9)(b))	(40,116)	—
	188,241	197,884

The Group has no significant limitation on returns on investments.

(46) Non-operating income

	2012 RMB'000	2011 RMB'000	Amount recorded in extraordinary items of 2012 RMB'000
Subsidy income	460,154	333,162	460,154
Including: Flight route subsidies[(a)]	185,302	94,474	185,302
Tax refund	125,376	66,930	125,376
Other financial subsidies	149,476	171,758	149,476
Gain on disposal of non current assets	78,092	34,737	78,092
Profit compensation received from HNA Group with respect to Beijing Kehang[(b)]	117,875	109,917	117,875
Others	18,328	102,904	18,328
	674,449	580,720	674,449

(a) Among flight route subsidies, RMB123,820 thousand represents the subsidies from MOF with respect to special long-distance international routes.

(b) Upon the acquisition of Beijing Kehang by the Company, HNA Group undertook to compensate the Company the difference if the net profit of Beijing Kehang could not reach the expected levels as agreed between 2009 and 2011. In 2012, the Company received the profits compensation of Beijing Kehang from HNA Group amounted to RMB117,875 thousand (2011: RMB109,917 thousand) (Note 7(5)(j)).

(47) Non-operating expenses

	2012 RMB'000	2011 RMB'000	Amount recorded in extraordinary items of 2012 RMB'000
Loss on disposal of fixed assets	1,722	70,065	1,722
Others	10,915	6,790	10,915
	12,637	76,855	12,637

(48) Income tax expenses

	2012 RMB'000	2011 RMB'000
Current income tax	73,194	122,764
Deferred income tax	635,574	739,084
	708,768	861,848

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2012	2011
	RMB'000	RMB'000
Total profit	2,653,714	3,696,056
Income tax expenses calculated at the applicable tax rate of 25% (2011: 24%)	663,428	887,053
Effect of different tax rates of subsidiaries	(48,884)	16,067
Income not subject to tax	(63,832)	(30,762)
Expenses not deductible for tax purposes	15,555	10,039
Recognition of previously unrecognised deductible temporary differences and tax losses	–	(40,980)
Unrecognised deductible tax losses	478	16,116
Reversal of deferred tax assets previously recognised for tax losses	85,227	–
Adjustment of income not subject to tax in accordance of tax clearance	66,354	–
Other differences	(9,558)	4,315
Income tax expenses	708,768	861,848

(49) Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of outstanding ordinary shares of the Company.

	2012	2011
	RMB'000	RMB'000
Profits attributable to the ordinary shareholders of the Company	1,927,787	2,631,312
Weighted average number of outstanding ordinary shares in issue	4,780,691	4,125,491
Basic earnings per share (RMB Yuan per share)	0.40	0.64

(b) Diluted earnings per share

Diluted earnings per share are calculated based on profit attributable to the ordinary shareholders of the Company, adjusted by potential diluted ordinary shares, divided by the weighted average number of ordinary shares of the Company. For the year ended 31 December 2012, there are no diluted ordinary shares (2011: Nil), therefore diluted earnings per share is equal to basic earnings per share.

(50) Other comprehensive income

	2012	2011
	RMB'000	RMB'000
Gain/(loss) arising from available-for-sale financial assets	135,334	(180,006)
Less: Income tax impact	(33,833)	49,135
	101,501	(130,871)

(51) Notes to consolidated cash flow statements

(a) Cash received relating to other operating activities:

	2012	2011
	RMB'000	**RMB'000**
Refunds of security deposits for notes payable	2,369,984	1,336,994
Receipts of subsidy income (Note 5(46))	460,154	333,162
Receipts of net profit compensation of Beijing Kehang (Note 5(46)(b))	117,875	109,917
Others	112,053	110,265
	3,060,066	1,890,338

(b) Cash paid relating to other operating activities:

	2012	2011
	RMB'000	**RMB'000**
Payments of notes payable, borrowings and other security deposits	1,796,013	2,369,984
Payments of ticket sales commission	1,388,371	766,819
Payments of lease security deposits and maintenance reserve funds	–	412,827
Payments of ticket reservation fees	172,080	155,490
Payments of bank charges	123,121	135,165
Payments of sales branches expenses	68,979	76,609
Payments of advertising and entertainment expenses	62,364	55,473
Others	545,711	659,540
	4,156,639	4,631,907

(c) Cash received relating to other investing activities

	2012	2011
	RMB'000	**RMB'000**
Receipts of term deposits upon maturity	1,750,000	2,623,115
Interests on deposits	604,482	212,252
	2,354,482	2,835,367

(d) Cash paid relating to other investing activities

	2012	2011
	RMB'000	**RMB'000**
Term deposits	1,525,000	2,086,397

(e) Cash received relating to other financing activities

	2012	2011
	RMB'000	**RMB'000**
Cash received from discounted notes payable	2,753,000	4,272,000

(f) Cash paid relating to other financing activities

	2012 RMB'000	2011 RMB'000
Payments of discounted notes payable	4,272,000	2,129,952
Payments of finance leases	435,918	523,553
Interest on discounting notes	362,357	599,236
	5,070,275	3,252,741

(52) Supplementary information for consolidated cash flow statement

(a) Supplementary information for consolidated cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2012 RMB'000	2011 RMB'000
Net profit	1,944,946	2,834,208
Add: Adjust by provision for asset impairment (Note 5(43))	86,484	8,206
Depreciation of fixed assets (Note 5(12))	2,330,061	2,173,908
Amortisation of intangible assets (Note 5(14))	5,783	5,779
Amortisation of long-term prepaid expenses (Note 5(16))	100,350	65,394
Amortisation of deferred loss on sales and leaseback transaction	66,001	66,711
Losses/(gains) on disposals of fixed assets	(76,370)	35,328
Gains on changes in fair value (Note 5(44))	(504,363)	(869,871)
Finance expenses	2,480,502	1,868,737
Investment income (Note 5(45))	(188,241)	(197,884)
Increase in deferred tax liabilities	590,386	999,624
Increase in deferred revenue	162,053	150,367
Decrease/(increase) in inventories	55,742	(78,628)
Increase in operating receivables	479,832	(1,531,086)
Increase in operating payables	2,662,745	457,574
Net cash flows from operating activities	10,195,911	5,988,367

Significant investing and financing activities that do not involve cash receipts and payments:

	2012 RMB'000	2011 RMB'000
Asset transfer	192,552	–
Fixed assets acquired under finance leases	473,000	–
	665,552	–

Movement in cash and cash equivalents:

	2012 RMB'000	2011 RMB'000
Cash and cash equivalents at end of year	18,633,988	14,598,317
Less: Cash and cash equivalents at beginning of year	(14,598,317)	(12,713,740)
Net increase in cash and cash equivalents	4,035,671	1,884,577

(b) Cash and cash equivalents

	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash on hand	2,409	1,960
Bank deposits available for drawing at any time	18,631,579	14,596,357
Cash and cash equivalents at end of year	18,633,988	14,598,317

6 SEGMENT INFORMATION

The management of the Group reviews the Group's internal reports periodically in order to assess the performances and allocate resources, based on which the segments are determined.

The management of the Group evaluates the operating performances of the Group by service categories, and the performances of below segments are evaluated:

(i) Airline operation segment, which comprises passenger and cargo transportation services;

(ii) Other segments, which comprise the segments that are individually insignificant, such as hotel services, are combined as other segments.

(a) The revenue, total profit, assets and liabilities of reporting segments for the years ended 31 December 2012 and 2011 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue generated from external transactions	28,603,582	26,035,447	264,003	237,799	–	–	–	–	28,867,585	26,273,246
Interest income	642,264	362,133	2,359	909	–	–	–	–	644,623	363,042
Interest expenses	3,565,099	2,974,891	80,230	116,427	–	–	–	–	3,645,329	3,091,318
Assets impairment losses	–	2,577	380	5,629	–	–	86,104	–	86,484	8,206
Depreciations and amortisations	2,463,750	2,202,097	38,445	42,984	–	–	–	–	2,502,195	2,245,081
Gain on changes in fair value	141,371	210,001	362,992	659,870	–	–	–	–	504,363	869,871
Total profit	2,122,199	3,173,375	429,378	617,353	–	(292,556)	102,137	197,884	2,653,714	3,696,056
Income tax expenses	605,730	670,506	103,038	191,342	–	–	–	–	708,768	861,848
Net profit	1,516,469	2,502,869	326,340	426,011	–	(292,556)	102,137	197,884	1,944,946	2,834,208
Total assets	78,048,028	72,370,453	4,710,474	5,643,545	(2,506,807)	(3,091,094)	12,467,449	6,373,748	92,719,144	81,296,652
Total liabilities	65,796,404	64,503,561	3,543,275	2,928,026	(529,764)	(706,104)	–	–	68,809,915	66,725,483

Note: Unallocated items include in total profits mainly represent the investment income and impairment on available-for-sale financial assets, and unallocated items include in total assets mainly include long-term equity investments, goodwill and available-for-sale financial assets.

(b) Revenue by region of the Group is analysed as follows:

	2012	2011
	RMB'000	RMB'000
Domestic	25,257,345	22,631,487
International and regional	3,610,240	3,641,759
	28,867,585	26,273,246

The revenue of the Group mainly comes from aircraft assets which are all registered in PRC. Since the aircrafts of the Group could be allocated to different routes freely, there is no reasonable allocation base to distribute assets and liabilities among regions, as a result, the assets, liabilities and capital expenditures are not disclosed by geographical segment.

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company

	Enterprise type	Place of registration	Legal representative	Nature of business	Organisation code
Grand China Air	Foreign-investment enterprise	Haikou	Chen Feng	Transportation	76037451-5

The Company's ultimate controlling party is State-owned Assets Supervision and Administration Commission of Hainan Province.

(b) Registered capital and changes in registered capital of the parent company:

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000			RMB'000
Grand China Air	6,008,324	–	–	6,008,324

(c) The proportion of equity interests and voting rights in the Company held by the parent company

	31 December 2012		31 December 2011	
	% equity interests held	% voting rights	% equity interests held	% voting rights
Grand China Air	28.18%	28.18%	44.22%	44.22%

(2) Subsidiaries

The general information and other related information of the subsidiaries are set out in Note 4.

(3) Associates

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% equity interests held	% voting right held by the Company	Organisation code
					RMB'000			
Bohai Trust	Limited company	Shijia Zhuang	Jin Pin	Assets trust, movable trust, and real estate trust, negotiable securities trust, and other property trust, and as a fund or fund management company sponsors engaged in investment fund business; corporate assets reorganization, merger and acquisition and financing, and company banking, and financial consultant, business, trustee operating state about sector approved securities underwriting business, and handle brokered, and advisory investigation, business, generation custody and custody box business, inter bank business, loan, lease, capital operation, assets guarantees and other business according to regulation and business approval of the China Banking Regulatory Commission.	2,000,000	39.78%	39.78%	104323736
Grand China Technology	Limited company	Haikou	Wang Yingming	Maintenance, protection and retreat of aircrafts, engines and other accessories; crew services and duty services insurance, maintenance and technology services provision; fleet technology management and other project services; checking services; personnel training; technology consultancy; maintenance development; assets managements, etc.	2,080,000	48.08%	48.08%	69890098-2
Lucky Air	Limited company	Kunming	Wang Yangang	Domestic passenger and cargo air transportation, cargo import and export; insurance by-business agency (operating with permission), etc.	1,492,282	40.00%	40.00%	76044470-4

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% equity interests held	% voting right held by the Company	Organisation code
					RMB'000			
HNA Finance	Limited company	Beijing	Zhang Shanghui	Financial and financing consultancy, credit authentication and relevant consultancy and agency services to member companies; assistance to member companies on receipt and payment of trading receivables and payables; warranty provision to member companies; entrusted loan and entrusted investments handling among member companies; notes acceptance and discount to member companies; internal accounts transfer and settlement of member companies and relevant programme design of accounts settlement and clearing; absorption of member companies' deposits; borrowings and financing rental provision to member companies; inter-bank borrowings; issuance of finance company bonds after approved; corporate bonds underwritten of member companies; negotiable securities investment, etc.	2,700,000	23.70%	23.70%	102054341
Hunan Golden-Deer	Limited company	Hunan	Xuzhou Jin	Investment and management of airline transportations, relevant projects, and airport; investment in energy and communication industries; capital operating planning and management, investment management; corporate marketing planning and management.	950,000	47.37%	47.37%	57860988-3
Xi'an Chanba	Limited company	Xi'an	Huang Wen	Borrowings warranty, notes acceptance warranty, trade financing warranty, project financing warranty, letter of credit warranty and other financing warranties allowed by laws and regulatory.	1,000,000	40.00%	40.00%	57842871-6

(4) Other related parties

Abbreviation (Full names are set out in Note 16)	Relationship with the Company	Organisation code
HNA Group	A shareholder with significant influence on the parent company of the Company	708866504
Xinhua Air Catering	Under HNA Group's control	708866504
Air Catering Holding	Under HNA Groups control	62001238-7
Xinjiang Catering	Under HNA Group's control	781752984
Sanya Catering	Associate of HNA Group	74259875-0
Meilan Airport	Under the same control of the parent company of the Company	72127172-4
Sanya Phoenix Airport	Under HNA Group's control	20136089-7
Haikou Meilan	A shareholder with over 5% voting rights of the Company	70886657-1
Gansu Airport	Under HNA Group's control	924594371
Beijing Business Culture	Under HNA Group's control	691699673
Xinhua Culture	Under HNA Group's control	55141614-1
Vigorous Vision	Under HNA Group's control	764222308
HNA Import & Export	Under HNA Group's control	71385918-1
Yisheng Holding	Under HNA Group's control	693161850
Tianjin Airlines	Under HNA Group's control	79496844-2
Capital Airlines	Under HNA Group's control	70887277-9
Western Airlines	Under HNA Group's control	79804682-4
HNA Aviation Sales	Under HNA Group's control	70887276-0
HNA Cargo	Under HNA Group's control	55736841-9
Yangtze River Express	Under HNA Group's control	741185823
HNA Tourism	Under HNA Group's control	735810119
HNA Industrial	Under HNA Group's control	79872285-3
HNA Hotel Group	Under HNA Group's control	70886444-5
New City Construction	Under HNA Group's control	735830080
Yangtze River Leasing	Under HNA Group's control	621904344
HNA Airport Holding	Under HNA Group's control	75436025-6
HNA Airlines Holdings	Under HNA Group's control	68117653-7
HNA Hotel Holding	Under HNA Group's control	76597075-4
Yangtze River Real Estate	Under HNA Group's control	713859173
Beijing HNA Dingsheng	Under HNA Group's control	78174712-4
Beijing HNA Real Estate	Under HNA Group's control	789953019
Beijing Tianchen	Under HNA Group's control	101717916
Beijing Hengshi	Associate of HNA Group	746721509
HNA Property Holdings	Under HNA Group's control	79872661-9
Hong Kong Airlines	Under HNA Group's control	31717266
HNA Safe	Under HNA Group's control	74779967-4
Xinsheng Info Tech	Under HNA Group's control	671060987
HNA Real Estate Holding	Under HNA Group's control	676067133
Changjiang Leasing	A shareholder with over 5% voting rights of the Company	72123031-6
HNA Group (Hong Kong)	Under HNA Group's control	36669070

(5) Related party transactions

(a) Sales and purchases of goods, provision and receipt of services

Nature of transaction	Pricing policy	Related party	2012 Amount RMB'000	2012 % of transactions in same nature	2011 Amount RMB'000	2011 % of transaction in same nature
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	117,751	17%	102,234	25%
		Air Catering Holding	37,955	6%	38,823	10%
		Xinjiang Catering	24,650	4%	22,682	6%
		Sanya Catering	12,032	2%	11,551	3%
			192,388	29%	175,290	44%
Take-off and landing	Government directed price	Meilan Airport	95,914	4%	97,544	7%
		Sanya Phoenix Airport	49,124	2%	37,206	3%
		Haikou Meilan	39,175	2%	40,774	3%
			184,213	8%	175,524	13%
Advertising services	Mutually agreed price	Beijing Business Culture	30,000	50%	30,000	63%
		Xinhua Culture	5,827	10%	17,473	37%
			35,827	60%	47,473	100%
Import & export agency fee	0.3%~3% of purchase prices	HNA Import & Export	27,395	100%	18,002	100%
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	152,344	11%	112,428	15%
	Mutually agreed price	Xinsheng Info Tech	14,675	1%	10,237	1%
	Mutually agreed price	Yisheng Holding	3,747	0.3%	35,825	5%
			170,766	12%	158,490	21%
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	11,991	30%	12,506	34%
		Tianjin Airlines	4,571	11%	6,887	19%
		Capital Airlines	2,747	7%	2,459	7%
		Lucky Air	1,587	4%	1,798	5%
		Western Airlines	705	2%	519	1%
			21,601	54%	24,169	66%
Cargo agency fees paid to related parties	Mutually agreed price	HNA Cargo	60,929	4%	60,028	8%
Sales of New Gold Deer cards	Mutually agreed price	Yisheng Holding	37,640	0.15%	28,935	0.2%

Nature of transaction	Pricing policy	Related party	2012 Amount	2012 % of transactions in same nature	2011 Amount	2011 % of transactions in same nature
			RMB'000		RMB'000	
Receipt of aircraft maintenance services	Mutually agreed price	Grand China Technology	610,330	39%	567,165	36%
Interest income	Market price	HNA Finance	138,398	21%	121,444	33%
Charter income	Mutually agreed price	Gansu Airport	61,644	4%	14,604	2%
Frequent flyer mileages income	Mutually agreed price	Tian Jin Airline	44,520	31%	33,990	42%
	Mutually agreed price	Capital Airline	28,322	20%	5,515	7%
	Mutually agreed price	Lucky Air	18,322	13%	11,957	15%
			91,164	64%	51,462	64%

The above related transactions are arising from the operations of the Group and the related parties. The above transactions have been approved by the shareholder's meetings and the pricing policies and nature of the transactions have been properly approved and authorised by the Board.

(b) Leasing

(i) The Group as a lessor:

Lessor	Leased assets	Lessee	Lease commencement date	Lease expiry date	Leasing term policy	Lease income in 2012
						RMB'000
The Group	Aircraft	Capital Airlines	18/12/2010	Automatic roll-over annually	Mutually agreed price	478,880
		Tianjin Airlines	25/05/2008	Automatic roll-over annually	Mutually agreed price	246,961
		Lucky Air	01/01/2007	Automatic roll-over annually	Mutually agreed price	264,044
		Grand China Air	30/11/2007	Automatic roll-over annually	Mutually agreed price	113,632
		Western Airlines	09/08/2010	Automatic roll-over annually	Mutually agreed price	73,800
		Yangtze River Express	16/04/2010	Automatic roll-over annually	Mutually agreed price	15,585
						1,192,902

Lessor	Leased assets	Lessee	Lease commencement date	Lease expiry date	Leasing term policy	Lease income in 2012
						RMB'000
The Company	Properties	HNA Tourism	16/04/2009	Automatic roll-over annually	Mutually agreed price	10,999
Beijing Kehang	Properties	HNA Hotel Group	01/04/2012	31/03/2015	Mutually agreed price	142,941
		HNA Finance	01/10/2008	31/12/2013	Mutually agreed price	9,558
		HNA Group	01/10/2008	31/12/2013	Mutually agreed price	9,084
						172,582

(ii) The Group as lessee:

Lessor	Lessee	Leased assets	Lease commencement date	Lease expiry date	Leasing term policy	Lease rentals in 2012
						RMB'000
Hong Kong Airlines	The Company	Aircraft	01/10/2010	Automatic roll-over annually	Mutually agreed price	322,708
New City Construction	The Company	Office buildings	26/01/2011	26/09/2016	Mutually agreed price	27,546
Yangtze River Leasing . .	The Company	Aircraft engines	15/07/2010	12/11/2017	Mutually agreed price	20,462
Capital Airlines	Chang'an Airlines	Aircraft	01/01/2011	Automatic roll-over annually	Mutually agreed price	16,200
Meilan Airport	The Company	Airport terminal	26/02/2009	Automatic roll-over annually	Mutually agreed price	5,808
						392,724

(c) Guarantees and pledges provided by related parties to the Group

Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2012
		RMB'000			
(i) Short-term borrowings					
HNA Group	The Company	4,292,500	06/04/2012	21/08/2013	No
HNA Group and Grand China Air	The Company	3,006,000	23/03/2012	06/12/2013	No
Grand China Air	The Company	2,240,000	04/01/2012	24/10/2013	No
HNA Group and Haikou Meilan	The Company	1,131,390	28/06/2012	27/06/2013	No
HNA Group and HNA Finance	The Company	300,000	26/07/2012	25/07/2013	No
HNA Group	Xinhua Airlines	300,000	16/11/2012	15/11/2013	No
HNA Business	Beijing Kehang	20,000	13/02/2012	13/02/2013	No
HNA Group	The Company	6,441,000	28/02/2011	21/12/2012	Yes
Grand China Air	The Company	1,995,000	13/01/2011	23/11/2012	Yes
HNA Group and Grand China Air	The Company	1,700,000	21/06/2012	31/12/2012	Yes
Grand China Air	The Company	1,200,000	05/01/2012	28/12/2012	Yes
HNA Group and Grand China Air	The Company	750,000	13/05/2011	25/11/2012	Yes
HNA Group and Haikou Meilan	The Company	630,090	28/04/2011	27/04/2012	Yes
HNA Group	Xinhua Airlines	370,000	25/03/2011	12/08/2012	Yes
Hainan Guoshan	The Company	330,000	04/11/2011	03/11/2012	Yes
HNA Group and HNA Finance	The Company	300,000	29/07/2011	26/07/2012	Yes
Grand China Air	Chang'an Airlines	100,000	27/12/2011	26/07/2012	Yes
HNA Finance	Xinhua Airlines	100,000	28/09/2011	28/09/2012	Yes
HNA industrial	Beijing Kehang	15,000	01/04/2011	31/03/2012	Yes
(ii) Long-term borrowings					
HNA Group	The Company	2,703,560	11/04/2007	31/07/2025	No
HNA Airlines Holdings and New City Construction	The Company	2,111,407	30/06/2003	07/07/2018	No
HNA Group	Chang'an Airlines	1,582,662	29/09/2007	19/06/2021	No
HNA Group and Haikou Meilan and Yangtze River Investment	The Company	700,000	30/11/2010	29/11/2013	No
HNA Group and Haikou Meilan	Chang'an Airlines	510,000	19/05/2005	28/10/2016	No
Grand China Air	The Company	500,000	25/11/2011	17/05/2014	No
HNA Group and Haikou Meilan	Shan xi Airlines	430,000	20/12/2005	17/10/2016	No
HNA Group and Grand China Air and Hainan Guoshan	The Company	250,000	24/12/2012	23/12/2015	No
HNA Group and HNA Airport Holding	The Company	196,108	02/08/2002	02/08/2035	No
HNA Airport Holding	The Company	193,279	19/12/2003	20/12/2015	No
HNA Group	Xinhua Airlines	116,874	09/03/2009	09/03/2017	No

Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2012
		RMB'000			
HNA Group and HNA Airlines Holdings	The Company	90,000	31/03/2004	31/03/2014	No
HNA Group	The Company	584,000	31/03/2010	26/12/2012	Yes
Grand China Air	The Company	270,000	18/05/2010	18/05/2012	Yes
HNA Group and Grand China Air	The Company	249,400	11/05/2010	10/05/2012	Yes
HNA Airlines Holdings	The Company	136,000	18/09/2000	17/09/2012	Yes
HNA Group and Haikou Meilan	Chang'an Airlines	120,000	31/03/2005	21/12/2012	Yes
HNA Group and Sanya Phoenix Airport	The Company	110,000	30/09/2009	30/09/2012	Yes

(d) Guarantees provided by the Group to related parties

Guarantor	Guarantee	Guaranteed amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2012
		RMB'000			
(i) Short-term borrowings					
The Company	Lucky Air	600,000	25/10/2012	25/04/2013	No
The Company	Grand China Air	300,000	16/04/2012	15/04/2013	No
The Company	Grand China Air	300,000	29/09/2012	28/09/2013	No
The Company	Grand China Air	300,000	18/09/2012	18/09/2013	No
The Company	HNA Group	280,000	06/06/2012	06/06/2013	No
The Company	HNA Group	117,200	18/12/2012	18/12/2013	No
The Company	HNA Group	111,700	06/06/2012	06/06/2013	No
The Company	Yangtze River Express	100,000	29/09/2012	28/09/2013	No
The Company	Bohai Leasing	30,000	02/07/2012	02/07/2013	No
The Company	HNA Airlines Holding	250,000	06/02/2012	06/08/2012	Yes
The Company	Yangtze River Express	100,000	17/03/2011	16/03/2012	Yes
The Company	Yangtze River Express	100,000	17/03/2012	16/09/2012	Yes
(ii) Long-term borrowings					
The Company	HNA Group	754,260	31/12/2009	30/12/2014	No
The Company	Yangtze River Leasing	525,468	01/02/2007	31/12/2018	No
The Company	Changjiang Leasing	524,000	02/11/2012	02/05/2015	No
The Company	HNA Tourism	330,000	10/11/2011	08/11/2014	No
The Company	HNA Airlines Holding	301,829	18/09/2012	17/09/2017	No
The Company	Yangtze River Leasing	33,000	01/02/2007	31/12/2018	No
The Company	HNA Hotel Group	111,700	21/12/2010	21/06/2012	Yes

(e) Borrowing and lending funds

Entity	Borrowing amount	Borrowing date	Repayment amount RMB'000	Repayment date
	RMB'000			
HNA Airlines Holding	38,524	Opening balance	80,000	15/03/2012
HNA Airlines Holding	1,635	04/01/2012	1,692	19/03/2012
HNA Airlines Holding	10	04/01/2012	62,737	19/03/2012
HNA Airlines Holding	110,000	14/03/2012	30,000	27/03/2012
HNA Airlines Holding	28,241	15/03/2012	80,000	28/03/2012
HNA Airlines Holding	96,728	26/03/2012	6,760	30/03/2012
HNA Airlines Holding	25,000	03/05/2012	60,000	04/06/2012
HNA Airlines Holding	50,000	09/05/2012	20,000	08/06/2012
HNA Airlines Holding	360,000	04/06/2012	8,000	18/06/2012
HNA Airlines Holding	40,000	05/06/2012	19	18/06/2012
HNA Airlines Holding	150,000	15/06/2012	1,000	18/06/2012
HNA Airlines Holding	29,687	27/06/2012	33,750	21/06/2012
HNA Airlines Holding	30,000	24/07/2012	50,000	27/06/2012
HNA Airlines Holding	33,515	31/12/2012	85,000	27/06/2012
HNA Airlines Holding	–		54,000	27/06/2012

Entity	Borrowing amount RMB'000	Borrowing date	Repayment amount RMB'000	Repayment date
HNA Airlines Holding	–		250,000	29/06/2012
HNA Airlines Holding	–		6,000	02/07/2012
HNA Airlines Holding	–		100,000	27/07/2012
HNA Airlines Holding	–		158	07/08/2012
HNA Airlines Holding	–		30,000	31/12/2012
	993,340		959,116	
Yangtze River Leasing	14,146	Opening balance	9,923	17/01/2012
HNA Group	10,088	Opening balance	62,978	09/02/2012
HNA Group	71,190	08/02/2012	35,000	31/12/2012
HNA Group	13,156	18/07/2012	–	
HNA Group	31,000	12/09/2012	–	
HNA Group	31,426	30/09/2012	–	
HNA Group	149,460	14/12/2012	–	
	306,320		97,978	
HNA Hotel Holding	23,601	Opening balance	50,000	31/12/2012
HNA Hotel Holding	2,636	29/03/2012	–	
HNA Hotel Holding	6,632	31/05/2012	–	
HNA Hotel Holding	5,680	30/06/2012	–	
HNA Hotel Holding	3,253	31/07/2012	–	
HNA Hotel Holding	2,934	31/08/2012	–	
HNA Hotel Holding	3,166	30/09/2012	–	
HNA Hotel Holding	3,556	31/10/2012	–	
HNA Hotel Holding	3,099	30/11/2012	–	
HNA Hotel Holding	2,924	31/12/2012		
	57,481		50,000	
HNA Property Holdings	161	Opening balance	–	
HNA Property Holdings	999	30/06/2012	–	
	1,160		–	

(f) Asset transfers

Related party	Nature of transaction	Pricing policy	2012 Amount RMB'000	2012 % of transactions in same nature	2011 Amount RMB'000	2011 % of transactions in same nature
New City Construction	Accept of fix asset	Valuation amount	(894,161)	47%	–	–
Construction of new urban city	Transfer of fixed assets and land	Valuation amount	192,552	100%	–	–
Yangtze River Express	Transfer of aircraft	Valuation amount	–	–	156,282	100%
Xi'an Real Estate	Transfer of land	Valuation amount	–	–	92,066	100%
HNA Airlines Holding	Transfer of office equipment	Mutually agreed price	–	–	1,419	89%
			(701,609)		249,767	

(g) Capital injections

Related party	Nature of transaction	Pricing policy	2012 Amount	2012 % of transactions in same nature	2011 Amount	2011 % of transactions in same nature
			RMB'000		RMB'000	
HNA Airline holding (Note 5(10)(a)(ii))	Capital injection – Hunan Golden Deer	Mutually agreed price	500,000	100%	–	–
HNA Technology	Capital injection – HNA Technology	Mutually agreed price	–	–	1,000,000	54%
HKAGH	Capital injection – HKAGH	Mutually agreed price	–	–	842,000	46%
			500,000		1,842,000	

(h) Equity transfers

Related party	Nature of transaction	Pricing policy	2012 Amount	2012 % of transactions in same nature	2011 Amount	2011 % of transactions in same nature
			RMB'000		RMB'000	
HNA Songzhuang	Equity interest disposal - Kehang Tianshou	Mutually agreed price	50,000	100%	–	–
Grand China Air	Equity interest disposal - Haidao Construction	Mutually agreed price	–	–	1,600,000	36%
Grand China Air	Equity interest disposal - Hainan Guoxu	Mutually agreed price	–	–	1,209,574	27%
Grand China Air	Equity interest disposal - Hainan Hangpeng	Mutually agreed price	–	–	824,256	18%
Grand China Air	Equity interest disposal - Hainan Guoshan	Mutually agreed price	–	–	693,080	15%
HNA Real Estate Holding	Equity interest disposal - Qionghai Nanjue	Mutually agreed price	–	–	155,875	3%
HNA Airlines Holding	Equity interest disposal - Xi'an Real Estate	Mutually agreed price	–	–	30,330	1%
HNA Airlines Holding	Equity interest disposal - Northwest HNA Property	Mutually agreed price	–	–	10,136	–
			50,000	100%	4,523,251	100%

Related party	Nature of transaction	Pricing policy	2012 Amount	2012 % of transactions in same nature	2011 Amount	2011 % of transactions in same nature
			RMB'000		RMB'000	
Haikou Meilan, HNA Hotel Holding, Yangtze River Real Estate, Yanjing Restaurant and HNA Information (Note(10)(a)(i))	Equity interest acquisition - Bohai Trust	Mutually agreed price	2,760,906	84%	–	–
HNA Tourism (Note 5(10)(b)(i))	Equity interest acquisition - Capital Airline Holding	Mutually agreed price	508,620	16%	–	–
Grand China Air	Equity interest acquisition - Xinhua Airlines	Mutually agreed price	–	–	1,080,000	30%
Lucky Air Investment	Equity interest acquisition - Lucky Air	Mutually agreed price	–	–	712,000	20%
HNA Group	Equity interest acquisition - HNA Finance	Mutually agreed price	–	–	705,600	20%
Tianhang Holdings	Equity interest acquisition - Tianjin Airlines	Mutually agreed price	–	–	694,000	19%
Grand China Air	Equity interest acquisition - Chang'an Airlines	Mutually agreed price	–	–	281,990	8%
Grand China Air	Equity interest acquisition - Lucky Air	Mutually agreed price	–	–	130,000	3%
Total equity transfer . . .			3,269,526	100%	3,603,590	100%

(i) Remuneration of key management

	2012	2011
	RMB '000	RMB '000
Remuneration of key management	4,143	3,611

(j) Other related party transactions

Related party	Nature of transaction	2012 Amount	2012 % of transactions in same nature	2011 Amount	2011 % of transactions in same nature
		RMB'000		RMB'000	
Capital Airlines	Pilot transfer	4,050	23%	50	3%
Lucky Air	Pilot transfer	2,100	12%	–	–
Tianjin Airlines	Pilot transfer	4,550	26%	–	–
Western Airlines	Pilot transfer	4,500	25%	–	–
Lucky Air	Amounts paid on behalf(i)	216,855	43%	217,028	15%
Capital Airlines	Amounts paid on behalf(i)	122,714	24%	94,377	6%
HNA Technology	Amounts paid on behalf(i)	65,714	13%	127,107	9%
Yangtze River Express	Amounts paid on behalf(i)	33,952	7%	43,125	3%
Western Airlines	Amounts paid on behalf(i)	32,186	6%	50,763	3%
Tianjin Airlines	Amounts paid on behalf(i)	13,711	3%	55,421	4%
HNA Group	Profit compensation of Beijing Kehang	117,875	100%	109,917	100%

(i) These are mainly the expenses of salaries, flying hour fees, domestic infrastructure levies and maintenance and protection services paid or collected by the Group on behalf of the related parties.

