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STRICTLY CONFIDENTIAL

GRAND CHINA AIR (HONG KONG) LIMITED

大新華航空（香港）有限公司

(incorporated with limited liability in Hong Kong)

U.S.\$30,960,000 5.50 PER CENT. GUARANTEED NOTES DUE 2018

Unconditionally and Irrevocably Guaranteed on a Joint and Several Basis by



HAINAN AIRLINES CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(SHSE Stock Code: 600221)

and



GRAND CHINA AIR CO., LTD.

(a limited liability company incorporated in the People's Republic of China)

ISSUE PRICE: 99.320 per cent.

The 5.50 per cent. guaranteed notes due 2018 in the aggregate principal amount of U.S.\$30,960,000 (the "Notes") will be issued by Grand China Air (Hong Kong) Limited (the "Issuer") and will be unconditionally and irrevocably guaranteed on a joint and several basis (the "Guarantee of the Notes") by Hainan Airlines Co., Ltd. ("Hainan Airlines") and Grand China Air Co., Ltd. ("Grand China Air"), together with Hainan Airlines, the "Guarantors", and each, a "Guarantor"). The Issuer is a wholly-owned subsidiary of Grand China Air. The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which is a condition precedent to completion of this offering. If such approval is not obtained, the Notes will not be issued and this offering will not be completed. See "Risk Factors – The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which has not yet been obtained; if such approval is not obtained by the closing date for the offering of the Notes, the offering will not be completed" and "The Guarantee of the Notes".

The Notes will bear interest from and including 17 April 2015 at the rate of 5.50 per cent. of their principal amount per year. Interest on the Notes is payable semi-annually in arrear on 17 April and 17 October in each year (each, an "Interest Payment Date"). Payments on the Notes 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 Notes – Taxation".

The Notes mature on 17 April 2018 at their principal amount. The Notes 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 Notes – Redemption and Purchase – Redemption for tax reasons". The Notes may also be redeemed at the option of the holders at 101 per cent. 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 Notes – Redemption and Purchase – Redemption for Change of Control". The Issuer shall redeem all, and not some only, of the Notes at 100 per cent. 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 Notes – Redemption and Purchase – Mandatory Redemption for Non-Registration".

Application will be made for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (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. Admission of the Notes on the Official List of the SGX-ST and quotation of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Guarantors, their respective subsidiaries, their respective affiliates or the Notes.

Investing in the Notes 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 Notes.

The Notes and the Guarantee of the Notes 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 Notes 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 Notes and the distribution of this Offering Circular, see "Subscription and Sale".

The Notes have not been rated.

The Notes will constitute direct, general, 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 Notes will be U.S.\$200,000 and integral multiples U.S.\$1,000 in excess thereof. The Notes will be represented by beneficial interests in a global note certificate (the "Global Note Certificate") in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about 17 April 2015 (the "Issue Date"), with a common depository for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream, Luxembourg"). Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Note Certificate.

Sole Global Coordinator, Lead Manager and Bookrunner

DBS BANK LTD.

Offering Circular dated 31 March 2015

## IMPORTANT NOTICE

Each of the Issuer and the Guarantors, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, Hainan Airlines and its subsidiaries (the “**Hainan Airlines Group**”), Grand China Air and its subsidiaries excluding Hainan Airlines and its subsidiaries (the “**Grand China Air Group**”, and together with Hainan Airlines Group, the “**Group**”), the Notes and the Guarantee of the Notes, which is material in the context of the issue and offering of the Notes, (ii) the statements contained in it relating to the Issuer, the Guarantors, the Group and the associated companies of each Guarantor 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 Guarantors, the Group and the associated companies of each Guarantor 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 Guarantors, the Group, the associated companies of each Guarantor, the Notes or the Guarantee of the Notes the omission of which would, in the context of the issue and offering of the Notes and the Guarantee of the Notes, 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 Guarantors to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Issuer and the Guarantors 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 Guarantors solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantors and DBS Bank Ltd. (the “**Sole Lead Manager**”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes 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 Notes 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 Notes 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, either Guarantor, the Group, the Notes or the Guarantee of the Notes 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, either Guarantor, the Sole Lead Manager, 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 Notes 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, either Guarantor, the respective subsidiaries and associated companies of each Guarantor 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 Guarantors, the Sole Lead Manager, the Trustee or the Agents to subscribe for or purchase any of the Notes 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 Sole Lead Manager or any of its 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 Sole Lead Manager, the Trustee or the Agents. To the fullest extent permitted by law, the Sole Lead Manager, the Trustee and the Agents do not accept any responsibility for the

contents of this Offering Circular. Each of the Sole Lead Manager, 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 Sole Lead Manager, the Trustee or any Agent undertakes to review the financial condition or affairs of the Issuer, the Guarantors or the Group after the date of this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Sole Lead Manager, the Trustee or any Agent. The Sole Lead Manager has 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 Guarantors, the Sole Lead Manager, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes 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 NOTES, DBS BANK LTD., 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 NOTES 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 NOTES 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 NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.**

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantors, 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 Notes.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Sole Lead Manager or any person affiliated with the Sole Lead Manager 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. Each Guarantor believes that the sources of this information are appropriate for such information and such Guarantor has taken reasonable care in extracting and reproducing such information. Neither of the Guarantors has any 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 Guarantors, the Sole Lead Manager, the Trustee or the Agents and none of the Guarantors, the Sole Lead Manager, 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 Special Administrative Region of the PRC.

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 “**U.S. dollars**”, “**U.S.\$**”,

“U.S. cents” or “U.S.¢” are to the lawful currency of the United States of America, references herein to “Singapore dollars” or “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 Guarantors and defined terms used in the calculation of such ratios may differ from those in the “*Terms and Conditions of the Notes*”.

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

Hainan Airlines has prepared consolidated financial statements as of and for the years ended 31 December 2013 and 2014, and Grand China Air has prepared consolidated financial statements as of and for the years ended 31 December 2012 and 2013 and will prepare consolidated financial statements as of and for the year ended 31 December 2014 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 “CAS”), and disclosure requirements in Preparation Convention for Information Disclosures by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (2014 Revised) (公開發行證券的公司信息披露編報規則第15號 – 財務報告的一般規定 (2014年修訂)) issued by CSRC.

The consolidated financial information of Hainan Airlines for the year ended 31 December 2012 has been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, auditor of Hainan Airlines (“**PwC ZT CPAs Limited**”), and the consolidated financial information for the years ended 31 December 2013 and 2014 has been audited by PricewaterhouseCoopers Zhong Tian LLP (successor of PwC ZT CPAs Limited, effective from 1 July 2013; collectively “**PwC ZT**”). The consolidated financial statements of Hainan Airlines as of and for the years ended 31 December 2012 and 2013 and a Chinese version of the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 are included elsewhere in this Offering Circular. An English version of the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 will be available for inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of April 2015.

Information as of and for the year ended 31 December 2014 set out in the Hainan Airlines 2014 Audited Consolidated Financial Statements reflects the impact of applying merger accounting to account for Hainan Airlines’ acquisition of its interest in Yunnan Lucky Air Co., Ltd. (“**Lucky Air**”) in March 2014, which has the effect of including the financial information of Lucky Air in Hainan Airlines’ financial information as of and for the entire year ended 31 December 2014. Comparative figures as of and for the year ended 31 December 2013 set out in the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 (the “**Hainan Airlines Audited and Restated 2013 Financial Information**”) have been restated to reflect the impact of merger accounting to account for Hainan Airlines’ acquisition of Lucky Air for comparative purposes. In addition, in 2014, the MOF of the PRC issued CAS 39 “Fair Value Measurement”, CAS 40 “Joint arrangement”, CAS 41 “Disclosure of Interests in Other Entities”, CAS 2 “Long-Term Equity Investments”, CAS 9 “Employee Benefits”, CAS 30 “Presentation of Financial Statements”, CAS 33 “Consolidated Financial Statements” and CAS 37 “Presentation of Financial Instrument” (“**CAS 37**”), which were implemented since 1 July 2014 except for CAS 37 being required to be implemented for the 2014 annual financial statements and since then. In preparation of information as of and for the year ended 31 December 2014, Hainan Airlines had adopted the above revised CAS. Comparative figures as of and for the year ended 31 December 2013 have also been restated for this reason. Accordingly, the Hainan Airlines Audited and Restated 2013 Financial Information is not the same as the information as of and for the year ended 31 December 2013 and not comparable to the information as of and for the year ended 31 December 2012 each as set out in the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2013.

The consolidated financial information of Grand China Air for the years ended 31 December 2011, 2012 and 2013 (the “**Grand China Air Audited Consolidated Financial Statements**”) has been audited by China Audit Asia Pacific Certified Public Accountants LLP (中審亞太會計師事務所 (特殊普通合夥)) (a member firm of Morison International Accountants Group), Certified Public Accountants (“**CAAP**”). The Grand China Air Audited Consolidated Financial Statements are included elsewhere in this Offering Circular. An English version of the consolidated financial statements of Grand China Air as of and for the year ended 31 December 2014 will be available or inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of May 2015.

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 Guarantors 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 Guarantors 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 Guarantors 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 Guarantors' 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 Guarantor 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.

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## 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 Hainan Airlines to investors in the PRC for subscription in Renminbi

“B Shares” ..... Shares issued by Hainan Airlines 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

“CBRC” .....	China Banking Regulatory Commission
“CSRC” .....	China Securities Regulatory Commission
“Foreign Exchange of Cross-border Security Measures” .....	the Provisions on the Administration of Foreign Exchange for Cross-border Security (跨境擔保外匯管理規定) and the Guidelines for Implementing the Provisions on the Administration of Foreign Exchange of Cross-border Security (跨境擔保外匯管理操作指引) promulgated by SAFE on 12 May 2014
“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

Hainan Airlines 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 2014. Hainan Airlines Group provides scheduled domestic, regional and international services using a hub and spoke strategy on 948 routes to 157 cities in 14 countries as of 31 December 2014. In addition to its main route bases in Haikou and Beijing, Hainan Airlines 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.

Hainan Airlines is one of seven airlines in the world ranked as a 5-Star airline by the independent airline benchmarking firm Skytrax in 2014. The first and only PRC airline to receive this rating, Hainan Airlines received the rating for a fourth consecutive year. Hainan Airlines 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, Hainan Airlines Group provides cargo and mail services through bellyhold space of its passenger aircraft. It also leases out a total of 36 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.

Hainan Airlines Group has a fleet primarily comprising Boeing 737-800 aircraft, along with Boeing 787-8, Boeing 767-300, Boeing 737-700, Airbus A330-300, Airbus A330-200, Airbus A319 and Airbus A320 aircraft for passenger and cargo transportation. As of 31 December 2014, Hainan Airlines Group operated a fleet of 169 aircraft, serving 116 domestic, 2 regional and 39 international destinations. In 2012, 2013 and 2014, Hainan Airlines Group carried approximately 22.55 million, 30.93 million and 35.60 million passengers and had a RPK of 39,063.44 million, 51,242.19 million and 59,278.79 million, respectively.

Hainan Airlines Group has experienced significant growth in both passenger and cargo traffic and has an established track record of improving financial performance. In 2012, 2013 and 2014, Hainan Airlines Group's consolidated total revenue was RMB28,867.59 million, RMB33,276.25 million and RMB36,043.77 million, respectively, and its net profit attributable to equity shareholders was RMB1,927.79 million, RMB2,158.66 million and RMB2,591.17 million, respectively. Hainan Airlines Group's consolidated total revenue and net profit attributable to equity shareholders increased by 8.32% and 20.04%, respectively, in 2014.

Hainan Airlines' 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 Hainan Airlines' ordinary domestic shares in the form of A Shares were listed on the Shanghai Stock Exchange in 1999. As of 31 December 2014, the market capitalisation of Hainan Airlines was RMB41,658.04 million (including RMB40,399.59 million in terms of its A Shares and U.S.\$202.83 million in terms of its B Shares converted at an exchange rate of RMB6.2046 to U.S.\$1.00 on 31 December 2014 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

Hainan Airlines Group believes it has the following key 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*
- *Experienced and innovative management team*

### **Business strategies**

Hainan Airlines Group aims to become the airline of choice in the PRC 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*

Grand China Air is principally a holding company established by HNA Group in July 2004 to hold a variety of HNA Group investments and assets in the air transportation and tourism industries. The Group's business scope includes air transportation, aviation maintenance and service, airline food supplies, extended services relating to air transportation, airport investment and management, terminal service, operation and management as well as hotel management. Hainan Airlines Group is the Group's principal platform for the air transportation business. Grand China Air owned Hainan Airlines as to 28.18% directly and 1.77% indirectly through American Aviation LDC as of the date of this Offering Circular.

### **Risk factors**

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

## THE ISSUE

*The following contains summary information about the Notes 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 Notes” and “The Global Note Certificate” shall have the same meanings in this summary. For a more complete description of the terms of the Notes, see “Terms and Conditions of the Notes”.*

Issuer .....	Grand China Air (Hong Kong) Limited.
Guarantors .....	Hainan Airlines Co., Ltd. and Grand China Air Co., Ltd.
Principal amount of the Notes .....	U.S.\$30,960,000 aggregate principal amount of 5.50 per cent. Notes due 2018.
Issue Price .....	99.320 per cent. of the principal amount.
Form and Denomination .....	The Notes will be issued in registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Interest .....	The Notes will bear interest at a rate of 5.50 per cent. per year.
Interest Payment Dates .....	The Notes bear interest from and including 17 April 2015, payable semi-annually in arrear on 17 April and 17 October in each year (each, an “ <b>Interest Payment Date</b> ”) starting on 17 October 2015.
Issue Date .....	17 April 2015.
Maturity Date .....	17 April 2018.
Status of the Notes .....	The Notes constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank <i>pari passu</i> without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by applicable provisions of law.
The Guarantee of the Notes .....	The Guarantors will in the trust deed to be dated on or about 17 April 2015 (as amended or supplemented from time to time, the “ <b>Trust Deed</b> ”) unconditionally and irrevocably, on a joint and several basis, guarantee the due and punctual payment in full of all sums expressed to be payable by the Issuer under the Notes. The Guarantee of the Notes constitutes the direct, general and unconditional obligations of each Guarantor which will at all times rank at least <i>pari passu</i> with all of its other present and future unsecured obligations, save as provided under Condition 3 and save for such obligations as may be preferred by applicable provisions of law.

Each Guarantor undertakes that it will register or cause to be registered with SAFE the Trust Deed in accordance with, and within the time period prescribed by, the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) (“Cross-border Security Registration”), use its reasonable endeavours to complete the Cross-border Security Registration and obtain a registration record from

SAFE on or before the Registration Deadline (as defined in Condition 5(d)) and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes. In addition, each Guarantor shall procure that within five China Business Days (as defined in Condition 3(d)) after the documents comprising the Release Condition (as defined in Condition 5(d)) are delivered to the Trustee, the Issuer releases a notice to the Noteholders confirming the completion of the Release Condition.

See “*Terms and Conditions of the Notes – Form, Denomination, Status and Guarantee of the Notes – Guarantee of the Notes*”.

Negative Pledge . . . . . The Notes will contain certain negative pledge provisions as further described in “*Terms and Conditions of the Notes – Covenants – Negative Pledge*”.

Financial Covenant . . . . . So long as any Note remains outstanding, Hainan Airlines shall not directly or indirectly permit Consolidated Tangible Net Worth as of the end of any Relevant Period to be less than RMB15 billion.

See “*Terms and Conditions of the Notes – Covenants – Financial Covenant*”.

Events of Default . . . . . Upon the occurrence of certain events described under “*Terms and Conditions of the Notes – Events of Default*”, the Trustee at its discretion may and if so requested by holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes 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 Notes immediately due and payable at their principal amount together (if applicable) with accrued interest.

Taxation . . . . . All payments of principal and interest in respect of the Notes or under the Guarantee of the Notes by or on behalf of the Issuer or, as the case may be, the Guarantors 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) each Guarantor shall pay such additional amounts as will result in receipt by the Noteholders 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 Notes – Taxation*”.

Mandatory Redemption . . . . . The Issuer shall redeem all, but not some only, of the Notes at 100 per cent. 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 Notes – Redemption and Purchase – Mandatory Redemption for Non-Registration”*. The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which is a condition precedent to completion of this offering. If such approval is not obtained, the Notes will not be issued and this offering will not be completed. See *“Risk Factors – The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which has not yet been obtained; if such approval is not obtained by the closing date for the offering of the Notes, the offering will not be completed”* and *“The Guarantee of the Notes”*.

Tax Redemption . . . . . The Notes 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 either Guarantor would be required to pay Additional Amounts as provided or referred to in Condition 5(b) in respect of the Notes 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 Notes – Redemption and Purchase – Redemption for tax reasons”*.

Redemption on a Change of Control . . . . A Noteholder shall have the right, at such Noteholder’s option, to require the Issuer to redeem all but not some only of its Notes at 101 per cent. of their principal amount, together with accrued interest, upon the occurrence of a Change of Control with respect to either Guarantor. See *“Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Change of Control”*.

Further Issues . . . . . The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Notes in all respects, except, if applicable, for the first payment of interest and in all cases for the deemed Issue Date for the purposes of Condition 5(d) (*Mandatory Redemption for Non-Registration*), so as to form a single series with the Notes. See *“Terms and Conditions of the Notes – Further Issues”*.

Clearing Systems . . . . . The Notes will be represented by beneficial interests in the Global Note Certificate, which will be registered in the name of a nominee for, and deposited on the Issue Date with a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will

be effected only through records maintained by, Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Note Certificate.

Clearance and Settlement .....	The Notes have been accepted for clearance by Euroclear and Clearstream, Luxembourg. The ISIN and Common Code of the Notes are XS1214932094 and 121493209, respectively.
Governing Law .....	The Notes, the Guarantee of the Notes and the Trust Deed will be governed by and shall be construed in accordance with Hong Kong law.
Trustee and Principal Paying Agent ....	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent .....	The Bank of New York Mellon (Luxembourg) S.A.
Listing .....	Application will be made for the listing and quotation of the Notes on the SGX-ST. If approved, the Notes will be traded on the SGX-ST in the minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST. No application has been made or will be made for the listing of the Notes on any other stock exchange.
Rating .....	The Notes will not be rated.
Use of Proceeds .....	See “ <i>Use of Proceeds</i> ”.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

*The following tables set forth (i) summary historical financial information of Hainan Airlines as of and for the years ended 31 December 2012, 2013 and 2014; and (ii) summary historical financial information of Grand China Air as of and for the years ended 31 December 2011, 2012 and 2013.*

*The consolidated income statement data of Hainan Airlines for the years ended 31 December 2012, 2013 and 2014 and Grand China Air for the years ended 31 December 2011, 2012 and 2013 (except for EBITDA and EBITDAR data) and the consolidated balance sheet data of Hainan Airlines as of 31 December 2012, 2013 and 2014 and Grand China Air as of 31 December 2011, 2012 and 2013 set forth below have been derived from the Hainan Airlines Audited Consolidated Financial Statements and the Grand China Air Audited Consolidated Financial Statements, respectively. The summary historical financial information of Hainan Airlines and Grand China Air should be read in conjunction with such audited consolidated financial statements and translations and the notes thereto.*

*The financial information of Hainan Airlines for the years ended 31 December 2012, 2013 and 2014 and Grand China Air for the years ended 31 December 2011, 2012 and 2013 is prepared and presented in accordance with CAS. The relevant difference between CAS and International Financial Reporting Standards (“IFRS”) is summarised in “Relevant Differences Between CAS and International Financial Reporting Standards”.*

An English version of the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 will be available for inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of April 2015. Information as of and for the year ended 31 December 2014 set out in the Hainan Airlines 2014 Audited Consolidated Financial Statements reflects the impact of applying merger accounting to account for Hainan Airlines’ acquisition of its interest in Lucky Air in March 2014, which has the effect of including the financial information of Lucky Air in Hainan Airlines’ financial information as of and for the entire year ended 31 December 2014. Comparative figures as of and for the year ended 31 December 2013 set out in the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 (the **“Hainan Airlines Audited and Restated 2013 Financial Information”**) have been restated to reflect the impact of merger accounting to account for Hainan Airlines’ acquisition of Lucky Air for comparative purposes. In addition, in 2014, the MOF of the PRC issued CAS 39 “Fair Value Measurement”, CAS 40 “Joint arrangement”, CAS 41 “Disclosure of Interests in Other Entities”, CAS 2 “Long-Term Equity Investments”, CAS 9 “Employee Benefits”, CAS 30 “Presentation of Financial Statements”, CAS 33 “Consolidated Financial Statements” and CAS 37 “Presentation of Financial Instrument” (**“CAS 37”**), which were implemented since 1 July 2014 except for CAS 37 being required to be implemented for the 2014 annual financial statements and since then. In preparation of information as of and for the year ended 31 December 2014, Hainan Airlines had adopted the above revised CAS. Comparative figures as of and for the year ended 31 December 2013 have also been restated for this reason. Accordingly, the Hainan Airlines Audited and Restated 2013 Financial Information is not the same as the information as of and for the year ended 31 December 2013 and not comparable to the information as of and for the year ended 31 December 2012 each as set out in the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2013.

An English version of the consolidated financial statements of Grand China Air as of and for the year ended 31 December 2014 will be available or inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of May 2015.

# Selected financial information of Hainan Airlines

## Consolidated income statements

		Year ended 31 December		
		2012	2013	2014
			(Restated)	
			(RMB'000)	
<b>Revenue</b>		<b>28,867,585</b>	<b>33,276,254</b>	<b>36,043,771</b>
Less:	Operating costs	(21,557,641)	(26,144,416)	(27,702,882)
	Business taxes and surcharges	(875,181)	(597,517)	(68,318)
	Selling and distribution expenses	(1,846,854)	(2,077,680)	(2,166,136)
	General and administrative expenses	(598,504)	(699,370)	(768,210)
	Finance expenses – net	(2,603,623)	(2,045,331)	(2,401,198)
	Assets impairment losses	(86,484)	(54,771)	(6,141)
Add:	(Loss)/gain on changes in fair value	504,363	(64,363)	(249,168)
	Investment income	188,241	696,383	804,651
	Including: share of results of associates	212,413	439,798	534,625
<b>Operating profit</b>		<b>1,991,902</b>	<b>2,289,189</b>	<b>2,498,651</b>
Add:	Non-operating income	674,449	475,429	728,831
Less:	Non-operating expenses	(12,637)	(3,455)	(14,856)
	Including: losses on disposal of non-current assets	(1,722)	(2,093)	(2,288)
<b>Total profit</b>		<b>2,653,714</b>	<b>2,761,163</b>	<b>3,212,626</b>
Less:	Income tax expenses	(708,768)	(585,852)	(569,978)
<b>Net profit</b>		<b>1,944,946</b>	<b>2,175,311</b>	<b>2,642,648</b>
	– Attributable to equity shareholders of the company	1,927,787	2,158,660	2,591,173
	– Minority interests	17,159	16,651	51,475
<b>Earnings per share</b>				
	Basic earnings per share (RMB Yuan)	0.177	0.18	0.21
	Diluted earnings per share (RMB Yuan)	0.177	0.18	0.21
<b>Other comprehensive income</b>		<b>101,501</b>	<b>169,484</b>	<b>432,427</b>
<b>Total comprehensive income</b>		<b>2,046,447</b>	<b>2,344,795</b>	<b>3,075,075</b>
	– Attributable to equity shareholders of the company	2,029,288	2,328,144	3,023,600
	– Minority interests	17,159	16,651	51,475
<b>OTHER FINANCIAL DATA</b>				
EBITDA <sup>1</sup>		6,491,600	6,712,233	8,852,607
EBITDAR <sup>2</sup>		8,450,166	9,299,915	11,123,150

### Notes:

- 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 CAS. 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.
- 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 CAS. 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 sheets*

	As of 31 December		
	2012	2013 (Restated) (RMB'000)	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash at bank and on hand . . . . .	22,312,403	21,729,850	21,715,590
Notes receivable . . . . .	–	25,000	–
Accounts receivable . . . . .	541,651	905,626	733,906
Advances to suppliers . . . . .	326,543	409,750	953,863
Interest receivable . . . . .	230,288	408,093	473,753
Dividends receivable . . . . .	1,865	6,730	4,641
Other receivables . . . . .	203,561	1,320,188	1,652,016
Inventories . . . . .	70,514	64,352	62,913
Other current assets . . . . .	2,000,000	2,914,836	3,192,735
<b>Total current assets . . . . .</b>	<b>25,686,825</b>	<b>27,784,425</b>	<b>28,789,417</b>
<b>Non-current assets</b>			
Available-for-sale financial assets . . . . .	1,061,446	2,764,586	4,421,499
Long-term equity investments . . . . .	9,077,138	11,292,114	12,825,132
Investment properties . . . . .	7,256,342	10,742,182	9,268,104
Fixed assets . . . . .	34,377,690	42,856,409	50,295,563
Construction in progress . . . . .	12,001,162	11,936,427	13,061,147
Intangible assets . . . . .	164,204	355,250	341,465
Goodwill . . . . .	328,865	328,865	328,865
Long-term prepaid expenses . . . . .	483,595	664,258	617,415
Other non-current assets . . . . .	2,281,877	3,892,577	2,033,434
<b>Total non-current assets . . . . .</b>	<b>67,032,319</b>	<b>84,832,663</b>	<b>93,192,624</b>
<b>TOTAL ASSETS . . . . .</b>	<b>92,719,144</b>	<b>112,617,088</b>	<b>121,982,041</b>

	As of 31 December		
	2012	2013 (Restated) (RMB'000)	2014
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	15,792,336	21,878,657	18,525,425
Financial liabilities held for trading	—	—	—
Notes payable	5,464,473	4,668,804	5,528,136
Accounts payable	4,924,949	5,149,797	3,790,588
Advances from customers	918,462	1,639,875	1,539,538
Employee benefits payable	198,248	293,309	287,008
Taxes payable	552,670	804,426	779,841
Interest payable	346,211	374,075	473,503
Dividends payable	68,521	59,381	29,746
Other payables	877,345	1,446,372	763,207
Current portion of non-current liabilities	6,184,770	7,567,251	6,829,007
<b>Total current liabilities</b>	<b>35,327,985</b>	<b>43,881,947</b>	<b>38,545,999</b>
<b>Non-current liabilities</b>			
Long-term borrowings	23,169,711	25,749,667	27,664,889
Debentures payable	6,430,063	8,637,955	15,244,001
Long-term payables	1,195,060	2,656,236	3,844,207
Deferred tax liabilities	2,054,148	3,339,036	3,822,107
Other non-current liabilities	632,948	—	324,258
<b>Total non-current liabilities</b>	<b>33,481,930</b>	<b>41,123,338</b>	<b>51,711,297</b>
<b>Total liabilities</b>	<b>68,809,915</b>	<b>85,005,285</b>	<b>90,257,296</b>
<b>Shareholders' equity</b>			
Share capital	6,091,091	12,182,182	12,182,182
Capital surplus	11,739,753	6,596,153	5,688,139
Surplus reserve	657,397	852,630	969,849
Undistributed profit	5,309,332	7,229,735	9,118,873
<b>Total equity attributable to equity shareholders of the company</b>	<b>23,797,573</b>	<b>27,120,865</b>	<b>28,651,635</b>
<b>Minority interests</b>	<b>111,656</b>	<b>490,938</b>	<b>3,073,110</b>
<b>Total shareholders' equity</b>	<b>23,909,229</b>	<b>27,611,803</b>	<b>31,724,754</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>92,719,144</b>	<b>112,617,088</b>	<b>121,982,041</b>



# Selected financial information of Grand China Air

## Consolidated income statement data

		Year ended 31 December		
		2011	2012	2013
		(RMB'000)		
<b>Revenue</b>		<b>29,422,540</b>	<b>32,156,973</b>	<b>33,697,476</b>
Less:	Operating costs	(22,111,494)	(24,123,662)	(26,569,784)
	Business taxes and surcharges	(926,204)	(1,011,010)	(609,258)
	Selling expenses	(1,455,123)	(2,005,543)	(2,121,162)
	Administrative expenses	(662,258)	(724,039)	(700,400)
	Finance expenses	(2,194,811)	(2,896,005)	(2,201,881)
	Loss on impairment of assets	(8,206)	(117,623)	(86,564)
Add:	(Loss)/gain on changes in fair value	869,871	604,115	(64,363)
	Investment income	187,664	167,748	700,701
	Including: share of results of associates	89,493	212,413	474,503
<b>Operating profit</b>		<b>3,121,979</b>	<b>2,050,954</b>	<b>2,044,765</b>
Add:	Non-operating income	621,182	727,357	475,683
Less:	Non-operating expenses	(77,816)	(13,327)	(3,454)
	Including: losses on disposal of non-current assets	(70,422)	(1,896)	(2,093)
<b>Total profit</b>		<b>3,665,345</b>	<b>2,764,984</b>	<b>2,516,994</b>
Less:	Income tax expenses	(900,081)	(778,396)	(585,852)
<b>Net profit</b>		<b>2,765,264</b>	<b>1,986,588</b>	<b>1,931,142</b>
	– Attributable to equity shareholders of the company	1,365,493	685,807	506,510
	– Minority interests	1,399,771	1,300,781	1,424,632
<b>Other comprehensive income/(loss)</b>		<b>(130,871)</b>	<b>101,501</b>	<b>54,729</b>
<b>Total comprehensive income</b>		<b>2,634,393</b>	<b>2,088,089</b>	<b>1,985,871</b>
	– Attributable to equity shareholders of the company	1,307,648	716,206	522,901
	– Minority interests	1,326,745	1,371,883	1,462,970

*Consolidated balance sheet data*

	As of 31 December		
	2011	2012	2013
	(RMB'000)		
<b>ASSETS</b>			
<b>Current assets</b>			
Cash at bank and on hand . . . . .	22,562,540	25,968,033	23,191,432
Notes receivable . . . . .	—	—	25,000
Accounts receivable . . . . .	738,377	559,443	938,921
Prepayment . . . . .	576,960	613,170	923,692
Interest receivable . . . . .	221,008	261,155	408,093
Dividends receivable . . . . .	6,016	1,865	6,730
Other receivables . . . . .	10,683,770	6,917,504	4,744,228
Inventories . . . . .	128,213	72,621	64,352
Other current assets . . . . .	1,350,000	3,200,000	5,414,836
<b>Total current assets . . . . .</b>	<b>36,266,884</b>	<b>37,593,791</b>	<b>35,717,284</b>
<b>Non-current assets</b>			
Available-for-sale financial assets . . . . .	899,684	1,061,446	1,044,420
Long-term equity investments . . . . .	5,839,101	9,671,931	14,301,535
Investment properties . . . . .	10,390,902	10,907,883	10,481,916
Fixed assets . . . . .	31,395,871	35,729,716	42,856,409
Construction in progress . . . . .	8,844,093	12,046,663	11,936,427
Liquidation of fixed assets . . . . .	80	—	—
Intangible assets . . . . .	194,967	364,948	355,250
Goodwill . . . . .	897,797	897,797	897,797
Long-term deferred expenses . . . . .	434,757	592,499	664,258
Deferred tax assets . . . . .	—	72	7
Other non-current assets . . . . .	2,391,117	2,443,621	3,092,579
<b>Total non-current assets . . . . .</b>	<b>61,288,369</b>	<b>73,716,576</b>	<b>85,630,598</b>
<b>TOTAL ASSETS . . . . .</b>	<b>97,555,253</b>	<b>111,310,367</b>	<b>121,347,882</b>

	As of 31 December		
	2011	2012	2013
	(RMB'000)		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term borrowings	18,718,695	18,485,336	22,178,657
Financial liabilities held for trading	150	—	—
Notes payable	7,589,539	7,419,560	5,976,189
Accounts payable	4,084,454	5,198,971	5,462,277
Advances from customers	1,259,783	1,076,349	1,679,637
Employee benefits payable	240,297	213,105	293,309
Taxes payable	758,649	696,067	819,853
Interest payable	324,985	352,668	374,075
Dividends payable	24,617	68,521	59,381
Other payables	3,374,650	2,772,699	1,527,981
Current portion of non-current liabilities	5,080,664	7,126,167	7,567,251
<b>Total current liabilities</b>	<b>41,456,483</b>	<b>43,409,443</b>	<b>45,938,610</b>
<b>Non-current liabilities</b>			
Long-term borrowings	24,310,893	23,399,711	26,978,877
Debentures payable	5,918,309	7,123,105	8,637,955
Long-term payables	1,412,548	2,236,998	2,656,236
Deferred tax liabilities	2,281,018	2,930,176	3,188,953
Other non-current liabilities	478,006	632,948	740,444
<b>Total non-current liabilities</b>	<b>34,400,774</b>	<b>36,322,938</b>	<b>42,202,465</b>
<b>Total liabilities</b>	<b>75,857,257</b>	<b>79,732,381</b>	<b>88,141,075</b>
<b>Shareholders' equity</b>			
Share capital	5,976,678	5,976,678	5,976,678
Capital surplus	5,022,841	5,053,240	5,069,631
Surplus reserve	5,259	5,259	5,259
Undistributed profit	2,475,272	3,394,735	3,901,245
<b>Total equity attributable to equity shareholders of the company</b>	<b>13,480,050</b>	<b>14,429,912</b>	<b>14,952,813</b>
<b>Minority interests</b>	<b>8,217,946</b>	<b>17,148,074</b>	<b>18,253,994</b>
<b>Total shareholders' equity</b>	<b>21,697,996</b>	<b>31,577,986</b>	<b>33,206,807</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>97,555,253</b>	<b>111,310,367</b>	<b>121,347,882</b>

## 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 Notes. 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 Guarantors currently believe are immaterial may also adversely affect their 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 Notes 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 2014, for approximately 39.47% of Hainan Airline's consolidated operating costs and in 2013, for approximately 34.84% of Grand China Air's consolidated 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.

***Hainan Airlines has entered into a master fixed price supply agreement to lock in its fuel price, which, however, may not ultimately prove beneficial to Hainan Airlines.***

As a form of protection against potential increases in fuel prices, Hainan Airlines 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, Hainan Airlines 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 six months' notice to the other party.

While the arrangement would prove useful to Hainan Airlines if fuel prices increase after Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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 the financial condition and operating results of the Group.

***Airline alliances may lead to a fiercely competitive environment and Hainan Airlines 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. Hainan Airlines 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 Hainan Airlines 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 tsunamis 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. Strong 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.

***Hainan Airlines 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 Hainan Airlines' subsidiaries.***

Hainan Airlines 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 2014, Hainan Airlines 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 Hainan Airlines' subsidiaries, which could adversely affect Hainan Airlines' financial condition and results of operations on a consolidated basis. In addition, if such an event were to occur, it may affect Hainan Airlines' ability to satisfy its obligations under the Guarantee of the Notes because

as a holding company, Hainan Airlines 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 Notes.

***The interests of the Group's controlling shareholders, Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd., may not align with Hainan Airlines Group's or the Group's interests and the interests of the holders of the Notes.***

As of 31 December 2014, Grand China Air, Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. directly held 28.18% (an additional 1.77% of the shares of Hainan Airlines were held by American Aviation LDC, a wholly-owned subsidiary of Grand China Air), 4.89% and 4.89% of the shares of Hainan Airlines, 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, respectively, Hainan Development Holdings Co., Ltd. and HNA Group Co., Ltd. directly or indirectly control both the Group and Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group's controlling shareholders may also differ from those of the holders of the Notes.

***Hainan Airlines Group engages in related party transactions, which may result in conflicts of interests.***

Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group's related party transactions in 2012, 2013 and 2014 have been disclosed in the Hainan Airlines Audited Consolidated Financial Statements.

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

***Hainan Airlines Group may not be successful in implementing its growth strategy.***

Hainan Airlines Group's growth strategy involves increasing the frequency of flights to markets that it currently serves, linking the markets Hainan Airlines 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.

Hainan Airlines 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;
- Hainan Airlines Group's ability to acquire additional licences and traffic rights to its targeted geographical markets in order to expand its route portfolio;
- Hainan Airlines Group's ability to secure the necessary landing and takeoff slots at its targeted airports; and
- fulfilment of Hainan Airlines Group's aircraft orders on a timely basis by the aircraft manufacturer and Hainan Airlines Group's ability to finance the acquisition of such aircraft on acceptable terms.

Many of these factors are beyond Hainan Airlines Group's control. In the future, Hainan Airlines 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, Hainan Airlines Group has committed to purchase additional aircraft to increase its fleet size to 306 aircraft by 2018. In the event that Hainan Airlines 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 Hainan Airlines Group's results. Further, when Hainan Airlines Group commences new routes, Hainan Airlines 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 Hainan Airlines Group's start-up costs tend to be higher, which may result in initial losses. Hainan Airlines 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 Hainan Airlines Group's yield and passenger revenues on such routes during the periods that they are in effect.

***Hainan Airlines 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.***

Hainan Airlines 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, Hainan Airlines entered into a cooperative agreement to form a joint venture, Fuzhou Airlines Co., Ltd. ("**Fuzhou Airlines**"), with Fuzhou State Asset Investment Holdings Co. Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co. Ltd. to utilise local aviation resources, expand local market share and build a strong service brand. Hainan Airlines 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 in February 2014. Fuzhou Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC in October 2014 and made its first flight from Fuzhou to Beijing on 30 October 2014. In February 2013, Hainan Airlines entered into a framework agreement to form a joint venture, Urumqi Airlines Co., Ltd. ("**Urumqi Airlines**"), with Urumqi City Construction Investment Co., Ltd to promote the development of the civil aviation and tourism industries in the Xinjiang area. Hainan Airlines 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. In August 2014, Urumqi Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC and made its first flight from Urumqi to Yining on 29 August 2014. In January 2014, Hainan Airlines 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. Hainan Airlines 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 January 2014. The joint venture commenced its business in August 2014 with a registered capital of RMB100 million and is China's first aviation and shipping exchange which serves as an third-party exchange platform for Internet-based aviation and shipping asset financing and investment.

Hainan Airlines 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 Hainan Airlines 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, Hainan Airlines 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.

***Hainan Airlines 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 Hainan Airlines Group's profitability is to maintain a high utilisation rate for each aircraft. As of 31 December 2014, Hainan Airlines Group's current utilisation rate for each aircraft is 10.26 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, Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group's operating efficiency and utilisation rate, adversely affecting its profitability and reputation.

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

***Hainan Airlines Group has significant committed capital expenditures, but Hainan Airlines Group may not be able to secure future financing at terms acceptable to it or at all.***

Hainan Airlines 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, Hainan Airlines Group will require significant amounts of external financing to meet its capital commitments.

Hainan Airlines Group generally acquires aircraft through either long-term capital leases or operating leases. In the past, Hainan Airlines 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 Hainan Airlines Group has secured financing for its aircraft scheduled for delivery in 2015, Hainan Airlines Group is still in the process of obtaining financing for aircraft that it has scheduled for delivery in future years.

Hainan Airlines 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 “– *Hainan Airlines 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 Hainan Airlines Group – Business Strategies – Further expand core domestic and international route network*”. In addition, in order to eliminate potential competition with Grand China Air and HNA Group Co., Ltd., Hainan Airlines Group has undertaken to acquire relevant airline businesses from Grand China Air and HNA Group Co., Ltd. in future years, subject to regulatory approvals and Hainan Airlines’ business needs and financial condition. In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co., Ltd. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of the capital contribution to Tianjin Airlines by Tianhang Holding Co., Ltd. (天航控股有限责任公司). In November 2013, Hainan Airlines announced that it intended to invest RMB1 billion in new share capital of West Air in cash and upon this investment increased its shareholding in West Air to 29.40%. The investment is expected to be completed in the third quarter of 2015. As of 31 January 2015, Hainan Airlines had partially completed the share subscription in West Air, increasing its shareholding to 19.44%. In July 2014, Hainan Airlines completed a further subscription of 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%. In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. See “*Description of Hainan Airlines Group – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines*” and “*Principal Shareholders*”.

There is no assurance that Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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 Notes, 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 Notes, 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 Guarantors to satisfy their respective obligations under the Notes 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 eight 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 its 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 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.

***Hainan Airlines Group relies on third-party service providers to perform many functions integral to its business.***

Hainan Airlines 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. Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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.

***Hainan Airlines 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. Hainan Airlines Group renews its insurance policies on a yearly basis and is currently insured through 7 July 2015. However, if the insurance providers further reduce the amount of insurance coverage available or increase the premium for such coverage when Hainan Airlines 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. Hainan Airlines 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 Hainan Airlines' 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.

***Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group.

In particular, Hainan Airlines 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, Hainan Airlines 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 Hainan Airlines Group and, consequently, its operating results.

***Any real or perceived problem with aircraft manufactured by Airbus or Boeing could adversely affect Hainan Airlines Group's operations.***

Hainan Airlines Group currently operates only aircraft manufactured by Airbus and Boeing. Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group expects to take delivery of 21 Boeing 787 Dreamliners between 2015 and 2018, see "*Description of Hainan Airlines 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 Hainan Airlines Group can cancel any of its orders or can purchase replacement aircraft if necessary in a timely manner or at all. Further, Hainan Airlines Group's business could be adversely affected if passengers avoid flying with Hainan Airlines 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.

***Hainan Airlines Group's results of operations tends to be volatile and fluctuate due to seasonality.***

Hainan Airlines 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 Hainan Airlines 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, Hainan Airlines Group's airline revenue is generally higher in the first and third quarters than in the second and fourth quarters. As a result, Hainan Airlines 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 Guarantors nor any member of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Guarantors believe are

material in the context of the Notes, nor is the Issuer or the Guarantors 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 not 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 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 Renminbi 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 Renminbi against U.S. dollars 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 Renminbi to U.S. dollars. Under the new policy, 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 Renminbi against U.S. dollars. According to Announcement No. 5 [2014] of the PBOC (中國人民銀行公告 [2014] 第 5 號) issued on 14 March 2014, since 17 March 2014, the fluctuation range of Renminbi against U.S. dollars in the interbank spot foreign exchange market expanded from 1.00% to 2.00%, meaning that the daily



exchange trading price of Renminbi against U.S. dollars in the interbank spot foreign exchange market can fluctuate above or below the central parity of Renminbi against U.S. dollars 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 Renminbi against U.S. dollars or any other foreign currency.

The Group and Hainan Airlines Group currently generate the vast majority of their revenue in Renminbi. However, 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. However, if Hainan Airlines Group sells or leases aircraft or aircraft equipment to customers in the PRC, it may receive payments in Renminbi or other currencies. 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 Notes and the Notes**

***The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which has not yet been obtained; if such approval is not obtained by the closing date for the offering of the Notes, the offering will not be completed***

As Hainan Airlines is listed on the Shanghai Stock Exchange and the Issuer, being a subsidiary wholly owned by Grand China Air, is a connected party of Hainan Airlines, the Guarantee of the Notes will be authorised by a valid general mandate to be renewed and approved by the independent shareholders of Hainan Airlines, which do not include Grand China Air and other connected shareholders, at the next annual shareholders' meeting of Hainan Airlines, to be held on or around 15 April 2015. Receipt of this approval is a condition precedent to completion of the offering of the Notes. Since Grand China Air and other connected shareholders will be required to abstain from voting on the relevant resolutions for the renewal of the general mandate and will have no control over the results of the voting, there can be no assurance that the requisite general mandate will be renewed at the upcoming shareholders' meeting. If such approval is not obtained before the scheduled date of closing of this offering, the Notes will not be issued and this offering will not be completed.

***If any of the Issuer or either of the Guarantors is unable to comply with the restrictions and covenants in their respective debt agreements, or the Notes, there could be a default under the terms of these agreements, or the Notes, which could cause repayment of the Issuer's or the relevant Guarantor's debt to be accelerated.***

If any of the Issuer or either of the Guarantors is unable to comply with the restrictions and covenants in the Notes, or if any of the Issuer or either of the Guarantors is unable to comply with their respective 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 relevant Guarantor, 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 Guarantors' debt agreements, including the Notes, contain cross-acceleration or cross-default provisions. As a result, the default by any of the Issuer or either of the Guarantors under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under their other debt agreements, including the Notes. 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 relevant Guarantor's indebtedness, or that the Issuer or such Guarantor would be able to find alternative financing. Even if the Issuer or such Guarantor could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or such Guarantor.

***The Issuer may not be able to redeem the Notes 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 with respect to either Guarantor, all or some only, of the Notes. When such event occurs, the Issuer may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Notes could constitute an event of default under the Notes, which may also constitute a default under the terms of each Guarantor's other indebtedness.



***The Issuer is a newly incorporated company.***

The Issuer was established specifically for the purpose of raising finance for the purposes of issuing the Notes. The Issuer does not and will not have any business activities other than the issue of debt securities, and its ability to make payments under the Notes will depend on their receipt of timely remittance of funds from Grand China Air and/or its other subsidiaries and other members of the Group. There is no assurance that the Issuer will be able to receive sufficient funds from the Guarantors and/or their respective subsidiaries and other members of the Group to make payments under the Notes.

***If a Guarantor fails to complete the SAFE registration in connection with the Guarantee of the Notes within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payment under the Guarantee of the Notes.***

Pursuant to the Trust Deed executed by the Guarantors, the Guarantors will unconditionally and irrevocably, on a joint and several basis, guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed. Each Guarantor is required to submit the Trust Deed to the local SAFE for registration in accordance with, and within the time period prescribed by, the Foreign Exchange of Cross-border Security Measures. Although non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law, SAFE may impose penalties on the relevant Guarantor if registration is not carried out within the stipulated time frame. Each Guarantor intends to register the Guarantee of the Notes as soon as practicable and in any event before the Registration Deadline (being 90 China Business Days after the Issue Date). In addition, if a Guarantor fails to complete the SAFE registration, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by such Guarantor under the Guarantee of the Notes) as domestic banks may require evidence of SAFE registration in connection with the Trust Deed in order to effect such remittance, although this does not affect the validity of the Guarantee of the Notes itself.

***The Guarantors' obligations under the Guarantee of the Notes are structurally subordinated to all existing and future liabilities and obligations of such Guarantors' subsidiaries.***

As each Guarantor holds the equity interest of several subsidiaries, each Guarantor 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 Notes. The ability of the Guarantors' respective 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 such subsidiaries limit their abilities to distribute dividends before repayment of the principal and interest of such debt. There can be no assurance that the subsidiaries of each Guarantor will have distributable earnings or will be permitted to distribute their distributable earnings to the relevant Guarantor as they and the relevant Guarantor anticipates, or at all. In addition, dividends payable to the relevant Guarantor by its subsidiaries are limited by the percentage of such Guarantor's equity ownership in these subsidiaries. Further, if any of these subsidiaries raise capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available the relevant Guarantor to make payments on the Notes. These factors could reduce the payments that a Guarantor receives from its subsidiaries, which could restrict such Guarantor's ability to meet its payment obligations under the Guarantee of the Notes.

Grand China Air owned an aggregate 29.95% equity interest in Hainan Airlines as of 31 December 2013, by far the most valuable asset of the Group. 70.05% of any dividends paid by Hainan Airlines to its equity owners will not be paid to Grand China Air, and the percentage of any dividends that will be paid to Grand China Air will be further reduced if Hainan Airlines issues additional equity securities to third parties.

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

***An active trading market for the Notes may not develop.***

Although application will be made to the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST, the application may not be approved, and even if it is approved and the Notes are listed, there can be no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes 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. The Sole Lead Manager is not obligated to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Sole Lead Manager. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, investors will only be able to resell their Notes 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 Notes following the offering may be volatile.***

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Issuer's and the Guarantors' 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 Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There is no assurance that these developments will not occur in the future.

***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 per cent. 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 per cent. 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 Notes 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 Notes 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 per cent. on its income sourced inside the PRC, and such income tax must be withheld by sources with the PRC payer acting as the obligatory withholding, 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 Notes to any non-PRC enterprise Noteholder, and any gain realised by non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to a 10.00 per cent. PRC withholding tax.

***Investment in the Notes is subject to exchange rate risks.***

The Issuer will pay principal, premium and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if a Holder's financial activities are denominated principally in a currency or currency unit (the "**Holder's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Holder's Currency) and the risk that authorities with jurisdiction over the Holder's Currency may impose or modify exchange controls. An appreciation in the value of the Holder's Currency relative to the U.S. dollar would decrease (i) the Holder's Currency equivalent yield on the Notes; (ii) the Holder's Currency equivalent value of the principal payable on the Notes; and (iii) the Holder's Currency equivalent market value of the Notes. Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a Holder may receive less interest or principal than expected, or no interest or principal.

***The Notes will be represented by a Global Note Certificate and holders of a beneficial interest in the Global Note Certificate must rely on the procedures of the relevant Clearing Systems.***

Notes issued will be represented by the Global Note Certificate. Such Global Note Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (each of Euroclear and Clearstream, Luxembourg, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note Certificate, Noteholders will not be entitled to receive definitive note certificates. The relevant Clearing Systems will maintain records of the beneficial interests in the Global Note Certificate. While the Note are represented by the Global Note Certificate, Noteholders will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by the Global Note Certificate, the Issuer (or failing which, the Guarantor) will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificate must rely on the procedures of the relevant Clearing Systems to receive payments under the relevant Notes. Neither the Issuer nor either Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing Systems to appoint appropriate proxies.

***The Trustee may request the Noteholders 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 Guarantors pursuant to Condition 15 of the Terms and Conditions of the Notes), the Trustee may (at its sole discretion) request

Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. 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 action, 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 Noteholders to take such actions directly.

***Developments in the international financial markets may adversely affect the market price of the Notes.***

The market price of the Notes 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 Notes could be adversely affected.

***The Guarantors' financial statements were prepared in conformity with CAS; even though there are no significant differences between the principal accounting policies adopted by the Guarantors and IFRS, investors may have less confidence in the reliability of the Guarantors' financial statements and adversely affect the market price of the Notes.***

The Hainan Airlines Audited Consolidated Financial Statements, the Grand China Air Audited Consolidated Financial Statements, and the other financial information of the Guarantors included elsewhere in this Offering Circular were prepared in conformity with CAS. Even though there are no significant differences between the principal accounting policies adopted by the Guarantors and IFRS (see "*Relevant Differences Between CAS for Business Enterprises and International Financial Reporting Standards*"), investors may have less confidence in the Hainan Airlines Audited Consolidated Financial Statements, the Grand China Air Audited Consolidated Financial Statements, and the other financial information of the Guarantors included elsewhere in this Offering Circular, which may adversely affect the market price of the Notes.

## TERMS AND CONDITIONS OF THE NOTES

The US\$30,960,000 5.50% guaranteed notes due 2018 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Grand China Air (Hong Kong) Limited (大新華航空 (香港) 有限公司) (the “**Issuer**”) are subject to, and have the benefit of, a trust deed dated on or about 17 April 2015 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer, Hainan Airlines Co., Ltd. (“**Hainan Airlines**”) and Grand China Air Co., Ltd. (“**Grand China**” and together, the “**Guarantors**” and each a “**Guarantor**”) and The Bank of New York Mellon, London 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 17 April 2015 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, London 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 Notes), 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 Notes), and the Trustee. References herein to the “**Agents**” are to the Registrar, the Paying Agents and the Transfer Agents 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 Notes (the “**Noteholders**”) 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 Noteholders 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 Notes**

- (a) *Form and Denomination:* The Notes are in registered form in the denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof (each, an “**Authorised Denomination**”).
- (b) *Status of the Notes:* The Notes 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 applicable law.
- (c) *Guarantee of the Notes:* The Guarantors have in the Trust Deed jointly and severally and unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the “**Guarantee of the Notes**”) constitutes direct, general and unconditional obligations of each Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of each Guarantor, save as provided under Condition 3 (*Covenants*) and save for such obligations as may be preferred by provisions of applicable law.

*Upon issue, the Notes will be evidenced by a global note certificate (the “**Global Note Certificate**”) substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg, and will be exchangeable for individual Note Certificates only in the circumstances set out therein.*

### 2. **Register, Title and Transfers**

- (a) *Register:* The Registrar will maintain a register (the “**Register**”) in respect of the Notes outside the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the



“**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

- (b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note 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 Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note 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 Note may be transferred upon surrender of the relevant Note 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 Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

*Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.*

- (d) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes 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 Note 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:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for redemption or any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes 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 Noteholder who requests in writing a copy of such regulations.

### 3. **Covenants**

#### (a) *Negative Pledge*

So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor either of the Guarantors shall, and the Issuer and each 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 Notes equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

#### (b) *Financial Covenant*

So long as any Note remains outstanding, Hainan Airlines shall not directly or indirectly, permit Consolidated Tangible Net Worth as of 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 CAS and tested by reference to the respective audited (or, as the case may be, unaudited) consolidated balance sheet and income statements of Hainan Airlines as of the end of the Relevant Period.

#### (c) *Undertakings in relation to the Guarantee of the Notes*

Each Guarantor undertakes that it will register or cause to be registered with SAFE the Guarantee of the Notes in accordance with, and within the time period prescribed by, the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) (“**Cross-border Security Registration**”), use its reasonable endeavours to complete the Cross-border Security Registration and obtain a registration record from SAFE on or before the Registration Deadline (as defined below in Condition 5(d)) and comply with all applicable PRC laws and regulations in relation to the Guarantee of the Notes. In addition, each Guarantor shall procure that within five Registration Business Days (as defined below in Condition 5(d)) after the documents comprising the Release Condition (as defined below in Condition 5(d)) are delivered to the Trustee, the Issuer releases a notice to the Noteholders confirming the completion of the Release Condition. The Trustee shall have no obligation to monitor or ensure the registration of the Guarantee of the Notes with SAFE on or before the Registration Deadline and shall not be liable to Noteholders or any other person for not doing so.

#### (d) *Financial Statements*

So long as any Note remains outstanding (as defined in the Trust Deed), each Guarantor (or, in the case of sub-paragraph (ii) below only, Hainan Airlines) 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 its audited annual financial statements (audited by an internationally recognised firm of independent accountants); 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 such 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 Hainan Airlines in the Chinese language.

In these Conditions:

“**CAS**” means the Accounting and Standards for Business Enterprises promulgated by the PRC Ministry of Finance 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;

“**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, in the case of a Guarantor, at any time the aggregate of the amounts paid up or credited as paid up on the issued ordinary share capital of such Guarantor and the aggregate amount of the reserves of such Guarantor and its Subsidiaries, taken as a whole (collectively a “**Guarantor 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 such Guarantor Group,

but deducting:

- (a) any debit balance on the consolidated profit and loss account of such Guarantor Group;
- (b) (to the extent included) any amount shown in respect of goodwill (including goodwill arising only on consolidation) or other intangible assets of such Guarantor Group;
- (c) any amount in respect of interests of non-Guarantor Group members in such Guarantor Group;
- (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 2014;
- (f) any amount in respect of any dividend or distribution declared, recommended or made by any member of such Guarantor Group to the extent payable to a person who is not a member of such Guarantor 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;

**“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;

**“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 note, 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 financial year of Hainan Airlines and each period of six months ending on the last day of the first half of the financial year of Hainan Airlines;

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

“**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 Notes bear interest from, and including, 17 April 2015 (the “**Issue Date**”) at the rate of 5.50% per year, (the “**Rate of Interest**”) payable in arrear on 17 April and 17 October in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*).

Each Note 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 Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

Interest in respect of any Note shall be calculated per U.S.\$1,000 in principal amount of the Notes (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided below in relation to equal instalments, be equal to the product of the Rate of Interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

5. **Redemption and purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 17 April 2018, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes 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 Noteholders (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 31 March 2015; 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 Notes) a 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 31 March 2015; and (B) such obligation cannot be avoided by the relevant 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 relevant Guarantor (as the case may be) would be obliged to pay such Additional Amounts if a payment in respect of the Notes (or the Guarantee of the Notes, 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 relevant 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 relevant 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 Noteholders and the Trustee shall be protected and shall have no liability to any Noteholder 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 Notes 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 relevant 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 Notes 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 Note will have the right, at such holder’s option, to require the Issuer to redeem all but not some only of that holder’s Notes 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 Note 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 Note Certificates evidencing the Notes 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 Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The “**Put Settlement Date**” shall be the 14<sup>th</sup> 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 Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Noteholders 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 Notes 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 any Guarantor if such Person or Persons does not or do not have, and would not be deemed to have, Control of such 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 any 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 Hainan Airlines; or

- (iv) the Substantial Shareholders in aggregate beneficially own (directly or indirectly) less than 35% of the issued share capital of Grand China; or
- (v) any 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 such 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 any Guarantor or (b) the right to appoint and/or remove all or the majority of the members of any 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;

**“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 (i) in the case of Hainan Airlines, 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 and (ii) in the case of Grand China, Hainan SASAC and HNA Group Co., Ltd.

- (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 Notes 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 90 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 each Guarantor confirming (A) the completion of the registration of the Guarantee of the Notes 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 each Guarantor certifying that such translation is complete and accurate.
- (e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Mandatory Redemption for Non-Registration*) above.
  - (f) *Purchase*: The Issuer, each Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
  - (g) *Cancellation*: All Notes so redeemed or purchased by the Issuer, either 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 either be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the 15<sup>th</sup> day before the due date for any such payment, by transfer to a U.S. dollar 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 Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall either be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the 15<sup>th</sup> day before the due date for any such payment, by transfer to a U.S. dollar 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 Note Certificates at the Specified Office of any Paying Agent.

*Notwithstanding the foregoing, so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1.*

- (c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the



provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

- (d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and London.
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, 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 Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date*: Each payment in respect of a Note 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 15<sup>th</sup> day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note 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 Notes or under the Guarantee of the Notes by or on behalf of the Issuer or, as the case may be, each 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 relevant Guarantor shall pay such additional amounts as will result in receipt by the Noteholders 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 Note:

- (i) by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note 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 Note; 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 Noteholder would have been entitled to such additional amounts if it had presented such Note 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 Noteholders.

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 relevant 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 Notes 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 Notes 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 fails or the Guarantors fail to pay any amount of principal in respect of the Notes or the Guarantee of the Notes, as the case may be, on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes or the Guarantee of the Notes, 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 either Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes 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 relevant Guarantor, as the case may be; or
- (c) *Cross-default of Issuer, Guarantors or Subsidiaries*:
  - (i) any Indebtedness of the Issuer, either 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 relevant 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, either 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, either 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, either 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, either 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, either Guarantor or any of their respective Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer, either Guarantor or any of their respective Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer, either 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, either 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, either Guarantor, and/or another Subsidiary or (b) on terms approved by an Extraordinary Resolution of the Noteholders; 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, either 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, either Guarantor and/or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Noteholders; or
- (h) *Government intervention*: (i) all or any part of the undertaking, assets and revenues of the Issuer, either 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, either 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 Guarantors lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Trust Deed, the Guarantee of the Notes 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 either Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Trust Deed or the Agency Agreement; or
- (l) *Guarantee*: the Guarantee of the Notes is not (or is claimed by either Guarantor not to be) in full force and effect; or
- (m) *Ownership*: the Issuer ceases to be a wholly-owned subsidiary of Grand China.

## 9. **Prescription**

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

## 10. **Replacement of Note Certificates**

If any Note 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 Note 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 Noteholders. 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 Noteholders as a class and will not be responsible for any consequence for individual holders of Notes 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 Notes, 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 Noteholders.

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 and a registrar.

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

## 12. **Meetings of Noteholders; Modification and Waiver;**

- (a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, 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 Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. 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 Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes 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 Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to effect the exchange, conversion or substitution of the Notes for other obligations or securities, to amend Condition 3 (*Covenants*), to amend the terms of the Guarantee of the Notes 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 Noteholders 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 Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, 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 Notes outstanding shall for purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders 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 Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders 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 Noteholders and to any modification of the Notes 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 Noteholders authorise or waive any proposed breach or breach of the Notes 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 Noteholders will not be materially prejudiced thereby.

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

- (c) *Directions from Noteholders:* 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 Noteholders 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 Noteholders 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 Noteholders.

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 Notes or the Guarantee of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the holders of at least 25% of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer or either 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**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects except, if applicable, for the first payment of interest and in all cases for the deemed Issue Date for purposes of Condition 5(d) (*Mandatory Redemption for Non-Registration*), so as to form a single series with the Notes.

15. **Notices**

Notices to the Noteholders 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.

*Until such time as any definitive certificates are issued and so long as the Global Note Certificate is held in its entirety on behalf of Euroclear and Clearstream, Luxembourg any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

16. **Currency Indemnity**

If any sum due from the Issuer or either Guarantor in respect of the Notes 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 relevant 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 Notes, the Issuer and each Guarantor shall indemnify the Trustee and each Noteholder, on the written demand of the Trustee or such Noteholder addressed to



the Issuer and the Guarantors and delivered to the Issuer and the Guarantors, 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 Noteholder 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 each Guarantor and shall give rise to a separate and independent cause of action.

**17. Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes, the Guarantee of the Notes and the Trust Deed are governed by the laws of Hong Kong.
- (b) *Jurisdiction:* Each of the Issuer and the Guarantors has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes or the Guarantee of the Notes; (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 either 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 either Guarantor or their respective assets or revenues, each of the Issuer and either Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.



## THE GLOBAL NOTE CERTIFICATE

The Notes will be represented by a Global Note Certificate that will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

*Payments on Business Days:* In the case of all payments made in respect of the Global Note Certificate “**business day**” means any day which is a day on which banks are open for general business (including dealings in foreign currencies) in New York City and London.

*Payment Record Date:* Each payment in respect of the Global Note 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 Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

*Exercise of Put Option:* In order to exercise the option contained in Condition 5(c) (*Redemption for Change of Control*) the Holder of the Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Notices:* Notwithstanding Condition 15 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be approximately U.S.\$30.3 million after deducting the commission to be charged by the Sole Lead Manager and other expenses related to the offering. The Issuer intends to use the net proceeds from this offering for working capital and other general corporate purposes including the procurement of aircraft, aviation and transportation equipment and aviation fuel in compliance with the relevant requirements imposed by SAFE.

## CAPITALISATION AND INDEBTEDNESS

### Capitalisation and indebtedness of Hainan Airlines

As of 31 December 2014, there was a total issued share capital of 12,182,181,790 shares of Hainan Airlines (the “Shares”) which include:

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

The following table sets forth the consolidated total borrowings (both current and non-current portions), equity attributable to the equity holders of Hainan Airlines and total capitalisation of Hainan Airlines as of 31 December 2014 and adjusted to give effect to the issue of the Notes before deducting underwriting discounts and commissions and other offering expenses:

	<u>As of 31 December 2014</u>			
	<u>Actual</u>	<u>As adjusted</u>	<u>Actual</u>	<u>As adjusted</u>
	<u>(RMB'000)</u>		<u>(USD'000)<sup>(1)</sup></u>	
<b>Borrowings – current portion<sup>(2)</sup></b>				
Short-term borrowings (unsecured) .....	908,249	908,249	146,383	146,383
Short-term borrowings (secured) <sup>(3)</sup> .....	23,375,292	23,375,292	3,767,413	3,767,413
CNY400,000,000 short-term financial notes due				
2015 .....	399,053	399,053	64,316	64,316
<b>Total borrowings – current portion .....</b>	<u><b>24,682,594</b></u>	<u><b>24,682,594</b></u>	<u><b>3,978,112</b></u>	<u><b>3,978,112</b></u>
<b>Borrowings – non-current portion<sup>(4)(6)(7)</sup></b>				
Long-term borrowings (unsecured) .....	261,979	261,979	42,223	42,223
Long-term borrowings (secured) <sup>(5)</sup> .....	27,402,910	27,402,910	4,416,547	4,416,547
CNY5,000,000,000 5.60% corporate notes due 2016				
and 6.20% corporate notes due 2021 .....	5,659,051	5,659,051	912,073	912,073
US\$500,000,000 3.625% credit enhanced notes due				
2020 .....	3,011,190	3,011,190	485,316	485,316
CNY3,000,000,000 6.25% guaranteed notes due				
2017 .....	2,983,400	2,983,400	480,837	480,837
CNY3,200,000,000 7.20%-7.40% guaranteed notes due				
2017 .....	3,191,428	3,191,428	514,365	514,365
CNY400,000,000 8.00% medium term notes due				
2019 .....	398,932	398,932	64,296	64,296
The Notes to be issued <sup>(8)</sup> .....	—	—	—	—
<b>Total borrowings – non-current portion .....</b>	<u><b>42,908,890</b></u>	<u><b>42,908,890</b></u>	<u><b>6,915,657</b></u>	<u><b>6,915,657</b></u>
<b>Owners' equity</b>				
Share capital .....	12,182,182	12,182,182	1,963,411	1,963,411
Capital surplus .....	5,688,139	5,688,139	916,762	916,762
Other comprehensive income .....	692,592	692,592	111,626	111,626
Surplus reserves .....	969,849	969,849	156,311	156,311
Undistributed profits .....	9,118,873	9,118,873	1,469,696	1,469,696
<b>Total equity attributable to the equity holders of the Company .....</b>	<u><b>28,651,635</b></u>	<u><b>28,651,635</b></u>	<u><b>4,617,806</b></u>	<u><b>4,617,806</b></u>
Minority interests .....	3,073,110	3,073,110	495,295	495,295
<b>Total owners' equity .....</b>	<u><b>31,724,745</b></u>	<u><b>31,724,745</b></u>	<u><b>5,113,101</b></u>	<u><b>5,113,101</b></u>
<b>Total capitalisation<sup>(9)</sup> .....</b>	<u><b>99,316,229</b></u>	<u><b>99,316,229</b></u>	<u><b>16,006,870</b></u>	<u><b>16,006,870</b></u>

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*Notes:*

- (1) The translation of Renminbi amounts into U.S. dollar amounts and vice versa has been made at the exchange rate of RMB6.2046 to US\$1.00 on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.
- (2) Borrowings – current portion includes short-term borrowings and long-term borrowings due within one year.
- (3) 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.
- (4) Borrowings – non-current portion represents long-term borrowings excluding long-term borrowings due within one year.
- (5) Secured long-term borrowings comprise mortgaged loans, pledged loans, guaranteed loans and guaranteed and mortgaged or pledged loans.
- (6) Hainan Airlines provides an unconditional and irrevocable guarantee for the Issuer's S\$250,000,000 6.00% guaranteed notes due 2017 issued on 6 November 2014. This would affect Hainan Airlines' indebtedness position as it was a newly created guarantee. However, since the Issuer is not a subsidiary of Hainan Airlines, the principal amount of such notes has not been consolidated into the consolidated balance sheet of Hainan Airlines as of 31 December 2014 and hence does not affect the "As adjusted" amount in the capitalisation table above. By applying the exchange rate of S\$21.31 to RMB100 on 31 December 2014 published by the Monetary Authority of Singapore and the exchange rate of the exchange rate of RMB6.2046 to U.S.\$1.00 on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States, the principal amount of S\$250,000,000 could be translated into the approximate Renminbi amount of RMB1,173,158,000 and the approximate U.S. dollar amount of U.S.\$189,079,000, respectively.
- (7) Hainan Airlines will provide an unconditional and irrevocable guarantee for the Issuer's U.S.\$350,000,000 5.50% guaranteed notes due 2017, which will be priced on 9 April 2015 and closed on 17 April 2015, subject to satisfaction of conditions precedent. This will change Hainan Airlines' indebtedness position as it will be a newly created guarantee. Since the Issuer is not a subsidiary of Hainan Airlines, the principal amount of such notes will not be consolidated into the consolidated balance sheet of Hainan Airlines and hence will not affect the "As adjusted" amount in the capitalisation table above. By applying the exchange rate of RMB6.2046 to U.S.\$1.00 on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States, the principal amount of U.S.\$350,000,000 could be translated into the approximate Renminbi amount of RMB2,171,610,000.
- (8) The Notes to be issued will change Hainan Airlines' indebtedness position as it will be a newly created guarantee. Since the Issuer is not a subsidiary of Hainan Airlines, the principal amount of the Notes to be issued will not be consolidated into the consolidated balance sheet of Hainan Airlines and hence will not affect the "As adjusted" amount in the capitalisation table above. By applying the exchange rate of RMB6.2046 to U.S.\$1.00 on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States, the principal amount of U.S.\$30,960,000 could be translated into the approximate Renminbi amount of RMB192,094,000.
- (9) 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 Hainan Airlines since 31 December 2014.

## Capitalisation and indebtedness of Grand China Air

As of 31 December 2013, the paid-in capital of Grand China Air was RMB5,976,678,397.

The following table sets forth the consolidated total borrowings (both current and non-current portions), equity attributable to the equity holders of Grand China Air and total capitalisation of Grand China Air as of 31 December 2013 and adjusted to give effect to (i) the issue of the S\$250,000,000 6.00% guaranteed notes due 2017, (ii) the issue of the Notes before deducting underwriting discounts and commissions and other offering expenses and (iii) the issue of the U.S.\$350,000,000 5.50% guaranteed notes due 2017 (which will be priced on 9 April 2015 and closed on 17 April 2015, subject to satisfaction of conditions precedent):

	As of 31 December 2013			
	Actual (RMB'000)	As adjusted (RMB'000)	Actual (U.S.\$'000) <sup>(1)</sup>	As adjusted (U.S.\$'000) <sup>(1)</sup>
<b>Borrowings – current portion<sup>(2)</sup></b>				
Short-term borrowings (unsecured) . . . . .	2,302,574	2,302,574	380,358	380,358
Short-term borrowings (secured) <sup>(3)</sup> . . . . .	26,292,241	26,292,241	4,343,169	4,343,169
<b>Total borrowings – current portion . . . . .</b>	<b>28,594,815</b>	<b>28,594,815</b>	<b>4,723,527</b>	<b>4,723,527</b>
<b>Borrowings – non-current portion<sup>(4)</sup></b>				
Long-term borrowings (unsecured) . . . . .	16,355,540	16,355,540	2,701,743	2,701,743
Long-term borrowings (secured) <sup>(5)</sup> . . . . .	10,548,919	10,548,919	1,742,557	1,742,557
Corporate note . . . . .	8,637,955	8,637,955	1,426,889	1,426,889
S\$250,000,000 6.00% guaranteed notes due 2017 <sup>(6)</sup> . . .	–	1,195,600	–	197,499
The Notes to be issued <sup>(7)</sup> . . . . .	–	187,423	–	30,960
U.S.\$350,000,000 5.50% guaranteed notes due 2017 <sup>(8)</sup> . . . . .	–	2,118,795	–	350,000
<b>Total borrowings – non-current portion . . . . .</b>	<b>35,542,414</b>	<b>39,044,232</b>	<b>5,871,189</b>	<b>6,449,648</b>
<b>Shareholders' equity</b>				
Share capital . . . . .	5,976,678	5,976,678	987,277	987,277
Capital surplus . . . . .	5,069,631	5,069,631	837,443	837,443
Surplus reserves . . . . .	5,259	5,259	869	869
Undistributed profits . . . . .	3,901,245	3,901,245	644,440	644,440
<b>Total equity attributable to the equity holders of the company . . . . .</b>	<b>14,952,813</b>	<b>14,952,813</b>	<b>2,470,029</b>	<b>2,470,029</b>
Minority interests . . . . .	18,253,994	18,253,994	3,015,345	3,015,345
<b>Total shareholders' equity . . . . .</b>	<b>33,206,807</b>	<b>33,206,807</b>	<b>5,485,374</b>	<b>5,485,374</b>
<b>Total capitalisation<sup>(9)</sup> . . . . .</b>	<b>97,344,036</b>	<b>100,845,854</b>	<b>16,080,089</b>	<b>16,658,548</b>

### Notes:

- (1) The translation of Renminbi amounts into U.S. dollar amounts has been made at the exchange rate of RMB6.0537 to U.S.\$1.00 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.
- (2) Borrowings – current portion includes short-term borrowings and long-term borrowings due within one year.
- (3) 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.
- (4) Borrowings – non-current portion represents long-term borrowings excluding long-term borrowings due within one year.
- (5) Secured long-term borrowings comprise mortgaged loans, pledged loans, guaranteed loans and guaranteed and mortgaged or pledged loans.
- (6) The translation of Singapore dollar amounts into Renminbi amounts has been made at the exchange rate of S\$20.91 to RMB100 on 31 December 2013 published by the Monetary Authority of Singapore.
- (7) The aggregate principal amount of the Notes to be issued has not taken into account the effect of transaction costs and expenses.
- (8) Grand China Air will provide an unconditional and irrevocable guarantee for the Issuer's US\$350,000,000 5.50% guaranteed notes due 2017, which will be priced on 9 April 2015 and closed on 17 April 2015, subject to satisfaction of conditions precedent.
- (9) 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 Grand China Air since 31 December 2013.

## 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 Hainan Airlines 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. Hainan Airlines 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 per cent. for routes with at least five weekly flights by the PRC airlines, or 80.00 per cent. for routes with four weekly flights by the PRC airlines.

### ***Airfare 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 per cent. 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. Hainan Airlines 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 Hainan Airlines, 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 was incorporated in Hong Kong on 19 September 2014 as a limited company under Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Its registered office is at Rooms 1105-12, 11th Floor, Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong. The Issuer is a wholly-owned subsidiary of Grand China Air.

### Corporate activities

The Issuer is currently principally engaged in investment holding and, as of the date of this Offering Circular, had no material business or assets, did not have any subsidiaries and had not entered into any material contracts other than the issue of S\$250,000,000 6.00% guaranteed notes due 2017 in November 2014, the issue of the Notes and the issue of the U.S.\$350,000,000 5.50% guaranteed notes due 2017, which will be priced on 9 April 2015 and closed on 17 April 2015, subject to satisfaction of conditions precedent.

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 Xin Di, Xu Zhoujin, Xie Haoming, Du Liang and Huang Erwei. 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 US\$1.

As of the date of this Offering Circular, the Issuer has one fully paid share issued and outstanding, all of which is held by Grand China Air. 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

As of the date of this Offering Circular, save for the offering of the Notes and other activities reasonably incidental thereto, the Issuer had no material business or assets and therefore, it has not prepared any financial information since its incorporation.

## DESCRIPTION OF HAINAN AIRLINES GROUP

### Overview

Hainan Airlines 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 2014. As of 31 December 2014, Hainan Airlines Group provided scheduled domestic, regional and international services using a hub and spoke strategy on 948 routes to 157 cities in 14 countries. In addition to its main route bases in Haikou and Beijing, Hainan Airlines 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.

Hainan Airlines is one of seven airlines in the world ranked as a 5-Star airline by the independent airline benchmarking firm Skytrax in 2014. The first and only PRC airline to receive this rating, Hainan Airlines Group received the rating for a fourth consecutive year. Hainan Airlines 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, Hainan Airlines Group provides cargo and mail services through bellyhold space of its passenger aircraft. It also leases out a total of 36 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.

Hainan Airlines Group has a fleet primarily comprising Boeing 737-800 aircraft, along with Boeing 787-8, Boeing 767-300, Boeing 737-700, Airbus A330-300, Airbus A330-200, Airbus A319 and Airbus A320 aircraft for passenger and cargo transportation. As of 31 December 2014, Hainan Airlines Group operated a fleet of 169 aircraft, serving 116 domestic, 2 regional and 39 international destinations. In 2012, 2013 and 2014, Hainan Airlines Group carried approximately 22.55 million, 30.93 million and 35.60 million passengers and had a RPK of 39,063.44 million, 51,242.19 million and 59,278.79 million, respectively.

Hainan Airlines Group has experienced significant growth in both passenger and cargo traffic and has an established track record of improving financial performance. In 2012, 2013 and 2014, Hainan Airlines Group's consolidated total revenue was RMB28,867.59 million, RMB33,276.25 million and RMB36,043.77 million, respectively, and its net profit attributable to equity shareholders was RMB1,927.79 million, RMB2,158.66 million and RMB2,591.17 million, respectively. Hainan Airlines Group's consolidated total revenue and net profit attributable to equity shareholders increased by 8.32% and 20.04%, respectively, in 2014.

### *History and development*

Hainan Airlines' 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 shares to American Aviation LDC, an entity then ultimately controlled by George Soros' Quantum Fund, raising approximately US\$25.00 million and becoming China's first joint venture airline.

In 1996, Hainan Provincial Airlines was renamed Hainan Airlines.

In 1997, Hainan Airlines completed a public offering of B Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. Subsequently, in 1999, Hainan Airlines completed a public offering of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange.

As of 31 December 2014, Hainan Airlines had a total issued share capital of 12,182,181,790 shares and its market capitalisation was RMB41,658.04 million (including RMB40,389.56 million in terms of its A Shares and U.S.\$202.83 million in terms of its B Shares converted at an exchange rate of RMB6.2046 to U.S.\$1.00 on 31 December 2014 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States).

On 19 June 2014, Hainan Airlines announced that Grand China Air plans to increase its shareholding in Hainan Airlines by itself or with parties acting in concert over the next 12 months through acquisitions of shares in transactions on the secondary market of Shanghai Stock Exchange. Grand China Air has committed to keep the cumulative shareholding increase under 2% of Hainan Airlines' total issued shares and not to reduce its shareholding during implementation and for a certain period stipulated by PRC law within which Grand China Air is prohibited to sell its equity interest in Hainan Airlines. As of the date of this Offering Circular, Grand China Air has not implemented this plan.

On 12 December 2014, Hainan Airlines announced that it received notice from Hainan Development Holdings Co., Ltd. and Grand China Air that Hainan Development Holdings Co., Ltd. had signed a share transfer agreement with Grand China Air and agreed to transfer 595,238,094 A shares, approximately 4.89% of Hainan Airlines' issued shares, to Grand China Air for a consideration of RMB 1,898,176,607. As of the date of this Offering Circular, this share transfer had not been completed. Before the transaction, Grand China Air directly or indirectly held 29.95% of Hainan Airlines' share capital. After the transaction, Grand China Air will directly or indirectly hold 34.84% of Hainan Airlines' share capital and will remain the largest shareholder of Hainan Airlines. This share transfer is independent from the above plan of Grand China Air to increase its shareholding in Hainan Airlines through secondary market transactions.

### ***Subsidiaries***

As part of the PRC government's industry consolidation plan, Hainan Airlines Group was given approval by CAAC in 2000 to reorganise Chang'an Airlines, a local airline operated by the Shaanxi provincial government, and was approved by CAAC in 2002 to reorganise 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, Hainan Airlines Group was approved by CAAC to operate Hainan Airlines and its three subsidiary airlines under the uniform code "HU".

In October 2012, Hainan Airlines entered into a cooperative agreement to form a joint venture, Fuzhou Airlines, with Fuzhou State Asset Investment Holdings Co. Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co. Ltd. to utilise local aviation resources, expand local market share and build a strong service brand. Hainan Airlines 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 in February 2014. Fuzhou Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC in October 2014 and made its first flight from Fuzhou to Beijing on 30 October 2014.

In February 2013, Hainan Airlines entered into a framework agreement to form a joint venture, Urumqi Airlines, with Urumqi City Construction Investment Co., Ltd to promote the development of the civil aviation and tourism industries in the Xinjiang area. Hainan Airlines 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. In August 2014, Urumqi Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC and made its first flight from Urumqi to Yining on 29 August 2014.

In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its



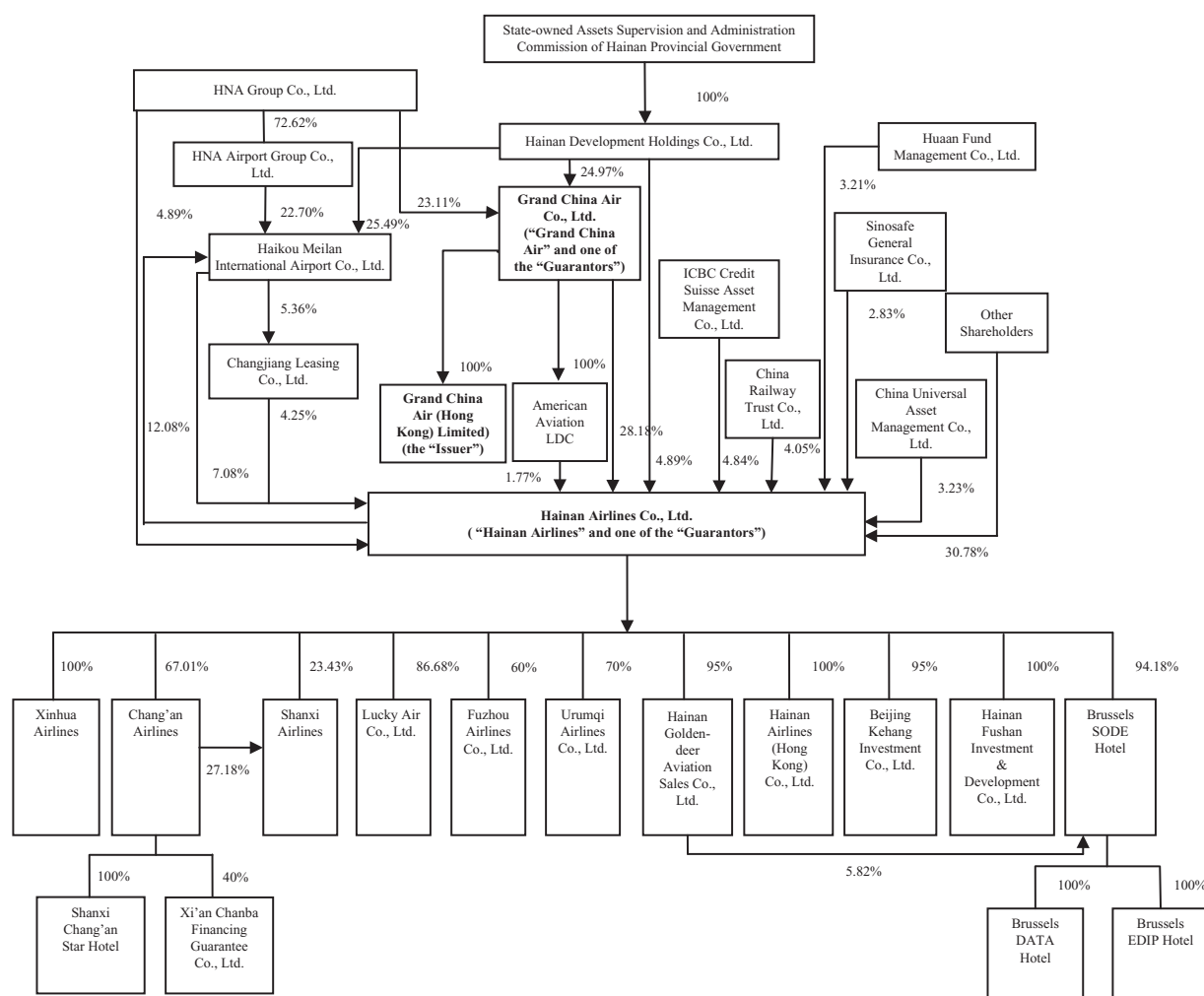
shareholding in Lucky Air from 33.78% to 86.68%. See “– *Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines*” and “*Principal Shareholders*”.

In November 2014, Hainan Airlines announced that HNA Aviation Group Co., Ltd. (海航航空集團有限公司) intended to invest RMB500 million in new share capital of Shanxi Airlines in cash. This investment was completed in January 2015. Upon this investment, Hainan Airlines changed its shareholding in Shanxi Airlines to 23.43%. Chang’an Airlines, a subsidiary of Hainan Airlines, also has a 27.18% shareholding in Shanxi Airlines.

On 26 March 2015, Hainan Airlines announced that its Board of Directors has approved to invest RMB400 million in new share capital of Chang’an Airlines in cash and upon this investment will change its shareholding in Chang’an Airlines to 61.43% as a result of share dilution. Such plan is subject to the approval of its shareholders.

## Corporate structure

The following chart sets forth the organisational structure of Hainan Airlines Group, its principal shareholders and its principal subsidiaries as of 31 December 2014:



## Competitive strengths

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

### *High operational efficiency, strong profitability and young fleet*

Hainan Airlines Group's revenue increased by 8.32%, from RMB33,276.25 million in 2013 to RMB36,043.77 million in 2014, and its net profit attributable to equity shareholders increased by 20.04%, from RMB2,158.66 million to RMB2,591.17 million over the same period. Hainan Airlines Group achieved a record high operating margin of 6.93% in 2014. Hainan Airlines' profitability remained among the highest of all major PRC airlines. Based upon the publicly available information, Hainan Airlines Group was the best performing airline in terms of operating profit margin among all major PRC airlines in 2014 and for the past ten years.

Hainan Airlines 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 2012, 2013 and 2014, respectively, Hainan Airlines Group maintained high operating efficiency with a relatively low 81, 79 and 71

employees per aircraft, respectively. Hainan Airlines Group achieved passenger load factors of 84.44%, 85.76% and 86.84% in 2012, 2013 and 2014, each number the highest figure reported by major PRC airlines for the same periods. Hainan Airlines Group achieved aircraft utilisation of 9.90 hours, 10.24 hours and 10.26 hours per aircraft per day in 2012, 2013 and 2014, respectively, among the highest reported by major PRC airlines, compared with the PRC industry average of 9.15 hours per aircraft per day.

Hainan Airlines 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, Hainan Airlines Group has minimal route overlaps with other PRC airlines. Among all the PRC airlines, Hainan Airlines Group has a major market share in the domestic, international and regional routes to and from Hainan province. In 2012, 2013 and 2014, Hainan Airlines Group had an approximately 46.10%, 48.20% and 49.00% market share of total passenger throughput at Haikou Meilan International Airport and Sanya Phoenix International Airport, respectively. Hainan Airlines Group carried approximately 5.00 million, 5.95 million and 7.28 million passengers to and from Hainan province, respectively, in 2012, 2013 and 2014, accounting for 22.17%, 22.66% and 15.19% 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. Hainan Airlines 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. Hainan Airlines Group believes that its member airlines will be the least affected 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 Hainan Airlines 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, Hainan Airlines' profitability remained among the highest of all major PRC airlines.

Hainan Airlines Group's route network and relationships with airports have further helped improve its financial performance. Hainan Airlines 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. Hainan Airlines Group's international network is fledgling with a growing number of international routes and differentiating services. Hainan Airlines Group strives to form long-term partnerships with the airports in its major route bases (such as Beijing, Haikou and Sanya), which have increased Hainan Airlines Group's control over and flexibility of operating its routes, making flight changes and providing customer services.

Hainan Airlines Group has one of the youngest fleets among the major PRC airlines, with an average aircraft age of 4.54 years as of 31 December 2014. 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. Hainan Airlines 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 Hainan Airlines Group's inventory costs, as it requires smaller inventories for spare parts, and reduces the need to train Hainan Airlines 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 Hainan Airlines Group has a shorter operating history than many other major PRC airlines, Hainan Airlines Group enjoys strong domestic and worldwide brand recognition. In 2011, Hainan Airlines 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 Hainan Airlines provides the highest standard of service across all travel categories and meets the highest qualifying standards of services both on-board and at airports. Hainan Airlines received the Skytrax 5-Star Airline certification for a fourth time in July 2014, becoming one of only seven global winners in the year. In addition, in July 2014, Hainan Airlines was awarded the "Best Airline in China and Outstanding

Service Award for China” by Skytrax for a fifth consecutive year. Further, Hainan Airlines is the only PRC airline to have received the “Civil Aviation Customer Satisfaction Quality Award” from CAAC for a tenth consecutive year.

In October and November 2013, Hainan Airlines was awarded “Asia’s Leading Airline Economy Class” and “World’s Leading Airline Economy Class”, respectively, by the World Travel Awards (“WTA”). In October and December 2014, Hainan Airlines was further awarded “Asia’s Leading Airline Business Class” and “World’s Leading Airline Business Class”, respectively, by WTA. Also, in November 2013, Hainan Airlines was awarded “Mercury Award” in “On Board Service Category” by the International Travel Catering Association (“ITCA”). In December 2014, Hainan Airlines was awarded the “Best Airline in China” by Global Traveller and Premier Traveller, respectively, for three consecutive years. In addition, in December 2013 and December 2014, Hainan Airlines was awarded the “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, Hainan Airlines was awarded the “Best Airline Service in China” by the travel channel of People.com.cn, China Tourism Academy and Tourism Tribune. In November 2014, Hainan Airlines was awarded the “Best Global Communications Award” by PR Newswire. In December 2014, Hainan Airlines was named the “Most Welcomed Domestic Airline by Chinese Families” by Global Times.

Hainan Airlines was named as one of China’s Top 50 Brands in 2011 and ranked 46th with a brand value of US\$427.00 million by Millward Brown Optimor, a global research agency analysing the world’s leading brands. Hainan Airlines improved to a ranking of 41st in December 2012 with a brand value of US\$524.00 million, a 23.00% increase. In December 2013, Hainan Airlines was again named as one of China’s Top 50 Brands by Millward Brown Optimor. In January 2015, Hainan Airlines was named as one of China’s Top 100 BrandZ most valuable brands by Millward Brown Optimor.

Hainan Airlines has established a strong safety record during its 21 years of operation, during which it has flown over 4.50 million accumulated safe block hours and transported over 242.67 million passengers. There have been no significant incidents involving casualty or flight damage in Hainan Airlines’ operations since they commenced. Hainan Airlines 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, Hainan Airlines’ “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. Hainan Airlines 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. Hainan Airlines 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. Hainan Airlines is currently a model airline for other PRC airlines to study as CAAC gradually phases in the SMS for all PRC airlines.

Hainan Airlines’ high safety standards were recognised in 2005, when Hainan Airlines passed the IATA Operational Safety Audit (“IOSA”), an auditing standard focusing on key aspects of airlines and airline support operations. In January 2015, Hainan Airlines was ranked the eighth 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. 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 2014, the

island received approximately 47.89 million visitors from all over the world and increased by 10.60% compared to 2013. In 31 December 2009, Several Opinions of the State Council of the PRC regarding the Development of Hainan International Tourism Island (國務院關於推進海南國際旅遊島建設發展的若干意見) was approved and the strategy of developing Hainan as an international tourism island was promoted on the national level. In July 2010, the Tourism Development Committee of Hainan Province signed a strategic cooperation framework agreement with HNA Group for improving tourism infrastructure and public service facilities, providing creative tourism services as well as internationalising the tourism industry on Hainan island. In early 2011, the State Council of the PRC announced plans to transform Hainan province into an international resort destination by 2020. To upgrade the tourism industry of Hainan province, the Hainan provincial government also enacted several incentive policies including the 12th Five-Year Plan Regarding the Development of Tourism Industry in Hainan Province (海南省旅遊業發展“十二五”規劃) and Projects in the 12th Five-Year Plan Regarding the Development of Tourism Industry in Hainan Province (海南省旅遊業發展“十二五”規劃項目). Moreover, Outline Regarding the Development Plan of the PRC Tourism Industry in the 12th Five-Year Plan (中國旅遊業“十二五”發展規劃綱要) enacted by China National Tourism Administration designated a specific Five-Year Plan for Hainan international tourism island including implementing duty-free and visa-free policies, liberalising airlines rights and establishing a free trade zone. Outline regarding Travel and Leisure of the PRC citizens (國民旅遊休閒綱要) enacted by the State Council of the PRC in February 2010 also is intended to the development of tourism industry in the PRC. 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 Hainan Airlines Group in 2011, as a result of which Hainan Airlines Group received a tax refund of RMB70.00 million for that year. In 2013, sales volume of duty-free goods was 4.47 million pieces, for which the total sales and total number of customers reached RMB3.3 billion and 1.10 million, respectively, representing 28%, 40% and 6% increases from 2012, respectively. After the promulgation of the Notice of the PRC Ministry of Finance regarding Adjustment on the Duty-Free Shopping Policy for Customers Departing from Hainan Island (財政部關於調整海南離島旅客免稅購物政策的公告) in November 2012, average purchase amount and average daily sales amount of two duty-free shops in Haikou and Sanya increased 33% and 85%, respectively.

The number of overnight visitors to Hainan province reached 33.20 million, 36.72 million and 40.60 million in 2012, 2013 and 2014, respectively. The total revenue of the tourism industry of Hainan province reached RMB37.90 billion, RMB42.90 billion and RMB50.65 billion, respectively, in the same year. Hainan Airlines Group had an approximately 46.10%, 48.20% and 49.00% market share of total passenger throughput at Haikou Meilan International Airport and Sanya Phoenix International Airport in 2012, 2013 and 2014, respectively. Hainan Airlines Group's leading position in Hainan province enables it to benefit from the fast-growing demand for aviation services to and from Hainan province.

Hainan Airlines Group has received substantial support from its significant shareholders, including its beneficial shareholders HNA Hainan Airlines Group and the Hainan provincial government. Hainan Airlines 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 Hainan Airlines, as well as a significant shareholder holding 24.97% of the share capital of Grand China Air. As the ultimate shareholder of Hainan Airlines Group, the Hainan provincial government's policies favour the growth of Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group with both strategic benefits and operating efficiency. Hainan Airlines 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, Hainan Airlines Group is able to access the fast-growing feeder line transfer markets. In addition, Hainan Airlines 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. Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines Group has been able to improve its operating efficiency and to achieve better financial performance.

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

Hainan Airlines 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 notes guaranteed by the Export-Import Bank of the United States, it has completed 12 issues of its notes in United States note markets since 2000. Hainan Airlines Group has been able to take advantage of the multiple financing channels available to the Guarantors and the Issuer in and outside of the PRC, through which it has improved its capital structure and lowered financing costs.

Hainan Airlines Group's financial and liquidity position have improved significantly since 2010. In May 2011, Hainan Airlines issued five year corporate notes and ten year corporate notes in the PRC, which have been listed on the Shanghai Stock Exchange, in an aggregate amount of CNY5,000,000,000. In August 2012, Hainan Airlines completed a private placement of 1,965,600,000 new ordinary domestic shares in the form of A shares in the PRC, raising approximately CNY8,000,000,000. In December 2012, Hainan Airlines' subsidiary, Lucky Air, issued CNY700,000,000 seven year guaranteed corporate notes in the PRC, which have been listed on the Shanghai Stock Exchange. In April 2014, Hainan Airlines issued CNY400,000,000 one year short-term financial notes in the PRC. In May 2014, Hainan Airlines issued CNY400,000,000 five year medium term notes in the PRC. Between August and October 2014, Hainan Airlines completed a private placement of three year corporate notes to institutional investors recognised by the National Inter Bank Note Market Dealers Association in the PRC in an aggregate amount of CNY3,200,000,000. Hainan Airlines also started to explore other financing channels such as asset securitisation. In January 2015, Hainan Airlines announced that it intended to issue a billing and settlement plan ("BSP") supported by the revenue and receivables of its air fares in an aggregate amount of CNY6,150,000,000 through three offerings to no more than 200 qualified investors. As of date of this Offering Circular, Hainan Airlines has not yet issued such BSP. Hainan Airlines (Hong Kong) Co., Limited ("**Hainan Airlines (Hong Kong)**"), a wholly-owned subsidiary of Hainan Airlines, further issued CNY1,000,000,000 and CNY500,000,000 guaranteed notes outside of the PRC in 2011 and 2012, respectively. The noteholders of CNY500,000,000 guaranteed notes exercised their option to require Hainan Airlines (Hong Kong) to redeem their notes. Hainan Airlines (Hong Kong) paid an aggregate amount of approximately CNY513,305,000 to the noteholders on 20 January 2013 in full redemption of these notes. Hainan Airlines (Hong Kong) further issued US\$500,000,000 credit enhanced notes outside of the PRC in 2013. Hainan Airlines (Hong Kong) also issued CNY1,700,000,000 guaranteed notes in May 2014 and a further CNY1,300,000,000 guaranteed notes (which are consolidated and form a single series with the CNY1,700,000,000 guaranteed notes issued in May 2014) in June 2014, both offerings were outside of the PRC.

Hainan Airlines Group's gearing ratio (defined as Total Debt divided by total assets) was 54.98%, 56.17% and 55.41% as of 31 December 2012, 2013 and 2014, respectively. Hainan Airlines Group's total cash at bank and on hand was RMB22,312.40 million, RMB21,729.85 million and RMB21,715.59 million as of



31 December 2012, 2013 and 2014, respectively. As of 31 December 2014, Hainan Airlines Group's unused revolving line of credit granted by PRC banks is approximately RMB28.60 billion.

Hainan Airlines 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, Hainan Airlines 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 Hainan Airlines 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*". Hainan Airlines 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 Hainan Airlines Group from a small regional airline to a profitable and well-known national airline.

### **Business strategies**

Hainan Airlines 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, Hainan Airlines Group plans to increase its total fleet to 306 aircraft by 2018 through its aircraft acquisition programme. See "*– Fleet – Fleet Composition*". Hainan Airlines Group employs a disciplined fleet expansion strategy. Hainan Airlines 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. Hainan Airlines Group intends to rationalise its fleet to focus on limited types of aircraft, engines and equipment and modernise its fleet. Rationalisation of Hainan Airlines 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 Hainan Airlines Group's pilots to operate different types of aircraft. A standardised fleet also reduces maintenance costs and operation-related processes. Currently, Hainan Airlines Group maintains a young fleet primarily comprising Boeing 737-800 aircraft. Boeing aircraft have a strong track record of reliability in high-frequency operations. Hainan Airlines Group is scheduled to purchase 94 additional Boeing 737-800 aircraft from 2015 to 2018. On 24 July 2014, Hainan Airlines announced that it has agreed with Boeing to purchase 50 Boeing 737 MAX 8 airplanes in the next ten years. The scheduled purchase of these aircraft will be monitored carefully while Hainan Airlines Group expands its network in order to reduce the risk of over-expansion and undue exposure to market downturns. On 30 September 2014, Hainan Airlines announced that it plans to lease 12 Boeing 737-800 airplanes from Tianjin Yangtze River No. 4 Leasing Company Limited, a wholly-owned subsidiary of Changjiang Leasing Co., Ltd., for 12 years through financial leasing with floating rental rates for a total rental amount of up to U.S.\$1.1 billion. On 9 December 2014, Hainan Airlines announced that it intended to sign a sale-leaseback contract with Tianjin Bohai No. 3 Leasing Co., Ltd., an affiliate of Hainan Airlines, and Team Cignus Limited for a Boeing 737-800 aircraft. These transactions are connected transactions under the listing rules of the Shanghai Stock Exchange and has been approved by the independent directors of Hainan Airlines. On 26 March 2015, Hainan Airlines announced that its Board of Directors has approved to purchase 35 aircraft in 2015, including 6 A330-300 aircraft, 5 B330-200 aircraft, 22 B737-800 aircraft and 2 B787-8 aircraft and to sign an agreement with Boeing to purchase 30 B787-9 aircraft to be delivered before 2021 and such plans are subject to the approval of its shareholders. Hainan Airlines 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. Hainan Airlines Group also plans to replace older aircraft with new models, replacing a total of 14 aircraft from 2015 to 2018. In addition, Hainan Airlines 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***

Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines 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. Hainan Airlines Group plans to cooperate with HNA Group to build an extensive route network covering western China, through connecting Hainan Airlines 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. Hainan Airlines Group intends to develop Guangzhou as its southern hub and expand its route network radiating from Guangzhou and Shenzhen. Hainan Airlines Group intends to integrate its Beijing and Tianjin operations into hubs in central China. Hainan Airlines Group is also contemplating ten routes connecting cities including Guangzhou, Shanghai, Shenzhen, Xi'an, Kunming, Chengdu, Chongqing and Urumqi.

In October 2012, Hainan Airlines entered into a cooperative agreement to form a joint venture, Fuzhou Airlines, with Fuzhou State Asset Investment Holdings Co. Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co. Ltd. to utilise local aviation resources, expand local market share and build a strong service brand. Hainan Airlines 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 in February 2014. Fuzhou Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC in October 2014 and made its first flight from Fuzhou to Beijing on 30 October 2014.

In February 2013, Hainan Airlines entered into a framework agreement to form a joint venture, Urumqi Airlines, with Urumqi City Construction Investment Co., Ltd to promote the development of the civil aviation and tourism industries in Xinjiang area. Hainan Airlines 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 in November 2013. In August 2014, Urumqi Airlines has obtained the Public Air Transportation Enterprise Operating License from CAAC and completed its relevant registration procedures with Urumqi High-Tech Development Zone Administration for Industrial and Commercial. Urumqi Airlines has its operating base in Urumqi International Airport and initially engages in domestic passenger and cargo air transportation at its initial stage. Urumqi Airlines will place three airplanes for its arterial routes and focus on the routes between Urumqi and Beijing, Urumqi and Shanghai, Urumqi and Guangzhou as well as the branch routes within Xinjiang province at its initial stage. First flight of Urumqi Airlines flew from Urumqi to Yining on 29 August 2014.

Hainan Airlines Group intends to further expand its international route network, especially the routes to Southeast Asia, Europe and North America, in the next five years. Hainan Airlines 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, Hainan Airlines 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 US\$40.00 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. Hainan Airlines Group intends to

exploit this resource to further expand its international routes. In September 2014, Hainan Airlines launched its Hangzhou-Xi'an-Paris route with two scheduled flights weekly.

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

Hainan Airlines 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. Hainan Airlines Group's goal is to deliver friendly, professional and "best-in-class" service on a consistent basis to all its customers. Specifically, Hainan Airlines Group plans to optimise its fleet deployment and streamline check-in and other ground services. For certain long-haul routes, Hainan Airlines 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. Hainan Airlines Group will continuously strive to improve overall cabin service by emphasising training for and enhancing the communication skills of its flight crews. Hainan Airlines Group will also continue to adhere to recognised industry standards and procedures for aircraft maintenance. Hainan Airlines 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.

Hainan Airlines 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. Hainan Airlines 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. Hainan Airlines 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. Hainan Airlines Group believes that cost control and efficiency improvements are key to maintaining its competitiveness. Hainan Airlines 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.

Hainan Airlines Group also plans to improve its profitability across its route network. In particular, Hainan Airlines 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 2014, Hainan Airlines 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 Hainan Airlines Group.

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

Hainan Airlines 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 Hainan Airlines Group by way of codeshare agreements and special pro-rate agreements between Hainan Airlines and HNA Group or other airlines. Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group. Hainan Airlines 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 Hainan Airlines Group to achieve greater connectivity between the flight routes of the two groups. Hainan Airlines 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, Hainan Airlines was authorised by its board and shareholders to hold the shares in several airlines on behalf of their beneficial owners, Grand China Air and HNA Group Co., Ltd. Hainan Airlines 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 Hainan Airlines include Beijing Capital Airlines, West Air, Tianjin Airlines, Hong Kong Airlines, Lucky Air and Grand China Airlines (only in respect of its aviation transportation business). Hainan Airlines believes that the arrangements will help satisfy regulatory and governance requirements for the contribution of these interests to Hainan Airlines in the future. On 6 September 2014, Hainan Airlines announced that HNA Group Co., Ltd. would alter the above undertaking as it considers it to be appropriate to reduce potential competition between HNA Group and Hainan Airlines through selling its interest in Hong Kong Airlines to independent third parties in light of the proposed initial public offering of Hong Kong Airlines, as a result of which Hainan Airlines will cease to manage Hong Kong Airlines.

In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co., Ltd. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of the capital contribution to Tianjin Airlines by Tianhang Holding Co., Ltd. (天航控股有限責任公司). In November 2013, Hainan Airlines announced that it intended to invest RMB1 billion in new share capital of West Air in cash and upon this investment increased its shareholding in West Air to 29.40%, which is expected to be completed in the third quarter of 2015. As of 31 January 2015, Hainan Airlines had partially completed the share subscription in West Air, increasing its shareholding to 19.44%. In July 2014, Hainan Airlines completed a further subscription of 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%. In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. In the future, Hainan Airlines 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. Hainan Airlines has entered into or plans to enter into these investments to help Hainan Airlines Group build its core business, market share and competitiveness and eliminate potential competition issues among Hainan Airlines Group, Grand China and HNA Group Co., Ltd.. See "*Principal Shareholders*".

## **Business activities**

Hainan Airlines 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***

Hainan Airlines Group provides domestic, regional and international passenger services. Also, as of 31 December 2014, Hainan Airlines 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. Hainan Airlines Group determines its charter flight arrangements, including pricing and locations, primarily in accordance with market demand.

Hainan Airlines Group's passenger services have historically provided its largest source of revenue. In 2012, 2013 and 2014, Hainan Airlines Group generated revenue of approximately RMB25,794.03 million, RMB29,900.22 million and RMB31,459.57 million, respectively, from its air passenger services, accounting for 89.35%, 89.85% and 87.28% of its total revenue for the same periods.

The following table sets forth certain passenger operating statistics of Hainan Airlines Group by route for the years ended 31 December 2012, 2013 and 2014:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(Restated)</b>		
	<b>(RMB million)</b>		
<b>Passenger revenue</b> .....	25,794.03	29,900.22	31,459.57
Domestic .....	22,569.82	26,611.58	27,796.63
Regional (Taiwan) .....	251.87	280.79	318.69
International .....	2,972.34	3,007.85	3,344.25

The following table sets forth certain passenger operating statistics of Hainan Airlines Group by route for the years ended 31 December 2012, 2013 and 2014:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(Restated)</b>		
<b>Passenger Traffic (in RPKs) (millions)</b> .....	39,063.44	51,242.19	59,278.79
Domestic .....	33,317.05	45,021.89	51,840.16
Regional (Taiwan) .....	377.12	430.81	486.81
International .....	5,369.27	5,789.49	6,951.82
<b>Passenger Capacity (in ASKs) (millions)</b> .....	46,259.14	59,754.05	68,260.28
Domestic .....	38,931.71	52,032.05	59,019.58
Regional (Taiwan) .....	496.81	536.12	635.37
International .....	6,830.62	7,185.88	8,605.33
<b>Passenger Load Factor (%)</b> .....	84.44	85.76	86.84
Domestic .....	85.58	86.53	87.84
Regional (Taiwan) .....	75.91	80.36	76.62
International .....	78.61	80.57	80.79

#### *Route bases*

Hainan Airlines 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 Hainan Airlines Group to transfer its passengers and has facilities for the maintenance of Hainan Airlines Group's aircraft and parking spaces exclusively used by Hainan Airlines Group's aircraft. By providing services between these locations and other major cities in China, Hainan Airlines 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. Hainan Airlines Group's aircraft used for regional operations are mainly maintained on these nine route bases, and Hainan Airlines Group's sales offices are also based at each route base. Hainan Airlines 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 2014, Hainan Airlines Group operated 948 routes consisting of 864 domestic routes, 14 regional routes and 70 international routes.

Hainan Airlines 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. Hainan Airlines 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, Hainan Airlines Group's network allows it to increase the load factors on its most popular routes



through offering stop-over rather than only direct flights. Hainan Airlines 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 70 existing international routes, Hainan Airlines 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 Hainan Airlines Group's international route network, Hainan Airlines 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 Hainan Airlines Group to passengers using Hainan Airlines Group's codes. See "*Codeshare Agreements*". Similarly, Hainan Airlines Group is permitted to sell tickets for the other participating airlines using its "HU" code. The code sharing agreements help increase the number of Hainan Airlines Group's international sales outlets.

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

#### *Domestic routes*

Hainan Airlines Group operates 864 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. Hainan Airlines Group provides scheduled service to 116 provincial capitals, major commercial cities and tourist destinations in China.

In addition, to avoid direct competition with its three major competitors in China, Hainan Airlines Group has focused on developing its routes originating from the northwestern region in China, where its competitors have less coverage. For example, Hainan Airlines Group has the most extensive route network originating from Lanzhou and Urumqi among all airlines in China with passenger load factor of 83.43% and 84.72% in 2014, the highest figure reported by all PRC airlines for such routes.

#### *Regional routes*

Hainan Airlines Group services 14 regional routes providing scheduled service between Taipei and six cities in mainland China, namely Haikou, Beijing, Guangzhou, Xi'an, Dalian and Lanzhou and between Taichung and Kunming, with approximately 34 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. Hainan Airlines 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, Hainan Airlines Group opened a branch office in Taipei in 2008.



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### *International routes*

Hainan Airlines Group services 70 international routes and operates approximately 140 scheduled international flights per week, serving 19 cities in 13 countries.

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

Hainan Airlines Group added seven international routes in 2014, including Beijing-Bali route with three scheduled flights weekly since January 2014, Kuming-Guiyang-Singapore route with one scheduled flight weekly since January 2014, Hefei-Haikou-Singapore route with three scheduled flights weekly since March 2014, Beijing-Boston route with four scheduled flights weekly since June 2014, Kuming-Koh Samui route with three scheduled flights weekly since August 2014, Hangzhou-Xi'an-Paris route with two scheduled flights weekly since September 2014 and Kuming-Yekaterinburg route with two scheduled flights weekly since October 2014. Hainan Airlines Group also resumed its Beijing-Bangkok route with four scheduled flights weekly since December 2014.

Hainan Airlines Group plans to add one international route between Chongqing and Rome in April 2015 and three international routes between Beijing and Silicon Valley, between Shanghai and Boston and between Shanghai and Seattle in June 2015.

On 26 March 2015, Hainan Airlines announced that it plans to establish a branch company in Paris to conduct passenger and cargo transportation.

**Destinations of Hainan Airlines** ● Code share transit destination

1 哥本哈根 Copenhagen  
2 杜塞尔多夫 Düsseldorf  
3 萨尔斯堡 Salzburg  
4 科隆 Cologne  
5 维也纳 Vienna  
6 法兰克福 Frankfurt  
7 卡尔斯鲁厄 Karlsruhe  
8 纽伦堡 Nuremberg  
9 斯图加特 Stuttgart  
10 旧金山 San Francisco  
11 拉斯维加斯 Las Vegas  
12 达拉斯 Dallas  
13 慕尼黑 Munich  
14 蒙特利尔 Montreal  
15 渥太华 Ottawa  
16 哈利法斯 Halifax  
17 伦敦 London  
18 苏黎世 Zurich

西雅图 Seattle  
波特兰 Portland  
芝加哥 Chicago  
丹佛 Denver  
多伦多多伦多 Toronto  
洛杉矶 Los Angeles  
菲尼克斯 Phoenix  
波士顿 Boston  
纽约 New York  
奥兰多 Orlando  
迈阿密 Miami

斯德哥尔摩 Stockholm  
布鲁塞尔 Brussels  
巴黎 Paris  
柏林 Berlin  
米兰 Milan  
罗马 Rome  
圣彼得堡 St. Petersburg  
莫斯科 Moscow  
叶卡捷琳堡 Yekaterinburg  
阿拉木图 Alma-Ata  
伊尔库茨克 Irkutsk  
香港 Hong Kong  
曼谷 Bangkok  
马尼拉 Manila  
吉隆坡 Kuala Lumpur  
新加坡 Singapore  
巴厘岛 Bali

### *Cargo and mail*

Hainan Airlines Group's cargo and mail services are combined with passenger flight services as Hainan Airlines Group does not own or operate any cargo freighters. Therefore, Hainan Airlines Group's cargo route network overlaps with its passenger route network, serving 864 domestic cargo routes, 14 regional cargo routes and 70 international cargo routes.

At present, Hainan Airlines Group conducts its cargo business primarily through its nine route bases. In 2012, 2013 and 2014, Hainan Airlines Group generated revenue of RMB934.11 million, RMB932.99 million and RMB893.55 million, respectively, from its cargo and mail services, constituting 3.24%, 2.80% and 2.48% of its total revenue for the same period.

### *Aircraft leasing services*

Hainan Airlines Group has leased aircraft to airlines affiliated with HNA Group. As of 31 December 2014, in addition to its fleet of 169 aircraft, Hainan Airlines Group leased 36 aircraft to other HNA Group affiliated airline companies. In 2012, 2013 and 2014, Hainan Airlines Group generated revenue of RMB1,192.90 million, RMB948.88 million and RMB1,026.51 million, respectively, from its aircraft leasing services, constituting 4.13%, 2.85% and 2.85% of its total revenue for the same period. Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines Group acquired Hainan Golden Deer Aviation Sales Co. Ltd. to serve as its agent in collecting flight booking fees. In 2012, 2013 and 2014 Hainan Airlines Group generated commission revenue of RMB39.80 million, RMB46.79 million and RMB43.49 million, respectively, from its flight booking business.

Hainan Airlines 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, Hainan Airlines Group is the principal provider of these services at Haikou Meilan International Airport, Xi'an Xianyang International Airport and Sanya Phoenix International Airport. Hainan Airlines Group provides these services to foreign carriers generally pursuant to one-year renewable contracts. In 2012, 2013 and 2014 Hainan Airlines Group generated revenue of RMB41.59 million, RMB56.85 million and RMB59.36 million, respectively, from its airport ground services and cargo handling services.

Hainan Airlines 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, Hainan Airlines Group acquired a 100% shareholding in Hainan Fushun Investment & Development Co., Ltd., which holds certain real estate properties in HNA Plaza, Hainan Airlines Group's headquarter in Haikou, with an aggregate gross floor area of approximately 41,257.46 square meters. Hainan Airlines Group is currently in the process of registering its equity interest in such company. Hainan Airlines Group generated revenue of RMB397.14 million, RMB402.91 million and RMB406.15 million from its real estate related business in 2012, 2013 and 2014, respectively.

Hainan Airlines Group also conducts other ancillary activities such as aircraft media services. In November 2014, Hainan Airlines announced that it intended to invest RMB100 million in new share capital of Hainan Xinsheng Feixiang Culture Media Co., Ltd. ("**Xinsheng Feixiang**") in cash and upon this investment will increase its shareholding in Xinsheng Feixiang to 30.30%. The subscription was completed in December 2014. The business scope of Xinsheng Feixiang includes but is not limited to serving as agent for both international and

domestic airlines ticket sales and conducting advertising business. Also, in December 2014, Hainan Airlines and its subsidiary Lucky Air entered into a ten-year franchise agreement with Xinsheng Feixiang and engaged Xinsheng Feixiang to operate their aircraft media services for a consideration of RMB3.70 million per year. In 2012, 2013 and 2014 Hainan Airlines Group generated revenue of RMB946.55 million, RMB1,494.15 million and RMB2,664.15 million, respectively, from its other businesses (excluding its passenger services, cargo and mail services and aircraft leasing services), accounting for 3.28%, 4.49% and 7.39% of its total revenue for the same period.

## **Operations**

### ***Flight scheduling***

Hainan Airlines Group's marketing and sales department formulates flight schedules to meet market demands for various routes. Consistent with market practice and with IATA guidelines, Hainan Airlines 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, Hainan Airlines Group also makes adjustments to the flight frequency and type of aircraft utilised on scheduled routes based on anticipated seasonal demand.

### ***Flight operations***

Hainan Airlines 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, Hainan Airlines Group's brand reputation and cost control. According to data published by CAAC, Hainan Airlines Group's average on-time departure rate was 70.44%, 69.47% and 71.00% compared with the PRC industry average of 74.83%, 72.34% and 68.00% in 2012, 2013 and 2014, respectively. In the same periods, 11.78%, 11.88% and 12.36% of Hainan Airlines 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 9.68%, 10.34% and 11.41%, respectively. Also in 2012, 2013 and 2014, 17.78%, 18.65% and 19.05% of Hainan Airlines 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 15.49%, 17.32% and 18.03%, respectively.

### ***Aviation fuel***

Aviation fuel costs typically represent a major component of an airline's operating costs. Hainan Airlines Group's aviation fuel costs were RMB9,403.08 million, RMB10,987.00 million and RMB10,933.10 million in 2012, 2013 and 2014, respectively, accounting for 43.62%, 41.82% and 39.47% of Hainan Airlines Group's operating costs for the same period, respectively. Like all PRC airlines, Hainan Airlines 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, Hainan Airlines 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 RMB1,467.74 million, RMB1,417.60 million and RMB1,505.43 million in 2012, 2013 and 2014, respectively, accounting for approximately 15.61%, 12.90% and 13.77% of Hainan Airlines 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 Hainan Airlines 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 30 June 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 Hainan Airlines Group. Because international prices for aviation fuel are denominated in U.S. dollars, Hainan Airlines 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 Hainan Airlines 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, Hainan Airlines Group does not currently engage in fuel hedging activities using derivative instruments.



At present, the management of Hainan Airlines 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*

Hainan Airlines 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, Hainan Airlines 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. Hainan Airlines 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, Hainan Airlines 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 2014, Hainan Airlines Group operated a fleet of 169 aircraft with an average age of 4.54 years. Most of these aircraft were manufactured by Boeing and Airbus. Hainan Airlines Group has the fourth largest fleet among all PRC airlines. Out of the 169 aircraft, 74 were owned by Hainan Airlines Group, and 95 were leased to Hainan Airlines Group pursuant to various types of finance and operating leasing arrangements.

The following table sets forth the details of the fleet of Hainan Airlines Group as of 31 December 2014:

	<u>Number of Aircraft</u>	<u>Number of Seats</u>	<u>Average age (years)</u>
<b>Wide-body:</b>			
Airbus A330 300 .....	8	2,280	2.51
Airbus A330-200 .....	8	1,776	4.21
Boeing 767-300 .....	3	654	12.0
Boeing 787-8 .....	8	1,720	1.01
<b>Narrow-body:</b>			
Boeing 737-800 .....	118	19,352	4.84
Boeing 737-700 .....	17	2,618	4.71
Airbus A319 .....	3	414	3.39
Airbus A320 .....	4	608	2.0
<b>Total/Average:</b> .....	<b>169</b>	<b>29,422</b>	<b>4.54</b>

Hainan Airlines Group's daily average aircraft utilisation rate was 9.90, 10.21 and 10.26 hours in 2012, 2013 and 2014, the highest among all PRC airlines. The table below sets forth the daily average utilisation rates of the aircraft of Hainan Airlines Group for each of the three years ended 31 December 2012, 2013 and 2014:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(hours)</b>		
<b>Wide-body:</b>			
Airbus A340-600 .....	9.48	9.71	–
Airbus A330-300 .....	10.85	11.28	11.87
Airbus A330-200 .....	12.37	12.26	12.14
Airbus A330-200VIP .....	6.29	6.94	–
Boeing 767-300 .....	11.12	11.31	11.25
Boeing 787-8 .....	–	9.60	12.35
<b>Narrow-body:</b>			
Boeing 737-800 .....	9.89	10.19	10.06
Boeing 737-700 .....	8.15	10.02	9.03
Boeing 737-400 .....	8.34	9.68	–
Boeing 737-300 .....	8.37	–	–
Airbus A319 .....	–	–	10.24
Airbus A320 .....	–	–	6.34

### *Future fleet development*

Hainan Airlines 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. Hainan Airlines Group's aircraft acquisition programme, however, is subject to the approval of CAAC and the NDRC. The following table summarises its anticipated aircraft deliveries from 2015 to 2018 as of 31 December 2014:

	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>Total</b>
<b>Aircraft</b>					
Airbus 330-300 .....	6	2	1	1	10
Airbus 330-200 .....	1	–	–	–	1
Airbus 320 .....	6	–	–	–	6
Boeing 737-800 .....	30	22	22	20	94
Boeing 737-8 MAX .....	–	–	2	5	7
Boeing 737-700 .....	–	4	3	5	12
Boeing 787 .....	2	6	6	7	21
<b>Total</b> .....	<b>45</b>	<b>34</b>	<b>34</b>	<b>38</b>	<b>151</b>

The actual acquisition of any of these aircraft or any additional aircraft may depend on factors such as general economic conditions, Hainan Airlines Group's operating results and other capital requirements. Hainan Airlines 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**

Hainan Airlines Group's fleet and the aircraft leased by Hainan Airlines Group to HNA Group consist of aircraft purchased as well as leased pursuant to finance and operating leases. As of 31 December 2014, of the 169 aircraft operated by Hainan Airlines Group, 74 aircraft were owned by Hainan Airlines Group, 30 aircraft were leased under finance leases and 65 aircraft were leased under operating leases.

The following table sets forth, as of 31 December 2014, the number of aircraft operated by Hainan Airlines Group's fleet pursuant to finance and operating leases:

Model	Total	Owned	Lease	
			Finance Lease	Operating Lease
Wide-body:				
Airbus A330-300 .....	8	2	—	6
Airbus A330-200 .....	8	—	—	8
Boeing 767-300 .....	3	1	2	—
Boeing 787-8 .....	8	8	—	—
Narrow-body:				
Boeing 737-800 .....	118	58	20	40
Boeing 737-700 .....	17	5	2	10
Airbus A319 .....	3	—	3	—
Airbus A320 .....	4	—	3	1
Total .....	169	74	30	65

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

#### *Finance leases*

Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines 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 Hainan Airlines Group's finance leases vary depending on the financing structures and the commercial agreements reached by the parties concerned. Generally, Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group be required to surrender the aircraft include the occurrence of an event of default such as non-payment of rent, failure to maintain insurance coverage for the aircraft and insolvency. To date, Hainan Airlines 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 Hainan Airlines Group.

#### *Operating leases*

Hainan Airlines 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. Hainan Airlines Group's operating leases generally have original terms ranging from 5 to 7 years from the aircraft's delivery. Under operating leases, Hainan Airlines Group is entitled to use the aircraft and is obligated to make rental payments according to the relevant lease agreements. Hainan Airlines Group's operating leases typically have no purchase options, although Hainan Airlines 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. Hainan Airlines 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, Hainan Airlines 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 Hainan Airlines Group.

Hainan Airlines Group's rental expenses under its aircraft operating leases in the cost were RMB1,958.57 million, RMB2,587.68 million and RMB2,270.54 million in 2012, 2013 and 2014, respectively.

### ***Purchase***

Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines Group enters into agreements for the acquisition of aircraft. Hainan Airlines 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. Hainan Airlines 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. Hainan Airlines 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 Hainan Airlines Group's passengers, the efficient use and maintenance of Hainan Airlines Group's aircraft and the optimisation of Hainan Airlines Group's fleet utilisation. The schedule and cycle of MRO services for Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines 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.

Hainan Airlines Group's expenses incurred for the MRO of its fleet were RMB1,664.21 million, RMB2,230.72 million and RMB2,124.96 million in 2012, 2013 and 2014, respectively.

## **Marketing, sales and reservations**

### *Passenger services*

#### *Marketing*

Hainan Airlines 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. Hainan Airlines 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.

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

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

Hainan Airlines Group has also adopted customised strategies to market its services to business travellers. Hainan Airlines 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, Hainan Airlines Group focuses on the frequency of flights between major business centres, convenient transit services and an extensive sales network. Hainan Airlines 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 Hainan Airlines 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 Hainan Airlines Group or any of its partner airlines, and through purchases from a wide range of Hainan Airlines Group's business travel partners including hotels, car rental services and restaurants. Members can also earn miles by using Hainan Airlines 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 Hainan Airlines Group's efforts to develop the "Fortune Wing Club" programme, the number of members of the frequent flyer programme reached approximately 15.5 million as of 31 December 2014.

#### *Sales and reservations*

In 1998, Hainan Airlines Group upgraded its online ticket booking and payment system to facilitate customer purchases of tickets via the internet. While Hainan Airlines Group continues to encourage its customers to book and purchase tickets online, Hainan Airlines 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 Hainan Airlines Group's airline tickets are sold by domestic and international sales agents. Hainan Airlines Group's tickets for domestic routes are sold throughout China through over 3,500 domestic sales agents, 57 of which are Hainan Airlines Group's direct domestic ticket sales agents. Currently, Hainan Airlines 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. Hainan Airlines 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 Hainan Airlines Group's telephone reservation and confirmation services.

In addition to its domestic sales agents, Hainan Airlines Group's tickets for overseas routes are sold through over 4,100 overseas sales agents, 16 of which are Hainan Airlines Group's direct overseas ticket sales agents. Hainan Airlines 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, Hainan Airlines 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, Hainan Airlines Group stopped issuing paper tickets for air travel in accordance with a mandate from the IATA. As a result of the mandate, Hainan Airlines Group now issues electronic itineraries and receipts as well as electronic tickets to its passengers. Hainan Airlines 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 Hainan Airlines Group's direct passenger ticket sales are recorded on its computer systems. Most PRC airlines, including Hainan Airlines 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. Hainan Airlines 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***

Hainan Airlines Group maintains a network of cargo sales agents domestically and internationally. Hainan Airlines 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. Hainan Airlines 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.



Hainan Airlines Group has successfully established codeshare partnerships with ten international airlines and three domestic airlines. Hainan Airlines Group has also established special pro-rate agreements with 73 international and PRC airlines. Hainan Airlines 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. Hainan Airlines Group also cooperated with 113 international airlines on combined transportation.

Hainan Airlines 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. Hainan Airlines Group has codeshare agreements with three domestic airlines including Grand China Airlines, Lucky Air and Tianjin Airlines. As of 31 December 2014, on average, Hainan Airlines Group had 2,110 scheduled codeshare flights every week operated by its codeshare partners and it operated 196 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.

Hainan Airlines Group expects that competition in China's commercial aviation industry will continue to be intense. Hainan Airlines Group competes with the other three major airlines, namely China Southern Airlines, Air China and China Eastern Airlines. In 2014, these three airlines together controlled approximately 50% of the commercial aviation market in China as measured by passengers carried, while Hainan Airlines Group had a market share of 8%. Most major PRC airlines including Hainan Airlines 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.

Hainan Airlines 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. Hainan Airlines Group believes that it will be the least affected airline by high-speed railways among all PRC major airlines. Hainan Airlines 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 Hainan Airlines Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. Further, Hainan Airlines 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*".

Hainan Airlines 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 Hainan Airlines Group's highly integrated multiple-hub route and its continued commitment to safety and service quality, Hainan Airlines 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, Hainan Airlines Group also believes that its optimised route network, increased operational efficiency and improved service quality will attract more travellers, particularly business travellers.

## ***International***

Hainan Airlines 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 Hainan Airlines Group. In addition, the public's perception of the safety and service records of PRC airlines may adversely affect Hainan Airlines Group's ability to compete against its regional and international competitors. Many of Hainan Airlines Group's international competitors have larger sales networks and participate in reservation systems that are more comprehensive and convenient than those of Hainan Airlines Group, or engage in promotional activities that may enhance their ability to attract international passengers.

Hainan Airlines Group competes against, among other airlines, Singapore Airlines and Air China on flights to Southeast Asian destinations. In the case of its European routes, Hainan Airlines Group's competitors include Air China and China Eastern Airlines. Hainan Airlines 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. Hainan Airlines 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**

Hainan Airlines 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. Hainan Airlines 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. Hainan Airlines 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 Hainan Airlines Group is subject to.

Hainan Airlines 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**

Hainan Airlines Group has maintained a strong safety record during its 20 years of operation. In January 2015, Hainan Airlines Group was ranked the eighth safest airline in the world and the safest PRC domestic airline by JACDEC. In January 2014, it received the 4-Star Civil Aviation Safety Award from CAAC. Hainan Airlines 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*". The provision of safe and reliable air services for all of its customers is one of Hainan Airlines Group's primary operating objectives. Hainan Airlines endeavours to maintain strict compliance with all laws and regulations applicable to flight safety. In addition, Hainan Airlines

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, Hainan Airlines 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 Hainan Airlines' business. Under the SMS safety system, Hainan Airlines Group' 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 Hainan Airlines Group' operations to raise the safety awareness of all employees. Hainan Airlines 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 Hainan Airlines Group' overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. Hainan Airlines 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 Hainan Airlines as a model airline for the other PRC airlines when CAAC gradually phases in SMS for all PRC airlines. In 2005, Hainan Airlines also passed the IOSA, an auditing standard focusing on key aspects of airline and airline support operations.

### Properties and facilities

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

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

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

Hainan Airlines Group has entered into lease agreements with affiliates of the HNA Group and other third parties both domestically and overseas for the properties that Hainan Airlines 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 Hainan Airlines Group's principal properties at its nine route bases as of 31 December 2014:

	<b>Land</b>		<b>Buildings</b>	
	<b>Owned</b>	<b>Leased</b>	<b>Owned</b>	<b>Leased</b>
	<b>(in square metres)</b>		<b>(in square metres)</b>	
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
<b>Total .....</b>	<b>1,503,414.40</b>	<b>—</b>	<b>503,844.66</b>	<b>18,333.27</b>

## Environmental

Hainan Airlines 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. Hainan Airlines Group is also subject to the environmental and noise regulations in each country where it flies. Hainan Airlines Group believes that it is in compliance in all material respects with all applicable environmental laws.

## Intellectual property

Hainan Airlines 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 Hainan Airlines Group as a whole.

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

## Employees

As of 31 December 2014, Hainan Airlines Group had a total of 12,062 employees, including 2,267 pilots and 3,509 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 Hainan Airlines Group, set out by job function:

Information Technology . . . . .	58
Finance . . . . .	408
Procurement and Warehouse . . . . .	274
Flight Attendants . . . . .	3,509
Ground Services . . . . .	1,588
Pilots (including pilot and flight cadet) . . . . .	2,267
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 . . . . .	1,148
<b>Total . . . . .</b>	<b><u>12,062</u></b>

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

Hainan Airlines 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. Hainan Airlines Group also provides non-cash benefits, including medical insurance, unemployment insurance, early retirement and other social welfare benefits. In addition, all of Hainan Airlines Group's full-time employees in the PRC are covered by a defined contribution retirement scheme administered by the PRC government, to which Hainan Airlines Group is required to make annual contributions at rates ranging from 15.00% to 25.00% of its employees' base salaries.

### **Legal proceedings**

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

## DESCRIPTION OF GRAND CHINA AIR GROUP

### Overview

Grand China Air is the holding company of a group of companies engaging in aviation-related businesses including air transportation, aviation maintenance and service, airline food supplies, extended services relating to air transportation, airport investment and management, terminal service, operation and management as well as hotel management. As of the date of this Offering Circular, Grand China Air's principal business was to act as the holding company of its primary subsidiary, Hainan Airlines.

In 2011, 2012 and 2013, Grand China Air's consolidated total revenue was RMB29,422.54 million, RMB32,156.97 million and RMB33,697.48 million, respectively, and its net profit attributable to shareholders was RMB1,365.49 million, RMB685.81 million and RMB506.51 million, respectively.

### *History and development*

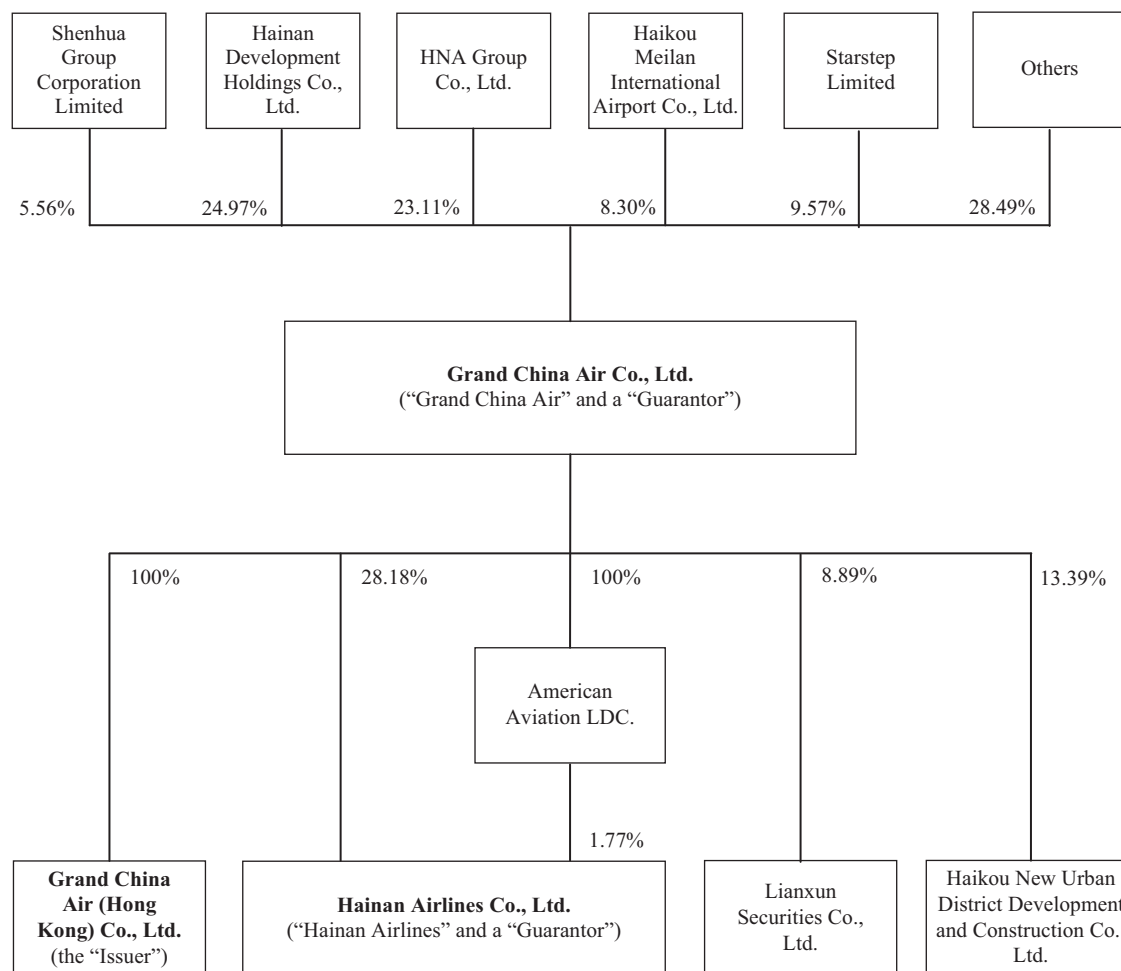
The predecessor of Grand China Air, Xinhua Aviation Holding Co., Ltd., was co-established by HNA Group Co., Ltd. and Yangtze River Investment Holding Co., Ltd. on 12 July 2004 and was renamed as Grand China Air Co., Ltd. on 30 August 2007.

Subsequent to a series of capital increases and changes in shareholding over the years, as of 31 December 2014, the largest shareholders of Grand China Air were Hainan Development Holdings Co., Ltd. (24.97%) and HNA Group Co., Ltd. (23.11%). See "*Principal Shareholders – Principal Shareholders of Grand China Air*" for further details regarding the principal shareholders of Grand China Air.



## Corporate structure

The following chart sets forth the organisational structure of Grand China Air, its principal shareholders and its principal subsidiaries as of 31 December 2014:



## Business activities

Grand China Air is an operating airline as well as an airline holding company that owned Hainan Airlines as to 28.18% directly and 1.77% indirectly through American Aviation LDC as of 31 December 2014.

## Grand China Air

Grand China Air was granted an operating permit (經營許可證) by CAAC on 27 November 2007. As of the date of this Offering Circular, Grand China Air operates a fleet of three Boeing 737-800 aircraft serving 14 scheduled routes to six domestic destinations (Beijing, Guilin, Hailar, Harbin, Mudanjiang and Yinchuan) in the PRC on codeshare flights with Hainan Airlines. The aircraft operate as Grand China Air flights, although Hainan Airlines provides aircraft, crew, maintenance and insurance to Grand China Air for a fee. See "*Principal Shareholders – Principal Shareholders of Hainan Airlines – Significant shareholders*" regarding undertakings by Grand China Air in favour of Hainan Airlines in respect of its aviation business and its shareholding interest in Lucky Air in order to eliminate potential competition issues arising from its shareholding interest in Hainan Airlines.

### ***Hainan Airlines***

Hainan Airlines is the primary subsidiary of Grand China Air. Hainan Airlines Group is a leading provider of air passenger, air cargo and airline-related services in China. See “*Description of Hainan Airlines Group*”.

### ***American Aviation***

American Aviation was founded on 7 July 1995 and was then ultimately controlled by George Soros’ Quantum Fund. As of 31 December 2014, American Aviation was a wholly-owned subsidiary of Grand China Air. American Aviation is principally engaged in the business of investment holding. Its sole asset as of the date of this Offering Circular is its equity interest in B shares of Hainan Airlines.

### ***Lucky Air***

Lucky Air was established in June 2004 under the name of Shilin Airlines Co., Ltd. (雲南石林航空有限責任公司) by Hainan Airlines (48.87% equity interest), Shanxi Airlines Co., Ltd. (山西航空有限責任公司) (51.00% equity interest) and Yunnan Shilin Tourism Aviation Co., Ltd. (雲南石林航空旅遊服務股份有限公司) (0.13% equity interest), and was renamed as Yunnan Lucky Air Co., Ltd. (雲南祥鵬航空有限責任公司) in May 2005. Lucky Air’s inaugural flight was made on 26 February 2006. Lucky Air is principally engaged in the business of civil aviation transportation, logistics, insures concurrently industry, sale of gifts and tickets for places of interest, hotel and car reservation. In January 2010, Lucky Air moved its base from Dali to Kunming after obtaining approval from CAAC. See “*Description of Hainan Airlines Group – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines*” and “*Principal Shareholders*” for further details regarding Lucky Air.

As of 31 December 2013, Lucky Air was owned as to 52.90% by Grand China Air, 33.78% by Hainan Airlines and 13.32% by Yunnan Provincial State-owned Assets Supervision and Administration Commission. In March 2014, pursuant to the undertakings by Grand China Air in favour of Hainan Airlines in order to eliminate potential competition issues arising from Grand China Air’s shareholding interest in Hainan Airlines as described in “*Principal Shareholders – Principal Shareholders of Hainan Airlines – Significant shareholders*”, Grand China Air disposed of, and Hainan Airlines acquired, a 52.90% equity interest in Lucky Air at a consideration of RMB1,702 million, upon which Lucky Air became owned as to 86.68% by Hainan Airlines and 13.32% by Yunnan Provincial State-owned Assets Supervision and Administration Commission.

## DIRECTORS AND MANAGEMENT OF HAINAN AIRLINES

The members of the board of directors, the supervisors and senior management of Hainan Airlines as of the date of this Offering Circular are as follows:

Name	Age	Positions
<b><i>Directors</i></b>		
Xin Di (辛笛) .....	45	Executive Director (Chairman)
Mu Weigang (牟偉剛) .....	51	Executive Director (Vice Chairman)
Xie Haoming (謝皓明) .....	39	Director (President)
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
<b><i>Supervisors</i></b>		
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
<b><i>Senior management</i></b>		
Pu Ming (蒲明) .....	51	Vice President
Hou Wei (侯偉) .....	46	Vice President
Du Liang (杜亮) .....	32	Chief Financial Officer
Li Rui (李瑞) .....	38	Secretary of the Board of Directors

### Directors

#### Executive directors

**Xin Di (辛笛)**, aged 45, has been chairman of the board of directors of Hainan Airlines 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 Hainan Airlines 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.

**Xie Haoming (謝皓明)**, aged 39, has been president of Hainan Airlines 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 Hainan Airlines, 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.

**Gu Gang** (顧剛), aged 36, has been an executive director of Hainan Airlines 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 Hainan Airlines 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 with a master's degree in accounting.

**Wu Banghai** (吳邦海), aged 71, is a postgraduate, and has been an independent non-executive director of Hainan Airlines 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 Hainan Airlines 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. In November 2014, Hainan Airlines announced that Mr. Lin had resigned as an independent non-executive director of Hainan Airlines and member of the audit and risk management committee and the nominating committee of the Board of Directors of Hainan Airlines. His resignation will not be effective until a new independent non-executive director is elected during the next annual shareholders' meeting of Hainan Airlines.

### **Supervisors**

**Hu Mingzhe** (胡明哲), aged 31, has been a supervisor and convener of our board of supervisors of Hainan Airlines since April 2012. Mr. Hu joined HNA Group in July 2004. He served 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 Hainan Airlines 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 Hainan Airlines. Mr. Tong obtained his bachelor's degree from Peking University.

**Zhou Meng** (周猛), aged 41, has been a supervisor of Hainan Airlines 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 Hainan Airlines since April 2012. Mr. Li has been executive deputy general manager of the planning and accounting department and employee supervisor of Hainan Airlines. Mr. Li obtained his bachelor's degree in accounting from Guangxi University.

**Xu Jing** (許靜), aged 30, has been a supervisor of Hainan Airlines 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 Hainan Airlines' Xi'an Operation Base, as well as employee supervisor of Hainan Airlines. Mr. Xu obtained his bachelor's degree from Northwestern University of China, majoring in public administration.

## **Senior management**

**Pu Ming** (蒲明), aged 51, has been vice president of Hainan Airlines since December 2012 and is also the Chief Safety Officer of Hainan Airlines. 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 Hainan Airlines 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 Hainan Airlines since March 2013. Mr. Hou has approximately 20 years of relevant experience in aviation industry. He served in various managerial positions in Hainan Airlines 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 Hainan Airlines 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.

**Li Rui** (李瑞), aged 38, has been secretary of the Board of Directors of Hainan Airlines since January 2015. Prior to his appointment as secretary of the Board of Directors of Hainan Airlines, he served as executive deputy general manager of the securities affairs department of HNA Group Co., Ltd. and executive deputy general manager of the investment management department of HNA Group Co., Ltd. Mr. Li graduated from the school of management of Huazhong University of Science and Technology and joined HNA Group in 1999.

## **Board committees**

There are four standing committees of Hainan Airlines' 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. Hainan Airlines' 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. Hainan Airlines' 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. Hainan Airlines' 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. Hainan Airlines' strategy committee currently comprises the following five members: Xin Di, Mu Weigang, Liu Lu, Gu Gang and Deng Tianlin.



## DIRECTORS AND MANAGEMENT OF GRAND CHINA AIR

The members of the board of directors, the supervisors and senior management of Grand China Air as of the date of this Offering Circular are as follows:

Name	Positions
<b><i>Directors</i></b>	
Chen Feng (陳峰) .....	Director (Chairman)
Ronald O. Drake .....	Director
Chen Wenli (陳文理) .....	Director
Li Qing (李清) .....	Director
Li Xiaoming (李曉明) .....	Director
Ma Guohua (馬國華) .....	Director
Tan Xiangdong (譚向東) .....	Director
Wang Junshan (王俊山)	Director
Yang Jinglin (楊景林) .....	Director
<b><i>Supervisors</i></b>	
Gui Haihong (桂海鴻) .....	Supervisor
Wang Donghui (王東輝) .....	Supervisor
Wang Shaoping (王少平) .....	Supervisor
<b><i>Senior management</i></b>	
Xin Di (辛笛) .....	General Manager

## THE GUARANTEE OF THE NOTES

On 19 May 2014, the SAFE promulgated the Notice concerning the Foreign Exchange Administration Rules on Cross-Border Security and the relating implementation guidelines (國家外匯管理局關於發佈《跨境擔保外匯管理規定》的通知) (collectively the “New Regulations”). The New Regulations, which came into force on 1 June 2014, replaced twelve other regulations regarding cross-border security and introduce a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross-border security; (ii) requiring SAFE registration for two specific types of cross-border security only; (iii) removing eligibility requirements for providers of cross-border security; (iv) the validity of any cross-border security agreement is no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; (v) removing SAFE verification requirement for performance of cross-border security. A cross-border guarantee is a form of security under the New Regulations. The New Regulations classify cross-border security into three types:

- Nei Bao Wai Dai (內保外貸) (“NBWD”): security/guarantee provided by an onshore security provider for a debt owing by an offshore debtor to an offshore creditor.
- Wai Bao Nei Dai (外保內貸) (“WBND”): security/guarantee provided by an offshore security provider for a debt owing by an onshore debtor to an onshore creditor.
- Other Types of Cross-border Security (其他形式跨境擔保): any cross-border security/guarantee other than NBWD and WBND.

In respect of NBWD, in the case where the onshore security provider is a non-financial institution, it shall conduct a registration of the relevant security/guarantee with SAFE within 15 working days after its execution (or 15 working days after the date of any change to the security). The funds borrowed offshore shall not be directly or indirectly repatriated to or used onshore by means of loans, equity investments or securities investments without SAFE approval. The onshore security provider can pay to the offshore creditor directly (by effecting remittance through an onshore bank) where the NBWD has been registered with SAFE. In addition, if any onshore security provider under a NBWD provides any security or guarantee for an offshore note issuance, the offshore issuer’s equity interests must be fully or partially held directly or indirectly by the onshore security provider. Moreover, the proceeds from any such offshore note issuance must be applied towards the offshore project(s), where an onshore entity holds an equity interest, and in respect of which the related approval, registration, record, or confirmation have been obtained from or made with the competent authorities subject to PRC laws.

The Guarantors will unconditionally and irrevocably, on a joint and several basis, guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes (the “Guarantee of the Notes”). Each Guarantor’s obligations in respect of the Guarantee of the Notes will be contained in a trust deed (the “Trust Deed”) to be dated on or about 17 April 2015.

Prior to giving the Guarantee of the Notes and executing the Trust Deed, each of the Guarantors is required to obtain internal authorisations to do so. The giving of the Guarantee of the Notes and the execution of the Trust Deed by Grand China Air was authorised by the resolutions of the board of directors of Grand China Air on 30 March 2015. The giving of the Guarantee of the Notes and the execution of the Trust Deed by Hainan Airlines were authorised by resolutions of the Board of Directors on 26 March 2015. The giving of the Guarantee of the Notes and the execution of the Trust Deed by Hainan Airlines would also require the approval of its shareholders, which is a condition precedent to completion of this offering and which has not yet been obtained. If such approval is not obtained, the Notes will not be issued and this offering will not be completed. See “*Risk Factors – The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which has not yet been obtained; if such approval is not obtained by the closing date for the offering of the Notes, the offering will not be completed*”.

Assuming that both Guarantors have obtained the requisite internal authorisations to execute the Trust Deed, the Guarantee of the Notes no longer requires any pre-approval by SAFE and is binding and effective upon execution under the New Regulations. The Guarantors are required to submit the Trust Deed to the local SAFE for registration within 15 working days after its execution. The SAFE registration is merely a post signing registration requirement, which is not a condition to the effectiveness of the Guarantee of the Notes.

Under the New Regulations, the local SAFE will go through a review of each Guarantor's application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the relevant Guarantor to confirm the completion of the registration.

Under the New Regulations:

- non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law although SAFE may impose penalties on each Guarantor if submission for registration is not carried out within the stipulated time frame of 15 working days; and
- there may be logistical hurdles at the time of remittance (if any cross-border payment is to be made by either Guarantor under the Guarantee of the Notes) as domestic banks may require evidence of SAFE registration in order to effect such remittance, although this does not affect the validity of the Guarantee of the Notes itself.