(6) Receivables from and payables to related parties

Account	Related party	31 December 2012	31 December 2011
		RMB'000	RMB'000
Cash at bank and on hand	HNA Finance	4,699,439	4,449,149
Notes receivable	Grand China Air	–	3,117,336
Interest receivable	HNA Finance	169,806	121,444
Dividends receivables	Haikou Meilan	966	–
	Meilan Airport	899	–
		1,865	–
Accounts receivable	Yisheng Holding	34,597	45,274
	Xinsheng Info Tech	19,087	102,896
	HNA Cargo	4,333	19,903
	Tianjin Airlines	–	42,479
	Others	7,980	8,768
		65,997	219,320
Other receivables	HNA Real Estate Holding	169	156,069
	Grand China Air	–	1,135,375
	Yangtze River Express	–	44,802
	Others	19,334	27,180
		19,503	1,363,426
Advances to suppliers	Others	7,602	2,681

Account	Related party	31 December 2012	31 December 2011
		RMB'000	RMB'000
Other non-current assets	Changjiang Leasing	359,366	339,188
	Hong Kong Airlines	345,538	–
		704,904	339,188
Notes payable	HNA Import & Export	2,753,000	2,600,000
	Yangtze River Investment	820,000	–
	Sanya Phoenix Airport	54,000	–
		3,627,000	2,600,000
Interest payable	HNA Finance	5,450	3,611
Accounts payable	HNA Technology	54,231	–
	Lucky Air	38,079	–
	Grand China Air	25,112	–
	HNA Airline sales	18,888	–
	Western Airlines	16,194	1,670
	Hai Kou Mei Lan	2,147	31,905
	HNA Airlines Holdings	–	27,207
	Meilan Airport	–	25,374
	HNA Airport Holding	–	10,829
	HNA Group (Hong Kong)	–	10,005
	Others	97,169	32,730
		251,820	139,720
Other payables	HNA Group	180,456	8,612
	Capital Airlines	33,044	18,014
	Changjiang Leasing	20,967	790
	HNA Airlines Holdings	20,477	–
	HNA Group (Hong Kong)	12,453	–
	Yangtze River Leasing	–	14,146
	Others	31,524	29,161
		298,921	70,723
Long-term payables	Changjiang Leasing	409,678	415,523
	Yangtze River Leasing	89,360	105,808
		499,038	521,331

(7) Commitments in relation to related parties

As at the balance sheet date, the commitments in relation to related parties contracted for by the Group but not yet necessary to be recognised on the consolidated balance sheet are as follows:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Operating lease out		
	341,667	277,290
– Capital Airlines	115,416	255,001
– Lucky Air	114,872	132,135
– Tianjin Airlines	105,096	108,235
– Grand China Air	33,825	74,165
– Western Airlines	12,511	19,773
	723,387	866,599

8 COMMITMENTS

(1) Performance of prior year commitments

The capital expenditure commitments and operating lease commitments of the Group as at 31 December 2011 were performed as committed.

(2) Capital commitments

As at the balance sheet date, capital expenditures contracted for by the Group but are not yet necessary to be recognised on the consolidated balance sheet are as follows:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Aircraft purchases	75,627,309	85,433,972
Buildings, machineries and equipments	147,411	234,214
	75,774,720	85,668,186

(3) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Within 1 year	2,115,764	1,827,354
1 to 2 years	1,752,991	1,448,781
2 to 3 years	1,297,613	1,353,301
Over 3 years	5,584,598	4,289,569
	10,750,966	8,919,005

9 POST BALANCE SHEET DATE EVENTS

(1) In February 2013, HNA Hongkong, the Company's wholly owned subsidiary, issued unsecured debentures amounted USD 500 million, which were listed and traded in Singapore, bearing interest at 3.625% per annum with final maturity in 2020. Bank of China issued irrevocable and unconditional letter of credit for such debentures.

(2) According to the Board's resolution passed on 14 March 2013, a cash dividend at RMB 1 yuan per every 10 shares (tax inclusive) and 10 extra shares per 10 shares were proposed. Based on a total of 6,091,091,085 outstanding shares in issue, total cash dividends proposed amounted to RMB 609,109 thousand. The above proposal is still subject to the approval of shareholders meeting.

10 LEASES

The Group leases in certain fixed assets under finance leases (Note 5(31)(a)). The future minimum lease payments of the finance leases are summarised in the following table:

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Within 1 year	651,987	492,044
1 to 2 years	277,452	568,562
2 to 3 years	258,632	181,726
Over 3 years	951,096	966,719
	2,139,167	2,209,051

As at 31 December 2012, the unrecognised finance charge amounted to RMB 347,095 thousand (31 December 2011: RMB 374,934 thousand) (Note 5(31)(a)).

11 CONTINGENCIES

Except for the guarantees provided by the Group to its related parties as disclosed in Note 7(5)(d), the Group has no other significant contingencies to be disclosed as at the date of these financial statements.

12 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

Except for part of the overseas routes that the Group operates, the Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. However the Group is still exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily in USD. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

As at 31 December 2012 and 2011, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2012		
	USD	Other currencies	Total
	RMB'000	RMB'000	RMB'000
Financial assets –			
Cash at bank and on hand	193,373	73,165	266,538
Accounts receivable	28,506	10,450	38,956
Other receivables	92,762	2,207	94,969
Other non-current assets	1,618,839	–	1,618,839
	1,933,480	85,822	2,019,302
Financial liabilities –			
Short-term borrowings	1,445,665	–	1,445,665
Accounts payable	2,446,291	338,653	2,784,944
Other payables	54,689	18,905	73,594
Long-term borrowings	17,006,372	85,853	17,092,225
Long-term payables	598,110	–	598,110
	21,551,127	443,411	21,994,538

	31 December 2011		
	USD	Other currencies	Total
	RMB'000	RMB'000	RMB'000
Financial assets –			
Cash at bank and on hand	354,693	109,106	463,799
Accounts receivable	16,181	13,973	30,154
Other receivables	77,350	4,110	81,460
Other non-current assets	1,377,808	–	1,377,808
	1,826,032	127,189	1,953,221
Financial liabilities –			
Short-term borrowings	945,135	–	945,135
Accounts payable	1,541,372	81,317	1,622,689
Other payables	73,204	–	73,204
Long-term borrowings	15,608,976	159,419	15,768,395
Long-term payables	745,884	–	745,884
	18,914,571	240,736	19,155,307

As at 31 December 2012, in respect of the Group's various financial assets and liabilities denominated in USD, if RMB had appreciated/depreciated by 10% against USD, while all other variables had remained unchanged, the Group's net profit for the year would have been increased/decreased by approximately RMB1,997,524 thousand (31 December 2011: approximately RMB1,708,854 thousand).

(b) Interest rate risk

The Group's interest rate risk primarily arises from long-term interest bearing liabilities, such as debentures payable, 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. The Group determines the relative proportions of its borrowings at fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2012, the Group's long-term interest bearing liabilities mainly included:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Short-term borrowings	15,792,336	17,533,295
Notes payable	4,782,981	4,506,488
Long-term borrowings	28,757,469	23,463,293
Long-term payables	1,792,072	1,834,117
Debentures payable	6,430,063	5,918,309
	57,554,921	53,255,502
Including: liabilities at floating rates	34,098,247	35,397,714
liabilities at fixed rates	23,456,674	17,857,788
	57,554,921	53,255,502

The Group's finance department at headquarter monitors the interest rate position of the Group on an on-going basis. Increases in interest rates will increase the cost of new borrowings and the Group's outstanding borrowings at floating rates, and thus could have a material negative effect on the Group's financial position. Management makes appropriate adjustments with reference to the latest market conditions, including entering into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2012 and 2011, the Group had not entered into any interest rate swap agreements.

For the year ended 31 December 2012, if interest rates on the floating rate borrowings had been 25 basis points higher/lower while all other variables had been held constant, the Group's net profit would have decreased/ increased by approximately RMB85,246 thousand (2011: approximately RMB129,702 thousand).

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, other receivables and notes receivable etc.

The Group's bank deposits are mainly placed in state-owned banks and other listed banks of medium or large size. Management does not expect that the Group exposes to any significant credit risks and would suffer any significant losses from non-performance by the banks.

The financing products (Note 5(8)) purchased by the Group are mainly from one city commercial bank, which is regulated by the China Banking Regulatory Commission (the "CBRC") with no significant credit risk.

In addition, part of the Group's deposits are placed with HNA Finance, a related company of the Company. To further regulate the related party transactions between HNA Finance and the Group, protect the Group's funds and prevent the funds being occupied by related parties, on 24 July 2010, the Company established and announced to the public a "Policy of Risk Prevention on Hainan Airlines Co., Ltd's Deposit Fund in HNA Group Finance Co., Ltd" (the "Policy")《海南航空股份有限公司在HNA Group財務有限公司存款資金風險防範制度》. In accordance with the Policy announced by the Group, the Group shall follow the principles of voluntary equality when conducting financial transactions with HNA Finance, such as deposits, loans, financial entrust and settlement arrangements etc., in order to maintain the financial independence of the Group. The Group is prohibited from providing entrusted loans and entrusted financial management to other related parties through HNA Finance, and is prohibited from depositing any fund raised in HNA Finance. The Group's directors shall act faithfully, diligently, prudently with due care when making decision to place the Group's deposits in HNA Finance, and avoid the Group's money being occupied by related parties.

In addition, the Group has policies to limit its credit exposure to accounts receivable, other receivables and notes receivable. The Group assesses the credit qualities of and sets credit limits on its customers by assessing their financial positions, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit histories of customers are regularly monitored by the Group. In respect of customers with poor credit histories, the Group will send payment reminders, or shorten or cancel their credit periods, to ensure that the overall credit risk of the Group is limited to a controllable level.

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by the Group's finance department at headquarter. Based on the cash flow forecast, the Group's finance department monitors the Group's short-term and long-term liquidity requirements on an on-going basis to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs; and in the meantime monitors the compliance of relevant loan agreement terms on a going basis, and maintains sufficient headroom on its undrawn committed borrowing facilities from major financial institutions to meet the short-term and long-term fund requirements.

The Group's major cash demand is arising from acquisition and improvement of aircraft, engines, flight spare parts and repayments of the corresponding borrowings or liabilities. The Group meets its working capital needs through operations and short-term and long-term bank borrowings. The Group usually acquires aircraft through finance leases or bank borrowings.

As at 31 December 2012, the Group's current liabilities exceeded current assets by approximately RMB9.64 billion. For the year ended 31 December 2012, the net cash inflows from operating activities of the Group were approximately RMB10.20 billion, the net cash outflows from investment activities and financing activities were approximately RMB6.16 billion, and cash and cash equivalents increased by approximately RMB4.04 billion.

The risk assessment of cash flows by the Company's management is set out in Note 2(1).

As at the balance sheet date, undiscounted cash flows of the financial assets and liabilities of the Group by contractual maturity dates are analysed as follows:

	31 December 2012				
	Within 1 year	**1 - 2 years**	**2 - 5 years**	**After 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets –					
Cash at bank and on hand	20,663,866	459,461	3,303	1,185,773	22,312,403
Accounts receivable	541,651	–	–	–	541,651
Other receivables	203,561	–	–	–	203,561
Other current assets – available-for-sale financial assets due within one year	2,000,000	–	–	–	2,000,000
	23,409,078	459,461	3,303	1,185,773	25,057,615
Financial liabilities –					
Short-term borrowings	16,171,765	–	–	–	16,171,765
Accounts payable	4,924,949	–	–	–	4,924,949
Other payables	877,345	–	–	–	877,345
Long-term borrowings	6,031,839	4,663,523	10,184,689	11,624,419	32,504,470
Long-term payables	651,987	277,452	268,632	951,096	2,149,167
	28,657,885	4,940,975	10,453,321	12,575,515	56,627,696

	31 December 2011				
	Within 1 year	1 - 2 years	2 - 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets –					
Cash at bank and on hand	17,351,502	275,400	273,303	1,160,373	19,060,578
Notes receivable	3,117,336	–	–	–	3,117,336
Accounts receivable	598,332	–	–	–	598,332
Other receivables	1,535,984	–	–	–	1,535,984
	22,603,154	275,400	273,303	1,160,373	24,312,230
Financial liabilities –					
Short-term borrowings	18,397,377	–	–	–	18,397,377
Accounts payable	3,764,821	–	–	–	3,764,821
Other payables	771,008	–	–	–	771,008
Long-term borrowings	4,386,017	5,911,381	8,468,774	13,827,134	32,593,306
Long-term payables	492,044	568,562	396,641	751,804	2,209,051
	27,811,267	6,479,943	8,865,415	14,578,938	57,735,563

(4) Fair value

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly comprise receivables, short-term borrowings, payables, long-term borrowings and long-term payables.

Except for financial assets and liabilities listed below, the net book values of the other financial assets and liabilities not measured at fair value approximate to their fair values.

	31 December 2012		31 December 2011	
	Net book value	Fair value	Net book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities –				
Long-term borrowings	28,757,469	29,195,307	27,645,287	27,238,523
Long-term payables	1,792,072	1,819,829	1,834,117	1,787,377
	30,549,541	31,015,136	29,479,404	29,025,900

The fair values of long-term borrowings and long-term payables are determined using the contracted future cash flows discounted at prevailing market interest rates for financial instruments with substantially the same terms and characteristics.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2012, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets –				
Available-for-sale financial assets –	–	361,446	2,700,000	3,061,446
Financial liabilities –				
Financial liabilities held for trading	–	–	–	–

As at 31 December 2011, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets –				
Available-for-sale financial assets –	–	399,684	500,000	899,684
Financial liabilities –				
Financial liabilities held for trading	–	150	–	150

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

13 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2011 RMB'000	Fair value movements in current year RMB'000	Accumulated fair value movements recorded in equity RMB'000	Other movements RMB'000	31 December 2012 RMB'000
Investment properties measured at fair value (Note 5(11))	6,839,112	504,363	–	(87,133)	7,256,342
Available-for-sale financial assets (Note 5(9))	899,684	–	19,671	142,091	1,061,446
Other current assets – available-for-sale financial assets due within one year	–	–	–	2,000,000	2,000,000
	7,738,796	504,363	19,671	2,054,958	10,317,788
Financial liabilities held for trading	150	–	–	(150)	–

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	31 December 2012 RMB'000	31 December 2011 RMB'000
Financial assets –		
Cash at bank and on hand	266,538	463,799
Accounts receivable	133,925	111,614
Financial assets subtotal	400,463	575,413
Financial liabilities –		
Borrowings and payables	21,994,538	19,155,307

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Accounts receivable	335,946	721,287
Less: Provisions for bad debts	(9,310)	(9,310)
	326,636	711,977

(a) The aging of accounts receivable are analysed as follows:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	326,636	711,977
Over 6 years	9,310	9,310
	335,946	721,287

(b) Accounts receivable analysed by category are as follows:

	31 December 2012				31 December 2011			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Provisions for bad debts by group								
– Group by aging analysis method	3,065	1%	(1,126)	37%	1,126	0%	(1,126)	100%
– Group by related parties	324,697	97%	–	–	711,977	99%	–	–
Amounts that are not individually significant but with provisions for bad debts assessed individually	8,184	2%	(8,184)	100%	8,184	1%	(8,184)	100%
	335,946	100%	(9,310)	3%	721,287	100%	(9,310)	1%

(c) As at 31 December 2012, accounts receivable did not include any amounts due from entities which hold over 5% (5% included) voting shares of the Company (31 December 2011: Nil).

(d) As at 31 December 2012, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Company	Amount	Period	% of total balance
		RMB'000		
Golden-Deer Sales	Subsidiary	196,992	Within 1 year	59%
Yisheng Holding	Under HNA Group's control	34,597	Within 1 year	10%
Brussels	Subsidiary	31,426	Within 1 year	9%
Xinhua Airlines	Subsidiary	22,212	Within 1 year	7%
Xinsheng Info Tech	Under HNA Group's control	19,087	Within 1 year	6%
		304,314		91%

(e) Accounts receivable from related parties are analysed below:

		31 December 2012			31 December 2011		
	Relationship with the Company	Amount	% of total balance	Provisions for bad debts	Amount	% of total balance	Provisions for bad debts
		RMB'000		RMB'000	RMB'000		RMB'000
Golden-Deer Sales	Subsidiary	196,992	59%	–	624,224	87%	–
Yisheng Holding	Under HNA Group's control	34,597	10%	–	45,274	6%	–
Brussels	Subsidiary	31,426	9%	–	–	–	–
Xinhua Airlines	Subsidiary	22,212	7%	–	–	–	–
Others		39,470	12%	–	42,479	6%	–
		324,697	97%	–	711,977	99%	–

(2) Other receivables

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Amounts due from related parties	979,145	1,361,708
Aircraft leasing security deposits and maintenance funds receivable	53,149	30,877
Others	68,979	23,583
	1,101,273	1,416,168
Less: Provisions for bad debts	(13,729)	(13,729)
	1,087,544	1,402,439

(a) The aging of other receivables is analysed below:

	31 December 2012	31 December 2011
	RMB'000	**RMB'000**
Within 1 year	1,075,096	1,399,530
1 to 2 years	11,542	7,640
2 to 3 years	6,601	235
3 to 4 years	175	206
4 to 5 years	116	697
5 to 6 years	685	1,442
Over 6 years	7,058	6,418
	1,101,273	1,416,168

(b) Other receivables are analysed by category as follows:

	31 December 2012				31 December 2011			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Amounts that are individually significant and with specific provision for bad debts	–	–	–	–	–	–	–	–
Amounts that are not individually significant but with specific provision for bad debts	7,000	1%	(7,000)	100%	7,000	0%	(7,000)	100%
Provision for bad debts by group								
– Group by aging analysis method	68,979	6%	(6,729)	10%	22,937	2%	(6,729)	29%
– Aircraft leasing security deposits and maintenance funds receivable	46,149	4%	–	–	24,523	2%	–	–
– Group by related parties	979,145	89%	–	–	1,361,708	96%	–	–
	1,101,273	100%	(13,729)	1%	1,416,168	100%	(13,729)	1%

(c) As at 31 December 2012, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount	Aging	% of total balance
		RMB'000		
Xinhua Airlines	Subsidiary	799,916	Within 1 year	73%
Beijing Kehang	Subsidiary	160,280	Within 1 year	15%
Other Receivable 1	Third party	47,228	Within 1 year	4%
Other Receivable 2	Third party	24,498	Within 1 year	2%
Other Receivable 3	Third party	24,000	Within 1 year	2%
		1,055,922		96%

(d) Other receivables from related parties are analysed below:

	Relationship with the Company	31 December 2012 Amount	31 December 2012 % of total balance	31 December 2012 Provisions for bad debts	31 December 2011 Amount	31 December 2011 % of total balance	31 December 2011 Provisions for bad debts
		RMB'000		RMB'000	RMB'000		RMB'000
Xinhua Airlines	Subsidiary	799,916	72%	–	–	–	–
Beijing Kehang	Subsidiary	160,280	15%	–	–	–	–
HNA Real Estate Holding	Under HNA Group's control	169	–	–	156,045	11%	–
Grand China Air	Parent company	–	–	–	1,135,375	80%	–
Yangtze River Express	Under HNA Group's control	–	–	–	44,802	3%	–
Lucky Air	Under the common control of the parent company of the Company	–	–	–	8,053	1%	–
Others		18,780	2%	–	17,433	1%	–
		979,145	89%	–	1,361,708	96%	–

(3) Long-term equity investments

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Subsidiaries[(a)]	7,943,018	8,383,018
Associates – without quoted price[(b)]	2,426,035	1,850,250
Other long – term equity investments[(c)]	1,655,679	1,147,059
	12,024,732	11,380,327
Less: Provisions for impairment	(5,000)	(5,000)
	12,019,732	11,375,327

(a) Subsidiaries

	Accounting method	Original investment cost	31 December 2011	Current year additions/disposals	31 December 2012	% shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment made in current year	Cash dividends declared in current year
		RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000	RMB'000
Xinhua Airlines	Cost method	3,746,107	3,746,107	–	3,746,107	100.00%	100.00%	–	–	–	–
Chang'an Airlines	Cost method	1,799,408	1,799,408	–	1,799,408	100.00%	100.00%	–	–	–	–
Beijing Kehang	Cost method	1,728,341	1,728,341	–	1,728,341	95.00%	95.00%	–	–	–	–
Shanxi Airlines	Cost method	408,467	408,467	–	408,467	46.29%	46.29%	–	–	–	–
Brussels EDIP	Cost method	62,996	62,996	–	62,996	100.00%	100.00%	–	–	–	–
Brussels DATA	Cost method	61,764	61,764	–	61,764	100.00%	100.00%	–	–	–	–
Brussels SODE	Cost method	59,918	59,918	–	59,918	100.00%	100.00%	–	–	–	–
HNA Hongkong	Cost method	58,417	58,417	–	58,417	100.00%	100.00%	–	–	–	–
Golden-Deer Sales	Cost method	7,600	7,600	–	7,600	95.00%	95.00%	–	–	–	–
Hainan Hangxiang(i)	Cost method	10,000	–	10,000	10,000	100.00%	100.00%	–	–	–	–
Hunan Golden-Deer (Note 5 (10)(a)(ii))	Cost method	450,000	450,000	(450,000)	–			–	–	–	–
			8,383,018	(440,000)	7,943,018				–	–	–

(i) In October 2012, the Company established Hainan Hangxiang with cash capital of RMB 10,000 thousand.

(b) Associates

	Accounting method	Original investment cost	31 December 2011	Current year increase/decrease: Capital addition /reduction	Share of results of associates	Cash dividend declared by associates	Other equity movement	31 December 2012	% equity shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment for current year
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000
HNA Technology	Equity method	1,000,000	1,000,000	–	12,209	–	–	1,012,209	48.08%	48.08%	–	–	–
Lucky Air	Equity method	842,000	842,000	–	111,005	–	–	953,005	40%	40%	–	–	–
Hunan Golden-Deer (Note 5 (10)(a)(ii))	Equity method	450,000	–	450,000	–	–	–	450,000	47.37%	47.37%	–	–	–
HNA Import & Export	Equity method	3,000	8,250	–	2,571	–	–	10,821	30%	30%	–	–	–
			1,850,250	450,000	125,785	–	–	2,426,035					

(c) Other long-term equity investments

	Accounting method	Original investment cost	31 December 2011	Current year additions	31 December 2012	% shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment made in current year	Cash dividends declared in current year
		RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000	RMB'000
Tianjin Airlines	Cost method	713,000	713,000	–	713,000	17.59%	17.59%		–	–	–
Capital Aviation Holdings (Note 5(10)(b)(i))	Cost method	508,620	–	508,620	508,620	19.6%	19.6%		–	–	–
Haikou Meilan	Cost method	304,765	304,765	–	304,765	12.08%	12.08%		–	–	966
HNA Hotel Group	Cost method	58,161	58,161	–	58,161	19%	19%		–	–	–
Xin Guo Hotel	Cost method	40,000	31,952	–	31,952	13.33%	13.33%		–	–	–
TravelSky Tech	Cost method	17,000	17,000	–	17,000	1.13%	1.13%		–	–	3,978
Yangtze River Express	Cost method	10,000	10,000	–	10,000	2%	2%		–	–	–
Meilan Airport	Cost method	6,906	6,906	–	6,906	1.12%	1.12%		–	–	899
Other investments	Cost method	5,275	5,275	–	5,275				(5,000)	–	–
			1,147,059	508,620	1,655,679				(5,000)	–	5,843

(4) Revenue and operating costs

	2012 RMB'000	2011 RMB'000
Revenue from main operations(a)	18,798,687	17,021,253
Revenue from other operations(b)	1,214,600	1,139,735
	20,013,287	18,160,988
Operating costs of main operations	(14,322,333)	(12,953,515)
Operating costs of other operations(b)	(611,261)	(572,269)
	(14,933,594)	(13,525,784)

(a) Revenue from main operations

Revenue from main operations by business categories is analysed as follows:

	2012 RMB'000	2011 RMB'000
Passenger	17,942,293	16,226,666
Cargo and mail	714,253	712,869
Others	142,141	81,718
	18,798,687	17,021,253

The total revenue of the Company's top 5 customers for the year ended 31 December 2012 amounted to RMB5,227,691 thousand (2011: RMB4,540,247 thousand), accounting for 26% of total revenue of the Company (2011: 25%).

(b) Revenue and operating costs of other operations

	2012		2011	
	Revenue from other operations RMB'000	Operating costs of other operations RMB'000	Revenue from other operations RMB'000	Operating costs of other operations RMB'000
Aircraft leasing income	846,083	(550,757)	810,353	(517,779)
Processing fee for cancelled tickets	119,770	–	101,779	–
Building rental income	63,259	–	60,258	–
Aircraft advertising income	30,210	–	32,850	–
Commission fee income	24,952	–	25,365	–
Others	130,326	(60,504)	109,130	(54,490)
	1,214,600	(611,261)	1,139,735	(572,269)

Costs of aircraft leasing did not include interests charge of RMB208,679 thousand (2011: RMB218,772 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(5) Investment income

	2012 RMB'000	2011 RMB'000
Share of results of investees under equity method	125,785	39,754
Dividends declared by investees under cost method	5,843	83
Dividend income from available-for-sale financial assets	4,636	8,932
Loss on disposal of available-for-sales financial assets	(40,116)	–
Gain on disposal of long-term equity investments	–	384,251
	96,148	433,020

(6) Supplementary information for cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	2012 RMB'000	2011 RMB'000
Net profit	893,959	1,840,829
Add: Provisions for asset impairment	86,104	–
Depreciation of fixed assets	1,919,989	1,762,869
Amortisation of intangible assets	1,911	1,911
Amortisation of long-term deferred expenses	84,591	57,659
Amortisation of deferred loss on sales and leaseback transaction	48,123	85,205
(Gains)/losses on disposals of fixed assets, intangible assets and other long-term assets	(76,068)	25,683
Gains on changes in fair value	(118,396)	(189,536)
Finance expenses	2,053,783	1,497,674
Investment losses	(96,148)	(433,020)
Increase in deferred tax liabilities	369,630	763,584
Increase in deferred revenue	111,500	110,251
Decrease/(increase) in inventories	61,107	(78,424)
Increase in operating receivables	(75,396)	(1,319,679)
Increase/(decrease) in operating payables	(813,266)	1,639,213
Net cash flows from operating activities	4,451,423	5,764,219

(b) Significant investing and financing activities that do not involve cash receipts and payments

	2012 RMB'000	2011 RMB'000
Assets transfer	192,552	–
Fixed assets acquired under finance leases	473,000	–
	665,552	–

(c) Net increase in cash and cash equivalents

	2012 RMB'000	2011 RMB'000
Cash and cash equivalents at end of year	16,106,533	10,915,876
Less: Cash and cash equivalents at beginning of year	(10,915,876)	(8,917,586)
Net increase in cash and cash equivalents	5,190,657	1,998,290

16 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
Beijing Business Culture Diffusion Co., Ltd.	Beijing Business Culture
Beijing Tianshou Sports Development Co., Ltd.	Kehang Tianshou
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Beijing HNA Songzhuang Investment and Development Co., Ltd.	HNA Songzhuang
Beijing HNA Xinhua Culture Diffusion Co., Ltd.	Xinhua Culture
Beijing Yanjing HNA Hotel	Yanjing Hotel
Beijing Kehang Investment Co., Ltd.	Beijing Kehang
Beijing Capital Aviation Holdings Co., Ltd.	Capital Aviation Holdings
Beijing Capital Airlines Co., Ltd.	Capital Airlines
Brussels DATA Hotel	Brussels DATA
Brussels EDIP Hotel	Brussels EDIP
Brussels SODE Hotel	Brussels SODE
Bohai International Trust Co., Ltd.	Bohai Trust
Bohai Leasing Co., Ltd.	Bohai Leasing
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Changjiang Leasing Co., Ltd.	Changjiang Leasing
Grand China Air Co., Ltd.	Grand China Air
Guokai Jingcheng (Beijing) Investment Fund Limited	Guokai Jingcheng Investment Fund
Gansu Airport Group Co., Ltd.	Gansu Airport
Hainan Guoshan Industrial Co., Ltd.	Hainan Guoshan
Hainan Guoxu Industrial Co., Ltd.	Hainan Guoxu
Hainan Xin Guo Hotel Ltd.	Xin Guo Hotel
Hainan Xinsheng Information Technology Co., Ltd	Xinsheng Info Tech
Hainan Hangxiang Investment and Development Co., Ltd.	Hainan Hangxiang
Hainan HNA Aviation Information Systems Co., Ltd.	HNA Information
Hainan Air Aviation Import & Export Co., Ltd.	HNA Import & Export
Hainan HNA Aviation Sales Co., Ltd.	HNA Aviation Sales
Hainan HNA Beverage Co., Ltd.	HNA Beverage
Hainan Qi Xing Industrial Investment Co., Ltd.	Hainan Qi Xing
Hainan Province Development Holding Co., Ltd	Hainan Development Holding
Hainan Meilan International Airport Co., Ltd.	Meilan Airport
HNA Group (Hong Kong) Co., Ltd.	HNA Group (Hong Kong)
HNA Air Catering Co., Ltd.	HNA Air Catering
Hainan Hangpeng Industrial Co., Ltd.	Hainan Hangpeng
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Haikou New City Construction and Development Co., Ltd.	New City Construction
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
HNA Business Holdings Co., Ltd.	HNA Business
Hainan International Tourism Island Development Co., Ltd.	Haidao Construction
HNA Property Holdings (Group) Co., Ltd.	HNA Property Holdings
HNA Industrial Holding Co., Ltd.	HNA Industrial
HNA Tourism Holding (Group) Company Ltd.	HNA Tourism
HNA Yisheng Holding Co., Ltd.	Yisheng Holding
HNA Airport Holding (Group) Co., Ltd.	HNA Airport Holding
HNA Cargo Co., Ltd.	HNA Cargo
HNA Real Estate Holding (Group) Co., Ltd.	HNA Real Estate Holding
HNA Technology Limited	HNA Technology
HNA Airlines Holdings (Group) Co., Ltd.	HNA Airlines Holdings
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Hotel Holding Group Co., Ltd.	HNA Hotel Holding
HNA Group (Hong Kong) Co., Ltd.	HNA Hongkong

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
HNA Group Co., Ltd.	HNA Group
HNA Group Finance Co., Ltd.	HNA Finance
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
Qionghai Nanjue Aviation Hainan Investment Co., Ltd.	Qionghai Nanjue
Sanya Phoenix International Airport Tianhang Holdings	Sanya Phoenix Airport
Sanya Hansha Air Catering Co., Ltd	Sanya Catering
Shanxi Airlines Co., Ltd.	Shanxi Airlines
Tianjin Yanshan Aircraft Leasing Industry Equity Funds Partnership Firm	Yanshan Funds
Tianhang Holdings Co., Ltd.	Tianhang Holdings
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Catering
Northwest HNA Property Co., Ltd.	Northwest HNA Property
Xi'an Chanba Financing Warranty Co., Ltd	Xi'an Chanba
Xi'an HNA Real Estate Co., Ltd.	Xi'an Real Estate
Western Airlines Co., Ltd.	Western Airlines
HKA Group Holdings Co., Ltd.	HKAGH
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines
Yunnan Xiangpeng Airlines Co., Ltd.	Lucky Air
Yunnan Xiangpeng Investment Co., Ltd.	Lucky Air Investment
Yangtze River Express Airlines Co., Ltd.	Yangtze River Express
Yangtze River International Leasing Co., Ltd.	Yangtze River Leasing
Yangtze River Property Co., Ltd.	Yangtze River Property
Yangtze River Investment Holdings Co., Ltd.	Yangtze River Investment
China Xinhua Airlines Co., Ltd.	Xinhua Airlines
TravelSky Technology, Ltd	TravelSky Tech
China Merchants Securities Co., Ltd	Merchants Securities

普华永道

Report of the Auditors

PwC ZT Shen Zi (2014) No. 10075
(Page 1 of 2)

To the shareholders of Hainan Airlines Co., Ltd.:

We have audited the accompanying financial statements of Hainan Airlines Co., Ltd. (hereinafter "Hainan Airlines"), which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of Hainan Airlines is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

普華永道中天會計師事務所(特殊普通合夥)

PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Hainan Airlines as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with the requirement of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China
18 March 2014

HAINAN AIRLINES CO., LTD.
CONSOLIDATED AND COMPANY'S
BALANCE SHEETS AS AT 31 DECEMBER 2013
(All amounts in RMB Thousand Yuan unless otherwise stated)

	Notes	31 December 2013 Consolidated	31 December 2012 Consolidated	31 December 2013 Company	31 December 2012 Company
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Current assets					
Cash at bank and on hand	5(1)	20,664,828	22,312,403	16,438,440	17,433,182
Notes receivable		25,000	–	25,000	–
Accounts receivable	5(2), 15(1)	578,203	541,651	115,052	326,636
Advances to suppliers	5(5)	349,799	326,543	334,454	348,636
Interest receivable	5(4)	345,541	230,288	153,480	90,937
Dividends receivable		6,730	1,865	6,730	1,865
Other receivables	5(3), 15(2)	468,460	203,561	759,661	1,087,544
Inventories	5(6)	61,687	70,514	52,649	60,924
Other current assets	5(7)	1,944,836	2,000,000	862,565	1,000,000
Total current assets		**24,445,084**	**25,686,825**	**18,748,031**	**20,349,724**
Non-current assets					
Available-for-sale financial assets	5(8)	1,044,420	1,061,446	1,044,420	1,061,446
Long-term equity investments	5(9), 15(3)	13,663,620	9,077,138	16,564,420	12,019,732
Investment properties	5(10)	6,830,375	7,256,342	2,487,999	2,452,974
Fixed assets	5(11)	40,991,779	34,377,690	33,928,417	27,731,799
Construction in progress	5(12)	11,519,223	12,001,162	10,928,168	11,543,185
Intangible assets	5(13)	158,865	164,204	65,222	66,691
Goodwill	5(14)	328,865	328,865	–	–
Long-term prepaid expenses	5(15)	526,708	483,595	506,835	457,364
Other non-current assets	5(16)	3,772,972	2,281,877	3,363,147	1,945,181
Total non-current assets		**78,836,827**	**67,032,319**	**68,888,628**	**57,278,372**
TOTAL ASSETS		**103,281,911**	**92,719,144**	**87,636,659**	**77,628,096**

	Notes	31 December 2013 Consolidated	31 December 2012 Consolidated	31 December 2013 Company	31 December 2012 Company
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	5(19)	20,415,335	15,792,336	15,450,010	11,706,561
Notes payable	5(20)	3,513,404	5,464,473	2,813,404	3,554,473
Accounts payable	5(21)	5,016,892	4,924,949	9,960,901	7,537,384
Advances from customers	5(22)	1,490,736	918,462	183,993	22,060
Employee benefits payable	5(23)	276,095	198,248	146,536	110,600
Taxes payable	5(24)	709,943	552,670	360,500	226,351
Interest payable	5(25)	364,232	346,211	283,130	299,467
Dividend payable	5(35)	59,381	68,521	59,381	68,521
Other payables	5(26)	603,026	877,345	346,235	332,938
Current portion of non-current liabilities	5(27)	7,342,925	6,184,770	4,560,229	5,085,484
Total current liabilities		**39,791,969**	**35,327,985**	**34,164,319**	**28,943,839**
Non-current liabilities					
Long-term borrowings	5(28)	25,749,667	23,169,711	21,958,150	18,452,711
Debentures payable	5(29)	7,944,060	6,430,063	4,951,977	4,939,440
Long-term payables	5(30)	1,219,012	1,195,060	1,219,012	1,195,060
Deferred tax liabilities	5(17)	2,312,925	2,054,148	1,489,203	1,225,396
Other non-current liabilities	5(31)	740,444	632,948	506,151	408,937
Total non-current liabilities		**37,966,108**	**33,481,930**	**30,124,493**	**26,221,544**
Total liabilities		**77,758,077**	**68,809,915**	**64,288,812**	**55,165,383**
Shareholders' equity					
Share capital	5(32)	12,182,182	6,091,091	12,182,182	6,091,091
Capital surplus	5(33)	5,703,391	11,739,753	5,984,506	12,020,868
Surplus reserve	5(34)	798,200	657,397	798,200	657,397
Undistributed profits	5(35)	6,725,325	5,309,332	4,382,959	3,693,357
Total equity attributable to equity shareholders of the Company		**25,409,098**	**23,797,573**	**23,347,847**	**22,462,713**
Minority interests	5(36)	114,736	111,656	–	–
Total shareholders' equity		**25,523,834**	**23,909,229**	**23,347,847**	**22,462,713**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**103,281,911**	**92,719,144**	**87,636,659**	**77,628,096**

The accompanying notes form an integral part of these financial statements.

Legal representative: Xin Di

Person in charge of accounting function: Du Liang

Person in charge of accounting department: Huang Erwei

HAINAN AIRLINES CO., LTD.
CONSOLIDATED AND COMPANY'S
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RMB Thousand Yuan unless otherwise stated)

	Notes	2013 Consolidated RMB'000	2012 Consolidated RMB'000	2013 Company RMB'000	2012 Company RMB'000
Revenue	5(37), 15(4)	30,231,362	28,867,585	22,187,454	20,013,287
Less: Operating cost	5(37), 15(4)	(23,501,158)	(21,557,641)	(17,309,003)	(14,933,594)
Business taxes and surcharges	5(38)	(522,196)	(875,181)	(415,895)	(607,748)
Selling and distribution expenses	5(39)	(1,942,175)	(1,846,854)	(1,384,394)	(1,253,483)
General and administrative expenses	5(40)	(609,224)	(598,504)	(375,803)	(434,827)
Financial expenses – net	5(41)	(1,878,094)	(2,603,623)	(1,487,697)	(2,149,095)
Assets impairment losses	5(42)	(55,200)	(86,484)	(55,145)	(86,104)
Add: (Loss)/gain on changes in fair value	5(43)	(64,363)	504,363	35,025	118,396
Investment income	5(44), 15(5)	606,265	188,241	239,835	96,148
Including: share of results of associates		474,503	212,413	178,123	125,785
Operating profit		**2,265,217**	**1,991,902**	**1,434,377**	**762,980**
Add: Non-operating income	5(45)	410,861	674,449	390,726	618,502
Less: Non-operating expenses		(3,423)	(12,637)	(1,986)	(7,284)
Including: losses on disposal of non-current assets		(2,093)	(1,722)	(814)	(1,081)
Total profit		**2,672,655**	**2,653,714**	**1,823,117**	**1,374,198**
Less: Income tax expenses	5(46)	(564,523)	(708,768)	(415,092)	(480,239)
Net profit		**2,108,132**	**1,944,946**	**1,408,025**	**893,959**
– Attributable to equity shareholders of the Company		2,105,052	1,927,787	1,408,025	893,959
– Minority interests		3,080	17,159	–	–
Earnings per share (EPS)					
Basic earnings per share (RMB Yuan)	5(47)	0.173	0.177		
Diluted earnings per share (RMB Yuan)	5(47)	0.173	0.177		
Other comprehensive income	**5(48)**	**54,729**	**101,501**	**54,729**	**101,501**
Total comprehensive income		**2,162,861**	**2,046,447**	**1,462,754**	**995,460**
– Attributable to equity shareholders of the Company		2,159,781	2,029,288		
– Minority interests		3,080	17,159		

The accompanying notes form an integral part of these financial statements.

Legal representative: Xin Di — Person in charge of accounting function: Du Liang — Person in charge of accounting department: Huang Erwei

HAINAN AIRLINES CO., LTD.
CONSOLIDATED AND COMPANY'S
CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	2013 Consolidated RMB'000	2012 Consolidated RMB'000	2013 Company RMB'000	2012 Company RMB'000
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		32,742,344	30,180,082	23,230,776	20,527,144
Cash received relating to other operating activities	5(49)(a)	2,576,830	3,060,066	2,099,154	2,643,047
Sub-total of cash inflows		35,319,174	33,240,148	25,329,930	23,170,191
Cash paid for goods and services		(19,611,038)	(14,135,493)	(12,363,231)	(12,897,088)
Cash paid to and on behalf of employees		(1,721,890)	(1,852,373)	(1,083,435)	(1,141,635)
Payments of taxes and surcharges		(3,027,708)	(2,899,732)	(1,077,537)	(1,141,329)
Cash paid relating to other operating activities	5(49)(b)	(3,123,375)	(4,156,639)	(1,759,174)	(3,538,716)
Sub-total of cash outflows		(27,484,011)	(23,044,237)	(16,283,377)	(18,718,768)
Net cash flows from operating activities	5(50)(a)	**7,835,163**	**10,195,911**	**9,046,553**	**4,451,423**
2. Cash flows from investing activities					
Cash received from disposal of investments		2,095,000	4,490,842	1,090,000	4,408,586
Cash received from returns on investments		215,668	17,799	62,549	14,630
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,571,421	546,675	886,321	514,064
Cash received relating to other investing activities	5(49)(c)	1,971,472	2,354,482	594,642	561,664
Sub-total of cash inflows		5,853,561	7,409,798	2,633,512	5,498,944
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(9,011,796)	(8,261,080)	(8,692,259)	(7,050,408)
Cash paid to acquire investments		(7,621,837)	(5,502,131)	(5,190,340)	(2,540,760)
Net cash paid to acquire subsidiaries and other business units		–	–	(673,217)	–
Cash paid relating to other investing activities	5(49)(d)	(2,897,357)	(1,525,000)	(497,000)	–
Sub-total of cash outflows		(19,530,990)	(15,288,211)	(15,052,816)	(9,591,168)
Net cash flows from investing activities		**(13,677,429)**	**(7,878,413)**	**(12,419,304)**	**(4,092,224)**
3. Cash flows from financing activities					
Cash proceeds from capital contributions	5(32)(a)	–	7,786,992	–	7,786,992
Cash received from borrowings		40,180,074	25,864,823	32,146,962	21,265,302
Cash received from issuance of bonds		2,961,280	494,979	–	–
Cash received relating to other financing activities	5(49)(e)	2,150,000	2,753,000	2,050,000	2,753,000
Sub-total of cash inflows		45,291,354	36,899,794	34,196,962	31,805,294
Cash repayments of borrowings		(32,039,779)	(26,459,697)	(24,748,628)	(20,607,194)
Cash payments for interest expenses and distribution of dividends		(4,361,653)	(3,651,174)	(3,387,145)	(3,061,595)
Cash payments relating to other financing activities	5(49)(f)	(4,979,559)	(5,070,275)	(3,616,651)	(3,304,603)
Sub-total of cash outflows		(41,380,991)	(35,181,146)	(31,752,424)	(26,973,392)
Net cash flows from financing activities		**3,910,363**	**1,718,648**	**2,444,538**	**4,831,902**
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(6,396)**	**(475)**	**(6,265)**	**(444)**
5. Net (decrease)/increase in cash and cash equivalents	5(50)(a)	**(1,938,299)**	**4,035,671**	**(934,478)**	**5,190,657**
Add: Cash and cash equivalents at beginning of year	5(50)(a)	**18,633,988**	**14,598,317**	**16,106,533**	**10,915,876**
6. Cash and cash equivalent at end of year	5(50)(b)	**16,695,689**	**18,633,988**	**15,172,055**	**16,106,533**

The accompanying notes form an integral part of these financial statements.

Legal representative: Xin Di

Person in charge of accounting function: Du Liang

Person in charge of accounting department: Huang Erwei

HAINAN AIRLINES CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RMB Thousand Yuan unless otherwise stated)

		Attributable to equity shareholders of the Company					
Items	**Notes**	**Share capital**	**Capital surplus**	**Surplus reserves**	**Undistributed profits**	**Minority interests**	**Total shareholders' equity**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Balance at 31 December 2011		4,125,491	5,817,180	568,001	3,966,000	94,497	14,571,169
Movements for the year ended 31 December 2012							
– Net profit		–	–	–	1,927,787	17,159	1,944,946
– Other comprehensive income	5(48)	–	101,501	–	–	–	101,501
– Capital contribution by shareholders	5(32)(c)	1,965,600	5,821,392	–	–	–	7,786,992
– Profit distribution							
– Appropriation to surplus reserves	5(34)	–	–	89,396	(89,396)	–	–
– Profit distribution to shareholders	5(35)	–	–	–	(495,059)	–	(495,059)
– Others		–	(320)	–	–	–	(320)
Balance at 31 December 2012		6,091,091	11,739,753	657,397	5,309,332	111,656	23,909,229
Movements for the year ended 31 December 2013							
– Net profit		–	–	–	2,105,052	3,080	2,108,132
– Other comprehensive income	5(48)	–	54,729	–	–	–	54,729
– Investment income recognised during measurement change from the cost method to equity method upon increase of investment	5(9)(a)	–	–	–	60,853	–	60,853
– Increase of share capital from capital surplus	5(32)(b)	6,091,091	(6,091,091)	–	–	–	–
– Profit distribution							
– Appropriation to surplus reserves	5(34)	–	–	140,803	(140,803)	–	–
– Profit distribution to shareholders	5(35)	–	–	–	(609,109)	–	(609,109)
Balance at 31 December 2013		12,182,182	5,703,391	798,200	6,725,325	114,736	25,523,834

The accompanying notes form an integral part of these financial statements.

Legal representative: Xin Di

Person in charge of accounting function: Du Liang

Person in charge of accounting department: Huang Erwei

HAINAN AIRLINES CO., LTD.
COMPANY'S STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 31 December 2011		4,125,491	6,097,975	568,001	3,383,853	14,175,320
Movements for the year ended 31 December 2012						
– Net profit		–	–	–	893,959	893,959
– Other comprehensive income	5(48)	–	101,501	–	–	101,501
– Capital contribution by shareholders	5(32)(c)	1,965,600	5,821,392	–	–	7,786,992
– Profit distribution						
– Appropriation of surplus reserves	5(34)	–	–	89,396	(89,396)	–
– Profit distribution to shareholders	5(35)	–	–	–	(495,059)	(495,059)
Balance at 31 December 2012		6,091,091	12,020,868	657,397	3,693,357	22,462,713
Movements for the year ended 31 December 2013						
– Net profit		–	–	–	1,408,025	1,408,025
– Other comprehensive income	5(48)	–	54,729	–	–	54,729
– Investment income recognised during measurement change from the cost method to equity method upon increase of investment	15(3)(b)	–	–	–	31,489	31,489
– Increase of share capital from capital surplus	5(32)(b)	6,091,091	(6,091,091)	–	–	–
– Profit distribution						
– Appropriation of surplus reserves	5(34)	–	–	140,803	(140,803)	–
– Profit distribution to shareholders	5(35)	–	–	–	(609,109)	(609,109)
Balance at 31 December 2013		12,182,182	5,984,506	798,200	4,382,959	23,347,847

The accompanying notes form an integral part of these financial statements.

Legal representative: Xin Di

Person in charge of accounting function: Du Liang

Person in charge of accounting department: Huang Erwei

HAINAN AIRLINES CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RMB Thousand Yuan unless otherwise stated)

1 GENERAL INFORMATION OF THE COMPANY

Hainan Airlines Co., Ltd. (the “Company”) was a joint stock limited company established on 18 October 1993 by Hainan Provincial Airlines, China Everbright International Trust and Investment Co. Ltd, Hainan Branch of Bank of Communications etc. The Company’s registered address is Haikou, Hainan Province, the People’s Republic of China (the “PRC”). The Company’s registered capital was RMB250 million when it was initially established.

In March 1994, a bonus dividend was approved by a resolution passed at the general meeting of shareholders whereby 50 million shares were issued, and thereafter the Company’s total share capital was increased to RMB300 million.

On 2 November 1995, the Company issued 100 million shares to American Aviation LTD. After the share issuance, the Company’s total share capital was increased to RMB400 million.

On 26 June 1997, the Company issued 71 million B Shares (i.e. domestic listed ordinary shares issued to foreign investors for subscription in US dollars). Upon completion of the share issuance, the Company’s total share capital was increased to RMB471 million.

On 11 October 1999, the Company completed a public offering of 205 million A Shares (i.e. domestic listed ordinary shares issued to PRC domestic investors for subscription in RMB). After the above public offering, the Company’s total share capital was increased to RMB676 million.

On 18 May 2000, the Company distributed a bonus dividend of 0.8 share for every ten shares to all shareholders with total of 54 million shares being issued. After the bonus shares were distributed, the Company’s total share capital was increased to RMB730 million.

On 29 June 2006, the Company completed a non-public offerings with 2,800 million shares issued, of which 1,650 million shares were issued to Grand China Air. Together with previously owned 53 million shares, Grand China Air held 1,703 million shares of the Company after the issuance. After the above share issuance, the Company’s share capital was increased to RMB3,530 million. In December 2006, HNA Group Co., Ltd. (“HNA Group”) and Hainan Qixing, shareholders of the Company, increased their capital investments in Grand China Air with 8,917,118 and 4,369,582 shares of the Company they held respectively. Thereafter, Grand China Air and its subsidiary, American Aviation LTD, held 1,716 million shares and 108 million shares of the Company respectively, which represent total 51.86% of the share capital of the Company, and Grand China Air became the parent company of the Company.

On 29 September 2006, the Company implemented the share reform scheme and the original non-circulating shareholders paid 3.3 shares for each 10 shares to exchange for the circulating right. The original non-circulating shares of the Company were granted with the circulating status subject to lock-up periods ranging from 1 to 3 years. As at 31 December 2011, all above non-circulating shares became tradable in Shanghai Stock Exchange.

On 12 February 2010, approved by China Securities Regulatory Commission (“CSRC”), the Company completed a share offering, in which each of Hainan Development Holding and HNA Group were offered approximately 298 million A shares of the Company with lock-up period of 36 months. After the completion of the above share issuance, the Company’s share capital was increased to RMB4,125 million, among which Grand China Air, the parent company, owned RMB1,716 million shares or 41.60% of the share capital.

On 3 May 2012, as approved by CSRC, the Company completed a non-public share offerings of 1,965.6 million A shares with lock-up period of 12 months (Note 5(32)). After the completion of the above share issuance, the Company's share capital was increased to RMB6,091 million, among which RMB1,716 million is held by Grand China Air, whose direct shareholding percentage in the Company was diluted to 28.18%, but remained as the single largest shareholder of the Company.

As at 18 June 2013, the Company increased its shares by 10 shares for each 10 ordinary shares through conversion from its capital surplus, and 6,091,091 thousand shares was issued in total. After the conversion, the Company's total shares was increased to RMB12,182 million.

The financial statements were approved for issuance by the Company's Board of Directors on 18 March 2014.

The Company and its subsidiaries (collectively referred to as the "Group" hereinafter) are principally engaged in the civil aviation business, and the approved scope of business including the provision of domestic and international passenger and cargo air transportation, and other air transportation related services.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation

(i) Basis of preparation

These financial statements were prepared in accordance with i) the Basic Standard and 38 specific standards of the "Accounting Standards for Business Enterprises" promulgated by Ministry of Finance ("MoF") on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereinafter referred to as "the Accounting Standards for Business Enterprises"), and ii) "Preparation Convention for Information Disclosures by Companies Offering Securities to the Public, No.15 – General Provisions on Financial Reporting" (2010 Revised) (《公開發行證券的公司資訊披露編報規則第15號—財務報告的一般規定》(2010修訂)) issued by CSRC.

(ii) Going concern basis

As at 31 December 2013, the current liabilities of the Group exceed its current assets by approximately RMB1.5 million. In preparing these financial statements, the Board has thoroughly assessed the going concern ability of the Group in association with the Group's current financial situation.

The Company's Board has already taken positive actions in dealing with the net working capital deficit mentioned above, and has been continuously seeking new financing channels and has obtained sufficient banking facilities to improve the Group's liquidity position. In light of the available banking facilities, the Group's raising fund history and the established good cooperation relationship with banks and financial institutions, the Board believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2013 are in compliance with the Accounting Standards for Business Enterprises, and present truly and completely the financial position as at 31 December 2013 and the operating results, cash flows and other information of the Group and the Company for the year then ended.

(3) Accounting period

The Group's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combination

(a) Business combinations involving enterprise under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period when they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(b) Business combinations involving enterprises not under common control

The business combination cost incurred to an acquirer and identifiable assets obtained from business combination are measured at fair values at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period when they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(c) Purchase of minority interests of a subsidiary

After acquisition of minority interests of a subsidiary, the assets and liabilities of the subsidiary are stated in the consolidated financial statements at amounts calculated from the acquisition date (or the consolidation date) on an on-going basis. The difference between the additional long-term equity investments acquired by the Company and the share of net book value of the subsidiary calculated from the date of acquisition (or the consolidation date) is adjusted to capital surplus (share premium) of the consolidated financial statements, then undistributed profits if no sufficient capital surplus (share premium) to offset.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-company balances, transactions and unrealised gain on transactions between the group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity, net profits and losses and comprehensive income for current period not attributable to the Company are treated as minority interests, minority interest income and total comprehensive income attributable to minority shareholders respectively and presented separately in the consolidated financial statements within equity, net profit and total comprehensive income respectively.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the owners' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments, which classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term, which are presented as financial assets held for trading on the balance sheet.

Receivables

Receivables, including accounts receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months from the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. The receivables and held-to-maturity investments are measured at amortised costs using the actual interest method.

A gain or loss arising from a change in fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

A gain or loss arising from a change in fair value of available-for-sale financial assets is recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

The objective evidence that the financial asset is impaired represents events actually occurred after initial recognition of financial assets, having impact on expected future cash flow of financial assets and the Group is able to reliably measure such impact.

The objective evidence that a equity instrument is impaired includes significant or non-temporary decline in fair value of equity instrument investment. The Group assesses the impairment of available-for-sale equity instrument item by item on balance sheet date. If the decline in fair value of equity instrument exceeds more than 50% (including 50%) of it's initial investment cost or the decline in fair value of equity instrument persists for more than one year (including one year), it is concluded as impaired. If the decline in fair value of equity instrument exceeds more than 20% (including 20%) but less than 50% of it's initial investment cost, the Group will consider other factors such as price fluctuation rate etc., to assess whether an impairment loss on equity instruments incurred. The Group calculates the initial investment cost of available-for-sale equity instruments by using weighted average method.

When an impairment loss on available-for-sale financial assets incurred, the cumulative losses arising from the decline in fair value that had been recognised directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

(iv) Derecognition of financial assets

Where a financial asset satisfies any of the following conditions, the recognition of it shall be terminated: (1) the contractual rights for collecting the cash flow of the said financial asset are terminated; or

(2) the said financial asset has been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets to the transferee; or (3) the said financial asset has been transferred and although the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, it has not retained the control of the said financial asset.

When the recognition of the financial assets is terminated, the difference between the book value of the financial assets and the sum of the consideration and the accumulated fair value changes directly recorded into the owner's equity shall be recognised in profit or loss for the current period.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities at fair value through profit or loss are mainly derivatives financial liabilities. They are disclosed as financial liabilities held for trading on the balance sheet. Other financial liabilities are payables, borrowings, debentures and finance lease payables etc.

Payables include accounts payable and other payables, etc., which are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and debentures are initially recognised at fair value, netting of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with repayment date within one year (one year included) are classified as current liabilities; other financial liabilities with repayment date over one year but within one year from the balance sheet date (one year included) are classified as current portion of non-current liabilities; other financial liabilities are classified as non-current liabilities.

Financial liabilities or obligation are fully or partially derecognised when the present obligations are fully or partially relieved, and the differences between the carrying amount of the derecognised financial liabilities and consideration paid are recognised in profit or loss for the current period.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable, willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, market data is used as much as possible and data that is particularly related to the Group is rarely used.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value by the Group in accordance with the consideration receivable from the buyer or service receiver under contract or agreement.

(a) Receivables that are individually significant are subject to separate assessment for impairment

Receivables that are individually significant are subject to individual impairment assessment. If there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debt of the receivable is established.

The criteria to determine whether an individual amount is significant: whether the balance is more than RMB10 million.

Methodology for establishing bad debt provision: according to the excess of the carrying amount of the receivables over the present value of estimated future cash flows.

(b) Provisions for bad debts for accounts receivable by group

Receivables that are not individually significant together with those receivables that have been individually assessed for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The provisions for bad debts for the current year are determined, taking into consideration of the current conditions, on the basis of historical loss experience for the groups of receivables with the similar credit risk characteristics.

Groups for the purpose of bad debt provision assessment are determined as follows:

Group 1	Amounts due from related parties
Group 2	Aircraft leasing deposits and maintenance funds receivable
Group 3	Other receivables excluding receivable within Group 1 and Group 2

Provision method for each group:

Group 1	Based on historical loss ratio
Group 2	Based on historical loss ratio
Group 3	Aging analysis method

For Group 3, the provision percentages of receivables with aging analysis method is as follows:

	Provision % of accounts receivable	**Provision % of other receivables**
Within 1 year	0%	0%
1 - 2 years	5%	5%
2 - 3 years	10%	10%
3 - 4 years	30%	30%
4 - 5 years	50%	50%
5 - 6 years	80%	80%
Over 6 years	100%	100%

(c) Amounts that are not individually significant but provisions for bad debts are assessed individually:

Criteria of recognising provisions for bad debts for accounts receivable individually: if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debts of the receivable is established.

Methodology for making bad debt provision: according to the excess of the carrying amount of the receivable over the present value of estimated future cash flows.

(d) If the Group transfers the accounts receivable to the financial institutions without right of recourse, then the difference between the transaction amount and the carrying amount of the transferred accounts receivable (plus any relevant taxes) is recorded in the profit or loss for the current period.

(11) Inventories

(a) Classification

Inventories include cabin supplies and low valuable consumables, etc., and are measured at the lower of cost and net realisable value.

(b) Valuation method of delivered inventories

Cabin supplies are determined using the weighted average method.

(c) Basis of determining net realisable value of inventories and the method to make provision for obsolete stock

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates, as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are the investees over which the Company is able to exercise control, i.e. having the power to govern their financial and operating policies so as to obtain benefits from their operating activities; associates are the investees that the Group has significant influence on their financial and operating policies.

The Company accounts for investments in subsidiaries using the cost method in its individual financial statements, and makes the appropriate adjustments using equity method when preparing the consolidated financial statements. Investments in associates are initially measured using the equity method. For the long-term equity investments in investees (i) over which the Group does not have control, joint control or significant influence; (ii) prices of which are not quoted in an active market; and (iii) fair value of which cannot be reliably measured, the cost method is used.

(a) Recognition of initial investment cost

Long-term equity investments acquired through business combination: long-term equity investments acquired through business combinations under common control are initially measured at the Group's equity share of the investee's net equity as at incorporation date; long-term equity investments acquired through business combination under non-common control are measured at the combination cost.

Long-term equity investments acquired other than business combination: long-term equity investments acquired by cash are initially measured at the amount of actually paid; long-term equity investments acquired by the issuance of equity shares are initially measured at the fair value of equity shares issued.

(b) Subsequent measurement and recognition of gain or loss

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. Investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investees.

Long-term equity investments accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

When using the equity method of accounting, the Group recognises the investment income based on its share of net gain or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has incurred obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standard on contingencies, the Group continues recognising the investment losses and the provision. Under the circumstance that the Group's proportion of shareholding in an investee remains unchanged, the Group shall record directly in capital surplus its share of the changes in the investee's owner's equity other than those arising from net gain or loss. The carrying amount of the investment is reduced by Group's share of the profit or cash dividends declared by an investee. The gains or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment income or losses are recognised. The loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not eliminated.

(c) Basis of determining to have control or significant influence over the investee

The term "control" refers to the power to govern the financial and operating polices of an investee so as to obtain benefits from its operating activities of the enterprise. When ascertaining whether or not it is able to control a investee, an investor shall take into consideration the existence and effect of potential voting rights, including that derived from the convertible bonds and warrants that are currently convertible or exercisable.

Significant influence usually translates into participation in the financial and operating policies without necessarily having full control or joint control over an investee.

(d) Impairment of long-term equity investments

For the long-term equity investment in the subsidiary and associated enterprises, when its recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2(19)). For the impairment of other long-term equity investments which are not quoted in an active market and the fair value of which cannot be reliably measured, the impairment loss is recognised according to the difference between its carrying amount and present value determined by the discounted cash flow according to the market profitability of similar financial assets at that time. Once an impairment loss is recognised, it is not allowed to be reversed, even if the value of such asset is recovered in the subsequent periods.

(13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

After initial recognition, investment property is subsequently measured using fair value mode and no depreciation or amortisation is provided for investment property. The carrying amount of investment property is adjusted to fair value at balance sheet date and any difference between the fair value of the property at that date and its original carrying amount is recognised in the profit or loss.

If an investment property becomes owner-occupied property, it is reclassified as fixed assets or intangible assets at the date of transfer. The fair value of the investment property at the date of transfer becomes its carrying amount for subsequent accounting purposes. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. If an item of owner-occupied property becomes a property held for operating lease, it is reclassified as investment property from fixed assets or intangible assets from the date of transfer and will be carried at fair value at the date of transfer. If the fair value at the date of transfer is less than the previous carrying amount, the difference is recognised in the profit or loss; if the fair value at the date of transfer is higher than the previous carrying amount, the difference is included directly in owners' equity. On subsequent disposal of an investment property, the amount that was previously included in owners' equity as the result of reclassification is transferred to profit or loss.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, aircrafts and engines, rotables, motor vehicles and other equipment.

The fixed assets are recognised when it is probable that economic benefits associated with the fixed assets will flow to the Group and their cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Method of fixed assets depreciation

Fixed assets are depreciated using the straight-line method. The fixed assets are depreciated according to the initial costs less their estimated residual values within their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted net book values over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

	Estimated useful lives	**Estimated residual value**	**Annual depreciation rate**
Buildings	40 years	5%	2.375%
Aircraft and engines' core components	20 years	5%	4.75%
Aircraft and engines' replacement components	5 – 7 years	0%	14.29% to 20%
Rotables	12 years	5%	7.9%
Motor vehicles	10 years	5%	9.5%
Machinery and equipment	8 – 14 years	5%	6.78% to 11.875%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) When the recoverable amount of the fixed assets is less than its book value, the book value is reduced to the recoverable amount (Note 2(19)).

(d) Basis of recognition and method of valuation of fixed assets acquired under finance leases

The lease which actually transfers all risks and rewards relating to the ownership of the assets refers to finance lease. The lower of the fair value of leased assets and present value of lowest leasing expenses is used as the initial book value of the leased assets. Differences between book value of leased assets and minimum lease payments are recorded as unrecognised finance charge.

The fixed assets acquired under finance leases adopt same depreciation policy with self-owned fixed assets. Fixed asset under lease is depreciated within its expected life if it is reasonably certain that the Group will be able to obtain the ownership of the leased asset upon the expiry of the lease term; otherwise, the leased asset is depreciated within lease term or expected life of the asset, whichever is shorter.