The Terms and Conditions of the Notes provide that each Guarantor will register, or cause to be registered, the Guarantee of the Notes with SAFE in accordance with, and within the time period prescribed by, the New Regulations and use its best endeavours to complete the registration and obtain a registration record from SAFE on or before the date following 90 China Business Days after the Issue Date (the “**Registration Deadline**”). If a Guarantor fails to complete the SAFE registration and deliver the registration records to the Trustee before the Registration Deadline, the Notes will be redeemed by the Issuer at their principal amount together with accrued interest (see Condition 5(d) of the Terms and Conditions of the Notes).

Any payment by a Guarantor under the Guarantee of the Notes in respect of interest under the Notes will be subject to withholding taxes in the PRC at a rate up to 10.00 per cent. as such payments of interest will be regarded as being derived from sources within the PRC. See “*Taxation – PRC*”. Each Guarantor is obliged under the Terms and Conditions of the Notes to pay such Additional Amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding been required.

## PRINCIPAL SHAREHOLDERS

### Principal Shareholders of Hainan Airlines

The largest shareholder of Hainan Airlines is Grand China Air. As of 31 December 2013, Grand China Air directly owned 28.18% of the issued share capital of Hainan Airlines. Additionally, American Aviation LDC, a wholly-owned subsidiary of Grand China Air, owned 1.77% of the issued share capital of Hainan Airlines as of the same date.

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

In August 2012, Hainan Airlines 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 Hainan Airlines 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, Hainan Airlines increased its share capital by 6,091,090,895 shares by capitalisation from its capital surplus. As of 31 December 2014, Hainan Airlines had a total issued share capital of 12,182,181,790 shares.

As of 31 December 2014, Hainan Development Holding Co., Ltd. held 24.97% of the issued share capital of Grand China Air, and directly owned 4.89% of the issued share capital of Hainan Airlines. As of 31 December 2013, HNA Group Co., Ltd., held 23.11% of the issued share capital of Grand China Air, and directly owned 4.89% of the issued share capital of Hainan Airlines.

As of 31 December 2014, the following shareholders had a direct interest of 5% or more in Hainan Airlines' shares:

Name	Number of Shares	Approximate Percentage of the Total Number of Shares
Grand China Air . . . . .	3,432,789,486	28.18%
Haikou Meilan International Airport Co., Ltd. . . . .	862,848,902	7.08%

As of 31 December 2014, 3,222,000,000 of 3,432,789,486 shares held by Grand China Air, 346,000,000 of 862,848,902 shares held by Haikou Meilan International Airport Co., Ltd. and 595,240,000 of 595,238,094 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 Hainan Airlines, was also a significant shareholder holding 24.97% of the share capital of Grand China Air and directly owned 4.89% of the issued share capital of Hainan Airlines as of 31 December 2014. 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 Hainan Airlines Group – Competitive Strengths – Strong Sponsorship from Shareholders"*.

HNA Group Co., Ltd., a shareholder of Hainan Airlines is also a significant shareholder holding 23.11% of the share capital of Grand China Air and directly owned 4.89% of the issued share capital of Hainan Airlines as of 31 December 2014. 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 Hainan Airlines Group – Competitive Strengths – Strong sponsorship from shareholders"*, *"– Aircraft equipment and spare parts"*, *"– Aircraft maintenance, repair and overhaul"* and *"– Employees"*.

To eliminate potential competition issues arising from their shareholding interests in Hainan Airlines, Grand China Air and HNA Group Co., Ltd. gave their respective undertakings to Hainan Airlines in April 2012. In its undertakings, Grand China Air agreed to entrust Hainan Airlines, before the publication of Hainan Airlines' interim 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 Hainan Airlines within 36 months and the rest of its airline business to Hainan Airlines within 60 months of Hainan Airlines' private placement of its ordinary shares in August 2012, subject to regulatory approvals and Hainan Airlines' business needs and financial condition. Similarly, HNA Group Co., Ltd. undertook to entrust Hainan Airlines, before the publication of Hainan Airlines' 2012 interim report, 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 Hong Kong Airlines. It has also undertaken to transfer its shareholding interests in these airlines to Hainan Airlines within 36 months of Hainan Airlines' private placement of its ordinary shares, subject to regulatory approvals and Hainan Airlines' business needs and financial condition. On 6 September 2014, Hainan Airlines announced that HNA Group Co., Ltd. would alter the above undertaking as it considers it to be appropriate to reduce potential competition between HNA Group and Hainan Airlines through selling its interest in Hong Kong Airlines to independent third parties in light of the proposed initial public offering of Hong Kong Airlines.

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

In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co., Ltd. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of the capital contribution to Tianjin Airlines by

Tianhang Holding Co., Ltd. (天航控股有限責任公司). In July 2014, Hainan Airlines completed a further subscription for 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%. In November 2013, Hainan Airlines announced that it intended to invest RMB1 billion in new share capital of West Air in cash and upon this investment increased its shareholding in West Air to 29.40%. The investment is expected to be completed in the third quarter of 2015. As of 31 January 2015, Hainan Airlines had partially completed the share subscription in West Air, increasing its shareholding to 19.44%. In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. 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. Hainan Airlines 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 and HNA Group Co., Ltd.. See “*Description of Hainan Airlines Group – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines*”.

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

### Principal Shareholders of Grand China Air

As of 31 December 2014, Grand China Air’s shareholders and their respective shareholding percentages were as listed below:

<b>Shareholders</b>	<b>Shareholding (%)</b>
Hainan Development Holdings Co., Ltd. ....	24.97
HNA Group Co., Ltd. ....	23.11
Haikou Meilan International Airport ....	8.30
Starstep Limited ....	9.57
Shenhua Group Corporation Limited ....	5.56
Others ....	28.49
<b>Total</b> .....	<b>100.00</b>



## **RELEVANT DIFFERENCES BETWEEN CAS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Hainan Airlines Audited Consolidated Financial Statements and the Grand China Air Audited Consolidated Financial Statements 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, CAS have substantively converged with International Financial Reporting Standards in all ways relevant to the Group. Accordingly, there are no other significant differences between the principal accounting policies adopted by the Guarantors 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 “CAS 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, Hainan Airlines had no such reversal of impairment losses on assets. Therefore, the above technical difference had no substantial impact on the Hainan Airlines Audited Consolidated Financial Statements included elsewhere in this Offering Circular.

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

The above analysis is not meant to be an exhaustive description of all significant differences between CAS and IFRS. In making an investment decision, investors must rely upon their own examination of the Guarantors, the Group, the terms of the offering and the financial information included herein. Potential investors should consult their own professional advisers for an understanding of any differences that may exist between CAS 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 Notes 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 Notes 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 Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes 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 Notes or in respect of any capital gains arising from the sale of the Notes.

#### ***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 Notes 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 Notes 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 Notes 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 Notes 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 Notes 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 Notes will be subject to profits tax.

#### ***Stamp duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

## ***Estate duty***

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

## **PRC**

*The following summary describes the principal PRC tax consequences of ownership of the Notes 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 Noteholders in this section. In considering whether to invest in the Notes, investors should consult their individual tax advisers 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 per cent. 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 per cent. 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 Notes 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 Notes 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 per cent. 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 Notes for any non-PRC enterprise Noteholder. However, despite the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

In addition, in the event that a Guarantor is required to discharge its obligations under the Guarantee of the Notes, such Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10.00 per cent. on the payments of interest made by it under the Guarantee of the Notes to non-PRC resident enterprise Noteholders 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 Noteholders. Repayment of the principal will not be subject to PRC withholding tax.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, 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 Noteholders from the transfer of the Notes 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 Noteholders is maintained outside China) of a Note.

### **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 per cent. 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”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s 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 Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal 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 Notes 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.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes 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 Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. 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 Notes 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 Notes 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 Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasised that neither the Issuer, the Guarantors nor any other persons involved in the issuance of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.

### ***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 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17 per cent. The applicable rate for non-resident individuals is currently 20 per cent. 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 per cent. The rate of 15 per cent. 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 Notes are distributed by the Sole Lead Manager which is a Financial Sector Incentive – Standard Tier, Financial Sector Incentive – Note Market or Financial Sector Incentive – Capital Market Company (as defined in the ITA), and the Notes are issued as debt securities before 31 December 2018, the Notes 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 Notes in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with such Notes 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 Notes of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Notes 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 Notes 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 Notes 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 Notes 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 Notes in the prescribed format within such period as the relevant authorities may specify and such other particulars in connection with the Notes as the relevant authorities may require to the MAS and such other relevant authorities as may be prescribed), Qualifying Income from such Notes 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 per cent. (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 Notes, the Notes are issued to fewer than four persons and 50 per cent. or more of the issue of the Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, the Notes would not qualify as QDS; and



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

- (i) any related party of the Issuer; or
- (ii) any other person where the funds used by such person to acquire the Notes 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 NOTES**

*Where Qualifying Income (whether it is interest, discount income, prepayment fee, redemption premium or break cost) is derived from any of the Notes 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 Notes 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 Notes 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 Notes***

Any gains considered to be in the nature of capital made from the disposal of the Notes will not be taxable in Singapore. However, any gains derived by any person from the disposal of the Notes 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 Notes 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 recognise gains or losses (not being gains or losses in the nature of capital) on the Notes, 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 Notes 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 Notes.

#### ***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 Guarantors have entered into a subscription agreement with DBS Bank Ltd. (the “**Sole Lead Manager**”) dated 31 March 2015 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Sole Lead Manager, which has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Notes at an issue price of 99.320 per cent. of their principal amount (the “**Issue Price**”). Any subsequent offering of the Notes to investors may be at a price different from such Issue Price.

The Subscription Agreement provides that the obligations of the Sole Lead Manager are subject to certain conditions precedent (including, but not limited to, the receipt of all necessary internal and external authorisations, consents and approvals for the issue of the Notes, the giving of the Guarantee of the Notes, the execution and delivery of transaction documents and the performance of obligations thereunder) and entitles the Sole Lead Manager to terminate the Subscription Agreement in certain circumstances at any time prior to the payment of the net proceeds of the issue of the Notes to the Issuer on the Closing Date.

### **Other relationships**

The Sole Lead Manager or its affiliates may purchase the Notes for its own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swap relating to the Notes at the same time as the offer and sale of the Notes 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 Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchaser of the Notes). The Sole Lead Manager 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 Guarantors, the Issuer or their respective subsidiaries or associates from time to time.

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

### **General**

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes 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, either Guarantor or the Sole Lead Manager that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Notes, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Notes or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes 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 Notes may be distributed or published, by the Issuer, either Guarantor or the Sole Lead Manager, 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, either Guarantor or the Sole Lead Manager.

## **United States**

The Notes and the Guarantee of the Notes 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 Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

## **United Kingdom**

The Sole 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 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Guarantors; 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 Notes in, from or otherwise involving the United Kingdom.

## **Hong Kong**

The Sole 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 Notes 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 Notes, 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 Notes 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**

The Sole Lead Manager has represented, warranted and agreed that the Notes 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**

The Sole 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, the Sole Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes 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 Notes, 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 Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, 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 Notes 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 Notes 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 Notes 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, the Sole 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 Notes 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 Notes will be lodged and cleared through Euroclear and Clearstream, Luxembourg. The ISIN and Common Code for the Notes are XS1214932094 and 121493209, respectively.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the board of directors of the Issuer on 31 March 2015 and by the shareholders of the Issuer on 31 March 2015. The giving of the Guarantee of the Notes by Grand China Air was authorised by resolutions of the Board of Directors on 30 March 2015. The giving of the Guarantee of the Notes by Hainan Airlines was authorised by resolutions of the Board of Directors on 26 March 2015 and will be considered by the shareholders of Hainan Airlines at the shareholders' meeting scheduled to take place on or around 15 April 2015. The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which is a condition precedent to completion of this offering. If such approval is not obtained, the Notes will not be issued and this offering will not be completed. See *“Risk Factors – The Guarantee of the Notes to be given by Hainan Airlines requires the approval of its shareholders, which has not yet been obtained; if such approval is not obtained by the closing date for the offering of the Notes, the offering will not be completed”* and *“The Guarantee of the Notes”*.
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 Guarantors or the Group since 31 December 2014.
4. **Litigation:** Neither the Issuer nor either Guarantor nor any member of the Group is involved in any litigation or arbitration proceedings that are material in the context of the Notes nor is the Issuer or either Guarantor aware that any such proceedings are pending or threatened.
5. **Available Documents:** Copies of Hainan Airline's annual reports for the years ended 31 December 2012, 2013 and 2014, Grand China Air's financial statements for the years ended 31 December 2012, 2013 and 2014 and relevant English translation, the Trust Deed and the Agency Agreement relating to the Notes and the Articles of Association of the Issuer, Hainan Airlines and Grand China Air will be available for inspection from the end of May 2014 at the principal office of Hainan Airlines 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 Notes is outstanding. Hainan Airlines prepares and publishes an annual report every year and an interim report semi-annually. Copies of the annual report and interim report of Hainan Airlines in respect of the latest year and period can be obtained from the corporate website of Hainan Airlines.
6. **Financial Statements of Hainan Airlines:** The Hainan Airlines Audited Consolidated Financial Statements are the consolidated financial statements of Hainan Airlines for the years ended 31 December 2012, 2013 and 2014, which have been audited by PwC ZT, auditor of Hainan Airlines, as stated in its report. The Hainan Airlines Audited Consolidated Financial Statements are included elsewhere in this Offering Circular. An English version of the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 will be available for inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of April 2015.
7. **Financial Statements of Grand China Air:** The Grand China Air Audited Consolidated Financial Statements are the consolidated financial statements of Grand China Air for the years ended 31 December 2011, 2012 and 2013 in English, which have been audited by CAAP, auditor of Grand China Air, as stated in its report. The Grand China Air Audited Consolidated Financial Statements are included elsewhere in this Offering Circular. An English version of the consolidated financial statements of Grand China Air as of and for the year ended 31 December 2014 will be available for inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of May 2015.



8. **Listing:** Application will be made to the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. Subject to the approval of the SGX-ST, the Notes 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 Notes are listed on the SGX-ST. So long as the Notes 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 Notes may be presented or surrendered for payment or redemption, in the event that the Global Note Certificate is exchanged for Notes in definitive form. In addition, in the event that the Global Note Certificate is exchanged for Notes 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 Notes in definitive form, including details of the paying agent in Singapore, so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

## INDEX TO THE HAINAN AIRLINES AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Information as of and for the year ended 31 December 2014 set out in the Hainan Airlines 2014 Audited Consolidated Financial Statements reflects the impact of applying merger accounting to account for Hainan Airlines' acquisition of its interest in Lucky Air in March 2014, which has the effect of including the financial information of Lucky Air in Hainan Airlines' financial information as of and for the entire year ended 31 December 2014. Comparative figures as of and for the year ended 31 December 2013 set out in Hainan Airlines 2014 Audited Consolidated Financial Statements (the "**Hainan Airlines Audited and Restated 2013 Financial Information**") have been restated to reflect the impact of merger accounting to account for Hainan Airlines' acquisition of Lucky Air for comparative purposes. In addition, in 2014, the MOF of the PRC issued CAS 39 "Fair Value Measurement", CAS 40 "Joint arrangement", CAS 41 "Disclosure of Interests in Other Entities", CAS 2 "Long-Term Equity Investments", CAS 9 "Employee Benefits", CAS 30 "Presentation of Financial Statements", CAS 33 "Consolidated Financial Statements" and CAS 37 "Presentation of Financial Instrument" ("**CAS 37**"), which were implemented since 1 July 2014 except for CAS 37 being required to be implemented for the 2014 annual financial statements and since then. In preparation of information as of and for the year ended 31 December 2014, Hainan Airlines had adopted the above revised CAS. Comparative figures as of and for the year ended 31 December 2013 have also been restated for this reason. Accordingly, the Hainan Airlines Audited and Restated 2013 Financial Information is not the same as the information as of and for the year ended 31 December 2013 set out in the Hainan Airlines 2013 Audited Consolidated Financial Statements and is not comparable to the information as of and for the year ended 31 December 2012 set out in the Hainan Airlines 2013 Audited Consolidated Financial Statements.

### Audited consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014<sup>(1)</sup>

	Page reference	
	This Offering Circular	Audited Consolidated Financial Statements
Report of the auditors .....	F-3	1
Consolidated and Company's balance sheets as of 31 December 2014 .....	F-5	3
Consolidated and Company's income statements for the year ended 31 December 2014 . . .	F-9	7
Consolidated and Company's cash flow statements for the year ended 31 December 2014 ..	F-10	8
Consolidated statements of changes in shareholders' equity for the year ended 31 December 2014 .....	F-11	9
Company's statements of changes in shareholders' equity for the year ended 31 December 2014 .....	F-12	10
Notes to the financial statements for the year ended 31 December 2014 .....	F-13	11

### Audited consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2013<sup>(2)</sup>

	Page reference	
	This Offering Circular	Audited Consolidated Financial Statements
Report of the auditors .....	F-133	2
Consolidated and Company's balance sheets as of 31 December 2013 .....	F-135	4
Consolidated and Company's income statements for the year ended 31 December 2013 . . .	F-137	6
Consolidated and Company's cash flow statements for the year ended 31 December 2013 ..	F-138	7
Consolidated statements of changes in shareholders' equity for the year ended 31 December 2013 .....	F-139	8
Company's statements of changes in shareholders' equity for the year ended 31 December 2013 .....	F-140	9
Notes to the financial statements for the year ended 31 December 2013 .....	F-141	10

#### Note:

- (1) The audited consolidated financial statements of the Hainan Airlines as of and for the year ended 31 December 2014 set out herein have been reproduced from the audited consolidated financial statements of Hainan Airlines for the year ended 31 December 2014 and page references are reference to pages set forth in such consolidated financial statements. An English version of the consolidated financial statements of Hainan Airlines as of and for the year ended 31 December 2014 will be available for inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of April 2015.
- (2) The audited consolidated financial statements of the Hainan Airlines as of and for the year ended 31 December 2013 set out herein have been reproduced from the audited consolidated financial statements of Hainan Airlines for the year ended 31 December 2013 and page references are reference to pages set forth in such consolidated financial statements.

## INDEX TO THE GRAND CHINA AIR AUDITED CONSOLIDATED FINANCIAL STATEMENTS

An English version of the consolidated financial statements of Grand China Air as of and for the year ended 31 December 2014 will be available for inspection by Noteholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the principal office of Hainan Airlines in Haikou, the PRC, the registered office for the time being of the Trustee and the specified office of each Paying Agent by the end of May 2015.

### **Audited consolidated financial statements of Grand China Air as of and for the years ended 31 December 2011, 2012 and 2013**

	<u>Page reference</u>
Report of the auditors .....	F-241
Consolidated balance sheet as of 31 December 2011, 2012 and 2013 .....	F-242
Consolidated income statement for the years ended 31 December 2011, 2012 and 2013 .....	F-244
Consolidated statements of cash flows for the years ended 31 December 2011, 2012 and 2013 .....	F-245
Company statement of changes in owner's equity for the years ended 31 December 2011, 2012 and 2013 .....	F-246
Balance sheet of parent company as of 31 December 2011, 2012 and 2013 .....	F-249
Income statement of parent company for the years ended 31 December 2011, 2012 and 2013 ...	F-251
Cash flow statement of parent company for the years ended 31 December 2011, 2012 and 2013 .....	F-252
Statement of changes in owner's equity of parent company for the years ended 31 December 2011, 2012 and 2013 .....	F-253
Notes to the financial statements for the years ended 31 December 2011, 2012 and 2013 .....	F-256

## 审计报告

普华永道中天审字(2015)第10067号  
(第一页，共二页)

海南航空股份有限公司全体股东：

我们审计了后附的海南航空股份有限公司(以下简称“海南航空”)的财务报表，包括 2014 年 12 月 31 日的合并及公司资产负债表，2014 年度的合并及公司利润表、合并及公司股东权益变动表和合并及公司现金流量表以及财务报表附注。

### 一、管理层对财务报表的责任

编制和公允列报财务报表是海南航空管理层的责任。这种责任包括：

- (1) 按照企业会计准则的规定编制财务报表，并使其实现公允反映；
- (2) 设计、执行和维护必要的内部控制，以使财务报表不存在由于舞弊或错误导致的重大错报。

### 二、注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则，计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序，以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断，包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时，注册会计师考虑与财务报表编制和公允列报相关的内部控制，以设计恰当的审计程序。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性，以及评价财务报表的总体列报。

我们相信，我们获取的审计证据是充分、适当的，为发表审计意见提供了基础。

## 审计报告(续)

普华永道中天审字(2015)第10067号  
(第二页, 共二页)

### 三、审计意见

我们认为, 上述海南航空的财务报表在所有重大方面按照企业会计准则的规定编制, 公允反映了海南航空 2014 年 12 月 31 日的合并及公司财务状况以及 2014 年度的合并及公司经营成果和现金流量。

普华永道中天  
会计师事务所(特殊普通合伙)

注册会计师  
段永强

中国·上海市  
2015 年 3 月 25 日

注册会计师  
谢婧颖

海南航空股份有限公司

2014 年 12 月 31 日合并资产负债表  
(除特别注明外，金额单位为人民币千元)

资 产	附注	2014 年 12 月 31 日	2013 年 12 月 31 日 (经重述)	2013 年 1 月 1 日 (经重述) 附注二(29) 及附注五(1)
<b>流动资产</b>				
货币资金	四(1)	21,715,590	21,729,850	23,339,667
应收票据		-	25,000	-
应收账款	四(2)	733,906	905,626	670,382
预付款项	四(5)	953,863	409,750	369,017
应收利息	四(4)	473,753	408,093	261,155
应收股利		4,641	6,730	1,865
其他应收款	四(3)	1,652,016	1,320,188	3,047,944
存货	四(6)	62,913	64,352	72,621
其他流动资产	四(7)	3,192,735	2,914,836	3,200,000
<b>流动资产合计</b>		<b>28,789,417</b>	<b>27,784,425</b>	<b>30,962,651</b>
<b>非流动资产</b>				
可供出售金融资产	四(8)	4,421,499	2,764,581	3,760,565
长期股权投资	四(9)	12,825,132	11,292,114	5,606,218
投资性房地产	四(10)	9,268,104	10,742,182	7,256,342
固定资产	四(11)	50,295,563	42,856,409	35,729,715
在建工程	四(12)	13,061,147	11,936,427	12,046,663
无形资产	四(13)	341,465	355,250	364,948
商誉	四(14)	328,865	328,865	328,865
长期待摊费用	四(15)	617,415	664,258	592,499
其他非流动资产	四(16)	2,033,434	3,892,577	2,443,622
<b>非流动资产合计</b>		<b>93,192,624</b>	<b>84,832,663</b>	<b>68,129,437</b>
<b>资产总计</b>		<b>121,982,041</b>	<b>112,617,088</b>	<b>99,092,088</b>



海南航空股份有限公司

2014 年 12 月 31 日合并资产负债表(续)  
(除特别注明外，金额单位为人民币千元)

负债及股东权益	附注	2014 年 12 月 31 日	2013 年 12 月 31 日 (经重述)	2013 年 1 月 1 日 (经重述) 附注二(29) 及附注五(1)
<b>流动负债</b>				
短期借款	四(19)	18,525,425	21,878,657	16,785,336
应付票据	四(20)	5,528,136	4,668,804	6,105,681
应付账款	四(21)	3,790,588	5,149,797	4,995,291
预收款项	四(22)	1,539,538	1,639,875	1,047,264
应付职工薪酬	四(23)	287,008	293,309	213,105
应交税费	四(24)	779,841	804,426	679,339
应付利息	四(25)	473,503	374,075	352,668
应付股利	四(36)	29,746	59,381	68,521
其他应付款	四(26)	763,207	1,446,372	1,629,996
一年内到期的非流动负债	四(27)	6,829,007	7,567,251	6,588,167
<b>流动负债合计</b>		<b>38,545,999</b>	<b>43,881,947</b>	<b>38,465,368</b>
<b>非流动负债</b>				
长期借款	四(28)	27,664,889	25,749,667	23,219,711
应付债券	四(29)	15,244,001	8,637,955	7,123,105
长期应付款	四(30)	3,844,207	2,656,236	2,236,998
递延收益	四(31)	811,835	740,444	625,589
递延所得税负债	四(17)	3,822,107	3,339,036	2,098,694
其他非流动负债		324,258	-	7,359
<b>非流动负债合计</b>		<b>51,711,297</b>	<b>41,123,338</b>	<b>35,311,456</b>
<b>负债合计</b>		<b>90,257,296</b>	<b>85,005,285</b>	<b>73,776,824</b>
<b>股东权益</b>				
股本	四(32)	12,182,182	12,182,182	6,091,091
资本公积	四(33)	5,688,139	6,596,153	12,251,504
其他综合收益	四(34)	692,592	260,165	90,681
盈余公积	四(35)	969,849	852,630	702,966
未分配利润	四(36)	9,118,873	7,229,735	5,771,335
<b>归属于母公司股东权益合计</b>		<b>28,651,635</b>	<b>27,120,865</b>	<b>24,907,577</b>
少数股东权益	四(37)	3,073,110	490,938	407,687
<b>股东权益合计</b>		<b>31,724,745</b>	<b>27,611,803</b>	<b>25,315,264</b>
<b>负债及股东权益总计</b>		<b>121,982,041</b>	<b>112,617,088</b>	<b>99,092,088</b>

后附财务报表附注为财务报表的组成部分。

企业负责人：辛 笛

主管会计工作的负责人：杜 亮

会计机构负责人：黄尔威

海南航空股份有限公司

2014 年 12 月 31 日公司资产负债表  
(除特别注明外，金额单位为人民币千元)

资 产	附注	2014 年 12 月 31 日	2013 年 12 月 31 日 (经重述)	2013 年 1 月 1 日 (经重述) 附注二(29) 及附注五(1)
<b>流动资产</b>				
货币资金		14,632,504	16,438,440	17,433,182
应收票据		-	25,000	-
应收账款	十六(1)	727,106	115,052	326,636
预付款项		906,988	334,454	348,636
应收利息		198,018	153,480	90,937
应收股利		4,641	6,730	1,865
其他应收款	十六(2)	1,354,603	759,661	1,087,544
存货		54,073	52,649	60,924
其他流动资产		1,836,891	862,565	1,000,000
<b>流动资产合计</b>		<b>19,714,824</b>	<b>18,748,031</b>	<b>20,349,724</b>
<b>非流动资产</b>				
可供出售金融资产		2,776,046	2,189,507	2,822,007
长期股权投资	十六(3)	18,868,958	15,626,741	10,369,053
投资性房地产		988,338	2,487,999	2,452,974
固定资产		39,333,576	33,928,417	27,731,799
在建工程		11,856,039	10,928,168	11,543,185
无形资产		63,753	65,222	66,691
长期待摊费用		449,965	506,835	457,364
其他非流动资产		1,558,784	3,363,147	1,945,181
<b>非流动资产合计</b>		<b>75,895,459</b>	<b>69,096,036</b>	<b>57,388,254</b>
<b>资产总计</b>		<b>95,610,283</b>	<b>87,844,067</b>	<b>77,737,978</b>

海南航空股份有限公司

2014 年 12 月 31 日公司资产负债表(续)

(除特别注明外，金额单位为人民币千元)

负债及股东权益	附注	2014 年 12 月 31 日	2013 年 12 月 31 日 (经重述)	2013 年 1 月 1 日 (经重述) 附注二(29) 及附注五(1)
<b>流动负债</b>				
短期借款		12,034,098	15,450,010	11,706,561
应付票据		4,144,676	2,813,404	3,554,473
应付账款		11,393,879	9,960,901	7,537,384
预收款项		22,060	183,993	22,060
应付职工薪酬		116,954	146,536	110,600
应交税费		328,306	360,500	226,351
应付利息		369,018	283,130	299,467
应付股利		29,746	59,381	68,521
其他应付款		115,269	346,235	332,938
一年内到期的非流动负债		5,668,811	4,560,229	5,085,484
<b>流动负债合计</b>		<b>34,222,817</b>	<b>34,164,319</b>	<b>28,943,839</b>
<b>非流动负债</b>				
长期借款		22,517,268	21,958,150	18,452,711
应付债券		8,555,305	4,951,977	4,939,440
长期应付款		1,999,335	1,219,012	1,195,060
递延收益		532,923	506,151	401,578
递延所得税负债		2,081,476	1,541,055	1,252,865
其他非流动负债		285,603	-	7,359
<b>非流动负债合计</b>		<b>35,971,910</b>	<b>30,176,345</b>	<b>26,249,013</b>
<b>负债合计</b>		<b>70,194,727</b>	<b>64,340,664</b>	<b>55,192,852</b>
<b>股东权益</b>				
股本		12,182,182	12,182,182	6,091,091
资本公积		5,759,951	5,975,682	12,066,773
其他综合收益		575,777	164,380	36,508
盈余公积		969,849	798,200	657,397
未分配利润		5,927,797	4,382,959	3,693,357
<b>股东权益合计</b>		<b>25,415,556</b>	<b>23,503,403</b>	<b>22,545,126</b>
<b>负债及股东权益总计</b>		<b>95,610,283</b>	<b>87,844,067</b>	<b>77,737,978</b>

后附财务报表附注为财务报表的组成部分。

企业负责人：辛 笛

主管会计工作的负责人：杜 亮

会计机构负责人：黄尔威

# 海南航空股份有限公司

## 2014 年度合并及公司利润表

(除特别注明外，金额单位为人民币千元)

项目	附注	2014 年度 合并	2013 年度 合并 (经重述)	2014 年度 公司	2013 年度 公司 (经重述)
一、营业收入	四(38), 十六(4)	36,043,771	33,276,254	25,097,747	22,187,454
减：营业成本	四(38), 十六(4)	(27,702,882)	(26,144,416)	(18,938,395)	(17,309,003)
营业税金及附加	四(39)	(68,318)	(597,517)	(15,107)	(415,895)
销售费用	四(40)	(2,166,136)	(2,077,680)	(1,388,939)	(1,384,394)
管理费用	四(41)	(768,210)	(699,370)	(346,024)	(375,803)
财务费用-净额	四(42)	(3,401,198)	(2,045,331)	(2,833,522)	(1,487,697)
资产减值损失	四(44)	6,141	(54,771)	7,000	(55,145)
加：公允价值变动(损失)/收益	四(45)	(249,168)	(64,363)	(259,745)	35,025
投资收益	四(46), 十六(5)	804,651	696,383	361,246	239,835
其中：对联营企业的投资收益		534,625	439,798	160,253	178,123
二、营业利润		<b>2,498,651</b>	<b>2,289,189</b>	<b>1,684,261</b>	<b>1,434,377</b>
加：营业外收入	四(47)	728,831	475,429	544,331	390,726
其中：非流动资产处置利得		158,824	22,872	72,179	28,545
减：营业外支出		(14,856)	(3,455)	(86,477)	(1,986)
其中：非流动资产处置损失		(2,288)	(2,093)	(85,691)	(814)
三、利润总额		<b>3,212,626</b>	<b>2,761,163</b>	<b>2,142,115</b>	<b>1,823,117</b>
减：所得税费用	四(48)	(569,978)	(585,852)	(425,628)	(415,092)
四、净利润		<b>2,642,648</b>	<b>2,175,311</b>	<b>1,716,487</b>	<b>1,408,025</b>
- 归属于母公司股东的净利润		2,591,173	2,158,660	1,716,487	1,408,025
- 少数股东损益		51,475	16,651		
五、其他综合收益的税后净额	四(34)	432,427	169,484	411,397	127,872
可供出售金融资产公允价值变动		432,427	169,484	411,397	127,872
六、综合收益总额		<b>3,075,075</b>	<b>2,344,795</b>	<b>2,127,884</b>	<b>1,535,897</b>
- 归属于公司股东的综合收益总额		3,023,600	2,328,144		
- 归属于少数股东的综合收益总额		51,475	16,651		
七、每股收益					
基本每股收益(人民币元/股)	四(49)(a)	0.213	0.177		
稀释每股收益(人民币元/股)	四(49)(b)	0.213	0.177		

后附财务报表附注为财务报表的组成部分。

企业负责人：辛 笛

主管会计工作的负责人：杜 亮

会计机构负责人：黄尔威

# 海南航空股份有限公司

## 2014 年度合并及公司现金流量表 (除特别注明外，金额单位为人民币千元)

项 目	附注	2014 年度 合并	2013 年度 合并 (经重述)	2014 年度 公司	2013 年度 公司 (经重述)
<b>一、经营活动产生的现金流量</b>					
销售商品、提供劳务收到的现金		40,333,646	38,268,056	25,479,668	23,230,776
收到其他与经营活动有关的现金	四(50)(a)	2,430,827	2,921,987	2,012,604	2,099,154
经营活动现金流入小计		42,764,473	41,190,043	27,492,272	25,329,930
购买商品、接受劳务支付的现金		(26,381,529)	(21,556,268)	(15,996,454)	(12,363,231)
支付给职工以及为职工支付的现金		(2,045,333)	(1,902,190)	(1,247,473)	(1,083,435)
支付的各项税费		(3,611,077)	(3,294,703)	(679,013)	(1,077,537)
支付其他与经营活动有关的现金	四(50)(b)	(4,721,892)	(3,689,266)	(1,644,724)	(1,759,174)
经营活动现金流出小计		(36,759,831)	(30,442,427)	(19,567,664)	(16,283,377)
经营活动产生的现金流量净额	四(51)(a)	6,004,642	10,747,616	7,924,608	9,046,553
<b>二、投资活动产生的现金流量</b>					
收回投资收到的现金		2,188,931	3,295,000	1,188,931	1,090,000
取得投资收益所收到的现金		204,929	308,806	79,965	62,549
处置固定资产、无形资产和其他长期资产 收回的现金净额		2,511,816	1,571,490	1,615,912	886,321
收到其他与投资活动有关的现金	四(50)(c)	4,490,270	1,983,746	976,842	594,642
投资活动现金流入小计		9,395,946	7,159,042	3,861,650	2,633,512
购建固定资产、无形资产和其他长期资产 支付的现金		(7,784,950)	(8,816,143)	(5,458,935)	(8,692,259)
投资支付的现金		(4,787,552)	(7,621,837)	(1,500,000)	(5,190,340)
取得子公司支付的现金净额		(902,133)	(3,686,347)	(2,562,133)	(673,217)
支付其他与投资活动有关的现金	四(50)(d)	(2,233,577)	(3,867,357)	(460,000)	(497,000)
投资活动现金流出小计		(15,708,212)	(23,991,684)	(9,981,068)	(15,052,816)
投资活动使用的现金流量净额		(6,312,266)	(16,832,642)	(6,119,418)	(12,419,304)
<b>三、筹资活动产生的现金流量</b>					
吸收投资收到的现金		2,740,000	500,000	-	-
取得借款收到的现金		40,571,986	41,673,399	30,250,906	32,146,962
发行债券收到的现金		6,967,418	2,961,280	3,987,696	-
收到其他与筹资活动有关的现金	四(50)(e)	4,602,450	2,150,000	4,002,450	2,050,000
筹资活动现金流入小计		54,881,854	47,284,679	38,241,052	34,196,962
偿还债务支付的现金		(43,247,725)	(33,341,579)	(32,374,771)	(24,748,628)
分配股利或偿付利息支付的现金		(4,097,106)	(4,540,531)	(3,546,113)	(3,387,145)
支付其他与筹资活动有关的现金	四(50)(f)	(7,076,546)	(5,469,009)	(6,347,087)	(3,616,651)
筹资活动现金流出小计		(54,421,377)	(43,351,119)	(42,267,971)	(31,752,424)
筹资活动产生/(使用)的现金流量净额		460,477	3,933,560	(4,026,919)	2,444,538
<b>四、汇率变动对现金及现金等价物的影响</b>		9,385	(6,396)	9,013	(6,265)
<b>五、现金及现金等价物净增加/(减少)额</b>	四(51)(a)	162,238	(2,157,862)	(2,212,716)	(934,478)
加：年初现金及现金等价物余额	四(51)(a)	17,203,390	19,361,252	15,172,055	16,106,533
<b>六、年末现金及现金等价物余额</b>	四(51)(c)	17,365,628	17,203,390	12,959,339	15,172,055

后附财务报表附注为财务报表的组成部分。

企业负责人：辛 笛

主管会计工作的负责人：杜 亮

会计机构负责人：黄尔威

# 海南航空股份有限公司

## 2014 年度合并股东权益变动表

(除特别注明外，金额单位为人民币千元)

项目	附注	归属于母公司股东权益					少数股东 权益	股东权益 合计
		股本	资本公积	其他综合收益	盈余公积	未分配利润		
2012 年 12 月 31 日余额(经重述)		6,091,091	11,785,658	90,681	657,397	5,309,332	111,656	24,045,815
同一控制下企业合并		-	465,846	-	45,569	462,003	296,031	1,269,449
2013 年 1 月 1 日余额(经重述)		6,091,091	12,251,504	90,681	702,966	5,771,335	407,687	25,315,264
2013 年度增减变动额(经重述)								
- 综合收益总额								
净利润		-	-	-	-	2,158,660	16,651	2,175,311
其他综合损益	四(34)	-	-	169,484	-	-	-	169,484
综合收益总额总计		-	-	169,484	-	2,158,660	16,651	2,344,795
- 利润分配								
提取盈余公积	四(35)	-	-	-	140,803	(140,803)	-	-
对股东的分配	四(36)	-	-	-	-	(609,109)	-	(609,109)
- 股东权益内部结转								
资本公积转增股本	四(33)	6,091,091	(6,091,091)	-	-	-	-	-
- 长期股权投资因增加 投资自成本法转换 为权益法而确认的 投资收益		-	-	-	-	60,853	-	60,853
同一控制下企业合并		-	435,740	-	8,861	(11,201)	66,600	500,000
2013 年 12 月 31 日余额(经重述)		12,182,182	6,596,153	260,165	852,630	7,229,735	490,938	27,611,803
2014 年 1 月 1 日余额(经重述)		12,182,182	6,596,153	260,165	852,630	7,229,735	490,938	27,611,803
2014 年度增减变动额								
- 综合收益总额								
净利润		-	-	-	-	2,591,173	51,475	2,642,648
其他综合损益	四(34)	-	-	432,427	-	-	-	432,427
综合收益总额总计		-	-	432,427	-	2,591,173	51,475	3,075,075
- 利润分配								
提取盈余公积	四(35)	-	-	-	171,649	(171,649)	-	-
- 同一控制下企业合并		-	(1,117,317)	-	(54,430)	(530,386)	-	(1,702,133)
- 少数股东增资	六(1)	-	209,303	-	-	-	2,530,697	2,740,000
2014 年 12 月 31 日余额		12,182,182	5,688,139	692,592	969,849	9,118,873	3,073,110	31,724,745

后附财务报表附注为财务报表的组成部分。

企业负责人：辛 笛

主管会计工作的负责人：杜 亮

会计机构负责人：黄尔威



# 海南航空股份有限公司

## 2014 年度公司股东权益变动表 (除特别注明外，金额单位为人民币千元)

项目	附注	股本	资本公积	其他综合收益	盈余公积	未分配利润	股东权益 合计
2013 年 1 月 1 日余额(经重述)		<u>6,091,091</u>	<u>12,066,773</u>	<u>36,508</u>	<u>657,397</u>	<u>3,693,357</u>	<u>22,545,126</u>
2013 年度增减变动额(经重述)							
- 综合收益总额							
净利润		-	-	-	-	1,408,025	1,408,025
其他综合收益		-	-	127,872	-	-	127,872
综合收益总额总计		-	-	127,872	-	1,408,025	1,535,897
- 利润分配							
提取盈余公积	四(35)	-	-	-	140,803	(140,803)	-
对股东的分配	四(36)	-	-	-	-	(609,109)	(609,109)
- 股东权益内部结转							
资本公积转增股本	四(33)	6,091,091	(6,091,091)	-	-	-	-
- 长期股权投资因增加投 资自成本法转换为权益 法而确认的投资收益		-	-	-	-	31,489	31,489
2013 年 12 月 31 日余额(经重述)		<u>12,182,182</u>	<u>5,975,682</u>	<u>164,380</u>	<u>798,200</u>	<u>4,382,959</u>	<u>23,503,403</u>
2014 年 1 月 1 日余额(经重述)		<u>12,182,182</u>	<u>5,975,682</u>	<u>164,380</u>	<u>798,200</u>	<u>4,382,959</u>	<u>23,503,403</u>
2014 年度增减变动额							
- 综合收益总额							
净利润		-	-	-	-	1,716,487	1,716,487
其他综合收益		-	-	411,397	-	-	411,397
综合收益总额总计		-	-	411,397	-	1,716,487	2,127,884
- 利润分配							
提取盈余公积	四(35)	-	-	-	171,649	(171,649)	-
- 同一控制下企业合并		-	(215,731)	-	-	-	(215,731)
2014 年 12 月 31 日余额		<u>12,182,182</u>	<u>5,759,951</u>	<u>575,777</u>	<u>969,849</u>	<u>5,927,797</u>	<u>25,415,556</u>

后附财务报表附注为财务报表的组成部分。

企业负责人：辛 笛

主管会计工作的负责人：杜 亮

会计机构负责人：黄尔威

## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

#### 一 公司基本情况

海南航空股份有限公司(以下简称“本公司”)是由海南省航空公司与中国光大国际信托投资公司、交通银行海南分行等法人单位于 1993 年 10 月 18 日共同发起设立的股份有限公司，注册地为中华人民共和国海南省海口市。本公司设立时的总股本为人民币 250,100 千元。

于 1994 年 3 月，经本公司股东大会决议通过并批准 1993 年度分红派息方案，共派送红股计 50,020 千股，派送红股后，总股数增至 300,120 千股，总股本增至人民币 300,120 千元。

于 1995 年 11 月 2 日，本公司向 American Aviation LDC 发售外资股 100,040 千股。发售后，总股本变更为人民币 400,160 千元。

于 1997 年 6 月 26 日，本公司发行境内上市外资股(以下简称“B 股”)计 71,000 千股。本次发行后，总股本增加至人民币 471,160 千元。

于 1999 年 10 月 11 日，本公司向社会公开发售 A 股 205,000 千股。公开发售后，总股本增加至人民币 676,160 千元。

于 2000 年 5 月 18 日，本公司向全体股东按每 10 股送红股 0.8 股派发红利 54,092,800 股。派送红股后，总股本增至人民币 730,253 千元。

于 2006 年 6 月 29 日，本公司定向增发 2,800,000 千股，其中向大新华航空增发 1,650,000 千股，加上大新华航空原持有的 53,108 千股，大新华航空累计持有本公司 1,703,108 千股。上述定向增发完成后，本公司股本增至人民币 3,530,253 千元。于 2006 年 12 月，本公司股东海航集团及海南琪兴分别将其持有的本公司流通股份 8,917 千股及 4,370 千股增资注入大新华航空。本次增资完成后，大新华航空及其子公司 American Aviation LDC 分别持有本公司 1,716,395 千股及 108,043 千股，共占本公司总股本 51.68%的股权，大新华航空成为本公司之母公司。

于 2006 年 9 月 29 日，本公司实施股权分置改革，原 A 股非流通股股东按照每 10 股支付 3.3 股 A 股股票的对价向 A 股流通股股东转让股权。本公司原非流通股股份获得上市流通权，限售期为 12 个月至 36 个月。截至 2011 年 12 月 31 日，该等原限售股票已全部在上海证券交易所上市流通。

于 2010 年 2 月 12 日，经中国证券监督管理委员会核准，本公司向海南发展控股及海航集团分别各增发 297,619 千股 A 股股票，限售期为 36 个月。上述定向增发完成后，本公司股本增至人民币 4,125,491 千元，其中本公司之母公司 - 大新华航空持有本公司 1,716,395 千股，占本公司 41.60%的股权。

于 2012 年 5 月 3 日，经中国证券监督管理委员会核准，本公司非公开发行 1,965,600 千股 A 股股票，限售期为 12 个月(详见附注四(32))。上述非公开发行完成后，本公司股本增至人民币 6,091,091 千元，其中大新华航空直接持有本公司股票为 1,716,395 千股，占本公司的股权比例摊薄至 28.18%，但仍为本公司单一最大股东。

## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

#### 一 公司基本情况(续)

于 2013 年 6 月 18 日，本公司以资本公积金每 10 股转增 10 股，共计转增 6,091,091 千股，转增后，本公司总股本增加至人民币 12,182,182 千元。

本公司及其子公司(以下简称“本集团”)属民航运输业，主要经营经批准的国内国际航空客、货运输业务及与航空运输有关的其他相关服务。

本年度纳入合并范围的主要子公司详见附注六，本年度新纳入合并范围的子公司主要有云南祥鹏航空有限责任公司(以下简称“祥鹏航空”)、新疆乌鲁木齐航空有限责任公司(以下简称“乌鲁木齐航空”)、福州航空有限责任公司(以下简称“福州航空”)，详见附注五。

本财务报表由本公司董事会于 2015 年 3 月 25 日批准报出。

#### 二 主要会计政策和会计估计

本集团根据生产经营特点确定具体会计政策和会计估计，主要体现在应收款项坏账准备的计提方法(附注二(10))、存货的计价方法(附注二(11))、可供出售权益工具发生减值的判断标准(附注二(9))、固定资产折旧和无形资产摊销(附注二(14)、(17))、投资性房地产的计量模式(附注二(13))、收入的确认时点(附注二(23))等。

本集团在确定重要的会计政策时所运用的关键判断详见附注二(30)。

##### (1) 财务报表的编制基础

###### (i) 财务报表编制准则及规定

本财务报表按照财政部于 2006 年 2 月 15 日及以后期间颁布的《企业会计准则——基本准则》、各项具体会计准则及相关规定(以下合称“企业会计准则”)、以及中国证券监督管理委员会《公开发行证券的公司信息披露编报规则第 15 号——财务报告的一般规定》的披露规定编制。

###### (ii) 持续经营基准

截至 2014 年 12 月 31 日，本集团的流动负债超过流动资产约人民币 97.57 亿元。于编制本年度财务报表时，本公司董事会结合目前的财务形势，对本集团的持续经营能力进行了充分详尽的评估。

本公司董事会已积极采取措施应对上述净营运资金出现负数的情况，不断寻求新的融资渠道并已取得足够的银行授信额度以改善本集团的流动资金状况。鉴于本集团已取得的银行授信额度、获取融资的记录，与各大银行及金融机构建立的良好合作关系以及经营情况，本公司董事会认为本集团可以继续获取足够的经营现金流量及融资来源，以保证经营、偿还到期债务以及资本性支出所需的资金。基于此，本公司董事会确信本集团将会持续经营，并以持续经营为基础编制本年度财务报表。本年度财务报表不包括任何本集团及本公司在未能满足持续经营条件下所需计入的调整。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(2) 遵循企业会计准则的声明

本公司 2014 年度财务报表符合企业会计准则的要求，真实、完整地反映了本公司 2014 年 12 月 31 日的合并及公司财务状况以及 2014 年度的合并及公司经营成果和现金流量等有关信息。

(3) 会计年度

会计年度为公历 1 月 1 日起至 12 月 31 日止。

(4) 记账本位币

记账本位币为人民币。

(5) 企业合并

(a) 同一控制下的企业合并

合并方支付的合并对价及取得的净资产均按账面价值计量。合并方取得的净资产账面价值与支付的合并对价账面价值的差额，调整资本公积(股本溢价)；资本公积(股本溢价)不足以冲减的，调整留存收益。为进行企业合并发生的直接相关费用于发生时计入当期损益。为企业合并而发行权益性证券或债务性证券的交易费用，计入权益性证券或债务性证券的初始确认金额。

(b) 非同一控制下的企业合并

购买方发生的合并成本及在合并中取得的可辨认净资产按购买日的公允价值计量。合并成本大于合并中取得的被购买方于购买日可辨认净资产公允价值份额的差额，确认为商誉；合并成本小于合并中取得的被购买方可辨认净资产公允价值份额的差额，计入当期损益。为进行企业合并发生的直接相关费用于发生时计入当期损益。为企业合并而发行权益性证券或债务性证券的交易费用，计入权益性证券或债务性证券的初始确认金额。

(c) 购买子公司少数股权

在取得对子公司的控制权后，自子公司的少数股东处取得少数股东拥有的对该子公司全部或部分少数股权，在合并财务报表中，子公司的资产、负债以购买日或合并日开始持续计算的金额反映。因购买少数股权新增加的长期股权投资与按照新增持股比例计算应享有子公司自购买日或合并日持续计算的净资产份额之间的差额调整资本公积，资本公积(股本溢价)的金额不足冲减的，调整留存收益。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(6) 合并财务报表的编制方法

编制合并财务报表时，合并范围包括本公司及全部子公司。

从取得子公司的实际控制权之日起，本集团开始将其纳入合并范围；从丧失实际控制权之日起停止纳入合并范围。对于同一控制下企业合并取得的子公司，自其与本公司同受最终控制方控制之日起纳入本公司合并范围，并将其在合并日前实现的净利润在合并利润表中单列项目反映。

在编制合并财务报表时，子公司与本公司采用的会计政策或会计期间不一致的，按照本公司的会计政策和会计期间对子公司财务报表进行必要的调整。对于非同一控制下企业合并取得的子公司，以购买日可辨认净资产公允价值为基础对其财务报表进行调整。

集团内所有重大往来余额、交易及未实现利润在合并财务报表编制时予以抵销。子公司的股东权益、当期净损益及综合收益中不属于本公司所拥有的部分分别作为少数股东权益、少数股东损益及归属于少数股东的综合收益总额在合并财务报表中股东权益、净利润及综合收益总额项下单独列示。本公司向子公司出售资产所发生的未实现内部交易损益，全额抵销归属于母公司股东的净利润；子公司向本公司出售资产所发生的未实现内部交易损益，按本公司对该子公司的分配比例在归属于母公司股东的净利润和少数股东损益之间分配抵销。子公司之间出售资产所发生的未实现内部交易损益，按照母公司对出售方子公司的分配比例在归属于母公司股东的净利润和少数股东损益之间分配抵销。

如果以本集团为会计主体与以本公司或子公司为会计主体对同一交易的认定不同时，从本集团的角度对该交易予以调整。

(7) 现金及现金等价物

现金及现金等价物是指库存现金，可随时用于支付的存款，以及持有的期限短、流动性强、易于转换为已知金额现金、价值变动风险很小的投资。

(8) 外币折算

(a) 外币交易

外币交易按交易发生日的即期汇率将外币金额折算为人民币入账。

于资产负债表日，外币货币性项目采用资产负债表日的即期汇率折算为人民币。为购建符合借款费用资本化条件的资产而借入的外币专门借款产生的汇兑差额在资本化期间内予以资本化；其他汇兑差额直接计入当期损益。以历史成本计量的外币非货币性项目，于资产负债表日采用交易发生日的即期汇率折算。汇率变动对现金的影响额在现金流量表中单独列示。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(8) 外币折算(续)

(b) 外币财务报表的折算

境外经营的资产负债表中的资产和负债项目，采用资产负债表日的即期汇率折算，股东权益中除未分配利润项目外，其他项目采用发生时的即期汇率折算。境外经营的利润表中的收入与费用项目，采用交易发生日的即期汇率折算。上述折算产生的外币报表折算差额，计入其他综合收益。境外经营的现金流量项目，采用现金流量发生日的即期汇率折算。汇率变动对现金的影响额，在现金流量表中单独列示。

(9) 金融工具

(a) 金融资产

(i) 金融资产分类

金融资产于初始确认时分类为：以公允价值计量且其变动计入当期损益的金融资产、应收款项、可供出售金融资产和持有至到期投资。金融资产的分类取决于本集团对金融资产的持有意图和持有能力。

以公允价值计量且其变动计入当期损益的金融资产

以公允价值计量且其变动计入当期损益的金融资产包括持有目的为短期内出售的金融资产。

应收款项

应收款项是指在活跃市场中没有报价、回收金额固定或可确定的非衍生金融资产。

可供出售金融资产

可供出售金融资产包括初始确认时即被指定为可供出售的非衍生金融资产及未被划分为其他类的金融资产。自资产负债表日起 12 个月内将出售的可供出售金融资产在资产负债表中列示为其他流动资产。

持有至到期投资

持有至到期投资是指到期日固定，回收金额固定或可确定，且管理层有明显意图和能力持有至到期的非衍生金融资产。取得时期限超过 12 个月但自资产负债表日起 12 个月(含 12 个月)内到期的持有至到期投资，列示为一年内到期的非流动资产；取得时期限在 12 个月之内(含 12 个月)的持有至到期投资，列示为其他流动资产。



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(9) 金融工具(续)

(a) 金融资产(续)

(ii) 确认和计量

金融资产于本集团成为金融工具合同的一方时，按公允价值在资产负债表内确认。以公允价值计量且其变动计入当期损益的金融资产，取得时发生的相关交易费用计入当期损益；其他金融资产的相关交易费用计入初始确认金额。

以公允价值计量且其变动计入当期损益的金融资产和可供出售金融资产按照公允价值进行后续计量，但在活跃市场中没有报价且其公允价值不能可靠计量的权益工具投资，按照成本计量；应收款项以及持有至到期投资采用实际利率法，以摊余成本计量。

以公允价值计量且其变动计入当期损益的金融资产的公允价值变动作为公允价值变动损益计入当期损益；在资产持有期间所取得的利息或现金股利以及处置时产生的处置损益计入当期损益。

除减值损失及外币货币性金融资产形成的汇兑损益外，可供出售金融资产公允价值变动直接计入股东权益，待该金融资产终止确认时，原直接计入权益的公允价值变动累计额转入当期损益。可供出售债务工具投资在持有期间按实际利率法计算的利息，以及被投资单位已宣告发放的与可供出售权益工具投资相关的现金股利，作为投资收益计入当期损益。

(iii) 金融资产减值

除以公允价值计量且其变动计入当期损益的金融资产外，本集团于资产负债表日对金融资产的账面价值进行检查，如果有客观证据表明某项金融资产发生减值的，则计提减值准备。

表明金融资产发生减值的客观证据，是指金融资产初始确认后实际发生的、对该金融资产的预计未来现金流量有影响，且本集团能够对该影响进行可靠计量的事项。

表明可供出售权益工具投资发生减值的客观证据包括权益工具投资的公允价值发生严重或非暂时性下跌。本集团于资产负债表日对各项可供出售权益工具投资单独进行检查，若该权益工具投资于资产负债表日的公允价值低于其初始投资成本超过50%(含50%)或低于其初始投资成本持续时间超过一年(含一年)的，则一般被视为其发生减值；若该权益工具投资于资产负债表日的公允价值低于其初始投资成本超过20%(含20%)但尚未达到50%的，本集团会综合考虑其他相关因素诸如价格波动率等，判断该权益工具投资是否发生减值。本集团以加权平均法计算可供出售权益工具投资的初始投资成本。



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(9) 金融工具(续)

(a) 金融资产(续)

(iii) 金融资产减值(续)

以摊余成本计量的金融资产发生减值时，按预计未来现金流量(不包括尚未发生的未来信用损失)现值低于账面价值的差额，计提减值准备。如果有客观证据表明该金融资产价值已恢复，且客观上与确认该损失后发生的事项有关，原确认的减值损失予以转回，计入当期损益。

以公允价值计量的可供出售金融资产发生减值时，原直接计入股东权益的因公允价值下降形成的累计损失予以转出并计入减值损失。对已确认减值损失的可供出售债务工具投资，在期后公允价值上升且客观上与确认原减值损失后发生的事项有关的，原确认的减值损失予以转回并计入当期损益。对已确认减值损失的可供出售权益工具投资，期后公允价值上升直接计入股东权益。

以成本计量的可供出售金融资产发生减值时，将其账面价值与按照类似金融资产当时市场收益率对未来现金流量折现确定的现值之间的差额，确认为减值损失，计入当期损益。已发生的减值损失以后期间不再转回。

(iv) 金融资产的终止确认

金融资产满足下列条件之一的，予以终止确认：(1) 收取该金融资产现金流量的合同权利终止；(2) 该金融资产已转移，且本集团将金融资产所有权上几乎所有的风险和报酬转移给转入方；或者(3) 该金融资产已转移，虽然本集团既没有转移也没有保留金融资产所有权上几乎所有的风险和报酬，但是放弃了对该金融资产控制。

金融资产终止确认时，其账面价值与收到的对价以及原直接计入股东权益的公允价值变动累计额之和的差额，计入当期损益。

(b) 金融负债

金融负债于初始确认时分类为以公允价值计量且其变动计入当期损益的金融负债和其他金融负债。本集团的金融负债主要为其他金融负债，包括应付款项、借款、应付债券及应付融资租赁款等。

应付款项包括应付账款、其他应付款等，以公允价值进行初始计量，并采用实际利率法按摊余成本进行后续计量。

借款及应付债券按其公允价值扣除交易费用后的金额进行初始计量，并采用实际利率法按摊余成本进行后续计量。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(9) 金融工具(续)

(b) 金融负债(续)

其他金融负债期限在一年以下(含一年)的，列示为流动负债；期限在一年以上但自资产负债表日起一年内(含一年)到期的，列示为一年内到期的非流动负债；其余列示为非流动负债。

当金融负债的现时义务全部或部分已经解除时，终止确认该金融负债或义务已解除的部分。终止确认部分的账面价值与支付的对价之间的差额，计入当期损益。

(c) 金融工具的公允价值确定

存在活跃市场的金融工具，以活跃市场中的报价确定其公允价值。不存在活跃市场的金融工具，采用估值技术确定其公允价值。在估值时，本集团采用在当前情况下适用并且有足够可利用数据和其他信息支持的估值技术，选择与市场参与者在相关资产或负债的交易中所考虑的资产或负债特征相一致的输入值，并尽可能优先使用相关可观察输入值。在相关可观察输入值无法取得或取得不切实可行的情况下，使用不可观察输入值。

(10) 应收款项

应收款项包括应收账款、其他应收款等。本集团对外提供劳务形成的应收账款，按从劳务接受方应收的合同或协议价款的公允价值作为初始确认金额。

(a) 单项金额重大并单独计提坏账准备的应收款项

对于单项金额重大的应收款项，单独进行减值测试。当存在客观证据表明本集团将无法按应收款项的原有条款收回款项时，根据应收款项的预计未来现金流量现值低于其账面价值的差额计提坏账准备。

单项金额重大的判断依据或金额标准为：单项金额超过 10,000 千元。

单项金额重大并单独计提坏账准备的计提方法为：根据应收款项的预计未来现金流量现值低于其账面价值的差额进行计提。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(10) 应收款项(续)

(b) 按组合计提坏账准备的应收款项

对于单项金额不重大的应收款项，与经单独测试后未减值的应收款项一起按信用风险特征划分为若干组合，根据以前年度与之具有类似信用风险特征的应收款项组合的实际损失率为基础，结合现时情况确定应计提的坏账准备。

确定组合的依据如下：

- 组合 1 应收关联方款项
- 组合 2 应收租赁保证金及维修储备金
- 组合 3 除上述以外的其他应收款项

按组合计提坏账准备的计提方法如下：

- 组合 1 按照历史损失率计提
- 组合 2 按照历史损失率计提
- 组合 3 账龄分析法

组合 3 中采用账龄分析法的计提比例列示如下：

	应收账款计提比例	其他应收款计提比例
一年以内	0%	0%
一到二年	5%	5%
二到三年	10%	10%
三到四年	30%	30%
四到五年	50%	50%
五到六年	80%	80%
六年以上	100%	100%

(c) 单项金额虽不重大但单项计提坏账准备的应收款项：

单项计提坏账准备的理由为：存在客观证据表明本集团将无法按应收款项的原有条款收回款项。

坏账准备的计提方法为：根据应收款项的预计未来现金流量现值低于其账面价值的差额进行计提。

(d) 本集团向金融机构以不附追索权方式转让应收款项的，按交易款项扣除已转销应收账款的账面价值和相关税费后的差额计入当期损益。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(11) 存货

(a) 分类

存货主要包括机上供应品及低值易耗品等，按成本与可变现净值孰低列示。

(b) 发出存货的计价方法

机上供应品于发出时按加权平均法计算。

(c) 存货可变现净值的确定依据及存货跌价准备的计提方法

存货跌价准备按存货成本高于其可变现净值的差额计提。可变现净值是根据存货在资产负债表日后正常业务中的处理所得或根据当时市场情况作出的估计而确定。

(d) 本集团的存货盘存制度采用永续盘存制。

(12) 长期股权投资

长期股权投资包括：本公司对子公司的长期股权投资；本集团对联营企业的长期股权投资。

子公司为本公司能够对其实施控制的被投资单位。联营企业为本集团能够对其财务和经营决策具有重大影响的被投资单位。

对子公司的投资，在公司财务报表中按照成本法确定的金额列示，在编制合并财务报表时按权益法调整后合并；对联营企业投资采用权益法核算。

(a) 投资成本确定

对于企业合并形成的长期股权投资：同一控制下企业合并取得的长期股权投资，在合并日按照取得被合并方所有者权益账面价值的份额作为投资成本；非同一控制下企业合并取得的长期股权投资，按照合并成本作为长期股权投资的投资成本。

对于以企业合并以外的其他方式取得的长期股权投资：支付现金取得的长期股权投资，按照实际支付的购买价款作为初始投资成本；发行权益性证券取得的长期股权投资，以发行权益性证券的公允价值作为初始投资成本。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(12) 长期股权投资(续)

(b) 后续计量及损益确认方法

采用成本法核算的长期股权投资，按照初始投资成本计量，被投资单位宣告分派的现金股利或利润，确认为投资收益计入当期损益。

采用权益法核算的长期股权投资，初始投资成本大于投资时应享有被投资单位可辨认净资产公允价值份额的，以初始投资成本作为长期股权投资成本；初始投资成本小于投资时应享有被投资单位可辨认净资产公允价值份额的，其差额计入当期损益，并相应调增长期股权投资成本。

采用权益法核算的长期股权投资，本集团按应享有或应分担的被投资单位的净损益份额确认当期投资损益。确认被投资单位发生的净亏损，以长期股权投资的账面价值以及其他实质上构成对被投资单位净投资的长期权益减记至零为限，但本集团负有承担额外损失义务且符合或有事项准则所规定的预计负债确认条件的，继续确认投资损失并作为预计负债核算。被投资单位除净损益、其他综合收益和利润分配以外所有者权益的其他变动，调整长期股权投资的账面价值并计入资本公积。被投资单位分派的利润或现金股利于宣告分派时按照本集团应分得的部分，相应减少长期股权投资的账面价值。本集团与被投资单位之间未实现的内部交易损益按照持股比例计算归属于本集团的部分，予以抵销，在此基础上确认投资损益。本集团与被投资单位发生的内部交易损失，其中属于资产减值损失的部分，相应的未实现损失不予抵销。

(c) 确定对被投资单位具有控制和重大影响的依据

控制是指拥有对被投资单位的权力，通过参与被投资单位的相关活动而享有可变回报，并且有能力运用对被投资单位的权力影响其回报金额。

重大影响是指对被投资单位的财务和经营政策有参与决策的权力，但并不能够控制或者与其他方一起共同控制这些政策的制定。

(d) 长期股权投资减值

对子公司和联营企业的长期股权投资，当其可收回金额低于其账面价值时，账面价值减记至可收回金额(附注二(19))。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(13) 投资性房地产

投资性房地产包括已出租的土地使用权和以出租为目的的建筑物以及正在建造或开发过程中将来用于出租的土地使用权及建筑物，以成本进行初始计量。与投资性房地产有关的后续支出，在相关的经济利益很可能流入本集团且其成本能够可靠的计量时，计入投资性房地产成本；否则，于发生时计入当期损益。

本集团对所有投资性房地产采用公允价值模式进行后续计量，不计提折旧或进行摊销，在资产负债表日以投资性房地产的公允价值为基础调整其账面价值，公允价值与原账面价值之间的差额计入当期损益。

投资性房地产的用途改变为自用时，自改变之日起，将该投资性房地产转换为固定资产或无形资产，基于转换当日投资性房地产的公允价值确定固定资产和无形资产的账面价值，公允价值与投资性房地产原账面价值的差额计入当期损益。自用房地产的用途改变为赚取租金或资本增值时，自改变之日起，将固定资产或无形资产转换为投资性房地产，以转换当日的公允价值作为投资性房地产的账面价值，转换当日的公允价值小于固定资产和无形资产原账面价值的，差额计入当期损益，转换当日的公允价值大于固定资产和无形资产原账面价值的，差额计入其他综合收益。

当投资性房地产被处置、或者永久退出使用且预计不能从其处置中取得经济利益时，终止确认该项投资性房地产。投资性房地产出售、转让、报废或毁损的处置收入扣除其账面价值和相关税费后计入当期损益。

(14) 固定资产

(a) 固定资产确认及初始计量

固定资产包括房屋及建筑物、飞机及发动机、高价周转件、运输工具及器具设备等。

固定资产在与其有关的经济利益很可能流入本集团、且其成本能够可靠计量时予以确认。购置或新建的固定资产按取得时的成本进行初始计量。

与固定资产有关的后续支出，在与其有关的经济利益很可能流入本集团且其成本能够可靠计量时，计入固定资产成本；对于被替换的部分，终止确认其账面价值；所有其他后续支出于发生时计入当期损益。

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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(14) 固定资产(续)

(b) 固定资产的折旧方法

固定资产折旧采用年限平均法并按其入账价值减去预计净残值后在预计使用寿命内计提。对计提了减值准备的固定资产，则在未来期间按扣除减值准备后的账面价值及依据尚可使用年限确定折旧额。

固定资产的预计使用年限、净残值率及年折旧率列示如下：

	预计使用年限	预计净残值率	年折旧率
房屋及建筑物	40 年	5%	2.375%
飞机及发动机核心件	20 年	5%	4.75%
飞机及发动机替换件	5 - 7 年	0%	14.29%至 20%
高价周转件	12 年	5%	7.9%
运输工具	10 年	5%	9.5%
器具设备	8 - 14 年	5%	6.78%至 11.875%

对固定资产的预计使用年限、预计净残值和折旧方法于每年年度终了进行复核并作适当调整。

(c) 当固定资产的可收回金额低于其账面价值时，账面价值减记至可收回金额(附注二(19))。

(d) 融资租入固定资产的认定依据和计量方法

实质上转移了与资产所有权有关的全部风险和报酬的租赁为融资租赁。融资租入固定资产以租赁资产的公允价值与最低租赁付款额的现值两者中的较低者作为租入资产的入账价值。租入资产的入账价值与最低租赁付款额之间的差额作为未确认融资费用(附注二(26)(c))。

融资租入的固定资产采用与自有固定资产相一致的折旧政策。能够合理确定租赁期届满时将取得租入资产所有权的，租入固定资产在其预计使用寿命内计提折旧；否则，租入固定资产在租赁期与该资产预计使用寿命两者中较短的期间内计提折旧。

(e) 固定资产的处置

当固定资产被处置、或者预期通过使用或处置不能产生经济利益时，终止确认该固定资产。固定资产出售、转让、报废或毁损的处置收入扣除其账面价值和相关税费后的金额计入当期损益。



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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(15) 在建工程

在建工程按实际发生的成本计量。实际成本包括建筑成本、安装成本、符合资本化条件的借款费用以及其他为使在建工程达到预定可使用状态所发生的必要支出。在建工程在达到预定可使用状态时，转入固定资产并自次月起开始计提折旧。当在建工程的可收回金额低于其账面价值时，账面价值减记至可收回金额(附注二(19))。

(16) 借款费用

发生的可直接归属于需要经过相当长时间的购建活动才能达到预定可使用状态之固定资产的购建的借款费用，在资产支出及借款费用已经发生、为使资产达到预定可使用状态所必要的购建活动已经开始时，开始资本化并计入该资产的成本。当购建的资产达到预定可使用状态时停止资本化，其后发生的借款费用计入当期损益。如果资产的购建活动发生非正常中断，并且中断时间连续超过 3 个月，暂停借款费用的资本化，直至资产的购建活动重新开始。

对于为购建符合资本化条件的固定资产而借入的专门借款，以专门借款当期实际发生的利息费用减去尚未动用的借款资金存入银行取得的利息收入或进行暂时性投资取得的投资收益后的金额确定专门借款借款费用的资本化金额。

对于为购建符合资本化条件的固定资产而占用的一般借款，按照累计资产支出超过专门借款部分的资本支出加权平均数乘以所占用一般借款的加权平均实际利率计算确定一般借款借款费用的资本化金额。实际利率为将借款在预期存续期间或适用的更短期间内的未来现金流量折现为该借款初始确认金额所使用的利率。

(17) 无形资产

无形资产主要为土地使用权等，以成本计量。

土地使用权按使用年限 40 年至 70 年平均摊销。外购土地及建筑物的价款难以在土地使用权与建筑物之间合理分配的，全部作为固定资产。

对土地使用权的预计使用寿命及摊销方法于每年年度终了进行复核并作适当调整。

当无形资产的可收回金额低于其账面价值时，账面价值减记至可回收金额(附注二(19))。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(18) 长期待摊费用

长期待摊费用包括飞行员养成费用等已经发生但应由本年和以后各期负担的且分摊期限在一年以上的各项费用，按预计受益期间分期平均摊销，并以实际支出减去累计摊销后的净额列示。

(19) 长期资产减值

固定资产、在建工程、使用寿命有限的无形资产及对子公司和联营企业的长期股权投资等，于资产负债表日存在减值迹象的，进行减值测试。减值测试结果表明资产的可收回金额低于其账面价值的，按其差额计提减值准备并计入减值损失。可收回金额为资产的公允价值减去处置费用后的净额与资产预计未来现金流量的现值两者之间的较高者。资产减值准备按单项资产为基础计算并确认，如果难以对单项资产的可收回金额进行估计的，以该资产所属的资产组确定资产组的可收回金额。资产组是能够独立产生现金流入的最小资产组合。

在财务报表中单独列示的商誉，无论是否存在减值迹象，至少每年进行减值测试。减值测试时，商誉的账面价值分摊至预期从企业合并的协同效应中受益的资产组或资产组组合。测试结果表明包含分摊的商誉的资产组或资产组组合的可收回金额低于其账面价值的，确认相应的减值损失。减值损失金额先抵减分摊至该资产组或资产组组合的商誉的账面价值，再根据资产组或资产组组合中除商誉以外的其他各项资产的账面价值所占比重，按比例抵减其他各项资产的账面价值。

上述资产减值损失一经确认，以后期间不予转回价值得以恢复的部分。

(20) 职工薪酬

职工薪酬是本集团为获得职工提供的服务或解除劳动关系而给予的各种形式的报酬或补偿，包括短期薪酬、离职后福利和其他长期职工福利等。

(a) 短期薪酬

短期薪酬包括工资、奖金、津贴和补贴、职工福利费、医疗保险费、工伤保险费、生育保险费、住房公积金、工会和教育经费、短期带薪缺勤等。本集团在职工提供服务的会计期间，将实际发生的短期薪酬确认为负债，并计入当期损益或相关资产成本。其中非货币性福利按照公允价值计量。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(20) 职工薪酬(续)

(b) 离职后福利

本集团将离职后福利计划分类为设定提存计划和设定受益计划。设定提存计划是本集团向独立的基金缴存固定费用后，不再承担进一步支付义务的离职后福利计划；设定受益计划是除设定提存计划以外的离职后福利计划。于报告期内，本集团的离职后福利主要是为员工缴纳的基本养老保险和失业保险，均属于设定提存计划。

基本养老保险

本集团职工参加了由当地劳动和社会保障部门组织实施的社会基本养老保险。本集团以当地规定的社会基本养老保险缴纳基数和比例，按月向当地社会基本养老保险经办机构缴纳养老保险费。职工退休后，当地劳动及社会保障部门有责任向已退休员工支付社会基本养老金。本集团在职工提供服务的会计期间，将根据上述社保规定计算应缴纳的金额确认为负债，并计入当期损益或相关资产成本。

(21) 股利分配

现金股利于股东大会批准的当期，确认为负债。

(22) 预计负债

因亏损合同等形成的现时义务，当履行该义务很可能导致经济利益的流出，且其金额能够可靠计量时，确认为预计负债。

预计负债按照履行相关现时义务所需支出的最佳估计数进行初始计量，并综合考虑与或有事项有关的风险、不确定性和货币时间价值等因素。货币时间价值影响重大的，通过对相关未来现金流出进行折现后确定最佳估计数；因随着时间推移所进行的折现还原而导致的预计负债账面价值的增加金额，确认为利息费用。

于资产负债表日，对预计负债的账面价值进行复核并作适当调整，以反映当前的最佳估计数。

(23) 收入确认

收入的金额按照本集团在日常经营活动中提供劳务和销售商品时，已收或应收合同或协议价款的公允价值确定。收入按扣除销售折让及销售退回的净额列示。

与交易相关的经济利益能够流入本集团，相关的收入能够可靠计量且满足下列各项经营活动的特定收入确认标准时，确认相关的收入：

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(23) 收入确认(续)