(e) Disposal of fixed assets

The book value of a fixed asset is derecognised on disposal or when no future economic benefit is expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2(19)).

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For specific borrowings funded for constructing of any qualifying assets that satisfy the requirements of capitalisation, the capitalised borrowing costs are the amount of interest expenses incurred less interest income generated from unused loans or investment income/loss earned from temporary investment.

For general borrowings used to acquire or construct any qualifying assets that satisfy the capitalisation requirements, the capitalised amount of borrowing costs is determined based on the excess of accumulated capital expenditure over the weighted average of capital expenditure funded by specific borrowings multiplied by the weighted average of actual interest rate of the general borrowings. The actual interest rate is used to discount the future cash flows during anticipated period or applicable shorter time to the originally recognised amount of the borrowings.

(17) Intangible assets

Intangible assets mainly stand for land use rights, which are measured at actual cost.

Land use rights are amortised on the straight-line basis over the period of the land use rights of 40 to 70 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

Review of estimated useful life and amortisation method for land use rights is performed at each year-end, with adjustment made as appropriate.

If the recoverable amount of intangible asset is less than its carrying amount, the carrying amount can be reduced to the recoverable amount (Note 2(19)).

(18) Long-term prepaid expenses

Long-term prepaid expenses include costs on pilot recruiting and training and other expenditures that have been made but should be recognised as expenses over more than one year in the current and subsequent periods. Long term prepaid expenses are amortised on a straight line basis over the beneficial periods and stated at net amount after deducting accumulated amortisation from the actual expenses.

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested for impairment at least every year, irrespective of whether there is any indication that the assets may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Except for the compensation paid to the employee due to termination of the employment relationship, employee benefits are recognised as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

(21) Profit distribution

Cash dividend is recognised as a liability in the period in which it is approved by shareholders meeting.

(22) Provisions

Provisions for onerous contracts etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(23) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group’s activities as described below:

(a) Rendering of services

(i) Traffic revenue

Passenger and cargo revenue are recognised as traffic revenue when the transportation services are provided. The proceeds from sold but unused tickets for services pending to render is recognised as liabilities and to be recorded as advances from customers – sales in advance of carriage (“SIAC”).

(ii) Commission income

Commission income is arisen from sales of tickets, acting as the agent of other airline companies, and is recognised when the tickets are sold.

(iii) Other revenue

Other revenues include cancelled ticket processing fee etc. These revenues are recognised at the time when the corresponding services are provided.

(b) Frequent flyer programme

The Group operates a frequent flyer programme, under a name of “Fortune Wind Club”, which provides travel awards to programme members based on accumulated mileages. According to the rewarding policy of the programme, programme members are eligible to redeem the mileages for gifts or free air tickets. The Group accounts for the frequent flyer mileages using deferred revenue method, under which revenue received in relation to mileage earning flight is allocated, based on the fair value, between the flight and mileages earned by the programme member. The value attributed to the award mileages is deferred as a liability – deferred revenue until the mileages are redeemed or expired upon which the relevant deferred revenues are recognised as revenue.

(c) Transfer of asset use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

Aircraft lease income and other rental income under operating leases are recognised on a straight-line basis over the lease periods.

(24) Government grants

Government grants represent monetary or non monetary assets freely offered by government, including tax refund and flight routes subsidy.

Government grants are recognised when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grant in monetary asset are recognised at the amount of receipt or to be received. Government grant in non-monetary asset are recognised at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount.

Government grants related to assets comprise the subsidies in relation the addition of long-term assets that the Group obtained, constructed or through other ways. Other than government grants related to assets, all other subsidies are subsidies related to income.

Government grants related to assets are recognised as deferred revenue and credited to the income statement over the expected useful lives of the related assets. The government grants which are measured at nominal amount are directly recorded into profit or loss in the period when they are recognised.

Government grants related to income, that used to compensate future related expenses or losses, are recognised as deferred revenue and credited to income over the years in which related expenses or losses are recognised. Government grants to compensate expenses or losses that already incurred are recognised as income directly.

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences).

Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, and deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and deferred tax liabilities which meet the following conditions at the same time can be stated at the net amount after offset:

- Deferred tax assets and deferred tax liabilities are related with the same taxpayer and imposed by the same tax administration.

- The Group is entitled to settle its tax assets and tax liabilities with the net amount.

(26) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Assets leased in under operating lease (the Group is a lessee)

Lease payments under an operating lease are charged to the profit and loss on a straight-line basis over the period of the lease.

(b) Assets leased out under operating lease (the Group is a lessor)

Lease rental income arising from operating lease is recognised using the straight-line method over the lease term. Direct costs relating to a lease transaction, if significant, are first capitalised then amortised in the profit and loss over the lease term along with the recognition of the related lease income. If the direct costs for the lease are small, the amounts should be directly expensed off. Contingent rentals are recognised in the period which it actually incurs.

(c) Assets acquired under finance lease (the Group is a lessee)

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(d) Sales and leaseback

For sales and leaseback transaction resulting in finance lease, the difference between the sales proceed and the carrying amount of the asset is deferred and amortised over the depreciation period of the leased assets, as the adjustment to the depreciation charges.

For sales and leaseback transaction resulting in an operating lease, the difference between the sales proceeds and the carrying amount of the asset is recognised immediately in the income statement, if there is conclusive evidence that the transaction is entered at fair value. If the transaction is not entered at the fair value and the selling price is below the fair value, the loss is recognised in the income statement; however, if the loss will be compensated by future lease rental below the market price, the loss is deferred and amortised over the leasing period. If the selling price is higher than the fair value, the difference between fair value and the selling prices is deferred and amortised over the lease period.

(27) Routine maintenance and overhaul costs

Routine repairs and maintenance costs are charged to the income statement as and when incurred.

For aircraft and engines owned or held under finance leases by the Group, overhaul costs which meet the definition of fixed assets are capitalised as a component of fixed assets and depreciated over the overhaul cycles. In respect to aircrafts and engines under operating leases, the Group has obligations to fulfil certain return conditions upon expiration of the leases. Provisions for the estimated costs of the overhauls and checks for the return conditions are based on the actual usages (i.e. flying hours/cycles) over the estimated periods between overhauls. All other overhaul expenses incurred during the operating lease periods are charged to the income statement as and when incurred.

(28) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(29) Critical accounting estimates and judgments

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Taxation

The Group operates businesses in various regions and pays various taxes. There are many transactions and events for which the ultimate tax determination is uncertain during the Group's ordinary course of business.

Significant judgment is required from the Group in determining the provision for taxes in accordance with applicable tax rules and other relevant policies. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the initially recognised amount of tax payable and relevant profit and loss.

Moreover, recognition of deferred income tax assets for tax losses depends, to a large extent, upon management's judgment as to the ability to generate sufficient future taxable profit to offset the tax losses and deductible temporary differences. Calculation of future taxable profits involves a lot of judgments and estimations, together with the consideration of the tax planning strategies and overall economic environment. Different judgments and estimates will affect the recognition and measurement of deferred income tax assets.

(b) Fixed assets depreciation

Depreciation of components related to overhauls of aircraft and engine is calculated based on estimated overhaul costs and overhaul interval. Such estimates are conducted in accordance with the Group's historical experience with similar aircraft and engine models. Depreciation of other fixed assets is calculated based on estimated useful life. The estimated useful life, the estimated net residual value of the fixed assets and the depreciation method applied to the assets are reviewed, and adjusted at each year-end. Different estimation may affect the depreciation amount and the profit and loss for the period.

(c) Provision for checks and overhauls for return conditions for aircraft and engines under operating leases

Provision for checks and overhauls to be conducted to fulfil the return conditions for aircraft and engines under operating leases is made based on the estimated costs of checks and overhaul to be required at the end of the leases. Such estimates need to take into account anticipated flying hours, flying cycles, overhaul interval and overhaul costs to be incurred at the end of the lease. These judgments or estimates are based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Different judgments or estimates would affect the estimated provision for the costs of return condition checks and overhauls.

(d) Fair value of frequent flyer mileage points

The fair value of frequent flyer mileage points is estimated based on redemption rates and the fair value of redeemable items. The redemption rate is estimated based on historical experience and projections for the future. The fair value of the redeemable item is estimated with reference to the contracted prices and the average ticket prices throughout the year. Should different redemption rates and the fair value of redeemable items are applied, the fair value of frequent flyer mileage points will change significantly.

(e) Fair value of investment property

The fair value of an investment property is determined by either the income capitalisation approach or direct comparison approach. The income capitalisation approach is a method of valuation under which the fair value of an investment property is determined by analysing the net rental income derived from the existing and prospective tenancies. The direct comparison approach is to estimate the market value of an investment property by making reference to comparable properties and sales transactions as available in the relevant market. The variance in future rental income and selected property prices may have significant impact on the Group's assessment of the fair value of the investment property.

(f) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(23) to the financial statements. Unused tickets are recognised in traffic revenues when management believes that the uplift obligation ceases. Management evaluates the balance of SIAC periodically and records any adjustments, which can be material, in the period the evaluation is completed. These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognising revenue for any unused air tickets and the related sales price, which affect the timing and amount of revenue recognition.

3 TAXATION

(1) Corporate income tax

In accordance with "Corporate Income Tax Law of the People's Republic of China" 《中華人民共和國企業所得稅法》, the Company's applicable enterprise income tax rate for current year and the prior year is 25%.

Pursuant to the "Notes on relevant procedures for changing the implementation of West Development Strategy"《關於深入實施西部大開發戰略有關企業所得稅問題的公告》(2012 No.12) issued by the State Administration of Taxation, enterprises located in western region and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in West Region"《西部地區鼓勵類產業目錄》, main operation revenue accounts for over 70% of its total revenue, will be entitled to a reduced income tax rate of 15% from January 2011 to 31 December 2020 upon approval from tax authorities. As approved by Shanxi province Development and Reform Committee and Tax Bureau (2012 No.007), the applicable corporate income tax rate for the Company's subsidiary, Chang'an Airlines, is 15% starting from 2012.

For the subsidiaries established in other regions besides Chang'an Airlines, the applicable corporate income tax rates for 2013 are 25%.

(2) Business tax

Prior to 1 August 2013, except for Xinhua Airlines, a subsidiary of the Company, domestic traffic revenue of which is subject to value added tax from 1 September 2012, domestic traffic revenues generated by other companies of the Group are subject to business tax and the applicable tax rate is 3%. Pursuant to the "Notice of exemption of business tax on the provision of international transportation services" Caishui [2010] No. 8 ("《財政部、國家稅務總局關於國際運輸勞務免征營業稅的通知》(財稅【2010】8號)") jointly issued by Ministry of Finance ("MOF") and the State Administration of Taxation on 23 April 2010, the Group's revenues from the provision of international transportation services are exempt from business tax.

Effective from 1 August 2013, the traffic revenues of the Company and two of its subsidiaries, Chang'an Airlines and Shanxi Airlines are subject to value added tax as described in details in "Value Added Tax" below.

The Group's commission income and certain other revenues are subject to business tax and the applicable tax rate is 5%.

(3) Value added tax ("VAT")

The Company and the Company's subsidiaries, Xinhua Airlines, Chang'an Airlines and Shanxi Airlines, are VAT general taxpayers.

Pursuant to the "Circular on the Pilot Plan for Levying VAT in Place of Business Tax" Caishui [2011] No. 110 ("財政部、國家稅務總局關於印發《營業稅改征增值稅試點方案》的通知》(財稅【2011】110號") and "Notice on the Pilot Work of Levying Value-Added Tax in Lieu of Business Tax in the Transportation Industry and Some Modern Service Industries in Beijing and Other Seven Provinces and Cities" Caishui [2012] No. 72 ("財政部、國家稅務總局《關於在北京等8省市開展交通運輸業和部分現代服務業營業稅改征增值稅試點的通知》(財稅【2012】72號)") jointly issued by the MOF and the State Administration of Taxation, the domestic transportation revenue of the Company's subsidiary, Xinhua Airlines, is subject to value added tax since 1 September 2012 with the VAT output tax rate of 11%.

Pursuant to the "Circular on the Pilot Plan for Levying VAT in Place of Business Tax" Caishui [2011] No. 110 ("財政部、國家稅務總局關於印發《營業稅改征增值稅試點方案》的通知》(財稅【2011】110號)") and "Notice on the Tax Policies for Implementing the Pilot Programme of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries across the Country" Caishui [2013] No. 37 ("財政部、國家稅務總局《關於在全國開展交通運輸業和部分現代服務業營業稅改征增值稅試點稅收政策的通知》(財稅【2013】37號)") jointly issued by the MoF and the State Administration of Taxation, effective from 1 August 2013, the domestic transportation revenue of the Company and two of the Company's subsidiaries, Chang'an Airlines and Shanxi Airlines, is subject to value added tax with VAT output tax rate of 11%.

Pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on Zero VAT Rate and Tax Exemption Policy Applicable to Taxable Services" Caishui [2011] No. 131 ("財稅【2011】 131 號《關於應稅服務適用增值稅零稅率和免稅政策的通知》") and "Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on Some Tax Policies Including the Scope of Taxable Services for Implementing the Pilot Work of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries" Caishui [2012] No. 86 ("財稅【2012】 86 號《關於交通運輸業和部分現代服務業營業稅改征增值稅試點應稅服務範圍等若干稅收政策的補充通知》"), the Group's revenue from transportation services in international and regional areas is subject to zero VAT rate. In addition, the Company's sales of carbon supplies, maintenance income and aircraft lease rental income are subject to value added tax at VAT output tax rate of 17%. The input VAT paid for purchase of aviation fuel, landing fees, fixed assets (including imported airplane) and aviation materials by the Company and the aforementioned subsidiaries and other VAT input can be used to deduct VAT output. The VAT tax payable represents the balance that the output tax net of deductible input tax.

As stipulated by relevant national laws and regulations, the imported airplanes and aviation materials of the Group are subject to the import VAT with the original approved VAT tax rate of 4%. Pursuant to the "Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Value-Added Tax Polices for Imported Airplanes" Cai Guan Shui [2013] No. 53 ("財政部和國家稅務總局《關於調整進口飛機有關增值稅政策的通知》(財關稅【2013】53號)"), imported airplanes with an empty weight over 25 tons are subject to the import VAT at rate of 5%.

The Company's subsidiaries Golden-Deer Sales, Beijing Kehang, Hainan Fushun are small-scale value-added taxpayers and subject to VAT at 3%.

(4) City maintenance and construction tax and education surcharges

In accordance with "Notice of alignment of the institution of city maintenance and construction tax and education surcharges of foreign and domestic enterprises and individuals – Guofa 2010 No.35" issued by the State Council on 18 October 2010 ("國發【2010】35號《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》"), the Company is subject to city maintenance and construction tax and education surcharges which is calculated based on the payments of the business tax and VAT starting from 1 December 2010. The applicable city maintenance and construction tax and education surcharges rates of the Group are 7% and 5% respectively.

(5) Custom duty

According to "The Notice on the Tariff Classification of Aircrafts and Related Parts and questions on the tax rates applicable to leased aircrafts after adjustment of import duty rate" Shushui [1998] No. 472 ("署稅【1998】472號文《關於飛機及其零部件稅則歸類和進口稅率調整後租賃飛機適用稅率問題的通知》") issued by State Customs Department on 12 August 1998, the aircraft leased and airframe imported after 1 October 1997 are subject to custom duty at a rate of 1%. The aircraft equipments, cabin equipments and spare parts are subject to custom duties according to rates specified by "The Notice on the adjustment of import and export duty rates of several categories of goods" Shuiweihui [199]9 No. 1 ("《關於調整若干商品進出口關稅稅率的通知》稅委會【1999】1號").

According to “Announcement of Adjusting the Import Tariff Rates of Lignite and Other Commodities” Shu Shui [2013] No. 49 (署稅【2013】49號文《關於對褐煤等商品進口關稅稅率進行調整的公告》) issued by General Administration of Customs of the People’s Republic of China on 29 August 2013, the provisional import tariff rate of 1% for passenger airplanes with an empty weight of 25 tons or more but not more than 45 tons was cancelled and the Most-favoured-nation Rate of Duty of 5% was resumed. The Company’s leased aircraft and imported aircraft equipments are subject to the tax rate of 5%.

(6) Aviation Development Fund

According to “Notice for the Collection, Use and Management of the Civil Aviation Development Fund” (Caizong [2012] No. 17) (“財綜【2012】17號《民航發展基金徵收使用管理暫行辦法》”) issued by MoF, effective from 1 April 2012, the passengers are required to pay Civil Aviation Development Fund and the relevant rates are 50 Yuan per passenger for domestic route; 90 Yuan per passenger (including 20 Yuan of tourism development fund) for international and regional routes. Airline companies or ticket sales agencies collect the Civil Aviation Development Fund from passengers when air tickets are sold, and the amount of the fund is showed separately from the air fare. Airline companies are required to pay the Civil Aviation Development Fund according to types of routes, maximum flight weight, flying distance and the relevant collection standards, payments of such fund are charged to operating costs.

4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries obtained through establishment or investment as at 31 December 2013

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Hainan Fu Shun	Direct control	Haikou	Project management	RMB1,094,161,000	Tourism management, tourism project development, parking management and business, arts and crafts, general merchandise, apparel sales, conference and Exhibition Service (not including travel agency business)	Limited liability company	Wang Dong	56799107-9
HNA Hongkong . .	Direct control	Hong Kong	Investment	HKD70,200,000	Acting as the agent of Hainan Airlines in Hong Kong and Macao, such as import and export, equipment lease, information technology services, high technology development, consulting, investment and capital operations, etc.	Limited liability company	Wang Yingming	636400456
Golden-Deer Sales	Direct control	Haikou	Transportation	RMB8,000,000	Agency of flight ticket sales, air freight and airplane charter business.	Limited liability company	Du Xiaoping	28402951-7

	Accumulated capital contribution as at 31 December 2013	Balances of other items forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests as at 31 December 2013	Amount offsetting minority interests (profit and loss) included in minority interest (balance sheet)
	RMB'000						
Hainan Fu Shun	1,094,161	–	100%	100%	Yes	–	–
HNA Hongkong	58,417	–	100%	100%	Yes	–	–
Golden-Deer Sales	7,600	–	95%	95%	Yes	5,982	–
	1,160,178	–				5,982	–

(b) Subsidiaries obtained through establishment or investment as at 31 December 2013

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Xinhua Airlines	Direct control	Beijing	Transportation	RMB2,258,570,000	Domestic and international passenger and cargo air transportation	Limited liability company	Yang Jinglin	10001095-1
Chang'an Airlines	Direct control	Xi'an	Transportation	RMB1,754,390,000	Domestic and international passenger and cargo air transportation	Limited liability company	Liu Lu	71974795-7
Beijing Kehang	Direct control	Beijing	Holding property	RMB150,000,000	Catering, accommodation, project investment management, real estate development, property management, hotel management, etc	Limited liability company	Deng Yao	75131148-3
Shanxi Airlines	Direct control & indirect control	Taiyuan	Transportation	RMB658,400,000	Domestic and international passenger and cargo air transportation	Limited liability company	Wang Xiaodong	73190009-6
Brussels EDIP	Direct control	Brussels	Hotel operation	EUR7,716,000	Hotel management, finance, real estate development	Limited liability company	Zhang Jinsong	BE0435779032
Brussels DATA	Direct control	Brussels	Hotel operation	EUR248,000	Hotel management, tour service	Limited liability company	Zhang Jinsong	BE0860905979
Brussels SODE	Direct control	Brussels	Hotel operation	EUR3,400,000	Hotel management, tour service, finance, real estate development agency	Limited liability company	Zhang Jinsong	BE0407675657

	Accumulated capital contribution as at 31 December 2013	Balances of other items in substance forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests	Amount offsetting minority interests (profit & loss) included in minority interests (balance sheet)
	RMB'000					RMB'000	
Xinhua Airlines	3,746,107	–	100%	100%	Yes	–	–
Chang'an Airlines	1,799,408	–	100%	100%	Yes	–	–
Beijing Kehang	1,728,341	–	95%	95%	Yes	108,754	–
Shanxi Airlines	761,880	–	100%	100%	Yes	–	–
Brussels EDIP	62,996	–	100%	100%	Yes	–	–
Brussels DATA	61,764	–	100%	100%	Yes	–	–
Brussels SODE	543,135	–	100%	100%	Yes	–	–
	8,703,631	–				108,754	–

(2) Entities newly included in consolidation scope during the current year

	Acquisition Date	Net assets as at 31 December 2013	Net loss in 2013
		RMB'000	RMB'000
Hainan Fushun	March 2013	1,080,297	(13,864)

In 2013, the Company entered into an asset swap transaction whereby the Company would use HNA Development's office building in exchange of HNA office building owned by HNA Development. The asset swap arrangement was subsequently cancelled and replaced by a share exchange arrangement. Under the share exchange arrangement, the Company established a wholly owned subsidiary, Haidao Hangxiang, by injection of HNA Development office's building plus cash of RMB901,609,000. In 2013, the Company transferred all its investments in Haidao Hangxiang in exchange of the entire shares of Hainan Fushun held by New City Construction. The aforementioned share exchange is assets exchange in substance and does not constitute a business acquisition.

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2013			31 December 2012		
	Original currency	**Exchange rate**	**Amount in RMB**	**Original currency**	**Exchange rate**	**Amount in RMB**
	('000)		**RMB'000**	**('000)**		**RMB'000**
Cash on hand						
RMB			678			1,901
USD	35	6.0969	216	35	6.2855	220
Others			4			288
Subtotal			898			2,409
Cash at banks and financial institutions[(a)]						
RMB			16,480,183			18,365,549
USD	33,877	6.0969	206,543	30,730	6.2855	193,153
Others			8,065			72,877
Subtotal			16,694,791			18,631,579
Other cash balances[(b)]						
RMB			3,969,139			3,678,415
Total			20,664,828			22,312,403

(a) As at 31 December 2013, the cash at bank and on hand included deposits of RMB4,511,052 thousand (31 December 2012: RMB4,699,439 thousand) placed in HNA Finance, a related party of the Group (Note 7(6)), among which, RMB2,242,492 thousand (31 December 2012: RMB3,213,042 thousand) was recorded in cash at banks and financial institutions, and RMB2,268,560 thousand (31 December 2012: RMB1,486,397 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2013	**31 December 2012**
	RMB'000	**RMB'000**
Term deposits (Note)	2,897,357	1,525,000
Security deposits for notes payable	307,064	1,566,038
Other restricted deposits	764,718	587,377
	3,969,139	3,678,415

Note: As at 31 December 2013, the above term deposit was pledged for short-term borrowings of RMB3,870,581 thousand (31 December 2012: RMB361,500 thousand) and long-term borrowings of RMB400,000 thousand (31 December 2012: RMB599,250 thousand) (Note 5(19)&(28)).

(2) Accounts receivable

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Accounts receivable	607,006	570,454
Less: Provisions for bad debts	(28,803)	(28,803)
	578,203	541,651

(a) The aging of accounts receivable is analysed below:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Within 1 year	570,983	534,431
1 to 2 years	–	7,600
2 to 3 years	7,600	–
3 to 4 years	–	–
4 to 5 years	–	–
5 to 6 years	–	–
Over 6 years	28,423	28,423
	607,006	570,454

(b) Accounts receivable are analysed by categories as follows:

	31 December 2013				31 December 2012			
	Amount	% of total balance	Amount	% of total provision for bad debts	Amount	% of total balance	Amount	% of total provision for bad debts
	RMB'000		RMB'000		RMB'000		RMB'000	
Provisions for bad debts by group								
– Group by aging analysis method	550,355	91%	(1,506)	0%	477,160	83%	(1,506)	0%
– Group by related parties	29,354	5%	–	–	65,997	12%	–	–
Amounts that are not individually significant but with provisions for bad debts assessed individually	27,297	4%	(27,297)	100%	27,297	5%	(27,297)	100%
	607,006	100%	(28,803)	5%	570,454	100%	(28,803)	5%

(c) At 31 December 2013, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2012: Nil).

(d) Provisions for bad debts for accounts receivable grouped using aging analysis method are as follows:

	31 December 2013				31 December 2012			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Within 1 year	541,629	99%	–	–	468,434	98%	–	–
1 to 2 years	–	–	–	–	7,600	2%	(380)	5%
2 to 3 years	7,600	1%	(380)	5%	–	–	–	–
3 to 4 years	–	–	–	–	–	–	–	–
4 to 5 years	–	–	–	–	–	–	–	–
5 to 6 years	–	–	–	–	–	–	–	–
Over 6 years	1,126	0%	(1,126)	100%	1,126	0%	(1,126)	100%
	550,355	100%	(1,506)	0.3%	477,160	100%	(1,506)	0.3%

(e) As at 31 December 2013, accounts receivable that were not individually significant but with specific provisions for bad debts are analysed as follows:

	Gross amount	Provisions for bad debts	% of provisions for bad debts
Customer A	8,184	(8,184)	100%
Customer B	4,478	(4,478)	100%
Customer C	2,791	(2,791)	100%
Customer D	1,693	(1,693)	100%
Others	10,151	(10,151)	100%
	27,297	(27,297)	100%

As at 31 December 2013, as these accounts receivables had been long outstanding and the Group was unable to get contact with the debtors. The management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(f) No receivables for which full or large portion bad debt provisions were made in prior years have been recovered or reversed during the current year.

(g) As at 31 December 2013, accounts receivable did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2012: Nil).

(h) As at 31 December 2013, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total accounts receivable balance
Customer 1	Third party	161,189	Within 1 year	27%
Customer 2	Third party	30,578	Within 1 year	5%
Customer 3	Third party	26,484	Within 1 year	4%
Customer 4	Third party	21,605	Within 1 year	4%
Customer 5	Third party	18,342	Within 1 year	3%
		258,198		43%

(i) Accounts receivable from related parties are analysed below:

		31 December 2013			31 December 2012		
	Relationship with the Group	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Yisheng Holding	Under HNA Group's control	14,106	2%	–	34,597	6%	–
HNA Cargo	Under HNA Group's control	7,686	1%	–	4,333	1%	–
Xinsheng Info Tech	Under HNA Group's control	–	–	–	19,087	3%	–
Others		7,562	2%	–	7,980	1%	–
		29,354	5%	–	65,997	11%	–

(j) Accounts receivable include the following balances demonstrated in foreign currency:

	31 December 2013			31 December 2012		
Foreign currency	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	1,319	6.0969	8,039	4,535	6.2855	28,506
Others			14,912			10,450
			22,951			38,956

(3) Other receivables

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Amounts due from related parties (Note (i))	213,974	19,503
Others	309,805	239,322
	523,779	258,825
Less: Provision for bad debts	(55,319)	(55,264)
	468,460	203,561

(a) The aging of other receivables is analysed below:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Within 1 year	362,289	176,345
1 to 2 years	82,429	20,681
2 to 3 years	17,853	9,160
3 to 4 years	8,874	1,276
4 to 5 years	1,212	1,446
5 to 6 years	1,205	701
Over 6 years	49,917	49,216
	523,779	258,825

(b) Other receivables are analysed by category as follows:

	31 December 2013				31 December 2012			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Amounts that are individually significant and with specific provision for bad debts (c)	11,799	2%	(11,799)	100%	11,799	5%	(11,799)	100%
Provision for bad debts by group								
– Group by aging analysis method (d)	33,774	6%	(14,382)	43%	79,278	31%	(14,382)	18%
– Aircraft leasing security deposits and maintenance funds receivable	235,094	45%	–	–	119,162	45%	–	–
– Group by related parties (i)	213,974	41%	–	–	19,503	8%	–	–
Amounts that are not individually significant but with specific provision for bad debts (e)	29,138	6%	(29,138)	100%	29,083	11%	(29,083)	100%
	523,779	100%	(55,319)	11%	258,825	100%	(55,264)	21%

(c) As at 31 December 2013, other receivables that were individually significant and with specific provisions for bad debts are analysed below:

	Book balance	Provision for bad debts	% of provision for bad debts
	RMB'000	RMB'000	
Other receivable A	11,799	(11,799)	100%

As at 31 December 2013, as these other receivables have been long outstanding and the Group was unable to get contact with the debtors. Management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(d) Provision for bad debts for other receivables grouped using aging analysis method are as follows:

	31 December 2013				31 December 2012			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Within 1 year	7,715	22%	–	–	53,093	67%	–	–
1 to 2 years	5,074	15%	(173)	3%	2,933	4%	(75)	3%
2 to 3 years	6,054	18%	(352)	6%	7,597	10%	(324)	4%
3 to 4 years	874	3%	(246)	28%	1,144	1%	(283)	25%
4 to 5 years	532	2%	(261)	49%	1,207	1%	(553)	46%
5 to 6 years	746	2%	(571)	77%	634	1%	(477)	75%
Over 6 years	12,779	38%	(12,779)	100%	12,670	16%	(12,670)	100%
	33,774	100%	(14,382)	43%	79,278	100%	(14,382)	18%

(e) As at 31 December 2013, debtors that were not individually significant but with specific provision for bad debts are analysed below:

	Book balance	Provision for bad debts	% of provision for bad debts
	RMB'000	RMB'000	
Debtor 1	6,354	(6,354)	100%
Debtor 2	5,457	(5,457)	100%
Debtor 3	5,280	(5,280)	100%
Debtor 4	3,185	(3,185)	100%
Debtor 5	2,500	(2,500)	100%
Others	6,362	(6,362)	100%
	29,138	(29,138)	

As at 31 December 2013, as these other receivables have been long outstanding and the Group was unable to get contact with the debtors. Management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(f) No other receivables for which full or substantial large portion bad debts for provision were made in prior years have been recovered or reversed during the current year.

(g) As at 31 December 2013, other receivables did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2012: Nil).

(h) As at 31 December 2013, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount	Aging	% of total balance
		RMB'000		
Other Receivable 2	Third party	173,613	Within 1 year	33%
Tianjin Airlines	Associate of the Group	56,002	Within 1 year	11%
Lucky Air	Associate of the Group	51,184	Within 1 year	10%
Capital Airlines	Under HNA Group's control	50,163	Within 1 year	10%
Other Receivable 3	Third party	47,228	Within 1 year	9%
		378,190		73%

(i) Other receivables due from related parties are analysed below:

		31 December 2013		31 December 2012	
	Relationship with the Group	Amount	% of total balance	Amount	% of total balance
		RMB'000		RMB'000	
Tianjin Airlines	Associate of the Group	56,002	11%	–	–
Lucky Air	Associate of the Group	51,184	10%	–	–
Capital Airlines	Under HNA Group's control	50,163	10%	–	–
Meilan Airport	Under the same control of the parent company of the Company	13,809	3%	–	–
Others		42,816	7%	19,334	8%
		213,974	41%	19,503	8%

As at 31 December 2013, other receivables due from related parties mainly represent aircraft lease rental and rotables maintenance receivables from Tianjin Airlines, Lucky Air and Capital Airlines, etc.

(j) Other receivables include the following balances denominated in foreign currencies:

	31 December 2013			31 December 2012		
	Original currency	**Exchange rate**	**RMB equivalent**	**Original currency**	**Exchange rate**	**RMB equivalent**
	('000)		**RMB'000**	**('000)**		**RMB'000**
USD	36,037	6.0969	219,714	14,758	6.2855	92,762
Others			33,387			2,207
			253,101			94,969

(4) Interest receivable

	31 December 2013	**31 December 2012**
	RMB'000	**RMB'000**
HNA Finance (Note 7(6))	226,716	169,806
Others	118,825	60,482
	345,541	230,288

(5) Advances to suppliers

(a) The aging of the advances to suppliers is analysed as follows:

	31 December 2013		31 December 2012	
Aging	**Amount**	**% total balance**	**Amount**	**% total balance**
	RMB'000		**RMB'000**	
Within 1 year	284,023	81%	267,167	82%
1 to 2 years	22,042	6%	50,544	15%
2 to 3 years	34,902	10%	6,255	2%
Over 3 years	8,832	3%	2,577	1%
	349,799	100%	326,543	100%

As at 31 December 2013, advances to suppliers with aging over 1 year amounted to RMB65,776 thousand (31 December 2012: RMB59,376 thousand). As the related services have not yet been rendered by the suppliers, such amounts have not been cleared.

(b) As at 31 December 2013, the top 5 largest advances to suppliers with are analysed below:

	Relationship with the Group	**Amount**	**% to the total balance**	**Time of payment**	**Reasons for unsettlement**
		RMB'000			
Company 1	Third party	91,688	26%	2013	Prepaid custom duty and VAT, not yet cleared
Company 2	Third party	53,423	15%	2013	Prepaid take-off and landing and ground services cost, not yet cleared
Company 3	Third party	20,247	6%	2013	Prepaid fuel cost, goods not yet delivered
Company 4	Third party	10,008	3%	2013	Prepaid fuel cost, goods not yet delivered
Company 5	Third party	5,450	2%	2013	Prepaid aircraft restoration cost, not yet cleared
		180,816	52%		

(c) As at 31 December 2013, no advanced payments to entities which hold over 5% (5% inclusive) of voting shares of the Company were included in the advances to suppliers (31 December 2012: Nil).

(d) The advances to suppliers include the following balances denominated in foreign currencies:

	31 December 2013			31 December 2012		
Foreign currency	**Original currency**	**Exchange rate**	**RMB equivalent**	**Original currency**	**Exchange rate**	**RMB equivalent**
	('000)		**RMB'000**	**('000)**		**RMB'000**
USD	9,741	6.0969	59,391	40,899	6.2855	257,073
EUR	42	8.4189	374	540	8.3176	4,494
Others			225			342
			59,990			261,909

(6) Inventories

	31 December 2013			31 December 2012		
	Gross amount	**Provision for declines in value of inventories**	**Net book value**	**Gross amount**	**Provision for declines in value of inventories**	**Net book value**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Cabin supplies	33,174	–	33,174	42,415	–	42,415
Others	28,513	–	28,513	28,099	–	28,099
	61,687	–	61,687	70,514	–	70,514

(7) Other current assets

	31 December 2013	**31 December 2012**
	RMB'000	**RMB'000**
Available-for-sale financial assets with maturity within 1 year[a]	1,650,000	2,000,000
VAT input tax to be deduct	294,836	–
	1,944,836	2,000,000

(a) In December 2013, the Group purchased short-term financial products from a third party commercial bank at an aggregate amount of RMB1.55 billion (2012: RMB2 billion). These financial products are not capital guaranteed and with a maximum annual yield of 5.5%. The investment of the financing products are limited to financial instruments identified by supervision department of the financial market, including but not limited to cash, bank deposits by agreement, bond repurchase, government loans, financial bond, central bank bill, SCP, short-term commercial paper, corporate bond, MTN, ABS and financial instrument with fixed income and low risk. As at 31 December 2013, the short-term financial products as at 31 December 2012 had been mature and collected with investment income of RMB108,703 thousand (Note 5(44)).
In addition, Chang'an Airlines, a subsidiary of the Company, purchased financial products from a third party amounted to RMB100 million which is capital and profit guaranteed and with final maturity in May 2014. This product has been pledged for issue of bank guarantee letter, which have been pledged for short-term borrowings of RMB300,000 thousand (Note 5(19)(d)(vi)).

(8) Available-for-sale financial assets

	31 December 2013 RMB'000	31 December 2012 RMB'000
Available-for-sale equity instrument	520,524	447,550
Others	2,260,000	2,700,000
	2,780,524	3,147,550
Less: provision for impairment	(86,104)	(86,104)
	2,694,420	3,061,446
Less: available-for-sale financial assets included in other current assets (Note 5(7))	(1,650,000)	(2,000,000)
	1,044,420	1,061,446

The available-for-sale financial assets are analysed below:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Available-for-sale equity instrument[(a)]		
– Fair value	434,420	361,446
– Cost	508,756	508,756
– Accumulated amount included in other comprehensive income	8,824	(45,905)
– Accumulated provision for impairment	(86,104)	(86,104)
Financial products (Note 5(7)(a))		
– Fair value	1,650,000	2,000,000
– Cost	1,650,000	2,000,000
– Accumulated amount included in other comprehensive income	–	–
– Accumulated provision for impairment	–	–
Yanshan Funds[(b)]		
– Fair value	410,000	500,000
– Cost	410,000	500,000
– Accumulated amount included in other comprehensive income	–	–
– Accumulated provision for impairment	–	–
Guokaijingcheng investment fund[(c)]		
– Fair value	200,000	200,000
– Cost	200,000	200,000
– Accumulated amount included in other comprehensive income	–	–
– Accumulated provision for impairment	–	–
Total		
– Fair value	2,694,420	3,061,446
– Cost	2,768,756	3,208,756
– Accumulated amount included in other comprehensive income	8,824	(45,905)
– Accumulated provision for impairment	(86,104)	(86,104)

(a) As at 31 December 2013, the Company held 34,260,268 shares of China Merchants Securities (31 December 2012: 34,260,268 shares) which was presented in fair value. The fair value of these shares as at 31 December 2013 were determined based on the closing price of the trading shares quoted on Shanghai Stock Exchange at 31 December 2013. In 2013, China Merchants Securities passed a profit appropriation resolution of RMB0.142 Yuan cash dividend for each share. The cash dividend of RMB4,865 thousand was received in 2013 and recorded as investment income (Note 5(44)). During the year 2012, the Company sold 7,796,291 shares of China Merchants Securities and incurred a loss of RMB40,116 thousand which has been recorded in investment income for 2012 (Note 5(44)).
In 2012, since the share price of China Merchants Securities have been constantly lower than the average purchase price of the Company for over a year, the Company has performed an impairment assessment. In consideration of the price fluctuation rate and subsequent share price fluctuation etc., a loss of RMB 86,104 thousand caused by the decline in fair value in 2012 was transferred out from the capital reserve and charged to impairment loss of the income statement (Note 5(42)). In 2013, the share price of China Merchants Securities had been increased, and the Company recognised fair value movement income of RMB72,794 thousand based on the closing share price as at 31 December 2013, which had been recorded in capital surplus (Note 5(48)).

(b) The Company and a third party (the "Partner") set up a limited partnership enterprise with a period of 10 years. The Company contributed capital of RMB500 million and taken limited liabilities. The Partner contributed capital of RMB3 million and owned management and control rights to the partnership enterprise. As the Company has no control, jointly control or significant influences to the partnership enterprise, the investment in the partnership enterprise was classified as available-for-sale financial assets. For the year ended 31 December 2013, the Company collected investment cost of RMB90,000 thousand.

(c) In 2012, the Company and other parties jointly set up Guokaijingcheng investment fund and the Company contributed RMB200 million to the fund. The registrated capital of the fund is RMB 6,840 million with an operation period of 10 years. Each investor enjoyed the voting rights based on their respective ownership percentages. Since the Company only has 3% ownership in the fund, the Company has no control, common control or significantly impact on the fund. Therefore, this investment was recognised as available-for-sale financial assets.

(9) Long-term equity investments

	31 December 2013 RMB'000	31 December 2012 RMB'000
Associates – without quoted prices[(a)]	12,279,824	6,565,997
Other long-term equity investments[(b)]	1,390,570	2,517,915
	13,670,394	9,083,912
Less: Provision for impairment of long-term equity investments	(6,774)	(6,774)
	13,663,620	9,077,138

The long-term equity investments held by the Group do not have any significant liquidity limitations.

(a) Associates

	Accounting method	Original investment cost	31 December 2012	Current Year Movement: Transferred from other investments	Current Year Movement: Capital addition	Current Year Movement: Share of results of associates	Current Year Movement: Investment income recognised with transferring from the cost method to equity method	Current Year Movement: Cash dividends declared	31 December 2013	% share-holding	% voting rights	Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in the current year
Tianjin Airlines[(i)]	Equity Method	3,486,400	–	713,000	2,773,400	56,322	31,489	–	3,574,211	42.02%	42.02%	N/A	–	–
Bohai Trust	Equity Method	2,760,906	2,760,906	–	–	202,363	–	–	2,963,269	39.78%	39.78%	N/A	–	–
Hong Kong Airlines Group[(ii)]	Equity Method	1,780,842	–	842,000	938,842	39,381	29,364	–	1,849,587	27.02%	27.02%	N/A	–	–
HNA Technology	Equity Method	1,000,000	1,012,209	–	–	77,722	–	–	1,089,931	48.08%	48.08%	N/A	–	–
Lucky Air	Equity Method	842,000	953,005	–	–	34,705	–	–	987,710	33.78%	33.78%	N/A	–	–
HNA Finance	Equity Method	865,578	936,468	–	–	62,816	–	(83,069)	916,215	23.70%	23.70%	N/A	–	–
Hunan Golden-Deer	Equity Method	450,000	450,000	–	–	–	–	–	450,000	47.37%	47.37%	N/A	–	–
Xi'an Chanba	Equity Method	400,000	407,939	–	–	11,253	–	–	419,192	40.00%	40.00%	N/A	–	–
Other			45,470	–	–	(10,059)	–	(5,702)	29,709					
			6,565,997	1,555,000	3,712,242	474,503	60,853	(88,771)	12,279,824					

(i) In June 2013, the Company increased investment of RMB1,680,000,000 in Tianjin Airlines in cash. After the increase, the Company's share percentage in Tianjin Airlines was increased to 30.70%. In December 2013, the Company acquired 11.32% shares of Tianjin Airlines from HNA Group at a consideration of RMB1,093,400,000. After the acquisition, the Company's share percentage in Tianjin Airlines was increased to 42.02%.

(ii) In June 2013, the Group increased investment of HK$776,000,000 in HKAGH in cash. After the capital investment, the Company's share percentage in HKAGH was 23.20%. In addition, the Group purchased 3.82% shares of HKAGH from HNA Group at a consideration of HK$401,000,000. After the capital increase and share acquisition, the Group's equity interests in HKAGH was increased to 27.02%.

(b) Other long-term equity investments

	Accounting method	Original investment cost	31 December 2012	Current year movement	Transferred to associate after capital injection	31 December 2013	% Shareholding	% voting right	Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in current year	Cash dividends declared in current year
Capital Airlines Holding	Cost method	508,620	508,620	–	–	508,620	19.60%	19.60%	N/A	–	–	–
HKIAL(iii)	Cost method	308,830	–	308,830	–	308,830	9.87%	9.87%	N/A	–	–	–
Haikou Meilan	Cost method	304,765	304,765	–	–	304,765	12.08%	12.08%	N/A	–	–	–
Inflection Energy LLC(iv)	Cost method	123,825	–	123,825	–	123,825	8.11%	8.11%	N/A	–	–	–
HNA Hotel Group	Cost method	58,161	58,161	–	–	58,161	19.00%	19.00%	N/A	–	–	–
Xin Guo Hotel	Cost method	40,000	31,952	–	–	31,952	13.33%	13.33%	N/A	–	–	–
Civil Aviation Information Network of China	Cost method	29,860	29,860	–	–	29,860	1.99%	1.99%	N/A	–	–	7,774
Yangtze River Express	Cost method	10,000	10,000	–	–	10,000	2.00%	2.00%	N/A	–	–	–
Hong Kong Airlines Group	Cost method	842,000	842,000	–	(842,000)	–	–	–	N/A	–	–	–
Tianjin Airlines	Cost method	19,000	713,000	–	(713,000)	–	–	–	N/A	–	–	–
Others	Cost method	19,557	19,557	(5,000)	–	14,557				(6,774)	–	–
			2,517,915	427,655	(1,555,000)	1,390,570				(6,774)	–	7,744

(iii) In June 2013, the Group increased investment of HK$385,000,000 in HNA Group in cash. After the capital investment, the Group's equity percentage in HKIAL was 9.87%.
(iv) In December 2013, the Group increased investment of USD20,250,000 in Inflection Energy LLC. After the capital investment, the Group's equity percentage in Inflection Energy LLC was 8.11%.

(c) Investments in associates

Major financial information of the associates held by the Company in 2013 is outlined as below:

	% equity interest	% of voting right	31 December 2013 Total assets	Total liabilities	Net Assets	Year ended 31 December 2013 Revenue	Net profit
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Tianjin Airlines	42.02%	42.02%	22,092,838	14,054,898	8,037,940	6,465,624	206,844
Bohai Trust	39.78%	39.78%	3,267,635	79,689	3,187,946	1,005,985	508,705
Hong Kong Airlines Group	27.02%	27.02%	18,172,800	12,409,100	5,763,700	7,274,594	211,478
HNA Technology	48.08%	48.08%	2,896,527	510,537	2,385,989	1,592,288	161,651
Lucky Air	33.78%	33.78%	9,144,239	6,316,804	2,827,435	3,481,571	102,739
HNA Finance	23.70%	23.70%	22,705,252	19,023,664	3,681,588	531,793	264,032
Hunan Golden Deer	47.37%	47.37%	956,799	500	956,299	–	6,543
Xi'an Chanba	40.00%	40.00%	1,063,871	15,908	1,047,963	–	28,132

(10) Investment properties

Items	Fair value as at 1 January 2013	Current year additions: Current year new additions	Changes in fair value	Current year reductions	Fair value as at 31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	5,380,950	38,345	–	(399,949)	5,019,346
Buildings	5,096,375	38,345	–	(399,949)	4,734,771
Land use rights	284,575	–	–	–	284,575
Changes in fair value	1,875,392	–	34,022	(98,385)	1,811,029
Buildings	1,743,914	–	13,219	(98,385)	1,658,748
Land use rights	131,478	–	20,803	–	152,281
Net book value	7,256,342	38,345	34,022	(498,334)	6,830,375
Buildings	6,840,289	38,345	13,219	(498,334)	6,393,519
Land use rights	416,053	–	20,803	–	436,856

For the investment properties located with active trading market, the fair values are valued using income projection or market comparison model.

As at 31 December 2013, the net book value of the investment properties was RMB6,830,375 thousand (31 December 2012: RMB7,256,342 thousand). The valuation of the investment properties with valuation date of 31 December 2013 was conducted by an independent appraiser and the market values of the investment properties were determined by the Company's management with reference to the valuation results.

In 2013, the total changes in the fair value of the investment properties of the Group amounted to RMB34,022 thousand (2012: RMB504,363 thousand), and was fully recognised in profit or loss for the year.

As at 31 December 2013, investment properties with book value of RMB5,243,804 thousand (31 December 2012: RMB4,229,656 thousand) were pledged for long-term borrowings (Note 5(28)(a)(i) and Note 5(28)(d)(ii)).

As at 31 December 2013, the title certificates of certain buildings and land use rights with carrying amount of RMB74,350 thousand (31 December 2012: RMB75,378 thousand) were under the process of application. The Company's management believes that the lack of certificates of the buildings and land use rights has no material impact on the Group's operations.

In 2013, the Company's subsidiary, Xinhua Airlines, entered into a property disposal agreement with Beijing Guorui Xingye Property Co., Ltd. As of 31 December 2013, the investment properties held by Xinhua Airlines had been disposed, which resulted a other operating income of RMB487,778 thousand and other operating expenses of RMB399,949 thousand respectively (Note 5(37)(b)).

(11) Fixed assets

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	46,281,116	9,715,476	(1,413,688)	54,582,904
Buildings	3,475,865	93,257	(50,293)	3,518,829
Aircraft and engines	39,521,798	9,440,537	(1,319,122)	47,643,213
Rotables	2,526,360	119,311	(3,773)	2,641,898
Motor vehicles	221,931	16,810	(8,107)	230,634
Machinery and equipment	535,162	45,561	(32,393)	548,330
Accumulated depreciation	(11,887,048)	(2,597,226)	964,672	(13,519,602)
Buildings	(376,402)	(80,440)	1,240	(455,602)
Aircraft and engines	(9,391,719)	(2,303,927)	924,358	(10,771,288)
Rotables	(1,594,419)	(160,657)	2,047	(1,753,029)
Motor vehicles	(156,688)	(9,994)	7,563	(159,119)
Machinery and equipment	(367,820)	(42,208)	29,464	(380,564)
Book value before impairment	34,394,068	–	–	41,063,302
Buildings	3,099,463	–	–	3,063,227
Aircraft and engines	30,130,079	–	–	36,871,925
Rotables	931,941	–	–	888,869
Motor vehicles	65,243	–	–	71,515
Machinery and equipment	167,342	–	–	167,766
Provision for impairment loss	(16,378)	(55,145)	–	(71,523)
Buildings	–	–	–	–
Aircraft and engines	–	–	–	–
Rotables	(16,378)	(55,145)	–	(71,523)
Motor vehicles	–	–	–	–
Machinery and equipment	–	–	–	–
Net book value	34,377,690	–	–	40,991,779
Buildings	3,099,463	–	–	3,063,227
Aircraft and engines	30,130,079	–	–	36,871,925
Rotables	915,563	–	–	817,346
Motor vehicles	65,243	–	–	71,515
Machinery and equipment	167,342	–	–	167,766

As at 31 December 2013, fixed assets with net book value of RMB27,840,091 thousand (31 December 2012: RMB21,546,792 thousand) and original cost of RMB33,961,653 thousand (31 December 2012: RMB27,022,311 thousand) were pledged for short-term borrowings of RMB150,000 thousand and long-term borrowings of RMB22,955,463 thousand (Note 5(19)&(28)).

For the year ended 31 December 2013, total amount of depreciation charges for fixed assets amounted to RMB2,597,226 thousand (2012: RMB2,330,061 thousand), which were charged to operating costs, selling and distribution expense, general and administrative expense amounting to RMB2,526,521 thousand, RMB4,952 thousand and RMB65,753 thousand respectively (2012: RMB2,288,391 thousand, RMB5,148 thousand and RMB36,522 thousand respectively).

For the year ended 31 December 2013, constructions in progress with original cost of RMB9,261,159 thousand (2012: RMB4,373,498 thousand) were transferred to fixed assets.

(a) Fixed assets held under financial leases

	Cost	Accumulated depreciation	Book value
	RMB'000	**RMB'000**	**RMB'000**
31 December 2013			
Aircraft and engines	5,520,106	(1,535,452)	3,984,654
Rotables	50,000	(16,459)	33,541
	5,570,106	(1,551,911)	4,018,195
31 December 2012			
Aircraft and engines	8,468,737	(2,932,672)	5,536,065
Rotables	50,000	(12,292)	37,708
	8,518,737	(2,944,964)	5,573,773

(b) Fixed assets without property certificates

As at 31 December 2013, property certificates of certain buildings with net book value of RMB169,741 thousand and original cost of RMB189,933 thousand (31 December 2012: net book value of RMB1,004,349 thousand and original cost of RMB1,006,043 thousand) have not been obtained by the Group. The management believes that there is no legal obstacle in substance to obtain these certificates and the lack of certificates of the buildings will have no material impact on the Group's operations.

(12) Construction in progress

	31 December 2013			31 December 2012		
	Book value before impairment	Provision for impairment	Net book value	Book value before impairment	Provision for impairment	Net book value
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advanced payments for aircraft acquisitions	10,903,768	–	10,903,768	11,525,757	–	11,525,757
Beijing base expansion project	481,411	–	481,411	455,351	–	455,351
Others	136,351	(2,307)	134,044	22,361	(2,307)	20,054
	11,521,530	(2,307)	11,519,223	12,003,469	(2,307)	12,001,162

(a) Movements of major construction in progress

Name of project	Budget	31 December 2012	Current year additions	Transfer to fixed assets during current year	Other transfer during current year	31 December 2013	% completion of construction project	Construction progress	Accumulated borrowing costs capitalised	Capitalised amount during the current year: Interests	Capitalised amount during the current year: Exchange gain or loss of special borrowings	Annual interest rate for capitalisation	Source of fund
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000	RMB'000	RMB'000		RMB'000
Advanced payments for aircraft acquisitions	75,449,578	11,525,757	8,549,337	(9,171,326)	–	10,903,768	14%	14%	984,300	525,714	(98,220)	4.64%	Bank loans
Beijing base expansion project	734,373	455,351	114,568	(52,800)	(35,708)	481,411	66%	66%	119,907	13,278	–	6.56%	Bank loans and self generated fund
Others		22,361	153,798	(37,033)	(2,775)	136,351			–	–	–		
		12,003,469	8,817,703	(9,261,159)	(38,483)	11,521,530			1,104,207	538,992	(98,220)		

(b) The progress of the major constructions in progress as at 31 December 2013 is as follows:

	Construction progress	Remarks
Beijing base expansion project	66%	The construction progress is estimated based on the budgeted project costs.

(13) Intangible assets

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Original cost	227,673	–	–	227,673
Land use rights	227,075	–	–	227,075
Software	598	–	–	598
Accumulated amortisation	(63,469)	(5,339)	–	(68,808)
Land use rights	(63,128)	(5,192)	–	(68,320)
Software	(341)	(147)	–	(488)
Net book value	164,204	(5,339)	–	158,865
Land use rights	163,947	(5,192)	–	158,755
Software	257	(147)	–	110

For the year ended 31 December 2013, total amortisations of the intangible assets amounted to RMB5,339 thousand (2012: RMB5,783 thousand).

As at 31 December 2013, land use rights with net book value of RMB112,815 thousand and original cost of RMB161,531 thousand (31 December 2012: net book value of RMB31,170 thousand and original cost of RMB40,421 thousand) were pledged for long-term borrowings of RMB2,297,593 thousand (Note 5(28)(d)(viii)&(x)).

(14) Goodwill

As at 31 December 2013, the book value of goodwill is generated from the acquisition of Beijing Kehang. The goodwill is attributable to strengthening the competitiveness of the Group, aligning synergy through integration with the Company's other resources. For the purpose of impairment testing, the goodwill is allocated to the group of airline operation segment and other business segment. Based on the impairment testing result, the Group did not identify any impairment indicators.

(15) Long-term prepaid expenses

	31 December 2012	Current year additions	Amortisation for the year	Other reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred pilot recruitment costs	461,080	157,879	(127,342)	–	491,617
Others	22,515	22,807	(10,231)	–	35,091
	483,595	180,686	(137,573)	–	526,708

(16) Other non-current assets

	31 December 2013	31 December 2012
	RMB'000	**RMB'000**
Prepayment for investments (Note)	1,826,940	–
Maintenance reserve fund for aircraft and engines	934,546	1,290,691
Security deposits for leased aircraft and engines	742,870	739,285
Deferred losses on sales and lease back transactions	248,616	231,901
Others	20,000	20,000
	3,772,972	2,281,877

Note: As at 31 December 2013, the prepayment for investment mainly included:

(a) The Company plans to invest RMB1 billion to Western Airlines. After the investment, the Company's equity percentage in Western Airlines will be 29.40%. As at 31 December 2013, the Company had paid RMB966,940 thousand and relevant procedures for capital investment are still under progress.

(b) The Company plans to purchase 52.90% of equity in Lucky Air from Grand China Air with a consideration of RMB17.02 billion. After the equity purchase, the Company's equity percentage in Lucky Air will be increased to 86.68%. As at 31 December 2013, the Company had paid RMB800,000 thousand, and relevant procedures for equity transfer are still under progress.

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2013		31 December 2012	
	Deferred tax assets	**Deductible temporary differences and tax losses**	**Deferred tax assets**	**Deductible temporary differences and tax losses**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Accrued aircraft and engines overhaul and maintenance cost	351,814	1,407,256	260,771	1,043,085
Accrued aircraft rental	25,424	101,696	–	–
Fixed assets impairment	13,786	55,145	–	–
Changed in fair value of available-for-sale financial assets	18,584	74,335	36,828	147,310
Tax losses	22,499	149,994	5,834	38,891
	432,107	1,788,426	303,433	1,229,286

(b) Deferred tax liabilities before offsetting

	31 December 2013		31 December 2012	
	Deferred tax liabilities	**Taxable temporary differences**	**Deferred tax liabilities**	**Taxable temporary differences**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Fixed assets depreciation	1,847,124	7,702,357	1,481,458	6,135,074
Business combinations under non-common control	346,294	1,385,175	346,294	1,385,175
Differences between book value and tax base of investment properties	551,614	2,206,458	529,829	2,119,295
	2,745,032	11,293,990	2,357,581	9,639,544

(c) Unrecognised deductible temporary differences and tax losses of the Group are analysed as follows:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Deductible temporary differences	–	–
Tax losses	15,092	1,911
	15,092	1,911

For certain subsidiaries, there are uncertainties as to whether these subsidiaries could generate sufficient future taxable profits to utilise the tax losses in the future, hence the Group did not recognise the related deferred tax assets for these tax losses.

(d) The unrecognised tax losses will be expired in the following years:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Year 2017	–	1,911
Year 2018	15,092	–
	15,092	1,911

(e) Offset between deferred tax assets and deferred tax liabilities:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Deferred tax assets	432,107	303,433
Deferred tax liabilities	432,107	303,433

Net balance after offsetting deferred tax assets with deferred tax liabilities is as follows:

	31 December 2013		31 December 2012	
	Net deferred tax liabilities	Net taxable temporary differences	Net deferred tax liabilities	Net taxable temporary differences
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities	2,312,925	9,505,564	2,054,148	8,410,258

(18) Provisions for asset impairment

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Provisions for available-for-sale financial assets impairment (Note 5 (8)(a))	86,104	–	–	86,104
Provisions for bad debts	84,067	55	–	84,122
Including: Accounts receivable	28,803	–	–	28,803
Other receivables	55,264	55	–	55,319
Provisions for impairment of long-term equity investment	6,774	–	–	6,774
Provisions for impairment of fixed assets	16,378	55,145	–	71,523
Provisions for impairment of construction in progress	2,307	–	–	2,307
	195,630	55,200	–	250,830

(19) Short-term borrowings

	Currency	31 December 2013	31 December 2012
		RMB'000	RMB'000
Pledged (a)	RMB	–	500,000
Impawn (b)		7,836,181	4,965,890
	RMB	6,221,050	3,834,500
	USD	151,875	1,131,390
	EUR	1,463,256	–
Guaranteed (c)		6,689,200	6,474,275
	RMB	6,689,200	6,160,000
	USD	–	314,275
Borrowings with guarantee and pledge/impawn (d)		5,585,001	3,615,500
	RMB	5,548,420	3,615,500
	USD	36,581	–
Unsecured	RMB	304,953	236,671
Total		20,415,335	15,792,336

(a) As at 31 December 2012, the pledged borrowings of RMB500,000 thousand are secured by aircraft of the Company with a net book value of RMB310,505 thousand (original cost of RMB356,602 thousand) (Note 5(11)) (31 December 2013: Nil).

(b) As at 31 December 2013, impawn borrowings comprise:

(i) Borrowings of RMB1,070,325 thousand (including RMB918,450 thousand and EUR18,000 thousand) (31 December 2012: RMB361,500 thousand) is impawned by the term deposit of RMB1,035,000 thousand and EUR21,000 thousand (31 December 2012: RMB415,000 thousand) (Note 5(1)).

(ii) Borrowings of RMB910,000 thousand (31 December 2012: RMB2,152,390 thousand) is impawned by certain equity interests held by the Group's related parties (Note 7(5)(c)).

(iii) Borrowings of RMB1,071,000 thousand (31 December 2012: Nil) is impawned by certain equity interests held by the Group and the Group's related parties (Note 7(5)(c)).

(iv) Borrowings of RMB2,463,256 thousand (including RMB1,000,000 thousand and USD240,000 thousand, equivalent to RMB1,463,256 thousand) (31 December 2012: Nil) is impawned by the term deposit of RMB918,560 thousand and certain equity interests held by the Group's related parties (Note 7(5)(c)).

(v) Borrowings of RMB2,321,600 thousand (31 December 2012: RMB1,952,000 thousand) represents the letter of credit, including RMB1,821,600 thousand is impawned by certain equity interests held by related parties and RMB500,000 thousand is impawned by certain equity interests held by the Group (31 December 2012: Nil).

As at 31 December 2013, borrowings of RMB1,952,000 thousand represents the letter of credit impawned by certain equity interests held by related parties of the Group and third parties, and borrowings of RMB500,000 thousand impawned by certain equity interests held by related parties of the Group and third parties were matured and repaid in 2013.

(c) As at 31 December 2013, guaranteed borrowings comprise:

(i) Borrowings of RMB810,000 thousand (31 December 2012: RMB3,195,000 thousand) is guaranteed by related parties of the Group (Note 7(5)(c)).

(ii) Borrowings of RMB3,130,000 thousand (31 December 2012: RMB3,279,275 thousand) is guaranteed by the Company.

(iii) Borrowings of RMB2,000,000 thousand is guaranteed by the Group and related parties of the Group (31 December 2012: Nil).

(iv) Borrowing of RMB749,200 thousand (31 December 2012: Nil) represents the letter of credit, among which RMB524,200 thousand is guaranteed by related parties of the Group and RMB225,000 thousand is guaranteed by the Company respectively.

(d) As at 31 December 2013, borrowings with guarantee and pledge/impawn comprise:

(i) Borrowings of RMB1,970,000 thousand (31 December 2012: RMB2,330,000 thousand) is impawned by certain equity interests held by related parties of the Group, and also guaranteed by related parties of the Group (Note 7(5)(c)).

(ii) Borrowings of RMB37,000 thousand (31 December 2012: Nil) is impawned by the term deposit of RMB37,000 thousand (Note 5(1)) and guaranteed by related parties of the Group.

(iii) Borrowings of RMB180,000 thousand (31 December 2012: RMB300,000 thousand) is impawned by certain equity interests held by related parties of the Group, and guaranteed by the Company.

(iv) Borrowings of RMB1,286,581 thousand (including RMB1,250,000 thousand and USD6,000 thousand, equivalent to RMB36,581 thousand) (31 December 2012: Nil) is impawned by certain equity interests held by related parties of the Group and guaranteed by the Group.

(v) Borrowings of RMB800,000 thousand (31 December 2012: Nil) is impawned by certain equity interests held by the Group and the related parties of the Group, and guaranteed by the Group and the related parties of the Group.

(vi) Borrowings of RMB300,000 thousand (31 December 2012: Nil) is impawned by the term deposit of RMB180,000 thousand (Note 5(1)) and financial products of RMB100 million (Note 5(7)(a)).

(vii) Borrowings of RMB150,000 thousand (31 December 2012: RMB125,000 thousand) is pledged by fixed assets of the Group with net book value of RMB91,518 thousand and original cost of RMB118,587 thousand (31 December 2012: Net book value of RMB94,422 thousand and original cost of RMB118,587 thousand) (Note 5(11)) and is guaranteed by the Company.

(viii) Borrowings of RMB300,000 thousand (31 December 2012: Nil) is impawned by the future BSP ticket collection rights of the Group and guaranteed by the Group and related parties of the Group.

(ix) Borrowings of RMB561,420 thousand (31 December 2012: Nil) represents the letter of credit, including RMB171,420 thousand is impawned by equity interests held by related parties of the Group and guaranteed by related parties of the Group (Note 7(5)(c)). RMB 390,000 thousand is impawned by equity interests held by third parties and guaranteed by related parties of the Group (Note 7(5)(c).

As at 31 December 2012, borrowings of RMB150,000 thousand impawned by certain equity interests held by the Company and guaranteed by related parties of the Group; borrowings of RMB150,000 thousand impawned by certain equity interests held by third parties and guaranteed by related parties of the Group; letter of credit of RMB560,500 thousand impawned by security deposit of the Company amounting to RMB168,150 thousand and guaranteed by related parties of the Group were matured and repaid in 2013.

(e) As at 31 December 2013, the annual weighted average interest for the short-term borrowings of the Group is 6.26% per annum (31 December 2012: 6.89%).

(f) As at 31 December 2013, there are no short-term borrowings which are matured but not repaid by the Group.

(20) Notes payable

	31 December 2013	**31 December 2012**
	RMB'000	**RMB'000**
Bank acceptance notes	2,518,147	4,782,981
Commercial acceptance notes	995,257	681,492
	3,513,404	5,464,473

As at 31 December 2013 and 31 December 2012, all notes payable will be matured within one year.