(a) 提供劳务

(i) 运输收入

客运、货运收入于提供运输服务时确认为收入。尚未提供运输服务的票款，则作为负债计入预收款项 - 预收票款。

(ii) 佣金收入

佣金收入包括本集团作为代理人为其他航空公司售票而收取的佣金。佣金收入于出售机票时确认。

(iii) 其他业务收入

其他业务收入包括退票手续费收入等，此等收入均在提供服务当期确认。

(b) 常旅客奖励积分

本集团执行金鹏俱乐部常旅客飞行奖励计划，会员可以利用累积的奖励积分兑换飞行奖励。根据本集团对常旅客奖励积分的政策，当旅客的累积积分达到某一标准时即可换取礼品或免费机票。本集团对常旅客的奖励积分采用递延收益法处理，即将承运票款在劳务提供产生的收入与奖励积分的公允价值之间进行分配，将承运票款扣除奖励积分公允价值的一部分确认为收入，奖励积分的公允价值确认为递延收益。待旅客兑换积分并且本集团承运后或积分失效时，将原计入递延收益的与所兑换积分相关的部分确认为收入。

(c) 让渡资产使用权

利息收入按照其他方使用本集团货币资金的时间，采用实际利率计算确定。

飞机租赁收入和其他经营租赁收入按照直线法在租赁期内确认。

## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

## 二 主要会计政策和会计估计(续)

### (24) 政府补助

政府补助为本集团从政府无偿取得的货币性资产或非货币性资产，包括税费返还、航线补贴等。

政府补助在本集团能够满足其所附的条件并且能够收到时，予以确认。政府补助为货币性资产的，按照收到或应收的金额计量。政府补助为非货币性资产的，按照公允价值计量；公允价值不能可靠取得的，按照名义金额计量。

与资产相关的政府补助，是指企业取得的、用于购建或以其他方式形成长期资产的政府补助。与收益相关的政府补助是指除与资产相关的政府补助之外的政府补助。

与资产相关的政府补助，确认为递延收益，并在相关资产使用寿命内平均分配，计入当期损益。按照名义金额计量的政府补助，直接计入当期损益。

与收益相关的政府补助，用于补偿以后期间的相关费用或损失的，确认为递延收益，并在确认相关费用的期间，计入当期损益；用于补偿已发生的相关费用或损失的，直接计入当期损益。

### (25) 递延所得税资产和递延所得税负债

递延所得税资产和递延所得税负债根据资产和负债的计税基础与其账面价值的差额(暂时性差异)计算确认。对于按照税法规定能够于以后年度抵减应纳税所得额的可抵扣亏损，确认相应的递延所得税资产。对于商誉的初始确认产生的暂时性差异，不确认相应的递延所得税负债。对于既不影响会计利润也不影响应纳税所得额(或可抵扣亏损)的非企业合并的交易中产生的资产或负债的初始确认形成的暂时性差异，不确认相应的递延所得税资产和递延所得税负债。于资产负债表日，递延所得税资产和递延所得税负债，按照预期收回该资产或清偿该负债期间的适用税率计量。

递延所得税资产的确认以很可能取得用来抵扣可抵扣暂时性差异、可抵扣亏损和税款抵减的应纳税所得额为限。

对与子公司及联营企业投资相关的应纳税暂时性差异，确认递延所得税负债，除非本集团能够控制该暂时性差异转回的时间且该暂时性差异在可预见的未来很可能不会转回。对与子公司及联营企业投资相关的可抵扣暂时性差异，当该暂时性差异在可预见的未来很可能转回且未来很可能获得用来抵扣可抵扣暂时性差异的应纳税所得额时，确认递延所得税资产。

同时满足下列条件的递延所得税资产和递延所得税负债以抵销后的净额列示：

- 递延所得税资产和递延所得税负债与同一税收征管部门对本集团内同一纳税主体征收的所得税相关；
- 本集团内该纳税主体拥有以净额结算当期所得税资产及当期所得税负债的法定权利。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(26) 租赁

实质上转移了与资产所有权有关的全部风险和报酬的租赁为融资租赁。其他的租赁为经营租赁。

(a) 经营租赁(承租人)

经营租赁支出在租赁期内按照直线法计入当期损益。

(b) 经营租赁(出租人)

经营租赁租出资产所产生的租金收入在租赁期内按直线法确认为收入。经营租赁租出资产发生的初始直接费用，金额较大时资本化，在整个租赁期内按照与确认租金收入相同的基础分期计入当期损益；金额较小时，直接计入当期损益。或有租金在实际发生时计入当期损益。

(c) 融资租赁(承租人)

以租赁资产的公允价值与最低租赁付款额的现值两者中较低者作为租入资产的入账价值，租入资产的入账价值与最低租赁付款额之间的差额作为未确认融资费用，在租赁期内按实际利率法摊销。最低租赁付款额扣除未确认融资费用后的余额以长期应付款列示。

(d) 售后租回

售后租回交易认定为融资租赁的，售价与资产账面价值之间的差额予以递延，并按照租赁资产的折旧进度进行分摊，作为折旧费用的调整。

售后租回交易认定为经营租赁的，在有确凿证据表明售后租回交易是按照公允价值达成的，售价与资产账面价值的差额计入当期损益。售后租回交易如果不是按照公允价值达成的，售价低于公允价值的差额，计入当期损益；但若该损失将由低于市价的未来租赁付款额补偿时，有关损失应予以递延并计入递延收益，并按与确认租金费用相一致的方法在租赁期内进行分摊；如果售价大于公允价值，其大于公允价值的部分计入递延收益，并在租赁期内分摊。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(27) 日常维修及大修费

日常维修费用于发生时计入当期损益。

符合固定资产确认条件的自购及融资租赁飞机及发动机的大修费用作为飞机及发动机的替换件进行资本化，并按预计大修周期期间计提折旧。对于以经营租赁方式持有的飞机及发动机，根据相关租赁协议，本集团需定期(包括于退租时)对该等飞机及发动机进行大修，以满足退租条件的要求。与此相关的大修支出在本集团负有大修责任的期间按预计支出在相关期间内计提。计提的大修/退租检准备与实际大修/退租时支出之间的差额计入大修期间的当期损益。

(28) 分部信息

本集团以内部组织结构、管理要求、内部报告制度为依据确定经营分部，以经营分部为基础确定报告分部并披露分部信息。

经营分部是指本集团内同时满足下列条件的组成部分：(1)该组成部分能够在日常活动中产生收入、发生费用；(2)本集团管理层能够定期评价该组成部分的经营成果，以决定向其配置资源、评价其业绩；(3)本集团能够取得该组成部分的财务状况、经营成果和现金流量等有关会计信息。两个或多个经营分部具有相似的经济特征，并且满足一定条件的，则可合并为一个经营分部。

(29) 重要会计政策变更

财政部于 2014 年颁布《企业会计准则第 39 号——公允价值计量》、《企业会计准则第 40 号——合营安排》、《企业会计准则第 41 号——在其他主体中权益的披露》和修订后的《企业会计准则第 2 号——长期股权投资》、《企业会计准则第 9 号——职工薪酬》、《企业会计准则第 30 号——财务报表列报》、《企业会计准则第 33 号——合并财务报表》以及《企业会计准则第 37 号——金融工具列报》，要求除《企业会计准则第 37 号——金融工具列报》自 2014 年度财务报表起施行外，其他准则自 2014 年 7 月 1 日起施行。

本集团已采用上述准则编制 2014 年度财务报表，对本集团财务报表的影响列示如下：



海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(29) 重要会计政策变更(续)

会计政策变更的内容和原因	受影响的报表项目名称	2014 年影响金额 增加/(减少)
若干财务报表项目已根据上述准则进行列报，比较期间财务信息已相应调整，并且根据《企业会计准则第 30 号——财务报表列报》应用指南列报了 2013 年 1 月 1 日的资产负债表。	递延收益	811,835
	其他非流动负债	(811,835)
	资本公积	(692,592)
	其他综合收益	692,592
	长期股权投资	(3,252,301)
	可供出售金融资产	3,252,301

本集团已采用上述准则编制 2014 年度财务报表，并对比较期间的财务报表进行了调整，同时列报了 2013 年 1 月 1 日的资产负债表。除财务报表列报及部分科目重新分类外，上述准则的变更对本集团财务报表没有重大影响。

(30) 重要会计估计和判断

本集团根据历史经验和其他因素，包括对未来事项的合理预期，对所采用的重要会计估计和关键判断进行持续的评价。下列重要会计估计及关键假设存在会导致下一会计年度资产和负债的账面价值出现重大调整的重要风险：

(a) 税项

本集团在多个地区进行经营活动并缴纳各种税项。在正常的经营活动中，涉及的很多交易和事项的最终税务处理都存在不确定性，因此需以现行的税收法规及其他相关政策为依据，对有关税项的计提作出判断和估计。如果这些税务事项的最终认定结果与最初入账的金额存在差异，该差异将影响最初估计的应交税金的金额及相关损益。

此外，本集团确认税务亏损及其他可抵扣暂时性差异所产生的递延所得税资产在很大程度上取决于本集团很可能获得用来抵扣可抵扣亏损和税项抵减的未来应纳税所得额，而计算该未来应纳税所得额需要运用大量的判断及估计，同时结合税务筹划策略。不同的判断及估计会影响确认的递延所得税资产的金额。

(b) 固定资产折旧

对与自购及融资租赁飞机及发动机大修相关的替换件，本集团根据预计的大修费用以及大修之间的时间间隔计提折旧，该等估计是根据以往相同或相似型号的飞机及发动机的飞行及大修历史经验进行的。对于其他固定资产，本集团按其预计使用年限计提折旧。本集团对固定资产的预计使用年限、预计净残值和折旧方法于每年度终了进行复核并作适当调整，不同的估计可能会影响其折旧金额进而影响当期损益。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

二 主要会计政策和会计估计(续)

(30) 重要会计估计和判断(续)

(c) 经营性租赁飞机及发动机的退租检修准备

经营性租赁飞机及发动机的退租检修准备是按退租时所需进行的指定检修的估计费用计提。该等估计费用需要对预计的飞行小时、飞行循环、大修时间间隔及退租时可能发生的修理费用进行估计。这些估计在相当大程度上是根据过去相同或类似飞机及发动机型号的退租经验、实际发生的大修费用，以及飞机及发动机使用状况的历史数据进行的。不同的判断或估计对预计的退租检修准备产生影响。

(d) 常旅客奖励积分公允价值

常旅客奖励积分的公允价值主要根据积分兑换率及积分价格测算。其中积分兑换率乃根据历史经验及对未来的预测而估计，积分价格参照合同定价和全年平均机票价格估计。采用不同的兑换率及积分价格对常旅客奖励积分的公允价值有重大影响。

(e) 投资性房地产公允价值

投资性房地产的公允价值乃采用收益法或市场价格法进行测算。其中收益法为通过分析租约期内和租约期外的租金纯收益法来确定投资性房地产的公允价值，市场价格法为参照周边同类型的房地产的价格进行估计。未来预期租金和选取的房地产价格的变动可能会对投资性房地产公允价值计算产生重大影响。

(f) 收入确认

根据附注二(23)所述的会计政策，本集团于提供运输服务当期确认客运与货运收入。尚未承运的票款于本集团管理层认为承运责任已消除时确认为收入。本集团管理层定期对预售票款进行评估，由评估产生的调整，均反映在评估完成当期的利润表中。此类调整是由于对收入交易的估算、尚未承运的票款确认为收入的时间及相关销售价格的估计不同而产生不同的判断结果，各种因素包括复杂的价格结构及承运人之间的互运协议，均会影响收入的确认时间及金额。

## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

## 三 税项

### (1) 企业所得税

依据全国人民代表大会于 2007 年 3 月 16 日通过的《中华人民共和国企业所得税法》的相关规定，本公司本年度及上年度适用的企业所得税税率均为 25%。

根据国家税务总局《关于深入实施西部大开发战略有关企业所得税问题的公告》(2012 年第 12 号)的规定，对设在西部地区以《西部地区鼓励类产业目录》中规定的产业项目为主营业务，且其当年度主营业务收入占企业收入总额 70%以上的企业，经企业申请，主管税务机关审核确认后，可减按 15%税率缴纳企业所得税，优惠期为 2011 年 1 月 1 日至 2020 年 12 月 31 日。经陕西省发展和改革委员会税务局批复(陕发改产业确认函(2012)007 号)，本公司之子公司长安航空自 2012 年起适用 15%的企业所得税税率。另外，本公司之子公司祥鹏航空和乌鲁木齐航空分别自 2012 年和 2014 年起适用 15%的企业所得税税率。

除上述长安航空、祥鹏航空和乌鲁木齐航空外，本公司及本集团其他于境内成立的子公司，适用的企业所得税率为 25%。

### (2) 营业税

于 2013 年 8 月 1 日前，除下述本公司之子公司新华航空境内运输收入自 2012 年 9 月 1 日后适用增值税外，本集团取得的境内运输收入适用营业税，税率为 3%。根据中华人民共和国财政部、国家税务总局于 2010 年 4 月 23 日发出的《财政部、国家税务总局关于国际运输劳务免征营业税的通知》(财税【2010】8 号)的规定，本集团取得的国际运输劳务收入则免征营业税。国际运输劳务是指在境内载运旅客或者货物出境，在境外载运旅客或货物入境以及在境外载运旅客或货物的行为。

根据财政部、国家税务总局关于印发《营业税改征增值税试点方案》的通知(财税【2011】110 号)和财政部、国家税务总局《关于在北京等 8 省市开展交通运输业和部分现代服务业营业税改征增值税试点的通知》(财税【2012】72 号)，自 2012 年 9 月 1 日起，本公司之子公司新华航空境内运输收入适用增值税。根据财政部、国家税务总局《关于印发<营业税改征增值税试点方案>的通知》(财税【2011】110 号)和财政部、国家税务总局《关于在全国开展交通运输业和部分现代服务业营业税改征增值税试点税收政策的通知》(财税【2013】37 号)，自 2013 年 8 月 1 日起，本公司以及本公司下属子公司长安航空、山西航空的境内运输收入也从营业税转为适用增值税(附注三(3))。

本集团取得的代理费收入及其他劳务收入仍适用营业税，适用的营业税税率为 5%。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

三 税项(续)

(3) 增值税

本公司以及本公司之子公司新华航空、长安航空以及山西航空为增值税一般纳税人。根据财政部、国家税务总局关于印发《营业税改征增值税试点方案》的通知》(财税【2011】110 号)和财政部、国家税务总局《关于在北京等 8 省市开展交通运输业和部分现代服务业营业税改征增值税试点的通知》(财税【2012】72 号)，自 2012 年 9 月 1 日起，本公司之子公司新华航空境内运输收入适用增值税，适用的销项税率为 11%。根据财政部、国家税务总局《关于印发<营业税改征增值税试点方案>的通知》(财税【2011】110 号)和财政部、国家税务总局《关于在全国开展交通运输业和部分现代服务业营业税改征增值税试点税收政策的通知》(财税【2013】37 号)，自 2013 年 8 月 1 日起，本公司以及本公司下属子公司长安航空、山西航空的境内运输收入适用增值税，适用的销项税率为 11%。根据财税【2011】131 号《关于应税服务适用增值税零税率和免税政策的通知》和财税【2012】86 号《关于交通运输业和部分现代服务业营业税改征增值税试点应税服务范围等若干税收政策的补充通知》，本集团取得的国际及地区运输服务收入适用增值税零税率。此外，本公司机供品销售收入、维修收入及飞机租赁收入适用增值税，销项税率为 17%。而本公司以及上述子公司购买航空油料、支付起降费、购买固定资产(包括进口飞机)及航材缴纳的进口环节增值税等增值税进项税可以抵扣销项税。增值税应纳税额为销项税额抵减可抵扣的进项税额后的余额。

另根据国家相关税务法规的规定，本集团进口的飞机以及航空器材等需缴纳进口环节增值税，原经批准的增值税税率为 4%。根据财政部和国家税务总局发布的财关税【2013】53 号《关于调整进口飞机有关增值税政策的通知》，自 2013 年 8 月 30 日起，空载重量在 25 吨以上的进口飞机，调整为按 5%征收进口环节增值税。

本公司之子公司金鹿销售、北京科航、海南福顺为增值税小规模纳税人，增值税征收率为 3%。

(4) 城市维护建设税和教育费附加

依据国务院于 2010 年 10 月 18 日发布的国发【2010】35 号《关于统一内外资企业和个人城市维护建设税和教育费附加制度的通知》的规定，本公司自 2010 年 12 月 1 日起，按应纳流转税额的一定比例缴纳城市维护建设税和教育费附加。本集团适用的城市维护建设税税率和教育费附加征收率分别为 7%和 5%。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

三 税项(续)

(5) 关税

根据海关总署于1998年8月12日颁布的署税【1998】472号文《关于飞机及其零部件税则归类和进口税率调整后租赁飞机适用税率问题的通知》，本公司租赁飞机及进口的飞机整机适用1%的暂定关税税率，对于飞机机载设备、机舱设备、零部件等按照《关于调整若干商品进出口关税税率的通知》税委会【1999】1号的税率征收。

根据海关总署于2013年8月29日颁布的署税【2013】49号文《关于对褐煤等商品进口关税税率进行调整的公告》，自2013年8月30日起，取消空载重量在25吨及以上但不超过45吨的客运飞机的1%进口暂定税率，恢复实施5%的最惠国税率。本公司租赁飞机及进口的飞机整机适用5%的税率征收。

(6) 民航发展基金

根据财政部财综【2012】17号《民航发展基金征收使用管理暂行办法》，自2012年4月1日起，向旅客征收的民航发展基金标准为，乘坐国内航班的旅客每人每次50元；乘坐国际和地区航班出境的旅客每人每次90元(含旅游发展基金20元)，旅客应缴纳的民航发展基金，由航空公司或者销售代理机构在旅客购买机票时一并代征，在机票价格外单列项目反映；而对于航空公司，则按照飞行航线分类、飞机最大起飞全重、飞行里程以及适用的征收标准缴纳民航发展基金，并在成本中列支。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注

(1) 货币资金

	2014 年 12 月 31 日	2013 年 12 月 31 日
库存现金	1,552	1,207
银行存款	17,364,076	17,202,183
其他货币资金(a)及(b)	4,349,962	4,526,460
其中：存放在境外的款项总额	303,028	533,566
	<u>21,715,590</u>	<u>21,729,850</u>

- (a) 于 2014 年 12 月 31 日，货币资金中包括存放于本集团之关联方 - 海航财务公司的存款 4,824,267 千元(2013 年 12 月 31 日：4,900,911 千元)(附注八(6))，其中 2,909,311 千元(2013 年 12 月 31 日：2,632,351 千元)列示于银行及财务机构存款，其余 1,914,956 千元(2013 年 12 月 31 日：2,268,560 千元)列示于其他货币资金。

- (b) 其他货币资金包括：

	2014 年 12 月 31 日	2013 年 12 月 31 日
定期存款(注)	2,233,577	2,897,357
应付票据保证金	947,358	864,385
其他保证金	1,169,027	764,718
	<u>4,349,962</u>	<u>4,526,460</u>

注：于 2014 年 12 月 31 日，上列定期存款质押予银行作为 2,918,290 千元短期借款及关联方借款(2013 年 12 月 31 日：短期借款 3,870,581 千元及长期借款 400,000 千元)的质押金(附注四(19)及(28))。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(2) 应收账款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应收账款	763,147	934,436
减：坏账准备	(29,241)	(28,810)
	<u>733,906</u>	<u>905,626</u>

(a) 应收账款账龄分析如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年以内	700,496	846,367
一到二年	17,664	49,946
二到三年	14,504	9,685
三到四年	2,045	15
四到五年	15	-
五到六年	-	-
六年以上	28,423	28,423
	<u>763,147</u>	<u>934,436</u>

(b) 应收账款按类别分析如下：

	2014 年 12 月 31 日				2013 年 12 月 31 日			
	占总额 金额	比例	坏账准备 金额	坏账准备 计提比例	占总额 金额	比例	坏账准备 金额	坏账准备 计提比例
按组合计提坏账准备								
- 采用账龄分析法组合	552,765	72%	(1,944)	0%	598,541	64%	(1,513)	0%
- 应收关联方组合	183,085	24%	-	-	308,598	33%	-	-
单项金额虽不重大但单独 计提坏账准备	27,297	4%	(27,297)	100%	27,297	3%	(27,297)	100%
	<u>763,147</u>	<u>100%</u>	<u>(29,241)</u>	<u>4%</u>	<u>934,436</u>	<u>100%</u>	<u>(28,810)</u>	<u>3%</u>

(c) 于 2014 年 12 月 31 日，本集团无单项金额重大并单独计提坏账准备的应收账款 (2013 年 12 月 31 日：无)。



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(2) 应收账款(续)

(d) 按组合计提坏账准备的应收账款中，采用账龄分析法的组合分析如下：

	2014 年 12 月 31 日				2013 年 12 月 31 日			
	账面余额		坏账准备		账面余额		坏账准备	
	金额	占总额比例	金额	计提比例	金额	占总额比例	金额	计提比例
一年以内	535,504	97%	-	-	589,800	99%	-	-
一到二年	16,120	3%	(806)	5%	-	-	-	-
二到三年	-	-	-	-	7,600	1%	(380)	5%
三到四年	-	-	-	-	15	0%	(7)	47%
四到五年	15	0%	(12)	80%	-	-	-	-
五到六年	-	-	-	-	-	-	-	-
六年以上	-	-	-	-	-	-	-	-
	1,126	0%	(1,126)	100%	1,126	0%	(1,126)	100%
	552,765	100%	(1,944)	0%	598,541	100%	(1,513)	0%

(e) 于 2014 年 12 月 31 日，单项金额虽不重大但单独计提坏账准备的应收账款分析如下：

	账面余额	坏账准备	计提比例
客户甲	8,184	(8,184)	100%
客户乙	4,478	(4,478)	100%
客户丙	2,791	(2,791)	100%
客户丁	1,693	(1,693)	100%
其他	10,151	(10,151)	100%
	27,297	(27,297)	100%

于 2014 年 12 月 31 日，上述应收款因账龄较长，已无法与相关债务人取得联系，管理层预计该等款项难以收回，故对该等款项全额计提了坏账准备。

(f) 本年度无重大以前年度已全额计提坏账准备，或计提坏账准备的比例较大，但在本年度全额收回或转回，或在本年度收回或转回比例较大的应收账款的情况。

(g) 于 2014 年 12 月 31 日，按欠款方归集的余额前五名的应收账款汇总分析如下：

	余额	坏账准备 金额	占应收账款余额 总额比例
余额前五名的应收账款总额	327,931	-	43%

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(3) 其他应收款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应收飞机租赁保证金及维修储备金	564,692	280,348
应收投资款(注)	545,000	-
应收关联方款项	252,059	1,006,692
应收国瑞城退房款(附注四(10))	200,000	-
应收航材处置款	59,453	-
其他	79,601	88,509
	<u>1,700,805</u>	<u>1,375,549</u>
减：坏账准备	<u>(48,789)</u>	<u>(55,361)</u>
	<u>1,652,016</u>	<u>1,320,188</u>

注：于 2014 年 12 月 31 日，应收投资款为本公司转让燕山基金股权的款项(附注四(8)(a)(ii))，该等款项已于 2015 年 3 月底前全部收回。

(a) 其他应收款账龄分析如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年以内	1,622,329	852,869
一到二年	18,903	148,080
二到三年	6,195	273,086
三到四年	17,878	33,364
四到五年	31,340	11,032
五到六年	531	7,201
六年以上	3,629	49,917
	<u>1,700,805</u>	<u>1,375,549</u>

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(3) 其他应收款(续)

(b) 其他应收款按类别分析如下：

	2014 年 12 月 31 日				2013 年 12 月 31 日			
	账面余额		坏账准备		账面余额		坏账准备	
	占总额		坏账	计提	占总额		坏账	计提
	金额	比例	准备	比例	金额	比例	准备	比例
单项金额重大并单独计提								
坏账准备(c)	11,799	1%	(11,799)	100%	11,799	1%	(11,799)	100%
按组合计提坏账准备								
-采用账龄分析法组合(d)	850,117	50%	(14,852)	2%	47,573	3%	(14,424)	30%
-租赁保证金和维修储备金	564,692	33%	-	-	280,347	20%	-	-
-关联方组合	252,059	15%	-	-	1,006,692	74%	-	-
单项金额虽不重大但单独计								
提坏账准备(e)	22,138	1%	(22,138)	100%	29,138	2%	(29,138)	100%
	1,700,805	100%	(48,789)	3%	1,375,549	100%	(55,361)	4%

(c) 于 2014 年 12 月 31 日，单项金额重大并单独计提坏账准备的其他应收款分析如下：

	账面余额	坏账准备	计提比例
其他应收款 1	11,799	(11,799)	100%

于 2014 年 12 月 31 日，该其他应收款因账龄较长，已无法与相关债务人取得联系，管理层预计该等款项难以收回，故对该等款项全额计提了坏账准备。

(d) 按组合计提坏账准备的其他应收款中，采用账龄分析法的组合分析如下：

	2014 年 12 月 31 日				2013 年 12 月 31 日			
	账面余额		坏账准备		账面余额		坏账准备	
	占总额		坏账	计提	占总额		坏账	计提
	金额	比例	金额	比例	金额	比例	金额	比例
一年以内	807,191	95%	-	-	19,982	42%	-	-
一到二年	18,629	2%	(931)	5%	6,201	13%	(178)	3%
二到三年	6,195	1%	(620)	10%	6,417	13%	(362)	6%
三到四年	6,079	1%	(1,820)	30%	874	2%	(261)	30%
四到五年	863	0%	(432)	50%	538	1%	(216)	40%
五年以上	11,160	1%	(11,049)	99%	13,561	29%	(13,407)	99%
	850,117	100%	(14,852)	2%	47,573	100%	(14,424)	30%

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(3) 其他应收款(续)

- (e) 于 2014 年 12 月 31 日，单项金额虽不重大但单独计提坏账准备的其他应收款分析如下：

	账面余额	坏账准备	计提比例
客户乙	5,457	(5,457)	100%
客户丙	5,280	(5,280)	100%
客户丁	3,185	(3,185)	100%
客户戊	2,500	(2,500)	100%
其他	5,716	(5,716)	100%
	<u>22,138</u>	<u>(22,138)</u>	

于 2014 年 12 月 31 日，上述其他应收款因账龄较长，已无法与相关债务人取得联系，管理层预计该等款项难以收回，故对该等款项全额计提了坏账准备。

- (f) 本年度无重大以前年度已全额计提坏账准备，或计提坏账准备的比例较大，但在本年度全额收回或转回，或在本年度收回或转回比例较大的其他应收款的情况。

- (g) 于 2014 年 12 月 31 日，按欠款方归集的余额前五名的其他应收款分析如下：

	性质	余额	账龄	占其他应收款 余额总额比例	坏账准备
甲公司	第三方	545,000	一年以内	32%	
乙公司	第三方	200,000	一年以内	12%	-
首都航空	关联方	142,828	一年以内	8%	-
丙公司	第三方	69,545	一年以内	4%	-
丁公司	第三方	59,453	一年以内	4%	-
		<u>1,016,826</u>		<u>60%</u>	<u>-</u>

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(4) 应收利息

	2014 年 12 月 31 日	2013 年 12 月 31 日
海航财务公司(附注八(6))	268,510	226,716
其他	205,243	181,377
	<u>473,753</u>	<u>408,093</u>

(5) 预付款项

(a) 预付款项账龄分析如下:

账龄	2014 年 12 月 31 日		2013 年 12 月 31 日	
	金额	占总额 比例	金额	占总额 比例
一年以内	912,879	96%	343,974	84%
一到二年	18,744	2%	22,042	5%
二到三年	12,342	1%	34,902	9%
三年以上	9,898	1%	8,832	2%
	<u>953,863</u>	<u>100%</u>	<u>409,750</u>	<u>100%</u>

于 2014 年 12 月 31 日，账龄超过一年的预付款项为 40,984 千元(2013 年 12 月 31 日: 65,776 千元)，由于相关供应商尚未提供相关服务或劳务，故该等款项尚未结清。

(b) 于 2014 年 12 月 31 日，余额前五名的预付款项分析如下:

	金额	占预付账款总额比例
余额前五名的预付款项总额	<u>671,922</u>	<u>70%</u>

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(6) 存货

	2014 年 12 月 31 日			2013 年 12 月 31 日		
	账面 余额	存货跌 价准备	账面 价值	账面 余额	存货跌 价准备	账面 价值
机上供应品	39,708	-	39,708	33,174	-	33,174
其他	23,205	-	23,205	31,178	-	31,178
	<u>62,913</u>	<u>-</u>	<u>62,913</u>	<u>64,352</u>	<u>-</u>	<u>64,352</u>

(7) 其他流动资产

	2014 年 12 月 31 日	2013 年 12 月 31 日
保本保收益理财产品(a)	2,650,000	-
待抵扣增值税进项税	542,735	294,836
一年内到期的可供出售金融资产(b)	-	1,650,000
委托贷款-海航集团(附注八(6))	-	870,000
委托贷款-海航旅游集团(附注八(6))	-	100,000
	<u>3,192,735</u>	<u>2,914,836</u>

(a) 于 2014 年 9 月，本集团向第三方商业银行购入共计 25 亿元短期理财产品，该等理财产品为保本固定收益型，收益率为 4.35%-4.65%，本年计提投资收益 34,895 千元。此外，本公司之子公司长安航空自第三方购买 1.5 亿元的理财产品，该产品为保本保收益型，收益率为 5.70%，本年计提投资收益 6,713 千元(附注四(46))。

(b) 于 2013 年度，本集团向第三方商业银行购入共计 16.5 亿元非保本浮动收益型短期理财产品。于 2013 年 12 月 31 日之短期理财产品已于本年度到期收回，并取得投资收益 58,263 千元(附注四(46))。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(8) 可供出售金融资产

	2014 年 12 月 31 日	2013 年 12 月 31 日
以公允价值计量		
可供出售权益工具	4,072,787	2,025,869
其他	<u>200,000</u>	<u>2,260,000</u>
	4,272,787	4,285,869
以成本计量		
可供出售权益工具	234,816	214,816
减：减值准备	<u>(86,104)</u>	<u>(86,104)</u>
	4,421,499	4,414,581
减：列示于其他流动资产的可供出售金融资产 (附注四(7))	<u>-</u>	<u>(1,650,000)</u>
	<u>4,421,499</u>	<u>2,764,581</u>



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(8) 可供出售金融资产(续)

(a) 可供出售金融资产相关信息分析如下：

以公允价值计量的可供出售金融资产：

	2014 年 12 月 31 日	2013 年 12 月 31 日
可供出售权益工具(i)		
—公允价值	4,072,787	2,025,869
—成本	3,151,498	1,677,737
—累计计入其他综合收益	692,592	260,165
—累计计提减值	(86,104)	(86,104)
理财产品(附注四(7)(b))		
—公允价值	-	1,650,000
—成本	-	1,650,000
—累计计入其他综合收益	-	-
—累计计提减值	-	-
燕山基金(ii)		
—公允价值	-	410,000
—成本	-	410,000
—累计计入其他综合收益	-	-
—累计计提减值	-	-
国开精诚投资基金(iii)		
—公允价值	200,000	200,000
—成本	200,000	200,000
—累计计入其他综合收益	-	-
—累计计提减值	-	-
合计		
—公允价值	4,272,787	4,285,869
—成本	3,351,498	3,937,737
—累计计入其他综合收益	692,592	260,165
—累计计提减值	(86,104)	(86,104)

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(8) 可供出售金融资产(续)

(a) 可供出售金融资产相关信息分析如下(续):

(i) 可供出售权益工具

	2014 年 12 月 31 日	2013 年 12 月 31 日
招商证券(注 1)	1,054,642	520,524
扬子江快运(注 2 及 3)	810,000	10,000
首都航空(注 2)	508,620	508,620
西部航空(注 2)	428,009	-
民航信息网络(注 1)	384,940	350,215
香港国际租赁	309,490	299,818
其他	577,086	336,692
	<u>4,072,787</u>	<u>2,025,869</u>

注 1: 该等股权于 2014 年 12 月 31 日的公允价值乃根据该股票于 2014 年 12 月 31 日的收盘价予以确定。

注 2: 该等股权均为本公司近年按照公允价值购入。

注 3: 于 2014 年 3 月，本公司之子公司祥鹏航空以 800,000 千元的价格收购建盈投资持有的扬子江快运 18.60%的股权。收购完成后，本集团共计持有扬子江快运 18.97%的股权。截至 2014 年 12 月 31 日止，相关股权的风险报酬已经转移，但股权转让手续仍在办理过程中。

(ii) 本公司作为有限合伙人出资 500,000 千元与另一方设立一合伙企业燕山基金，合资期限为 10 年，本公司仅承担有限责任。另一方作为普通合伙人，出资 3,000 千元并对合伙企业享有管理权和支配权。由于本公司对该合伙企业不具有控制权，共同控制或重大影响，因而将其列入可供出售金融资产核算。于 2013 年度，本公司收回投资成本计 90,000 千元。本年度本公司处置该金融资产，确认投资收益 135,000 千元。

(iii) 于 2012 年度，本公司出资 200,000 千元与若干投资人共同投资设立国开精诚投资基金，该基金注册资本为 6,840,000 千元，期限为 10 年。各投资人按照持股比例享有表决权。由于本公司的持股比例为 3%，对其不具有控制权，共同控制或重大影响，因而将其列入可供出售金融资产进行核算。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(8) 可供出售金融资产(续)

(a) 可供出售金融资产相关信息分析如下(续):

以成本计量的可供出售金融资产:

	2013 年 12 月 31 日	本年增加	本年减少	2014 年 12 月 31 日	在被投资单 位持股比例	本年现 金分红
可供出售权益工具 - 成本						
- Inflection Energy LLC	123,825	-	-	123,825	8.11%	-
- 其他	90,991	20,000	-	110,991		-
合计	<u>214,816</u>	<u>20,000</u>	<u>-</u>	<u>234,816</u>		<u>-</u>
可供出售权益工具-						
- 减值准备	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		

以成本计量的可供出售金融资产主要为本集团持有的非上市公司股权投资，该等投资没有活跃市场报价，其公允价值合理估计数的变动区间较大，且各种用于确定公允价值估计数的概率不能合理地确定，因此其公允价值不能可靠计量，进而按成本计量。于 2014 年 12 月 31 日，本集团无处置这些投资的计划。

(b) 可供出售金融资产减值准备相关信息分析如下:

	可供出售权益工具
2013 年 12 月 31 日	86,104
本年计提	-
本年减少	-
2014 年 12 月 31 日	<u>86,104</u>

(9) 长期股权投资

	2014 年 12 月 31 日	2013 年 12 月 31 日
联营企业(a)	12,825,132	11,292,114
减: 长期股权投资减值准备	<u>-</u>	<u>-</u>
	<u>12,825,132</u>	<u>11,292,114</u>

海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(9) 长期股权投资(续)

(a) 联营企业

	2013 年 12 月 31 日	本年增减变动					2014 年 12 月 31 日
		追加投资	减少投资	按权益法调整的净损益	其他综合收益调整	其他权益变动	减值准备
天津航空(i)	3,574,211	980,000	-	98,826	-	-	-
渤海信托	2,963,269	-	-	235,286	-	-	-
香港航空集团	1,849,587	-	-	53,058	-	-	-
海航技术	1,089,931	-	-	56,314	-	-	-
海航财务公司	916,215	-	-	78,379	-	(55,932)	-
湖南金鹿	450,000	-	-	-	-	-	-
西安浐灞	419,192	-	-	7,649	-	-	-
新生飞翔(ii)	-	86,207	-	-	-	-	-
其他	29,709	-	-	5,113	-	(11,882)	-
	11,292,114	1,066,207	-	534,625	-	(67,814)	-
							12,825,132

(i) 于2014年7月，本公司向天津航空现金增资980,000千元，增资后本公司持有天津航空39.06%的股权。

(ii) 于2014年12月，本公司向新生飞翔现金增资86,207千元，增资后本公司持有新生飞翔27.26%的股权。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(10) 投资性房地产

	房屋建筑物	土地使用权	合计
2013 年 12 月 31 日	6,393,519	4,348,663	10,742,182
本年在建工程转入	15,004	-	15,004
公允价值变动	(3,574)	26,711	23,137
本年处置	(1,512,219)	-	(1,512,219)
2014 年 12 月 31 日	<u>4,892,730</u>	<u>4,375,374</u>	<u>9,268,104</u>

对于所在地有活跃的房地产交易市场的投资性房地产，其公允价值采用收益法或市场价格法评估确定。

于 2014 年 12 月 31 日，本集团持有的投资性房地产的账面净值为 9,268,104 千元(2013 年 12 月 31 日：10,742,182 千元)，独立专业评估师以 2014 年 12 月 31 日为基准日，由公司管理层参考根据市场价值的评估结果而确定。

于 2014 年度，本集团投资性房地产公允价值累计变动 23,137 千元(2013 年度：34,022 千元)，并已全额计入公允价值变动损益。

于 2013 年度，本公司与北京国瑞兴业地产有限公司签订房地产处置协议。截至 2014 年 12 月 31 日，本公司所持有的投资性房地产账面价值计 1,512,219 千元已完成处置，并分别确认其他业务收入 1,512,219 千元及其他业务支出 1,239,914 千元(附注四(38)(b))，累计公允价值变动 272,305 千元自公允价值变动损益转出(附注四(45))。

于 2014 年 12 月 31 日，账面价值为 6,344,210 千元(2013 年 12 月 31 日：6,320,859 千元)的投资性房地产用作长期借款(附注四(28))的抵押物。

于 2014 年 12 月 31 日，投资性房地产中包括账面价值约为 75,413 千元的房屋(2013 年 12 月 31 日：74,350 千元)由于产权申请手续尚在审批中，截至目前尚未办妥房产证。本公司管理层认为该等未取得权证的房屋不会对本集团的经营活动产生重大影响。

海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(11) 固定资产

	房屋及建筑物	飞机及发动机	高价周转件	运输工具	器具设备	合计
原价						
2013 年 12 月 31 日	3,665,234	49,465,928	2,641,898	243,838	559,024	56,575,922
本年增加						
购置	51,246	6,248,720	242,252	22,095	17,187	6,581,500
在建工程转入	73,150	5,251,761	-	-	19,324	5,344,235
本年减少						
处置及报废	(11,998)	(2,196,518)	(415,155)	(11,266)	(12,427)	(2,647,364)
2014 年 12 月 31 日	3,777,632	58,769,891	2,468,995	254,667	583,108	65,854,293
累计折旧						
2013 年 12 月 31 日	(467,464)	(10,880,118)	(1,753,029)	(162,119)	(385,260)	(13,647,990)
本年增加						
计提	(86,913)	(2,958,495)	(144,383)	(11,689)	(28,624)	(3,230,104)
本年减少						
处置及报废	3,279	1,092,242	219,098	10,352	10,771	1,335,742
2014 年 12 月 31 日	(551,098)	(12,746,371)	(1,678,314)	(163,456)	(403,113)	(15,542,352)
减值准备						
2013 年 12 月 31 日	-	-	(71,523)	-	-	(71,523)
本年增加	-	-	-	-	-	-
本年减少	-	-	55,145	-	-	55,145
2014 年 12 月 31 日	-	-	(16,378)	-	-	(16,378)
账面价值						
2014 年 12 月 31 日	3,226,534	46,023,520	774,303	91,211	179,995	50,295,563
2013 年 12 月 31 日	3,197,770	38,585,810	817,346	81,719	173,764	42,856,409

于 2014 年 12 月 31 日，净值为 27,672,455 千元(2013 年 12 月 31 日：27,973,021 千元)，原值为 33,937,836 千元(2013 年 12 月 31 日：34,106,132 千元)的固定资产用作 1,000,000 千元短期借款以及 26,286,923 千元长期借款的抵押物，详见附注四(19)及(28)。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(11) 固定资产(续)

2014 年度固定资产计提的折旧金额为 3,230,104 千元(2013 年度: 2,697,001 千元)，其中计入营业成本、营业费用及管理费用的折旧费用分别为: 3,140,242 千元、4,444 千元、85,418 千元(2013 年度: 2,621,558 千元、4,952 千元、70,491 千元)。

于 2014 年度，由在建工程转入固定资产的原价为 5,344,235 千元(2013 年度: 9,267,469 千元)。

(a) 融资租入的固定资产

于 2014 年 12 月 31 日，账面价值 10,499,410 千元(原价 12,726,442 千元)的固定资产系融资租入(2013 年 12 月 31 日: 账面价值为 5,731,862 千元，原价 7,392,767 千元)(附注十一)。具体分析如下:

	原价	累计折旧	减值准备	账面价值
2014 年 12 月 31 日				
飞机及发动机	12,676,442	(2,206,406)	-	10,470,036
高价周转件	50,000	(20,626)	-	29,374
	<u>12,726,442</u>	<u>(2,227,032)</u>	<u>-</u>	<u>10,499,410</u>
2013 年 12 月 31 日				
飞机及发动机	7,342,767	(1,644,446)	-	5,698,321
高价周转件	50,000	(16,459)	-	33,541
	<u>7,392,767</u>	<u>(1,660,905)</u>	<u>-</u>	<u>5,731,862</u>

(b) 未办妥产权证书的固定资产

于 2014 年 12 月 31 日，净值为 210,598 千元(原值为 234,949 千元)的房屋及建筑物(2013 年 12 月 31 日: 净值为 169,741 千元，原值为 189,933 千元)尚在办理房产证。本公司管理层认为上述房产证办理并无实质性障碍，亦不会对本集团的营运造成重大不利影响。



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(12) 在建工程

	2014 年 12 月 31 日			2013 年 12 月 31 日		
	账面余额	减值准备	账面价值	账面余额	减值准备	账面价值
购买飞机预付款	11,733,888	-	11,733,888	10,903,768	-	10,903,768
长水机场新基地建设工程	565,212	-	565,212	417,204	-	417,204
北京基地扩建工程	511,867	-	511,867	481,411	-	481,411
其他	252,487	(2,307)	250,180	136,351	(2,307)	134,044
	<u>13,063,454</u>	<u>(2,307)</u>	<u>13,061,147</u>	<u>11,938,734</u>	<u>(2,307)</u>	<u>11,936,427</u>

于 2014 年 12 月 31 日，价值为 565,212 千元(2013 年 12 月 31 日：417,204 千元)的在建工程用作 332,000 千元长期借款的抵押物，详见附注四(28)。

海南航空股份有限公司

2014年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(12) 在建工程(续)

(a) 重大在建工程项目变动

工程名称	预算数	2013年 12月31日	本年增加	本年转入 固定资产	本年转入 投资性 房地产	2014年 12月31日	工程投入 占预算的 比例%	工程 进度	本年度资本化金额		本年 借款费用 资本化率	资金来源
									利息费用	专项借款 汇兑收益		
购买飞机预付款	63,559,158	10,903,768	6,081,881	(5,251,761)	-	11,733,888	18%	18%	482,285	(11,120)	4.75%	银行借款
长水机场新基地建 设工程	2,284,532	417,204	148,008	-	-	565,212	25%	25%	61,038	-	7.30%	银行借款及 自有资金
北京基地扩建工程	622,710	481,411	85,462	(40,002)	(15,004)	511,867	82%	82%	11,285	-	6.22%	银行借款及 自有资金
其他		136,351	168,608	(52,472)	-	252,487			-	-		
		11,938,734	6,483,959	(5,344,235)	(15,004)	13,063,454			554,608	(11,120)		
									1,438,757			

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(13) 无形资产

	土地使用权	电脑软件	合计
原价			
2013 年 12 月 31 日	436,051	1,754	437,805
本年增加	-	-	-
本年减少	-	-	-
2014 年 12 月 31 日	436,051	1,754	437,805
累计摊销			
2013 年 12 月 31 日	(81,207)	(1,348)	(82,555)
本年计提	(13,519)	(266)	(13,785)
本年减少	-	-	-
2014 年 12 月 31 日	(94,726)	(1,614)	(96,340)
减值准备			
2013 年 12 月 31 日	-	-	-
本年增加	-	-	-
本年减少	-	-	-
2014 年 12 月 31 日	-	-	-
账面价值			
2014 年 12 月 31 日	341,325	140	341,465
2013 年 12 月 31 日	354,844	406	355,250

2014 年度无形资产的摊销金额为 13,785 千元(2013 年度：9,697 千元)。

于 2014 年 12 月 31 日，净值为 120,369 千元(原值为 174,672 千元)的土地使用权(2013 年 12 月 31 日：净值为 112,815 千元，原值为 161,531 千元)用作 300,000 千元短期借款(附注四(19))和 1,804,794 千元长期借款(附注四(28))的抵押物。

(14) 商誉

于 2014 年 12 月 31 日，商誉的账面价值为本公司收购北京科航时产生的商誉。商誉主要体现为增加本集团的竞争力，通过与本集团其他业务资源整合，实现协同效应。在进行减值测试时，本集团将上述收购北京科航产生的商誉分配至航空业务资产组以及其他业务资产组组合进行减值测试。根据减值测试结果，未有发现减值迹象。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(15) 长期待摊费用

	2013 年 12 月 31 日	本年增加	本年摊销	2014 年 12 月 31 日
飞行员养成费用	625,563	177,163	(202,408)	600,318
其他	38,695	5,939	(27,537)	17,097
	<u>664,258</u>	<u>183,102</u>	<u>(229,945)</u>	<u>617,415</u>

(16) 其他非流动资产

	2014 年 12 月 31 日	2013 年 12 月 31 日
飞机及发动机租赁保证金	899,958	758,722
飞机及发动机维修储备金	818,326	1,038,299
融资租赁售后回租递延损失	181,557	248,616
预付投资款	65,593	1,826,940
其他	68,000	20,000
	<u>2,033,434</u>	<u>3,892,577</u>

(17) 递延所得税资产和递延所得税负债

(a) 未经抵销的递延所得税资产

	2014 年 12 月 31 日		2013 年 12 月 31 日	
	可抵扣 暂时性差异及 可抵扣亏损	递延所得 税资产	可抵扣 暂时性差异及 可抵扣亏损	递延所得 税资产
预提的飞机及发动机维修费用	1,442,774	346,347	1,517,172	368,301
可抵扣亏损	-	-	149,994	22,499
预提的飞机租金	-	-	101,696	25,424
固定资产减值准备	-	-	55,145	13,786
其他	942	142	24,077	3,612
	<u>1,443,716</u>	<u>346,489</u>	<u>1,848,084</u>	<u>433,622</u>
其中：				
预计于 1 年内(含 1 年)转回的金额		87,129		108,231
预计于 1 年后转回的金额		<u>259,360</u>		<u>325,391</u>
		<u>346,489</u>		<u>433,622</u>

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2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(17) 递延所得税资产和递延所得税负债(续)

(b) 未经抵销的递延所得税负债

	2014 年 12 月 31 日		2013 年 12 月 31 日	
	应纳税暂时性差异	递延所得税负债	应纳税暂时性差异	递延所得税负债
固定资产折旧	8,263,225	2,065,806	7,702,357	1,847,124
投资性房地产账面价值与计税基础的差异	7,088,401	1,772,100	7,356,010	1,839,002
可供出售金融资产公允价值变动	834,525	207,168	271,042	66,440
非货币性资产投资收益	294,059	73,515	-	-
其他	259,202	50,007	133,946	20,092
	<u>16,739,412</u>	<u>4,168,596</u>	<u>15,463,355</u>	<u>3,772,658</u>
其中：				
预计于 1 年内(含 1 年)转回的金额		51,361		346,031
预计于 1 年后转回的金额		<u>4,117,235</u>		<u>3,426,627</u>
		<u>4,168,596</u>		<u>3,772,658</u>

(c) 本集团未确认递延所得税资产的可抵扣暂时性差异及可抵扣亏损分析如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
可抵扣暂时性差异	-	-
可抵扣亏损	<u>110,656</u>	<u>15,092</u>
	<u>110,656</u>	<u>15,092</u>

由于本公司个别子公司能否于未来期间获得足够的用来抵扣可抵扣亏损的应税利润存在不确定性，因此本集团未对其相关的可抵扣亏损确认相关递延所得税资产。

(d) 未确认递延所得税资产的可抵扣亏损将于以下年度到期：

	2014 年 12 月 31 日	2013 年 12 月 31 日
2018 年	15,092	15,092
2019 年	<u>95,564</u>	<u>-</u>
	<u>110,656</u>	<u>15,092</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(17) 递延所得税资产和递延所得税负债(续)

(e) 抵销后的递延所得税资产和递延所得税负债净额列示如下：

	2014 年 12 月 31 日		2013 年 12 月 31 日	
	互抵金额	抵销后余额	互抵金额	抵销后余额
递延所得税资产	346,489	-	433,622	-
递延所得税负债	346,489	3,822,107	433,622	3,339,036

(18) 资产减值准备

	2013 年 12 月 31 日	本年增加	本年转销		2014 年 12 月 31 日
			转回	转销	
可供出售金融资产减值准备					
(附注四(8)(b))	86,104	-	-	-	86,104
坏账准备	84,171	7,431	(13,572)	-	78,030
其中：应收账款坏账准备	28,810	7,431	(7,000)	-	29,241
其他应收款坏账准备	55,361	-	(6,572)	-	48,789
固定资产减值准备	71,523	-	-	(55,145)	16,378
在建工程减值准备	2,307	-	-	-	2,307
	244,105	7,431	(13,572)	(55,145)	182,819

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2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(19) 短期借款

	币种	2014 年 12 月 31 日	2013 年 12 月 31 日
抵押借款(a)	人民币	450,000	150,000
质押借款(b)		4,455,990	7,836,181
	人民币	3,782,900	6,221,050
	美元	673,090	1,463,256
	欧元	-	151,875
保证借款(c)		8,146,127	7,944,200
	人民币	7,742,273	7,944,200
	美元	403,854	-
保证及抵押或质押借款(d)		4,649,700	5,585,001
	人民币	4,649,700	5,548,420
	美元	-	36,581
信用借款		823,608	363,275
	人民币	266,110	363,275
	美元	557,498	-
合计		18,525,425	21,878,657

- (a) 于 2014 年 12 月 31 日，本公司抵押借款人民币 450,000 千元(2013 年 12 月 31 日：人民币 150,000 千元)系由本集团净值为人民币 130,950 千元(原值为人民币 144,346 千元)的房屋建筑物和本公司净值为人民币 279,774 千元(原值为人民币 356,603 千元)的飞机作为抵押物(2013 年 12 月 31 日：净值人民币 132,930 千元，原值为人民币 144,479 千元)(附注四(11))。
- (b) 于 2014 年 12 月 31 日，质押借款包括：
- (i) 质押借款人民币 745,200 千元(2013 年 12 月 31 日：人民币 1,070,325 千元)系由人民币 925,000 千元定期存款(2013 年 12 月 31 日：由人民币 1,035,000 千元定期存款以及欧元 21,000 千元定期存款)(附注四(1))作为质押物。
- (ii) 质押借款人民币 1,552,700 千元(2013 年 12 月 31 日：人民币 910,000 千元)系由本集团的关联方所持有的若干股权作为质押物(附注八(5)(c))。
- (iii) 质押借款人民币 140,000 千元(2013 年 12 月 31 日：无)系由本集团人民币 150,000 千元的理财产品作为质押物。



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2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(19) 短期借款(续)

(b) 于 2014 年 12 月 31 日，质押借款包括(续)：

- (iv) 质押借款人民币 1,873,090 千元(其中：人民币 1,200,000 千元，美元 110,000 千元，折合人民币 673,090 千元)(2013 年 12 月 31 日：无)系由人民币 918,577 千元定期存款(附注四(1))，以及由本公司、本集团的关联方和第三方的若干股权作为质押物。
- (v) 质押借款人民币 145,000 千元(2013 年 12 月 31 日：人民币 2,321,600 千元)为信用证，系由关联方(附注八(5)(c))持有的若干股权作为质押物和第三方所持的若干股权作为质押物(2013 年 12 月 31 日：人民币 500,000 千元)。

于 2013 年 12 月 31 日，由本集团的关联方和本集团所持的若干股权作为质押物的借款人民币 1,071,000 千元；由本集团的关联方持所持的若干股权作为质押物的借款人民币 2,463,256 千元，已于 2014 年偿还。

(c) 于 2014 年 12 月 31 日，保证借款包括：

- (i) 保证借款人民币 4,290,000 千元(2013 年 12 月 31 日：人民币 2,015,000 千元)系由本集团的关联方提供担保(附注八(5)(c))。
- (ii) 保证借款人民币 3,443,854 千元(人民币 3,040,000 千元，美元 66,000 千元，折合人民币 403,854 千元)(2013 年 12 月 31 日：人民币 3,180,000 千元)由本公司提供担保。
- (iii) 保证借款人民币 300,000 千元(2013 年 12 月 31 日：无)由本集团的关联方和本公司共同提供担保。
- (iv) 保证借款人民币 77,000 千元(2013 年 12 月 31 日：无)由第三方提供担保。
- (v) 保证借款人民币 35,273 千元(2013 年 12 月 31 日：人民币 749,200 千元)为信用证，由本集团关联方提供担保。

于 2013 年 12 月 31 日，由本集团的关联方和本集团共同提供担保的借款人民币 2,000,000 千元，已于 2014 年度到期偿还。

海南航空股份有限公司

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四 合并财务报表项目附注(续)

(19) 短期借款(续)

(d) 于 2014 年 12 月 31 日，保证及抵押或质押借款包括：

- (i) 借款人民币 2,600,000 千元(2013 年 12 月 31 日：人民币 1,970,000 千元)系由本集团的关联方持有的若干股权作为质押物，同时由本集团的关联方(附注八(5)(c))提供保证。
- (ii) 借款人民币 300,000 千元系由人民币 30,000 千元(2013 年 12 月 31 日：人民币 37,000 千元)的定期存款(附注四(1))作为质押物，同时由本集团的关联方提供保证。
- (iii) 借款人民币 80,000 千元(2013 年 12 月 31 日：人民币 180,000 千元)系由本集团关联方(附注八(5)(c))持有的若干股权作为质押，同时由本公司提供保证。
- (iv) 借款人民币 150,000 千元(2013 年 12 月 31 日：人民币 150,000 千元)系由本集团账面价值人民币 88,813 千元(原值为人民币 118,587 千元)(2013 年 12 月 31 日：账面价值人民币 91,518 千元，原值为人民币 118,587 千元)的固定资产(附注四(11))作为抵押物，同时由本公司提供保证。
- (v) 借款人民币 300,000 千元(2013 年 12 月 31 日：人民币 300,000 千元)系由本集团未来 BSP 票款收款权作为质押物，同时由本集团的关联方和本集团提供保证。
- (vi) 借款人民币 300,000 千元(2013 年 12 月 31 日：无)系由本公司净值为人民币 80,779 千元(原值为人民币 134,251 千元)的无形资产和净值为人民币 56,521 千元(原值为人民币 93,398 千元)的固定资产作为抵押物，同时由本集团的关联方提供保证。
- (vii) 借款人民币 100,000 千元系由本公司净值为人民币 105,687 千元(原值为人民币 211,926 千元)的固定资产作为抵押物，同时由本集团的关联方股权作为质押物。
- (viii) 借款人民币 500,000 千元(2013 年 12 月 31 日：无)系由本公司所持的若干股权和本集团的关联方所持的若干股权作为质押物，同时由本集团的关联方提供保证。

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四 合并财务报表项目附注(续)

(19) 短期借款(续)

(d) 于 2014 年 12 月 31 日，保证及抵押或质押借款包括(续)：

(ix) 借款人民币 319,700 千元(2013 年 12 月 31 日：人民币 561,420 千元)为信用证，本集团的关联方(附注八(5)(c))提供担保，同时由第三方所持有的若干股权作为质押物。

于 2013 年 12 月 31 日，由本集团的关联方所持有的若干股权作为质押物，同时由本集团提供保证的借款人民币 1,286,581 千元，由本集团所持的若干股权和本集团关联方所持的若干股权作为质押物，同时由本集团和本集团的关联方提供保证的借款人民币 800,000 千元，以及由定期存款和理财产品作为质押物的借款人民币 300,000 千元已于 2014 年度到期偿还。

(e) 于 2014 年 12 月 31 日，短期借款的利率区间为 2.32%至 8.40%(2013 年 12 月 31 日：3.58%至 8.40%)。

(f) 于 2014 年 12 月 31 日，本集团无已到期但未偿还的短期借款。

(20) 应付票据

	2014 年 12 月 31 日	2013 年 12 月 31 日
银行承兑汇票	4,885,910	3,633,547
商业承兑汇票	642,226	1,035,257
	<u>5,528,136</u>	<u>4,668,804</u>

于 2014 年 12 月 31 日及 2013 年 12 月 31 日，应付票据均将于一年内到期。

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2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(21) 应付账款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应付飞机及发动机维修费	2,003,814	2,197,133
应付起降费	578,192	712,980
应付电脑订座费	254,846	187,188
应付航油费	216,055	513,547
应付经营租赁飞机租金	211,461	311,835
应付配餐费	169,525	196,467
应付航材采购款	62,394	141,915
应付债权转让款	-	480,000
其他	294,301	408,732
	<u>3,790,588</u>	<u>5,149,797</u>

- (a) 于 2014 年 12 月 31 日，账龄超过一年的应付账款为 299,330 千元(2013 年 12 月 31 日：318,212 千元)，主要为应付起降、配餐、电脑订座费及维修费等款项，鉴于与供应商有长期业务关系，该款项尚未进行最终结算。

(22) 预收款项

	2014 年 12 月 31 日	2013 年 12 月 31 日
预收票款	1,460,138	1,410,177
其他预收款	79,400	229,698
	<u>1,539,538</u>	<u>1,639,875</u>

- (a) 于 2014 年 12 月 31 日，账龄超过一年的预收款项为 112,458 千元，主要为预收票款(2013 年 12 月 31 日：79,303 千元)。由于本公司的承运责任尚未消除，该等款项尚未结转为营业收入。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(23) 应付职工薪酬

	2014 年 12 月 31 日	2013 年 12 月 31 日
应付短期薪酬(a)	280,962	290,704
应付设定提存计划(b)	6,046	2,605
	<u>287,008</u>	<u>293,309</u>

(a) 短期薪酬

	2013 年 12 月 31 日	本年增加	本年减少	2014 年 12 月 31 日
工资、奖金、津贴和补贴	248,618	1,764,152	(1,778,360)	234,410
社会保险费	1,244	50,796	(49,210)	2,830
其中：医疗保险	857	33,358	(32,996)	1,219
工伤保险	86	3,600	(3,595)	91
生育保险	55	3,035	(2,991)	99
年金缴费	246	10,803	(9,628)	1,421
住房公积金	19,399	79,650	(85,362)	13,687
工会经费和职工教育经费	21,443	37,317	(28,725)	30,035
	<u>290,704</u>	<u>1,931,915</u>	<u>(1,941,657)</u>	<u>280,962</u>

(b) 设定提存计划

	2013 年 12 月 31 日	本年增加	本年减少	2014 年 12 月 31 日
基本养老保险	2,045	103,319	(99,997)	5,367
失业保险费	560	3,798	(3,679)	679
	<u>2,605</u>	<u>107,117</u>	<u>(103,676)</u>	<u>6,046</u>

(24) 应交税费

	2014 年 12 月 31 日	2013 年 12 月 31 日
应交企业所得税	378,177	306,899
应交民航发展基金	284,566	350,254
应交营业税	25,679	29,353
其他	91,419	117,920
	<u>779,841</u>	<u>804,426</u>

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(25) 应付利息

	2014 年 12 月 31 日	2013 年 12 月 31 日
应付债券利息	357,884	223,978
应付借款利息	115,619	150,097
	<u>473,503</u>	<u>374,075</u>

(26) 其他应付款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应付押金及各项基金	368,926	299,537
应付关联方代垫款项	51,099	728,733
应付基地工程款	50,539	99,483
应付购买飞机款	45,853	45,687
应付飞行员培训费	29,567	44,076
其他	217,223	228,856
	<u>763,207</u>	<u>1,446,372</u>

- (a) 于 2014 年 12 月 31 日，账龄超过一年的其他应付款为 640,684 千元(2013 年 12 月 31 日：615,493 千元)，主要为代理人支付于本集团的机票押金及其他款项，由于相关代理人与本集团有持续的业务关系，故该等款项尚未结算。

(27) 一年内到期的非流动负债

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年内到期的长期借款(a)	5,758,116	5,998,624
一年内到期的长期应付款(附注四(30))	671,838	571,151
一年内到期的应付债券(附注四(29))	399,053	997,476
	<u>6,829,007</u>	<u>7,567,251</u>

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(27) 一年内到期的非流动负债(续)

(a) 一年内到期的长期借款

	币种	2014 年 12 月 31 日	2013 年 12 月 31 日
抵押借款(附注四(28)(a))		2,869,768	2,302,574
	人民币	1,190,523	773,102
	美元	1,679,245	1,529,472
质押借款(附注四(28)(b))	人民币	67,500	530,000
保证借款(附注四(28)(c))		538,530	722,994
	人民币	503,366	350,380
	美元	35,164	372,614
保证及抵押或质押借款(附注四(28)(d))		2,197,677	2,376,389
	人民币	1,460,797	1,796,479
	美元	689,164	579,910
	欧元	47,716	-
信用借款		84,641	66,667
	人民币	77,261	66,667
	欧元	7,380	-
		<u>5,758,116</u>	<u>5,998,624</u>



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四 合并财务报表项目附注(续)

(28) 长期借款

	币种	2014 年 12 月 31 日	2013 年 12 月 31 日
抵押借款(a)		16,353,444	16,355,540
	人民币	1,169,876	2,294,604
	美元	15,183,568	14,060,936
质押借款(b)	人民币	5,000	570,000
保证借款(c)		3,909,409	574,162
	人民币	3,241,296	574,162
	美元	668,113	-
保证及抵押或质押借款(d)		7,135,057	8,175,547
	人民币	2,380,112	3,805,659
	美元	4,489,526	4,016,294
	欧元	265,419	353,594
信用借款		261,979	74,418
	人民币	134,761	66,667
	美元	7,779	7,751
	欧元	119,439	-
		<u>27,664,889</u>	<u>25,749,667</u>

(a) 于 2014 年 12 月 31 日，抵押借款包括：

- (i) 抵押借款人民币 16,089,953 千元(其中：人民币 1,840,399 千元，美元 2,328,739 千元，折合人民币 14,249,554 千元)(2013 年 12 月 31 日：人民币 16,835,662 千元)由以下固定资产或投资性房地产作为抵押物：

	2014 年 12 月 31 日		2013 年 12 月 31 日	
	原值	净值	原值	净值
固定资产 - 飞机	<u>25,907,678</u>	<u>20,852,190</u>	<u>24,899,453</u>	<u>20,760,948</u>
固定资产小计(附注四(11))	<u>25,907,678</u>	<u>20,852,190</u>	<u>24,899,453</u>	<u>20,760,948</u>
投资性房地产(附注四(10))		<u>1,869,512</u>		<u>1,774,005</u>
合计		<u>22,721,702</u>		<u>22,534,953</u>

- (ii) 抵押借款人民币 3,133,259 千元(其中：人民币 520,000 千元，美元 427,073 千元，折合人民币 2,613,259 千元)(2013 年 12 月 31 日：人民币 1,822,452 千元)系由本公司拟购买但尚未办理抵押手续的若干飞机的提机权益作为抵押物。

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四 合并财务报表项目附注(续)

(28) 长期借款(续)

(b) 于 2014 年 12 月 31 日，质押借款包括：

- (i) 质押借款人民币 72,500 千元(2013 年 12 月 31 日：人民币 700,000 千元)系由本集团的关联方所持的若干股权(附注八(5)(c))作为质押物。

于 2013 年 12 月 31 日，由本集团人民币 550,000 千元的定期存款作为质押物的人民币借款 400,000 千元，已于 2014 年偿还。

- (c) 于 2014 年 12 月 31 日，保证借款人民币 4,447,939 千元(其中：人民币 3,744,663 千元，美元 114,933 千元，折合人民币 703,277 千元)(2013 年 12 月 31 日：人民币 1,297,156 千元)系由本集团的关联方(附注八(5)(c))、本集团提供担保，其中，本集团关联方的担保金额为人民币 3,300,000 千元以及美元 114,933 千元(折合人民币 703,277 千元)，本公司担保的金额为人民币 444,662 千元。

(d) 于 2014 年 12 月 31 日，保证及抵押或质押借款包括：

- (i) 借款人民币 4,397,619 千元(其中：人民币 696,409 千元，美元 604,872 千元，折合人民币 3,701,210 千元)(2013 年 12 月 31 日：人民币 3,692,495 千元)系由本集团净值为人民币 4,754,212 千元(原值为人民币 5,513,891 千元)(2013 年 12 月 31 日：净值为人民币 5,680,986 千元，原值为人民币 7,443,044 千元)(附注四(11))的飞机作为抵押物，同时由本集团的关联方(附注八(5)(c))为其提供保证。
- (ii) 借款人民币 1,096,000 千元(2013 年 12 月 31 日：人民币 1,110,000 千元)系由本集团公允价值为人民币 5,463,035 千元(2013 年 12 月 31 日：人民币 3,469,799 千元)的投资性房地产(附注四(10))作为抵押物，同时由本公司及本集团的关联方(附注八(5)(c))为其提供保证，其中关联方担保金额为人民币 306,000 千元。
- (iii) 借款人民币 549,000 千元(2013 年 12 月 31 日：人民币 1,787,189 千元)系由本公司拟购买但尚未办理抵押手续的若干飞机的购机权益作为抵押物，同时本集团的关联方(附注八(5)(c))为其提供保证。
- (iv) 借款美元 115,000 千元(折合人民币 703,685 千元)(2013 年 12 月 31 日：人民币 792,597 千元)系由集团净值为人民币 1,030,480 千元(原值为人民币 1,034,850 千元)(附注四(11))的飞机作为抵押物，同时由本公司提供担保。
- (v) 借款人民币 513,000 千元(2013 年 12 月 31 日：人民币 613,000 千元)系由本集团净值为人民币 6,994 千元(原值为人民币 10,531 千元)的固定资产，和净值为人民币 75,008 千元(原值为人民币 128,391 千元)的无形资产作为抵押物，同时由本集团关联方(附注八(5)(c))提供保证。

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四 合并财务报表项目附注(续)

(28) 长期借款(续)

(d) 于 2014 年 12 月 31 日，保证及抵押或质押借款包括(续)：

- (vi) 借款人民币 332,000 千元(2013 年 12 月 31 日：无)系由本集团账面价值为人民币 565,212 千元的在建工程作为抵押，同时由本集团关联方提供保证。
- (vii) 借款美元 22,308 千元(折合人民币 136,501 千元)(2013 年 12 月 31 日：人民币 180,468 千元)系由本公司及本集团的关联方的股权共同作为质押物，同时由本集团的关联方(附注八(5)(c))提供担保。
- (viii) 借款欧元 42,000 千元(折合为人民币 313,135 千元)(2013 年 12 月 31 日：42,000 千元)系由本集团净值为欧元 6,396 千元(折合人民币 47,684 千元)(原值为欧元 11,396 千元，折合人民币 84,967 千元)的固定资产，以及本公司所持有的若干股权作质押，同时由本集团关联方提供保证。
- (ix) 抵押借款人民币 1,291,794 元(其中：人民币 654,500 千元，美元 104,150 千元，折合人民币 637,294 千元)(2013 年 12 月 31 日：人民币 1,684,593 千元)系由本集团关联方的飞机，以及本公司净值为人民币 39,590 千元(原值为人民币 40,421 千元)(2013 年 12 月 31 日：净值为人民币 30,339 千元，原值为人民币 40,421 元)的无形资产(附注四(13))及本公司净值为人民币 326,144 千元(原值为 471,591 千元)(2013 年 12 月 31 日：净值为人民币 335,671 千元，原值为人民币 469,786 千元)的固定资产(附注四(11))作为抵押物，同时由本集团关联方的无形资产及其所持的若干股权作为质押物(2013 年 12 月 31 日：本集团关联方的无形资产及其所持的若干股权)。

于2013年12月31日，由本集团关联方的飞机作抵押，同时由本集团的关联方(附注八(5)(c))提供担保的借款人民币30,000千元；由本集团的关联方的固定资产作为抵押物，同时由本集团的关联方提供保证的借款人民币308,000千元，已于2014年偿还。

(e) 于 2014 年 12 月 31 日，长期借款的利率区间为 0.10%至 7.38%(2013 年 12 月 31 日：1.42%至 7.76%)。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(29) 应付债券

	2013 年 12 月 31 日	本年发行	发行费用	溢折价摊销	本年偿还	2014 年 12 月 31 日
公司债券	5,645,872	-	-	13,179	-	5,659,051
人民币债券	997,476	-	-	2,524	(1,000,000)	-
美元债券	2,992,083	-	-	19,107	-	3,011,190
非公开定向债务 融资工具	-	3,200,000	(9,504)	932	-	3,191,428
短期融资券	-	400,000	(1,600)	653	-	399,053
中期票据	-	400,000	(1,200)	132	-	398,932
狮城债券	-	3,000,000	(20,278)	3,678	-	2,983,400
总金额	9,635,431	7,000,000	(32,582)	40,205	(1,000,000)	15,643,054
减：一年内到期 部分(附注 四(27))	(997,476)					(399,053)
	8,637,955					15,244,001

(a) 债券有关信息如下：

	面值	发行日期	债券期限	发行金额
公司债券(i)	5,000,000	2011 年 5 月 24 日	五年及十年期	4,920,000
公司债券(ii)	700,000	2012 年 12 月 14 日	七年期	693,000
人民币债券(iii)	1,000,000	2011 年 9 月 27 日	三年期	990,371
美元债券(iv)	3,048,450	2013 年 2 月 7 日	七年期	2,961,280
非公开定向债 务融资工具(v)	1,170,000	2014 年 8 月 1 日	三年期	1,166,525
	830,000	2014 年 10 月 14 日	三年期	827,535
短期融资券(vi)	400,000	2014 年 4 月 23 日	一年期	398,400
中期票据(vii)	400,000	2014 年 5 月 9 日	五年期	398,800
狮城债券(viii)	1,700,000	2014 年 5 月 23 日	三年期	1,684,715
	1,300,000	2014 年 6 月 18 日	三年期	1,295,007

- (i) 经中国证券监督管理委员会证监许可【2011】721 号文核准，本公司于 2011 年 5 月 24 日发行总额为 5,000,000 千元的公司债券，债券期限分别为 5 年和 10 年，固定年利率为 5.6%(5 年期)和 6.2%(10 年期)，每年付息一次。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(29) 应付债券(续)

(a) 债券有关信息如下(续):

- (ii) 于2012年12月，本公司之子公司祥鹏航空发行人民币7亿元的公司债券，债券期限为7年，票面利率为7.29%，每年付息一次。该等债券在上海证券交易所上市，由本公司之关联方-海航航空集团提供无条件不可撤销的连带责任保证担保。
- (iii) 于2011年9月，本公司之全资子公司海航香港发行10亿元的人民币债券，债券期限为3年，票面利率为6%。该等债券在新加坡上市，本公司为其提供无条件的不可撤销的连带责任保证担保，担保期限为3年。该债券已于本年度到期偿还。
- (iv) 于2013年2月，本公司之全资子公司海航香港发行5亿美元的美元公司债券，债券期限为7年，票面利率为3.625%。该等债券在新加坡上市，本公司为其提供无条件的不可撤销的连带责任保证担保，担保期限为7年。
- (v) 于2014年8月至10月，本公司分期发行总额32亿元的非公开定向债务融资工具，债券期限为3年，票面利率为7.20%-7.40%，每年付息一次。
- (vi) 于2014年4月，本公司发行4亿元的短期融资券，债券期限为1年，票面利率为6.88%，每月付息一次。
- (vii) 于2014年5月，本公司发行4亿元的中期票据，债券期限为5年，票面利率为8.00%，每年付息一次。
- (viii) 于2014年5月至6月，本公司之全资子公司海航香港分期发行30亿元的狮城债券，债券期限为3年，票面利率为6.25%，每半年付息一次。该等债券在新加坡上市，本公司为其提供无条件的不可撤销的连带责任保证担保，担保期限为3年。

(30) 长期应付款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应付融资租赁款	4,516,045	3,227,387
减：一年内到期的部分(附注四(27))	(671,838)	(571,151)
	<u>3,844,207</u>	<u>2,656,236</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(31) 递延收益

	2014 年 1 月 1 日	本年增加	本年减少	2014 年 12 月 31 日	形成原因
尚未兑换的常旅客 奖励积分	740,444	241,094	(169,703)	811,835	尚未兑换

(32) 股本

	2013 年 12 月 31 日	本年增减变动	2014 年 12 月 31 日
有限售条件股份 -			
境内非国有法人持股	674	-	674
境内国有法人持股	-	-	-
	<u>674</u>	<u>-</u>	<u>674</u>
无限售条件股份 -			
人民币普通股	11,812,062	-	11,812,062
境内上市外资股	369,446	-	369,446
	<u>12,181,508</u>	<u>-</u>	<u>12,181,508</u>
	<u>12,182,182</u>	<u>-</u>	<u>12,182,182</u>

	2012 年 12 月 31 日	本年增减变动			2013 年 12 月 31 日
		限售解禁(a)	资本公积 转增股本(b)	限售解禁(c)	
有限售条件股份 -					
境内非国有法人持股	2,263,556	(297,619)	1,965,937	(3,931,200)	674
境内国有法人持股	297,619	(297,619)	-	-	-
	<u>2,561,175</u>	<u>(595,238)</u>	<u>1,965,937</u>	<u>(3,931,200)</u>	<u>674</u>
无限售条件股份 -					
人民币普通股	3,345,193	595,238	3,940,431	3,931,200	11,812,062
境内上市外资股	184,723	-	184,723	-	369,446
	<u>3,529,916</u>	<u>595,238</u>	<u>4,125,154</u>	<u>3,931,200</u>	<u>12,181,508</u>
	<u>6,091,091</u>	<u>-</u>	<u>6,091,091</u>	<u>-</u>	<u>12,182,182</u>

- (a) 2010 年 2 月，海南发展控股认购的本公司 297,619 千股人民币普通股、海航集团认购本公司 297,619 千股人民币普通股，限售时间为 36 个月。截至 2013 年 2 月，该等限售流通股限售期到期并获得上市流通权。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(32) 股本(续)

- (b) 于 2013 年 6 月 18 日，本公司以资本公积金每 10 股转增 10 股，共计转增股本 6,091,091 千元。转增完成后，本公司总股本增加至人民币 12,182,182 千元。
- (c) 经中国证券监督管理委员会《关于核准海南航空股份有限公司非公开发行股票的批复》(证监许可【2012】612 号)核准，本公司于 2012 年 8 月非公开发行 A 股股票 1,965,600 千股，发行价格为 4.07 元/股，募集资金总额 7,999,992 千元，扣除发行费用 213,000 千元后净募集资金 7,786,992 千元。本次募集资金总额与增发股本的差额计 5,821,392 千元计入资本公积-股本溢价。本次非公开发行的股票为限售股份，限售期为 12 个月，自 2012 年 8 月 13 日至 2013 年 8 月 12 日。截至 2013 年 8 月 12 日，本次非公开发行股份限售期的承诺已履行完毕。

(33) 资本公积

	2013 年 12 月 31 日	本年增加	本年减少	2014 年 12 月 31 日
股本溢价	5,660,753	-	-	5,660,753
其他资本公积				
- 自用房地产转为投资性房地产的评估增值	31,168	-	-	31,168
- 采用权益法结算的长期股权投资	1,850	-	-	1,850
- 同一控制下企业合并(附注五(1)(c))	901,586	(1,117,317)	-	(215,731)
- 少数股东增资	-	209,303	-	209,303
- 其他	796	-	-	796
	<u>6,596,153</u>	<u>(908,014)</u>	<u>-</u>	<u>5,688,139</u>
	2012 年 12 月 31 日	本年增加	本年减少	2013 年 12 月 31 日
股本溢价	11,751,844		(6,091,091)	5,660,753
其他资本公积				
- 自用房地产转为投资性房地产的评估增值	31,168	-	-	31,168
- 采用权益法结算的长期股权投资	1,850	-	-	1,850
- 同一控制下企业合并	465,846	435,740	-	901,586
- 其他	796	-	-	796
	<u>12,251,504</u>	<u>435,740</u>	<u>(6,091,091)</u>	<u>6,596,153</u>



海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(34) 其他综合收益

	资产负债表其他综合收益		2014年度利润表中其他综合收益			
	2013年 12月31日	税后归属 母公司	2014年 12月31日	本年所得税 前发生额	减：前期计入 其他综合收益 本年转入损益	税后归属 于母公司 税后归属于 少数股东
以后将重分类进损益的其他综合收益 可供出售金融资产公允价值变动损益	260,165	432,427	692,592	573,155	- (140,728)	432,427 -
	260,165	432,427	692,592	573,155	- (140,728)	432,427 -
	资产负债表其他综合收益		2013年度利润表中其他综合收益			
	2012年 12月31日	税后归属 母公司	2013年 12月31日	本年所得税 前发生额	减：前期计入 其他综合收益 本年转入损益	税后归属 于母公司 税后归属于 少数股东
以后将重分类进损益的其他综合收益 可供出售金融资产公允价值变动损益	90,681	169,484	260,165	228,133	- (58,649)	169,484 -
	90,681	169,484	260,165	228,133	- (58,649)	169,484 -

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(35) 盈余公积

	2013 年 12 月 31 日	本年提取	本年减少	2014 年 12 月 31 日
法定盈余公积金	<u>852,630</u>	<u>171,649</u>	<u>(54,430)</u>	<u>969,849</u>
	2012 年 12 月 31 日	本年提取	本年调整	2013 年 12 月 31 日
法定盈余公积金	<u>702,966</u>	<u>140,803</u>	<u>8,861</u>	<u>852,630</u>

根据《中华人民共和国公司法》及本公司章程，本公司按年度净利润的 10%提取法定盈余公积金，当法定盈余公积金累计额达到注册资本的 50%以上时，可不再提取。法定盈余公积金经批准后可用于弥补亏损或者增加股本。本公司按 2014 年净利润的 10%提取法定盈余公积金 171,649 千元(2013 年：140,803 千元)。

(36) 未分配利润

	2014 年度	2013 年度
年初未分配利润	7,229,735	5,309,332
调整 (a)	-	462,003
年初未分配利润(调整后)	<u>7,229,735</u>	<u>5,771,335</u>
加：本年归属于母公司股东的净利润	2,591,173	2,158,660
减：提取盈余公积	(171,649)	(140,803)
应付普通股股利	-	(609,109)
同一控制下企业合并	(530,386)	(11,201)
长期股权投资因增加投资自成本法转换为权益法而确认的投资收益	-	60,853
年末未分配利润	<u>9,118,873</u>	<u>7,229,735</u>

(a) 本年由于同一控制下企业合并调整年初未分配利润 462,003 元(附注五(1))。

于 2014 年 12 月 31 日，年末未分配利润中包含归属于母公司的子公司盈余公积余额 370,456 千元(2013 年 12 月 31 日：223,601 千元)。

于 2013 年 4 月 25 日，本公司股东大会决议通过，本公司向全体股东每 10 股派发现金股利每股人民币 1 元(含税)，按已发行股份 6,091,091,085 股计算，共计派发现金股利 609,109 千元。截至 2014 年 12 月 31 日，尚有约 29,746 千元尚未领取。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(37) 少数股东权益

归属于各子公司少数股东的少数股东权益列示如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
长安航空	1,253,580	-
山西航空	984,700	-
祥鹏航空	392,258	376,202
福州航空	224,960	-
北京科航	113,417	108,754
乌鲁木齐航空	98,213	-
其他	5,982	5,982
	<u>3,073,110</u>	<u>490,938</u>

(38) 营业收入和营业成本

	2014 年度	2013 年度
主营业务收入(a)	32,415,023	30,972,759
其他业务收入(b)	<u>3,628,748</u>	<u>2,303,495</u>
	<u>36,043,771</u>	<u>33,276,254</u>
主营业务成本(a)	(25,730,252)	(25,052,379)
其他业务成本(b)	<u>(1,972,630)</u>	<u>(1,092,037)</u>
	<u>(27,702,882)</u>	<u>(26,144,416)</u>

(a) 主营业务收入和主营业务成本

	2014 年度		2013 年度	
	主营业务收入	主营业务成本	主营业务收入	主营业务成本
航空客运收入	31,459,572	(25,019,620)	29,900,222	(24,294,306)
航空货运及逾重行李收入	893,546	(710,632)	932,998	(758,073)
其他	<u>61,905</u>	<u>-</u>	<u>139,539</u>	<u>-</u>
	<u>32,415,023</u>	<u>(25,730,252)</u>	<u>30,972,759</u>	<u>(25,052,379)</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(38) 营业收入和营业成本(续)

(b) 其他业务收入和其他业务成本

	2014 年度		2013 年度	
	其他业务收入	其他业务成本	其他业务收入	其他业务成本
处置投资性房地产(附注四(10))	1,512,219	(1,239,914)	487,778	(399,949)
飞机租赁(附注八(5)(b))	1,026,505	(641,999)	948,880	(578,092)
退票手续费	464,497	-	280,065	-
房屋租赁	406,147	(37,582)	402,910	(58,065)
代理手续费	43,491	-	46,785	-
维修服务	7,906	(4,444)	1,312	-
其他	167,983	(48,691)	135,765	(55,931)
	<u>3,628,748</u>	<u>(1,972,630)</u>	<u>2,303,495</u>	<u>(1,092,037)</u>

飞机租赁成本中未包括该等出租飞机中本集团以自购和融资租赁引入的飞机于本年度所发生的借款利息计188,086千元(2013年：206,711千元)，此部分利息包含在财务费用中。

(39) 营业税金及附加

	2014 年度	2013 年度
营业税	45,124	517,449
城市维护建设税	10,582	44,923
教育费附加	8,442	33,126
其他	4,170	2,019
	<u>68,318</u>	<u>597,517</u>

营业税金及附加的计缴标准见附注三。

(40) 销售费用

	2014 年度	2013 年度
机票销售代理手续费	1,458,004	1,462,763
系统服务费	292,236	239,075
工资、奖金及福利	180,596	168,156
外站费用	73,924	68,608
租金	45,864	43,887
其他	115,512	95,191
	<u>2,166,136</u>	<u>2,077,680</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(41) 管理费用

	2014 年度	2013 年度
工资、奖金及福利	201,915	140,592
折旧	85,418	70,491
保险费	70,919	42,570
租金	26,375	26,571
税费	25,344	53,535
其他	358,239	365,611
	<u>768,210</u>	<u>699,370</u>

(42) 财务费用 – 净额

	2014 年度	2013 年度
利息支出	4,423,724	3,774,183
减：资本化利息(附注四(12)(a))	(554,608)	(575,795)
减：利息收入	(688,573)	(573,875)
减：净汇兑损失/(收益)	71,804	(721,942)
其他	148,851	142,760
	<u>3,401,198</u>	<u>2,045,331</u>

利息收入中包括向关联方收取之利息(附注八(5)(a))。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(43) 费用按性质分类

利润表中的营业成本、销售费用和管理费用按照性质分类，列示如下：

	2014 年度	2013 年度
航油成本	10,933,095	10,987,002
折旧费用和摊销费用	3,473,834	2,883,044
起降成本	3,218,962	2,865,020
租金费用	2,604,636	3,014,109
飞发维修及航材消耗费	2,124,956	2,230,719
职工薪酬费用	2,039,032	1,982,393
机票销售代理手续费	1,458,004	1,462,763
处置投资性房地产	1,239,914	399,949
民航建设基金	777,748	681,316
餐食成本	769,379	705,559
飞行员培训费	295,858	238,536
其他	1,701,810	1,471,056
	<u>30,637,228</u>	<u>28,921,466</u>

(44) 资产减值损失

	2014 年度	2013 年度
固定资产减值准备	-	55,145
坏账准备	(6,141)	(374)
	<u>(6,141)</u>	<u>54,771</u>

(45) 公允价值变动损益

	2014 年度	2013 年度
投资性房地产公允价值变动(附注四(10))	23,137	34,022
投资性房地产处置将累计公允价值变动转出	(272,305)	(98,385)
	<u>(249,168)</u>	<u>(64,363)</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(46) 投资收益

	2014 年度	2013 年度
权益法核算的长期股权投资收益(附注四(9)(a))	534,625	439,798
处置可供出售金融资产产生的投资收益(附注四(8)(a)(ii))	135,000	10,450
理财产品投资收益(附注四(7)(a)(b))	99,871	108,703
可供出售金融资产分红收益	24,353	12,609
委托贷款利息收入	10,802	124,823
	<u>804,651</u>	<u>696,383</u>

本集团不存在投资收益汇回的重大限制。

(47) 营业外收入

	2014 年度	2013 年度	计入 2014 年度 非经常性损益的金额
补贴收入	504,193	362,284	504,193
其中：航线补贴(a)	362,398	153,150	362,398
税费返还	63,267	108,220	63,267
其他财政补贴	78,528	100,914	78,528
非流动资产处置利得	158,824	22,872	158,824
飞行员转让收益	42,033	68,963	42,033
其他	23,781	21,310	23,781
	<u>728,831</u>	<u>475,429</u>	<u>728,831</u>

- (a) 航线补贴主要包括财政部拨付的特殊远程国际航线补贴以及当地政府跟机场给予的航线补贴。



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(48) 所得税费用

	2014 年度	2013 年度
当期所得税	328,013	336,773
递延所得税	241,965	249,079
	<u>569,978</u>	<u>585,852</u>

将基于合并利润表的利润总额采用适用税率计算的所得税调节为所得税费用：

	2014 年度	2013 年度
利润总额	<u>3,212,626</u>	<u>2,761,163</u>
按适用税率 25%(2013 年：25%)计算的所得税费用	803,157	690,291
子公司税率不同的影响	(29,699)	(27,366)
非应纳税收入	(169,763)	(120,562)
不得扣除的成本、费用和损失	14,954	31,233
未确认递延所得税资产的可抵扣亏损	23,891	3,774
根据汇算清缴结果调整当期所得税费用	(72,562)	8,482
所得税费用	<u>569,978</u>	<u>585,852</u>

(49) 每股收益

(a) 基本每股收益

基本每股收益以归属于母公司普通股股东的合并净利润除以母公司发行在外普通股的加权平均数计算：

	2014 年度	2013 年度
归属于母公司普通股股东的合并净利润	2,591,173	2,158,660
发行在外普通股的加权平均数	<u>12,182,182</u>	<u>12,182,182</u>
基本每股收益(人民币元/股)	<u>0.213</u>	<u>0.177</u>

(b) 稀释每股收益

稀释每股收益以根据稀释性潜在普通股调整后的归属于母公司普通股股东的合并净利润除以调整后本公司发行在外普通股的加权平均数计算。于 2014 年度，本公司不存在具有稀释性的潜在普通股(2013 年度：无)，因此稀释每股收益等于基本每股收益。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(50) 现金流量表项目注释

(a) 收到的其他与经营活动有关的现金

	2014 年度	2013 年度
收回票据及其他保证金	1,247,049	2,096,013
收到的补贴收入(附注四(47))	504,193	362,284
其他	679,585	463,690
	<u>2,430,827</u>	<u>2,921,987</u>

(b) 支付的其他与经营活动有关的现金

	2014 年度	2013 年度
支付的票据及其他保证金	2,116,385	1,247,049
支付的机票销售代理手续费	1,458,004	1,462,763
支付的系统服务费	292,236	239,075
支付的银行手续费	148,851	142,760
支付的广告及业务招待费	84,534	90,632
支付的外站费用	73,924	68,608
其他	547,958	438,379
	<u>4,721,892</u>	<u>3,689,266</u>

(c) 收到的其他与投资活动有关的现金

	2014 年度	2013 年度
定期存款到期收回	2,897,357	1,525,000
关联方偿还委托借款所收到的现金	970,000	-
存款利息	622,913	458,746
	<u>4,490,270</u>	<u>1,983,746</u>

(d) 支付的其他与投资活动有关的现金

	2014 年度	2013 年度
存出的定期存款	2,233,577	2,897,357
向关联方借出委托借款所支付的现金	-	970,000
	<u>2,233,577</u>	<u>3,867,357</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(50) 现金流量表项目注释(续)

(e) 收到的其他与筹资活动有关的现金

	2014 年度	2013 年度
收到的票据贴现款	4,602,450	2,150,000

(f) 支付的其他与筹资活动有关的现金

	2014 年度	2013 年度
支付融资租赁款	3,609,866	675,859
支付的票据贴现款	3,194,000	4,602,450
票据贴现息	272,680	190,700
	7,076,546	5,469,009

(51) 现金流量表补充资料

(a) 现金流量表补充资料

将净利润调节为经营活动现金流量

	2014 年度	2013 年度
净利润	2,642,648	2,175,311
调整：资产减值准备(附注四(44))	(6,141)	54,771
固定资产折旧(附注四(11))	3,230,104	2,697,001
无形资产摊销(附注四(13))	13,785	9,698
长期待摊费用摊销(附注四(15))	229,945	176,345
其他非流动资产-售后回租损失摊销	40,548	71,918
固定资产处置收益	(156,536)	(20,779)
公允价值变动损益(附注四(45))	249,168	64,363
财务费用	3,252,347	1,888,084
投资收益(附注四(46))	(804,651)	(696,383)
递延所得税负债增加	342,341	240,596
递延收益增加(附注四(31))	71,391	114,855
存货的减少	1,439	8,269
经营性应收项目的(增加)/减少	(572,481)	2,401,157
经营性应付项目的(减少)/增加	(2,529,265)	1,562,410
经营活动产生的现金流量净额	6,004,642	10,747,616

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(51) 现金流量表补充资料(续)

(a) 现金流量表补充资料(续)

不涉及现金收支的重大投资和筹资活动

	2014 年度	2013 年度
融资租赁固定资产	<u>5,255,316</u>	<u>601,761</u>

现金及现金等价物净变动情况

	2014 年度	2013 年度
现金及现金等价物的年末余额	17,365,628	17,203,390
减：现金及现金等价物的年初余额	<u>(17,203,390)</u>	<u>(19,361,252)</u>
现金及现金等价物净增加/(减少)额	<u>162,238</u>	<u>(2,157,862)</u>

(b) 取得或处置子公司

(i) 取得子公司

	2014 年度	2013 年度
本年发生的企业合并于本年支付的 现金和现金等价物	902,133	-
其中：祥鹏航空	902,133	-
海南国善、海南国旭、海南航鹏	-	2,984,738
减：购买日子公司持有的现金和现金等价物	-	(200,000)
其中：海南福顺	-	(200,000)
取得子公司支付的现金净额	<u>902,133</u>	<u>2,784,738</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(51) 现金流量表补充资料(续)

(b) 取得或处置子公司(续)

(i) 取得子公司(续)

	2014 年度	2013 年度
本年度取得子公司的价格		
祥鹏航空	1,702,133	-
乌鲁木齐航空	631,238	-
福州航空	360,000	-
海南福顺	-	1,094,161
海南国善、海南国旭、海南航鹏	-	2,984,738
	<u>2,693,371</u>	<u>4,078,899</u>

前期取得子公司的价格

祥鹏航空	<u>842,000</u>	<u>-</u>
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取得子公司的净资产

流动资产	1,477,184	200,000
非流动资产	7,493,202	3,878,899
流动负债	(2,744,834)	-
非流动负债	(3,371,247)	-
	<u>2,854,305</u>	<u>4,078,899</u>

(ii) 处置子公司

	2014 年度	2013 年度
本年处置子公司于本年收到的现金及现金等价物	-	-
减：丧失控制权日子公司持有的现金及现金等价物	-	(901,609)
加：前期处置子公司于本年收到的现金及现金等价物	-	-
处置子公司减少的现金净额	<u>-</u>	<u>901,609</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(51) 现金流量表补充资料(续)

(b) 取得或处置子公司(续)

(ii) 处置子公司(续)

处置子公司的净资产

	2014 年度	2013 年度
流动资产	-	901,609
非流动资产	-	192,552
流动负债	-	-
非流动负债	-	-
	<u>-</u>	<u>1,094,161</u>

(c) 现金及现金等价物

	2014 年 12 月 31 日	2013 年 12 月 31 日
库存现金	1,552	1,207
可随时用于支付的银行存款	<u>17,364,076</u>	<u>17,202,183</u>
年末现金及现金等价物余额	<u>17,365,628</u>	<u>17,203,390</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

四 合并财务报表项目附注(续)

(52) 外币货币性项目

	2014 年 12 月 31 日		
	外币余额	折算汇率	人民币余额
货币资金-			
美元	424,622	6.1190	2,598,262
欧元	33,676	7.4556	251,075
其他			910
应收账款-			
美元	697	6.1190	4,267
欧元	660	7.4556	4,923
其他			3,239
预付账款-			
美元	43,013	6.1190	263,197
其他			2,189
其他应收款-			
美元	96,297	6.1190	589,242
其他			14,211
应付账款-			
美元	58,786	6.1190	359,712
其他			64,754
其他应付款-			
美元	7,494	6.1190	45,853
其他			2,645
短期借款-			
美元	267,109	6.1190	1,634,440
长期借款-			
美元	3,718,346	6.1190	22,752,559
欧元	59,010	7.4556	439,955
长期应付款-			
美元	445,240	6.1190	2,724,426
应付债券-			
美元	492,105	6.1190	3,011,190



海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

<b>五 合并范围的变更</b>										
<b>(1) 同一控制下的企业合并</b>										
<b>(a) 本年度发生的同一控制下的企业合并</b>										
被合并方	取得比例	构成同一控制下企业合并的依据	合并日	合并日 的确定 依据	2014 年 1 月 1 日 至合并日 被合并方的收入	2014 年 1 月 1 日 至合并日 被合并方的净利润	2013 年 被合并方 的收入	2013 年 被合并方 的净利润	2014 年 1 月 1 日 至合并日 被合并方的经营 活动现金流量	2014 年 1 月 1 日 至合并日 被合并方 现金流量净额
祥鹏航空	86.68%	祥鹏航空和 本公司在合 并前后均受 大新华航空 最终控制且 该控制并非 暂时性的	2014 年 3 月 28 日	本公司 实际取 得祥鹏 航空控 制权的 日期	918,901	29,968	3,511,534	101,884	1,099,192	(420,285)

上述企业合并为同一控制下企业合并，根据企业会计准则规定视同合并后的报告主体在以前期间一直存在，因此对比较期初数进行追溯调整。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

五 合并范围的变更(续)

(1) 同一控制下的企业合并(续)

(b) 合并成本及取得的净资产账面价值如下：

	祥鹏航空
合并成本 -	
支付的现金	2,544,133
转移非现金资产的账面价值	-
发生或承担负债的账面价值	-
	<u>2,544,133</u>

(c) 被合并方于合并日的资产、负债账面价值列示如下：

(i) 祥鹏航空

	合并日 账面价值	2013 年 12 月 31 日 账面价值
货币资金	644,737	1,065,022
应收款项	257,247	370,874
存货	2,931	2,665
其他流动资产	572,268	1,995,415
可供出售金融资产	800,000	-
固定资产	1,840,895	1,864,630
无形资产	195,300	196,385
其他非流动资产	4,657,008	4,586,174
减：借款	(1,343,033)	(1,463,322)
应付款项	(215,788)	(227,540)
应付职工薪酬	(11,480)	(17,214)
递延所得税负债	(941,094)	(941,087)
其他负债	(3,604,685)	(4,607,664)
净资产	<u>2,854,306</u>	<u>2,824,338</u>
减：少数股东权益	(380,194)	(376,202)
取得的净资产	<u>2,474,112</u>	<u>2,448,136</u>

# 海南航空股份有限公司

## 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

### 五 合并范围的变更(续)

#### (1) 同一控制下的企业合并(续)

##### (c) 被合并方于合并日的资产、负债账面价值列示如下(续):

取得的净资产	2,474,112
减：合并日取得祥鹏航空 <b>52.9%</b> 股权支付的现金	(1,702,133)
合并日公司对祥鹏航空长期股权投资账面价值	(987,710)
	(2,689,843)
调整资本公积金金额	(215,731)

#### (2) 2014年度因新设立而纳入合并范围的子公司清单如下:

子公司名称	主要经营地	注册地	业务性质	持股比例%		注册资本
				直接	间接	
乌鲁木齐航空	乌鲁木齐	乌鲁木齐	交通运输	86.32%	-	3,000,000千元
福州航空	福州	福州	交通运输	60.00%	-	2,000,000千元

### 六 在其他主体中的权益

#### (1) 在子公司中的权益

##### (a) 企业集团的构成

子公司名称	主要经营地	注册地	业务性质	持股比例		取得方式
				直接	间接	
新华航空	北京	北京	交通运输	100%	-	非同一控制下的企业合并
山西航空(注 1)	太原	太原	交通运输	23.43%	27.17%	非同一控制下的企业合并
长安航空(注 2)	西安	西安	交通运输	67.01%	-	非同一控制下的企业合并
北京科航	北京	北京	持有型物业	95%	-	非同一控制下的企业合并
布鲁塞尔 EDIP	布鲁塞尔	布鲁塞尔	酒店服务业	100%	-	非同一控制下的企业合并
布鲁塞尔 DATA	布鲁塞尔	布鲁塞尔	酒店服务业	100%	-	非同一控制下的企业合并
布鲁塞尔 SODE	布鲁塞尔	布鲁塞尔	酒店服务业	94.18%	5.82%	非同一控制下的企业合并
金鹿销售	海口	海口	交通运输	95%	-	设立或投资
海航香港	香港	香港	投资	100%	-	设立或投资
海南福顺	海口	海口	项目管理	100%	-	设立或投资
福州航空(注 3)	福州	福州	交通运输	60%	-	设立或投资
乌鲁木齐航空	乌鲁木齐	乌鲁木齐	交通运输	86.32%	-	设立或投资
(注 4)						
祥鹏航空	昆明	昆明	交通运输	86.68%	-	同一控制下的企业合并

## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

#### 六 在其他主体中的权益

##### (1) 在子公司中的权益(续)

##### (a) 企业集团的构成(续)

注 1：于 2014 年 6 月及 11 月，海航航空集团和其他股东向本公司原全资子公司山西航空增资 1,000,000 千元。增资后，本公司所占山西航空的股权比例稀释至 50.60%。

注 2：于 2014 年 11 月，海航航空集团和其他股东向本公司原全资子公司长安航空增资 1,400,000 千元。增资后，本公司所占长安航空的股权比例稀释至 67.01%。

注 3：本公司与其他股东共同出资 600,000 千元设立福州航空，其中本公司出资 360,000 千元，其他股东出资 240,000 千元，设立完成后，本公司占福州航空 60%的股权。

注 4：本公司与其他股东共同出资 731,238 千元设立乌鲁木齐航空，其中本公司出资 631,238 千元，其他股东出资 100,000 千元，设立完成后，本公司占乌鲁木齐航空 86.32%的股权。

##### (b) 存在重要少数股东权益的子公司

子公司名称	少数股东的持股比例	2014 年度归属于少数股东的损益	2014 年度向少数股东分派股利	2014 年 12 月 31 日少数股东权益
长安航空	32.99%	29,466	-	1,253,580
山西航空	49.40%	18,919	-	984,700
祥鹏航空	13.32%	16,056	-	392,258
福州航空	40.00%	(15,040)	-	224,960
北京科航	5.00%	3,894	-	113,417
乌鲁木齐航空	13.68%	(1,820)	-	98,213
		<u>51,475</u>	<u>-</u>	<u>3,067,128</u>

海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

- 六 在其他主体中的权益(续)
- (1) 在子公司中的权益(续)
- (b) 存在重要少数股东权益的子公司(续)

上述重要非全资子公司的主要财务信息列示如下：

	2014 年 12 月 31 日					2013 年 12 月 31 日						
	流动资产	非流动资产	资产合计	流动负债	非流动负债	负债合计	流动资产	非流动资产	资产合计	流动负债	非流动负债	负债合计
长安航空	3,666,128	5,256,745	8,922,873	2,716,396	2,406,598	5,122,994	3,976,813	3,915,380	7,892,193	3,546,314	2,106,776	5,653,090
山西航空	2,914,225	1,045,268	3,959,493	1,749,691	216,483	1,966,174	1,438,491	854,248	2,292,739	886,460	520,967	1,407,427
祥鹏航空	2,196,645	8,379,946	10,576,591	2,680,646	4,951,065	7,631,711	3,433,976	6,647,181	10,081,157	4,184,613	3,072,206	7,256,819
福州航空	620,294	11,318	631,612	69,213	-	69,213	-	-	-	-	-	-
北京科航	292,285	3,517,823	3,810,108	194,347	1,347,431	1,541,778	215,501	3,517,253	3,732,754	153,619	1,388,659	1,542,278
乌鲁木齐航空	375,511	414,486	789,997	72,065	-	72,065	-	-	-	-	-	-

2014年度财务报表附注  
(除特别注明外, 金额单位为人民币千元)

(1) 在子公司中的权益(续)

上述重要非全资子公司的主要财务信息列示如下(续):

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海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

六 在其他主体中的权益(续)

(2) 在联营企业中的权益

(a) 重要联营企业的基础信息

	主要经营地	注册地	业务性质	对集团活动是否具有战略性	持股比例	
					直接	间接
联营企业 -						
天津航空	天津	天津	国内(含港澳台)航空客货运运输业务；至周边国家的航空客货运运输业务；意外伤害保险、健康保险、传统人寿保险；自有航空器租赁与航空器维修、航空专业培训咨询服务；货物及技术进出口；广告经营；货物联运代理服务；航空器材、日用百货的经营(依法须经批准的项目，经相关部门批准后方可开展经营活动)	是	39.06%	-
渤海信托	石家庄	石家庄	资产信托、动产信托、不动产信托、有价证券信托、其他财产或产权信托、作为投资基金或者基金管理公司发起人从事投资基金业务；经营企业资产的重组、购并及项目融资、公司理财、财务顾问等业务，受托经营国务院有关部门批准证券承销业务、办理居间、咨询、咨询调查等业务，代保管及保管箱业务，以存放同业、拆放同业、贷款、租赁、投资方式运用固有资产；以固有资产为他人提供担保、从事同业拆借、法律法规规定或中国银行业监督管理委员会批准的其他业务。	是	-	39.78%
香港航空集团	香港	英属维京群岛	其子公司主要为航空客货运业务。	是	-	27.02%



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

六 在其他主体中的权益(续)

(2) 在联营企业中的权益(续)

(a) 重要联营企业的基础信息(续)

	主要经营地	注册地	业务性质	对集团活动是否具有战略性	持股比例	
					直接	间接
联营企业 -						
海航技术	海口	海口	为国内外用户维护、维修和翻新航空器、发动机（包括辅助动力装置）和其他附件；为国内外航空公司提供机务勤务保证；派遣人资产管理等。	是	48.08%	-
海航财务公司	北京	北京	对成员单位办理财务和融资顾问、信用鉴证及相关的咨询、代理业务；协助成员单位实现交易款项的收付；经批准的保险代理业务；对成员单位提供担保；办理成员单位之间的委托贷款及委托投资；对成员单位办理票据承兑与贴现；办理成员单位之间的内部转账结算及相应的结算、清算方案设计；吸收成员单位的存款；对成员单位办理贷款及融资租赁；从事同业拆借；经批准发行财务公司债券；承销成员单位的企业债券；对金融机构的股权投资；有价证券投资；成员单位产品的消费信贷、买方信贷及融资租赁。	是	-	23.70%

本集团对上述股权投资均采用权益法核算。

海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

- 六 在其他主体中的权益(续)
- (2) 在联营企业中的权益(续)
- (b) 重要联营企业的主要财务信息

	2014 年 12 月 31 日					2013 年 12 月 31 日				
	天津航空	渤海信托	香港航空集团	海航技术	海航财务公司	天津航空	渤海信托	香港航空集团	海航技术	海航财务公司
流动资产	6,441,640	3,421,462	3,051,767	2,203,659	23,170,218	5,831,289	2,824,238	2,536,266	1,957,572	21,694,947
其中：现金和现金等价物	4,440,380	1,955,546	2,075,879	402,957	3,289,685	3,423,305	1,127,884	1,179,810	307,443	2,800,869
非流动资产	23,634,433	2,138,487	19,436,802	1,070,095	1,049,255	16,458,219	2,138,501	16,718,085	881,701	1,053,985
资产合计	30,076,073	5,559,949	22,488,569	3,273,754	24,219,473	22,289,508	4,962,739	19,254,351	2,839,273	22,748,932
流动负债	5,269,818	85,167	5,698,645	666,850	20,391,173	3,680,189	79,087	5,367,500	475,233	19,002,198
非流动负债	13,187,207	263	9,748,306	161,043	8,318	10,374,709	602	7,041,600	35,304	21,466
负债合计	18,457,025	85,430	15,446,951	827,893	20,399,491	14,054,898	79,689	12,409,100	510,537	19,023,664
少数股东权益	-	-	-	118,924	-	-	-	-	93,655	-
归属于母公司股东权益	11,619,048	5,474,519	7,041,618	2,445,861	3,819,982	8,234,610	4,883,050	6,845,251	2,328,736	3,725,268
按持股比例计算的净资产份额(i)	4,653,038	3,198,555	1,902,645	1,146,244	938,663	3,574,212	2,963,269	1,849,587	1,089,930	916,216
调整事项	-	-	-	-	-	-	-	-	-	-
- 商誉	-	-	-	-	-	-	-	-	-	-
对联营企业投资的账面价值	4,653,038	3,198,555	1,902,645	1,146,244	938,663	3,574,212	2,963,269	1,849,587	1,089,930	916,216

海南航空股份有限公司

2014 年度财务报表附注  
(除特别注明外，金额单位为人民币千元)

- 六 在其他主体中的权益(续)
- (2) 在联营企业中的权益(续)
- (b) 重要联营企业的主要财务信息(续)

	2014 年度					2013 年度				
	天津航空	渤海信托	香港航空集团	海航技术	海航财务公司	天津航空	渤海信托	香港航空集团	海航技术	海航财务公司
营业收入	7,683,017	281,377	8,876,477	1,670,730	670,587	6,465,624	1,005,985	7,274,594	1,592,288	531,793
净利润	252,590	119,620	108,296	182,933	330,711	206,844	508,705	211,478	161,651	264,032
其他综合收益	-	-	-	-	-	-	-	-	-	-
综合收益总额	252,590	119,620	108,296	182,933	330,711	206,844	508,705	211,478	161,651	264,032
本集团本年度 收到的来自 联营企业的 股利	-	-	-	-	55,932	-	-	-	-	83,069

## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

#### 六 在其他主体中的权益(续)

##### (2) 在联营企业中的权益(续)

###### (b) 重要联营企业的主要财务信息(续)

(i) 本集团以联营企业合并财务报表中归属于母公司的金额为基础，按持股比例计算资产份额。联营企业合并财务报表中的金额考虑了取得投资时联营企业可辨认净资产和负债的公允价值以及统一会计政策的影响。

(ii) 其他调整事项包括减值准备及未确认的超额亏损等。

###### (c) 不重要联营企业的汇总信息

	2014 年度	2013 年度
投资账面价值合计	985,989	898,902
下列各项按持股比例计算的合计数		
净利润(i)	(14,799)	(6,602)
其他综合收益(i)	-	-
综合收益总额	<u>(14,799)</u>	<u>(6,602)</u>

(i) 净利润和其他综合收益均已考虑取得投资时可辨认资产和负债的公允价值以及统一会计政策的调整影响。

#### 七 分部信息

本集团管理层定期审阅集团内部报告，以评价集团内各组成部分的经营成果及决定向其分配资源，并以此为基础确定经营分部。

本集团管理层按提供的服务类别来评价本集团的经营情况。在提供的服务类别方面，本集团管理层评价以下分部的业绩：

- (i) 航空营运业务分部，包括客运及货运服务；
- (ii) 其他业务分部包括酒店服务等个别非重大的经营分部，本集团将其合并为其他业务分部。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

七 分部信息(续)

(a) 2014 年度及 2013 年度报告分部的营业收入、利润总额、资产及负债等信息列示如下:

	航空营运分部		其他业务分部		分部抵销		未分配项目(注)		合计	
	2014 年	2013 年	2014 年	2013 年	2014 年	2013 年	2014 年	2013 年	2014 年	2013 年
对外交易收入	35,793,377	32,956,897	250,394	319,357	-	-	-	-	36,043,771	33,276,254
利息收入	660,364	573,537	28,209	338	-	-	-	-	688,573	573,875
利息费用	4,362,497	3,703,566	61,227	70,617	-	-	-	-	4,423,724	3,774,183
资产减值损失	(6,106)	54,771	(35)	-	-	-	-	-	(6,141)	54,771
折旧和摊销费用	3,440,463	2,843,016	33,371	40,028	-	-	-	-	3,473,834	2,883,044
公允价值变动损益	247,847	65,024	1,321	(661)	-	-	-	-	249,168	64,363
利润总额	2,202,708	1,884,091	205,267	201,925	-	(21,236)	804,651	696,383	3,212,626	2,761,163
所得税费用	543,953	558,198	26,025	27,654	-	-	-	-	569,978	585,852
净利润	1,658,755	1,325,893	179,242	174,271	-	(21,236)	804,651	696,383	2,642,648	2,175,311
资产总额	101,353,566	94,712,632	9,888,538	7,576,170	(6,835,559)	(5,707,274)	17,575,496	16,035,560	121,982,041	112,617,088
负债总额	82,571,057	80,871,359	8,075,927	5,838,594	(389,686)	(1,704,668)	-	-	90,257,296	85,005,285

注：利润总额中的未分配项目为投资收益。资产总额中的未分配项目主要包括长期股权投资、可供出售金融资产、商誉及其他流动资产中理财产品。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

七 分部信息(续)

(b) 本集团分地区之营业收入分析如下：

	2014 年度	2013 年度
国内	31,975,345	29,641,234
国际及地区	4,068,426	3,635,020
	<u>36,043,771</u>	<u>33,276,254</u>

本集团主要收入来源于飞机资产，该等飞机均在中华人民共和国注册。由于本集团的飞机可在不同航线中自由使用，没有将资产及负债在不同地区中合理分配的基础，因此并未按照地区来披露资产、负债及资本性支出。

八 关联方关系及其交易

(1) 母公司情况

(a) 母公司基本情况

	注册地	业务性质
大新华航空	海口	交通运输

本公司的最终控制方为海南省政府国有资产监督管理委员会。

(b) 母公司注册资本及其变化

	2013 年 12 月 31 日	本年增加	本年减少	2014 年 12 月 31 日
大新华航空	<u>6,008,324</u>	-	-	<u>6,008,324</u>

(c) 母公司对本公司的持股比例和表决权比例

	2014 年 12 月 31 日		2013 年 12 月 31 日	
	直接持股比例	直接表决权比例	直接持股比例	直接表决权比例
大新华航空	<u>28.18%</u>	<u>28.18%</u>	<u>28.18%</u>	<u>28.18%</u>

除上述大新华航空直接持股外，大新华航空之全资子公司 American Aviation LDC 持有本公司 1.77%的股权。于 2014 年 12 月 31 日，大新华航空通过直接及间接总计持有本公司 29.95%的股权。

# 海南航空股份有限公司

## 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

### 八 关联方关系及其交易(续)

#### (2) 子公司情况

子公司的基本情况及相关信息见附注六(1)。

#### (3) 联营企业情况

除附注六(2)中已披露的重要联营企业的情况外，不存在与本集团发生关联交易的其他联营企业。

#### (4) 其他关联方情况

简称(全称见附注十七)	关系	组织机构代码
海航集团	对本公司母公司有重大影响股东	708866504
新华航食	受海航集团控制	74471275-6
海南航食	受海航集团控制	62001238-7
新疆航食	受海航集团控制	781752984
三亚航食	受海航集团控制	74259875-0
海航基础股份	与本公司同受母公司股东控制	72127172-4
三亚凤凰机场	受海航集团控制	20136089-7
海口美兰	持有本公司5%以上表决权股份的股东	70886657-1
甘肃机场	海航集团联营企业	924594371
北京商旅文化	受海航集团控制	691699673
百睿臣文化	受海航集团控制	55141614-1
易生控股	受海航集团控制	693161850
首都航空	受海航集团控制	70887277-9
西部航空	受海航集团控制	79804682-4
海航航空销售	受海航集团控制	70887276-0
海航货运	受海航集团控制	55736841-9
扬子江快运	海航集团联营企业	741185823
海航旅游集团	受海航集团控制	735810119
海航酒店集团	海航集团联营企业	70886444-5
扬子江租赁	受海航集团控制	621904344
海航机场控股	受海航集团控制	75436025-6
海航航空集团	受海航集团控制	68117653-7
海航酒店控股	受海航集团控制	76597075-4
新生信息技术	受海航集团控制	671060987
长江租赁	持有本公司5%以上表决权股份的股东	72123031-6
海航饮品	受海航集团控制	747780842
海航集团(国际)	受海航集团控制	不适用
海航信息	受海航集团控制	713859165



海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(4) 其他关联方情况(续)

简称(全称见附注十七)	关系	组织机构代码
潍坊机场	受海航集团控制	72754971-5
唐山机场	受海航集团控制	69346010-5
宜昌机场	受海航集团控制	73519863-6
前海航交中心	受海航集团控制	08777689-8
凯撒国旅	受海航集团控制	71092605-1
西南总部	受海航集团控制	56874228-5

(5) 关联交易

(a) 购销商品、提供和接受劳务

关联交易内容	关联交易定价政策	关联方	2014 年度 金额	2013 年度 金额
采购航空食品	双方协议价格	新华航食	140,480	145,966
		海南航食	44,576	43,721
		新疆航食	35,034	34,515
		海航饮品	25,339	22,994
		三亚航食	17,713	13,888
			263,142	261,084
接受机场起降服务	政府指导价格	海航基础股份	118,448	98,415
		三亚凤凰机场	93,676	73,775
		海口美兰	46,427	43,252
		甘肃机场	40,905	34,833
			299,456	250,275
提供广告服务	双方协议价格	新生飞翔	6,300	-
		北京商旅文化	-	15,000
			6,300	15,000
接受广告服务	双方协议价格	百睿臣文化	12,284	13,425
支付代理进出口手续费	采购成本按比率 (0.3%~3%)定价	海航进出口	49,035	51,226
支付关联方代售机票手续费	双方协议价格	海航航空销售	245,890	188,038
	双方协议价格	易生控股	5,553	4,338
	双方协议价格	新生信息技术	857	881
			252,300	193,257

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(a) 购销商品、提供和接受劳务(续)

关联交易内容	关联交易定价政策	关联方	2014 年度 金额	2013 年度 金额
代关联方销售机票手续费	双方协议价格	大新华航空	10,303	10,601
		天津航空	3,825	3,122
		首都航空	1,576	2,702
		西部航空	463	514
			16,167	16,939
支付关联方货运代理手续费	双方协议价格	海航货运	-	73,356
新金鹿卡销售收入	双方协议价格	易生控股	19,923	24,827
接受飞机维修及保障服务	双方协议价格	海航技术	1,038,050	835,030
		首都航空	40,985	3,777
			1,079,035	838,807
利息收入	市场价	海航财务公司	101,817	85,343
		海航航空集团	-	61,829
		海航集团	10,802	52,682
			112,619	199,854
货运包舱收入	双方协议价格	海航货运	876,923	-
客运包机收入	双方协议价格	凯撒国旅	217,480	-
		潍坊机场	147,149	-
		唐山机场	47,190	-
		宜昌机场	20,135	-
		甘肃机场	14,160	25,225
			446,114	25,225
里程积分收入	双方协议价格	天津航空	20,888	28,792
		首都航空	7,823	22,296
		香港航空	3,285	-
		西部航空	-	5,557
			31,996	56,645

以上关联交易均为海航与关联方公司的日常经营性关联交易。上述交易已通过海航股东大会审批通过，相应的交易价格按照交易金额及性质经本公司董事会授权审批。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(b) 租赁

(i) 本集团作为出租方：

承租方名称	租赁资产种类	2014 年 确认的租赁收入	2013 年 确认的租赁收入
首都航空	飞机	517,165	537,918
天津航空		310,105	247,872
大新华航空		106,667	111,591
西部航空		79,625	48,902
扬子江快运		12,943	2,597
		<u>1,026,505</u>	<u>948,880</u>

承租方名称	租赁资产种类	2014 年 确认的租赁收入	2013 年 确认的租赁收入
海航酒店集团	房产	131,669	139,169
海航技术		41,099	37,748
海航旅游集团		12,730	12,619
资本集团		9,942	9,556
海航集团		4,606	9,080
		<u>200,046</u>	<u>208,172</u>

(ii) 本集团作为承租方：

出租方名称	租赁资产种类	2014 年 确认的租赁费	2013 年 确认的租赁费
香港航空	飞机	580,324	742,042
香港航空租赁	飞机	124,083	23,432
香港快运	飞机	50,148	26,689
扬子江租赁	飞机发动机	41,669	22,271
海航基础股份	机场航站楼	7,075	5,898
首都航空	飞机	-	14,850
		<u>803,299</u>	<u>835,182</u>

注：上述租赁的租金定价为双方协定价格。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(c) 关联方为本集团提供担保及抵押

担保及抵押方	被担保及抵押方	担保及抵押金额	担保及抵押起始日	担保及抵押到期日	截至 2014 年 12 月 31 日止担保是否已经履行完毕
(i) 短期借款					
大新华航空	海航股份	1,390,000	2014/01/14	2015/06/29	否
海航航空集团	海航股份	100,000	2014/10/31	2015/10/31	否
海航航空集团及大新华航空	海航股份	700,000	2014/03/27	2015/11/13	否
海航集团	海航股份	3,644,990	2014/03/07	2015/12/10	否
海航集团及大新华航空	海航股份	4,035,500	2014/02/08	2015/11/13	否
海航集团及海口美兰	海航股份	1,050,000	2014/05/30	2015/05/30	否
海航集团	新华航空	300,000	2014/10/24	2015/10/23	否
海航集团	长安航空	80,000	2014/11/14	2015/11/13	否
海航航空集团	祥鹏航空	60,000	2014/01/20	2015/03/10	否
海航集团	祥鹏航空	735,273	2014/02/18	2015/04/20	否
海航集团及大新华航空	祥鹏航空	500,000	2014/06/30	2015/06/27	否
海航集团及长江租赁	祥鹏航空	100,000	2014/07/31	2015/07/31	否
大新华航空	海航股份	1,270,000	2014/01/15	2014/12/29	是
海航集团	海航股份	2,487,057	2014/01/09	2014/12/31	是
海航集团及大新华航空	海航股份	4,650,820	2014/01/08	2014/12/15	是
海口美兰	海航股份	900,000	2014/01/09	2014/11/25	是
海航集团	长安航空	80,000	2014/09/15	2014/11/14	是
海航航空集团	祥鹏航空	146,000	2014/01/22	2014/11/19	是
海航集团	祥鹏航空	200,431	2014/01/28	2014/09/23	是
大新华航空	长安航空	100,000	2013/01/16	2014/01/16	是
大新华航空	海航股份	2,150,000	2013/02/22	2014/11/14	是
海航集团	长安航空	80,000	2013/09/18	2014/09/18	是
海航集团	海航股份	3,294,456	2013/05/03	2014/12/18	是
海航集团	新华航空	300,000	2013/05/08	2014/11/20	是
海口美兰	新华航空	40,000	2013/05/15	2014/05/12	是
海航酒店集团	新华航空	70,000	2013/05/08	2014/04/27	是
海口美兰	海航股份	1,000,000	2013/06/18	2014/06/17	是
海航集团及大新华航空	海航股份	7,700,601	2013/03/01	2014/12/15	是
海航集团	祥鹏航空	859,000	2013/01/14	2014/12/26	是
海航航空集团	祥鹏航空	196,000	2013/05/23	2014/05/23	是
长江租赁	祥鹏航空	150,000	2013/07/04	2014/07/03	是

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(c) 关联方为本集团提供担保及抵押

担保及抵押方	被担保及抵押方	担保及抵押金额	担保及抵押起始日	担保及抵押到期日	截至 2014 年 12 月 31 日止担保是否已经履行完毕
(ii)	长期借款				
海航集团及大新华航空	海航股份	328,000	2014/02/11	2017/10/31	否
海航集团	海航股份	1,060,747	2014/03/18	2026/07/17	否
海航航空	祥鹏航空	1,000,000	2014/06/12	2017/07/24	否
海航集团	祥鹏航空	252,000	2014/06/30	2024/11/28	否
长江租赁	祥鹏航空	703,277	2014/05/12	2024/05/12	否
海航集团及海口美兰	山西航空	210,000	2005/12/20	2016/10/17	否
海航集团	长安航空	1,157,178	2007/09/29	2020/08/31	否
海航集团	海航股份	4,789,829	2007/04/11	2025/07/31	否
海航集团及海航机场控股	海航股份	136,501	2002/08/02	2035/08/02	否
大新华航空	海航股份	372,500	2012/05/17	2016/06/16	否
海航集团及海航酒店集团					
及海航航空集团	海航股份	1,291,794	2003/06/30	2018/07/07	否
海航集团及大新华航空	海航股份	533,000	2013/06/18	2016/06/17	否
海航集团	祥鹏航空	80,000	2012/11/29	2024/11/28	否
海航集团及海航航空集团	海航股份	30,000	2004/03/31	2014/03/31	是
海航集团及海航机场控股	海航股份	43,968	2002/08/02	2014/03/27	是
海航集团及海口美兰	山西航空	110,000	2005/06/17	2014/10/17	是
海航集团及海口美兰	长安航空	390,000	2005/09/22	2014/12/21	是
海航集团	长安航空	188,271	2007/09/29	2014/06/30	是
海航集团及海航酒店集团					
及海航航空集团	海航股份	392,799	2003/06/30	2014/12/26	是
大新华航空	海航股份	577,500	2012/05/17	2014/12/29	是

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(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(d) 本集团为关联方提供担保

					截至 2014 年 12 月 31 日止 担保是否已经 履行完毕
担保方	被担保方	担保金额	担保起始日	担保到期日	
(i) 短期借款					
海航股份	大新华航空	1,400,000	2014/09/04	2015/12/18	否
海航股份	海航航空集团	190,000	2014/09/04	2015/05/28	否
海航股份	海航集团	500,000	2014/03/13	2015/03/13	否
海航股份	海口美兰	260,000	2014/11/19	2015/11/19	否
海航股份	首都航空	350,000	2014/10/15	2015/10/14	否
海航股份	物流集团	140,000	2014/04/25	2015/03/25	否
海航股份	扬子江快运	150,000	2014/09/06	2015/05/12	否
海航股份	海航航空集团	200,000	2014/03/05	2014/09/04	是
海航股份	首都航空	150,000	2014/05/19	2014/11/19	是
海航股份	海航集团	147,000	2013/08/13	2014/08/13	是
海航股份	海航酒店控股	100,000	2013/12/06	2014/06/06	是
海航股份	海航航空集团	800,000	2013/03/11	2014/09/10	是
海航股份	首都航空	200,000	2013/04/15	2014/04/15	是
海航股份及 山西航空	大新华航空	<u>300,000</u>	2013/09/25	2014/09/29	是
(ii) 长期借款					
海航股份	大新华航空	1,000,000	2013/09/06	2015/03/06	否
海航股份	海航航空集团	2,188,800	2012/09/18	2017/09/17	否
海航股份	海航集团	734,280	2014/10/23	2014/12/23	是
海航股份	扬子江快运	870,000	2014/07/14	2023/12/19	否
海航股份	长江租赁	262,000	2012/11/02	2015/05/02	否
海航股份	海航旅游集团	<u>300,000</u>	2011/11/10	2014/11/08	是

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(e) 资金拆借

	拆借金额	起始日
拆入 -		
海航航空集团	10,000	28/02/2014
海航航空集团	15,000	03/03/2014
海航航空集团	49,000	25/03/2014
海航航空集团	26,987	25/03/2014
海航航空集团	9,900	28/03/2014
海航航空集团	50,000	02/04/2014
海航航空集团	21,160	11/12/2014
西部航空	10,000	31/01/2014
西部航空	5,000	25/03/2014
海航集团	400,000	10/03/2014
海航集团	400,000	10/03/2014
海航集团	200,000	31/03/2014
海航集团	19,227	11/12/2014
海航酒店集团	1,567	31/01/2014
海航酒店集团	1,375	28/02/2014
海航酒店集团	814	30/03/2014
海航酒店集团	4,015	30/04/2014
海航酒店集团	3,692	28/05/2014

(f) 资产转让

关联方	关联交易内容	关联交易定价原则	2014 年度 金额	2013 年度 金额
长江租赁	融资租赁飞机	评估价值	3,777,639	-
扬子江快运	转让发动机及航材	评估价值	11,781	-
扬子江快运	转让飞机	评估价值	-	122,581
			<u>3,789,420</u>	<u>122,581</u>



海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(g) 增资

关联方	关联交易内容	关联交易定价原则	2014 年度 金额	2013 年度 金额
天津航空(附注四 (9)(a)(i))	增资天津航空	双方协议价格	980,000	1,680,000
海航航空集团	增资山西航空	双方协议价格	500,000	-
西部航空	增资西部航空	双方协议价格	428,009	-
海航航空集团	增资长安航空	双方协议价格	400,000	-
新生飞翔(附注四 (9)(a)(ii))	增资新生飞翔	双方协议价格	86,207	-
前海航交中心	增资前海航交中心	双方协议价格	20,000	-
香港国际租赁	增资香港国际租赁	双方协议价格	-	308,830
香港航空集团	增资香港航空集团	双方协议价格	-	617,660
			<u>2,414,216</u>	<u>2,606,490</u>

(h) 股权受让

关联方	关联交易内容	关联交易定价原则	2014 年度 金额	2013 年度 金额
大新华航空	受让股权-祥鹏航空	双方协议价格	1,702,133	-
大新华航空	受让股权-海南国 旭、海南国善、 海南航鹏	双方协议价格	-	2,984,738
海航集团	受让股权-天津航空	双方协议价格	-	1,093,400
海航集团(国际)	受让股权-香港航空 集团	双方协议价格	-	321,183
			<u>1,702,133</u>	<u>4,399,321</u>

(i) 关键管理人员薪酬

	2014 年度	2013 年度
关键管理人员薪酬	<u>6,162</u>	<u>5,553</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(5) 关联交易(续)

(j) 其他关联交易

关联方	关联交易内容	2014 年度 金额	2013 年度 金额
西部航空	飞行员转让	7,500	8,000
扬子江快运	飞行员转让	4,500	-
天津航空	飞行员转让	3,000	1,000
首都航空	飞行员转让	2,000	2,300
海航技术	代收代付款项*	77,268	-
天津航空	代收代付款项*	40,264	34,209
首都航空	代收代付款项*	35,543	131,153
扬子江快运	代收代付款项*	27,987	34,695
大新华航空	代收代付款项*	11,772	11,600
西部航空	代收代付款项*	8,943	28,202

\*以上为本集团为关联方公司代收代付工资、小时费、民航建设基金、维修及保障服务等费用。

(6) 关联方应收、应付款项余额

科目	关联方	2014 年 12 月 31 日	2013 年 12 月 31 日
货币资金	海航财务公司	4,824,267	4,900,911
应收票据	天津航空	-	25,000
应收利息	海航财务公司	268,510	226,716
	其他	40,385	62,552
		308,895	289,268
应收股利	海口美兰	966	966
	海航基础股份	899	899
		1,865	1,865

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(6) 关联方应收、应付款项余额

科目	关联方	2014 年 12 月 31 日	2013 年 12 月 31 日
应收账款	易生控股	73,266	243,836
	潍坊机场	48,535	-
	甘肃机场	22,330	-
	海航货运	22,027	7,686
	首都航空	-	19,397
	其他	16,927	37,679
		<u>183,085</u>	<u>308,598</u>
其他应收款	首都航空	142,828	71,579
	长江租赁	29,200	25,700
	海航酒店集团	24,448	-
	天津航空	10,544	56,002
	海航旅游集团	5,299	479,402
	海航进出口	-	14,147
	西南总部	-	244,000
	海航基础股份	-	13,809
	其他	39,740	102,053
		<u>252,059</u>	<u>1,006,692</u>
预付账款	其他	<u>12,042</u>	<u>6,666</u>
其他流动资产	海航集团	-	870,000
	海航旅游集团	-	100,000
		<u>-</u>	<u>970,000</u>
其他非流动资产	长江租赁	359,362	359,366
	香港航空	62,131	36,500
	香港航空租赁	31,179	-
	大新华航空	-	800,000
	西部航空	-	966,940
	香港国际租赁	15,085	15,085
		<u>467,757</u>	<u>2,177,891</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(6) 关联方应收、应付款项余额(续)

科目	关联方	2014 年 12 月 31 日	2013 年 12 月 31 日
应付票据	海航进出口	2,192,450	2,050,000
	海航技术	60,000	-
	新华航食	-	80,483
	海南航食	-	16,580
		<u>2,252,450</u>	<u>2,147,063</u>
应付账款	香港航空	92,801	76,010
	海航进出口	47,210	-
	海航技术	22,227	78,642
	三亚凤凰机场	18,493	8,875
	大新华航空	14,542	36,271
	海航信息	13,656	9,429
	西部航空	-	33,879
	新生飞翔	-	11,093
	其他	66,589	84,729
		<u>275,518</u>	<u>338,928</u>
其他应付款	海航航空集团	13,974	248,891
	海航集团	-	155,794
	其他	37,125	324,048
		<u>51,099</u>	<u>728,733</u>
长期应付款	长江租赁	1,833,239	1,135,642
	扬子江租赁	745,248	914,498
		<u>2,578,487</u>	<u>2,050,140</u>

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

八 关联方关系及其交易(续)

(7) 关联方承诺

以下为本集团于资产负债表日，已签约而尚不必在资产负债表上列示的与关联方有关的承诺事项：

	2014 年 12 月 31 日	2013 年 12 月 31 日
经营性租赁租出		
- 首都航空	296,965	314,069
- 天津航空	236,007	228,465
- 西部航空	62,447	64,948
- 大新华航空	54,700	65,231
	<u>650,119</u>	<u>672,713</u>

九 承诺事项

(1) 资本性支出承诺事项

以下为于资产负债表日，已签约而尚不必在资产负债表上列示的资本支出承诺：

	2014 年 12 月 31 日	2013 年 12 月 31 日
购买飞机	51,825,271	64,544,811
长期股权投资	571,991	4,235,060
其他固定资产	672,115	906,762
	<u>53,069,377</u>	<u>69,686,633</u>

(2) 经营租赁承诺事项

根据已签订的不可撤销的经营性租赁合同，本集团未来最低应支付租金汇总如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年以内	2,178,222	3,038,930
一至二年	1,845,491	2,597,083
二至三年	1,686,697	1,399,235
三年以上	7,516,940	5,342,829
	<u>13,227,350</u>	<u>12,378,077</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十 资产负债表日后事项

根据本公司 2015 年 3 月 25 日董事会决议，董事会提议向本公司全体股东按每 10 股派发人民币 0.638 元(含税)的现金股利。按已发行股份 12,182,182 千股计算，拟派发现金股利共计 777,223 千元，上述提议尚待本公司股东大会批准。

十一 租赁

本集团通过融资租赁租入固定资产(附注四(30))，未来应支付租金汇总如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年以内	843,912	719,037
一到二年	712,548	501,358
二到三年	696,651	454,300
三年以上	3,571,864	2,342,417
	<u>5,824,975</u>	<u>4,017,112</u>

于 2014 年 12 月 31 日，未确认的融资费用余额为 1,308,930 千元(2013 年 12 月 31 日：789,725 千元)(附注四(30))。

十二 或有事项

除附注八(5)(d)已经披露本集团为其关联方所提供的担保外，截至本财务报告报出日止，本集团无其他需要披露的或有事项。

十三 金融风险

本集团的经营活动会面临各种金融风险：包括市场风险(主要为外汇风险和利率风险)、信用风险和流动风险。本集团整体的风险管理计划针对金融市场的不可预见性，力求减少对本集团财务业绩的潜在不利影响。

本集团除运营部分境外航线外，主要经营位于中国境内，主要业务以人民币结算。但本集团相当部分的固定资产购入及相关融资均以外币结算，故已确认的外币资产和负债及未来的外币交易(外币资产和负债及外币交易的计价货币主要为美元)依然存在外汇风险。本集团总部财务部门负责监控集团外币交易和外币资产及负债的规模，以最大程度降低面临的外汇风险。

于 2014 年 12 月 31 日及 2013 年 12 月 31 日，本集团持有的外币金融资产和外币金融负债折算成人民币的金额列示如下：

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十三 金融风险(续)

(1) 市场风险

(a) 外汇风险

	2014 年 12 月 31 日		
	美元项目	其他外币项目	合计
外币金融资产 -			
货币资金	2,598,262	251,985	2,850,247
应收账款	4,267	8,162	12,429
其他应收款	589,242	14,211	603,453
其他非流动资产	1,234,304	-	1,234,304
	<u>4,426,075</u>	<u>274,358</u>	<u>4,700,433</u>
外币金融负债 -			
短期借款	1,634,440	-	1,634,440
应付账款	359,712	64,754	424,466
其他应付款	45,853	2,645	48,498
长期借款	22,752,559	439,955	23,192,514
长期应付款	2,724,426	-	2,724,426
	<u>27,516,990</u>	<u>507,354</u>	<u>28,024,344</u>
	2013 年 12 月 31 日		
	美元项目	其他外币项目	合计
外币金融资产 -			
货币资金	206,759	8,069	214,828
应收账款	8,039	14,912	22,951
其他应收款	264,968	33,387	298,355
其他非流动资产	1,347,660	-	1,347,660
	<u>1,827,426</u>	<u>56,368</u>	<u>1,883,794</u>
外币金融负债 -			
短期借款	1,499,837	151,875	1,651,712
应付账款	499,275	284,833	784,108
其他应付款	50,287	-	50,287
长期借款	20,566,977	353,594	20,920,571
长期应付款	2,053,640	-	2,053,640
	<u>24,670,016</u>	<u>790,302</u>	<u>25,460,318</u>

于 2014 年 12 月 31 日，对于本集团各类美元金融资产和美元金融负债，如果人民币对美元升值或贬值 5%，其它因素保持不变，则本集团将增加或减少税前利润约 1,154,546 千元(2013 年 12 月 31 日：约 1,142,130 千元)。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十三 金融风险(续)

(1) 市场风险(续)

(b) 利率风险

本集团的利率风险主要产生于应付债券、长期银行借款及长期应付款等长期带息债务。浮动利率的金融负债使本集团面临现金流量利率风险，固定利率的金融负债使本集团面临公允价值利率风险。本集团根据当时的市场环境来决定固定利率及浮动利率合同的相对比例。于 2014 年 12 月 31 日，本集团带息债务主要包括：

	2014 年 12 月 31 日	2013 年 12 月 31 日
短期借款	18,525,425	21,878,657
应付票据	4,885,910	3,633,547
长期借款	33,423,005	31,748,291
长期应付款	4,516,045	3,227,387
应付债券	15,643,054	9,635,431
	<u>76,993,439</u>	<u>70,123,313</u>
其中：浮动利率债务	42,513,233	42,420,312
固定利率债务	<u>34,480,206</u>	<u>27,703,001</u>
	<u>76,993,439</u>	<u>70,123,313</u>

本集团总部财务部门持续监控集团利率水平。利率上升会增加新增带息债务的成本以及本集团尚未付清的以浮动利率计息的带息债务的利息支出，并对本集团的财务业绩产生重大的不利影响，管理层会依据最新的市场状况及时做出调整，这些调整可能是进行利率互换的安排来降低利率风险。于 2014 年度及 2013 年度本集团并无利率互换安排。

于 2014 年度，如果以浮动利率计算的借款利率上升或下降 50 个基准点，而其他因素保持不变，本集团的税前利润会减少或增加约 212,566 千元(2013 年度：约 212,102 千元)。

(2) 信用风险

本集团对信用风险按组合分类进行管理。信用风险主要产生于银行存款、可供出售金融资产、应收账款、其他应收款和应收票据等。

本集团银行存款主要存放于国有银行和其他大中型上市银行，本集团认为该等存款不存在重大的信用风险，不会产生因对方单位违约而导致的任何重大损失。

本集团购买的理财产品(附注四(7))主要向某一城市商业银行购买，该银行受中国银监会监管且不存在重大信用风险。



## 海南航空股份有限公司

### 2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

## 十三 金融风险(续)

### (2) 信用风险(续)

此外，本集团的部分存款存放于本公司关联方-海航财务公司。为进一步规范本集团与海航财务公司的关联交易，切实保障本集团资金安全，防止本集团资金被关联方占用，本公司于 2010 年 7 月 24 日制定并对外公告《海南航空股份有限公司在海航集团财务有限公司存款资金风险防范制度》。根据本集团公告的《海南航空股份有限公司在海航集团财务有限公司存款资金风险防范制度》，本集团与海航财务公司进行存款、贷款、委托理财、结算等金融业务应当遵循自愿平等原则，保证本集团的财务独立性。本集团不得通过海航财务公司向其他关联方提供委托贷款、委托理财，不得将募集资金存放在海航财务公司。集团董事将认真履行勤勉、忠实义务，审慎进行上市公司在海航财务公司存款的有关决策，防止出现资金被关联方占用的情况。

此外，对于应收账款、其他应收款和应收票据，本集团设定相关政策以控制信用风险敞口。本集团基于对客户的财务状况、从第三方获取担保的可能性、信用记录及其它因素诸如目前市场状况等评估客户的信用资质，设置相应信用期及收取押金。本集团会定期对客户信用记录进行监控，对于信用记录不良的客户，本集团会采用书面催款、缩短信用期或取消信用期等方式，以确保本集团的整体信用风险在可控的范围内。

于 2014 年 12 月 31 日，本集团无重大逾期应收款项(2013 年 12 月 31 日：无)。

### (3) 流动风险

本集团内各子公司负责其自身的现金流量预测。总部财务部门在汇总各子公司现金流量预测的基础上，在集团层面持续监控短期和长期的资金需求，以确保维持充裕的现金储备和可供随时变现的有价证券；同时持续监控是否符合借款协议的规定，从主要金融机构获得提供足够备用资金的承诺，以满足短期和长期的资金需求。

本集团的主要资金需求来源于飞机、发动机及航材的购置或改良及偿还其相关借款或负债。本集团通过营运业务及银行短期及长期借款所得的综合资金来满足营运资金的需求。本集团通常以融资租赁和银行贷款的方式来购买飞机。

于 2014 年 12 月 31 日，本集团的净流动负债约为人民币 97.57 亿元。于本报告年度，本集团经营活动现金净流入约为 60.05 亿元，投资活动及筹资活动的净现金流出约为 58.52 亿元，现金及现金等价物增加约 1.62 亿元。

本公司管理层对现金流量的风险评估参见附注二(1)。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十三 金融风险(续)

(3) 流动风险(续)

于资产负债表日，本集团各项金融负债以未折现的合同现金流量按到期日列示如下：

	2014 年 12 月 31 日				
	一年以内	一到二年	二到五年	五年以上	合计
金融负债 -					
短期借款	19,019,632	-	-	-	19,019,632
应付账款	3,790,588	-	-	-	3,790,588
其他应付款	763,207	-	-	-	763,207
长期借款	7,272,542	5,988,506	12,743,999	14,450,593	40,455,640
长期应付款	843,912	712,548	1,900,266	2,368,249	5,824,975
	<u>31,689,881</u>	<u>6,701,054</u>	<u>14,644,265</u>	<u>16,818,842</u>	<u>69,854,042</u>

	2013 年 12 月 31 日				
	一年以内	一到二年	二到五年	五年以上	合计
金融负债 -					
短期借款	22,571,559	-	-	-	22,571,559
应付账款	5,149,797	-	-	-	5,149,797
其他应付款	1,446,372	-	-	-	1,446,372
长期借款	7,352,985	6,824,809	11,308,230	13,066,154	38,552,178
长期应付款	719,037	501,358	1,168,482	1,628,235	4,017,112
	<u>37,239,750</u>	<u>7,326,167</u>	<u>12,476,712</u>	<u>14,694,389</u>	<u>71,737,018</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十四 公允价值估计

公允价值计量结果所属的层次，由对公允价值计量整体而言具有重要意义的输入值所属的最低层次决定：

第一层级：相同资产或负债在活跃市场上未经调整的报价。

第二层级：除第一层次输入值外相关资产或负债直接或间接可观察的输入值。

第三层级：以可观察到的市场数据以外的变量为基础确定的资产或负债的输入值(不可观察输入值)。

(1) 持续的以公允价值计量的资产

于 2014 年 12 月 31 日，持续的以公允价值计量的资产按上述三个层次列示如下：

	第一层级	第二层级	第三层级	合计
金融资产 -				
可供出售金融资产	-	1,466,151	2,806,636	4,272,787
非金融资产 -				
投资性房地产	-	-	9,268,104	9,268,104
	-	1,466,151	12,074,740	13,540,891

于 2013 年 12 月 31 日，以公允价值计量的金融资产按上述三个层级列示如下：

	第一层级	第二层级	第三层级	合计
金融资产 -				
可供出售金融资产	-	902,666	3,383,203	4,285,869
非金融资产 -				
投资性房地产	-	-	10,742,182	10,742,182
	-	902,666	14,125,385	15,028,051

本集团以导致各层次之间转换的事项发生日为确认各层次之间转换的时点。本年度无第一层次与第二层次间的转换。

存在活跃市场的金融工具，以活跃市场中的报价确定其公允价值。不存在活跃市场的金融工具，采用估值技术确定其公允价值。估值技术包括参考熟悉情况并自愿交易的各方最近进行的市场交易中使用的价格、参照实质上相同的其他金融资产的当前公允价值、现金流量折现法等。相关估值假设包括提前还款率、预计信用损失率、利率或折现率。

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十四 公允价值估计(续)

(1) 持续的以公允价值计量的资产(续)

对于投资性房地产，本集团委托外部评估师对其公允价值进行评估。所采用的方法主要包括租金收益模型和可比市场法等。所使用的输入值主要包括租金增长率、资本化率和单位价格等。

(2) 不以公允价值计量但披露其公允价值的资产和负债

不以公允价值计量的金融资产和负债主要包括：应收款项、短期借款、应付款项、长期借款和长期应付款。

除下述金融资产和负债以外，其他不以公允价值计量的金融资产和负债的账面价值与公允价值相差很小。

	2014 年 12 月 31 日		2013 年 12 月 31 日	
	账面价值	公允价值	账面价值	公允价值
金融负债 -				
长期借款	33,423,005	33,721,114	31,748,291	31,844,110
长期应付款	4,516,045	4,578,864	3,227,387	3,380,521
	<u>37,939,050</u>	<u>38,299,978</u>	<u>34,975,678</u>	<u>35,224,631</u>

长期借款及长期应付款，以合同规定的未来现金流量按照市场上具有可比信用等级并在相同条件下提供几乎相同现金流量的利率进行折现后的现值确定其公允价值。

十五 资本管理

本集团资本管理政策的目标是为了保障本集团能够持续经营，从而为股东提供回报，并使其他利益相关者获益，同时维持最佳的资本结构以降低资本成本。

为了维持或调整资本结构，本集团可能会调整支付给股东的股利金额、向股东返还资本、发行新股或出售资产以减低债务。

本集团的总资本为合并资产负债表中所列示的股东权益。本集团不受制于外部强制性资本要求，利用资产负债率监控资本。

于 2014 年 12 月 31 日及 2013 年 12 月 31 日，本集团的资产负债率列示如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
资产负债率	74%	75%

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十六 公司财务报表主要项目附注

(1) 应收账款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应收账款	736,416	124,362
减：坏账准备	(9,310)	(9,310)
	<u>727,106</u>	<u>115,052</u>

(a) 应收账款账龄分析如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年以内	727,106	115,052
六年以上	9,310	9,310
	<u>736,416</u>	<u>124,362</u>

(b) 应收账款按类别分析如下：

	2014 年 12 月 31 日				2013 年 12 月 31 日			
	账面余额		坏账准备		账面余额		坏账准备	
	金额	占总额 比例	金额	计提 比例	金额	占总额 比例	金额	计提 比例
按组合计提坏账准备								
- 采用账龄分析法组合	1,126	0%	(1,126)	100%	5,383	4%	(1,126)	21%
- 应收关联方组合	727,106	99%	-	-	110,795	89%	-	-
单项金额虽不重大但单独 计提坏账准备	8,184	1%	(8,184)	100%	8,184	7%	(8,184)	100%
	<u>736,416</u>	<u>100%</u>	<u>(9,310)</u>	<u>1%</u>	<u>124,362</u>	<u>100%</u>	<u>(9,310)</u>	<u>7%</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十六 公司财务报表主要项目附注(续)

(1) 应收账款(续)

(c) 按组合计提坏账准备的应收账款中，采用账龄分析法的组合分析如下：

	2014 年 12 月 31 日			2013 年 12 月 31 日		
	账面余额	坏账准备		账面余额	坏账准备	
		金额	计提比例		金额	计提比例
一年以内	-	-	-	4,257	-	-
一到二年	-	-	-	-	-	-
二到三年	-	-	-	-	-	-
三到四年	-	-	-	-	-	-
四到五年	-	-	-	-	-	-
五年以上	1,126	(1,126)	100%	1,126	(1,126)	100%
	<u>1,126</u>	<u>(1,126)</u>	<u>100%</u>	<u>5,383</u>	<u>(1,126)</u>	<u>100%</u>

(d) 于 2014 年 12 月 31 日，按欠款方归集的余额前五名的应收账款汇总分析如下：

	余额	坏账准备金额	占应收账款余额总额比例
余额前五名的应收账款总额	<u>663,329</u>	<u>-</u>	<u>90%</u>

(2) 其他应收款

	2014 年 12 月 31 日	2013 年 12 月 31 日
应收投资款(附注四(3))	545,000	-
应收飞机租赁保证金及维修储备金	352,471	118,800
应收关联方款项	251,683	567,934
应收航材处置款	59,453	-
其他	152,725	86,656
	<u>1,361,332</u>	<u>773,390</u>
减：坏账准备	<u>(6,729)</u>	<u>(13,729)</u>
	<u>1,354,603</u>	<u>759,661</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十六 公司财务报表主要项目附注(续)