(21) Accounts payable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Aircraft and engines maintenance fees payable	2,177,077	1,864,348
Taking-off and landing fees payable	641,312	631,558
Fuel cost payable	513,547	1,225,628
Operating lease aircraft rental payable	311,835	32,430
Ticket reservation fees payable	169,696	284,060
In-flight catering payable	175,710	181,686
Flight equipment payable	141,915	118,739
Others	885,800	586,500
	5,016,892	4,924,949

(a) Creditors which hold over 5% (5% inclusive) voting shares of the Company are as follows:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Grand China Air	36,271	25,112
Haikou Meilan	3,110	2,147
	39,381	27,259

(b) Accounts payable to related parties:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Hong Kong Airlines	76,010	–
HNA Technology	54,352	54,231
Grand China Air	36,271	25,112
Western Airlines	33,879	16,194
Xinsheng Feixiang	11,093	8,277
HNA Information	9,429	7,199
Lucky Air	–	38,079
HNA Aviation Sales	–	18,888
Others	113,462	83,840
	334,496	251,820

(c) As at 31 December 2013, the accounts payable with aging over 1 year amounted to RMB317,991 thousand (31 December 2012: RMB417,595 thousand), mainly comprised of payable of fuel costs, take-off and landing fees, in-flight catering fees, ticket reservation fees and maintenance fees. Due to the long-term business relationship with these suppliers, such payable amounts have not been finally settled yet.

(d) The accounts payable include the following amounts in foreign currencies:

	31 December 2013			31 December 2012		
	Amount in foreign currency	**Exchange rate**	**RMB equivalent**	**Amount in foreign currency**	**Exchange rate**	**RMB equivalent**
	('000)		**RMB'000**	**('000)**		**RMB'000**
USD	81,890	6.0969	499,275	389,196	6.2855	2,446,291
Others			284,833			338,653
			784,108			2,784,944

(22) Advances from customers

	31 December 2013	31 December 2012
	RMB'000	**RMB'000**
Sales in advance of carriage	1,261,038	862,207
Other advances received	229,698	56,255
	1,490,736	918,462

(a) As at 31 December 2013, advances from customers did not include any balances from companies which hold over 5% (5% inclusive) of the voting shares in the Company (31 December 2012: Nil).

(b) As at 31 December 2013, advances from customers with aging over 1 year amounted to RMB70,671 thousand (31 December 2012: RMB108,116 thousand), which mainly represented sales in advances of carriage. As the related services have not been rendered, the related balances have not yet been recognised as the revenue.

(c) As at 31 December 2013, there is no significant balance denominated in foreign currency included in advances from customers.

(23) Employee benefits payable

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Wages and salaries, bonuses, allowances and subsidies	143,681	1,362,897	(1,275,174)	231,404
Social security contributions	7,906	339,719	(343,776)	3,849
Including: Medical insurance	1,702	85,271	(86,116)	857
Basic pensions	4,876	207,016	(209,847)	2,045
Unemployment insurance	403	22,159	(22,002)	560
Work injury insurance	149	9,869	(9,932)	86
Maternity insurance	64	6,219	(6,228)	55
Annuity	712	9,185	(9,651)	246
Housing funds	28,208	56,628	(65,437)	19,399
Labour union funds and employee education funds	18,453	40,493	(37,503)	21,443
	198,248	1,799,737	(1,721,890)	276,095

As at 31 December 2013, the employee benefits payable does not include any overdue amounts and the payable balance is expected to be paid in 2014.

(24) Taxes payable

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Corporate income tax payable	288,586	140,068
Aviation development fund payable	290,805	292,327
Business tax payable	25,325	42,911
Others	105,227	77,364
	709,943	552,670

(25) Interest payable

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Interests on debentures (Note 5(29)(b))	221,464	188,873
Interests on borrowings	142,768	157,338
	364,232	346,211

(26) Other payables

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Security deposits and various funds	267,961	234,283
Aircraft acquisition	45,687	47,100
Pilot training fees	44,076	33,545
Amounts due to related parties (b)	24,346	298,921
Others	220,956	263,496
	603,026	877,345

(a) Other payables include the following amounts payable to entities which hold over 5% (5% inclusive) voting shares of the Company:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
HNA Group	1,024	180,456

(b) Other payables to related parties:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
HNA Group	1,024	180,456
Capital Airlines	–	33,044
Changjiang Leasing	–	20,967
HNA Aviation Holding	–	20,477
Others	23,322	43,977
	24,346	298,921

(c) As at 31 December 2013, other payables aging over one year amounted to RMB259,330 thousand (31 December 2012: RMB216,816 thousand) and mainly comprised ticket deposits placed by ticket sales agents and other payables. As the Group has long-term relationships with these agents, such payable amounts have not yet been settled.

(d) Other payables include the following balances in foreign currency:

	31 December 2013			31 December 2012		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	8,248	6.0969	50,287	8,701	6.2855	54,689
EUR	–	–	–	2,273	8.3176	18,905
			50,287			73,594

(27) Non-current liabilities within one year

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Long-term borrowings within one year (a)	5,918,624	5,587,758
Debentures payable within one year (Note 5(29)(a))	997,476	–
Long-term payables within one year (b)	426,825	597,012
	7,342,925	6,184,770

(a) Long-term borrowings within one year

	Currency	31 December 2013	31 December 2012
		RMB'000	RMB'000
Pledged (Note 5(28)(a))		2,302,574	2,975,479
	RMB	773,102	1,712,339
	USD	1,529,472	1,254,471
	EUR	–	8,669
Impawn (Note 5(28)(b))	RMB	530,000	1,129,250
Guaranteed (Note 5(28)(c))		642,994	636,678
	RMB	270,380	149,130
	USD	372,614	487,548
Guaranteed and pledged/impawn (Note 5(28)(d))		2,376,389	656,715
	RMB	1,796,479	383,798
	USD	579,910	272,917
Unsecured		66,667	189,636
	RMB	66,667	152,112
	USD	–	37,524
		5,918,624	5,587,758

The top 5 lenders with the largest balances of the long-term borrowings within one year are as follows:

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2013 Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	12/03/2012	16/06/2014	Benchmark rate plus 10%	RMB	–	570,682
BANK B	17/05/2012	17/05/2014	Benchmark rate plus 15%	RMB	–	270,000
BANK C	11/03/2011	15/01/2014	6.10%	RMB	–	200,000
BANK D	30/12/2011	20/02/2014	3 month LIBOR plus 5.5%	USD	20,503	125,002
BANK E	30/12/2011	20/01/2014	3 month LIBOR plus 5.5%	USD	20,310	123,831
						1,289,515

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2012 Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	30/11/2010	29/11/2013	Benchmark rate	RMB	–	700,000
BANK B	24/02/2011	23/08/2013	Benchmark rate	RMB	–	545,000
BANK C	30/11/2010	29/05/2013	Benchmark rate	RMB	–	249,000
BANK D	25/11/2011	25/11/2013	Benchmark rate plus 15%	RMB	–	230,000
BANK E	18/04/2011	18/04/2013	6 month LIBOR plus 4%	USD	33,500	210,564
						1,934,564

(b) Long-term payables within one year

The top 5 creditors with the largest balances of the long-term payables within one year are as follows:

	Lease term	Initial amount RMB'000	Interest rate (%)	Accrued interest in current year RMB'000	31 December 2013 Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000	Borrowing conditions
Lessor of finance lease 1	5 years	779,155	Fixed interest rate	35,459	RMB		195,030	Aircraft finance lease
Lessor of finance lease 2	5 years	143,377	Fixed interest rate	10,637	RMB		132,740	Aircraft finance lease
Lessor of finance lease 3	5 years	59,229	Floating interest rate	11,229	RMB		48,000	Aircraft finance lease
Lessor of finance lease 4	10 years	33,213	Floating interest rate	13,273	RMB		19,940	Aircraft finance lease
Lessor of finance lease 5	7 years	21,254	Floating interest rate	2,162	USD	3,131	19,092	Aircraft finance lease
							414,802	

(28) Long-term borrowings

		31 December 2013			31 December 2012		
		Total amount	Less: long-term borrowings due within 1 year	Balance after deducting the amount due within 1 year	Total amount	Less: long-term borrowings due within 1 year	Balance after deducting the amount due within 1 year
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged[(a)]		18,658,114	(2,302,574)	16,355,540	18,750,133	(2,975,479)	15,774,654
	RMB	3,067,706	(773,102)	2,294,604	5,032,387	(1,712,339)	3,320,048
	USD	15,590,408	(1,529,472)	14,060,936	13,631,893	(1,254,471)	12,377,422
	EUR	–	–	–	85,853	(8,669)	77,184
Impawn[(b)]	RMB	1,100,000	(530,000)	570,000	1,799,250	(1,129,250)	670,000
Guaranteed[(c)]		1,217,156	(642,994)	574,162	2,023,327	(636,678)	1,386,649
	RMB	844,542	(270,380)	574,162	677,376	(149,130)	528,246
	USD	372,614	(372,614)	–	1,345,951	(487,548)	858,403
Guaranteed and pledged/ impawn[(d)]		10,551,936	(2,376,389)	8,175,547	5,853,799	(656,715)	5,197,084
	RMB	5,602,138	(1,796,479)	3,805,659	3,870,786	(383,798)	3,486,988
	USD	4,596,204	(579,910)	4,016,294	1,983,013	(272,917)	1,710,096
	EUR	353,594	–	353,594	–	–	–
Unsecured		141,085	(66,667)	74,418	330,960	(189,636)	141,324
	RMB	133,334	(66,667)	66,667	285,445	(152,112)	133,333
	USD	7,751	–	7,751	45,515	(37,524)	7,991
Total		31,668,291	(5,918,624)	25,749,667	28,757,469	(5,587,758)	23,169,711

(a) As at 31 December 2013, pledged borrowings comprise:

(i) The pledged borrowings of RMB16,835,662 thousand (including: RMB2,547,706 thousand and USD2,343,478 thousand) (31 December 2012: RMB13,521,806 thousand) are pledged by the following fixed assets and investment properties individually or collectively:

	31 December 2013		31 December 2012	
	Cost	Net book value	Cost	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets – buildings	–	–	512,384	398,180
Fixed assets – aircraft	24,899,453	20,760,948	18,955,890	15,938,709
Subtotal (Note 5(11))	24,899,453	20,760,948	19,468,274	16,336,889
Investment properties (Note 5(10))		1,774,005		763,156
Total		22,534,953		17,100,045

(ii) The pledged borrowings of RMB1,822,452 thousand (including: RMB520,000 thousand, USD213,626 thousand, equivalent to RMB1,302,452 thousand) (31 December 2012: RMB3,116,920 thousand) are pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed.

As at 31 December 2012, the pledged borrowings of RMB2,111,407 thousand impawned by aircrafts of the Group's related parties and the intangible assets of the Company (Note 5(28)(d)).

(b) As at 31 December 2013, impawn borrowings comprise:

(i) The impawn borrowings of RMB400,000 thousand (31 December 2012: RMB599,250 thousand) is impawned by the term deposits of RMB550,000 thousand of the Group (31 December 2012: RMB750,000 thousand) (Note 5(1)).

(ii) The impawn borrowings of RMB700,000 thousand (31 December 2012: RMB700,000 thousand) is impawned by certain equity interests held by related parties of the Group (Note 7(5)(c)).

As at 31 December 2012, impawn borrowings of RMB500,000 thousand, which was impawned by certain equity interests held by the Group's related parties and third parties, had been matured and repaid in 2013.

(c) As at 31 December 2013, guaranteed borrowings of RMB1,217,156 thousand (including: RMB844,542 thousand, USD61,115 thousand, equivalent to RMB372,614 thousand) (31 December 2012: RMB2,023,327 thousand) is guaranteed by relate parties of the Group (Note 7(5)(c)) and the Group, among which, RMB409,000 thousand is guaranteed by related parties of the Group, RMB210,542 thousand and USD61,115 thousand (equivalent to RMB372,614 thousand) is guaranteed by the Company, and RMB225,000 thousand is guaranteed by both the Group and the related parties of the Group.

(d) As at 31 December 2013, borrowings with guarantee and pledge/impawn comprise:

(i) Borrowings of RMB3,692,492 thousand (including RMB1,260,206 thousand, USD398,939 thousand, equivalent to RMB2,432,289 thousand) (31 December 2013: RMB2,759,870 thousand) is pledged by aircrafts of the Group with net value of RMB5,680,986 thousand and original cost of RMB7,443,044 thousand (31 December 2012: net book value of RMB3,806,561 thousand and original cost of RMB5,293,670 thousand) (Note 5(11)), and also guaranteed by related parties of the Group (Note 7(5)(c)).

(ii) Borrowings of RMB1,110,000 thousand (31 December 2012: RMB1,240,000 thousand) is pledged by the Group's investment properties with fair value of RMB3,469,799 thousand (31 December 2012: RMB3,466,500 thousand) (Note 5(10)), and also guaranteed by the Company and related parties of the Group (Note 7(5)(c)), among which, RMB240,000 thousand is guaranteed by related parties of the Group.

(iii) Borrowings of RMB1,787,189 thousand (including RMB1,426,432 thousand, USD59,171 thousand, equivalent to RMB360,757 thousand) (31 December 2012: RMB1,214,542 thousand) is pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed, and also guaranteed by related parties of the Group (Note 7(5)(c)).

(iv) Borrowings of RMB308,000 thousand (31 December 2012: RMB250,000 thousand) is pledged by fixed assets of related parties of the Group, and guaranteed by related parties of the Group (Note 7(5)(c)).

(v) Borrowings of USD29,600 thousand (equivalent to RMB180,468 thousand) (31 December 2012: RMB196,108 thousand) is impawned by equity interest held by the Company and the related parties of the Group, and also guaranteed by the related parties of the Group (Note 7(5)(c)).

(vi) Borrowings of USD130,000 thousand (equivalent to RMB792,597 thousand) (31 December 2012: Nil) is pledged by aircrafts of the Group with net book value of RMB906,987 thousand and original cost of RMB924,366 thousand (Note 5(11) and also guaranteed by the Company.

(vii) Borrowings of RMB30,000 thousand (31 December 2012: Nil) is pledged by aircrafts of the related parties of the Group and guaranteed by related parties of the Group (Note 7(5)(c)).

(viii) Borrowings of RMB613,000 thousand (31 December 2012: Nil) is impawned by fixed assets of the Group with net book value of RMB7,264 thousand and original cost of RMB10,531 thousand and intangible assets with net book value of RMB82,476 thousand and original cost of RMB121,110 thousand, and also guaranteed by the related parties of the Group (Note 7(5)(c)).

(ix) Borrowings of EUR42,000 thousand (equivalent to RMB353,594 thousand) (31 December 2012: Nil) is impawned by fixed assets of the Group with net book value of EUR6,737 thousand (equivalent to RMB56,717 thousand) and original cost of EUR11,389 thousand (equivalent to RMB95,886 thousand), and certain equity interests held by the Company, and also guaranteed by related parties of the Group.

(x) Borrowings of RMB1,684,593 thousand (including: RMB854,500 thousand, USD136,150 thousand equivalent to RMB830,093 thousand) (31 December 2012: RMB2,111,407 thousand) is pledged by aircrafts of the related parties of the Group, the intangible assets of the Company with net book value of RMB30,339 thousand and original cost of RMB40,421 thousand (31 December 2012: net book value of RMB31,170 thousand and original cost of RMB40,421 thousand) (Note 5(13)), and the fixed assets of the Company with net book value of RMB335,671 thousand and original cost of RMB469,785 thousand (31 December 2012: net book value of RMB342,814 thousand and original cost of RMB465,563 thousand) (Note 5(11)), and also impawned by intangible assets and certain equity interests held by related parties of the Group (31 December 2012: Nil).

As at 31 December 2012, the borrowings of USD30,750 thousand pledged by aircrafts of the Group and impawned by certain equity interests held by related parties of the Group were all matured and repaid in 2013.

(e) The top 5 lenders of the Group with the largest long-term borrowings balances (portion within 1 year exclusive) are as follows:

				31 December 2013		
	Loan commencement date	**Loan maturity date**	**Interest rate (%)**	**Currency**	**Amount in foreign currency**	**RMB equivalent**
					('000)	**RMB'000**
BANK A . .	28/12/2007	27/12/2022	3 month LIBOR plus 1.3%	USD	224,000	1,365,706
BANK B . . .	31/10/2008	29/10/2023	3 month LIBOR plus 4%	USD	216,000	1,316,930
BANK C . . .	28/09/2007	31/08/2020	6 month LIBOR plus 1.1%	USD	178,900	1,090,735
BANK D . .	19/11/2009	18/11/2021	Benchmark rate plus 5%	RMB	–	790,000
BANK E . . .	30/06/2003	29/06/2018	Benchmark rate	RMB	–	654,500
						5,217,871

				31 December 2012		
	Loan commencement date	**Loan maturity date**	**Interest rate (%)**	**Currency**	**Amount in foreign currency**	**RMB equivalent**
					('000)	**RMB'000**
BANK A . .	28/12/2007	27/12/2022	3 month LIBOR plus 1.3%	USD	259,000	1,627,945
BANK B . . .	31/10/2008	29/10/2023	3 month LIBOR plus 4%	USD	246,000	1,546,233
BANK C . . .	31/10/2012	31/10/2027	3 month LIBOR plus 5.7%	USD	138,510	870,605
BANK D . .	28/08/2003	07/07/2018	LIBOR plus 1.45%	USD	136,150	855,771
BANK E . . .	30/06/2003	30/06/2018	Benchmark rate	RMB	–	854,500
						5,755,054

(f) The long-term borrowings (portion within 1 year exclusive) are repayable as follows:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
1 to 2 years	6,052,776	4,239,331
2 to 5 years	9,385,072	9,398,720
Over 5 years	10,311,819	9,531,660
	25,749,667	23,169,711

As at 31 December 2013, the weighted average interest rate of long-term borrowings is 4.59% per annum (31 December 2012: 4.59% per annum).

(29) Debentures Payable

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate bonds	4,939,440	12,537	–	4,951,977
RMB bonds	1,490,623	3,256	(496,403)	997,476
USD bonds	–	3,079,253	(87,170)	2,992,083
Total amount	6,430,063	3,095,046	(583,573)	8,941,536
Less: maturity within 1 year (Note 5(27))	–	(997,476)	–	(997,476)
Debentures payable	6,430,063	2,097,570	(583,573)	7,944,060

(a) The related information of bonds is outlined as follows:

	Face value	Issuing date	Term	Issuing amount
	RMB'000			RMB'000
Corporate bonds(i)	5,000,000	24/05/2011	5 and 10 years	4,920,000
RMB bonds(ii)	1,000,000	27/09/2011	3 years	990,371
RMB bonds(iii)	500,000	20/01/2012	3 years	494,979
USD bonds(iv)	3,048,450	07/02/2013	7 years	2,961,280

(i) On 24 May 2011, as approved by CSRC [2001] No. 721 (中國證券監督管理委員會證監許可【2011】721號文), the Company issued five-year and ten-year corporate bonds with total principle amount of RMB5 billion. The bonds bear interest at rate of 5.6% (five-year bond) and 6.2% (ten-year bond) per annum and payable annually.

(ii) In September 2011, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued three year RMB corporate bonds of RMB1 billion with final maturity in 2014 and bearing interest at 6% per annum. The bonds are listed in Singapore and with an unconditional and irrevocable guarantee provided by the Company for a period of three years.

(iii) In January 2012, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued three year RMB corporate bonds of RMB0.5 billion with final maturity in 2015 and bearing interest at 5.25% per annum. The bonds are with an unconditional and irrevocable guarantee provided by the Company for a period of three years. In January 2013, HNA Hong Kong, the wholly-owned subsidiary of the Company, has early repaid the bonds.

(iv) In February 2013, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued seven-year USD corporate bonds of USD0.5 billion with final maturity in 2020 and bearing interest at 3.625% per annum. The bonds are listed in Singapore and guaranteed by an irrevocable standby letter of credit issued by Bank of China Limited, Hainan Branch for a period of seven years, and the letter of credit is unconditionally guaranteed by the Company.

(b) Interest payable of bonds is analysed as follows:

	31 December 2012	Interest accrued in current year	Interest paid in current year	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate bonds	162,922	288,640	(288,640)	162,922
RMB bonds	25,951	66,208	(76,658)	15,501
USD bonds	–	161,354	(118,313)	43,041
	188,873	516,202	(483,611)	221,464

(30) Long-term payables

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Finance lease obligations	1,645,837	1,792,072
Less: portion within 1 year (Note 5(27))	(426,825)	(597,012)
	1,219,012	1,195,060

(a) Breakdown of finance lease obligations by lessor:

	31 December 2013			31 December 2012		
	Currency	Amount in foreign currency	RMB equivalent	Currency	Amount in foreign currency	RMB equivalent
		('000)	RMB'000		('000)	RMB'000
Lessor No. 1	RMB	–	592,486	RMB	–	249,531
Changjiang Leasing	USD	65,443	398,999	USD	65,178	409,678
Lessor No. 2	RMB	–	225,457	RMB	–	324,533
Lessor No. 3	RMB	–	177,533	RMB	–	223,873
Lessor No. 4	RMB	–	170,948	RMB	–	186,212
Yangtze River Leasing	USD	11,414	69,591	USD	14,217	89,360
Lessor No. 5	RMB	–	–	RMB	–	194,655
Lessor No. 6	USD	–	–	USD	15,762	99,072
Other	RMB	–	10,823	RMB	–	15,158
			1,645,837			1,792,072

Finance lease obligations are the amounts paid to leasing companies for finance leased aircraft and engines by the Group. The finance lease period is ranged from 3 to 12 years. Finance lease obligations represent the balance of minimum lease payments of finance leased fixed assets less unrecognised finance charges (Note 10).

	2013	2012
	RMB'000	RMB'000
Beginning balance of the year	1,792,072	1,834,117
Add: current year additions	529,624	393,873
Less: current year payment	(675,859)	(435,918)
Ending balance of the year	1,645,837	1,792,072
Less: finance lease obligations within one year	(426,825)	(597,012)
	1,219,012	1,195,060

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Minimum lease payments	2,000,393	2,139,167
Less: unrecognised finance charge	(354,556)	(347,095)
Net balance of lease obligations	1,645,837	1,792,072

(b) The Group's top 5 lessors with the largest finance lease obligation balances are as follows:

	Term	Principle amount	Interest rate (%)	Accrued interest	Ending balance	Borrowing conditions
		RMB'000		RMB'000	RMB'000	
Lessor No.1	5 years	779,155	Floating interest rate	186,669	592,486	Finance lease
Changjiang Leasing	13 years	409,678	Floating interest rate	10,679	398,999	Finance lease
Lessor No.2	5 years	324,533	Fixed interest rate	99,076	225,457	Finance lease
Lessor No.3	5 years	260,977	Floating interest rate	37,104	223,873	Finance lease
Lessor No.4	10 years	186,212	Fixed interest rate	15,264	170,948	Finance lease
		1,960,555		348,792	1,611,763	

(c) The long-term payables (portion within 1 year exclusive) are repayable according to the following payable schedules:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
1 to 2 years	320,157	231,885
2 to 5 years	425,290	473,921
Over 5 years	473,565	489,254
	1,219,012	1,195,060

(31) Other non-current liabilities

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Deferred revenue – unredeemed mileages under frequent flyer programme[(a)]	740,444	603,169
Deferred revenue – unrealised gain on sales and leaseback transaction[(b)]	–	22,420
Customs duties and VAT relating to finance lease	–	7,359
	740,444	632,948

(a) Unredeemed mileages under frequent flyer programme

	2013	2012
	RMB'000	RMB'000
As at 1 January	603,169	437,219
Current year additions	278,049	287,306
Current year redemption/(expiration)	(140,774)	(121,356)
As at 31 December	740,444	603,169

(32) Share capital

	31 December 2012	Current year movement			31 December 2013
		Trading restrictions lifted (a)	Increase of share capital from capital surplus (b)	Trading restrictions lifted (c)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shares with trading restrictions –					
Shares held by domestic non-state-owned legal persons	2,263,556	(297,619)	1,965,937	(3,931,200)	674
Shares held by domestic state-owned legal persons	297,619	(297,619)	–	–	–
	2,561,175	(595,238)	1,965,937	(3,931,200)	674
Shares without trading restrictions –					
A shares	3,345,193	595,238	3,940,431	3,931,200	11,812,062
B shares	184,723	–	184,723	–	369,446
	3,529,916	595,238	4,125,154	3,931,200	12,181,508
	6,091,091	–	6,091,091	–	12,182,182

	31 December 2011	Current year movement			31 December 2012
		Trading restrictions lifted	Increase of share capital from capital surplus	Increase from non-public share offering (c)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shares with trading restrictions –					
Shares held by domestic non-state-owned legal persons	297,956	–	–	1,965,600	2,263,556
Shares held by domestic state-owned legal persons	297,619	–	–	–	297,619
	595,575	–	–	1,965,600	2,561,175
Shares without trading restrictions –					
A shares	3,345,193	–	–	–	3,345,193
B shares	184,723	–	–	–	184,723
	3,529,916	–	–	–	3,529,916
	4,125,491	–	–	1,965,600	6,091,091

(a) In February 2010, the lock-up periods of the 297,619 thousand A shares purchased by Hainan Development Holding and the 297,619 thousand A shares purchased by HNA Group were 36 months. In February 2013, these non-circulating shares with trading restrictions had passed restriction period and became tradable.

(b) On 18 June 2013, the Company proposed to offer 10 extra shares for each 10 shares through transfer from capital surplus. The share capital was increased by RMB6,091,091 thousand in total. After the increase, the total share capital of the Company was increased to RMB12,182,182 thousand.

(c) Pursuant to "Approval of Hainan Airlines Co., Ltd. to non-public share offerings" (2012 No. 612) issued by CSRC ("《關於核准海南航空股份有限公司非公開發行股票的批復》") was approved for the Company's non-public share issuance for no more than 1,965,600 thousand shares. In August 2012, the Company completed the share offering. The offering price was RMB4.07 per share and the total proceeds from the share issuance amounted to RMB7,786,992 thousand after deducting the related issuing costs of RMB213,000 thousand. The difference between the total proceeds and the share capital, amounting to RMB5,821,392 thousand, was recorded as capital surplus (share premium). The shares issued in this offering are restricted for trading with a lock-up period of 12 months, from 13 August 2012 to 12 August 2013. As at 12 August 2013, the commitment of the lock-up period for these shares had been fulfilled.

(33) Capital surplus

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Share premium (Note 5(32)(b))	11,751,844	–	(6,091,091)	5,660,753
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(48))	(45,905)	54,729	–	8,824
- Investment properties transferred from self-used properties	31,168	–	–	31,168
- Long-term investments accounted for by equity method	1,850	–	–	1,850
- Others	796	–	–	796
	11,739,753	54,729	(6,091,091)	5,703,391

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Share premium	5,930,452	5,821,392	–	11,751,844
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(48))	(147,406)	101,501	–	(45,905)
- Investment properties transferred from self-used properties	31,168	–	–	31,168
- Long-term investments accounted for by equity method	1,850	–	–	1,850
- Others	1,116	–	(320)	796
	5,817,180	5,922,893	(320)	11,739,753

(34) Surplus reserve

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000
Statutory surplus reserve	657,397	140,803	–	798,200

	31 December 2011	Current year additions	Current year reductions	31 December 2012
	RMB'000	RMB'000	RMB'000	RMB'000
Statutory surplus reserve	568,001	89,396	–	657,397

In accordance with Company Law of the People's Republic of China and the Company's Articles of the Association, the Company shall appropriate 10% of net profit to statutory surplus reserve, and the Company can cease appropriation when accumulated statutory surplus reserve up to more than 50% of registered capital. Statutory surplus reserve can be used to make up for the losses or increase share capital after appropriate approval. The Company appropriated 10% of net profit, amounted to RMB140,803 thousand (2012: RMB89,396 thousand), to statutory surplus reserve for the year ended 31 December 2013.

(35) Undistributed profits

	2013 RMB'000	2012 RMB'000
Undistributed profits as at January 1	5,309,332	3,966,000
Add: Net profits attributable to the equity shareholders of the Company	2,105,052	1,927,787
Less: Appropriation to surplus reserves	(140,803)	(89,396)
Dividends to ordinary shares	(609,109)	(495,059)
Investment income recognised during measure change from the cost method to equity method upon increase of investment	60,853	-
Undistributed profits as at December 31	6,725,325	5,309,332

As at 31 December 2013, undistributed profits included surplus reserve of RMB223,601 thousand attributable to the Company's subsidiaries (31 December 2012: RMB161,346 thousand).

According to the shareholders meeting resolution passed on 25 April 2013, a cash dividend of RMB1 yuan per 10 shares (tax inclusive) to all shareholders was proposed. Based on a total of 6,091,091,085 outstanding shares in issue, the total cash dividends proposed amount to RMB609,109 thousand. As at 31 December 2013, RMB59,381 thousand has not been paid yet.

(36) Minority interests

Minority interests attributable to minority holders of subsidiaries are outlined as follows:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Beijing Kehang	108,754	105,674
Others	5,982	5,982
	114,736	111,656

(37) Revenue and operating costs

	2013 RMB'000	2012 RMB'000
Revenue from main operations (a)	27,507,353	26,870,275
Revenue from other operations (b)	2,724,009	1,997,310
	30,231,362	28,867,585
Operating costs of main operations	(22,098,650)	(20,671,305)
Operating costs of other operations (b)	(1,402,508)	(886,336)
	(23,501,158)	(21,557,641)

(a) Revenue from main operations

Revenue from main operations by categories is analysed as follows:

	2013	2012
	RMB'000	RMB'000
Passenger	26,476,885	25,794,029
Cargo and Mail	885,644	934,105
Others	144,824	142,141
	27,507,353	26,870,275

(b) Revenue and operating costs of other operations

	2013		2012	
	Revenue of other operations	Operating costs of other operations	Revenue of other operations	Operating costs of other operations
	RMB'000	RMB'000	RMB'000	RMB'000
Aircraft leasing (Note 7(5)(b))	1,262,124	(803,637)	1,192,902	(757,056)
Investment properties disposal (Note 5(10))	487,778	(399,949)	–	–
Property rental	385,510	(58,065)	397,135	(68,776)
Processing fee for cancelled tickets	303,849	–	186,669	–
Maintenance service	120,198	(85,258)	–	–
Commission	46,785	–	39,802	–
Others	117,765	(55,599)	180,802	(60,504)
	2,724,009	(1,402,508)	1,997,310	(886,336)

The costs of aircraft leasing did not include interest charge of RMB298,651 thousand (2012: RMB327,273 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(c) Revenues of the top 5 customers of the Group

For the year ended 31 December 2013, total revenue of the top 5 customers of the Group amounted to RMB6,411,738 thousand (2012: RMB6,840,314 thousand), accounting for 21% of the total revenues of the Group (2012: 24%).

(38) Business tax and surcharges

	2013	2012
	RMB'000	RMB'000
Business tax	453,598	777,399
City maintenance and construction tax	38,236	54,421
Education surcharges	28,342	40,768
Others	2,020	2,593
	522,196	875,181

The taxation bases of business tax and surcharges are set out in Note 3.

(39) Selling and distribution expenses

	2013 RMB'000	2012 RMB'000
Commissions tickets sales	1,379,392	1,388,371
Tickets reservation fee	199,714	172,080
Wages, bonuses and welfares	158,844	120,842
Sales branches expenses	68,608	68,979
Rentals	43,887	40,530
Others	91,730	56,052
	1,942,175	1,846,854

(40) General and administrative expenses

	2013 RMB'000	2012 RMB'000
Wages, bonuses and welfares	88,206	128,379
Various types of taxes	45,483	90,535
Insurances	42,570	41,108
Rentals	25,016	37,811
Depreciation	65,753	36,522
Others	342,196	264,149
	609,224	598,504

(41) Finance expenses – net

	2013 RMB'000	2012 RMB'000
Interest expenses	3,524,489	3,645,329
Less: Interest capitalised (Note 5(12)(a))	(538,992)	(459,300)
Less: Interest income	(561,725)	(644,623)
Net exchange gains	(685,446)	(60,904)
Others	139,768	123,121
	1,878,094	2,603,623

Interest income includes interests received from related parties (Note 7(5)(a)).