(2) 其他应收款(续)

(a) 其他应收款账龄分析如下：

	2014 年 12 月 31 日	2013 年 12 月 31 日
一年以内	1,337,746	681,239
一到二年	11,809	70,359
二到三年	5,101	8,962
三到四年	2,771	4,971
四到五年	400	129
五到六年	110	116
六年以上	3,395	7,614
	<u>1,361,332</u>	<u>773,390</u>

(b) 其他应收款按类别分析如下：

	2014 年 12 月 31 日				2013 年 12 月 31 日			
	账面余额		坏账准备		账面余额		坏账准备	
	占总额 金额	比例	计提 金额	比例	占总额 金额	比例	计提 金额	比例
按组合计提坏账准备								
- 采用账龄分析法组合	757,178	56%	(6,729)	1%	79,656	10%	(6,729)	8%
- 租赁保证金和维修储备金	352,471	26%	-	-	118,800	16%	-	-
- 关联方组合	251,683	18%	-	-	567,934	73%	-	-
单项金额虽不重大但单独计提								
坏账准备	-	-	-	-	7,000	1%	(7,000)	100%
	<u>1,361,332</u>	<u>100%</u>	<u>(6,729)</u>	<u>1%</u>	<u>773,390</u>	<u>100%</u>	<u>(13,729)</u>	<u>2%</u>

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十六 公司财务报表主要项目附注(续)

(2) 其他应收款(续)

(c) 按组合计提坏账准备的其他应收款中，采用账龄分析法的组合分析如下：

	2014 年 12 月 31 日			2013 年 12 月 31 日		
	账面余额	坏账准备		账面余额	坏账准备	
		金额	计提比例		金额	计提比例
一年以内	732,764	-	-	31,899	-	-
一到二年	5,074	(256)	5%	35,980	(1,804)	5%
二到三年	10,563	(1,058)	10%	4,791	(481)	10%
三到四年	3,407	(1,024)	30%	3,520	(1,059)	30%
四到五年	1,920	(960)	50%	97	(48)	49%
五年以上	3,450	(3,431)	99%	3,369	(3,337)	99%
	<u>757,178</u>	<u>(6,729)</u>	<u>1%</u>	<u>79,656</u>	<u>(6,729)</u>	<u>8%</u>

(d) 于 2014 年 12 月 31 日，按欠款方归集的余额前五名的其他应收款分析如下：

	性质	余额	账龄	占其他应收款余额 总额比例	坏账准备
甲公司	第三方	545,000	一年以内	40%	-
乙公司	第三方	200,000	一年以内	15%	-
首都航空	关联方	142,828	一年以内	10%	-
丙公司	第三方	69,545	一年以内	5%	-
丁公司	第三方	59,453	一年以内	5%	-
		<u>1,016,826</u>		<u>75%</u>	<u>-</u>

(3) 长期股权投资

	2014 年 12 月 31 日	2013 年 12 月 31 日
子公司(a)	12,975,745	10,498,106
联营企业(b)	<u>5,893,213</u>	<u>5,128,635</u>
减：长期股权投资减值准备	-	-
	<u>18,868,958</u>	<u>15,626,741</u>

本公司不存在长期投资变现的重大限制。



海南航空股份有限公司

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十六 公司财务报表主要项目附注(续)

(3) 长期股权投资(续)

(a) 子公司

	本年增减变动					2014 年 12 月 31 日	本年宣告分派 的现金股利
	2013 年 12 月 31 日	追加投资	减少投资	计提减值准备	其他		
新华航空	3,746,107	-	-	-	-	3,746,107	-
长安航空	1,799,408	-	-	-	-	1,799,408	-
北京科航	1,728,341	-	-	-	-	1,728,341	-
山西航空	408,467	-	-	-	-	408,467	-
海航香港	58,417	-	-	-	-	58,417	-
金鹿销售	7,600	-	-	-	-	7,600	-
海南福顺	1,094,161	-	-	-	-	1,094,161	-
布鲁塞尔 EDIP	62,996	-	-	-	-	62,996	-
布鲁塞尔 DATA	61,764	-	-	-	-	61,764	-
布鲁塞尔 SODE	543,135	-	-	-	-	543,135	-
乌鲁木齐航空	-	631,238	-	-	-	631,238	-
福州航空	-	360,000	-	-	-	360,000	-
祥鹏航空	987,710	1,486,401	-	-	-	2,474,111	-
	10,498,106	2,477,639	-	-	-	12,975,745	-

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十六 公司财务报表主要项目附注(续)

(3) 长期股权投资(续)

(b) 联营企业

	2013 年 12 月 31 日	本年增减变动						2014 年 12 月 31 日	减值准备
		追加投资	减少投资	按权益法调整的净损益	其他综合收益调整	其他权益变动	宣告发放股利或利润		
天津航空	3,574,211	980,000	-	98,826	-	-	-	-	-
海航技术	1,089,931	-	-	56,314	-	-	-	-	-
湖南金鹿	450,000	-	(450,000)	-	-	-	-	-	-
海航进出口	14,493	-	-	5,113	-	-	(11,882)	-	-
新生飞翔	-	86,207	-	-	-	-	-	-	-
	5,128,635	1,066,207	(450,000)	160,253	-	-	(11,882)	-	-
								5,893,213	-

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2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十六 公司财务报表主要项目附注(续)

(4) 营业收入和营业成本

	2014 年度	2013 年度
主营业务收入(a)	19,939,872	19,797,883
其他业务收入(b)	5,157,875	2,389,571
	<u>25,097,747</u>	<u>22,187,454</u>
主营业务成本(a)	(16,036,715)	(16,166,512)
其他业务成本(b)	(2,901,680)	(1,142,491)
	<u>(18,938,395)</u>	<u>(17,309,003)</u>

(a) 主营业务收入和主营业务成本

	2014 年度		2013 年度	
	主营业务收入	主营业务成本	主营业务收入	主营业务成本
航空客运收入	19,177,423	(15,475,717)	18,934,162	(15,575,152)
航空货运及逾重行李收入	695,185	(560,998)	718,896	(591,360)
其他	67,264	-	144,825	-
	<u>19,939,872</u>	<u>(16,036,715)</u>	<u>19,797,883</u>	<u>(16,166,512)</u>

(b) 其他业务收入和其他业务成本

	2014 年度		2013 年度	
	其他业务收入	其他业务成本	其他业务收入	其他业务成本
飞机租赁业务	3,040,303	(1,604,067)	1,841,532	(1,007,850)
处置投资性房地产	1,512,219	(1,239,914)	-	-
退票手续费	292,828	-	217,798	-
房屋租金	75,226	-	68,310	-
代理手续费	30,753	-	33,685	-
机上广告	12,685	-	15,000	-
其他	193,861	(57,699)	213,246	(134,641)
	<u>5,157,875</u>	<u>(2,901,680)</u>	<u>2,389,571</u>	<u>(1,142,491)</u>

飞机租赁业务成本中未包括该等出租的本公司以自购和融资租赁引入的飞机于本年度所发生的借款利息计 172,988 千元(2013 年: 141,455 千元)，此部分利息包含在财务费用中。

海南航空股份有限公司

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(除特别注明外，金额单位为人民币千元)

十六 公司财务报表主要项目附注(续)

(5) 投资收益

	2014 年度	2013 年度
权益法核算的长期股权投资收益	160,253	178,123
处置可供出售金融资产产生的投资收益	135,000	-
理财产品投资收益	45,822	52,438
成本法核算的长期股权投资收益	11,347	4,409
可供出售金融资产分红收益	8,824	4,865
	<u>361,246</u>	<u>239,835</u>

十七 本财务报表附注提及之部分公司全称及简称明细如下：

公司全称(按公司简称拼音字母排序)	公司简称
安徽肥西农村商业银行股份有限公司	安徽肥西行
百睿臣文化传媒(北京)有限公司	百睿臣文化
北京凯撒国际旅行社有限责任公司	凯撒国旅
北京科航投资有限公司	北京科航
北京商旅文化传播有限公司	北京商旅文化
北京首都航空有限公司	首都航空
北京新华空港航空食品有限公司	新华航食
渤海国际信托有限公司	渤海信托
布鲁塞尔爱迪普爱斯酒店	布鲁塞尔 EDIP
布鲁塞尔黛塔酒店	布鲁塞尔 DATA
布鲁塞尔苏德酒店	布鲁塞尔 SODE
大新华航空有限公司	大新华航空
福州航空有限责任公司	福州航空
甘肃海航汉莎航空食品有限公司	甘肃航食
甘肃机场集团有限公司	甘肃机场
国开精诚(北京)投资基金有限公司	国开精诚投资基金
海航航空集团有限公司	海航航空集团
海航航空技术(云南)有限责任公司	云南海技
海航航空技术有限公司	海航技术
海航货运有限公司	海航货运
海航机场控股(集团)有限公司	海航机场控股
海航基础股份有限公司	海航基础股份
海航集团(国际)有限公司	海航集团(国际)
海航集团财务有限公司	海航财务公司
海航集团西南总部	西南总部

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十七 本财务报表附注提及之部分公司全称及简称明细如下(续):

公司全称	公司简称
海航集团有限公司	海航集团
海航酒店(集团)有限公司	海航酒店集团
海航酒店控股集团有限公司	海航酒店控股
海航旅游集团有限公司	海航旅游集团
海航易生控股有限公司	易生控股
海口美兰国际机场有限责任公司	海口美兰
海南福顺投资开发有限公司	海南福顺
海南国善实业有限公司	海南国善
海南国旭实业有限公司	海南国旭
海南海航航空进出口有限公司	海航进出口
海南海航航空销售有限公司	海航航空销售
海南海航航空信息系统有限公司	海航信息
海南海航饮品有限公司	海航饮品
海南航空(香港)有限公司	海航香港
海南航空食品有限公司	海南航食
海南航鹏实业有限公司	海南航鹏
海南金鹿航空销售有限公司	金鹿销售
海南琪兴实业投资有限公司	海南琪兴
海南省发展控股有限公司	海南发展控股
海南新生飞翔文化传媒股份有限公司	新生飞翔
海南新生信息技术有限公司	新生信息技术
湖南金鹿投资管理有限公司	湖南金鹿
三亚凤凰国际机场有限责任公司	三亚凤凰机场
三亚汉莎航空食品有限公司	三亚航食
山西航空有限责任公司	山西航空
上海农村商业银行股份有限公司	上海农商行
深圳前海航空航运交易中心有限公司	前海航交中心
唐山三女河机场管理有限公司	唐山机场
天津航空有限责任公司	天津航空
天津燕山航空租赁产业股权投资基金合伙企业	燕山基金
潍坊南苑机场有限责任公司	潍坊机场
乌鲁木齐航空有限责任公司	乌鲁木齐航空
西安浐灞融资担保有限公司	西安浐灞
西部航空有限责任公司	西部航空
香港国际航空租赁有限公司	香港国际租赁
香港航空集团控股有限公司	香港航空集团
香港航空有限公司	香港航空

海南航空股份有限公司

2014 年度财务报表附注

(除特别注明外，金额单位为人民币千元)

十七 本财务报表附注提及之部分公司全称及简称明细如下(续):

公司全称	公司简称
香港航空租赁有限公司	香港航空租赁
香港快运航空有限公司	香港快运
新疆海航汉莎航空食品有限公司	新疆航食
扬子江国际租赁有限公司	扬子江租赁
扬子江快运航空有限公司	扬子江快运
宜昌三峡机场有限责任公司	宜昌机场
云南祥鹏航空有限责任公司	祥鹏航空
长安航空有限责任公司	长安航空
长江租赁有限责任公司	长江租赁
招商证券股份有限公司	招商证券
中国民航信息网络股份有限公司	民航信息网络
中国新华航空集团有限公司	新华航空

海南航空股份有限公司

2014 年度补充资料

(除特别注明外，金额单位为人民币千元)

一 非经常性损益明细表

	2014 年度	2013 年度
补贴收入	504,193	362,284
转让资产产生的净收益	156,536	20,779
处置可供出售金融资产产生的投资收益	135,000	10,450
理财产品投资收益	99,871	108,703
同一控制下企业合并产生的子公司期初至合并日的当期净损益	29,968	-
可供出售金融资产取得的投资收益	24,353	12,609
委托贷款利息收入	10,802	124,823
固定资产减值损失	-	(55,145)
采用公允价值模式进行后续计量的投资性房地产公允价值变动产生的损益	(249,168)	(64,363)
除上述各项之外的其他营业外收入和支出	53,246	88,911
	<u>764,801</u>	<u>609,051</u>
所得税影响	(191,200)	(152,263)
少数股东权益影响(税后)	<u>(11,004)</u>	<u>(19,575)</u>
	<u>562,597</u>	<u>437,213</u>

非经常性损益明细表编制基础

根据中国证券监督管理委员会《公开发行证券的公司信息披露解释性公告第 1 号——非经常性损益【2008】》的规定，非经常性损益是指与公司正常经营业务无直接关系，以及虽与正常经营业务相关，但由于其性质特殊和偶发性，影响报表使用者对公司经营业绩和盈利能力作出正确判断的各项交易和事项产生的损益。

二 净资产收益率及每股收益

	加权平均净资产收益率(%)		基本每股收益及稀释每股收益	
	2014 年度	2013 年度	2014 年度	2013 年度
归属于公司普通股股东的净利润	9%	8%	0.213	0.177
扣除非经常性损益后归属于公司普通股股东的净利润	<u>7%</u>	<u>7%</u>	<u>0.167</u>	<u>0.141</u>



普華永道

## 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 of 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](http://www.pwccn.com)





普华永道

PwC ZT Shen Zi (2014) No. 10075  
(Page 2 of 2)

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 OF 31 DECEMBER 2013**  
**(All amounts in RMB Thousand Yuan unless otherwise stated)**

	<u>Notes</u>	<b>31 December 2013 Consolidated RMB'000</b>	<b>31 December 2012 Consolidated RMB'000</b>	<b>31 December 2013 Company RMB'000</b>	<b>31 December 2012 Company RMB'000</b>
<b>ASSETS</b>					
<b>Current assets</b>					
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
<b>Total current assets . . . . .</b>		<b>24,445,084</b>	<b>25,686,825</b>	<b>18,748,031</b>	<b>20,349,724</b>
<b>Non-current assets</b>					
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
<b>Total non-current assets . . . .</b>		<b>78,836,827</b>	<b>67,032,319</b>	<b>68,888,628</b>	<b>57,278,372</b>
<b>TOTAL ASSETS . . . . .</b>		<b>103,281,911</b>	<b>92,719,144</b>	<b>87,636,659</b>	<b>77,628,096</b>

	Notes	31 December 2013 Consolidated RMB'000	31 December 2012 Consolidated RMB'000	31 December 2013 Company RMB'000	31 December 2012 Company RMB'000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
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
<b>Total current liabilities .....</b>		<b>39,791,969</b>	<b>35,327,985</b>	<b>34,164,319</b>	<b>28,943,839</b>
<b>Non-current liabilities</b>					
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
<b>Total non-current liabilities .....</b>		<b>37,966,108</b>	<b>33,481,930</b>	<b>30,124,493</b>	<b>26,221,544</b>
<b>Total liabilities .....</b>		<b>77,758,077</b>	<b>68,809,915</b>	<b>64,288,812</b>	<b>55,165,383</b>
<b>Shareholders' equity</b>					
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
<b>Total equity attributable to equity shareholders of the Company ...</b>		<b>25,409,098</b>	<b>23,797,573</b>	<b>23,347,847</b>	<b>22,462,713</b>
<b>Minority interests .....</b>	5(36)	<b>114,736</b>	<b>111,656</b>	<b>—</b>	<b>—</b>
<b>Total shareholders' equity .....</b>		<b>25,523,834</b>	<b>23,909,229</b>	<b>23,347,847</b>	<b>22,462,713</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY ..</b>		<b>103,281,911</b>	<b>92,719,144</b>	<b>87,636,659</b>	<b>77,628,096</b>

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
<b>Revenue</b> .....	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
<b>Operating profit</b> .....		<b>2,265,217</b>	<b>1,991,902</b>	<b>1,434,377</b>	<b>762,980</b>
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)
<b>Total profit</b> .....		<b>2,672,655</b>	<b>2,653,714</b>	<b>1,823,117</b>	<b>1,374,198</b>
Less: Income tax expenses .....	5(46)	(564,523)	(708,768)	(415,092)	(480,239)
<b>Net profit</b> .....		<b>2,108,132</b>	<b>1,944,946</b>	<b>1,408,025</b>	<b>893,959</b>
– Attributable to equity shareholders of the Company .....		2,105,052	1,927,787	1,408,025	893,959
– Minority interests .....		3,080	17,159	–	–
<b>Earnings per share (EPS)</b>					
Basic earnings per share (RMB Yuan) .....	5(47)	0.173	0.177		
Diluted earnings per share (RMB Yuan) .....	5(47)	0.173	0.177		
<b>Other comprehensive income</b> .....	<b>5(48)</b>	<b>54,729</b>	<b>101,501</b>	<b>54,729</b>	<b>101,501</b>
<b>Total comprehensive income</b> .....		<b>2,162,861</b>	<b>2,046,447</b>	<b>1,462,754</b>	<b>995,460</b>
– 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
<b>1. Cash flows from operating activities</b>					
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
<b>Sub-total of cash inflows</b> .....		<u>35,319,174</u>	<u>33,240,148</u>	<u>25,329,930</u>	<u>23,170,191</u>
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)
<b>Sub-total of cash outflows</b> .....		<u>(27,484,011)</u>	<u>(23,044,237)</u>	<u>(16,283,377)</u>	<u>(18,718,768)</u>
<b>Net cash flows from operating activities</b> .....	5(50)(a)	<u><b>7,835,163</b></u>	<u><b>10,195,911</b></u>	<u><b>9,046,553</b></u>	<u><b>4,451,423</b></u>
<b>2. Cash flows from investing activities</b>					
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
<b>Sub-total of cash inflows</b> .....		<u>5,853,561</u>	<u>7,409,798</u>	<u>2,633,512</u>	<u>5,498,944</u>
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)	—
<b>Sub-total of cash outflows</b> .....		<u>(19,530,990)</u>	<u>(15,288,211)</u>	<u>(15,052,816)</u>	<u>(9,591,168)</u>
<b>Net cash flows from investing activities</b> .....		<u><b>(13,677,429)</b></u>	<u><b>(7,878,413)</b></u>	<u><b>(12,419,304)</b></u>	<u><b>(4,092,224)</b></u>
<b>3. Cash flows from financing activities</b>					
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 notes .....		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
<b>Sub-total of cash inflows</b> .....		<u>45,291,354</u>	<u>36,899,794</u>	<u>34,196,962</u>	<u>31,805,294</u>
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)
<b>Sub-total of cash outflows</b> .....		<u>(41,380,991)</u>	<u>(35,181,146)</u>	<u>(31,752,424)</u>	<u>(26,973,392)</u>
<b>Net cash flows from financing activities</b> .....		<u><b>3,910,363</b></u>	<u><b>1,718,648</b></u>	<u><b>2,444,538</b></u>	<u><b>4,831,902</b></u>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b> .....		<u><b>(6,396)</b></u>	<u><b>(475)</b></u>	<u><b>(6,265)</b></u>	<u><b>(444)</b></u>
<b>5. Net (decrease)/increase in cash and cash equivalents</b> .....	5(50)(a)	<u><b>(1,938,299)</b></u>	<u><b>4,035,671</b></u>	<u><b>(934,478)</b></u>	<u><b>5,190,657</b></u>
Add: Cash and cash equivalents at beginning of year .....	5(50)(a)	<u><b>18,633,988</b></u>	<u><b>14,598,317</b></u>	<u><b>16,106,533</b></u>	<u><b>10,915,876</b></u>
<b>6. Cash and cash equivalent at end of year</b> .....	5(50)(b)	<u><b>16,695,689</b></u>	<u><b>18,633,988</b></u>	<u><b>15,172,055</b></u>	<u><b>16,106,533</b></u>

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)**

		<b>Attributable to equity shareholders of the Company</b>					<b>Total</b>
<b>Items</b>	<b>Notes</b>	<b>Share capital</b>	<b>Capital surplus</b>	<b>Surplus reserves</b>	<b>Undistributed profits</b>	<b>Minority interests</b>	<b>shareholders' equity</b>
		<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Balance at 31 December 2011</b>		4,125,491	5,817,180	568,001	3,966,000	94,497	14,571,169
<b>Movements for the year ended 31 December 2012</b>							
– 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)
<b>Balance at 31 December 2012</b>		6,091,091	11,739,753	657,397	5,309,332	111,656	23,909,229
<b>Movements for the year ended 31 December 2013</b>							
– 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)
<b>Balance at 31 December 2013</b>		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  
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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 RMB'000	Capital surplus RMB'000	Surplus reserves RMB'000	Undistributed profits RMB'000	Total shareholders' equity RMB'000
<b>Balance at 31 December 2011</b> .....		<u>4,125,491</u>	<u>6,097,975</u>	<u>568,001</u>	<u>3,383,853</u>	<u>14,175,320</u>
<b>Movements for the year ended 31 December 2012</b>						
– 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)
<b>Balance at 31 December 2012</b> .....		<u>6,091,091</u>	<u>12,020,868</u>	<u>657,397</u>	<u>3,693,357</u>	<u>22,462,713</u>
<b>Movements for the year ended 31 December 2013</b>						
– 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)
<b>Balance at 31 December 2013</b> .....		<u>12,182,182</u>	<u>5,984,506</u>	<u>798,200</u>	<u>4,382,959</u>	<u>23,347,847</u>

*The accompanying notes form an integral part of these financial statements.*

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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 U.S. 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 of 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 of 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 of 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 of 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 its 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 its 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:

	<b><u>Provision % of accounts receivable</u></b>	<b><u>Provision % of other receivables</u></b>
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 of 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 policies 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 notes 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:

	<b><u>Estimated useful lives</u></b>	<b><u>Estimated residual value</u></b>	<b><u>Annual depreciation rate</u></b>
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徵營業稅的通知》(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 Policies 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 [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”).

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 of 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 of 31 December 2013	Balances of other items forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests as of 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 of 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 of 31 December 2013	Balances of other items in substance forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests RMB'000	Amount offsetting minority interests (profit & loss) included in minority interests (balance sheet)
	<b>RMB'000</b>						
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	-	-
	<b>8,703,631</b>	<b>-</b>				<b>108,754</b>	<b>-</b>

(2) Entities newly included in consolidation scope during the current year

	Acquisition Date	Net assets as of 31 December 2013	Net loss in 2013
		<b>RMB'000</b>	<b>RMB'000</b>
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 (‘000)	Exchange rate	Amount in RMB RMB’000	Original currency (‘000)	Exchange rate	Amount in RMB 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 <sup>(a)</sup>						
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 <sup>(b)</sup>						
RMB .....			3,969,139			3,678,415
Total .....			20,664,828			22,312,403

(a) As of 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 of 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**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Accounts receivable .....	607,006	570,454
Less: Provisions for bad debts .....	(28,803)	(28,803)
	<u>578,203</u>	<u>541,651</u>

(a) The aging of accounts receivable is analysed below:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>607,006</u>	<u>570,454</u>

(b) Accounts receivable are analysed by categories as follows:

	<b>31 December 2013</b>				<b>31 December 2012</b>			
	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>
	<b>RMB'000</b>	<b>balance</b>	<b>RMB'000</b>	<b>provision for bad debts</b>	<b>RMB'000</b>	<b>balance</b>	<b>RMB'000</b>	<b>provision for bad debts</b>
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%
	<u>607,006</u>	<u>100%</u>	<u>(28,803)</u>	<u>5%</u>	<u>570,454</u>	<u>100%</u>	<u>(28,803)</u>	<u>5%</u>

(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%
	<u>550,355</u>	<u>100%</u>	<u>(1,506)</u>	<u>0.3%</u>	<u>477,160</u>	<u>100%</u>	<u>(1,506)</u>	<u>0.3%</u>

(e) As of 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%
	<u>27,297</u>	<u>(27,297)</u>	<u>100%</u>

As of 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 of 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 of 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%
		<u>258,198</u>		<u>43%</u>

(i) Accounts receivable from related parties are analysed below:

	Relationship with the Group	31 December 2013			31 December 2012		
		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%	–
		<u>29,354</u>	<u>5%</u>	<u>–</u>	<u>65,997</u>	<u>11%</u>	<u>–</u>

(j) Accounts receivable include the following balances demonstrated in foreign currency:

Foreign currency	31 December 2013			31 December 2012		
	Original currency ('000)	Exchange rate	RMB equivalent RMB'000	Original currency ('000)	Exchange rate	RMB equivalent RMB'000
USD . . . . .	1,319	6.0969	8,039	4,535	6.2855	28,506
Others . . . . .			14,912			10,450
			<u>22,951</u>			<u>38,956</u>

**(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
	<u>523,779</u>	<u>258,825</u>
Less: Provision for bad debts . . . . .	(55,319)	(55,264)
	<u>468,460</u>	<u>203,561</u>

(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
	<u>523,779</u>	<u>258,825</u>

(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%
	<u>523,779</u>	<u>100%</u>	<u>(55,319)</u>	<u>11%</u>	<u>258,825</u>	<u>100%</u>	<u>(55,264)</u>	<u>21%</u>

(c) As of 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 . . . . .	<u>11,799</u>	<u>(11,799)</u>	100%

As of 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%
	<u>33,774</u>	<u>100%</u>	<u>(14,382)</u>	<u>43%</u>	<u>79,278</u>	<u>100%</u>	<u>(14,382)</u>	<u>18%</u>

(e) As of 31 December 2013, debtors that were not individually significant but with specific provision for bad debts are analysed below:

	<b>Book balance</b>	<b>Provision for</b>	<b>% of provision</b>
	<b>RMB'000</b>	<b>bad debts</b>	<b>for bad debts</b>
		<b>RMB'000</b>	
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%
	<u>29,138</u>	<u>(29,138)</u>	

As of 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 of 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 of 31 December 2013, the top 5 largest other receivables are analysed below:

	<b>Relationship with the Group</b>	<b>Amount</b>	<b>Aging</b>	<b>% of total</b>
		<b>RMB'000</b>		<b>balance</b>
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%
		<u>378,190</u>		<u>73%</u>

(i) Other receivables due from related parties are analysed below:

		<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Relationship with the Group</b>	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>
		<b>RMB'000</b>	<b>balance</b>	<b>RMB'000</b>	<b>balance</b>
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%
		<u>213,974</u>	<u>41%</u>	<u>19,503</u>	<u>8%</u>

As of 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 (‘000)	Exchange rate	RMB equivalent RMB’000	Original currency (‘000)	Exchange rate	RMB equivalent RMB’000
USD .....	36,037	6.0969	219,714	14,758	6.2855	92,762
Others .....			33,387			2,207
			<u>253,101</u>			<u>94,969</u>

**(4) Interest receivable**

	31 December 2013 RMB’000	31 December 2012 RMB’000
HNA Finance (Note 7(6)) .....	226,716	169,806
Others .....	118,825	60,482
	<u>345,541</u>	<u>230,288</u>

**(5) Advances to suppliers**

(a) The aging of the advances to suppliers is analysed as follows:

Aging	31 December 2013		31 December 2012	
	Amount RMB’000	% total balance	Amount RMB’000	% total balance
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%
	<u>349,799</u>	<u>100%</u>	<u>326,543</u>	<u>100%</u>

As of 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 of 31 December 2013, the top 5 largest advances to suppliers with are analysed below:

	Relationship with the Group	Amount RMB’000	% to the total balance	Time of payment	Reasons for unsettlement
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
		<u>180,816</u>	<u>52%</u>		

(c) As of 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:

Foreign currency	31 December 2013			31 December 2012		
	Original currency (‘000)	Exchange rate	RMB equivalent RMB’000	Original currency (‘000)	Exchange rate	RMB equivalent 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
			<u>59,990</u>			<u>261,909</u>

**(6) Inventories**

	31 December 2013			31 December 2012		
	Gross amount RMB’000	Provision for declines in value of inventories RMB’000	Net book value RMB’000	Gross amount RMB’000	Provision for declines in value of inventories RMB’000	Net book value RMB’000
Cabin supplies .....	33,174	–	33,174	42,415	–	42,415
Others .....	28,513	–	28,513	28,099	–	28,099
	<u>61,687</u>	<u>–</u>	<u>61,687</u>	<u>70,514</u>	<u>–</u>	<u>70,514</u>

**(7) Other current assets**

	31 December 2013	31 December 2012
	RMB’000	RMB’000
Available-for-sale financial assets with maturity within 1 year <sup>(a)</sup> . . . .	1,650,000	2,000,000
VAT input tax to be deduct .....	294,836	–
	<u>1,944,836</u>	<u>2,000,000</u>

(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, note repurchase, government loans, financial note, central bank bill, SCP, short-term commercial paper, corporate note, MTN, ABS and financial instrument with fixed income and low risk. As of 31 December 2013, the short-term financial products as of 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**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Available-for-sale equity instrument .....	520,524	447,550
Others .....	2,260,000	2,700,000
	<u>2,780,524</u>	<u>3,147,550</u>
Less: provision for impairment .....	(86,104)	(86,104)
	<u>2,694,420</u>	<u>3,061,446</u>
Less: available-for-sale financial assets included in other current assets (Note 5(7)) .....	(1,650,000)	(2,000,000)
	<u>1,044,420</u>	<u>1,061,446</u>

The available-for-sale financial assets are analysed below:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Available-for-sale equity instrument <sup>(a)</sup>		
– 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 <sup>(b)</sup>		
– 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 <sup>(c)</sup>		
– 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 of 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 of 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 of 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 registered 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***

	<b><u>31 December 2013</u></b>	<b><u>31 December 2012</u></b>
	<b>RMB’000</b>	<b>RMB’000</b>
Associates – without quoted prices <sup>(a)</sup> . . . . .	12,279,824	6,565,997
Other long-term equity investments <sup>(b)</sup> . . . . .	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)
	<u>13,663,620</u>	<u>9,077,138</u>

The long-term equity investments held by the Group do not have any significant liquidity limitations.

(a) Associates

	Current Year Movement									
	Accounting method	Original investment cost	31 December 2012	Transferred from other investments	Capital addition	Share results of associates	Share of cost method from the equity method	Cash dividends declared	31 December 2013	Provision for impairment made in the current year
Tianjin Airlines <sup>(i)</sup>	Equity Method	3,486,400	–	713,000	2,773,400	56,322	31,489	–	3,574,211	–
Bohai Trust	Equity Method	2,760,906	2,760,906	–	–	202,363	–	–	2,963,269	–
Hong Kong Airlines Group <sup>(ii)</sup>	Equity Method	1,780,842	–	842,000	938,842	39,381	29,364	–	1,849,587	–
HNA Technology	Equity Method	1,000,000	1,012,209	–	–	77,722	–	–	1,089,931	–
Lucky Air	Equity Method	842,000	953,005	–	–	34,705	–	–	987,710	–
HNA Finance	Equity Method	865,578	936,468	–	–	62,816	–	(83,069)	916,215	–
Hunan Golden-Deer	Equity Method	450,000	450,000	–	–	–	–	–	450,000	–
Xi'an Chanba	Equity Method	400,000	407,939	–	–	11,253	–	–	419,192	–
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	Explanation for difference between % shareholding and % voting right				Provision for impairment made in current year	Cash dividends declared in current year
							% Shareholding	% voting right	% shareholding and % voting right	Provision for impairment		
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			Year ended 31 December 2013	
			Total assets	Total liabilities	Net Assets	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 of 1 January 2013	Current year additions		Current year reductions	Fair value as of 31 December 2013
		Current year new additions	Changes in fair value		
	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 of 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 of 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 of 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**

	<b>31 December 2012</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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 of 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*

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2013			
Aircraft and engines .....	5,520,106	(1,535,452)	3,984,654
Rotables .....	50,000	(16,459)	33,541
	<u>5,570,106</u>	<u>(1,551,911)</u>	<u>4,018,195</u>
31 December 2012			
Aircraft and engines .....	8,468,737	(2,932,672)	5,536,065
Rotables .....	50,000	(12,292)	37,708
	<u>8,518,737</u>	<u>(2,944,964)</u>	<u>5,573,773</u>

*(b) Fixed assets without property certificates*

As of 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*

	<u>31 December 2013</u>			<u>31 December 2012</u>		
	<u>Book value before impairment</u>	<u>Provision for impairment</u>	<u>Net book value</u>	<u>Book value before impairment</u>	<u>Provision for impairment</u>	<u>Net book value</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
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
	<u>11,521,530</u>	<u>(2,307)</u>	<u>11,519,223</u>	<u>12,003,469</u>	<u>(2,307)</u>	<u>12,001,162</u>

(a) *Movements of major construction in progress*

Name of project	Transfer to fixed assets during current year										Capitalised amount during the current year			Annual interest rate for capitalisation	Source of fund
	Budget	31 December 2012	Current year additions	Other transfer during current year	31 December 2013	% completion of construction project	Construction progress	Accumulated borrowing costs capitalised	Interests	Exchange gain or loss of special borrowings					
	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														Bank loans and self generated fund	



(b) The progress of the major constructions in progress as of 31 December 2013 is as follows:

	<b>Construction progress</b>	<b>Remarks</b>
Beijing base expansion project . . . . .	66%	The construction progress is estimated based on the budgeted project costs.

**(13) Intangible assets**

	<b>31 December 2012</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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 of 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 of 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**

	<b>31 December 2012</b>	<b>Current year additions</b>	<b>Amortisation for the year</b>	<b>Other reductions</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Deferred pilot recruitment costs . . . .	461,080	157,879	(127,342)	–	491,617
Others . . . . .	22,515	22,807	(10,231)	–	35,091
	<u>483,595</u>	<u>180,686</u>	<u>(137,573)</u>	<u>–</u>	<u>526,708</u>

**(16) Other non-current assets**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>3,772,972</u>	<u>2,281,877</u>

Note: As of 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 of 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 of 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*

	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Deferred tax assets</b>	<b>Deductible temporary differences and tax losses</b>	<b>Deferred tax assets</b>	<b>Deductible temporary differences and tax losses</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>432,107</u>	<u>1,788,426</u>	<u>303,433</u>	<u>1,229,286</u>

*(b) Deferred tax liabilities before offsetting*

	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Deferred tax liabilities</b>	<b>Taxable temporary differences</b>	<b>Deferred tax liabilities</b>	<b>Taxable temporary differences</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>2,745,032</u>	<u>11,293,990</u>	<u>2,357,581</u>	<u>9,639,544</u>

(c) Unrecognised deductible temporary differences and tax losses of the Group are analysed as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Deductible temporary differences .....	—	—
Tax losses .....	15,092	1,911
	<u>15,092</u>	<u>1,911</u>

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:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Year 2017 .....	—	1,911
Year 2018 .....	15,092	—
	<u>15,092</u>	<u>1,911</u>

(e) Offset between deferred tax assets and deferred tax liabilities:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Deferred tax assets .....	432,107	303,433
Deferred tax liabilities .....	<u>432,107</u>	<u>303,433</u>

Net balance after offsetting deferred tax assets with deferred tax liabilities is as follows:

	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Net deferred tax liabilities</b>	<b>Net taxable temporary differences</b>	<b>Net deferred tax liabilities</b>	<b>Net taxable temporary differences</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Deferred tax liabilities .....	<u>2,312,925</u>	<u>9,505,564</u>	<u>2,054,148</u>	<u>8,410,258</u>

**(18) Provisions for asset impairment**

	<b>31 December 2012</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>195,630</u>	<u>55,200</u>	<u>—</u>	<u>250,830</u>

**(19) Short-term borrowings**

	<b>Currency</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
		<b>RMB'000</b>	<b>RMB'000</b>
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		<u>20,415,335</u>	<u>15,792,336</u>

(a) As of 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 of 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 of 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 of 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 of 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 of 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 of 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 of 31 December 2013, there are no short-term borrowings which are matured but not repaid by the Group.

**(20) Notes payable**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Bank acceptance notes .....	2,518,147	4,782,981
Commercial acceptance notes .....	995,257	681,492
	<u>3,513,404</u>	<u>5,464,473</u>

As of 31 December 2013 and 31 December 2012, all notes payable will be matured within one year.

**(21) Accounts payable**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>5,016,892</u>	<u>4,924,949</u>

*(a) Creditors which hold over 5% (5% inclusive) voting shares of the Company are as follows:*

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Grand China Air .....	36,271	25,112
Haikou Meilan .....	3,110	2,147
	<u>39,381</u>	<u>27,259</u>

*(b) Accounts payable to related parties:*

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>334,496</u>	<u>251,820</u>

*(c) As of 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
			<u>784,108</u>			<u>2,784,944</u>

**(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
	<u>1,490,736</u>	<u>918,462</u>

- (a) As of 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 of 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 of 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
	<u>198,248</u>	<u>1,799,737</u>	<u>(1,721,890)</u>	<u>276,095</u>

As of 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**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>709,943</u>	<u>552,670</u>

**(25) Interest payable**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interests on debentures (Note 5(29)(b)) .....	221,464	188,873
Interests on borrowings .....	142,768	157,338
	<u>364,232</u>	<u>346,211</u>

**(26) Other payables**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>603,026</u>	<u>877,345</u>

*(a) Other payables include the following amounts payable to entities which hold over 5% (5% inclusive) voting shares of the Company:*

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
HNA Group .....	<u>1,024</u>	<u>180,456</u>

*(b) Other payables to related parties:*

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
HNA Group .....	1,024	180,456
Capital Airlines .....	—	33,044
Changjiang Leasing .....	—	20,967
HNA Aviation Holding .....	—	20,477
Others .....	23,322	43,977
	<u>24,346</u>	<u>298,921</u>

(c) As of 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
			<u>50,287</u>			<u>73,594</u>

**(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
	<u>7,342,925</u>	<u>6,184,770</u>

(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
		<u>5,918,624</u>	<u>5,587,758</u>

The top 5 lenders with the largest balances of the long-term borrowings within one year are as follows:

31 December 2013						
	Loan commencement date	Loan maturity date	Interest rate (%)	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
						<u>1,289,515</u>

31 December 2012						
	Loan commencement date	Loan maturity date	Interest rate (%)	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
						<u>1,934,564</u>

*(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:

31 December 2013							
	Lease term	Initial amount RMB'000	Interest rate (%)	Accrued interest in current year RMB'000	Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
Lessor of finance lease 1 . . . . .	5 years	779,155	Fixed interest rate	35,459	RMB		195,030
Lessor of finance lease 2 . . . . .	5 years	143,377	Fixed interest rate	10,637	RMB		132,740
Lessor of finance lease 3 . . . . .	5 years	59,229	Floating interest rate	11,229	RMB		48,000
Lessor of finance lease 4 . . . . .	10 years	33,213	Floating interest rate	13,273	RMB		19,940
Lessor of finance lease 5 . . . . .	7 years	21,254	Floating interest rate	2,162	USD	3,131	19,092
							<u>414,802</u>

**(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 <sup>(a)</sup>		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 <sup>(b)</sup>	RMB	1,100,000	(530,000)	570,000	1,799,250	(1,129,250)	670,000
Guaranteed <sup>(c)</sup>		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 <sup>(d)</sup>		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 of 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 of 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 of 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 of 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 of 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 of 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 of 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 ('000)	RMB equivalent 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 ('000)	RMB equivalent 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
	<u>25,749,667</u>	<u>23,169,711</u>

As of 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 notes	4,939,440	12,537	–	4,951,977
RMB notes	1,490,623	3,256	(496,403)	997,476
USD notes	–	3,079,253	(87,170)	2,992,083
Total amount	<u>6,430,063</u>	<u>3,095,046</u>	<u>(583,573)</u>	<u>8,941,536</u>
Less: maturity within 1 year (Note 5(27))	<u>–</u>	<u>(997,476)</u>	<u>–</u>	<u>(997,476)</u>
Debentures payable	<u>6,430,063</u>	<u>2,097,570</u>	<u>(583,573)</u>	<u>7,944,060</u>

(a) The related information of notes is outlined as follows:

	Face value	Issuing date	Term	Issuing amount
	RMB'000			RMB'000
Corporate notes <sup>(i)</sup>	5,000,000	24/05/2011	5 and 10 years	4,920,000
RMB notes <sup>(ii)</sup>	1,000,000	27/09/2011	3 years	990,371
RMB notes <sup>(iii)</sup>	500,000	20/01/2012	3 years	494,979
USD notes <sup>(iv)</sup>	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 notes with total principle amount of RMB5 billion. The notes bear interest at rate of 5.6% (five-year note) and 6.2% (ten-year note) per annum and payable annually.
- (ii) In September 2011, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued three year RMB corporate notes of RMB1 billion with final maturity in 2014 and bearing interest at 6% per annum. The notes 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 notes of RMB0.5 billion with final maturity in 2015 and bearing interest at 5.25% per annum. The notes 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 notes.
- (iv) In February 2013, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued seven-year USD corporate notes of USD0.5 billion with final maturity in 2020 and bearing interest at 3.625% per annum. The notes 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 notes is analysed as follows:

	<b>31 December 2012</b>	<b>Interest accrued in current year</b>	<b>Interest paid in current year</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Corporate notes . . . . .	162,922	288,640	(288,640)	162,922
RMB notes . . . . .	25,951	66,208	(76,658)	15,501
USD notes . . . . .	–	161,354	(118,313)	43,041
	<u>188,873</u>	<u>516,202</u>	<u>(483,611)</u>	<u>221,464</u>

**(30) Long-term payables**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Finance lease obligations . . . . .	1,645,837	1,792,072
Less: portion within 1 year (Note 5(27)) . . . . .	(426,825)	(597,012)
	<u>1,219,012</u>	<u>1,195,060</u>

(a) Breakdown of finance lease obligations by lessor:

	31 December 2013			31 December 2012		
	Currency	Amount in foreign currency (‘000)	RMB equivalent RMB’000	Currency	Amount in foreign currency (‘000)	RMB equivalent 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).

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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)
	<u>1,219,012</u>	<u>1,195,060</u>



	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Minimum lease payments . . . . .	2,000,393	2,139,167
Less: unrecognised finance charge . . . . .	(354,556)	(347,095)
Net balance of lease obligations . . . . .	<u>1,645,837</u>	<u>1,792,072</u>

(b) The Group's top 5 lessors with the largest finance lease obligation balances are as follows:

	<b>Term</b>	<b>Principle amount</b>	<b>Interest rate (%)</b>	<b>Accrued interest</b>	<b>Ending balance</b>	<b>Borrowing conditions</b>
		<b>RMB'000</b>		<b>RMB'000</b>	<b>RMB'000</b>	
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
		<u>1,960,555</u>		<u>348,792</u>	<u>1,611,763</u>	

(c) The long-term payables (portion within 1 year exclusive) are repayable according to the following payable schedules:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
1 to 2 years . . . . .	320,157	231,885
2 to 5 years . . . . .	425,290	473,921
Over 5 years . . . . .	473,565	489,254
	<u>1,219,012</u>	<u>1,195,060</u>

**(31) Other non-current liabilities**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Deferred revenue – unredeemed mileages under frequent flyer programme <sup>(a)</sup> . . .	740,444	603,169
Deferred revenue – unrealised gain on sales and leaseback transaction <sup>(b)</sup> . . . . .	–	22,420
Customs duties and VAT relating to finance lease . . . . .	–	7,359
	<u>740,444</u>	<u>632,948</u>

(a) Unredeemed mileages under frequent flyer programme

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
As of 1 January . . . . .	603,169	437,219
Current year additions . . . . .	278,049	287,306
Current year redemption/(expiration) . . . . .	(140,774)	(121,356)
As of 31 December . . . . .	<u>740,444</u>	<u>603,169</u>

(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 of 12 August 2013, the commitment of the lock-up period for these shares had been fulfilled.

**(33) Capital surplus**

	<b>31 December 2012</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>11,739,753</u>	<u>54,729</u>	<u>(6,091,091)</u>	<u>5,703,391</u>

	<b>31 December 2011</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>5,817,180</u>	<u>5,922,893</u>	<u>(320)</u>	<u>11,739,753</u>

**(34) Surplus reserve**

	<b>31 December 2012</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Statutory surplus reserve . . . . .	<u>657,397</u>	<u>140,803</u>	<u>–</u>	<u>798,200</u>

	<b>31 December 2011</b>	<b>Current year additions</b>	<b>Current year reductions</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Statutory surplus reserve . . . . .	<u>568,001</u>	<u>89,396</u>	<u>–</u>	<u>657,397</u>

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***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Undistributed profits as of 1 January .....	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 of 31 December .....	<u>6,725,325</u>	<u>5,309,332</u>

As of 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 of 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:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Beijing Kehang .....	108,754	105,674
Others .....	5,982	5,982
	<u>114,736</u>	<u>111,656</u>

***(37) Revenue and operating costs***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue from main operations (a) .....	27,507,353	26,870,275
Revenue from other operations (b) .....	2,724,009	1,997,310
	<u>30,231,362</u>	<u>28,867,585</u>
Operating costs of main operations .....	(22,098,650)	(20,671,305)
Operating costs of other operations (b) .....	(1,402,508)	(886,336)
	<u>(23,501,158)</u>	<u>(21,557,641)</u>

*(a) Revenue from main operations*

Revenue from main operations by categories is analysed as follows:

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Passenger .....	26,476,885	25,794,029
Cargo and Mail .....	885,644	934,105
Others .....	144,824	142,141
	<u>27,507,353</u>	<u>26,870,275</u>

*(b) Revenue and operating costs of other operations*

	<b>2013</b>		<b>2012</b>	
	<b>Revenue of other operations</b>	<b>Operating costs of other operations</b>	<b>Revenue of other operations</b>	<b>Operating costs of other operations</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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)
	<u>2,724,009</u>	<u>(1,402,508)</u>	<u>1,997,310</u>	<u>(886,336)</u>

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*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>522,196</u>	<u>875,181</u>

The taxation bases of business tax and surcharges are set out in Note 3.

***(39) Selling and distribution expenses***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>1,942,175</u>	<u>1,846,854</u>

***(40) General and administrative expenses***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>609,224</u>	<u>598,504</u>

***(41) Finance expenses – net***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>1,878,094</u>	<u>2,603,623</u>

Interest income includes interests received from related parties (Note 7(5)(a)).

***(42) Impairment losses***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>55,200</u>	<u>86,484</u>

**(43) (Loss)/gain on changes in fair value**

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Investment properties (Note 5(10))	34,022	504,363
Transfer out of accumulated changes in fair value upon disposal of investment properties	(98,385)	—
	<u>(64,363)</u>	<u>504,363</u>

**(44) Investment income**

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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)
	<u>606,265</u>	<u>188,241</u>

The Group has no significant limitation on returns on investments.

**(45) Non-operating income**

	<b>2013</b>	<b>2012</b>	<b>Amount recorded in extraordinary items of 2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Subsidy income	307,038	460,154	307,038
Including: Flight route subsidies <sup>(a)</sup>	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 <sup>(b)</sup>	—	117,875	—
Others	11,988	10,288	11,988
	<u>410,861</u>	<u>674,449</u>	<u>410,861</u>

(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 of 31 December 2013, the commitment made by HNA Group had been fulfilled.

**(46) Income tax expenses**

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current income tax	311,237	73,194
Deferred income tax	253,286	635,574
	<u>564,523</u>	<u>708,768</u>

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:

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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 .....	<u>564,523</u>	<u>708,768</u>

#### ***(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.

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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) .....	<u>0.173</u>	<u>0.177</u>

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***

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Gain arising from available-for-sale financial assets .....	72,974	135,334
Less: income tax impact .....	(18,245)	(33,833)
	<u>54,729</u>	<u>101,501</u>



**(49) Notes to consolidated cash flow statements**

*(a) Cash received relating to other operating activities:*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>2,576,830</u>	<u>3,060,066</u>

*(b) Cash paid relating to other operating activities:*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>3,123,375</u>	<u>4,156,639</u>

*(c) Cash received relating to other investing activities*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Receipts of term deposits upon maturity .....	1,525,000	1,750,000
Interests on deposits .....	446,472	604,482
	<u>1,971,472</u>	<u>2,354,482</u>

*(d) Cash paid relating to other investing activities*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Payment of term deposits .....	<u>2,897,357</u>	<u>1,525,000</u>

*(e) Cash received relating to other financing activities*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Cash received from discounted notes payable .....	<u>2,150,000</u>	<u>2,753,000</u>

(f) Cash paid relating to other financing activities

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>4,979,559</u>	<u>5,070,275</u>

(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

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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 .....	<u>7,835,163</u>	<u>10,195,911</u>

Significant investing and financing activities that do not involve cash receipts and payments:

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Asset transfer .....	—	192,552
Fixed assets acquired under finance leases .....	—	473,000
	<u>—</u>	<u>665,552</u>

Movement in cash and cash equivalents:

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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 .....	<u>(1,938,299)</u>	<u>4,035,671</u>

*(b) Cash and cash equivalents*

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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 .....	<u>16,695,689</u>	<u>18,633,988</u>

**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:

	<u>2013</u>	<u>2012</u>
	<b>RMB'000</b>	<b>RMB'000</b>
Domestic .....	26,596,342	25,257,345
International and regional .....	3,635,020	3,610,240
	<u>30,231,362</u>	<u>28,867,585</u>

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

	<u>Enterprise type</u>	<u>Place of registration</u>	<u>Legal representative</u>	<u>Nature of business</u>	<u>Organisation code</u>
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:

	<u>31 December 2012</u>	<u>Current year additions</u>	<u>Current year reductions</u>	<u>31 December 2013</u>
	<b>RMB'000</b>			<b>RMB'000</b>
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

	<u>31 December 2013</u>	<u>31 December 2012</u>
	<u>% of direct equity interests held</u>	<u>% of direct equity interests held</u>
Grand China Air .....	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 of 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	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

	<u>Enterprise type</u>	<u>Place of registration</u>	<u>Legal representative</u>	<u>Nature of business</u>	<u>Registered capital</u>	<u>% equity interests held</u>	<u>% voting right held by the Company</u>	<u>Organisation code</u>
					<b>RMB'000</b>			
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 notes after approved; corporate notes 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**

<b>Abbreviation (Full names are set out in Note 16)</b>	<b>Relationship with the Company</b>	<b>Organisation code</b>
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		2012	
			Amount	% of transactions in same nature	Amount	% 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:

<u>Lessor</u>	<u>Lessee</u>	<u>Leased assets</u>	<u>Lease commencement date</u>	<u>Lease expiry date</u>	<u>Lease income in 2013</u> RMB'000	<u>Lease income in 2012</u> 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
					<u>1,262,125</u>	<u>1,192,902</u>
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
					<u>208,172</u>	<u>292,080</u>

(ii) The Group as lessee:

<u>Lessor</u>	<u>Lessee</u>	<u>Leased assets</u>	<u>Lease commencement date</u>	<u>Lease expiry date</u>	<u>Lease rentals in 2013</u> RMB'000	<u>Lease rentals in 2012</u> 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
					<u>785,061</u>	<u>365,178</u>

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 RMB'000	Starting date	Ending date	Whether guarantee ends as of 31 December 2013
(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 RMB'000	Starting date	Ending date	Whether guarantee ends as of 31 December 2013
(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

<b>Entity</b>	<b>Borrowing amount RMB'000</b>	<b>Borrowing date</b>	<b>Repayment amount RMB'000</b>	<b>Repayment date</b>
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

<b>Related party</b>	<b>Nature of transaction</b>	<b>Pricing policy</b>	<b>2013</b>		<b>2012</b>	
			<b>Amount</b>	<b>% of transactions in same nature</b>	<b>Amount</b>	<b>% of transactions in same nature</b>
			<b>RMB'000</b>		<b>RMB'000</b>	
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		2012	
			Amount	% of transactions in same nature	Amount	% 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%
			<u>2,606,490</u>	<u>100%</u>	<u>500,000</u>	

(h) Equity transfers

Related party	Nature of transaction	Pricing policy	2013		2012	
			Amount	% of transactions in same nature	Amount	% 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			<u>–</u>	<u>–</u>	<u>50,000</u>	<u>100%</u>
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			<u>1,414,583</u>	<u>100%</u>	<u>3,269,526</u>	<u>100%</u>

(i) Remuneration of key management

	2013	2012
	RMB'000	RMB'000
Remuneration of key management	<u>4,228</u>	<u>4,143</u>

(j) Other related party transactions

Related party	Nature of transaction	2013		2012	
		Amount	% of transactions in same nature	Amount	% of transactions in same nature
		RMB'000		RMB'000	
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	31 December 2012
		RMB '000	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

<u>Account</u>	<u>Related party</u>	<u>31 December 2013</u> RMB'000	<u>31 December 2012</u> 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
		<u>213,974</u>	<u>19,503</u>
Advances to suppliers .....	Others	<u>6,666</u>	<u>7,602</u>
Other non-current .....	Grand China Air	800,000	–
assets .....	Western Airlines	966,940	–
	Changjiang Leasing	359,366	359,366
	Hong Kong Airlines	36,500	345,538
	HKIAL	15,085	–
		<u>2,177,891</u>	<u>704,904</u>
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
		<u>2,147,063</u>	<u>3,627,000</u>
Interest payable .....	HNA Finance	<u>–</u>	<u>5,450</u>
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
		<u>334,496</u>	<u>251,820</u>
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
		<u>24,346</u>	<u>298,921</u>
Long-term payables .....	Changjiang Leasing	398,999	409,678
	Yangtze River Leasing	69,591	89,360
		<u>468,590</u>	<u>499,038</u>



**(7) Commitments in relation to related parties**

As of 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:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>854,820</u>	<u>723,387</u>

**8 COMMITMENTS**

**(1) Performance of prior year commitments**

The capital expenditure commitments and operating lease commitments of the Group as of 31 December 2012 were performed as committed.

**(2) Capital commitments**

As of 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:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Aircraft purchases .....	64,544,811	75,627,309
Long-term equity investments .....	4,235,060	–
Buildings, machineries and equipments .....	574,934	147,411
	<u>69,354,805</u>	<u>75,774,720</u>

**(3) Operating lease commitments**

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>12,031,890</u>	<u>10,750,966</u>

## 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:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>2,000,393</u>	<u>2,139,167</u>

As of 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 of 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 of 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:

<b>31 December 2013</b>			
	<b>USD</b>	<b>Other</b>	<b>Total</b>
	<b>RMB'000</b>	<b>currencies</b>	<b>RMB'000</b>
		<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>1,662,567</u>	<u>56,368</u>	<u>1,718,935</u>
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
	<u>23,084,966</u>	<u>790,302</u>	<u>23,875,268</u>
<b>31 December 2012</b>			
	<b>USD</b>	<b>Other</b>	<b>Total</b>
	<b>RMB'000</b>	<b>currencies</b>	<b>RMB'000</b>
		<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>1,933,480</u>	<u>85,822</u>	<u>2,019,302</u>
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
	<u>21,551,127</u>	<u>443,411</u>	<u>21,994,538</u>

As of 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 of 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 of 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 of the balance sheet date, undiscounted cash flows of the financial assets and liabilities of the Group by contractual maturity dates are analysed as follows:

<b>31 December 2013</b>					
	<b>Within 1 year</b>	<b>1 – 2 years</b>	<b>2 – 5 years</b>	<b>After 5 years</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>21,911,306</u>	<u>286,500</u>	<u>3,312</u>	<u>1,160,373</u>	<u>23,361,491</u>
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
	<u>34,397,538</u>	<u>7,112,160</u>	<u>11,882,099</u>	<u>13,705,200</u>	<u>67,096,997</u>
<b>31 December 2012</b>					
	<b>Within 1 year</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>After 5 years</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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
	<u>23,409,078</u>	<u>459,461</u>	<u>3,303</u>	<u>1,185,773</u>	<u>25,057,615</u>
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
	<u>28,657,885</u>	<u>4,940,975</u>	<u>10,453,321</u>	<u>12,575,515</u>	<u>56,627,696</u>

#### **(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.

	<u>31 December 2013</u>		<u>31 December 2012</u>	
	<u>Net book value</u>	<u>Fair value</u>	<u>Net book value</u>	<u>Fair value</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
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
	<u>33,314,128</u>	<u>33,438,061</u>	<u>30,549,541</u>	<u>31,015,136</u>

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 of 31 December 2013, the financial assets measured at fair value by the above three levels are analysed below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Financial assets –				
Available-for-sale financial assets – . . . . .	<u>–</u>	<u>434,420</u>	<u>2,260,000</u>	<u>2,694,420</u>

As of 31 December 2012, the financial assets measured at fair value by the above three levels are analysed below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Financial assets –				
Available-for-sale financial assets – . . . . .	<u>–</u>	<u>361,446</u>	<u>2,700,000</u>	<u>3,061,446</u>

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
	<u>10,317,788</u>	<u>(64,363)</u>	<u>72,974</u>	<u>(801,604)</u>	<u>9,524,795</u>

### 14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	31 December 2013 RMB'000	31 December 2012 RMB'000
Financial assets –		
Cash at bank and on hand . . . . .	214,828	266,538
Accounts receivable . . . . .	276,052	133,925
Financial assets subtotal . . . . .	<u>490,880</u>	<u>400,463</u>
Financial liabilities –		
Borrowings and payables . . . . .	<u>23,875,268</u>	<u>21,994,538</u>

### 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

#### (1) Accounts receivable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Accounts receivable . . . . .	124,362	335,946
Less: Provisions for bad debts . . . . .	(9,310)	(9,310)
	<u>115,052</u>	<u>326,636</u>

(a) The aging of accounts receivable are analysed as follows:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year . . . . .	115,052	326,636
Over 6 years . . . . .	9,310	9,310
	<u>124,362</u>	<u>335,946</u>



(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%
	<u>124,362</u>	<u>100%</u>	<u>(9,310)</u>	<u>7%</u>	<u>335,946</u>	<u>100%</u>	<u>(9,310)</u>	<u>3%</u>

(c) As of 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 of 31 December 2013, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Company	Amount RMB'000	Period	% of total balance
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%
		<u>102,212</u>		<u>82%</u>

(e) Accounts receivable from related parties are analysed below:

		31 December 2013			31 December 2012		
		Amount	% of total balance	Provisions for bad debts	Amount	% of total balance	Provisions for bad debts
Relationship with the Company		RMB'000		RMB'000	RMB'000		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%	—
		<u>110,795</u>	<u>89%</u>	<u>—</u>	<u>324,697</u>	<u>97%</u>	<u>—</u>

(2) Other receivables

	31 December 2013	31 December 2012
	RMB'000	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
	<u>773,390</u>	<u>1,101,273</u>
Less: Provisions for bad debts . . . . .	<u>(13,729)</u>	<u>(13,729)</u>
	<u>759,661</u>	<u>1,087,544</u>

(a) The aging of other receivables is analysed below:

	31 December 2013	31 December 2012
	RMB'000	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
	<u>773,390</u>	<u>1,101,273</u>

(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%	—	—
	<u>773,390</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>	<u>1,101,273</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>

(c) As of 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%
		<u>660,492</u>		<u>85%</u>

(d) Other receivables from related parties are analysed below:

		31 December 2013			31 December 2012		
	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
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%	–
		<u>567,934</u>	<u>73%</u>	<u>–</u>	<u>979,145</u>	<u>89%</u>	<u>–</u>

(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
	<u>16,569,420</u>	<u>12,024,732</u>
Less: Provisions for impairment . . . . .	(5,000)	(5,000)
	<u>16,564,420</u>	<u>12,019,732</u>

(a) Subsidiaries

Accounting method	Original investment cost	Current year		Explanation for difference between shareholding and % voting right	% shareholding	% voting right	Provisions for impairment	Provisions for impairment made in current year	Cash dividends declared in current year
		2012	2013						
	RMB'000	RMB'000	RMB'000				RMB'000	RMB'000	RMB'000
Xinhua Airlines . . . . .	3,746,107	3,746,107	3,746,107		100.00%	100.00%	—	—	—
Chang'an Airlines . . . . .	1,799,408	1,799,408	1,799,408		100.00%	100.00%	—	—	—
Beijing Kehang . . . . .	1,728,341	1,728,341	1,728,341		95.00%	95.00%	—	—	—
Shanxi Airlines . . . . .	408,467	408,467	408,467		46.29%	46.29%	—	—	—
Brussels EDIP . . . . .	62,996	62,996	62,996		100.00%	100.00%	—	—	—
Brussels DATA . . . . .	61,764	61,764	61,764		100.00%	100.00%	—	—	—
Brussels SODE . . . . .	543,135	59,918	483,217		94.18%	94.18%	—	—	—
HNA Hongkong . . . . .	58,417	58,417	58,417		100.00%	100.00%	—	—	—
Golden-Deer Sales . . . . .	7,600	7,600	7,600		95.00%	95.00%	—	—	—
Hainan Fushun (Note 4(1)(a)) . .	1,094,161	—	1,094,161		100.00%	100.00%	—	—	—
Others . . . . .	10,000	10,000	(10,000)		—	—	—	—	—
		7,943,018	1,567,378				—	—	—
			9,510,396						

## Current year increase/decrease

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(c) Other long-term equity investments

	Accounting method	Original investment cost	31 December 2012	Current year additions	31 December 2013	Explanation for difference between % shareholding and % voting rights			Provisions for impairment made in current year	Provisions for impairment	Cash dividends declared in current year
						% shareholding	% voting right	% voting rights			
		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	1,655,679	(713,000)	942,679				(5,000)	—	4,409

**(4) Revenue and operating costs**

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue from main operations (a) .....	19,797,883	18,798,687
Revenue from other operations (b) .....	2,389,571	1,214,600
	<u>22,187,454</u>	<u>20,013,287</u>
Operating costs of main operations .....	(16,166,512)	(14,322,333)
Operating costs of other operations (b) .....	(1,142,491)	(611,261)
	<u>(17,309,003)</u>	<u>(14,933,594)</u>

*(a) Revenue from main operations*

Revenue from main operations by business categories is analysed as follows:

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Passenger .....	18,934,162	17,942,293
Cargo and mail .....	718,896	714,253
Others .....	144,825	142,141
	<u>19,797,883</u>	<u>18,798,687</u>

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%).

	<b>2013</b>		<b>2012</b>	
	<b>Revenue from other operations</b>	<b>Operating costs of other operations</b>	<b>Revenue from other operations</b>	<b>Operating costs of other operations</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
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)
	<u>2,389,571</u>	<u>(1,142,491)</u>	<u>1,214,600</u>	<u>(611,261)</u>

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**

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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)
	<u>239,835</u>	<u>96,148</u>

**(6) Supplementary information for cash flow statement**

*(a) Reconciliation from net profit to cash flows from operating activities*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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	<u>9,046,553</u>	<u>4,451,423</u>

*(b) Significant investing and financing activities that do not involve cash receipts and payments*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Assets transfer	–	192,552
Fixed assets acquired under finance leases	–	473,000
	<u>–</u>	<u>665,552</u>

*(c) Net increase in cash and cash equivalents*

	<b>2013</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>
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	<u>(934,478)</u>	<u>5,190,657</u>

**16 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS**

<b>Full company name (in Alphabetic order)</b>	<b>Abbreviation used in the financial statements</b>
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

<b>Full company name (in Alphabetic order)</b>	<b>Abbreviation used in the financial statements</b>
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



## AUDIT REPORT

Our Reference No.: CAAP Shen Zi (2014) No. 011104

### All shareholders of Grand China Air Corporation Ltd.:

We have audited the accompanying financial statements of Grand China Air Corporation Limited (the “company”), which comprise the consolidated and company balance sheets as of 31st December from 2011 to 2013 and the consolidated and company’s income statements, statement of cash flow & changes in owner’s equity and explanatory notes for the year 2011 to 2013 then ended.

### Management’s Responsibility for the Financial Statements

Management of the company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) Preparing the financial statements in accordance with the Accounting Standards for Business Enterprises to achieve fair presentation. (2) Designing, implementing and maintaining internal control system that is necessary to enable the 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 Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. 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 financial statements present fairly, in all material respects, consolidated and company’s financial position of the company as of 31st December from 2011 to 2013, and consolidated and company’s financial performance and consolidated and company’s cash flows for the year 2011 to 2013 then ended in accordance with Accounting Standards for Business Enterprises.