(42) Impairment losses

	2013 RMB'000	2012 RMB'000
Provisions for impairment of fixed assets	55,145	–
Provision for bad debts	55	380
Provision for available-for-sale financial assets (Note 5 (8)(a))	–	86,104
	55,200	86,484

(43) ***(Loss)/gain on changes in fair value***

	2013 RMB'000	2012 RMB'000
Investment properties (Note 5(10))	34,022	504,363
Transfer out of accumulated changes in fair value upon disposal of investment properties	(98,385)	–
	(64,363)	504,363

(44) Investment income

	2013 RMB'000	2012 RMB'000
Share of results of investees accounted for under equity method (Note 5(9)(a))	474,503	212,413
Investment income of financial products (Note 5(7)(a))	108,703	–
Gain on disposal of long-term equity investments	10,450	9,012
Dividend income from investees accounted for under cost method (Note 5(9)(b))	7,744	4,636
Dividend income from available-for-sale financial assets (Note 5(8)(a))	4,865	2,296
Loss on disposal of available-for-sale financial assets (Note 5(8)(a))	–	(40,116)
	606,265	188,241

The Group has no significant limitation on returns on investments.

(45) Non-operating income

	2013 RMB'000	2012 RMB'000	Amount recorded in extraordinary items of 2013 RMB'000
Subsidy income	307,038	460,154	307,038
Including: Flight route subsidies[(a)]	153,150	185,302	153,150
Tax refund	100,326	125,376	100,326
Other financial subsidies	53,562	149,476	53,562
Pilot transferring income	68,963	8,040	68,963
Gain on disposal of non current assets	22,872	78,092	22,872
Profit compensation received from HNA Group with respect to Beijing Kehang[(b)]	–	117,875	–
Others	11,988	10,288	11,988
	410,861	674,449	410,861

(a) Flight route subsidies mainly represents the subsidies from MOF with respect to special long-distance international routes and other subsidies from local governments and airports.

(b) Upon the acquisition of Beijing Kehang by the Company, HNA Group undertook to compensate the Company the difference if the net profit of Beijing Kehang could not reach the expected levels as agreed between 2009 and 2011. As at 31 December 2013, the commitment made by HNA Group had been fulfilled.

(46) Income tax expenses

	2013 RMB'000	2012 RMB'000
Current income tax	311,237	73,194
Deferred income tax	253,286	635,574
	564,523	708,768

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2013	2012
	RMB'000	**RMB'000**
Total profit	2,672,655	2,653,714
Income tax expenses calculated at the applicable tax rate of 25% (2012: 25%)	668,164	663,428
Effect of different tax rates of subsidiaries	(15,045)	(48,884)
Income not subject to tax	(120,562)	(63,832)
Expenses not deductible for tax purposes	15,440	15,555
Unrecognised deductible tax losses	3,773	478
Adjustment of income not subject to tax in accordance of tax clearance	12,753	66,354
Reversal of deferred tax assets previously recognised for tax losses	–	85,227
Other differences	–	(9,558)
Income tax expenses	564,523	708,768

(47) Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of outstanding ordinary shares of the Company.

	2013	2012
	RMB'000	**RMB'000**
Profits attributable to the ordinary shareholders of the Company	2,105,052	1,927,787
Weighted average number of outstanding ordinary shares in issue	12,182,182	10,871,782
Basic earnings per share (RMB Yuan per share)	0.173	0.177

In 2013, the Company transferred capital surplus to share capital (Note 5 (32)). As these capital increase has no impact on the total amount of equity, the Company recalculated earnings per share for the comparative period (for the year ended 31 December 2012) based on adjusted number of shares in accordance with the accounting standards.

(b) Diluted earnings per share

Diluted earnings per share are calculated based on profit attributable to the ordinary shareholders of the Company, adjusted by potential diluted ordinary shares, divided by the weighted average number of ordinary shares of the Company. For the year ended 31 December 2013, there are no diluted ordinary shares (2012: Nil), therefore diluted earnings per share is equal to basic earnings per share.

(48) Other comprehensive income

	2013	2012
	RMB'000	**RMB'000**
Gain arising from available-for-sale financial assets	72,974	135,334
Less: income tax impact	(18,245)	(33,833)
	54,729	101,501

(49) Notes to consolidated cash flow statements

(a) Cash received relating to other operating activities:

	2013	2012
	RMB'000	RMB'000
Refunds of security deposits for notes payable	1,796,013	2,369,984
Receipts of subsidy income (Note 5(45))	307,038	460,154
Receipts of net profit compensation of Beijing Kehang (Note 5(45)(b))	–	117,875
Others	473,779	112,053
	2,576,830	3,060,066

(b) Cash paid relating to other operating activities:

	2013	2012
	RMB'000	RMB'000
Payments of notes payable, and other security deposits	757,855	1,796,013
Payments of ticket sales commission	1,379,392	1,388,371
Payments of ticket reservation fees	199,714	172,080
Payments of bank charges	160,977	123,121
Payments of sales branches' expenses	68,608	68,979
Payments of advertising and entertainment expenses	90,632	62,364
Others	466,197	545,711
	3,123,375	4,156,639

(c) Cash received relating to other investing activities

	2013	2012
	RMB'000	RMB'000
Receipts of term deposits upon maturity	1,525,000	1,750,000
Interests on deposits	446,472	604,482
	1,971,472	2,354,482

(d) Cash paid relating to other investing activities

	2013	2012
	RMB'000	RMB'000
Payment of term deposits	2,897,357	1,525,000

(e) Cash received relating to other financing activities

	2013	2012
	RMB'000	RMB'000
Cash received from discounted notes payable	2,150,000	2,753,000

(f) Cash paid relating to other financing activities

	2013	2012
	RMB'000	RMB'000
Payments of discounted notes payable	4,113,000	4,272,000
Payments of finance leases	675,859	435,918
Interest on discounting notes	190,700	362,357
	4,979,559	5,070,275

(50) Supplementary information for consolidated cash flow statement

(a) Supplementary information for consolidated cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2013	2012
	RMB'000	RMB'000
Net profit	2,108,132	1,944,946
Add: Adjust by provision for asset impairment (Note 5(42))	55,200	86,484
Depreciation of fixed assets (Note 5(11))	2,597,226	2,330,061
Amortisation of intangible assets (Note 5(13))	5,339	5,783
Amortisation of long-term prepaid expenses (Note 5(15))	137,573	100,350
Amortisation of deferred loss on sales and leaseback transaction	71,918	66,001
Gains on disposals of fixed assets	(20,779)	(76,370)
(Loss)/gains on changes in fair value (Note 5(43))	64,363	(504,363)
Finance expenses	1,717,117	2,480,502
Investment income (Note 5(44))	(606,265)	(188,241)
Increase in deferred tax liabilities	240,532	590,386
Increase in deferred revenue (Note 5(31))	114,855	162,053
Decrease in inventories	8,827	55,742
Decrease in operating receivables	876,867	479,832
Increase in operating payables	464,258	2,662,745
Net cash flows from operating activities	7,835,163	10,195,911

Significant investing and financing activities that do not involve cash receipts and payments:

	2013	2012
	RMB'000	RMB'000
Asset transfer	–	192,552
Fixed assets acquired under finance leases	–	473,000
	–	665,552

Movement in cash and cash equivalents:

	2013	2012
	RMB'000	RMB'000
Cash and cash equivalents at end of year	16,695,689	18,633,988
Less: Cash and cash equivalents at beginning of year	(18,633,988)	(14,598,317)
Net (decrease)/increase in cash and cash equivalents	(1,938,299)	4,035,671

(b) Cash and cash equivalents

	31 December 2013 RMB'000	31 December 2012 RMB'000
Cash on hand	898	2,409
Bank deposits available for drawing at any time	16,694,791	18,631,579
Cash and cash equivalents at end of year	16,695,689	18,633,988

6 SEGMENT INFORMATION

The management of the Group reviews the Group's internal reports periodically in order to assess the performances and allocate resources, based on which the segments are determined.

The management of the Group evaluates the operating performances of the Group by service categories, and the performances of below segments are evaluated:

(i) Airline operation segment, which comprises passenger and cargo transportation services;

(ii) Other segments, which comprise the segments that are individually insignificant, such as hotel services, are combined as other segments.

(a) The revenue, total profit, assets and liabilities of reporting segments for the years ended 31 December 2013 and 2012 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue generated from external transactions	29,912,005	28,603,582	319,357	264,003	–	–	–	–	30,231,362	28,867,585
Interest income	561,387	642,264	338	2,359	–	–	–	–	561,725	644,623
Interest expenses	3,453,873	3,565,099	70,616	80,230	–	–	–	–	3,524,489	3,645,329
Assets impairment losses	55,200	–	–	380	–	–	–	86,104	55,200	86,484
Depreciations and amortisations	2,772,028	2,463,750	40,028	38,445	–	–	–	–	2,812,056	2,502,195
(Loss)/gain on changes in fair value	(65,024)	141,371	661	362,992	–	–	–	–	(64,363)	504,363
Total profit	1,885,701	2,122,199	201,925	429,378	(21,236)	–	606,265	102,137	2,672,655	2,653,714
Income tax expenses	536,869	605,730	27,654	103,038	–	–	–	–	564,523	708,768
Net profit	1,348,832	1,516,469	174,271	326,340	(21,236)	–	606,265	102,137	2,108,132	1,944,946
Total assets	84,726,110	78,048,028	7,576,170	4,710,474	(5,707,274)	(2,506,807)	16,686,905	12,467,449	103,281,911	92,719,144
Total liabilities	73,624,151	65,796,404	5,838,594	3,543,275	(1,704,668)	(529,764)	–	–	77,758,077	68,809,915

Note: Unallocated items include in total profits mainly represent the investment income and impairment on available-for-sale financial assets, and unallocated items include in total assets mainly include long-term equity investments, goodwill, available-for-sale financial assets and financial products recorded in other non-current assets.

(b) Revenue by region of the Group is analysed as follows:

	2013	2012
	RMB'000	RMB'000
Domestic	26,596,342	25,257,345
International and regional	3,635,020	3,610,240
	30,231,362	28,867,585

The revenue of the Group mainly comes from aircraft assets which are all registered in PRC. Since the aircrafts of the Group could be allocated to different routes freely, there is no reasonable allocation base to distribute assets and liabilities among regions, as a result, the assets, liabilities and capital expenditures are not disclosed by geographical segment.

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company

	Enterprise type	Place of registration	Legal representative	Nature of business	Organisation code
Grand China Air	Foreign-investment enterprise	Haikou	Chen Feng	Transportation	76037451-5

The Company's ultimate controlling party is State-owned Assets Supervision and Administration Commission of Hainan Province.

(b) Registered capital and changes in registered capital of the parent company:

	31 December 2012	Current year additions	Current year reductions	31 December 2013
	RMB'000			RMB'000
Grand China Air	6,008,324	–	–	6,008,324

(c) The proportion of equity interests and voting rights in the Company held by the parent company

	31 December 2013		31 December 2012	
	% of direct equity interests held	% of direct voting rights	% of direct equity interests held	% of direct voting rights
Grand China Air	28.18%	28.18%	28.18%	28.18%

Except for the 28.18% shares directly held by Grand China Air, American Aviation LDC, a wholly-owned subsidiary of Grand China Air, held 1.77% shares of the Company. As at 31 December 2013, Grand China Air directly and indirectly held 29.95% shares of the Company in total.

(2) Subsidiaries

The general information and other related information of the subsidiaries are set out in Note 4.

(3) Associates

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% equity interests held	% voting right held by the Company	Organisation code
					RMB'000			
Tianjin Airlines	Limited company	Tianjin	Xin Di	Domestic goods and passengers transport; goods and passengers transport from Tianjin to Hong Kong, Macao Special Administrative Region and neighbouring countries; accident insurance, health insurance, traditional life insurance; rent and maintenance of aircrafts, professional aircraft training and consultancy service; import and export of goods and technologies; advertisement management; goods combined transport and agency service; operation of aircraft materials and general merchandise	5,950,000	42.02%	42.02%	79496844-2
Bohai Trust	Limited company	Shijia Zhuang	Jin Pin	Assets trust, movable trust, and real estate trust, negotiable securities trust, and other property trust, and as a fund or fund management company sponsors engaged in investment fund business; corporate assets reorganization, merger and acquisition and financing, and company banking, and financial consultant, business, trustee operating state about sector approved securities underwriting business, and handle brokered, and advisory investigation, business, generation custody and custody box business, inter bank business, loan, lease, capital operation, assets guarantees and other business according to regulation and business approval of the China Banking Regulatory Commission.	2,000,000	39.78%	39.78%	104323736
Hong Kong Airlines Group	Limited company	British Virgin Islands		Goods and passengers transport	HK$ 5,324,768	27.02%	27.02%	N/A
Grand China Technology	Limited company	Haikou	Wang Yingming	Maintenance, protection and retreat of aircrafts, engines and other accessories; crew services and duty services insurance, maintenance and technology services provision; fleet technology management and other project services; checking services; personnel training; technology consultancy; maintenance development; assets managements, etc.	2,080,000	48.08%	48.08%	69890098-2
Lucky Air	Limited company	Kunming	Wang Yangang	Domestic passenger and cargo air transportation, cargo import and export; insurance by-business agency (operating with permission), etc.	1,766,826	40.00%	40.00%	76044470-4

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% equity interests held	% voting right held by the Company	Organisation code
					RMB'000			
HNA Finance	Limited company	Beijing	Zhang Shanghui	Financial and financing consultancy, credit authentication and relevant consultancy and agency services to member companies; assistance to member companies on receipt and payment of trading receivables and payables; warranty provision to member companies; entrusted loan and entrusted investments handling among member companies; notes acceptance and discount to member companies; internal accounts transfer and settlement of member companies and relevant programme design of accounts settlement and clearing; absorption of member companies' deposits; borrowings and financing rental provision to member companies; inter-bank borrowings; issuance of finance company bonds after approved; corporate bonds underwritten of member companies; negotiable securities investment, etc.	2,700,000	23.70%	23.70%	102054341
Hunan Golden-Deer	Limited company	Hunan	Xuzhou Jin	Investment and management of airline transportations, relevant projects, and airport; investment in energy and communication industries; capital operating planning and management, investment management; corporate marketing planning and management.	950,000	47.37%	47.37%	57860988-3
Xi'an Chanba	Limited company	Xi'an	Huang Wen	Borrowings warranty, notes acceptance warranty, trade financing warranty, project financing warranty, letter of credit warranty and other financing warranties allowed by laws and regulatory.	1,000,000	40.00%	40.00%	57842871-6

(4) Other related parties

Abbreviation (Full names are set out in Note 16)	Relationship with the Company	Organisation code
HNA Group	A shareholder with significant influence on the parent company of the Company	708866504
Xinhua Air Catering	Under HNA Group's control	708866504
Air Catering Holding	Under HNA Groups control	62001238-7
Xinjiang Catering	Under HNA Group's control	781752984
Sanya Catering	Associate of HNA Group	74259875-0
Meilan Airport	Under the same control of the parent company of the Company	72127172-4
Sanya Phoenix Airport	Under HNA Group's control	20136089-7
Haikou Meilan	A shareholder with over 5% voting rights of the Company	70886657-1
Gansu Airport	Under HNA Group's control	924594371
Beijing Business Culture	Under HNA Group's control	691699673
Bairuichen Culture	Under HNA Group's control	55141614-1
Yisheng Holding	Under HNA Group's control	693161850
Capital Airlines	Under HNA Group's control	70887277-9
Western Airlines	Under HNA Group's control	79804682-4
HNA Aviation Sales	Under HNA Group's control	70887276-0
HNA Cargo	Under HNA Group's control	55736841-9
Yangtze River Express	Under HNA Group's control	741185823
HNA Tourism	Under HNA Group's control	735810119
HNA Hotel Group	Under HNA Group's control	70886444-5
New City Construction	Under HNA Group's control	735830080
Yangtze River Leasing	Under HNA Group's control	621904344
HNA Airport Holding	Under HNA Group's control	75436025-6
HNA Airlines Holdings	Under HNA Group's control	68117653-7
HNA Hotel Holding	Under HNA Group's control	76597075-4
Beijing HNA Real Estate	Under HNA Group's control	789953019
HNA Property Holdings	Under HNA Group's control	79872661-9
Hong Kong Airlines	Under HNA Group's control	N/A
Xinsheng Info Tech	Under HNA Group's control	671060987
Changjiang Leasing	A shareholder with over 5% voting rights of the Company	72123031-6
Bohai Trust	Under HNA Group's control	22859736-8
Hainan Guoshan	Under the same control of the parent company of the Company	55739943-4
HNA Beverage	Under HNA Group's control	747780842
HNA Songzhuang	Under HNA Group's control	58445217-3
HNA Group (International)	Under HNA Group's control	N/A
HNA Information	Under HNA Group's control	713859165
Xinsheng Feixiang	Under HNA Group's control	698934891

(5) Related party transactions

(a) Sales and purchases of goods, provision and receipt of services

Nature of transaction	Pricing policy	Related party	2013 Amount	2013 % of transactions in same nature	2012 Amount	2012 % of transaction in same nature
			RMB'000		RMB'000	
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	145,966	22%	117,751	17%
		Air Catering Holding	43,721	7%	37,955	6%
		Xinjiang Catering	34,515	5%	24,650	4%
		HNA Beverage	20,115	3%	–	–
		Sanya Catering	13,888	2%	12,032	2%
			258,205	39%	192,388	29%
Take-off and landing	Government directed price	Meilan Airport	94,797	4%	95,914	4%
		Haikou Meilan	43,252	2%	39,175	2%
		Sanya Phoenix Airport	66,759	3%	49,124	2%
		Gansu Airport	34,833	1%	–	–
			239,641	10%	184,213	8%
Providing advertising services	Mutually agreed price	Beijing Business Culture	15,000	100%	30,000	100%
Receiving advertising services	Mutually agreed price	Bairuichen Culture	13,425	24%	5,827	10%
Import & export agency fee	0.3% ~ 3% of purchase prices	HNA Import & Export	51,226	100%	27,395	100%
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	186,479	14%	152,344	11%
	Mutually agreed price	Yisheng Holding	2,332	0.2%	3,747	0.3%
	Mutually agreed price	Xinsheng Info Tech	881	0.1%	14,675	1%
			189,692	14.3%	170,766	12%
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	10,601	23%	11,991	30%
		Tianjin Airlines	3,122	7%	4,571	11%
		Capital Airlines	2,702	6%	2,747	7%
		Lucky Air	947	2%	1,587	4%
		Western Airlines	514	1%	705	2%
			17,886	39%	21,601	54%
Cargo agency fees paid to related parties	Mutually agreed price	HNA Cargo	57,200	4%	60,929	4%
Sales of New Gold Deer cards	Mutually agreed price	Yisheng Holding	24,827	0.92%	37,640	0.15%
Receipt of aircraft maintenance services	Mutually agreed price	Grand China Technology	777,206	44%	610,330	39%
Interest income	Market price	HNA Finance	84,193	15%	138,398	21%
Charter income	Mutually agreed price	Gansu Airport	25,225	1%	61,644	4%
Frequent flyer mileages income	Mutually agreed price	Tianjin Airlines	28,792	20%	44,520	31%
	Mutually agreed price	Capital Airlines	22,296	15%	28,322	20%
	Mutually agreed price	Lucky Air	10,042	7%	18,322	13%
	Mutually agreed price	Western Airlines	5,557	4%	–	–
			66,687	46%	91,164	64%

The above related transactions are arising from the operations of the Group and the related parties. The above transactions have been approved by the shareholder's meetings and the pricing policies and nature of the transactions have been properly approved and authorised by the Board.

(b) Leasing

(i) The Group as a lessor:

Lessor	Lessee	Leased assets	Lease commencement date	Lease expiry date	Lease income in 2013	Lease income in 2012
					RMB'000	RMB'000
The Group	Capital Airlines	Aircraft	18/12/2008	Automatic roll-over annually	537,919	478,880
	Tianjin Airlines		25/05/2008	Automatic roll-over annually	247,872	246,961
	Lucky Air		01/01/2007	Automatic roll-over annually	313,244	264,044
	Grand China Air		30/11/2007	Automatic roll-over annually	111,591	113,632
	Western Airlines		09/08/2010	Automatic roll-over annually	48,902	73,800
	Yangtze River Express		16/04/2010	28/2/2013	2,597	15,585
					1,262,125	1,192,902
The Company	HNA Tourism	Properties	16/04/2009	Automatic roll-over annually	12,619	12,619
Xinhua Airlines	HNA Technology	Properties	01/01/2011	Automatic roll-over annually	37,748	37,748
Beijing Kehang	HNA Hotel Group	Properties	01/04/2012	31/03/2015	139,169	142,941
	HNA Finance		01/10/2008	31/12/2013	9,556	9,558
	HNA Group		01/10/2008	31/12/2013	9,080	9,084
					208,172	292,080

(ii) The Group as lessee:

Lessor	Lessee	Leased assets	Lease commencement date	Lease expiry date	Lease rentals in 2013	Lease rentals in 2012
					RMB'000	RMB'000
Hong Kong Airlines	The Company	Aircraft	2010-2013	Automatic roll-over annually	742,042	322,708
Yangtze River Leasing	The Company	Aircraft engines	15/07/2010	12/11/2017	22,271	20,462
Meilan Airport	The Company	Terminal	26/02/2009	Automatic roll-over annually	5,898	5,808
Capital Airlines	Chang'an Airlines	Aircraft	01/01/2011	Automatic roll-over annually	14,850	16,200
					785,061	365,178

Note: The pricing of the above leases are all mutually agreed prices.

(c) Guarantees and pledges provided by related parties to the Group

Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2013
		RMB'000			
(i) Short-term borrowings					
Grand China Air	Chang'an Airlines	100,000	16/01/2013	16/01/2014	No
Grand China Air	The Company	2,150,000	22/02/2013	14/11/2014	No
HNA Group	Chang'an Airlines	80,000	18/09/2013	18/09/2014	No
HNA Group	The Company	3,294,456	03/05/2013	18/12/2014	No
HNA Group	Xinhua Airlines	300,000	08/05/2013	20/11/2014	No
Haikou Meilan	Xinhua Airlines	40,000	15/05/2013	12/05/2014	No
HNA Hotel Group	Xinhua Airlines	70,000	08/05/2013	27/04/2014	No
Haikou Meilan	The Company	1,000,000	18/06/2013	17/06/2014	No
HNA Group and Grand China Air	The Company	7,700,601	01/03/2013	15/12/2014	No
Grand China Air	The Company	2,355,000	04/01/2012	09/12/2013	Yes
HNA Group	The Company	4,982,500	06/04/2012	20/12/2013	Yes
HNA Group	Xinhua Airlines	300,000	16/11/2012	15/11/2013	Yes
HNA Group and Grand China Air	The Company	5,437,000	04/01/2013	11/12/2013	Yes
HNA Group and Haikou Meilan	The Company	1,131,390	28/06/2012	27/06/2013	Yes
HNA Group and HNA Finance	The Company	300,000	26/07/2012	25/07/2013	Yes
HNA Industrial	Beijing Kehang	20,000	13/02/2012	13/02/2013	Yes
(ii) Long-term borrowings					
HNA Group and Haikou Meilan	Shanxi Airlines	320,000	20/12/2005	17/10/2016	No
HNA Group and Haikou Meilan	Chang'an Airlines	390,000	19/05/2005	28/10/2016	No
HNA Group	Chang'an Airlines	1,345,449	29/09/2007	31/08/2020	No
HNA Group	The Company	4,789,829	11/04/2007	31/07/2025	No
HNA Group and Grand China Air and Hainan Guoshan	The Company	308,000	24/12/2012	23/12/2015	No
HNA Group and HNA Airport Holding	The Company	180,468	02/08/2002	02/08/2035	No
HNA Group and HNA Airport Holding	The Company	30,000	31/03/2004	31/03/2014	No
Grand China Air	The Company	950,000	17/05/2012	16/06/2016	No
HNA Group and HNA Hotel Group and HNA Airlines Holdings	The Company	1,684,593	30/06/2003	07/07/2018	No
HNA Group and Grand China Air	The Company	225,000	18/06/2013	17/06/2016	No
HNA Airport Holding	The Company	193,279	19/12/2003	01/03/2013	Yes
HNA Group	Xinhua Airlines	116,875	09/03/2009	07/03/2013	Yes
HNA Group	The Company	160,938	03/08/2009	01/08/2013	Yes
HNA Group and Haikou Meilan	Shanxi Airlines	110,000	17/06/2005	17/10/2013	Yes
HNA Group and Haikou Meilan	Chang'an Airlines	120,000	19/05/2005	20/12/2013	Yes
HNA Group and Haikou Meilan	The Company	700,000	11/30/2010	29/11/2013	Yes
Grand China Air	The Company	280,000	25/11/2011	25/11/2013	Yes

(d) Guarantees provided by the Group to related parties

Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2013
		RMB'000			
(i) Short-term borrowings					
The Company	HNA Group	147,000	13/08/2013	13/08/2014	No
Shanxi Airlines	Grand China Air	300,000	25/09/2013	22/09/2014	No
The Company	Grand China Air	300,000	30/09/2013	29/09/2014	No
The Company	Lucky Air	300,000	10/28/2013	27/10/2014	No
The Company	HNA Hotel Group	100,000	12/06/2013	06/06/2014	No
The Company	Capital Airlines	200,000	15/04/2013	15/04/2014	No
The Company	HNA Hotel Group	500,000	11/03/2013	10/03/2014	No
The Company	HNA Hotel Group	200,000	14/08/2013	13/02/2014	No
The Company	HNA Hotel Group	100,000	10/09/2013	10/09/2014	No
The Company	Lucky Airlines	300,000	25/10/2012	25/04/2013	Yes
The Company	Grand China Air	300,000	16/04/2012	15/04/2013	Yes
The Company	Grand China Air	300,000	29/09/2012	28/09/2013	Yes
Shanxi Airlines	Grand China Air	300,000	18/09/2012	18/09/2013	Yes
The Company	HNA Group	280,000	06/06/2012	06/06/2013	Yes
The Company	HNA Group	117,200	18/12/2012	18/12/2013	Yes
The Company	HNA Group	111,700	06/06/2012	06/06/2013	Yes
The Company	Yangtze River Express	100,000	29/09/2012	28/09/2013	Yes
The Company	Bohai Leasing	30,000	02/07/2012	02/07/2013	Yes
The Company	HNA Hotel Group	193,000	24/05/2013	30/11/2013	Yes
(ii) Long-term borrowings					
The Company	Changjiang Leasing	262,000	02/11/2012	02/05/2015	No
The Company	HNA Tourism	300,000	10/11/2011	08/11/2014	No
The Company	HNA Airlines Holding	238,800	18/09/2012	17/09/2017	No
The Company	Grand China Air	1,000,000	06/09/2013	05/03/2015	No
The Company	HNA Group	754,260	31/12/2009	03/08/2013	Yes
The Company	Yangtze River Leasing	525,468	01/02/2007	30/12/2013	Yes
The Company	Yangtze River Leasing	33,000	01/02/2007	30/12/2013	Yes

(e) Borrowing and lending funds

Entity	Borrowing amount	Borrowing date	Repayment amount	Repayment date
	RMB'000		RMB'000	
HNA Airport Holding	34,224	Opening balance	–	
Yangtze River Leasing	4,223	Opening balance	–	
HNA Group	208,342	Opening balance	149,460	11/01/2013
HNA Hotel Holding	7,481	Opening balance	34,400	31/12/2013
HNA Hotel Holding	2,057	31/01/2013		
HNA Hotel Holding	2,560	28/02/2013		
HNA Hotel Holding	3,470	30/04/2013		
HNA Hotel Holding	3,092	30/05/2013		
HNA Hotel Holding	3,525	28/06/2013		
HNA Hotel Holding	2,735	31/07/2013		
HNA Hotel Holding	2,211	30/08/2013		
HNA Hotel Holding	2,492	27/09/2013		
HNA Hotel Holding	2,426	31/10/2013		
HNA Hotel Holding	3,180	28/11/2013		
HNA Hotel Holding	2,501	29/12/2013		
	37,730		34,400	
HNA Property Holdings	1,160	Opening balance	–	

(f) Asset transfers

Related party	Nature of transaction	Pricing policy	2013 Amount	2013 % of transactions in same nature	2012 Amount	2012 % of transactions in same nature
			RMB'000		RMB'000	
Yangtze River Express	Transfer of aircraft	Valuation amount	73,301	60%	–	–
Yangtze River Express	Transfer of aircraft	Valuation amount	49,280	40%	–	–
Construction of new urban city	Purchase of fix asset	Valuation amount	–	–	(894,161)	47%
Construction of new urban city	Disposal of fixed assets and land	Valuation amount	–	–	192,552	100%
			122,581		(701,609)	

(g) Capital injections

Related party	Nature of transaction	Pricing policy	2013 Amount	2013 % of transactions in same nature	2012 Amount	2012 % of transactions in same nature
			RMB'000		RMB'000	
Tianjin Airlines (Note 5(9)(a)(ii))	Capital injection – Tianjin Airlines	Mutually agreed price	1,680,000	64%	–	–
HKIAL	Capital injection – HKIAL	Mutually agreed price	308,830	12%	–	–
HKAGH	Capital injection – HKAGH	Mutually agreed price	617,660	24%	–	–
HNA Airport Holding	Capital injection – Hunan Golden Deer	Mutually agreed price	–	–	500,000	100%
			2,606,490	100%	500,000	

(h) Equity transfers

Related party	Nature of transaction	Pricing policy	2013 Amount	2013 % of transactions in same nature	2012 Amount	2012 % of transactions in same nature
			RMB'000		RMB'000	
HNA Songzhuang	Equity interest disposal – Kehang Tianshou	Mutually agreed price	–	–	50,000	100%
Total equity transfer			–	–	50,000	100%
HNA Group	Equity interest acquisition – Tianjin Airlines	Mutually agreed price	1,093,400	77%	–	–
HNA Group (International)	Equity interest acquisition – Hong Kong Group	Mutually agreed price	321,183	23%	–	–
Haikou Meilan, HNA Hotel Holding, Yangtze River Real Estate, Yanjing Restaurant and HNA Information	Equity interest acquisition – Bohai Trust	Mutually agreed price	–	–	2,760,906	84%
HNA Tourism	Equity interest acquisition – Capital Airlines Holding	Mutually agreed price	–	–	508,620	16%
Total equity transfer			1,414,583	100%	3,269,526	100%

(i) Remuneration of key management

	2013	2012
	RMB'000	RMB'000
Remuneration of key management	4,228	4,143

(j) Other related party transactions

Related party	Nature of transaction	2013 Amount RMB'000	2013 % of transactions in same nature	2012 Amount RMB'000	2012 % of transactions in same nature
Capital Airlines	Pilot transfer	2,300	3%	4,050	23%
Lucky Air	Pilot transfer	4,300	6%	2,100	12%
Tianjin Airlines	Pilot transfer	1,000	1%	4,550	26%
Western Airlines	Pilot transfer	8,000	12%	4,500	25%
Lucky Air	Amounts paid on behalf (i)	283,531	54%	216,855	43%
Capital Airlines	Amounts paid on behalf (i)	131,153	25%	122,714	24%
Yangtze River Express	Amounts paid on behalf (i)	34,695	7%	33,952	7%
Tianjin Airlines	Amounts paid on behalf (i)	34,209	6%	13,711	3%
Western Airlines	Amounts paid on behalf (i)	28,202	5%	32,186	6%
Grand China Air	Amounts paid on behalf (i)	11,600	1%	–	–
HNA Technology	Amounts paid on behalf (i)	5,320	2%	65,714	13%
HNA Group	Profit compensation of Beijing Kehang	–	–	117,875	100%

(i) These are mainly the expenses of salaries, flying hour fees, domestic infrastructure levies and maintenance and protection services paid or collected by the Group on behalf of the related parties.