China Audit Asia Pacific Certified  
Public Accountants LLP

(sealed)  
Beijing China

China Certified Public Accountant:  
(Signed and Sealed): Chen Jixian

China Certified Public Accountant:  
(Signed and Sealed): Xie Le

30th Sep. 2014

# Consolidated Balance Sheet

Sheet. 1

Company: Grand China Air

Unit: 1000 RMB

	Notes	31 Dec. in 2013	31 Dec. in 2012	31 Dec. in 2011
<b>Assets</b>				
<b>Current Assets:</b>				
Monetary Funds .....	5.1	23,191,432.00	25,968,033.00	22,562,540.00
Settlement Funds .....				
Lending Capital .....				
Financial Assets Held-for-Trading .....				
Notes Receivable .....	5.2	25,000.00		
Accounts Receivable .....	5.3	938,921.00	559,443.00	738,377.00
Accounts Prepaid .....	5.4	923,692.00	613,170.00	576,960.00
Insurance Receivable .....				
Reinsurance Receivable .....				
Provision of Cession receivable .....				
Interests Receivable .....	5.5	408,093.00	261,155.00	221,008.00
Dividends Receivable .....	5.6	6,730.00	1,865.00	6,016.00
Other Receivables .....	5.7	4,744,228.00	6,917,504.00	10,683,770.00
Redemptory Monetary Capital for Sale .....				
Inventories .....	5.8	64,352.00	72,621.00	128,213.00
Noncurrent Assets Due within One Year .....				
Other Current Assets .....	5.9	5,414,836.00	3,200,000.00	1,350,000.00
<b>Total Current Assets .....</b>		<b>35,717,284.00</b>	<b>37,593,791.00</b>	<b>36,266,884.00</b>
<b>Noncurrent Assets:</b>				
Payment of Loans and Advances .....				
Available-for-sale Financial Assets .....	5.10	1,044,420.00	1,061,446.00	899,684.00
Held-to-maturity Investment .....				
Long-term Receivables .....				
Long-term Equity Investment .....	5.11	14,301,535.00	9,671,931.00	5,839,101.00
Investment Real Estate .....	5.12	10,481,916.00	10,907,883.00	10,390,902.00
Fixed Assets .....	5.13	42,856,409.00	35,729,716.00	31,395,871.00
Construction in Progress .....	5.14	11,936,427.00	12,046,663.00	8,844,093.00
Project Goods and Material .....				
Liquidation of Fixed Assets .....				80.00
Productive Living Assets .....				
Oil and Gas Assets .....				
Intangible Assets .....	5.15	355,250.00	364,948.00	194,967.00
Development Expenditure .....				
Goodwill .....	5.16	897,797.00	897,797.00	897,797.00
Long-term Deferred Expenses .....	5.17	664,258.00	592,499.00	434,757.00
Deferred Tax Assets .....	5.18	7.00	72.00	
Other Noncurrent Assets .....	5.20	3,092,579.00	2,443,621.00	2,391,117.00
<b>Total Noncurrent Assets .....</b>		<b>85,630,598.00</b>	<b>73,716,576.00</b>	<b>61,288,369.00</b>
<b>Total Assets .....</b>		<b>121,347,882.00</b>	<b>111,310,367.00</b>	<b>97,555,253.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

Company: Grand China Air

Unit: 1000 RMB

	<u>Notes</u>	<u>31 Dec. in 2013</u>	<u>31 Dec. in 2012</u>	<u>31 Dec. in 2011</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>				
Current Liabilities:				
Short-term Loans .....	5.21	22,178,657.00	18,485,336.00	18,718,695.00
Borrowings from central bank .....				
Deposits from customers and interbank .....				
Borrowing funds .....				
Financial Liabilities Held-for-Trading .....				150.00
Notes Payable .....	5.22	5,976,189.00	7,419,560.00	7,589,539.00
Accounts Payable .....	5.23	5,462,277.00	5,198,971.00	4,084,454.00
Accounts Received in Advance .....	5.24	1,679,637.00	1,076,349.00	1,259,783.00
Financial assets sold for repurchase .....				
Handling charges and commissions payable .....				
Employee Pay Payable .....	5.25	293,309.00	213,105.00	240,297.00
Tax Payable .....	5.26	819,853.00	696,067.00	758,649.00
Interest Payable .....	5.27	374,075.00	352,668.00	324,985.00
Dividend Payable .....	5.28	59,381.00	68,521.00	24,617.00
Other Accounts Payable .....	5.29	1,527,981.00	2,772,699.00	3,374,650.00
Reinsurance Payable .....				
Insurance contract reserves .....				
Acting traded securities .....				
Acting underwriting securities .....				
Noncurrent Liabilities due within one year .....	5.30	7,567,251.00	7,126,167.00	5,080,664.00
Other Current Liabilities .....				
<b>Total Current Liabilities .....</b>		<b>45,938,610.00</b>	<b>43,409,443.00</b>	<b>41,456,483.00</b>
Noncurrent Liabilities:				
Long-term Loans .....	5.31	26,978,877.00	23,399,711.00	24,310,893.00
Notes Payable .....	5.32	8,637,955.00	7,123,105.00	5,918,309.00
Long-term Payables .....	5.33	2,656,236.00	2,236,998.00	1,412,548.00
Special Accounts Payable .....				
Estimated Liabilities .....				
Deferred Income Tax Liabilities .....	5.18	3,188,953.00	2,930,176.00	2,281,018.00
Other Noncurrent Liabilities .....	5.34	740,444.00	632,948.00	478,006.00
<b>Total Noncurrent Liabilities .....</b>		<b>42,202,465.00</b>	<b>36,322,938.00</b>	<b>34,400,774.00</b>
<b>Total Liabilities .....</b>		<b>88,141,075.00</b>	<b>79,732,381.00</b>	<b>75,857,257.00</b>
<b>Owner's Equities (Shareholders' Equities):</b>				
Paid-in Capital .....	5.35	5,976,678.00	5,976,678.00	5,976,678.00
Capital Reserve .....	5.36	5,069,631.00	5,053,240.00	5,022,841.00
Less: Treasury Stock .....				
Specific Reserve .....				
Surplus Reserve .....	5.37	5,259.00	5,259.00	5,259.00
Generic Risk Reserve .....				
Undistributed Profits .....	5.38	3,901,245.00	3,394,735.00	2,475,272.00
Converted difference in Foreign Currency Statements .....				
<b>Total owners' equity attributable to parent .....</b>		<b>14,952,813.00</b>	<b>14,429,912.00</b>	<b>13,480,050.00</b>
Minority Stockholder's Interest .....		<b>18,253,994.00</b>	<b>17,148,074.00</b>	<b>8,217,946.00</b>
<b>Total Shareholders' Equities .....</b>		<b>33,206,807.00</b>	<b>31,577,986.00</b>	<b>21,697,996.00</b>
<b>Total Liabilities &amp; Shareholders' Equities .....</b>		<b>121,347,882.00</b>	<b>111,310,367.00</b>	<b>97,555,253.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Consolidated Income Statement

Company: Grand China Air

Items	Notes	Year 2013	Year 2012	Year 2011
<b>1. Total Operating Revenues</b> .....		<b>33,697,476.00</b>	<b>32,156,973.00</b>	<b>29,422,540.00</b>
Include: Operating Revenue .....	5.39	33,697,476.00	32,156,973.00	29,422,540.00
Interest Revenue .....				
Insurance Revenue .....				
Handling charges and commission income ..				
<b>2. Total Operating Costs</b> .....		<b>32,289,049.00</b>	<b>30,877,882.00</b>	<b>27,358,096.00</b>
include: Operation Cost .....	5.39	26,569,784.00	24,123,662.00	22,111,494.00
Interest Expenses .....				
Handling Charges and Commissions Expenses				
Surrenders .....				
Net amount of compensation payout .....				
Net change in insurance contract reserves .....				
Policy dividend payment .....				
Expenses for reinsurance accepted .....				
Business taxes and surcharges .....	5.40	609,258.00	1,011,010.00	926,204.00
Sales expense .....		2,121,162.00	2,005,543.00	1,455,123.00
Administrative expense .....		700,400.00	724,039.00	662,258.00
Financial Expense .....	5.41	2,201,881.00	2,896,005.00	2,194,811.00
Loss of Impairment of Assets .....		86,564.00	117,623.00	8,206.00
add: Changes of fair value of assets (Deficit, using “-”) .....	5.42	-64,363.00	604,115.00	869,871.00
Investment Income (Deficit, using “-”) .....	5.43	700,701.00	167,748.00	187,664.00
Include: Income from Associates .....		474,503.00	212,413.00	89,493.00
Exchange gains (losses, using “-”) .....				
<b>3. Operation Profit (loss, using “-”) .....</b>		<b>2,044,765.00</b>	<b>2,050,954.00</b>	<b>3,121,979.00</b>
Add: Non-operating Revenue .....	5.44	475,683.00	727,357.00	621,182.00
Less: Non-operating Expenditure .....	5.45	3,454.00	13,327.00	77,816.00
Include: loss on disposal of non-current assets .....		2,093.00	1,896.00	70,422.00
<b>4. Profit (Loss, using “-”) .....</b>		<b>2,516,994.00</b>	<b>2,764,984.00</b>	<b>3,665,345.00</b>
Less: Income Tax .....	5.46	585,852.00	778,396.00	900,081.00
<b>5. Net Profit (Loss, using “-”) .....</b>		<b>1,931,142.00</b>	<b>1,986,588.00</b>	<b>2,765,264.00</b>
Owners’ net profit attributable to parent .....		506,510.00	685,807.00	1,365,493.00
Minority Interest Income .....		1,424,632.00	1,300,781.00	1,399,771.00
<b>6. Earnings Per Share</b> .....				
(1) Basic Earnings Per Share .....				
(2) Dilute Earnings Per Share .....				
<b>7. Other Comprehensive Earnings</b> .....		<b>54,729.00</b>	<b>101,501.00</b>	<b>-130,871.00</b>
<b>8. Total Comprehensive Earnings</b> .....		<b>1,985,871.00</b>	<b>2,088,089.00</b>	<b>2,634,393.00</b>
Total Comprehensive Earnings attributed to shareholders .....		522,901.00	716,206.00	1,307,648.00
Total Comprehensive Earnings attributed to Minority Interest .....		1,462,970.00	1,371,883.00	1,326,745.00

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)



## Consolidated Statements of Cash Flows

Company: Grand China Air

Items	Notes	Year 2013	Year 2012	Year 2011
<b>1. Cash Flow from Operating Activities:</b>				
Cash from selling commodities or offering labour		36,458,493.00	34,071,551.00	31,133,349.00
Net increase in customer bank deposits and due to banks and other financial institutions				
Net increase in borrowings from central bank				
Net increase in placements from other financial institutions				
Premiums received from original insurance contracts				
Net cash received from reinsurance business				
Net increase of policy holder deposits and investment funds				
Net increase of disposal of trading financial assets				
Interest, handling charges and commission received				
Net increase in placements from banks and other financial institutions				
Net increase in repurchase business capital				
Refund of tax and fee received				
Other cash received related to operating activities	5.47 (1)	6,867,522.00	4,254,178.00	1,935,237.00
<b>Operating Cash Inflow Subtotal</b>		<b>43,326,015.00</b>	<b>38,325,729.00</b>	<b>33,068,586.00</b>
Cash paid for commodities or labour		22,364,004.00	17,084,408.00	17,631,315.00
Net increase in loans and advances to customers				
Net increase of deposits in central bank and other banks				
Cash paid for indemnity of original insurance contract				
Cash paid for interests, fees and commissions				
Cash paid for policy dividends				
Cash paid to and for employees		1,912,791.00	2,049,424.00	1,612,840.00
Taxes and fees paid		3,357,963.00	3,291,983.00	2,929,074.00
Other cash paid related to operating activities	5.47 (2)	5,311,880.00	7,077,737.00	6,523,798.00
<b>Operating Cash Outflow Subtotal</b>		<b>32,946,638.00</b>	<b>29,503,552.00</b>	<b>28,697,027.00</b>
<b>Cash flow generated from operating activities Net Amount</b>		<b>10,379,377.00</b>	<b>8,822,177.00</b>	<b>4,371,559.00</b>
<b>2. Cash Flow from Investing Activities:</b>				
Cash from investment withdrawal		3,295,000.00	5,360,842.00	13,236.00
Cash from investment income		318,614.00	124,426.00	12,359.00
Net cash from disposing fixed assets, intangible assets and other long-term assets		1,571,490.00	546,675.00	4,109,193.00
Net cash received from disposal of subsidiaries and other business units				
Other cash paid related to investing activities	5.47 (3)	2,683,746.00	3,604,482.00	2,921,030.00
<b>Investing Cash Inflow Subtotal</b>		<b>7,868,850.00</b>	<b>9,636,425.00</b>	<b>7,055,818.00</b>
Cash paid for buying fixed assets, intangible assets and other long-term investment		9,517,752.00	8,328,696.00	8,025,062.00
Cash paid for investment		10,195,346.00	5,502,131.00	4,871,637.00
Net increase in pledge loans				
Net cash paid for acquisition of subsidiaries and other business units				
Other cash paid related to investing activities	5.47 (4)	4,367,357.00	3,305,000.00	6,170,399.00
<b>Investing Cash Outflow Subtotal</b>		<b>24,080,455.00</b>	<b>17,135,827.00</b>	<b>19,067,098.00</b>
<b>Cash flow generated from investing activities Net Amount</b>		<b>-16,211,605.00</b>	<b>-7,499,402.00</b>	<b>-12,011,280.00</b>
<b>3. Cash Flow from Financing Activities</b>				
Cash received from accepting investment			7,786,992.00	1,828,000.00
<b>Include:</b> Cash received from minority shareholder investment by subsidiary				
Borrowings		42,664,606.00	28,914,312.00	39,414,513.00
Cash Received from issuing notes		2,961,280.00	1,187,979.00	
Other cash received related to financing activities	5.47 (5)	2,861,128.00	2,753,000.00	6,752,000.00
<b>Financing Cash Inflow Subtotal</b>		<b>48,487,014.00</b>	<b>40,642,283.00</b>	<b>47,994,513.00</b>
Cash paid for debt		35,221,579.00	28,464,334.00	30,957,501.00
Cash paid for dividend, profit or interest		4,559,174.00	3,725,746.00	2,728,154.00
<b>Include:</b> Dividend and profit paid to minority shareholders by subsidiary				
Other cash paid related to financing activities	5.47 (6)	5,081,154.00	6,564,505.00	3,252,741.00
<b>Financing Cash Outflow Subtotal</b>		<b>44,861,907.00</b>	<b>38,754,585.00</b>	<b>36,938,396.00</b>
<b>Cash flow generated from financing activities Net Amount</b>		<b>3,625,107.00</b>	<b>1,887,698.00</b>	<b>11,056,117.00</b>
<b>4. Foreign exchange rate fluctuation consequences on cash and cash equivalents</b>		<b>-6,396.00</b>	<b>-475.00</b>	<b>-25,825.00</b>
<b>5. Net Increase of Cash and Cash Equivalents</b>		<b>-2,213,517.00</b>	<b>3,209,998.00</b>	<b>3,390,571.00</b>
<b>add: Beginning Balance of Cash and Cash Equivalents</b>		<b>19,487,250.00</b>	<b>16,277,252.00</b>	<b>12,886,681.00</b>
<b>6. Ending Balance of Cash and Cash Equivalents</b>		<b>17,273,733.00</b>	<b>19,487,250.00</b>	<b>16,277,252.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)



# Company Statement of Changes in owner's Equity

Sheet 4  
Unit: 1000 RMB

Company: Grand China Air

FOR THE YEAR ENDED 31 DECEMBER 2013

Items	equity attributable to the parent company owners						Minority Interests	Total Owner's Equity
	Paid-in Capital	capital surplus	Less: Treasury stock	Special Reserve	Surplus Reserve	General Risk Provision	Undistributed Profit	Others
<b>1. Ending Balance of Last Year</b>	5,976,678.00	5,053,240.00			5,259.00		3,394,735.00	
Add: (1) Changes of Accounting policy								
(2) Prior period errors amend								
(3) Others								
<b>2. Beginning Balance of This Year</b>	5,976,678.00	5,053,240.00			5,259.00		3,394,735.00	
<b>3. Increase or Decrease in the current year</b>		16,391.00					506,510.00	
(1) Net Income		16,391.00					506,510.00	
(2) Other comprehensive income								
<b>Subtotal of the above (1) and (2)</b>		16,391.00					506,510.00	
(3) Paid in capital and Decrease in Capital								
1. Paid in capital								
2. the amount of share-based payment recorded in the owner's equity								
3. Others								
(4) Profit distribution								
1. allotting surplus public reserves								
2. allotting ordinary risk reserves								
3. Distribute to owners(or shareholders)								
4. Others								
<b>(5) Transfer inside Equity</b>								
1. Transferring capital public reserves into paid-in capital (or share capital)								
2. Transferring surplus public reserves into paid-in capital (or share capital)								
3. Making up losses with surplus public reserves								
4. Others								
<b>(6) Special Reserve</b>								
1. withdrawal this year								
2. Paid in this year								
<b>(7) Others</b>								
<b>4. Ending Balance of this year</b>	5,976,678.00	5,069,631.00			5,259.00		3,901,245.00	
							18,253,994.00	
							33,206,807.00	

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Company Statement of Changes in owner's Equity

Sheet 4  
Unit: 1000 RMB

Company: Grand China Air

FOR THE YEAR ENDED 31 DECEMBER 2012

Items	equity attributable to the parent company owners						Minority Interests	Total Owner's Equity
	Paid-in Capital	capital surplus	Less: Treasury stock	Special Reserve	Surplus Reserve	General Risk Provision		
<b>1. Ending Balance of Last Year</b>	5,976,678.00	5,022,841.00			5,259.00		8,217,946.00	21,697,996.00
Add: (1) Changes of Accounting policy								
(2) Prior period errors amend								
(3) Others								
<b>2. Beginning Balance of This Year</b>	5,976,678.00	5,022,841.00			5,259.00		8,217,946.00	21,697,996.00
<b>3. Increase or Decrease in the current year</b>		30,399.00				2,475,272.00	8,930,128.00	9,879,990.00
(1) Net Income		30,399.00				685,807.00	1,300,781.00	1,986,588.00
(2) Other comprehensive income							71,102.00	101,501.00
<b>Subtotal of the above (1) and (2)</b>		30,399.00				685,807.00	1,371,883.00	2,088,089.00
(3) Paid in capital and Decrease in Capital							7,867,932.00	8,101,588.00
1. Paid in capital							7,853,308.00	7,853,308.00
2. the amount of share-based payment recorded in the owner's equity								
3. Others								
(4) Profit distribution								
1. allotting surplus public reserves								
2. allotting ordinary risk reserves								
3. Distribute to owners (or shareholders)								
4. Others								
<b>(5) Transfer inside Equity</b>								
1. Transferring capital public reserves into paid-in capital (or share capital)								
2. Transferring surplus public reserves into paid-in capital (or share capital)								
3. Making up losses with surplus public reserves								
4. Others								
<b>(6) Special Reserve</b>								
1. withdrawal this year								
2. Paid in this year								
<b>(7) Others</b>								
<b>4. Ending Balance of this year</b>	5,976,678.00	5,053,240.00			5,259.00		17,148,074.00	31,577,986.00

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Company Statement of Changes in owner's Equity

Sheet 4  
Unit: 1000 RMB

Company: Grand China Air

FOR THE YEAR ENDED 31 DECEMBER 2011

equity attributable to the parent company owners

Items	Paid-in Capital	capital surplus	Less: Treasury stock	Special Reserve	Surplus Reserve	General Risk Provision	Undistributed Profit	Others	Minority Interests	Total Owner's Equity
<b>1. Ending Balance of Last Year</b>	5,976,678.00	5,131,813.00			5,259.00		1,109,779.00		7,047,779.00	19,271,308.00
Add: (1) Changes of Accounting policy										
(2) Prior period errors amend										
(3) Others										
<b>2. Beginning Balance of This Year</b>	5,976,678.00	5,131,813.00			5,259.00		1,109,779.00		7,047,779.00	19,271,308.00
<b>3. Increase or Decrease in the current year</b>		-108,972.00					1,365,493.00		1,170,167.00	2,426,688.00
(1) Net Income		-57,845.00					1,365,493.00		1,399,771.00	2,765,264.00
(2) Other comprehensive income									-73,026.00	-130,871.00
<b>Subtotal of the above (1) and (2)</b>		-57,845.00					1,365,493.00		1,326,745.00	2,634,393.00
(3) Paid in capital and Decrease in Capital		-51,127.00							-41,477.00	-92,604.00
1. Paid in capital										
2. the amount of share-based payment recorded in the owner's equity										
3. Others										
(4) Profit distribution										
1. allotting surplus public reserves										
2. allotting ordinary risk reserves										
3. Distribute to owners(or shareholders)										
4. Others										
<b>(5) Transfer inside Equity</b>										
1. Transferring capital public reserves into paid-in capital (or share capital)										
2. Transferring surplus public reserves into paid-in capital (or share capital)										
3. Making up losses with surplus public reserves										
4. Others										
<b>(6) Special Reserve</b>										
1. withdrawal this year										
2. Paid in this year										
<b>(7) Others</b>										
<b>4. Ending Balance of this year</b>	5,976,678.00	5,022,841.00			5,259.00		2,475,272.00		8,217,946.00	21,697,996.00

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Balance Sheet of Parent Company

Sheet 1

Company: Grand China Air

Unit: 1000 RMB

	<u>NOTES</u>	<u>31 Dec. in 2013</u>	<u>31 Dec. in 2012</u>	<u>31 Dec. in 2011</u>
<b>ASSETS</b>				
<b>Current Assets:</b>				
Monetary Funds .....		1,461,582.00	2,628,241.00	2,595,417.00
Financial Assets Held-for-Trading .....				
Notes Receivable .....				
Accounts Receivable .....	12.1	684,655.00	382,513.00	329,346.00
Accounts prepaid .....		627,805.00	244,153.00	75,107.00
Interests Receivable .....				13,148.00
Dividends Receivable .....				
Other Receivables .....	12.2	3,424,039.00	3,864,207.00	8,294,246.00
Inventories .....				
Noncurrent Assets Due within One Year ..				
Other Current Assets .....		2,500,000.00		
<b>Total Current Assets .....</b>		<b>8,698,081.00</b>	<b>7,119,114.00</b>	<b>11,307,264.00</b>
<b>Noncurrent Assets:</b>				
Available-for-sale Financial Assets .....				
Held-to-maturity Investment .....				
Long-term Receivables .....				
Long-term Equity Investment .....	12.3	7,051,045.00	9,200,127.00	9,188,231.00
Investment Real Estate .....				
Fixed Assets .....				
Construction in Progress .....				
Project Goods and Material .....				
Liquidation of Fixed Assets .....				
Productive Biological Assets .....				
Oil and Gas Assets .....				
Intangible Assets .....				
Development Expenditure .....				
Goodwill .....				
Long-term Deferred Expenses .....				
Deferred Tax Assets .....				
Other Noncurrent Assets .....				
<b>Total Noncurrent Assets .....</b>		<b>7,051,045.00</b>	<b>9,200,127.00</b>	<b>9,188,231.00</b>
<b>Total Assets .....</b>		<b>15,749,126.00</b>	<b>16,319,241.00</b>	<b>20,495,495.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Balance Sheet of Parent Company

Sheet 1

Company: Grand China Air

Unit: 1000 RMB

	<u>NOTES</u>	<u>31 Dec. in 2013</u>	<u>31 Dec. in 2012</u>	<u>31 Dec. in 2011</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>				
Current Liabilities:				
Short-term Loans .....		300,000.00	1,700,000.00	450,000.00
Financial Liabilities Held-for-Trading .....				
Notes Payable .....		1,307,385.00	1,313,879.00	5,609,921.00
Accounts Payable .....		364,014.00	236,022.00	58,683.00
Accounts Received in Advance .....		39,762.00	29,084.00	35,292.00
Employee Pay Payable .....				
Tax Payable .....		15,427.00	16,729.00	11,091.00
Interest Payable .....				
Dividend Payable .....				
Other Accounts Payable .....		1,595,298.00	1,613,392.00	2,757,799.00
Noncurrent Liabilities due within one year .....			538,000.00	377,100.00
Other Current Liabilities .....				
<b>Total Current Liabilities .....</b>		<b>3,621,886.00</b>	<b>5,447,106.00</b>	<b>9,299,886.00</b>
Noncurrent Liabilities:				
Long-term Loans .....		1,229,210.00	180,000.00	538,000.00
Notes Payable .....				
Long-term Payables .....				
Special Accounts Payable .....				
Estimated Liabilities .....				
Deferred Income Tax Liabilities .....				
Other Noncurrent Liabilities .....				
<b>Total Noncurrent Liabilities .....</b>		<b>1,229,210.00</b>	<b>180,000.00</b>	<b>538,000.00</b>
<b>Total Liabilities .....</b>		<b>4,851,096.00</b>	<b>5,627,106.00</b>	<b>9,837,886.00</b>
Shareholders' Equities:				
Paid-in Capital .....		5,976,678.00	5,976,678.00	5,976,678.00
Capital Reserve .....		4,663,196.00	4,663,196.00	4,663,196.00
less: Treasury Stock .....				
Specific Reserve .....				
Earned Surplus .....		5,259.00	5,259.00	5,259.00
Generic Risk Reserve .....				
Undistributed Profits .....		252,897.00	47,002.00	12,476.00
<b>Total Shareholders' Equities .....</b>		<b>10,898,030.00</b>	<b>10,692,135.00</b>	<b>10,657,609.00</b>
<b>Total Liabilities &amp; Shareholders' Equities .....</b>		<b>15,749,126.00</b>	<b>16,319,241.00</b>	<b>20,495,495.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Income Statement of Parent Company

Sheet 2

Company: Grand China Air

Unit: 1000 RMB

Items	Notes	Year 2013	Year 2012	Year 2011
<b>1. Operating Revenue</b> .....	12.4	<b>549,287.00</b>	<b>707,042.00</b>	<b>600,198.00</b>
Less: Cost of sales .....	12.4	542,832.00	517,890.00	485,955.00
Operating Tax .....		11,741.00	23,917.00	25,379.00
Sales Expense .....		54,084.00	70,455.00	46,352.00
Administrative Expense .....		1,030.00	31,257.00	7,559.00
Financial Expense .....		156,550.00	195,034.00	124,985.00
Loss of Impairment of Assets .....		31,792.00	30,998.00	—
add: Changes of fair value of assets (Deficit, using “-”) ..		—	—	—
Investment Income (Deficit, using “-”) .....	12.5	<b>454,383.00</b>	<b>197,266.00</b>	<b>308,427.00</b>
Include: Income from Associates .....		—	—	—
<b>2. Operation Cost (Loss, using “-”) .....</b>		<b>205,641.00</b>	<b>34,757.00</b>	<b>218,395.00</b>
Add: Non-operating Revenue .....		254.00	249.00	8,693.00
Less: Non-operating Expenditure .....		—	480.00	184.00
Include: loss on disposal of non-current assets .....		—	—	—
<b>3. Profit (Loss, using “-”) .....</b>		<b>205,895.00</b>	<b>34,526.00</b>	<b>226,904.00</b>
Less: Income Tax .....		—	—	—
<b>4. Net Profit (Loss, using “-”) .....</b>		<b>205,895.00</b>	<b>34,526.00</b>	<b>226,904.00</b>
<b>5. Earning per Share</b> .....				
Basic Earning per Share .....				
Dilute Earning per Share .....				
<b>6. Other Comprehensive Earning</b> .....				
<b>7. Total Comprehensive Earning</b> .....		<b>205,895.00</b>	<b>34,526.00</b>	<b>226,904.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Cash Flow Statement of Parent Company

Sheet 3

Company: Grand China Air

Unit: 1000 RMB

Items	Notes	Year 2013	Year 2012	Year 2011
<b>1. Cash Flow from Operating Activities:</b>				
Cash from selling commodities or offering labour		249,566.00	617,404.00	291,789.00
Refund of tax and fee received		—	—	—
Other cash received related to operating activities		341,227.00	60,303.00	12,806.00
<b>Operating Cash Inflow Subtotal</b>		<b>590,793.00</b>	<b>677,707.00</b>	<b>304,595.00</b>
Cash paid for commodities or labour		335,668.00	494,854.00	402,422.00
Cash paid to and for employees		10,602.00	17,162.00	11,644.00
Taxes and fees paid		63,261.00	72,862.00	161,198.00
Other cash paid related to operating activities		60,056.00	547,328.00	232,366.00
<b>Operating Cash Outflow Subtotal</b>		<b>469,587.00</b>	<b>1,132,206.00</b>	<b>807,630.00</b>
<b>Cash flow generated from operating activities Net Amount</b>		<b>121,206.00</b>	<b>-454,499.00</b>	<b>-503,035.00</b>
<b>2. Cash Flow from Investing Activities:</b>				
Cash from investment withdrawal		—	—	1,491,990.00
Cash from investment income		192,236.00	185,371.00	85,820.00
Net cash from disposing fixed assets, intangible assets and other long-term assets		—	—	—
Net cash received from disposal of subsidiaries and other business units		2,984,738.00	—	—
Other cash paid related to investing activities		700,000.00	1,250,000.00	253,108.00
<b>Investing Cash Inflow Subtotal</b>		<b>3,876,974.00</b>	<b>1,435,371.00</b>	<b>1,830,918.00</b>
Cash paid for buying fixed assets, intangible assets and other long-term investment		—	—	—
Cash paid for investment		2,573,509.00	—	—
Net cash paid for acquisition of subsidiaries and other business units		500,000.00	—	300,000.00
Other cash paid related to investing activities		500,000.00	1,060,000.00	3,969,132.00
<b>Investing Cash Outflow Subtotal</b>		<b>3,573,509.00</b>	<b>1,060,000.00</b>	<b>4,269,132.00</b>
<b>Cash flow generated from investing activities Net Amount</b>		<b>303,465.00</b>	<b>375,371.00</b>	<b>-2,438,214.00</b>
<b>3. Cash Flow from Financing Activities</b>				
Cash received from accepting investment		—	—	—
Borrowings		991,210.00	1,900,000.00	1,289,100.00
Cash Received from issuing notes		—	—	—
Other cash received related to financing activities		711,128.00	—	2,427,237.00
<b>Financing Cash Inflow Subtotal</b>		<b>1,702,338.00</b>	<b>1,900,000.00</b>	<b>3,716,337.00</b>
Cash paid for debt		1,880,000.00	847,100.00	38,000.00
Cash paid for dividend, profit or interest		201,071.00	128,457.00	90,842.00
Other cash paid related to financing activities		101,595.00	1,494,230.00	—
<b>Financing Cash Outflow Subtotal</b>		<b>2,182,666.00</b>	<b>2,469,787.00</b>	<b>128,842.00</b>
<b>Cash flow generated from financing activities Net Amount</b>		<b>-480,328.00</b>	<b>-569,787.00</b>	<b>3,587,495.00</b>
<b>4. Foreign Currency Translation Gains (Losses)</b>		<b>-55,657.00</b>	<b>-648,915.00</b>	<b>646,246.00</b>
<b>5. Net Increase of Cash and Cash Equivalents</b>		<b>125,999.00</b>	<b>774,914.00</b>	<b>128,668.00</b>
<b>add: Beginning Balance of Cash and Cash Equivalents</b>		<b>70,342.00</b>	<b>125,999.00</b>	<b>774,914.00</b>
<b>6. Ending Balance of Cash and Cash Equivalents</b>		<b>70,342.00</b>	<b>125,999.00</b>	<b>774,914.00</b>

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

**Statement of Changes in owner's Equity of Parent Company**

Sheet 4  
Unit: 1000 RMB

Items	Notes	FOR THE YEAR ENDED 31 DECEMBER 2013				
		paid in capital	capital surplus	Less: Treasury stock	Special Reserve	Surplus Reserve
						General Risk Provision
						Undistributed Profit
						Total Owner's Equity
<b>1. Ending Balance of last year</b>		5,976,678.00	4,663,196.00			47,002.00
Add: (1) Changes of Accounting policy						
(2) Prior period errors amend						
(3) Others						
<b>2. Beginning Balance of this year</b>		5,976,678.00	4,663,196.00		5,259.00	47,002.00
<b>3. Increase in the current year (Decrease "-")</b>						
(1) Net income (or losses) for the year						205,895.00
(2) Other comprehensive income						205,895.00
<b>Subtotal of the above (1) and (2)</b>						205,895.00
(3) Paid in capital and Decrease in Capital						
1. Paid in capital						
2. the amount of share-based payment recorded in the owner's equity						
3. Others						
(4) Profit distribution						
1. allotting surplus public reserves						
2. allotting ordinary risk reserves						
3. Distribute to owners (or shareholders)						
4. Other						
(5) Transfer inside Equity						
1. Transferring capital public reserves into paid-in capital (or share capital)						
2. Transferring surplus public reserves into paid-in capital (or share capital)						
3. Making up losses with surplus public reserves						
4. Others						
<b>(6) Special Reserve</b>						
1. withdrawal this year						
2. Paid in this year						
(7) other						
<b>4. Ending balance of this year</b>		5,976,678.00	4,663,196.00		5,259.00	252,897.00
						10,898,030.00

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)



**Statement of Changes in owner's Equity of Parent Company**

Sheet 4

Company: Grand China Air		Unit: 1000 RMB				
		FOR THE YEAR ENDED 31 DECEMBER 2012				
Items	Notes	paid in capital	capital surplus	Less:		Total Owner's Equity
				Treasury stock	Common Risk Reserve	
<b>1. Ending Balance of last year</b> .....		5,976,678.00	4,663,196.00			10,657,609.00
Add: (1) Changes of Accounting policy .....						
(2) Prior period errors amend .....						
(3) Others .....						
<b>2. Beginning Balance of this year</b> .....		5,976,678.00	4,663,196.00			10,657,609.00
<b>3. Increase in the current year (Decrease "–")</b> .....						
(1) Net income (or losses) for the year .....						
(2) Other comprehensive income .....						
Subtotal of (1) and (2) .....						
(3) Paid in capital and Decrease in Capital .....						
1. Paid in capital .....						
2. Paid by stock .....						
3. Others .....						
(4) Profit distribution .....						
1. Amount appropriated to surplus reserve .....						
2. Amount appropriated to common risk reserve .....						
3. Distribute to owners .....						
4. Other .....						
(5) Transfer inside Equity .....						
1. conversion into capital (or stock) transfer-in from capital surplus .....						
2. conversion into capital (or stock) transfer-in from surplus reserve .....						
3. Surplus reserve recovery of losses .....						
4. others .....						
(6) Special Reserve .....						
1. withdrawal this year .....						
2. Paid in this year .....						
(7) other .....						
<b>4. Ending balance of this year</b> .....		5,976,678.00	4,663,196.00			10,692,135.00

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

# Statement of Changes in owner's Equity of Parent Company

Sheet 4  
Unit: 1000 RMB

Items	Notes	FOR THE YEAR ENDED 31 DECEMBER 2011				
		paid in capital	capital surplus	Less: Treasury stock	Common Risk Reserve	Undistributed Profit
<b>1. Ending Balance of last year</b>		5,976,678.00	4,663,196.00		5,259.00	-214,428.00
Add: (1) Changes of Accounting policy						
(2) Prior period errors amend						
(3) Others						
<b>2. Beginning Balance of this year</b>		5,976,678.00	4,663,196.00		5,259.00	-214,428.00
<b>3. Increase in the current year (Decrease "-")</b>						
(1) Net income (or losses) for the year						226,904.00
(2) Other comprehensive income						226,904.00
Subtotal of (1) and (2)						226,904.00
(3) Paid in capital and Decrease in Capital						
1. Paid in capital						
2. Paid by stock						
3. Others						
(4) Profit distribution						
1. Amount appropriated to surplus reserve						
2. Amount appropriated to common risk reserve						
3. Distribute to owners						
4. Other						
(5) Transfer inside Equity						
1. conversion into capital (or stock) transfer-in from capital surplus						
2. conversion into capital (or stock) transfer-in from surplus reserve						
3. Surplus reserve recovery of losses						
4. others						
(6) Special Reserve						
1. withdrawal this year						
2. Paid in this year						
(7) other						
<b>4. Ending balance of this year</b>		5,976,678.00	4,663,196.00		5,259.00	12,476.00
						10,657,609.00

Legal Representative:

Supervisor of Accounting Department:

Head of Accounting Department:

(Notes Attached are Parts of the Financial Statements)

**Grand China Air Corporation Ltd. Financial Statement Notes**

From Year 2011 to 2013

(The currency is in 1000 RMB Yuan except otherwise indicated)

**Part One: Profile of Company****1. History Evolution**

Grand China Air Corporation Ltd. (hereinafter referred to as “the company”) was formerly named Xinhua Airlines Holding Co., Ltd which was jointly established by HNA Group & the Yangtze River Investment Holding Corporation on 12th July 2004. Its original registered capital is RMB 500,000,000 which includes RMB 250,000,000 each provided by both sides in monetary funds, respectively representing 50% of the registered capital. The company’s registered address is No 29, Haixiu Road, Haikou City, Hainan Province.

Hainan Development holdings signed a capital increment agreement with HNA Group & the Yangtze River Investment Holding Corporation in September 2005. An capital increment of RMB 1,500,000,000 was provided by Hainan Development holdings. After the capital increment the company modified its registered capital to RMB 2,000,000,000.

Approved by the Ministry of Commerce of People’s Republic of China (hereinafter referred to as “Ministry of Commerce”) in February 2006, Starstep increased capital to the company by \$ 25,000,000 in monetary funds. After the capital increment the company turned into a sino-foreign joint venture. The registered capital of the company modified to RMB 2,202,000,000.

Approved by the Ministry of Commerce in April 2006, HNA Group increased capital to the company with the 86,549,000 A shares of Hainan Airlines for RMB 298,590,000 and the 12.65% shares of Changan Airlines for RMB 39,770,000; Starstep increased capital to the company with 100% stock equity of the American Aviation LDC. for RMB 372,790,000; Hainan Qixing increased capital to the company with 49,904,680 A shares of Hainan Airlines for RMB 172,160,000. After the above capital increments, the registered capital of the company was modified to RMB 3,086,000,000.

Approved by the Ministry of Commerce in August 2006, HNA Group and another three newly added foreign stockholders increased capital to the capital with cash of RMB 604,230,000. After the capital increment, the registered capital of the company increased to RMB 3,690,000,000.

Approved by the Ministry of Commerce in August 2009, HNA Group and another 15 newly added domestic stockholders including Shenhua Group increased capital of the 12.65% shares to the company. Shenhua Group increased capital to the company with the 40% stock equity of Xinhua Airlines for RMB 1,002,321,000, while other stockholders increased capital with cashes. After the capital increment, the registered capital of the company was added to RMB 6,008,000,000.

In 2009, the company received increment capital of RMB 4,782,746,000, among which RMB 1,816,419,000 was increased to paid-in capital. The capital premium of the 12.65% shares was amounted to the capital surplus.

In 2010, the company received increment capital of RMB 2,178,200,000, among which RMB 470,463,400 was increased to paid-in capital. The capital premium of RMB 1,707,736,600 was amounted to the capital surplus.

Dated to Dec 31st, 2013 the stockholders of the company and their respective equity proportions were listed as followed:

<b>Name of company</b>	<b>equity proportion of the company</b>
Hainan Development stock holdings .....	24.97%
HNA Group .....	23.11%
Haikou Meilan International Airport .....	8.30%
Starstep .....	9.57%
Shenhua Group .....	5.56%
Others .....	28.49%
	100%

## **2. Business Scope**

The company and its subsidiaries belong to airline transportation industry. The business scope mainly includes: air transportation; aviation maintenance and services; aircrafts supplies; the extension services relevant with the airline transportation; airports investment management; terminal services; hotel management etc.

## **Part Two: Major Accounting Policy and Accounting Estimate and Previous Errors.**

### **1. Basic of preparing the financial statement**

The financial statement was prepared on the basis of sustainable operation. According to the actual transactions and items, it was prepared in accordance with the enterprises accounting standards issued by Ministry of Finance based on the following significant accounting policy and accounting estimate.

### **2. Statement of Following the Enterprises Accounting Standard**

The financial statements of this year prepared by the company follow the requirement of the Enterprises Accounting Standard are truly and completely reflect the relevant information of financial status, operation result and cash flow statement in the company.

### **3. Accounting Period**

The accounting period is from 1 January to 31 December in solar calendar.

### **4. Bookkeeping Currency**

The bookkeeping currency is RMB.

## **5. Consolidated Accounting Treatment Method of Enterprises under the Same Controller or Different Controller**

### ***(1) Consolidated Accounting Treatment Method of Enterprises under the Same Controller***

The assets and liabilities of the company obtained by consolidation are measured according to the book value of the merged company. The company should adjust the surplus reserve when there is a difference between the book value of net assets and the consolidated book value paid for acquisition (or total book value of newly issued stocks); when the surplus reserve is insufficient, the retained earnings should be adjusted.

### ***(2) Consolidated Accounting Treatment Method of Enterprise under Different Controllers***

When the consolidated cost is higher than the fair value of the purchased net assets recognizable acquired by consolidation, the balance of their difference should be recognised as good will. When the consolidated cost is lower than the fair value of the purchased net assets recognizable acquired by consolidation, the balance of their difference should be recognised as current profit or losses if the former is still lower than the latter after the amount check which involves the fair value of the various recognizable purchased assets, liabilities, contingent liabilities and cost of consolidation.

## **6. Preparation Method of Consolidated Financial Statements**

### ***(1) Definition of Consolidated scope***

the consolidated financial statement is prepared according the 《Enterprises Accounting Standard No.33 ----- Consolidated Financial Statement》 issued in February 2006. The company, subsidiary controlled directly or indirectly by the company and financial statement of special purpose vehicle are consolidated under the rule that the scope of the consolidation financial statement is defined based on control. Control means that the financial and operation policy of the invested units should be determined by the company and on these occasion the company can acquire economic interest from the operation activities of these entities.

The entity will not be merged to consolidation statement scope unless there is any proof that the invested units can be controlled by the parent company.

### ***(2) Treatment of the equities of subsidiaries purchased or sold***

The date will be defined as purchasing day and selling day by the company when the risk and return related with the owners' equities purchased or sold are materially transferred. For the subsidiaries consolidated or sold under different controllers, the business result and cash flow before the purchasing day and after the selling day are properly involved in the consolidated income statement and consolidated statement of cash flows; For the subsidiaries consolidated under the same controller, the business result and cash flow from the year beginning to the consolidation day have also involved in the consolidated income statement and consolidated statement of cash flows. The comparison amount of the consolidated financial statements has been also adjusted correspondingly.

When the company prepares the consolidated financial statements, the difference should be utilised to adjust the items of owners' equities (surplus reserve) between the long-term equity investment acquired by purchasing the minority stock equity with the shares of net assets sustainably calculated according the newly increased share-holding proportion from the purchasing day (or consolidation day). When the surplus reserve is insufficient to subtract, the items of retained earnings should be adjust.

***(3) The Subsidiaries' Financial Statement should be Adjusted when the Accounting Policy and Accounting Period of the Subsidiaries are Different from the Parent Company.***

If the accounting policy carried out by the subsidiaries disagrees with that of the company, the subsidiaries' financial statement has been correspondingly adjusted according to the accounting policy of the company. For the subsidiaries acquired by consolidation under different controllers, the financial statement of the subsidiaries has been correspondingly adjusted according to the fair value of the assets of the subsidiaries recognizable on the purchasing day, liabilities and contingent liabilities.

***(4) Consolidation Method***

All the significant accounts and transactions will be offset between the company and the subsidiaries or mutually between the subsidiaries when the consolidated financial statements are prepared.

The proportion, belonging to the minority interest among the net assets of the consolidated subsidiaries, should be list separately in the shareholders' equity item of the consolidated financial statements.

If the amount of loss shared by the minority stockholders exceeds that of the subsidiary's equity share proportion in the company, the minority interest could be reduced or offset on the condition that the minority stockholders have the obligation and are capable of making up loss. Otherwise the relevant extra amount of loss will be carried by the company.

**7. Definition Criterion of Cash Equivalent**

The cash equivalent of the company specifies the investment of short duration( usually due within three months from the purchasing day), strong liquidity, easy to convert to known amounts of cash and low risks of changes of value.

**8. Foreign Currency Operation and Translation of Statements**

***(1) Foreign Currency Transactions***

The foreign currency transactions related with the company adopt the instant exchange rate of the transaction day (usually mean the mid-price of foreign exchange quotation issued by the PBOC that day ) to translate and keep account in RMB.

The foreign monetary items adopt the instant foreign exchange rate for translation on balance sheet date. The exchange balance caused by the difference of instant exchange rate on between the B/S date and the original date recognised or the former B/S date is measured in the items of current profits or losses. The non-monetary items measured by historical cost still adopt the instant exchange rate on the transaction day for translation with the amounts of recording currency unchanged. The non-monetary items measured by fair value adopt for translation the instant exchange rate on the day when fair value is recognised. The difference after translation between the current recording currency and the original one is measured to the items of current profits or losses as a treatment of changes of fair value.

***(2) Translation for the financial statement in foreign currency***

① The items of asset and liability in the balance sheet adopt the instant exchange rate on B/S date for translation; the items of owners' equity except for that of "the undistributed profits" adopt the instant exchange rate for translation when the relevant transaction takes place.

② The items of revenue and expense in the income statement adopt the instant exchange rate for translation when the transactions take place.

The translation difference of financial statement in foreign currency followed by the above rules should list separately in the items of the owners' equity in the balance sheet.

③ The items in the cash flow statement adopt the instant exchange rate for translation when the cash flow takes place. The affected amount caused by the changes of exchange rate towards cash is an adjusted item listed separately in the cash flow statement.

**9. Financial Instruments**

***(1) Classification of the Financial Assets and Financial Liabilities***

According to the investment purpose and the economic essence, the company classifies its financial assets as four categories, namely financial assets measured in fair value and whose changes are measured in the current profits and losses, hold-to-maturity investment, loans and receivables and financial assets for sales.

According to the economic essence, the financial liabilities are classified as two categories, namely financial liabilities measured in fair value and whose changes are measured in the current profits and losses and other financial liabilities.

① the financial assets or liabilities measured in fair value and whose changes are measured in the current profits and losses: includes the trading financial assets or liabilities and specified financial assets or liabilities measured in fair value and whose changes are measured in the current profits and losses

a. the purpose of acquiring the financial assets or undertaking the financial liabilities is mainly for recent sales or repurchase;

b. A part of recognizable financial instrument portfolio performing focused management, and there are objective proofs that show the portfolio is recently managed for short-term profits.

c. Belong to derivative instrument. But except for the derivative specified and being an effective hedge instrument, the derivative derived from the financial guarantee contract, the derivative linked up with the equity instrument investment with no quotation in the active market and whose fair value cannot be reliably measured and settled only by delivering the equity instrument.

**The specified financial assets or liabilities measured by fair value and whose changes are measured in the current profits and losses are those which meet one of the following conditions:**

a. The specification can eliminate or obviously decrease the inconsistent occasions regarding the measurement of the relevant profit gains or losses caused by the different basis on which the financial assets or liabilities are measured.

b. The formal written document regarding the risk management or investment strategy of the company has clearly recorded that the portfolio of the financial assets, financial liabilities, financial asset and liabilities must be managed on the basis of fair value and be evaluated and be reported to the key administrative staff.

② Hold-to-maturity Investment: It specifies non-derivative financial assets with fixed maturity date, fixed or measurable recovery amount and which the company has definite intention and enough ability to hold to maturity. It mainly includes the floating interest rate corporate notes and the fixed interest rate treasury notes which the company has definite intention and enough ability to hold to maturity.

③ Receivables: It specifies non-derivative financial assets with fixed or measurable recovery amount and no quotation in the active market. The receivables in the company mainly specifies the account receivable resulted from selling commodities or offering labour and other receivables.

④ Financial assets for sales: It refers to the non-derivative financial assets originally recognised for sales, the financial assets being not classified as fair-value accounting ones, whose changes are accounted to the current profits and losses, hold-to-maturity investment, loans and receivables.

⑤ Other financial liabilities: It refers to the financial liabilities being not classified as an item measured by fair value and whose changes are accounted to the current profits and losses.

## ***(2) The accounting for the financial assets and liabilities***

The financial assets and liabilities in the company are amounted by fair value while they are originally recognised. The financial assets or liabilities are amounted by fair value and their changes are measured to the current profits and losses. The relevant transaction expenses directly amount to the current profits and losses; for the other kinds of financial assets or liabilities the related transaction expenses are measured to the originally recognised amount.

**The subsequent accounting method of financial assets and liabilities in the company is listed as follows:**

① The financial assets and liabilities accounted by fair value and whose changes are measured to the current profits and losses must be subsequently measured by fair value. The changes of fair value and the amount of the profit gains or losses produced by the terminal of recognition are included in the current profits and losses.

② The hold-to-maturity investment keeps subsequent accounting adopting the real interest method according to the amortised cost. Its amount of profit gains or losses brought by the terminal of recognition, devaluation or amortisation is included in the current profits and losses.

③ The receivables keep subsequent accounting adopting the real interest method according to the amortised cost. Its amount of profit gains or losses brought by the terminal of recognition, devaluation or amortisation is included in the current profits and losses.

④ The financial assets for sales keep subsequent accounting according to the fair value whose changes of amount in fair value are included in the surplus reserve. The amount of difference is included in the investment profits or losses between the money received for disposal of financial assets for sales and the book value of the financial assets. At the same time the amount of corresponding disposal related with the accumulation sum of fair-value changes originally calculated into the owners' equities is transferred to keep



accounting in the investment profits or losses. The amount of devaluation losses of this kind of financial assets and the exchange difference of monetary financial assets in foreign currency are kept in the current profits and losses. The interest acquired during the period of holding the financial assets for sales and the cash dividends declared and issued by the invested units should be kept accounting in the investment profits or losses.

⑤ Other financial liabilities: the derivative financial liabilities, settled only by delivering the equity instrument and linked up with the equity instruments investment with no quotation in the active market and whose fair value cannot be reliably measured, should be kept subsequent account according to the cost.

The financial guarantee contract does not belong to the specified financial liabilities measured by fair value and its changes are not kept an account in the current profits and losses. the credit commitment that the loan of which the interest is lower than the market will be provided will not be measured by fair value and the fair-value changes are not kept accounting in the current profits and losses. The amount of the foregoing two items after original recognition will be kept subsequent account according to the higher of the following two:  
**a. Defined amount by the 《the Standards of Enterprise Accounting No.13----Contingent Items》 b. The balance of the originally recognised amount subtracted by that of the accumulated amortisation defined by the 《the Standards of Enterprise Accounting No.14----Revenue》.**

Other financial liabilities adopting the real interest method are kept subsequent account according to the amortisation cost. The profits or losses brought by the terminal of recognition or amortisation are kept included in the current profits and losses.

⑥ Fair value: It refers to the amount asset exchange or debt repayment is voluntarily performed by both sides of the transaction familiar with the situation. Under the condition of fair transaction the both sides of the deal should be the enterprises under sustainable operation, with no plan or no need to settle accounts or largely shrink their business size or not trading under the disadvantageous conditions. The quotation in the active market should be used to define their fair value when the active market of financial assets and liabilities exists. When the active market does not exist, the enterprise should define their fair value adopting valuation technique.

⑦ Amortisation cost: the amortisation cost of the financial assets or liabilities refers to the original recognised amount of the financial assets or liabilities subtracted by the repaid the principal, minus or plus the accumulated amortisation amount formed by the balance amount amortised between the original recognised amount and that at maturity adopting the real interest method, and minus the balance after the financial assets accrued devaluation loss.

⑧ Real interest method refers to the method by which interest revenue or expense during different period and amortisation cost are calculated according to the real interest of the financial assets or liabilities (including a group of financial assets or liabilities). The real interest refers to the interest which used to discount into the current book value of the financial assets or liabilities the future cash flow of the accrued financial assets or liabilities during the expected existing period or applicable shorter-term period. When the real interest is defined, the future cash flows should be estimated on the basis of taking into consideration all the contract clauses related with the financial assets or liabilities (including the right of repayment in advance, call options, similar options etc.), while not the future credit losses.

### ***(3) The Transfer and Terminal of Recognition of Financial Assets***

① The financial assets which meet one of the following conditions will be terminated recognition

a. The termination of the contract right that will receive the cash flows of the financial assets.

b. the financial assets have been transferred and nearly all the risks and returns on the basis of the ownership right of the financial assets have been transferred.

c. the financial assets have been transferred but nearly all the risks and returns on the basis of the ownership right of the financial assets have not been transferred or retained.

② The difference of the following two items is kept accounting in the current profits and losses when the financial assets of the company transferred completely meet the condition of terminated recognition.

a. The book value of transferred financial assets

b. The sum of the discounted amount received by assets transferred and the accumulated amount of fair-value changes of formerly directly calculated in the owners' equity.

③ when the financial assets of the company partly transferred meet the conditions of terminated recognition, the book value of the whole financial assets transferred is amortised according to the their respectively comparatively fair value, between the terminated recognition part and the recognition part which has not terminated, and the difference of the following two amount is kept accounting in the current profits or losses.

a. The book value of Terminated recognition part;

b. Discounted amount of the terminated recognition part, plus the accumulated amount of fair-value changes originally kept direct accounting in the owners' equity corresponding the terminated recognition part.

④ When the financial assets transferred do not meet the requirement of the terminated recognition, the financial assets should be recognised continuously, from which the received discount amount identified as an item of financial liabilities for the financial assets transferred adopting the continuously involving method, the company should recognise an item of financial assets according to the extent to which the transferred financial assets are continuously involved, and at the same time recognise an item of financial liabilities.

#### ***(4) Method of the Devaluation Test and Devaluation Provision Accrual of the Financial Assets***

① The depreciation provision should be set up when there exists the following proof that show the financial assets depreciation happens:

a. The issuers or debtors are faced with tough financial difficulty.

b. The debtors violate contract clause, such as the default or overdue payment of interest or principal repayment.

c. The creditor make concessions to the debtors in financial difficulty out of economic or legal consideration.

d. The debtors go bankrupt or carry out other financial turnaround.

e. The financial assets cannot be traded in the active market due to the significant financial difficulty of issuers.

f. It is unrecognizable whether the cash flows of a certain item of asset among a group of financial assets are decreased. After the total evaluation towards the cash flows according the public data it is discovered that the estimated future cash flows of the group of financial assets from the time original recognised have definitely been decreased and measurable.

g. It is possible that the equity instrument investor cannot take back the investment principal when the technique, market, economy or legal environment etc. have taken place significant disadvantageous changes in which the debtors operate.

h. The fair value of the equity instrument investment has appeared serious or nontransient drop.

i. Other objective proofs that show the financial assets have occurred the assets depreciation.

② The company makes depreciation test adopting different method corresponding to various categories of financial assets at the B/S date, accounts and draws the depreciation reserve.

a. Hold-to-maturity Investment: The company should calculate and recognise the depreciation losses according to the difference between the book value and the present value of the estimated future cash flows, if any object proof that shows value depreciation has occurred in the hold-to-maturity investment at B/S date.

b. Financial Assets for Sales: the company analyzes the value depreciation occasion of the financial assets for sale at B/S date, and judges the fair value of the financial assets if it is a sustained decline. On usual occasion, if the fair value of the financial assets for sale takes place a decline in a comparatively large extent after the complex consideration of different relevant factors resulting in the anticipation the decline trend is not temporary, it can be judged that the financial assets for sale have been depreciated and the devaluation losses can be recognised. When the financial assets for sale take place depreciation, the accumulated losses caused by the fair-value decline of the original direct bookkeeping in the owners' equity item should be transferred out to keep accounting in the asset depreciation losses.

## 10. The Receivables

(1) The recognition standard and calculation method of provision for the bad debt of single significant amount:

On B/S date, the account receivables with the ending balance greater than RMB 10,000,000 and other receivables with the ending balance greater than RMB 10,000,000 are classified as the receivables with single significant amount and they should be performed devalue test one by one. If there is objective proof that shows devaluation has been occurred, the depreciation loss should be defined and bad debt provision should be calculated according to the difference between the lower present value of future cash flows and the higher book value of the items.

If the depreciation does not occur in the single test, one more tests need to be performed according to different credit asset portfolios with the characteristic of similar credit risks.

(2) For the receivables without a single significant amount, however having definite proofs of its weak collectability, the impairment loss should be defined and provision for bad debt should be calculated. The re-collectable amount of the receivables can be defined by the actual financial status and cash flow of the debt units.

(3) for the receivables without a single significant amount or with a single large amount which do not depreciate after single tests the proportion of the calculation of provision for bad debts for different portfolios during the report period should be defined by the current condition on the basis of the actual loss probability of the receivables portfolios with same ages.

The basis for portfolios definition is listed as followed:

Portfolio 1	the receivables from relevant parties
Portfolio 2	the receivables of rent insurance and maintenance reserve
Portfolio 3	the other receivables apart from the above listed

The calculation method for bad debt provision according the portfolios is listed as followed:

Portfolio 1	not calculate
Portfolio 2	not calculate
Portfolio 3	aging-analysis-method

Adopted by age-analysis-method in the company the proportion for the bad debt allowance is listed as followed:

<u>Ages</u>	<u>Percentage of account receivables (%)</u>	<u>Percentage of other receivables (%)</u>
Within one year (including one year) .....	0	0
For 1-2 years (including two years) .....	5	5
For 2-3 years (including three years) .....	10	10
For 3-4 years (including four years) .....	30	30
For 4-5 years (including five years) .....	50	50
More than 5 years .....	80-100	80-100

(4) For other receivables (including the notes receivable, advance payment, interest receivable, long-term receivables) the provision for bad debt is calculated according to the difference of amount between the lower present value of future cash flow and the book value.

(5) For the receivables from the government or relevant parties are not calculated the provision for bad debt.

## 11. Inventories

### (1) Classification of Inventories

The inventories in the company includes low-value durables (including the manufacturing facility and instruments, office furniture, IT equipments etc.), low-value consumables (including machine offerings, Air material consumption, clothing, auto parts etc.) air materials etc.

### (2) Accounting method of receiving and delivering

The inventories in our company keep accounting according to the real cost. The use and delivering of inventories adopt the real cost method.

### (3) The inventory system of inventories

The company adopts the perpetual inventory system for its inventories.

### (4) The amortisation method of the low-value consumables and packing materials.

The low-value consumables are amortised according to the one-time amortisation method. The low-value durables amortised according to the five-five amortisation method.

## 12. Long-term Equity Investment

The long-term equity investment includes equity investment hold by the company to perform control, mutually control or lay important influences upon the invested units, or the long-term equity investment with no quotation in the active market and no fair-value reliable accounting, whose holder---the company has not controlled, mutually controlled or laid important impression upon the invested units.

### *(1) Recognition of Investment Cost*

The company keep accounting to the long-term investment according to the following situations:

① The long-term equity investment formed by consolidation recognizes as the investment cost according to the following regulations:

a. The long-term equity investment acquired by consolidation under the same controller when the company pays the corresponding amount by means of cash, non-cash assets transferred or debt-holding take the share of the book value of the consolidated owners' equity at the consolidation date as the original investment cost.

The difference should be adjust accounting in surplus reserve between the initial investment cost of the long-term equity investment and the cash paid, non-cash assets transferred and the book value of the debt held. When the surplus reserve is insufficient, the retained earnings should be adjusted. When the company issues equity securities paid for consolidation, the shares of book value of the consolidated owners' equity should be taken as the initial investment cost of long-term equity investment.

The total face value of the outstanding stocks takes as equity capital, and the difference between the initial equity investment and the total face value of outstanding stocks should be kept account in the surplus reserve; The surplus reserve is sufficient to offset, the retained earnings should be adjusted. The respective relevant direct expenses paid for consolidation include the audit expenses, evaluation expenses, legal service expenses paid for the consolidation keep accounting in the current profits and losses when they occurs.

b. The long-term equity investment acquired by consolidation under different controllers, the consolidation cost is the fair value of assets paid for the control of the acquired unit at the purchase date, liability incurred or held and outstanding equity securities.

The balance, the consolidation cost minus the fair value share of the recognizable net assets of the purchased unit during acquisition should be recognised as good will in the consolidated balance sheet.

The balance, the fair value share of the recognizable net assets of the purchased unit during acquisition minus the consolidation cost, should be kept accounting in the current profits or losses (non-operating income). The various expenses for consolidation including the medium expenses of audit, legal service, evaluation consultancy etc. and other relevant administrative expenses should be kept accounting in the current profits or losses. The transaction expenses of the issued equity securities or debt securities as the buyer's consolidation discounted price should be kept accounting in the initial recognised amount of the equity securities or debt securities.

**When the company carries out the consolidation by several pieces of transactions under the different controllers, the separate financial statement and the consolidated one should be discriminated and kept in relevant accounting treatment:**

i) In separate financial statement the sum of the book value of the equity investment of the purchased unit at purchase date and newly increased investment cost should be taken as the initial cost of the investment.

If the equity held by the acquired unit before the purchase date is involved in other complex incomes, at time of the disposal of the investment the relevant other complex incomes (for instance, the part included in the capital surplus of the fair-value changes of the financial assets for sales, the same below) should be transferred accounting in the current profits or losses.

ii) In consolidation financial statement, the equity of the acquired unit held before the purchase date should be performed remeasurement according the fair value of the equity at the purchase date, the difference between the fair value and the book value should be included in the current profits or losses. If the equity of the acquired unit held before the purchase date is involved in other complex incomes. The relevant other complex incomes should be transferred in the current profits or losses. the fair value of the equity of the acquired unit held before the purchase date should be disclosed its fair value at the purchase date in the notes to financial statement, and the relevant amount of profit gains or losses occurred should be recalculated with the fair value.

② For the equity investment acquired by other means except for the long-term equity investment formed by the consolidation, its investment cost should be defined by the following rules:

a. The long-term equity investment acquired by cash payment should take the purchasing price actually paid as the initial investment cost. Initial vestment cost includes the expenses directly related with the acquisition of the long-term equity investment, the taxes and other necessary expenditures, but the cash dividends declared and not received within the actual paid money should keep separate accounting in the receivables.

b. The long-term equity investment acquired by being issued equity securities makes the fair value of the equity securities issued as initial investment cost.

c. The long-term equity investment makes the value appointed by investment contract or agreement as the initial investment cost, except the value appointed by investment contract or agreement is unfair.

d. The long-term equity investment acquired by the non-cash assets exchange, if the exchange possesses commercial essence and fair value of the assets swapped in or out can be reliable measured, then the fair value of the swapped out assets and relevant taxes should be kept as initial investment cost., the difference between the fair value and the book value of the swapped out assets should be kept as the current profits or losses. If the exchange of the non-monetary assets does not meet these two requirement simultaneously, the initial investment cost should be defined according to the book value of the swapped out assets and relevant taxes.

e. If the long-term equity investment is acquired by debt recombination, the fair value of the acquired equity should be taken as the initial investment cost, and the difference between the initial investment cost and the book value of the debt should be included in the current profits or losses.

## ***(2) Subsequent measurement and the recognition method of the profits or losses***

The long-term equity investment towards the subsidiaries is kept business accounting by the cost method, at time of being prepared consolidated financial statement the equity should be adjusted by the accrual basis method.

The long-term equity investment which has few impression on or does not mutually controlled the invested units, or with no quotation in the active market, and whose fair value cannot be reliably calculated, should be kept business accounting by the cost method.

The long-term equity investment which has import impression on or mutually controls the invested units be kept business accounting by accrual basis method.

a. When the business is accounted by the cost method, added item or withdrawal of investment should be adjust the cost of the long-term equity investment cost. The acquired cash dividends or profits declared and issued by the invested units except for the actual payment for the acquisition of the investment or the cash dividends or profits declared but not issued should be recognised by the cash dividends or profits declared and issued by the invested units.

b. When the business accounting is on accrual basis, the book value of investment profits or losses and adjustment of the long-term equity investment should be recognised by the shared or participated portion of the net profits or losses realised by the invested unit.

The current investment profit or losses is the shared or participated portion of the net profits or losses realised by the invested units in the current year.

When the net profits or losses of the invested units shared or participated are recognised, the investment profits or losses are recognised based on the book value of net profits of the invested units. for the different accounting policy by the invested units, the depreciation or amortised on the basis of fair value of the tangible and intangible assets of the invested units at time of acquisition, and effect of the assets devaluation provision defined by the fair value of the relevant assets at time of acquisition on the net profit of the invested units should be taken into consideration. The inside transaction profits or losses resulting among the company and the joint or joint-run enterprises should be offset, then on that basis the investment profits or losses are recognised. If the inside transaction resulting between the company and the invested units belongs to the asset devaluation losses according to «the Enterprises Accounting Rules-----Assets Devaluation», it is recognised as full amount.

When the net losses supposed to be shared resulting from the invested unit are recognised, the long-term equity investment and other long-term equity essentially composing of the net investment of the invested units are written down to zero to the maximum extent. (the case is an exception that the invested enterprises carry out the obligation of undertaking the extra losses). If the invested units carry out profits at subsequent periods, the book value of the long-term equity and the long-term equity investment should be recovered in sequence by the amount that the shared profits exceed the unrecognised contributed losses when the former is larger than the latter.

For the long-term equity investment of the joint and jointly-run enterprises held before the initial executive date, if the credit balance of the equity investment related with the investment exists, the amortisation amount calculated by the original remaining term of the straight-line method is included in the current profits or losses.

### ***(3) Recognition of the Identification of Jointly Controlling or Significant Effect Had on the Invested Units.***

① There are the following one or several cases that can define the mutual control upon the invested units exists:

- a. Any one jointly-run unit cannot separately control the operating activities of the joint-run business.
- b. The decision involving the basic operating activities of the joint-run business needs the unanimous agreement with the respective joint-run units.
- c. The respective joint-run units may appoint one of the joint-run units by means of contract or agreement to manage the daily activities of joint-run business. But the right of management must be limited within the scope regulated by commonly agreed financial and operating policy of the respective joint-run units.



Usually the investing unit may not carry out the mutual control upon the invested unit if the invested unit is in bankrupt or in statutory reorganization, or is being operated under the circumstances that its ability of transferring capital to the investing unit is suffered strictly long-term limitation. But if the mutual control can be identified existent, the respective units still must adjust accounts by equity method under the regulation of the long-term equity investment rules.

② There are the following one or several cases, the significant influence upon the invested unit should be defined:

- a. There are representatives assigned in the board committee or other organs of authority of the invested unit.
- b. Participation in the process of the policy-making in the invested unit.
- c. Important transactions with the invested unit. d. management staff assigned to the invested unit. e. critical technical material provided to the invested unit.

***(4) Impairment Reservation and Impairment Test Methods of the Long-term Equity Investment:***

The long-term equity investment is checked item by item at B/S date by the company. According to the various changes of the operating policy, legal environment, market demand, industry and profitability etc in the invested unit the long-term equity investment should be judged whether or not the sign of impairment exists.

If the withdrawal amount of long-term equity investment is lower than the book value, the difference between the withdrawal amount and the book value of the long-term equity investment is counted and drawn as impairment provision of the long-term equity investment. The impairment of assets will not be written down during the later accounting period as soon as the assets impairment losses are recognised.

### **13. Investment Properties**

The investment properties refer to the properties held to make rent or capital increment, including the rented buildings and the land use right rented or transferred after preparation for capital increment.

If there is definite proof that shows the fair value of the investment real estate can be reliably and sustainably attained, then fair value method are adopted to take subsequent measurement for the investment real estate. If fair value method is used to calculate the value, the following conditions should be met simultaneously: 1. There is active trade market in real estate where the investment real estate are located; 2. Enterprises can attain the same or similar real estate market price and other relevant information from the trade market, and therefore the fair value of the investment real estate can be reasonably estimated.

If the fair value method is adopted, depreciation or amortisation should not be calculated or carried for the investment real estate. The book value should be adjusted on the basis of the fair value of the investment real estate at the end of the year, the difference of amount between the fair value and original book value is calculated to the item of current losses.

As soon as it is decided, the calculation method will not be changed by which the company measure the value of the investment property. When the property measurement method changes from the cost pattern to the fair value one, it is dealt as the modification of accounting policy according to «the Enterprises Accounting Rules No.28-----Accounting Policy and Accounting Estimate and Errors correction». The investment properties which have been measured by fair value method are forbidden to be measured by cost method.



## 14. Fixed Assets

### *(1) Recognition Condition for Fixed Assets*

The fixed assets refer to the tangible assets with relative high value per unit held for more than one year to manufacture goods, offer labours, rent or manage and operate. The fix assets are recognised according to its actual cost of acquisition if they meet the following conditions simultaneously:

① The economic interest related with the fixed assets is likely to flow into the enterprises

② The cost of the fixed assets can be reliably estimated.

The subsequent expenditures related with the fixed assets are included in the cost of fixed assets if they meet the above recognition conditions, if not they are included in the current profits or losses when generated.

### *(2) Depreciation Method of Various Fixed Assets*

The depreciation of fixed assets adopts the straight-line method

The period of depreciation, residual rate and annual rate of depreciation of the various categories of fixed assets are listed as followed:

<u>Categories of fixed assets</u>	<u>period of depreciation</u>	<u>residual rate(%)</u>	<u>annual rate of depreciation(%)</u>
Housing Structures . . . . .	40	5	2.375
Aircraft and engine-core part . . . . .	20	5	4.75
Aircraft and engine-replace parts . . . .	5-7	0	14.29-20
High turnover parts . . . . .	10-15	5	6.33-9.5
Transportation instruments . . . . .	10	5	9.5

### *(3) The Method of the Impairment Test and the Impairment Provision of Fixed Assets*

The company judges the various items of fixed assets on B/S date. If there are signs of impairment and it is estimated that the collectable amount of the fixed assets is lower than the book value, the book value can be taken down to the collectable amount. The write-down amount is recognised as the impairment losses of assets which is included in the current profits and losses and meanwhile the corresponding impairment reservation of assets is counted and drawn. The impairment losses of assets is no longer transferred back during the later period as soon as it is recognised. If there are following signs, it is indicated that the fixed asset may have devalued.

① The market value of assets drops sharply at current times. The extent to which it drops is obviously higher than the estimated drop due to time elapse or normal use.

② The economic, technical or legal and other environment etc. in which the business operates and the market in the assets will take place significant changes during the current or recent period, and therefore make disadvantageous influence on the business.

③ The market interest rate or investment return rate in other market are increased in the current period, therefore influences the discount rate which the enterprise use to calculate present value of the estimated future cash flow. In this case, the amount of the collectible assets is largely decreased.

④ There are proofs that assets have been outdated or their substances have been damaged.

⑤ The assets have been or will have been laid aside or terminated their usage or planned to dispose in advance.

⑥ The proof stated in the inside report of the company the economic performance of assets has already been lower or will have been lower than estimation. For instance: the net cash flow generated by the assets or the operation profits ( or losses) realized by the assets are much lower than the estimated amount.

⑦ Other signs show that the assets may have been occurred devaluation.

#### ***(4) Recognition Basis and Accounting Method of Financial Leased Fixed Assets***

If the leased fixed assets of the company materially transferred the entire risks and returns the lease of fixed asset should be recognised as financial lease. The cost of fixed asset acquired by financial lease are defined by the relatively lower of the two, which are the fair-value amount of the leasing asset at the beginning date of leasing and the amount of the present value of the lowest leasing payment.

The fixed assets financed by leasing calculate the depreciation of leasing assets adopted by the depreciation policy in accordance with the self-owned fixed assets. The depreciation is calculated during the life circle of the leasing assets if the proprietary right can be reasonably and definitely achieved until the leasing term ends. The ownership cannot be reasonably and definitely achieved when the leasing term ends, the depreciation is calculated during the shorter period between the leasing term and life circle of the leasing assets.

### **15. Construction in Process**

#### ***(1) classification of Construction in Process***

The Constructions in process in the company are classified by projects approved.

#### ***(2) the standard and timing of the engineering in process being carried forward in the fixed assets***

When engineering in process reaches the scheduled status for use, it is carried forward in the fixed assets according to the actual cost of engineering. When it reaches the scheduled status for use yet does not complete final accounts, the project under construction should first be carried forward in the fixed assets according to the estimated value. As soon as the projects have complete final accounts, the original temporary estimated value should be adjusted according to the actual cost of the engineering. But the originally calculated depreciation should not be adjusted.

#### ***(3) the method of impairment test and impairment provision calculation of projects under construction***

On B/S date the company performs a complete check on the projects under construction. If there is any proof that shows projects under construction have occurred devaluation and the collectable amount is estimated

to be lower than the book value, the book value can be reduced to the collectable amount. The reduced amount is defined as losses of asset devaluation and calculated into the current profits or losses and simultaneously corresponding asset impairment provision could be calculated. As soon as the asset devaluation is identified, it will not be carried backward during the later accounting period. The devaluation test should be performed toward the construction in process if the following one or several items of circumstance occur:

① There are some constructions in process which is ceased to be constructed for a long time and not expected to be rebuilt within the future three years.

② Projects built are out of the time in the technique and function and economic benefits they can be brought to the enterprises are much uncertain.

There are other circumstances which fully certify the constructions in process having been devalued.

## 16. Loan Expenses

### *(1) The recognition principal of the capitalisation of the loan expenses and capitalisation period*

The loan expenses generated by the company which can be directly attributed to the structuring and production of assets in accordance with the capitalisation term should be capitalised and included in the relevant cost of assets when they meet the following terms simultaneously:

① The capital expenditure has occurred

② The loan expenses has occurred

③ The necessary structuring and manufacturing activities to make the assets reach the scheduled applicable situation have begun

Other loan expenses, the discounted price or price at a premium and exchange difference should be included in the current profits or losses.

The assets in accordance with the capitalisation requirement take place the abnormal interruption under construction or during the manufacturing process, furthermore the interruption time exceeds three months successively, the capitalisation of loan expenses should be paused.

When the assets in accordance with the capitalisation requirement under construction or manufacturing reach the scheduled applicable position for use or sales, the capitalisation of loan expenses should be ceased. The loan expenses accrued later should be recognised as expenses at the current period.

### *(2) Calculation Method of the Capitalisation Amount of the Loan Expenses*

To structure or manufacture assets agreed with the capitalisation condition, special loans are borrowed, the amount of the interest expenses on the special loans accrued actually at the current period minus that of the interest revenues acquired by unused loan in bank or of the investment incomes acquired through temporary investment should be recognised as the capitalisation amount of interest expenses of the special loan.

To structure and manufacture the assets agreed with the capitalisation requirement occupied with the loans, the interest amount to be capitalised upon the loans should be calculated by the weighted average of the amount the accumulated assets expenditures exceed the special loans times capitalisation ratio occupied by the loans.

## **17. Intangible Assets**

### ***(1) Accounting Method of the Intangible Assets***

According to the complex factors as the right to contract or other legal rights, fraternity cases, historical experiences, relevant professional identification etc., if the term of economic interest when the intangible assets can be brought to the company can be reasonably recognised, the intangible assets should be taken as the intangible assets with limited operational life. The intangible assets, if the term of economic interest the intangible assets can be brought to the company is not reasonably recognised, should be taken as the intangible assets with undefined operational life.

① For the intangible assets with limited operational life, the following factors should be usually taken into consideration while the operational life is estimated:

a. The usual life circle of product manufactured by operation of the assets, the information about the operational life of similar assets available.

b. The current situation in technical or craftwork aspect and so on and estimate towards the future development trend.

c. The market demand circumstances of the product manufactured or labour offered by the assets.

d. The estimated activities carried out by the present or potential competitors. e the estimated maintenance expenditures to maintain the ability of bringing the economic interest, and the ability of estimated payment for relevant expenditures in the company. f. the legal regulation or other limitation about the assets controlling terms, such as the license term, leasing period etc. g. the relevance with the operational life of other assets held by the company.

② The intangible assets with limited operational life are amortised in a systematic and reasonable way how the expected economic benefits are realized through the relevant intangible assets within the operational life. If the way how the expected benefits are realized cannot be reliably defined, the straight-line method should be adopted in amortisation.

### ***(2) Method of the Impairment Testing and Depreciation of the Intangible Assets with Undefined Operational Life.***

The company carries out the recheck of the operational life of the intangible assets with undefined operational life at the end of each year. If after the recheck the operational life is still undefined, the impairment testing should be performed at B/S date. If the collectable amount of the intangible assets is lower than that of the book value, the book value of the assets is written down to the collectable amount. The amount written down is recognised as the impairment losses which are included in the current profits or losses, meanwhile the depreciation of intangible assets should be accounted and drawn. As soon as the impairment losses are

recognised, the amount does not transferred back during the subsequent accounting period. If there are one or several following items of cases, the impairment testing of intangible assets should be carried out:

- a. The ability of making economic benefits for the enterprises undertakes significant disadvantageous influence if the intangible assets are instead of other new technology.
- b. The market value of the intangible assets drops during the current period, and it may not go up during the remaining operational life.
- c. Other cases are enough to show that the book value of the intangible asset has exceeded the collectable amount.

***(3) The Specific Standards by Differentiating between the Research and Development Phase of the Inside R&D Project***

The expenses of the inside R&D project during the research phase is included in the current profits or losses as incurred. The expenses of the inside R&D project during the development phase should be recognised as the intangible assets when they meet the following clauses simultaneously:

- ① To complete the intangible assets as to make able for use or sales is feasible in technical aspect.
- ② Hold the intention of completing the intangible assets for use or sales
- ③ The way how the intangible assets are made economic benefits, including being able to show that there are big markets in the products manufactured by the intangible assets or the intangible assets themselves. the availability can be proved when the intangible assets will be used inside.
- ④ There are enough technical, financial and other resources to support to accomplish the development of the intangible assets and to be able to use or sell the intangible assets.
- ⑤ The expenses attributed to those incurred in the development phase of the intangible assets can be reliably accounted.

**18. Long-term Deferred Expenses**

The long-term deferred expenses refer to the various expenses incurred that should be undertaken during this year and the remaining respective years and whose amortised term is over than one year, including the plane transformation and supervision expenditure related with the financial and operational leased planes, the expenditure of purchase of flight personnel, and the expenditure of initial training and training for pilots etc. all the expenditures are accounted by the actual cost and amortised on average with the straight-line method during the beneficial period.

**19. Estimated Liabilities**

***(1) Recognition Standards of Estimated Liabilities***

If the obligation related with the contingent items, including the external guarantee, pending litigation or arbitration, product quality assurance, layoffs, loss contract, restructuring obligations, the retirement obligations of the fixed asset and so on, meet the following conditions simultaneously, it is recognised as the liability.

- ① The obligation is the current obligation undertaken by the company.

② The implementation of the obligation is likely to make the economic benefits flow out of the company.

③ The amount of the obligation can be reliably calculated.

If the loss contract of the company and restructuring obligations undertaken by the company meet the above requirement, they are recognised as the estimated liabilities.

### ***(2) Calculation of Estimated Liabilities***

The estimated liabilities are carried out the initial calculation according to the optimum estimated number of the economic benefits flowing out of the company through performing relevant current obligations, and such factors as the risks, uncertainty, money time value etc. related with the contingent items should be taken into comprehensive consideration. If the time value of money is of great importance, the optimum number should be defined by discounted the relevant cash flow out in the future. At B/S date the book value of the estimated liabilities is carried out recheck, the adjust the book value to reflect the current the optimum estimated number. The increased amount caused by the increase of the book value of the estimated liabilities as the time passing by should be recognised as the interest expenses.

### ***(3) Determination Method of the Optimum Number***

If there is an amount range of the required expenditure, the optimum estimated number is determined by the average of the upper and lower limit of the range of the amount.

① If the contingent items involve some single item, the optimum estimated number is determined by the amount incurred most possibly.

② If the contingent items involve several items, the optimum estimated number is determined by the calculation of the various possible amount and probability incurred. If the required expenditure for the repayment of the confirmed liability is totally or partly estimated to be made up by the third party or other parties, then the make-up amount basically being sure to be received is separately recognised as the asset.

## **20. Revenue**

### **Recognition Rules and Calculation Methods:**

The amount of sales revenue are defined by the fair value of the contract or agreement price received or ought to have been received when the group offers labours and sell commodities in the everyday operation activities. Revenues should be listed according to the net balance deducting the sales discount and sales returns.

When the economic benefit relevant with the transaction can flow into the group, and corresponding revenues can be reliably calculated and meet the following specified recognition standard of each kind of operation activities, the relevant revenues should be recognised:

### ***(1) Labours Offering***

① transportation revenues

Passenger transportation and goods transportation should be recognised as revenues when the services are offered. The tickets bills for which the transportation services are not offered should be calculated to accounts received in advance—tickets bills received in advance as one of the liability item.

## ② Commission revenue

Commission revenue includes the commission for which the group acts as an agent and sells tickets for other airline companies. The commission revenue should be recognised when the airline tickets are sold.

## ③ other business revenues

Other business revenues include the commission charge of ticket returns etc. Such sort of revenues is all recognised just when the services are offered.

### ***(2) Bonus Points for Constant Passengers***

The group carries the reward plan of Golden-Eagle Club for constant passenger flights. The members can exchange flight reward by use of accumulated bonus points. Passengers can exchange gifts or free flight tickets as soon as their accumulated points reach a certain standard according to the reward policy of bonus points for constant passengers made by the group.

The group adopt the deferred-earning method to deal with the bonus points of constant passengers, in other words, ticket bills of flights are distributed between the revenues of labour offering and fair value of the bonus points. Ticket bills reduced the fair value of bonus points are recognised as revenues, while the fair value of bonus points is recognised as deferred earning. Only when passengers have exchanged their points and taken flights of the group or the points become invalid, should the original part of amount calculated to the deferred earning item related with the exchanged points be recognised as revenues.

### ***(3) Transfer of Right to Use Assets***

The interest revenue should be calculated by the actual interest according to the time for which other parties use the monetary fund of the group. The airplane leasing revenues and other operation leasing ones are recognised during the leasing period according to the straight-line method.