(6) Receivables from and payables to related parties

Account	Related party	31 December 2013 RMB '000	31 December 2012 RMB '000
Cash at bank and on hand	HNA Finance	4,511,052	4,699,439
Notes receivable	Tianjin Airlines	25,000	–
Interest receivable	HNA Finance	226,716	169,806
Dividends receivables	Haikou Meilan	966	966
	Meilan Airport	899	899
		1,865	1,865
Accounts receivable	Yisheng Holding	14,106	34,597
	HNA Cargo	7,686	4,333
	Xinsheng Info Tech	–	19,087
	Others	7,562	7,980
		29,354	65,997

Account	Related party	31 December 2013 RMB'000	31 December 2012 RMB'000
Other receivables	Tianjin Airlines	56,002	–
	Lucky Air	51,184	–
	Capital Airlines	50,163	–
	Meilan Airport	13,809	–
	Others	42,816	19,503
		213,974	19,503
Advances to suppliers	Others	6,666	7,602
Other non-current assets	Grand China Air	800,000	–
	Western Airlines	966,940	–
	Changjiang Leasing	359,366	359,366
	Hong Kong Airlines	36,500	345,538
	HKIAL	15,085	–
		2,177,891	704,904
Notes payable	HNA Import & Export	2,050,000	2,753,000
	Xinhua Air Catering	80,483	–
	HNA Air Catering	16,580	–
	Yangtze River Investment	–	820,000
	Sanya Phoenix Airport	–	54,000
		2,147,063	3,627,000
Interest payable	HNA Finance	–	5,450
Accounts payable	Hong Kong Airlines	76,010	–
	HNA Technology	54,352	54,231
	Grand China Air	36,271	25,112
	Western Airlines	33,879	16,194
	Xinsheng Feixiang	11,093	8,277
	HNA Information	9,429	7,199
	Lucky Air	–	38,079
	HNA Airline sales	–	18,888
	Others	113,462	83,840
		334,496	251,820
Other payables	HNA Group	1,024	180,456
	Capital Airlines	–	33,044
	Changjiang Leasing	–	20,967
	HNA Airlines Holdings	–	20,477
	Others	23,322	43,977
		24,346	298,921
Long-term payables	Changjiang Leasing	398,999	409,678
	Yangtze River Leasing	69,591	89,360
		468,590	499,038

(7) Commitments in relation to related parties

As at the balance sheet date, the commitments in relation to related parties contracted for by the Group but not yet necessary to be recognised on the consolidated balance sheet are as follows:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Operating lease out		
– Capital Airlines	314,069	341,667
– Tianjin Airlines	228,465	115,416
– Lucky Air	182,107	114,872
– Grand China Air	65,231	105,096
– Western Airlines	64,948	33,825
– Yangtze River Express	–	12,511
	854,820	723,387

8 COMMITMENTS

(1) Performance of prior year commitments

The capital expenditure commitments and operating lease commitments of the Group as at 31 December 2012 were performed as committed.

(2) Capital commitments

As at the balance sheet date, capital expenditures contracted for by the Group but are not yet necessary to be recognised on the consolidated balance sheet are as follows:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Aircraft purchases	64,544,811	75,627,309
Long-term equity investments	4,235,060	–
Buildings, machineries and equipments	574,934	147,411
	69,354,805	75,774,720

(3) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Within 1 year	2,938,197	2,115,764
1 to 2 years	2,529,481	1,752,991
2 to 3 years	1,335,291	1,297,613
Over 3 years	5,228,921	5,584,598
	12,031,890	10,750,966

9 POST BALANCE SHEET DATE EVENTS

In March 2014, the Board of the Company decided no dividend distribution for profit of the year ended 31 December 2013.

10 LEASES

The Group leases in certain fixed assets under finance leases (Note 5(30)(a)). The future minimum lease payments of the finance leases are summarised in the following table:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Within 1 year	500,127	651,987
1 to 2 years	287,351	277,452
2 to 3 years	248,797	258,632
Over 3 years	964,118	951,096
	2,000,393	2,139,167

As at 31 December 2013, the unrecognised finance charge amounted to RMB354,556 thousand (31 December 2012: RMB347,095 thousand) (Note 5(30)(a)).

11 CONTINGENCIES

Except for the guarantees provided by the Group to its related parties as disclosed in Note 7(5)(d), the Group has no other significant contingencies to be disclosed as at the date of these financial statements.

12 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

Except for part of the overseas routes that the Group operates, the Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. However the Group is still exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily in USD. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

As at 31 December 2013 and 2012, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2013		
	USD	Other currencies	Total
	RMB'000	RMB'000	RMB'000
Financial assets –			
Cash at bank and on hand	206,759	8,069	214,828
Accounts receivable	8,039	14,912	22,951
Other receivables	219,714	33,387	253,101
Other non-current assets	1,228,055	–	1,228,055
	1,662,567	56,368	1,718,935
Financial liabilities –			
Short-term borrowings	1,499,837	151,875	1,651,712
Accounts payable	499,275	284,833	784,108
Other payables	50,287	–	50,287
Long-term borrowings	20,566,977	353,594	20,920,571
Long-term payables	468,590	–	468,590
	23,084,966	790,302	23,875,268

	31 December 2012		
	USD	Other currencies	Total
	RMB'000	RMB'000	RMB'000
Financial assets –			
Cash at bank and on hand	193,373	73,165	266,538
Accounts receivable	28,506	10,450	38,956
Other receivables	92,762	2,207	94,969
Other non-current assets	1,618,839	–	1,618,839
	1,933,480	85,822	2,019,302
Financial liabilities –			
Short-term borrowings	1,445,665	–	1,445,665
Accounts payable	2,446,291	338,653	2,784,944
Other payables	54,689	18,905	73,594
Long-term borrowings	17,006,372	85,853	17,092,225
Long-term payables	598,110	–	598,110
	21,551,127	443,411	21,994,538

As at 31 December 2013, in respect of the Group's various financial assets and liabilities denominated in USD, if RMB had appreciated/depreciated by 10% against USD, while all other variables had remained unchanged, the Group's profit before tax for the year would have been increased/decreased by approximately RMB2,215,633 thousand (31 December 2012: approximately RMB1,997,524 thousand).

(b) Interest rate risk

The Group's interest rate risk primarily arises from long-term interest bearing liabilities, such as debentures payable, 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. The Group determines the relative proportions of its borrowings at fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2013, the Group's long-term interest bearing liabilities mainly included:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Short-term borrowings	20,415,335	15,792,336
Notes payable	2,518,147	4,782,981
Long-term borrowings	31,668,291	28,757,469
Long-term payables	1,645,837	1,792,072
Debentures payable	7,944,060	6,430,063
	64,191,670	57,554,921
Including: liabilities at floating rates	40,935,312	34,098,247
liabilities at fixed rates	23,256,358	23,456,674
	64,191,670	57,554,921

The Group's finance department at headquarter monitors the interest rate position of the Group on an on-going basis. Increases in interest rates will increase the cost of new borrowings and the Group's outstanding borrowings at floating rates, and thus could have a material negative effect on the Group's financial position. Management makes appropriate adjustments with reference to the latest market conditions, including entering into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2013 and 2012, the Group had not entered into any interest rate swap agreements.

For the year ended 31 December 2013, if interest rates on the floating rate borrowings had been 25 basis points higher/lower while all other variables had been held constant, the Group's profit before tax would have decreased/ increased by approximately RMB102,338 thousand (2012: approximately RMB85,246 thousand).

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, other receivables and notes receivable etc.

The Group's bank deposits are mainly placed in state-owned banks and other listed banks of medium or large size. Management does not expect that the Group exposes to any significant credit risks and would suffer any significant losses from non-performance by the banks.

The financing products (Note 5(7)) purchased by the Group are mainly from one city commercial bank, which is regulated by the China Banking Regulatory Commission (the "CBRC") with no significant credit risk.

In addition, part of the Group's deposits are placed with HNA Finance, a related company of the Company. To further regulate the related party transactions between HNA Finance and the Group, protect the Group's funds and prevent the funds being occupied by related parties, on 24 July 2010, the Company established and announced to the public a "Policy of Risk Prevention on Hainan Airlines Co., Ltd's Deposit Fund in HNA Group Finance Co., Ltd" (the "Policy")《海南航空股份有限公司在HNA Group財務有限公司存款資金風險防範制度》. In accordance with the Policy announced by the Group, the Group shall follow the principles of voluntary equality when conducting financial transactions with HNA Finance, such as deposits, loans, financial entrust and settlement arrangements etc., in order to maintain the financial independence of the Group. The Group is prohibited from providing entrusted loans and entrusted financial management to other related parties through HNA Finance, and is prohibited from depositing any fund raised in HNA Finance. The Group's directors shall act faithfully, diligently, prudently with due care when making decision to place the Group's deposits in HNA Finance, and avoid the Group's money being occupied by related parties.

In addition, the Group has policies to limit its credit exposure to accounts receivable, other receivables and notes receivable. The Group assesses the credit qualities of and sets credit limits on its customers by assessing their financial positions, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit histories of customers are regularly monitored by the Group. In respect of customers with poor credit histories, the Group will send payment reminders, or shorten or cancel their credit periods, to ensure that the overall credit risk of the Group is limited to a controllable level.

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by the Group's finance department at headquarter. Based on the cash flow forecast, the Group's finance department monitors the Group's short-term and long-term liquidity requirements on an on-going basis to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs; and in the meantime monitors the compliance of relevant loan agreement terms on a going basis, and maintains sufficient headroom on its undrawn committed borrowing facilities from major financial institutions to meet the short-term and long-term fund requirements.

The Group's major cash demand is arising from acquisition and improvement of aircraft, engines, flight spare parts and repayments of the corresponding borrowings or liabilities. The Group meets its working capital needs through operations and short-term and long-term bank borrowings. The Group usually acquires aircraft through finance leases or bank borrowings.

As at 31 December 2013, the Group's current liabilities exceeded current assets by approximately RMB15.3 billion. For the year ended 31 December 2013, the net cash inflows from operating activities of the Group were approximately RMB7.8 billion, the net cash outflows from investment activities and financing activities were approximately RMB9.8 billion, and cash and cash equivalents increased by approximately RMB1.9 billion.

The risk assessment of cash flows by the Company's management is set out in Note 2(1).

As at the balance sheet date, undiscounted cash flows of the financial assets and liabilities of the Group by contractual maturity dates are analysed as follows:

	31 December 2013				
	Within 1 year	1 – 2 years	2 – 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets –					
Cash at bank and on hand	19,214,643	286,500	3,312	1,160,373	20,664,828
Accounts receivable	578,203	–	–	–	578,203
Other receivables	468,460	–	–	–	468,460
Other current assets – available-for-sale financial assets due within one year	1,650,000	–	–	–	1,650,000
	21,911,306	286,500	3,312	1,160,373	23,361,491
Financial liabilities –					
Short-term borrowings	21,010,340	–	–	–	21,010,340
Accounts payable	5,016,892	–	–	–	5,016,892
Other payables	603,026	–	–	–	603,026
Long-term borrowings	7,267,153	6,824,809	11,308,230	13,066,154	38,466,346
Long-term payables	500,127	287,351	573,869	639,046	2,000,393
	34,397,538	7,112,160	11,882,099	13,705,200	67,096,997

	31 December 2012				
	Within 1 year	1 - 2 years	2 - 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets –					
Cash at bank and on hand	20,663,866	459,461	3,303	1,185,773	22,312,403
Accounts receivable	541,651	–	–	–	541,651
Other receivables	203,561	–	–	–	203,561
Other current assets – available-for-sale financial assets due within one year	2,000,000	–	–	–	2,000,000
	23,409,078	459,461	3,303	1,185,773	25,057,615
Financial liabilities –					
Short-term borrowings	16,171,765	–	–	–	16,171,765
Accounts payable	4,924,949	–	–	–	4,924,949
Other payables	877,345	–	–	–	877,345
Long-term borrowings	6,031,839	4,663,523	10,184,689	11,624,419	32,504,470
Long-term payables	651,987	277,452	268,632	951,096	2,149,167
	28,657,885	4,940,975	10,453,321	12,575,515	56,627,696

(4) Fair value

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly comprise receivables, short-term borrowings, payables, long-term borrowings and long-term payables.

Except for financial assets and liabilities listed below, the net book values of the other financial assets and liabilities not measured at fair value approximate to their fair values.

	31 December 2013		31 December 2012	
	Net book value	Fair value	Net book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities –				
Long-term borrowings	31,668,291	31,714,132	28,757,469	29,195,307
Long-term payables	1,645,837	1,723,929	1,792,072	1,819,829
	33,314,128	33,438,061	30,549,541	31,015,136

The fair values of long-term borrowings and long-term payables are determined using the contracted future cash flows discounted at prevailing market interest rates for financial instruments with substantially the same terms and characteristics.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2013, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets –				
Available-for-sale financial assets –	–	434,420	2,260,000	2,694,420

As at 31 December 2012, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets –				
Available-for-sale financial assets –	–	361,446	2,700,000	3,061,446

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

13 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2012	Fair value movements in current year	Accumulated fair value movements recorded in equity	Other movements	31 December 2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment properties measured at fair value (Note 5(10))	7,256,342	(64,363)	–	(361,604)	6,830,375
Available-for-sale financial assets (Note 5(8))	1,061,446	–	72,974	(90,000)	1,044,420
Other current assets – available-for-sale financial assets due within one year	2,000,000	–	–	(350,000)	1,650,000
	10,317,788	(64,363)	72,974	(801,604)	9,524,795

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Financial assets –		
Cash at bank and on hand	214,828	266,538
Accounts receivable	276,052	133,925
Financial assets subtotal	490,880	400,463
Financial liabilities –		
Borrowings and payables	23,875,268	21,994,538

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Accounts receivable	124,362	335,946
Less: Provisions for bad debts	(9,310)	(9,310)
	115,052	326,636

(a) The aging of accounts receivable are analysed as follows:

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Within 1 year	115,052	326,636
Over 6 years	9,310	9,310
	124,362	335,946

(b) Accounts receivable analysed by category are as follows:

	31 December 2013				31 December 2012			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Provisions for bad debts by group								
– Group by aging analysis method	5,383	4%	(1,126)	21%	3,065	1%	(1,126)	37%
– Group by related parties	110,795	89%	–	–	324,697	97%	–	–
Amounts that are not individually significant but with provisions for bad debts assessed individually	8,184	7%	(8,184)	100%	8,184	2%	(8,184)	100%
	124,362	100%	(9,310)	7%	335,946	100%	(9,310)	3%

(c) As at 31 December 2013, accounts receivable did not include any amounts due from entities which hold over 5% (5% included) voting shares of the Company (31 December 2012: Nil).

(d) As at 31 December 2013, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Company	Amount	Period	% of total balance
		RMB'000		
Golden-Deer Sales	Subsidiary	51,971	Within 1 year	42%
Xinhua Airlines	Subsidiary	14,586	Within 1 year	12%
Yisheng Holding	Under HNA Group's control	14,106	Within 1 year	11%
Hainan Fu Shun	Subsidiary	13,863	Within 1 year	11%
HNA Cargo	Under HNA Group's control	7,686	Within 1 year	6%
		102,212		82%

(e) Accounts receivable from related parties are analysed below:

	Relationship with the Company	31 December 2013 Amount RMB'000	31 December 2013 % of total balance	31 December 2013 Provisions for bad debts RMB'000	31 December 2012 Amount RMB'000	31 December 2012 % of total balance	31 December 2012 Provisions for bad debts RMB'000
Golden-Deer Sales	Subsidiary	51,971	42%	–	196,992	59%	–
Xinhua Airlines	Subsidiary	14,586	12%	–	22,212	7%	–
Yisheng Holding	Under HNA Group's control	14,106	11%	–	34,597	10%	–
Hainan Fu Shun	Subsidiary	13,863	11%		–	–	–
HNA Cargo	Under HNA Group's control	7,686	6%	–	4,333	1%	–
Others		8,583	7%	–	66,563	20%	–
		110,795	89%	–	324,697	97%	–

(2) Other receivables

	31 December 2013 RMB'000	31 December 2012 RMB'000
Amounts due from related parties	567,934	979,145
Aircraft leasing security deposits and maintenance funds receivable	118,800	53,149
Others	86,656	68,979
	773,390	1,101,273
Less: Provisions for bad debts	(13,729)	(13,729)
	759,661	1,087,544

(a) The aging of other receivables is analysed below:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	681,239	1,075,096
1 to 2 years	70,359	11,542
2 to 3 years	8,962	6,601
3 to 4 years	4,971	175
4 to 5 years	129	116
5 to 6 years	116	685
Over 6 years	7,614	7,058
	773,390	1,101,273

(b) Other receivables are analysed by category as follows:

	31 December 2013				31 December 2012			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
	RMB'000		RMB'000		RMB'000		RMB'000	
Amounts that are individually significant and with specific provision for bad debts	–	–	–	–	–	–	–	–
Amounts that are not individually significant but with specific provision for bad debts	7,000	1%	(7,000)	100%	7,000	1%	(7,000)	100%
Provision for bad debts by group								
– Group by aging analysis method	79,656	10%	(6,729)	10%	68,979	6%	(6,729)	10%
– Aircraft leasing security deposits and maintenance funds receivable	118,800	16%	–	–	46,149	4%	–	–
– Group by related parties	567,934	73%	–	–	979,145	89%	–	–
	773,390	100%	(13,729)	1%	1,101,273	100%	(13,729)	1%

(c) As at 31 December 2013, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount	Aging	% of total balance
Xinhua Airlines	Subsidiary	329,530	Within 1 year	43%
Other Receivable 1	Third Party	173,613	Within 1 year	22%
Tianjin Airlines	Associate of the Group	56,002	Within 1 year	7%
Lucky Air	Associate of the Group	51,184	Within 1 year	7%
Capital Airlines	Under HNA Group's control	50,163	Within 1 year	6%
		660,492		85%

(d) Other receivables from related parties are analysed below:

	Relationship with the Company	31 December 2013 Amount	% of total balance	Provisions for bad debts	31 December 2012 Amount	% of total balance	Provisions for bad debts
		RMB'000		RMB'000	RMB'000		RMB'000
Xinhua Airlines	Subsidiary	329,530	43%	–	799,916	72%	–
Tianjin Airlines	Associate of the Group	56,002	7%	–	–	–	–
Tianjin Airlines	Associate of the Group	51,184	7%	–	–	–	–
Capital Airlines	Under HNA Group's control	50,163	6%	–	–	–	–
Beijing Kehang	Subsidiary	–	–	–	160,280	15%	–
Others		81,055	10%	–	18,949	2%	–
		567,934	73%	–	979,145	89%	–

(3) Long-term equity investments

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Subsidiaries (a)	9,510,396	7,943,018
Associates – without quoted price (b)	6,116,345	2,426,035
Other long-term equity investments (c)	942,679	1,655,679
	16,569,420	12,024,732
Less: Provisions for impairment	(5,000)	(5,000)
	16,564,420	12,019,732

(a) Subsidiaries

	Accounting method	Original investment cost	31 December 2012	Current year additions/ disposals	31 December 2013	% shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment made in current year	Cash dividends declared in current year
		RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000	RMB'000
Xinhua Airlines	Cost method	3,746,107	3,746,107	–	3,746,107	100.00%	100.00%	N/A	–	–	–
Chang'an Airlines	Cost method	1,799,408	1,799,408	–	1,799,408	100.00%	100.00%	N/A	–	–	–
Beijing Kehang	Cost method	1,728,341	1,728,341	–	1,728,341	95.00%	95.00%	N/A	–	–	–
Shanxi Airlines	Cost method	408,467	408,467	–	408,467	46.29%	46.29%	N/A	–	–	–
Brussels EDIP	Cost method	62,996	62,996	–	62,996	100.00%	100.00%	N/A	–	–	–
Brussels DATA	Cost method	61,764	61,764	–	61,764	100.00%	100.00%	N/A	–	–	–
Brussels SODE	Cost method	543,135	59,918	483,217	543,135	94.18%	94.18%	N/A	–	–	–
HNA Hongkong	Cost method	58,417	58,417	–	58,417	100.00%	100.00%	N/A	–	–	–
Golden-Deer Sales	Cost method	7,600	7,600	–	7,600	95.00%	95.00%	N/A	–	–	–
Hainan Fushun (Note 4(1)(a))	Cost method	1,094,161	–	1,094,161	1,094,161	100.00%	100.00%	N/A	–	–	–
Others	Cost method	10,000	10,000	(10,000)	–			N/A	–	–	–
			7,943,018	1,567,378	9,510,396				–	–	–

(b) Associates

	Accounting method	Original investment cost	31 December 2012	Current year increase/decrease: Capital addition / reduction	Capital addition	Share of results of associates	Investment income recognised with transferring from the cost method to cost method	Cash dividends declared by associate	31 December 2013	% equity shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment for current year
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000
Tianjin Airlines (Note 5(9)(a))	Equity method	3,486,400	–	713,000	2,773,400	56,322	31,489	–	3,574,211	42.02%	42.02%	N/A	–	–
HNA Technology	Equity method	1,000,000	1,012,209	–	–	77,722	–	–	1,089,931	48.08%	48.08%	N/A	–	–
Lucky Air	Equity method	842,000	953,005	–	–	34,705	–	–	987,710	33.78%	33.78%	N/A	–	–
Hunan Golden-Deer	Equity method	450,000	450,000	–	–	–	–	–	450,000	47.37%	47.37%	N/A	–	–
HNA Import & Export	Equity method	3,000	10,821	–	–	9,374	–	(5,702)	14,493	30%	30%	N/A	–	–
			2,426,035	713,000	2,773,400	178,123	31,489	(5,702)	6,116,345					

(c) Other long-term equity investments

	Accounting method	Original investment cost	31 December 2012	Current year additions	31 December 2013	% shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment made in current year	Cash dividends declared in current year
		RMB'000	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000	RMB'000
Capital Aviation Holdings	Cost method	508,620	508,620	–	508,620	19.60%	19.60%	N/A	–	–	–
Haikou Meilan	Cost method	304,765	304,765	–	304,765	12.08%	12.08%	N/A	–	–	–
HNA Hotel Group	Cost method	58,161	58,161	–	58,161	19%	19%	N/A	–	–	–
Xin Guo Hotel	Cost method	40,000	31,952	–	31,952	13.33%	13.33%	N/A	–	–	–
TravelSky Tech	Cost method	17,000	17,000	–	17,000	1.13%	1.13%	N/A	–	–	4,409
Yangtze River Express	Cost method	10,000	10,000	–	10,000	2%	2%	N/A	–	–	–
Meilan Airport	Cost method	6,906	6,906	–	6,906	1.12%	1.12%	N/A	–	–	–
Tianjin Airlines (Note 5(9)(b))	Cost method	713,000	713,000	(713,000)	–	17.59%	17.59%	N/A	–	–	–
Others	Cost method	5,275	5,275	–	5,275				(5,000)	–	–
			1,655,679	(713,000)	942,679				(5,000)	–	4,409

(4) Revenue and operating costs

	2013	2012
	RMB'000	**RMB'000**
Revenue from main operations (a)	19,797,883	18,798,687
Revenue from other operations (b)	2,389,571	1,214,600
	22,187,454	20,013,287
Operating costs of main operations	(16,166,512)	(14,322,333)
Operating costs of other operations (b)	(1,142,491)	(611,261)
	(17,309,003)	(14,933,594)

(a) Revenue from main operations

Revenue from main operations by business categories is analysed as follows:

	2013	2012
	RMB'000	**RMB'000**
Passenger	18,934,162	17,942,293
Cargo and mail	718,896	714,253
Others	144,825	142,141
	19,797,883	18,798,687

The total revenue of the Company's top 5 customers for the year ended 31 December 2013 amounted to RMB6,837,165 thousand (2012: RMB5,227,691 thousand), accounting for 31% of total revenue of the Company (2012: 26%).

	2013		2012	
	Revenue from other operations	**Operating costs of other operations**	**Revenue from other operations**	**Operating costs of other operations**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Aircraft leasing	1,841,532	(1,007,850)	846,083	(550,757)
Processing fee for cancelled tickets	217,798	–	119,770	–
Building rental	68,310	–	63,259	–
Commission fee	33,685	–	24,952	–
Aircraft advertising	15,000	–	30,210	–
Others	213,246	(134,641)	130,326	(60,504)
	2,389,571	(1,142,491)	1,214,600	(611,261)

Costs of aircraft leasing did not include interests charge of RMB222,297 thousand (2012: RMB208,679 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(5) Investment income

	2013 RMB'000	2012 RMB'000
Share of results of investees under equity method	178,123	125,785
Investment income of financial products	52,438	–
Dividend income from available-for-sale financial assets	4,865	4,636
Dividends declared by investees under cost method	4,409	5,843
Gain on disposal of long-term equity investments	–	(40,116)
	239,835	96,148

(6) Supplementary information for cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	2013 RMB'000	2012 RMB'000
Net profit	1,408,025	893,959
Add: Provisions for asset impairment	55,145	86,104
Depreciation of fixed assets	2,172,892	1,919,989
Amortisation of intangible assets	1,469	1,911
Amortisation of long-term deferred expenses	121,744	84,591
Amortisation of deferred loss on sales and leaseback transaction	67,976	48,123
Gains on disposals of fixed assets, intangible assets and other long-term assets	(27,731)	(76,068)
Gains on changes in fair value	(35,025)	(118,396)
Finance expenses	1,385,312	2,053,783
Investment losses	(239,835)	(96,148)
Increase in deferred tax liabilities	245,563	369,630
Increase in deferred revenue	104,573	111,500
Decrease in inventories	8,275	61,107
Decrease/(increase) in operating receivables	1,220,102	(75,396)
Increase/(decrease) in operating payables	2,558,068	(813,266)
Net cash flows from operating activities	9,046,553	4,451,423

(b) Significant investing and financing activities that do not involve cash receipts and payments

	2013 RMB'000	2012 RMB'000
Assets transfer	–	192,552
Fixed assets acquired under finance leases	–	473,000
	–	665,552

(c) Net increase in cash and cash equivalents

	2013 RMB'000	2012 RMB'000
Cash and cash equivalents at end of year	15,172,055	16,106,533
Less: Cash and cash equivalents at beginning of year	(16,106,533)	(10,915,876)
Net (decrease)/increase in cash and cash equivalents	(934,478)	5,190,657

16 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
Beijing Business Culture Diffusion Co., Ltd.	Beijing Business Culture
Beijing Tianshou Sports Development Co., Ltd.	Kehang Tianshou
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Beijing HNA Songzhuang Investment and Development Co., Ltd.	HNA Songzhuang
Bairuichen Culture Media(Beijing) Co., Ltd.	Bairuichen Culture
Beijing Yanjing HNA Hotel	Yanjing Hotel
Beijing Kehang Investment Co., Ltd.	Beijing Kehang
Beijing Capital Aviation Holdings Co., Ltd.	Capital Aviation Holdings
Beijing Capital Airlines Co., Ltd.	Capital Airlines
Brussels DATA Hotel	Brussels DATA
Brussels EDIP Hotel	Brussels EDIP
Brussels SODE Hotel	Brussels SODE
Bohai International Trust Co., Ltd.	Bohai Trust
Bohai Leasing Co., Ltd.	Bohai Leasing
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Changjiang Leasing Co., Ltd.	Changjiang Leasing
Grand China Air Co., Ltd.	Grand China Air
Guokai Jingcheng (Beijing) Investment Fund Limited	Guokai Jingcheng Investment Fund
Gansu Airport Group Co., Ltd.	Gansu Airport
Hainan Guoshan Industrial Co., Ltd.	Hainan Guoshan
Hainan Xin Guo Hotel Ltd.	Xin Guo Hotel
Hainan Xinsheng Information Technology Co., Ltd	Xinsheng Info Tech
Hainan Haidao Hangxiang Investment and Development Co., Ltd.	Haidao Hangxiang
Hainan HNA Aviation Information Systems Co., Ltd.	HNA Information
Hainan Air Aviation Import & Export Co., Ltd.	HNA Import & Export
Hainan HNA Aviation Sales Co., Ltd.	HNA Aviation Sales
Hainan HNA Beverage Co., Ltd.	HNA Beverage
Hainan Province Development Holding Co., Ltd	Hainan Development Holding
Hainan Meilan International Airport Co., Ltd.	Meilan Airport
HNA Group (Hong Kong) Co., Ltd.	HNA Group (Hong Kong)
HNA Air Catering Co., Ltd.	HNA Air Catering
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Haikou New City Construction and Development Co., Ltd.	New City Construction
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
HNA Industrial Holding Co., Ltd.	HNA Industrial
HNA Tourism Holding (Group) Company Ltd.	HNA Tourism
HNA Yisheng Holding Co., Ltd.	Yisheng Holding
HNA Airport Holding (Group) Co., Ltd.	HNA Airport Holding
HNA Cargo Co., Ltd.	HNA Cargo
HNA Real Estate Holding (Group) Co., Ltd.	HNA Real Estate Holding
HNA Technology Limited	HNA Technology
HNA Airlines Holdings (Group) Co., Ltd.	HNA Airlines Holdings
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Hotel Holding Group Co., Ltd.	HNA Hotel Holding
HNA Group Co., Ltd.	HNA Group

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
HNA Group Finance Co., Ltd.	HNA Finance
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
Sanya Phoenix International Airport Tianhang Holdings	Sanya Phoenix Airport
Sanya Hansha Air Catering Co., Ltd	Sanya Catering
Shanxi Airlines Co., Ltd.	Shanxi Airlines
Tianjin Yanshan Aircraft Leasing Industry Equity Funds Partnership Firm	Yanshan Funds
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Catering
Xi'an Chanba Financing Warranty Co., Ltd	Xi'an Chanba
Western Airlines Co., Ltd.	Western Airlines
HKA Group Holdings Co., Ltd	HKAGH
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines
Yunnan Xiangpeng Airlines Co., Ltd.	Lucky Air
Yangtze River Express Airlines Co., Ltd.	Yangtze River Express
Yangtze River International Leasing Co., Ltd.	Yangtze River Leasing
Yangtze River Property Co., Ltd.	Yangtze River Property
Yangtze River Investment Holdings Co., Ltd.	Yangtze River Investment
China Xinhua Airlines Co., Ltd.	Xinhua Airlines
TravelSky Technology, Ltd.	TravelSky Tech
China Merchants Securities Co., Ltd.	Merchants Securities
Hainan Xinsheng Feixiang Shopping Co., Ltd.	Xinsheng Feixiang
Beijing HNA Real Estate Co., Ltd	Beijing HNA Real Estate
HNA Group (International) Co., Ltd.	HNA Group (International)
Hainan Fushun Investment and Development Co., Ltd.	Hainan Fushun
Hong Kong International Aviation Leasing Co., Ltd.	HKIAL

THE ISSUER

Hainan Airlines (Hong Kong) Co., Limited
Rooms 1105-12, 11th Floor, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

THE GUARANTOR

Hainan Airlines Co., Ltd.
HNA Plaza
No.7 Guoxing Road
Haikou City, Hainan Province, 570203, P.R. China

TRUSTEE

The Bank of New York Mellon, Hong Kong Branch
Level 24, Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon, Singapore Branch
One Temasek Avenue
#03-01 Millenia Tower
Singapore 039192

LEGAL ADVISORS TO THE ISSUER AND THE GUARANTOR

As to Hong Kong and United States Law

Cadwalader, Wickersham & Taft LLP
in association with
Joseph P.C. Lee & Associates
27th Floor, 100QRC
100 Queen's Road Central
Hong Kong

As to PRC Law

King & Wood Mallesons
40th Floor, Tower A
Beijing Fortune Plaza
7 Dongsanhuan Zhonglu
Chaoyang District
Beijing, 100020, P.R. China

LEGAL ADVISORS TO THE JOINT LEAD MANAGERS

As to Hong Kong Law

Clifford Chance
28th Floor, Jardine House
One Connaught Place
Hong Kong

As to PRC Law

Grandall Law Firm (Shanghai)
45-46/F. Nanzheng Building
580 Nanjing West Road
Shanghai, 200041, P.R. China

AUDITOR OF THE GUARANTOR

PricewaterhouseCoopers Zhong Tian LLP (successor of PricewaterhouseCoopers Zhong Tian CPAs Limited Company, effective from 1 July 2013)
11th Floor, PricewaterhouseCoopers Center
2 Corporate Avenue,
202 Hu Bin Road, Luwan District
Shanghai, 200021, P.R. China