## **21. Government Grants**

### ***(1) Recognition Condition of the Government Grants***

① The enterprise can meet the attached items of government grants.

② The enterprise can receive the government grants.

### ***(2) Types and Accounting Method of the Government Grants***

① The government grants related with the assets should be recognised as the deferred income. From the time when the relevant assets reach the expected available condition, the assets should be assigned on average and be accounted in the subsequent profits or losses at different times. If the relevant assets is sold, transferred, discarded as useless or damaged, the balance of the deferred income unassigned should be transferred in the current profits or losses under the assets disposal items.

② The government grants related with the income, if it is used to make up the relevant expenses or losses during the later periods, it should be recognised as the deferred incomes when received. During the period when the relevant expenses are recognised the government grants are included in the current profits or losses.

### ***(3) Accounting and Calculation of the Government Grants***

If the government grants are the monetary assets, they should be accounted and calculated according to the amount received or ought to be received. If non-monetary assets, they should be accounted and calculated according to the fair value. If the fair value can be reliably accounted, the government grants should be accounted and calculated by the nominal amount.

### ***(4) The Confirmed Government Grants Need to be Returned, They should be Dealt by the Following Cases:***

① If there is relevant deferred income, the book balance of relevant deferred income should be written down, the exceeding amount should be included in the current profits or losses.

② There is not relevant deferred income, they are directly included in the current profits or losses.

## **22. Deferred Tax Assets and Deferred Tax Liabilities**

The company performs business accounting toward the business income taxes by adopting the debt method of balance sheet.

The applicable tax rate during the estimated period of recollecting the assets or repaying the liabilities should be calculated and recognised the deferred tax assets or the deferred tax liabilities based on the difference between the book value of the assets, liabilities and the tax basis.

### ***(1) Recognition Basis of the Deferred Tax Assets***

① The company should recognise the deferred tax assets incurred by the deductible temporary differences with the taxable income of being very likely to receive to deduct the deductible temporary difference as the limit:

a. The transaction is not the business consolidation.

b. Neither the accounting profits nor the taxable incomes (or the deductible losses) are influenced when the transaction occurs.

② The deductible temporary difference related with the investment the company invested toward the subsidiaries, joint-run company, joint company should be recognised as corresponding deferred tax assets if the following conditions are met simultaneously.

a. The temporary difference is very likely to be transferred during the expected future.

b. The taxable incomes to deduct the temporary difference are likely to be received.



③ For the tax deduction and the deductible losses able to be carried forward to the later years, the corresponding deferred tax assets should be recognised by the company with the future taxable income of being very likely to receive to deduct the deductible losses and the tax deduction as the limit.

## ***(2) Recognition of the Deferred Tax Liabilities***

The company should recognise the deferred tax liabilities incurred by all the taxable temporary difference except for the deferred tax liabilities incurred in the following conditions:

① The initial recognition of good will

② The initial recognition of the assets or liabilities incurred from the transaction in accordance with the following features simultaneously:

a. The transaction is not the business consolidation.

b. Neither the accounting profits nor the taxable incomes ( or deductible losses) are influenced when the transaction occurs.

③ The taxable temporary difference related with the investment the company invested toward the subsidiaries, joint-run company, joint company if the following conditions are met simultaneously:

a. The time of writing down the temporary difference can be controlled by the investing company.

b. The temporary difference is unlikely to be written down in the foreseeable future.

***(3) After the recheck is carried out on the book value of the deferred tax assets at B/S date, if it is unlikely to receive the enough taxable income in the future period to deduct the benefits of the deferred tax assets, the book value of the deferred tax assets should be written down.***

## **23. Operating Lease and Financial Lease**

### ***(1) Operating Lease***

① When the company is acted as the lessee of the operating lease, During the respective leasing period the rental expenditure of operating lease is included in the current profits or losses by straight-line method or by the utilisation amount of the leased assets. The initial direct expenses incurred as lessee are included in the management expenses. The contingent rent incurred should be recognised as the expenses in the current period. When the renter provides the rent-free period, the total rental amount is amortised by the straight-line method or other reasonable ones during the whole leasing period without being deducted the rent-free period. The rental expenses and corresponding liabilities are recognise during the rent-free period. If the renter undertakes some expenses of the lessee, the balance of the rent expenses being deducted from the total amount of the rent expenses is amortised during the leasing period.

② If the company acts as the renter of the operating lease, the rents should be recognised as the incomes by straight-line method during the leasing period. The initial direct expenses are included in the current profits or

losses. The relatively larger amount should be capitalisation are included by stages in the current profits or losses according to the same basis of recognition of rent revenue during the whole leasing period. If the contingent rents are appointed by agreement, they are included in the current profits or losses when they actually incurs. If the renter provides rent-free period, the renter distributes the total rent amount by straight-line method or other reasonable method during the whole leasing period without being deducted the rent-free period. During the rent-free period the renter also recognizes the rent revenue. If the company undertakes some expenses of the lessee, it distributes the balance of rent revenue after deducting the expenses from the total rent revenues during the leasing period.

## ***(2) Financial Lease***

① The company acts as the lessee of the financial lease, at the beginning of lease period, the lower of the two, which are fair value of the rented assets and the present value of the lowest rent payment, should be recognised as the entry value of the rented assets, the lowest rent payment as the entry value of the long-term payables. The difference is accounted as the unrecognised financial expenses and is amortised by effective interest rate method during each period of the lease term. After amortisation the unrecognised expenses should be recognised as the current financing expenses and be included in the financial expenses. The initial direct expenses incurred should be included in the leased asset value.

When the depreciation of the financial lease is accounted and drawn, the company adopts the depreciation policy agreed with the self-owned depreciable assets. The depreciation term is determined by the lease contract. If it is able to be reasonably confirmed the company will get the ownership right of the lease assets when the lease item is due, the life of the lease asset from the beginning date of the lease period should be taken as the depreciation period. If it is unable to be reasonably confirmed the company will get the ownership right of the lease assets when the lease item is due, the shorter one between the lease item and the life of the lease asset should be taken the depreciation period.

② If the company acts as the renter of the financial lease, the sum of the lowest lease receivable at the beginning date of lease period and initial expenses should be taken as the entry value of the receivable financial lease during the date. The entry value is included in the long-term receivable of the balance sheet and the unguaranteed residual value should be kept simultaneously. The difference between the sum of the lowest lease receivable, initial direct expenses, the unguaranteed residual value and the sum of the present values of the three should be taken as the unrealized financial incomes. These financial incomes should be recognised as the lease revenues by the effective interest rate method during the each period of the lease term, and be included in the lease revenue or the operating revenue.

## **24. Main Accounting Policy and Changes of Accounting Estimate**

The company does not require the disclosure of accounting policy and changes of accounting estimate.

## **25. Preliminary Accounting Errors**

The company does not require the disclosure of preliminary accounting errors.

## **Part Three: Tax Items**

### ***(1) Business Income Tax***

Since 1 Jan. 2008 the company carries out the 《Enterprise Income Tax Law of People's Republic of China》 approved by the National People's Congress on 16 Mar. 2007. ("New Income Tax Law"). According to

the rules of the State Council's (2007) No.39 document, the business income tax rate applied to the company and its subsidiaries set up in the economic special zone in Hainan province, which is 24% in 2011, will change to 25% gradually during the five-year period from 2008 to 2012. The business income tax rate applied to the subsidiaries set up in other region is 25%.

## ***(2) Sales Tax***

Transportation revenues, agency fees and other labour-offering revenues received by the group apply to sales tax. And in detail, the sale tax rate applied to the transportation revenues is 3%, while 5% for the agency fees and other revenues.

Sin 1st Jan. 2010 the sales tax is free of charge for the international transportation labour supplied by individual or domestic units in the People's Republic of China according to the rules of «Notice of Ministry of Finance and Taxation Bureau of P.R.C. about not Imposing Sales Tax towards the International Transportation Labour» (F&T (2010) No. 8). The transportation labour refers to the activities that passengers or goods are carried abroad, passengers or goods are carried home and passengers or goods are carried outside China.

## ***(3) Urban Maintenance and Construction Tax and Educational Surcharge***

Since 1st Dec. 2010 the urban maintenance and construction tax and educational surcharge are charged by a certain proportion of the taxable income according to the rules of «notice about unification of regulation of the urban maintenance and construction tax and educational surcharge of individual and both domestic and overseas – funded enterprises» (CP (2010) No.35 document) issued by the State Council on 10th Oct. 2010. The rate of the urban maintenance and construction tax and educational surcharge applied to the group is 7% and 5% respectively.

## ***(4) Value-added Tax***

The airplane and aircraft instrument imported by the group must pay value-added tax of the importing process according to the relevant governmental tax regulation. The value added tax rate of the group approved is 4%.

According to the «Notice of Ministry of Finance about tax of importing aircraft instrument for maintenance for domestic airlines corporations with operation of international, Hongkong & Macao, branch lines in 2011», namely MT (2011) No. 1 document, issued by Ministry of Finance of P.R.C. on 26<sup>th</sup> Jan. 2011 the imported aircraft instruments (including the components and parts sent aboard for maintenance) for the maintenance of airplane and engine for the aviation of international line, Hongkong & Macao line of the domestic airlines corporation are approved by the State Council in 2011 of being given a reduction or exemption of tariff and value-added tax in the importing process.

In addition, the revenues of the import and export goods and material allocation in the group are applied to value-added tax. The company and its subsidiaries are small-sized value-added tax payers. The value-added tax rate is 3%.

## ***(5) Tariff***

According the «Notice about the tax rate applied to leased airplanes after the modification of the classification of the airplane and its parts relevant tax and the import tax rate adjustment» (T(1998) No.472

Document) issued by General Administration of Customs on 12th Aug. 1998 the company applied to the tentative tariff rate of 1% for the leased airplanes and imported aircraft since 1st Oct. 1997, for the avionics, Machines and equipment in engine room, components and parts the tax rates are charged according to the regulations of 《Notice about adjustment of import and export tariff rate of several kinds of commodities》(T(1999) No.1 Document ).

#### ***(6) Construction of Civil Aviation Infrastructure Fund***

According to the GC(2004) No. 94 Document “《Notice about issuing <Collection Rules of the Construction of Civil Aviation Infrastructure Fund>》” the group is required to be calculated and pay the construction of civil aviation infrastructure fund by the “《Notice of Ministry of Finance about issuing <Temporary Rules of Charge and Utilisation Management of the Construction of Civil Aviation Infrastructure Fund>》” (Ministry of Finance, MFZ(2004) No.38 Document). The Construction of Civil Aviation Infrastructure Fund is listed in the cost items and calculated by the lines categories 《the maximum entire weight of airplanes》 miles of flying voyage and the regulatory corresponding collection standards.

#### ***(7) Construction and Management Fees of Civil Airport***

According the GC(2004) No. 94 Document 《Notice about Changing the Collection Ways of Construction and Management Fees of Civil Airport》, MFZ(2004) No.51 Document 《Notice of Ministry of Finance and National Aviation Bureau about relevant issues for reforming the ways of collecting and utilising the Construction and Management Fees of Civil Airport》, and MFA(2004)No. 8 Document issued by Ministry and Finance “《Relevant Accounting Rules after the reform the ways of collecting and utilising the Construction and Management Fees of Civil Airport》” passengers must pay the Airport construction and management fees at the same time they buy the tickets. For the domestic flight the fees is ¥10 or ¥50 each person, while ¥90 for the international flights. The construction and management fees of civil airport are listed separately from the air ticket price and collected instead by airline companies.

The main tax categories and tax rates applicable to the company are listed as followed:

<b>Tax categories</b>	<b>Tax basis</b>	<b>Tax rate</b>
value-added tax .....	taxable income	17%
sales tax .....	taxable income	3%, 5%
urban maintenance and construction tax .....	payable turn-over tax	7%
educational surcharge .....	payable turn-over tax	3%
Regional educational surcharge .....	payable turn-over tax	2%
business income tax .....	taxable income	15%, 25%

## Part Four: Enterprises Consolidation and Consolidation of Financial Sheets

### 1. Subsidiaries Profiles

(1) On 31 Dec. 2013 subsidiaries obtained by establishment or investment etc are listed as followed:

Name of company	Type of subsidiaries	Registered Address	Business nature	Registered capital	Business Scope	Type of business	Legal Representative	organisation Code																																								
Hainan Fushun	Indirect holding	Haikou	Project management	¥ 1,094,161,000	management of Tourism area, tourism project development, management and operation of parking lot, sales of crafts, costume and general merchandise, conference exhibition service (not including the travel agency business)	corporation	Dong Wang	56799107-9																																								
HNA(HK)	Indirect holding	Hongkong	investment	HK\$ 70,200,000	Agent for the Hainan Airline's business in Hongkong, Maocao, import and export trade, equipment leasing, information technology services, high-tech development, consulting services, investment and equity capital operation etc.	corporation	Yingming Wang	636400456																																								
<table><tr><th colspan="4"></th><th>Other item balance of net investment in subsidiaries</th><th>Shareholding Ratio</th><th>Voting rights proportion</th><th>Whether or not consolidated financial statement</th><th>Minority Interest on 31 Dec. 2013</th><th>Amount of reducing the profits or losses of minority shareholders in the interests of minority shareholders</th></tr><tr><td colspan="4">Hainan Fushun . . . . .</td><td>—</td><td>100%</td><td>100%</td><td>Yes</td><td>—</td><td>—</td></tr><tr><td colspan="4">HNA(HK) . . . . .</td><td>—</td><td>44.22%</td><td>100%</td><td>Yes</td><td>—</td><td>—</td></tr><tr><td colspan="4"></td><td>—</td><td></td><td></td><td></td><td></td><td>—</td></tr></table>													Other item balance of net investment in subsidiaries	Shareholding Ratio	Voting rights proportion	Whether or not consolidated financial statement	Minority Interest on 31 Dec. 2013	Amount of reducing the profits or losses of minority shareholders in the interests of minority shareholders	Hainan Fushun . . . . .				—	100%	100%	Yes	—	—	HNA(HK) . . . . .				—	44.22%	100%	Yes	—	—					—					—
				Other item balance of net investment in subsidiaries	Shareholding Ratio	Voting rights proportion	Whether or not consolidated financial statement	Minority Interest on 31 Dec. 2013	Amount of reducing the profits or losses of minority shareholders in the interests of minority shareholders																																							
Hainan Fushun . . . . .				—	100%	100%	Yes	—	—																																							
HNA(HK) . . . . .				—	44.22%	100%	Yes	—	—																																							
				—					—																																							

## (2) main subsidiaries by consolidating enterprises under different controllers on 31st Dec. 2013

	Type of subsidiaries	Registered address	Nature of business	Registered capital	Business scope	Shareholding Ratio	voting rights proportion
Hainan Airlines	Direct holding	Haikou	transportation	¥12,182,182,000	passengers and goods transportation business by air both at home and abroad	28.18%	28.18%
AAL	Direct holding	Cayman Islands	Investment management	\$ 50,000	Investment management	100%	100%
Deer Sales	Indirect holding	Haikou	Sales of tickets	¥ 8,000,000	Agent of tickets sales	42%	95%
Xinhua Airlines	Indirect holding	Beijing	transportation	¥ 2,258,570,000	passengers and goods transportation business by air both at home and abroad	44.22%	100%
Changan Airlines	Indirect holding	Xi'an	transportation	¥ 1,754,390,000	passengers and goods transportation business by air both at home and abroad	44.22%	100%
Beijing Kehang	Indirect holding	Beijing	Real estate development	¥ 150,000,000	Catering, accommodation, management of project investment, property management, hotel management	42%	95%
Shanxi Airlines	Indirect holding	Taiyuan	transportation	¥ 658,400,000	passengers and goods transportation business by air both at home and abroad	44.22%	100%
Yunnan Lucy air	Direct holding	Kunming	transportation	¥ 1,492,282,000	passengers and goods transportation business by air both at home and abroad	86.68%	86.68%
Brussels EDIP	Indirect holding	Brussels	Hotel Services Business	Euro 7,716,000	Hotel management, Finance	44.22%	100%
Brussels DATA	Indirect holding	Brussels	Hotel Services Business	Euro 248,000	Hotel management, tourism service	44.22%	100%
Brussels SODE	Indirect holding	Brussels	Hotel Services Business	Euro 2,163,000	Hotel management, tourism service, Finance, agent	44.22%	100%

	Type of subsidiaries	Registered address	Nature of business	Registered capital	Business scope	Shareholding Ratio	voting rights proportion
Hainan Guoshan	Indirect holding	Haikou	Real estate investment	¥ 2,000,000	Agricultural project development, property leasing, hardware and electrical equipment, sales of construction machine, Warehousing Service for ordinary goods, commercial information consulting service, investment consulting services	100%	100%
Hainan Guoxu	Indirect holding	Haikou	Real estate investment	¥ 2,000,000	Agricultural project development, property leasing, hardware and electrical equipment, sales of construction machine, Warehousing Service for ordinary goods, commercial information consulting service, investment consulting services	100%	100%
Hainan Hangpeng	Indirect holding	Haikou	Real estate investment	¥ 2,000,000	Agricultural project development, property leasing, hardware and electrical equipment, sales of construction machine, Warehousing Service for ordinary goods, commercial information consulting service, investment consulting services	100%	100%

## 2. Explanation of the Changes of Consolidation Scope

In 2013 the original exchange plan between HNA Development Plaza and HNA Plaza was substituted for the plan of equity exchange between the Hainan Airlines holding, which is a subsidiary of the company and New Urban-area Corporation. Hainan Airlines holding invest and set up Haidao Hangxiang capitalised by the cash of ¥901,609,000 and the asset of the HNA Development Plaza and in 2013 substituted its 100% stock equity of Haidao Hangxiang for the 100% stock equity of Hainan Fushun held by the New Urban-area Corporation. The transaction, which was not recognised as business consolidation, was an asset substitution substantially.

## Part Five: Notes to the Items of the Consolidated Financial Statements

### 1. Monetary Funds

Item	31st Dec. 2013	31st Dec. 2012
Cash .....	1,207.00	2,737.00
Bank deposit .....	17,272,526.00	19,484,513.00
Other monetary funds .....	5,917,699.00	6,480,783.00
Total .....	<u>23,191,432.00</u>	<u>25,968,033.00</u>

Note: There are time deposit of ¥2,997,356,000, notes guarantee of ¥864,386,000, guarantee of ¥2,055,957,000 etc. in the other monetary funds.

### 2. Notes Receivable

#### (1) Notes Receivable Disclosed by Classification

Type of notes	31st Dec. 2013	31st Dec. 2012
Bank Acceptance Bill .....		
Commercial Acceptance Bill .....	25,000.00	
Total .....	<u>25,000.00</u>	

### 3. Accounts Receivable

#### (1) Accounts Receivable Disclosed by Classification

Types	31st Dec. 2013			
	Book Balance		Bad Debt Allowance	
	amount	Proportion (%)	amount	Proportion (%)
Accounts receivable calculated and withdrawn bad debt allowance by portfolio .....				
Accounts receivable calculated and withdrawn bad debt allowance by aging .....	591,164.00	60.91	4,293.00	0.73
Account receivable from the government and related parties .....	352,050.00	36.27		—
Portfolio subtotal .....	943,214.00	97.19	4,293.00	0.46
Accounts receivable calculated and withdrawn bad debt allowance without significant amount for the single item .....	27,297.00	2.81	27,297.00	100.00
Total .....	<u>970,511.00</u>	<u>100.00</u>	<u>31,590.00</u>	<u>3.25</u>



Continued Sheet:

Types	31st Dec. 2012			
	Book balance		Bad debt allowance	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable calculated and withdrawn bad debt allowance by portfolio .....				
Accounts receivable calculated and withdrawn bad debt allowance by aging .....	380,587.00	64.54	2,915.00	0.77
Account receivable from the government and related parties .....	181,771.00	30.83		
Portfolio subtotal .....	562,358.00	95.37	2,915.00	0.52
Accounts receivable calculated and withdrawn bad debt allowance without significant amount for the single item .....	27,297.00	4.63	27,297.00	100.00
Total .....	589,655.00	100.00	30,212.00	5.12

Note: Analysis of the accounts receivable calculated and withdrawn bad debt allowance without significant amount for the single item.

On 31st Dec. 2013 the above-mentioned accounts receivable were calculated and withdrawn bad debt allowance for full amount because of the relative long aging, no way to contact relevant debtors and the prediction made by the management team that these funds were difficult to be collected.

In the portfolio accounts receivable calculated and withdrawn bad debt allowance by aging-analysis method:

Aging	31st Dec. 2013		
	Book balance		Bad debt allowance
	amount	Proportion (%)	
within one year (including one year) .....	556,629.00	94.15	
1-2 years (including two years) .....	23,824.00	4.03	1,192.00
2-3 years (including three years) .....	7,600.00	1.29	387.00
3-4 years (including 4 years) .....			
4-5 years (including 5 years) .....			
5-6 years (including 6 years) .....	1,985.00	0.34	1,588.00
More than 6 years .....	1,126.00	0.19	1,126.00
Total .....	591,164.00	100.00	4,293.00

Continued sheet:

<b>Aging</b>	<b>31st Dec. 2012</b>		
	<b>Book balance</b>		<b>Bad debt allowance</b>
	<b>amount</b>	<b>Proportion (%)</b>	
within one year (including one year) . . . . .	369,876.00	97.18	416.00
1-2 years (including two years) . . . . .	7,600.00	2.00	380.00
2-3 years (including three years) . . . . .			
3-4 years (including 4 years) . . . . .			
4-5 years (including 5 years) . . . . .	1,985.00	0.52	993.00
5-6 years (including 6 years) . . . . .			
More than 6 years . . . . .	1,126.00	0.30	1,126.00
Total . . . . .	380,587.00	100.00	2,915.00

(2) customers related with the accounts receivable with large amount:

<b>Name of unit</b>	<b>Relationship with the company</b>	<b>amount</b>	<b>aging</b>	<b>Proportion in the total accounts receivable (%)</b>
Yi Sheng Holdings . . . . .	Controlled by HNA Group	243,836	Within one year	25.12
Customer 1 . . . . .	The third party	161,189	Within one year	16.61
Customer 2 . . . . .	The third party	30,578	Within one year	3.15
Customer 3 . . . . .	The third party	26,484	Within one year	2.73
Customer 4 . . . . .	The third party	21,605	Within one year	2.23
total . . . . .		483,692		49.84

(3) Dated to 31st Dec. 2013 the units of accounts receivable in the company have no shareholders' who held more than 5% (including 5%) shares of voting right.

#### 4. Accounts Prepaid

(1) Accounts prepaid listed by aging:

<b>Aging</b>	<b>31st Dec. 2013</b>		<b>31st Dec. 2012</b>	
	<b>amount</b>	<b>Proportion (%)</b>	<b>amount</b>	<b>Proportion (%)</b>
within one year (including one year) . . . . .	714,244.00	77.32	526,797.00	85.91
1-2 years (including two years) . . . . .	139,200.00	15.07	77,541.00	12.65
2-3 years (including three years) . . . . .	61,416.00	6.65	6,255.00	1.02
More than three years . . . . .	8,832.00	0.96	2,577.00	0.42
Total . . . . .	923,692.00	100.00	613,170.00	100.00

(2) units of accounts prepaid with relative large amount:

<b>Name of units</b>	<b>Relationship with the company</b>	<b>Ending balance</b>	<b>aging</b>	<b>Proportion in the total accounts prepaid (%)</b>
HNA Aviation Technology Co., Ltd . . . . .	Controlled by HNA Group	270,060	Within one year	29.24
Company A . . . . .	The third party	91,688	Within one year	9.93
HNA International Tourist Island Development and construction (Group) Co., Ltd . . . . .	Controlled by HNA Group	60,000	Within one year	6.50
Company B . . . . .	The third party	53,423	Within one year	5.78
Company C . . . . .	The third party	20,247	Within one year	2.19
Total . . . . .		<u>495,418</u>		<u>53.64</u>

(3) Dated to 31st Dec. 2013 the units of accounts prepaid in the company have no shareholders' units who held more than 5% (including 5%) shares of voting right.

## 5. Interest Receivable

(1) Interest receivable

<b>Item</b>	<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>
HNA Group . . . . .	27,779.00	27,106.00
Hainan aviation Holdings . . . . .	21,160.00	
HNA Tourism Group . . . . .	13,613.00	3,761.00
HNA Group Finance Company . . . . .	226,716.00	169,806.00
others . . . . .	118,825.00	60,482.00
total . . . . .	<u>408,093.00</u>	<u>261,155.00</u>

## 6. Dividends Receivable

<b>Item</b>	<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>
Dividends receivable within one year of the aging . . . . .	4,865.00	1,865.00
Including: (1) Haikou Meilan . . . . .		966.00
(2) Meilan Stock Co. . . . .		899.00
(3) Merchants Securities . . . . .	4,865.00	
Dividends receivable with more than one year of the aging . . . . .	1,865.00	
including: (1) Haikou Meilan . . . . .	966.00	
(2) Meilan Stock Co. . . . .	899.00	
total . . . . .	<u>6,730.00</u>	<u>1,865.00</u>

## 7. Other Receivables

### (1) Other receivables disclosed by classification

Types	31st Dec. 2013			
	Book balance		Allowance for uncollectable debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables calculated and withdrawn bad debt allowance with significant amount for the single item .....	11,799.00	0.24	11,799.00	100.00
Other receivables calculated and withdrawn bad debt allowance by portfolio				
Other receivables calculated and withdrawn bad debt allowance by aging-analysis method .....	4,583,569.00	94.32	74,435.00	1.62
Other receivables from the government and relevant party				
Subtotal of the portfolio .....	4,583,569.00	94.32	74,435.00	1.62
Accounts receivable calculated and withdrawn bad debt allowance without significant amount for the single item .....	29,138.00	0.60	29,138.00	100.00
Deposit from lease and maintenance reserve .....	235,094.00	4.84		0.00
total .....	<u>4,859,600.00</u>	<u>100.00</u>	<u>115,372.00</u>	<u>2.37%</u>

Continued sheet:

Types	31st Dec. 2012			
	Book balance		Allowance for uncollectable debts	
	amount	Proportion (%)	amount	Proportion (%)
Other receivables calculated and withdrawn bad debt allowance with significant amount for the single item .....	11,799.00	0.17	11,799.00	100.00
Other receivables calculated and withdrawn bad debt allowance by portfolio				
Other receivables calculated and withdrawn bad debt allowance by aging-analysis method .....	3,973,581.00	56.74	44,449.00	1.12
Other receivables from the government and relevant party .....	2,869,210.00	40.97		
Subtotal of the portfolio .....	6,842,791.00	97.71	44,449.00	0.65
Accounts receivable calculated and withdrawn bad debt allowance without significant amount for the single item .....	29,083.00	0.42	29,083.00	100.00
Deposit from lease and maintenance reserve .....	119,162.00	1.70		
total .....	<u>7,002,835.00</u>	<u>100.00</u>	<u>85,331.00</u>	<u>1.22</u>

Note: Analysis of the other receivables calculated and withdrawn bad debt allowance with significant amount for the single item.

On 31st Dec. 2013 the above-mentioned other receivables were calculated and withdrawn bad debt allowance for full amount because of the relative long aging, no way to contact relevant debtors and the prediction made by the management team that these funds were difficult to be collected.

Analysis of the other receivables calculated and withdrawn bad debt allowance without significant amount for the single item:

On 31st Dec. 2013 the above-mentioned other receivables were calculated and withdrawn bad debt allowance for full amount because of the relative long aging, no way to contact relevant debtors and the prediction made by the management team that these funds were difficult to be collected.

Other receivables calculated and withdrawn bad debt allowance by aging-analysis method in the portfolio:

<b>aging</b>	<b>31st Dec. 2013</b>		
	<b>Book balance</b>		<b>Allowance for uncollectable debts</b>
	<b>amount</b>	<b>Proportion (%)</b>	
within one year (including one year) .....	1,447,976.00	31.59	
1-2 years (including two years) .....	167,470.00	3.65	178.00
2-3 years (including three years) .....	2,339,385.00	51.04	60,372.00
3-4 years (including 4 years) .....	25,364.00	0.55	246.00
4-5 years (including 5 years) .....	10,352.00	0.23	261.00
5-6 years (including 6 years) .....	580,243.00	12.66	599.00
More than 6 years .....	12,779.00	0.28	12,779.00
Total .....	4,583,569.00	100.00	74,435.00

Continued sheet:

<b>aging</b>	<b>31st Dec. 2013</b>		
	<b>Book balance</b>		<b>Allowance for uncollectable debts</b>
	<b>amount</b>	<b>Proportion (%)</b>	
within one year (including one year) .....	697,378.00	17.55	39.00
1-2 years (including two years) .....	2,081,573.00	52.38	30,090.00
2-3 years (including three years) .....	7,657.00	0.19	327.00
3-4 years (including 4 years) .....	1,169.00	0.03	286.00
4-5 years (including 5 years) .....	1,172,500.00	29.51	560.00
5-6 years (including 6 years) .....	634.00	0.02	477.00
More than 6 years .....	12,670.00	0.32	12,670.00
Total .....	3,973,581.00	100.00	44,449.00

(2) Customers related with other receivables for large amount:

<b>Name of unit</b>	<b>Relationship with the company</b>	<b>amount</b>	<b>aging</b>	<b>Proportion in the total amount of the other receivables(%)</b>
Yangtze leasing .....	Controlled by HNA Group	1,503,700	Two to three years	30.94
Hainan Jiaxing .....	Controlled by HNA Group	600,000	Two to three years	12.35
HNA Aviation Group Co., Ltd. ....	Controlled by HNA Group	560,527	Within one year	11.53
Hainan HNA Aviation Sales Co., Ltd. ....	Controlled by HNA Group	548,110	More than three years	11.28
HNA Tourism Group .....	Controlled by HNA Group	479,402	Within one year	9.87
Total .....		<u>3,691,739</u>		<u>75.97</u>

(3) Dated to 31st Dec. 2013 the units of the other receivables in the company have no shareholders' units who held more than 5% (including 5%) shares of voting right.

## 8. Inventories

Types of Inventories:

<b>Items</b>	<b>31st Dec. 2013</b>			<b>31st Dec. 2012</b>		
	<b>Book balance</b>	<b>Provision for devaluation</b>	<b>Book value</b>	<b>book balance</b>	<b>Provision for devaluation</b>	<b>Book value</b>
Airplane supplies .....	33,174.00		33,174.00	42,415.00		42,415.00
others .....	31,178.00		31,178.00	30,206.00		30,206.00
Total .....	<u>64,352.00</u>		<u>64,352.00</u>	<u>72,621.00</u>		<u>72,621.00</u>

## 9. Other Current Assets

<b>Items</b>	<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>
financial assets held for sale due within one year .....	4,150,000.00	2,000,000.00
the purchase tax of the VAT deductible .....	294,836.00	
entrusted loans .....	970,000.00	1,200,000.00
total .....	<u>5,414,836.00</u>	<u>3,200,000.00</u>

1) Details of entrusted loans

<b>Items</b>	<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>
HNA Group .....	870,000.00	720,000.00
HNA Tourism Group .....	100,000.00	425,000.00
Capital Airlines .....		55,000.00
Total .....	<u>970,000.00</u>	<u>1,200,000.00</u>

## 2) financial assets held for sale due within one year:

(a) In December 2013 the Group bought from the third party of commercial banks short-term financial products with total amounts of ¥1,550,000,000 (in 2012: bought ¥2,000,000,000). The financial products were the type of floating return without guaranteed principal. Its expected highest return rate was 5.5%, which can only invest in the financial instruments identified by the regulatory authorities in the financial market, including but not limited to the cash, bank agreement deposit, notes buy-back, treasury notes, financial notes, central bank notes, super commercial paper, commercial paper, corporate notes, mid-term notes, beneficiary right of asset-backed beneficiary certificate and the low-risk fixed-income financial instruments etc. All the short-term financial products bought before 31st Dec. 2012 has been returned back due to maturity in this year and gained investment profit of ¥108,703,000.

In addition Changan Airlines, the subsidiary of Hainan Airlines Co. which is the subsidiary of the company, bought financial products of ¥100,000,000 from the third party. The product is a type of financial products with guaranteed return and principal and will expire in May 2014. The financial products had been left as a mortgage for bank guarantee letter, which at the same time were used as a pledge for a short-term loan of ¥300,000,000 in another bank.

(b) In December 2013 the company bought financial products of Baoshang Bank with the capital of ¥2,500,000,000 which will expire in December 2014. Due to the unfixed interest income the financial products are calculated by the financial assets held for sale.

**10. Financial Assets Held for Sale**

## (1) Details of the financial assets held for sale

<b>Items</b>	<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>
debt instrument held for sale		
equity instrument held for sale .....	434,420.00	361,446.00
other .....	610,000.00	700,000.00
total .....	<u>1,044,420.00</u>	<u>1,061,446.00</u>

## (2) detail of changes of the devaluation of the financial assets held for sale during the reporting period

<b>Classification of financial asset held for sale</b>	<b>equity instrument held for sale</b>	<b>debt instrument held for sale</b>	<b>total</b>
devaluation amount calculated and withdrawn at the year beginning .....	86,104		86,104
amount calculated and withdrawn in this year .....			
including: Transfer from other complex income ...			
decrease in this year .....			
including: transfer back fair value revival after the period .....			
devaluation amount calculated and withdrawn at the year ending. ....	<u>86,104</u>		<u>86,104</u>

Notes: (a) On 31st Dec. 2013 Hainan Airlines, the subsidiary of the company, held the 34,260,268 shares of equities of Merchants Securities listed by fair value. The fair value of these equities can be defined by

the closing price in the Shanghai Stock Exchange on 31st Dec. 2013. In 2013 Merchants Securities approved of the profit distribution plan, in which the cash dividends of ¥0.142 each share were distributed. In 2013 the company received the cash dividends of ¥4,865,000 and accounted in the investment income in this year. In 2012 the company sold the 7,796,291 shares of equities of Merchants Securities and made the loss of ¥40,116,000 and accounted in the investment income in the year of 2012.

In 2012 because that the stock price of Merchants Securities is continually lower for over one year than the average purchased price by the company the Hainan Airlines, subsidiary of the company, carried out the devaluation analysis of the equities. Taking the factors of the price volatility and after the period stock price fluctuation etc into a complete consideration, the company transferred the loss of ¥86,104,000 due the decrease in the fair value, originally accounted in the capital surplus, currently accounted in the asset devaluation loss. In 2013 according to the closing share price of Merchants Securities on 31st Dec. 2013 the company recognised the income of fair value changes of ¥72,974,000 and accounted in the capital surplus due to the revival of stock price of Merchant Securities.

(b) Hainan Airlines, the subsidiary of the company, acting as a limited partner invested capital of ¥500,000,000 to set up a partnership enterprises cooperating with another party. The company carries the limited liabilities during the ten years of joint venture. Another party, acting as general partner, invested capital of ¥3,000,000 and had the power of supervision and control toward the partnership enterprises. Because the company had not the right of control, common control or significant influences on the partnership, the above-mentioned capital was accounted in the financial asset held for sale. In 2013, the company collected investment cost of ¥90,000,000.

(c) In 2012 Hainan Airlines, the subsidiary of the company, invested capital of ¥200,000,000 and set up the Guokai Jingcheng Investment Fund with the cooperation of other investors. The term of the fund is ten years with its registered capital of ¥6,840,000,000. The different investors had respective voting right according to their shareholding proportion. Due to the shareholding proportion of 3%, the company had no right of control, common control or significant influences on the fund therefore the capital was accounted in the financial asset held for sale.

## 11. Long-term Equity Investment

Name of invested units	31st Dec. 2012	Increase in this year	Decrease in this year	31st Dec. 2013	Devaluation provision at the year ending	Devaluation provision calculated and withdrawn in this year
Tianjin Airlines .....		3,574,211.00		3,574,211.00		
Bohai Trust .....	2,760,906.00	202,363.00		2,963,269.00		
Hongkong Aviation Group .....		1,849,587.00		1,849,587.00		
HNA Technology .....	1,012,209.00	77,722.00		1,089,931.00		
HNA Finance Corporation .....	936,468.00	62,816.00	83,069.00	916,215.00		
Hunan Golddeer .....	450,000.00			450,000.00		
Xi'an Chanba .....	407,939.00	11,253.00		419,192.00		
HNA International Tourism Island Development and Construction(Group) Corporation Ltd. ....	1,547,798.00	4,319.00	1,552,117.00			
others .....	45,470.00		15,761.00	29,709.00		
Capital Aviation Holdings .....	508,620.00			508,620.00		
Hongkong International Leasing ...		308,830.00		308,830.00		
Haikou Meilan .....	304,765.00			304,765.00		
Inflection Energy LLC(iv) .....		123,825.00		123,825.00		



Name of invested units	31st Dec. 2012	Increase in this year	Decrease in this year	31st Dec. 2013	Devaluation provision at the year ending	Devaluation provision calculated and withdrawn in this year
HNA Hotel Group .....	58,161.00			58,161.00		
Xinguo Hotel .....	31,952.00			31,952.00		
China Civil Aviation Information Network .....	29,860.00			29,860.00		
Yangtze Express Delivery .....	10,000.00			10,000.00		
Hongkong Airlines Group .....	842,000.00		842,000.00			
Tianjin Airlines .....	713,000.00		713,000.00			
Haikou New Urban Area Construction and Development Corporation Ltd. ....		1,552,116.00		1,552,116.00		
Lianxun Securities Corporation Ltd. ....		73,509.00		73,509.00		
others .....	19,557.00		5,000.00	14,557.00	6,774.00	
Total .....	<u>9,678,705.00</u>	<u>7,840,551.00</u>	<u>3,210,946.00</u>	<u>14,308,309.00</u>	<u>6,774.00</u>	

Continued sheet:

Invested units	Accounting method	Investment cost	shareholding proportion in the invested units (%)	Proportion of voting right in the invested units (%)	Explanation for the difference between the proportion of shareholding and voting right in the invested units	cash dividends in this year
Tianjin Airlines .....	Equity method	3,486,400.00	42.02	42.02		
Bohai Trust .....	Equity method	2,760,906.00	39.78	39.78		
Hongkong Aviation Group .....	Equity method	1,780,842.00	27.02	27.02		
HNA Technology .....	Equity method	1,000,000.00	48.08	48.08		
HNA Finance Corporation .....	Equity method	865,578.00	23.70	23.70		
Hunan Golddeer .....	Equity method	450,000.00	47.37	47.37		
Xi'an Chanba .....	Equity method	400,000.00	40.00	40.00		
HNA International Tourism Island Development and Construction (Group) Corporation Ltd. ....	Equity method	1,500,000.00	33.00	33.00		
others .....	Equity method					
Capital Aviation Holdings .....	Cost method	508,620.00	19.60	19.60		
Hongkong International Leasing .....	Cost method	308,830.00	9.87	9.87		
Haikou Meilan .....	Cost method	304,765.00	12.08	12.08		
Inflection Energy LLC (iv) .....	Cost method	123,825.00	8.11	8.11		
HNA Hotel Group .....	Cost method	58,161.00	19.00	19.00		
Xinguo Hotel .....	Cost method	40,000.00	13.33	13.33		
China Civil Aviation Information Network .....	Cost method	29,860.00	1.99	1.99		
Yangtze Express Delivery .....	Cost method	10,000.00	2.00	2.00		
Hongkong Airlines Group .....	Cost method	842,000.00	15.81	15.81		
Tianjin Airlines .....	Cost method	1,616,214.00	13.39	13.39		
Haikou New Urban Area Construction and Development Corporation Ltd. ....	Cost method	73,509.00	8.89	8.89		
Lianxun Securities Corporation Ltd. ....	Cost method	19,557.00				
others .....		<u>16,198,067.00</u>				

## Notes:

(i) In June 2013 Hainan Airlines, subsidiary of the company, increased capital of cash by ¥1,680,000,000 to Tianjin Airlines. After the capital increment the Hainan Airlines held the 30.70% equity of Tianjin Airlines. In Dec 2013, Hainan Airlines bought the 11.32% equity of Tianjin Airlines by ¥1,093,400,000 from the HNA Group. After the transfer Hainan Airlines increased equity of Tianjin Airlines to the proportion of 42.02%.

(ii) In June 2013 the group increased capital of cash by HK\$ 776,000,000 to Hongkong Airlines Group. After the capital increment, the group held the 7.39% equity of Hongkong Airlines Group. At the same time the group bought 3.82% equity of Hongkong Airlines Group by HK\$401,000,000 from the HNA Group Internationals. After the capital increment and equity transfer the group increased equity of Hongkong Airlines Group to the proportion of 27.02%.

(iii) In June 2013 the group increased capital of cash by HK\$ 385,000,000 to Hongkong International Leasing. After the capital increment the group held the 9.87% equity of Hongkong International Leasing.

(iv) In Dec. 2013 the group increased capital of cash by \$20,250,000 to Inflection Energy LLC. After the capital increment the group held the 8.11% equity of Inflection Energy LLC.

(v) In 2013 the company invested ¥73,509,000 to Lianxun Securities Co., Ltd, holding its 8.89% equity. The company increased capital with its equity of the Hainan Island Construction to Haikou Municipal New Urban Area Construction and Development Co., Ltd. After the capital increment the company held the 13.39% equity of New Urban Area Construction.

## 12. Real Estate for Investment

### (1) Real Estate for Investment Accounted by the Fair Value

Items	31st Dec. 2012	Increase in this year		Decrease in this year		31st Dec. 2013
		purchase	transfer from real estate owners-occupied or inventory	profit or loss of changes of fair value	disposal	Transfer into real estate owner-occupied
1. Sum of Cost . . . .	9,032,491.00	3,689,886.00			4,051,490.00	8,670,887.00
(1) House, building . . . . .	5,096,375.00	38,345.00			399,949.00	4,734,771.00
(2) right of use for land . . . . .	3,936,116.00	3,651,541.00			3,651,541.00	3,936,116.00
(3) others . . . . .						
2. Sum of changes of fair value . . . .	1,875,392.00			34,022.00	98,385.00	1,811,029.00
(1) House, building . . . . .	1,743,914.00			13,219.00	98,385.00	1,658,748.00
(2) right of use for land . . . . .	131,478.00			20,803.00		152,281.00
(3) others . . . . .						
3. sum of book value for real estate for investment . . . . .	10,907,883.00	3,689,886.00		34,022.00	3,953,105.00	10,481,916.00
(1) House, building . . . . .	6,840,289.00	38,345.00		13,219.00	301,564.00	6,393,519.00
(2) right of use for land . . . . .	4,067,594.00	3,651,541.00		20,803.00	3,651,541.00	4,088,397.00
(3) others . . . . .						

Notes: For the real estate for investment with active trade market in local area, its fair value was evaluated and defined by the income or market price method.

(a) On 31st Dec. 2013 the book net value of the real estate for investment held by the group was ¥6,830,375,000 (on 31st Dec. 2012: ¥7,256,342,000), which was defined by the management team referring to the evaluation result of market price with the benchmark date of 31st Dec. 2013 evaluated by independent specialised evaluator.

In 2013 the accumulated changes of fair value for real estate for investment held by the group were ¥34,022,000 (in 2012: ¥504,363,000) which had been fully accounted in the profit or loss of changes of fair value.

On 31st Dec. 2013 the group's real estate for investment with book value of ¥5,243,804,000 (on On 31st Dec. 2012: ¥4,229,656,000) was used as the mortgage for long-term loan.

On 31st Dec. 2013, the group's real estate for investment with book value about ¥74,350,000 included the houses of which the property certificate had not been attained up to date due to the property application procedures were under examination and approval. The management team of the group did not regard that the houses without property certificates would leave significant influence on the operation of the group.

In 2013, Xinhua Airlines, the subsidiary of Hainan Airlines which is subsidiary of the company, signed agreement about real estate disposal with Beijing Guorui Xingye Properties Co. Ltd. Dated to 31st Dec. 2013 the

disposal of the real estate for investment with the book value of ¥498,334,000 held by Xinhua Airlines had been completed in which other operating revenue of ¥487,778,000 and other operating expense of ¥399,949,000 were recognised respectively.

(b) On 31st Dec. 2013 the fair value of the real estate for investment held by the group had been valued by the independent evaluator, Hubei Wanxin Asset Evaluation Co. Ltd., on the basis of market value.

On 31st Dec. 2013 the group's real estate for investment with its fair value of ¥1,002,707,000 (On 31st Dec. 2013: ¥941,069,000) was used for the mortgage for the long-term loan of ¥308,000,000 of Hainan Airlines.

### 13. Fixed Asset

#### (1) Details of fixed asset

Items	31st Dec. 2012	Increase in this year	Decrease in this year	31st Dec. 2013
One: sum of beginning book value:				
value: . . . . .	47,661,855.00	10,327,924.00	1,413,857.00	56,575,922.00
including: house and building . . . . .	3,615,791.00	99,736.00	50,293.00	3,665,234.00
Airplane and engines . . . . .	40,742,752.00	10,042,297.00	1,319,121.00	49,465,928.00
High turnover parts . . . . .	2,526,360.00	119,311.00	3,773.00	2,641,898.00
Transportation instruments . . . . .	231,650.00	20,296.00	8,108.00	243,838.00
appliance equipment . . . . .	545,302.00	46,284.00	32,562.00	559,024.00
		<b>Increase in this year</b>	<b>Withdrawal in this year</b>	
Two: sum of accumulated depreciation:				
depreciation: . . . . .	11,915,761.00	2,697,001.00	964,772.00	13,647,990.00
including: house and building . . . . .	384,933.00	83,771.00	1,240.00	467,464.00
Airplane and engines . . . . .	9,406,637.00	2,397,840.00	924,359.00	10,880,118.00
High turnover parts . . . . .	1,594,419.00	160,657.00	2,047.00	1,753,029.00
Transportation instruments . . . . .	158,563.00	11,119.00	7,563.00	162,119.00
appliance equipment . . . . .	371,209.00	43,614.00	29,564.00	385,259.00
Three: sum of net book value of the fixed assets . . . . .	35,746,094.00			42,927,932.00
including: house and building . . . . .	3,230,858.00			3,197,770.00
Airplane and engines . . . . .	31,336,115.00			38,585,810.00
High turnover parts . . . . .	931,941.00			888,869.00
Transportation instruments . . . . .	73,087.00			81,719.00
appliance equipment . . . . .	174,093.00			173,765.00
Four: sum of devaluation allowance . . . . .	16,378.00			71,523.00
including: house and building				
Airplane and engines				
High turnover parts . . . . .	16,378.00	55,145.00		71,523.00
Transportation instruments				
appliance equipment				
Five: sum of book value of the fixed assets . . . . .	35,729,716.00			42,856,409.00
including: house and building . . . . .	3,230,858.00			3,197,770.00
Airplane and engines . . . . .	31,336,115.00			38,585,810.00
High turnover parts . . . . .	915,563.00			817,346.00
Transportation instruments . . . . .	73,087.00			81,719.00
appliance equipment . . . . .	174,093.00			173,765.00

Notes: (a) On 31st Dec. 2013 the fixed asset of the group with net value of ¥27,840,091,000 (On 31st Dec. 2013: ¥21,546,792) and original value of ¥33,961,653,000 (On 31st Dec. 2012: ¥27,022,311,000) was used as the mortgage for short-term loan of ¥150,000,000 and long-term loan of ¥22,955,463.

(b) Fixed assets financially leased by the group

	<u>Original value</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
On 31st Dec. 2013			
Airplane and engines .....	5,520,106	(1,535,452)	3,984,654
High turnover parts .....	50,000	(16,459)	33,541
	<u>5,570,106</u>	<u>(1,551,911)</u>	<u>4,018,195</u>
On 31st Dec. 2012			
Airplane and engines .....	8,468,737	(2,932,672)	5,536,065
High turnover parts .....	50,000	(12,292)	37,708
	<u>8,518,737</u>	<u>(2,944,964)</u>	<u>5,573,773</u>

(c) fixed assets of the group with the property certificate not handling properly

On 31st Dec. 2013 property certificates of the house and building with net value of 169,741,000 (original value is ¥189,933,000) and On 31st Dec. 2012, with net value of 1,004,349,000 and original value of ¥1,006,043,000 were being handled. The management team regarded that handling the above property certificate had not substantial obstacle and would not leave significant disadvantageous influence on the operation of the group.

(d) fixed asset financially leased by the Lucky Air, subsidiary of the company- airplanes and engines

	<u>Consolidated and parent company</u>		
	<u>Original value</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
On 31st Dec. 2013 .....	<u>1,822,715</u>	<u>(108,830)</u>	<u>1,713,885</u>
On 31st Dec. 2012 .....	<u>1,220,954</u>	<u>(14,918)</u>	<u>1,206,036</u>

(e) On 31st Dec. 2013 the house and building with net value of ¥132,930,000 (original value of ¥144,479,000), On 31st Dec. 2012 with net value of ¥129,782,000 and original value of ¥136,936,000 were used as mortgage for short-term loan of ¥150,000,000 (On 31st Dec. 2013: ¥100,000,000).

**14. Construction in process**

Items	On 31st Dec. 2013			On 31st Dec. 2012		
	Book balance	Devaluation allowance	Net value	Book balance	Devaluation allowance	Net value
prepaid for purchase of airplanes . . . . .	10,903,768.00		10,903,768.00	11,525,757.00		11,525,757.00
Beijing Base Enlargement Engineering . . . . .	481,411.00		481,411.00	455,351.00		455,351.00
Changshui Airport New Base Construction Engineering . . . . .	417,204.00		417,204.00	45,501.00		45,501.00
others . . . . .	136,351.00	2,307.00	134,044.00	22,361.00	2,307.00	20,054.00
Total . . . . .	<u>11,938,734.00</u>	<u>2,307.00</u>	<u>11,936,427.00</u>	<u>12,048,970.00</u>	<u>2,307.00</u>	<u>12,046,663.00</u>

**15. Intangible Assets**

Items	On 31st Dec. 2012	Increase in this year	Decrease in this year	On 31st Dec. 2013
One: sum of original book value . . . . .	437,806.00			437,806.00
Right of use for land . . . . .	436,052.00			436,052.00
software . . . . .	1,754.00			1,754.00
Two: sum of accumulated amortisation . . . . .	72,858.00	9,698.00		82,556.00
Right of use for land . . . . .	71,835.00	9,372.00		81,207.00
software . . . . .	1,023.00	326.00		1,349.00
Three: sum of book value of intangible assets . . . . .	364,948.00			355,250.00
Right of use for land . . . . .	364,217.00			354,845.00
software . . . . .	731.00			405

Notes: (a) On 31st Dec. 2013 the right of use for land held by the group with net value of ¥112,815,000 (original value of ¥161,531,000), On 31st Dec. 2012 with net value of ¥31,170,000 and original value of ¥40,421,000 was used as the mortgage for long-term loan of ¥2,297,593,000.

(b) On 31st Dec. 2013 the certificate for the right of use for land held by the Lucky Air, subsidiary of the company, with net value of ¥196,090,000 (original value of ¥208,977,000), On 31st Dec. 2012 with net value of ¥200,269,000 and original value of ¥208,977,000 was being handled.

The unhandled certificate of the right of use for land mainly included the right of use for land of Kunming's new airport scheduled to deliver to the company as the phase two investment by Yunnan provincial state-owned asset supervision and administration commission.

The capital verification procedure was not completed due to the uncompleted handling the relevant certificates of right of use for land.

Yunnan provincial state-owned asset supervision and administration commission had delivered the land to the company for use. The delivery of land and the transaction price had got the verification of the whole

shareholders. Therefore the company received the right of use for land and accounted by the value of ¥208,977,000 according to the shareholders' decision. Among the assets ¥199,098,000 was taken as investment (¥156,626,000 would be accounted in the paid-up capital after capital verification), the left ¥9,879,000 would be accounted in the other payables to manage the land purchase payment of Yunnan provincial state-owned asset supervision and administration commission.

Dated to On 31st Dec. 2013 Yunnan provincial state-owned asset supervision and administration commission was handling the transfer procedure of the certificate of right of use for land. The management team of Lucky Air, subsidiary of the company regarded that the unattained the land certificates would not leave significant influence on the group's operation activities.

## 16. Goodwill

the invested units or issues concerning the formation of goodwill	On 31st Dec. 2012	Increase in this year	Decrease in this year	On 31st Dec. 2013	Devaluation allowance at the end of this year
Beijing Kehang . . . . .	328,865.00			328,865.00	
Hainan Airlines . . . . .	765,686			765,686	208,261
Lucky Air . . . . .	11,507.00			11,507.00	
total . . . . .	<u>1,106,058.00</u>			<u>1,106,058.00</u>	<u>208,261</u>

Notes: The balance of goodwill mainly included the goodwill of ¥765,686,000 recognised after the acquisition of Hainan Airlines and that of ¥328,865,000 recognised after the acquisition of Beijing Kehang.

The group had recognised devaluation allowance of ¥208,261,000 for the goodwill of Hainan Airlines. The further devaluation was not discovered after the devaluation test on the goodwill during the reporting term. The details were listed as followed:

(a) The goodwill recognised by the acquisition of Hainan Airlines was related with the asset portfolio of HNA Group. As a listed company, Hainan Airlines can view its business as an asset portfolio. Therefore the collectable amount of the asset portfolio, namely the net amount of the fair value of the asset minus disposal expenses, can be defined by referring to the stock price of Hainan Airlines on 31st Dec. 2013 the goodwill related with the asset portfolio did not exhibit the cases of devaluation after the evaluation.

(b) The Goodwill incurred by the acquisition of Beijing Kehang was mainly reflected to increase the competitiveness capability of the company by integration of the resources of other business and accomplishment of the coordination effect. The group assigned the above goodwill to asset portfolio in the aviation business and asset portfolio in other business in time of devaluation test. According to the result of the devaluation test the evidence of devaluation was not discovered.

## 17. Long-term Deferred Expenses

Items	On 31st Dec. 2012	Increase in this year	Decrease in this year	On 31st Dec. 2013
Pilot cultivation cost . . . . .	566,725.00	222,461.00	163,623.00	625,563.00
others . . . . .	25,774.00	25,644.00	12,722.00	38,695.00
total . . . . .	<u>592,499.00</u>	<u>248,105.00</u>	<u>176,345.00</u>	<u>664,258.00</u>

## 18. Deferred income tax asset/ Deferred income tax liability

The deferred income tax asset and deferred income tax liability are listed as net balance after offset.

(1) The offset deferred income tax asset or liability and the corresponding temporary difference about the deductible or taxable amounts

Items	The deferred income tax asset or liability after offset at the end of this year	the temporary difference about the deductible or taxable amounts after offset at the end of this year	The deferred income tax asset or liability after offset at the beginning of this year	the temporary difference about the deductible or taxable amounts after offset at the beginning of this year
Deferred income tax asset . . . . .	7.00		72.00	
Deferred income tax liability . . . . .	3,188,953.00		2,930,176.00	

(2) The offset details of the deferred income tax asset and deferred income tax liability

item	On 31st Dec. 2013	On 31st Dec. 2012
Deferred income tax asset . . . . .	432,107	303,433
Deferred income tax liability . . . . .	432,107	303,433

#### 19. Asset devaluation allowance

Items	On 31st Dec. 2012	Increase in this year	Decrease in this year Transfer back    offset	On 31st Dec. 2013
Bad debt allowance . . . . .	115,543.00	31,419.00		146,962.00
devaluation allowance for financial asset held for sale . . . . .	86,104.00			86,104.00
devaluation allowance for the long-term equity investment . . . . .	6,774.00			6,774.00
devaluation allowance for fixed asset . . . . .	16,378.00	55,145.00		71,523.00
devaluation allowance for the construction in process . . . .	2,307.00			2,307.00
Devaluation allowance for goodwill . . . . .	208,261.00			208,261.00
total . . . . .	435,367.00	86,564.00		521,931.00

#### 20. Other Non-current assets

Items	On 31st Dec. 2013	On 31st Dec. 2012
leasing guarantee and maintenance reserve for airplanes and engines . . . . .	1,797,022.00	2,169,155.00
prepaid investment . . . . .	1,026,941.00	
Deferred loss of sale and lease back in financial leasing . . . . .	248,616.00	254,466.00
others . . . . .	20,000.00	20,000.00
total . . . . .	3,092,579.00	2,443,621.00



Notes: On 31st Dec. 2013 prepaid investment mainly included: the Hainan Airlines, subsidiary of the company, was scheduled to increased capital of ¥1,000,000,000. After the capital increment, Hainan Airlines held the 24.90% equity of Western Airlines. Dated to 31st Dec. 2013 Hainan Airlines had paid the increment capital of ¥966,940,000 with relevant procedure of capital increment still being handled.

## 21. Short-term loans

types	On 31st Dec. 2013	On 31st Dec. 2012
mortgage loans	150,000.00	600,000.00
pledge loans	7,836,181.00	6,365,890.00
guarantee loans	7,944,200.00	7,367,275.00
guarantee and mortgage or pledge loan	5,885,001.00	3,915,500.00
Credit loans	363,275.00	236,671.00
total	22,178,657.00	18,485,336.00

Notes: 1. (a) On 31st Dec. 2012 Hainan Airlines, subsidiary of the company, borrowed a mortgage loan of ¥500,000,000 with the mortgage of airplanes owned by Hainan Airlines whose net value is ¥310,505,000 (original value of ¥356,602,000, no book balance on 31st Dec. 2013)

(b) On 31st Dec. 2013 the pledge loans of the group included:

(i) Pledge loan of ¥1,070,325,000 (including: ¥918,450,000 and Euro 18,000,000) (On 31st Dec. 2012: ¥361,500,000) was borrowed with the pledge of the term deposit of ¥1,035,000,000 and Euro 21,000,000 (On 31st Dec. 2012: ¥415,000,000)

(ii) Pledge loan of ¥910,000,000 (On 31st Dec. 2012: ¥2,152,390,000) was borrowed with the pledge of a certain number of equities held by the related parties of the group.

Pledge loan of ¥1,071,000,000 (On 31st Dec. 2012: no amount) was borrowed with the pledge of a certain number of equities held by the group and related parties of the group.

Pledge loan of ¥2,463,256,000 (including: ¥1,000,000,000 and \$240,000,000, equivalent to ¥1,463,256,000) (On 31st Dec. 2012: no amount) was borrowed with the pledge of the term deposit of ¥918,560,000 and a certain number of equities held by the related parties of the group.

Pledge loan of ¥2,321,600,000 (On 31st Dec. 2012: ¥1,952,000,000) was letter of credit including ¥1,821,600,000 pledged by a certain number of equities held by the related parties and the remaining ¥500,000,000 pledged by a certain number of equities held by the group. (On 31st Dec. 2012: no amount)

On 31st Dec. 2013 the letter of credit of ¥1,952,000,000 pledged by a certain number of equities held by the related parties of the group and the third parties and the pledge loans of ¥500,000,000 pledged by a certain number of equities held by the related parties of the group and the third parties were repaid at maturity in 2013.

(c) On 31st Dec. 2013 the guarantee loans of the group included:

(i) Guarantee loan of ¥810,000,000 (On 31st Dec. 2012: ¥3,195,000,000) was guaranteed by the related parties of the group.

Guarantee loan of ¥3,130,000,000 (On 31st Dec. 2012: ¥3,279,275,000) was guaranteed by Hainan Airlines.

Guarantee loan of ¥2,000,000,000 (On 31st Dec. 2012: no amount) was commonly guaranteed by the group and the related parties of the group.

Guarantee loan of ¥749,200,000 was letter of credit, including ¥524,200,000 guaranteed by the related parties of the group and the remaining ¥225,000,000 guaranteed by Hainan Airlines.

(d) On 31st Dec. 2013 the guarantee and mortgage or pledge loans of the group included:

(i) Loan of ¥1,970,000,000 (On 31st Dec. 2012: ¥2,330,000,000) was pledged by a certain number of equities held by the related parties of the group and at the same time guaranteed by the related parties of the group.

(ii) Loan of ¥37,000,000 (On 31st Dec. 2012: no amount) was pledged by the term deposit of ¥37,000,000 and at the same time guaranteed by the related parties of group.

(iii) Loan of ¥180,000,000 (On 31st Dec. 2012: ¥300,000,000) was pledged by a certain number of equities held by the related parties of the group and simultaneously guaranteed by the company.

(iv) Loan of ¥1,286,581,000 (including: ¥1,250,000,000 and \$6,000,000, equivalent to ¥36,581,000) (On 31st Dec. 2012: no amount) was pledged by a certain number of equities held by the related parties of the group and simultaneously guaranteed by the group.

(v) Loan of ¥800,000,000 (On 31st Dec. 2012: no amount) was pledged by a certain number of equities held by the group and the related parties of the group and simultaneously guaranteed by the group and the related parties of the group.

(vi) Loan of ¥300,000,000 (On 31st Dec. 2012: no amount) was pledged by the term deposit of ¥180,000,000 (see Notes Five (1)) and financial product of ¥100,000,000.

(vii) Loan of ¥150,000,000 (On 31st Dec. 2012: ¥125,000,000) was mortgaged by the fixed asset of the group with the book value of ¥91,518,000 (original value of ¥118,587,000) (On 31st Dec. 2012) net value of ¥94,422,000, original value of ¥118,587,000) and simultaneously guaranteed by the company.

(viii) Loan of ¥300,000,000 (On 31st Dec. 2012: no amount) was pledged by the right of payment gathering of the future BSP tickets for the group and simultaneously guaranteed by the group and the related parties of the group.

(ix) Loan of ¥561,420,000 (On 31st Dec. 2012: no amount) was a letter of credit. It included the ¥171,420,000 pledged by the equities of the related parties and simultaneously guaranteed by the related parties of the group, the remaining ¥390,000,000 pledged by the equity of the third party and at the same time guaranteed by the related parties of the group.

On 31st Dec. 2012 loan of ¥150,000,000 pledged by a certain number of equities held by Hainan Airlines and at the same time guaranteed by the related parties of the group, loan of ¥150,000,000 pledged by a

certain number of equities held by the third parties and at the same time guaranteed by the related parties of the group, loan of ¥560,500,000 as letter of credit pledged by guarantee of ¥168,150,000 provided by Hainan Airlines and simultaneously guaranteed by the related parties of the group were repaid at maturity in 2013.

2. (a) On 31st Dec. 2013 the guarantee loans of the group and Lucky Air, subsidiary of the group, included:

(i) The guarantee loan of ¥859,000,000 (On 31st Dec. 2012: ¥790,000,000) was guaranteed by the related party – HNA Group.

(ii) The guarantee loan of ¥196,000,000 was guaranteed by the related party – HNA Aviation Group Corporation Ltd. (“HNA Aviation Group”)

(iii) The guarantee loan of ¥150,000,000 was guaranteed by the related party – Yangtze Leasing Corporation Ltd. (“Yangtze Leasing”)

(iv) The guarantee loan of ¥50,000,000 was guaranteed by the related party – Hainan Airlines.

On 31st Dec. 2012 the guarantee loan of ¥103,000,000 was guaranteed by the related party – Kunming HNA Express Transportation Corporation Ltd. (“Kunming HNA Express Transportation”) and was repaid at maturity in 2013.

(b) On 31st Dec. 2013 mortgage loan of ¥150,000,000 (On 31st Dec. 2012: ¥100,000,000) for Lucky Air, the subsidiary of the company was mortgaged by the house and building of Lucky Air with the net value of ¥132,930,000 and original value of ¥144,479,000 (On 31st Dec. 2012: net value of ¥129,782,000 and original value of ¥136,936,000)

3. On 31st Dec. 2013 the guarantee and mortgage or pledge loans of the company included:

(i) Loan of ¥300,000,000 was pledged by the term deposit of ¥360,000,000 held by the Shanxi Airlines, subsidiary of the Hainan Airlines which is a subsidiary of the company and simultaneously guaranteed by Hainan Airlines, subsidiary of the company.

## 22. Notes Payable

<u>types</u>	<u>On 31st Dec. 2013</u>	<u>On 31st Dec. 2012</u>
Bank acceptance bill .....	4,733,547.00	6,724,189.00
Commercial acceptance bill .....	1,242,642.00	695,371.00
Total .....	<u>5,976,189.00</u>	<u>7,419,560.00</u>

## 23. Accounts Payable

(1) Details of aging

<u>aging</u>	<u>On 31st Dec. 2013</u>	<u>On 31st Dec. 2012</u>
within one year (including one year) .....	5,109,955.00	4,763,859.00
One to two years (including two years) .....	329,607.00	434,994.00
two to three years (including three years) .....	22,715.00	1.00
More than three years .....		117.00
Total .....	<u>5,462,277.00</u>	<u>5,198,971.00</u>

(2) Dated to 31st Dec. 2013 in the accounts payable the balance of ¥3,110,000 was payable to Haikou Meilan, which was a shareholding unit and held more than 5% (including 5%) voting right equities of Hainan Airlines, subsidiary of the company.

## 24. Accounts Received in Advance

(1) Details of aging

aging	On 31st Dec. 2013	On 31st Dec. 2012
within one year (including one year) . . . . .	1,600,334.00	968,173.00
one to two years (including two years) . . . . .	79,303.00	108,159.00
Two to three year (including three years) . . . . .		17.00
Total . . . . .	<u>1,679,637.00</u>	<u>1,076,349.00</u>

(2) Dated to 31st Dec. 2013 accounts received in advance did not have the money received before hand of the shareholding units holding more than 5% (including 5%) voting right equities.

## 25. Employee Pay Payable

Items	On 31st Dec. 2012	Increase in this year	Decrease in this year	On 31st Dec. 2013
Part One: salary, bonus, allowance and compensation . . . . .	158,538.00	1,521,596.00	1,431,516.00	248,618.00
Part Two: employee welfare . . . . .		142.00	142.00	
Part Three: social security . . . . .	7,906.00	363,828.00	367,885.00	3,849.00
Part Four: Housing fund . . . . .	28,208.00	66,150.00	74,959.00	19,399.00
Part Five: labour union expenditure and employee education expenses . . . . .	18,453.00	41,563.00	38,573.00	21,443.00
Part Six: Others . . . . .				
total . . . . .	<u>213,105.00</u>	<u>1,993,279.00</u>	<u>1,913,075.00</u>	<u>293,309.00</u>

## 26. Tax Payable

Items	On 31st Dec. 2013	On 31st Dec. 2012
Value-added tax . . . . .	3,419.00	9,520.00
Tariff . . . . .		2,314.00
Sales tax . . . . .	37,371.00	114,812.00
Income tax . . . . .	307,415.00	154,907.00
Urban maintenance & construction tax . . . . .	-3,626.00	858.00
Stamp tax . . . . .	738.00	5,704.00
Local education surcharge . . . . .		1,282.00
Education surcharge . . . . .	-3,228.00	-1,311.00
The Civil Aviation Development Fund . . . . .	350,254.00	317,248.00
Property tax . . . . .		181.00
Cultural Construction Fee . . . . .		127.00
Individual Income Tax . . . . .		860.00
Others . . . . .	127,510.00	89,565.00
Total . . . . .	<u>819,853.00</u>	<u>696,067.00</u>

**27. Interests Payable**

<b>Items</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Loan interest .....	152,611.00	163,795.00
Note interest .....	221,464.00	188,873.00
total .....	<u>374,075.00</u>	<u>352,668.00</u>

**28. Dividends Payable**

<b>Name of units</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Others .....	59,381.00	68,521.00
Total .....	<u>59,381.00</u>	<u>68,521.00</u>

**29. Other payables**

(1) Details of aging

<b>Aging</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Within one year (including one year) .....	1,147,915.00	1,392,268.00
One to two years (including two years) .....	277,330.00	1,380,431.00
Two to three years (including three years) .....	102,736.00	
More than three years .....		
Total .....	<u>1,527,981.00</u>	<u>2,772,699.00</u>

(2) Dated to 31st Dec. 2013 the balance of the other payables is ¥1,024,000 payable to HNA Group which was a shareholding unit and held more than 5% (including 5%) voting right equities of Hainan Airlines, subsidiary of the company.

**30. Non-current Liabilities due within one year**

(1) Classification

<b>Items</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Long-term loan due within one year .....	5,998,624.00	6,434,558.00
Note payable due within one year .....	997,476.00	
Long-term Payables due within one year .....	571,151.00	691,609.00
Total .....	<u>7,567,251.00</u>	<u>7,126,167.00</u>

## (2) Long-term loans due within one year

<b>Items</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Mortgage loan .....	2,302,574.00	2,975,479.00
Pledge loan .....	530,000.00	1,667,250.00
Guarantee loan .....	722,994.00	945,478.00
Guarantee and mortgage or pledge loan .....	2,376,389.00	656,715.00
Credit loan .....	66,667.00	189,636.00
total .....	<u>5,998,624.00</u>	<u>6,434,558.00</u>

Notes: The details of guarantee of the long-term loan due within one year are explicitly stated in the part five, item 31 of the notes.

## (3) note payable due within one year

<b>Name of notes</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Note in RMB .....	997,476.00	
Total .....	<u>997,476.00</u>	

Notes: The details of guarantee of the note payable due within one year are explicitly stated in the part five, item 32 of the notes.

## (4) long-term payables due within one year

<b>units</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Hainan Airlines .....	426,825.00	597,012.00
Lucky Air .....	144,326.00	94,597.00
Total .....	<u>571,151.00</u>	<u>691,609.00</u>

Notes : The long-term payables due within one year were the money for financial leasing.

**31. Long-term loans**

## Long-term loans by classification

<b>Items</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
Mortgage loan .....	16,355,540.00	15,774,654.00
Pledge loan .....	710,000.00	850,000.00
Guarantee loan .....	574,162.00	1,436,649.00
Guarantee and mortgage or pledge loan .....	9,264,757.00	5,197,084.00
Credit loan .....	74,418.00	141,324.00
Total .....	<u>26,978,877.00</u>	<u>23,399,711.00</u>

Notes: 1.(a) On 31st Dec. 2013 the mortgage loan of the group included:

(i) Mortgage loan of ¥16,835,662,000 (including: ¥2,547,706,000 and \$2,343,478,000) (On 31st Dec. 2012: ¥13,521,806,000) was mortgaged by the following fixed assets or real estate for investment.

	<u>On 31st Dec. 2013</u>		<u>On 31st Dec. 2012</u>	
	<u>Original value</u>	<u>Net value</u>	<u>Original value</u>	<u>Net value</u>
Fixed assets – house . . . . .			512,384	398,180
Fixed assets – planes . . . . .	24,899,453	20,760,948	18,955,890	15,938,709
Subtotal of fixed assets . . . . .	24,899,453	20,760,948	19,468,274	16,336,889
Real estate for Investment . . . . .		1,774,005		763,156
Total . . . . .		22,534,953		17,100,045

(ii) Mortgage loan of ¥1,822,452,000 (including: ¥520,000,000 and \$213,626,000, equivalent to ¥1,302,452,000) (On 31st Dec. 2012: ¥3,116,920,000) was mortgaged by the withdrawal equity of a certain number of airplanes scheduled by the subsidiary of Hainan Airlines to purchase and their mortgage procedures left being unhandled.

On 31st Dec. 2012 the mortgage loan of ¥2,111,407,000 was mortgaged by the planes of the related parties of the group, the intangible and fixed assets of Hainan Airlines.

(b) On 31st Dec. 2013 pledge loan of the group included:

(i) Pledge loan of ¥400,000,000 (On 31st Dec. 2012: ¥599,250,000) was pledged by the term deposit of ¥550,000,000 (On 31st Dec. 2012: ¥750,000,000) of the group.

(ii) Pledge loan of ¥700,000,000 (On 31st Dec. 2012: ¥700,000,000) was pledged by some equities held by the related parties of the group.

The pledge loan of ¥500,000,000 was pledged by some equities held by the related parties of the group and the third parties and repaid at maturity in 2013.

(c) On 31st Dec. 2013 the guarantee loan of ¥1,217,156,000 of the group (including: ¥844,542,000 and \$61,115,000, equivalent to ¥372,614,000) (On 31st Dec. 2012: ¥2,023,327,000) was guaranteed by the group and the related parties of the group. In it the amount of ¥409,000,000 was guaranteed by the related parties of the group, ¥210,542,000 and \$61,115,000 (equivalent to ¥372,614,000) by Hainan Airlines and ¥225,000,000 commonly by the group and the related parties of the group.

**(d) On 31st Dec. 2013 the guarantee and mortgage or pledge loan of the group included:**

(i) Loan of ¥3,692,495,000 (including: ¥1,260,206,000 and \$398,939,000, equivalent to ¥2,432,289,000) (On 31st Dec. 2012: ¥2,759,870,000) was mortgaged by the planes with net value of ¥5,680,986,000 (original value were ¥7,443,044,000) (On 31st Dec. 2012: net value of ¥3,806,561,000 and original value of ¥5,293,670,000) and simultaneously guaranteed by the related parties of the group.

(ii) Loan of ¥1,110,000,000 (On 31st Dec. 2012: ¥1,240,000,000) was mortgaged by the real estate for investment of the group with fair value of ¥3,469,799,000 (On 31st Dec. 2012: ¥3,466,500,000) and simultaneously guaranteed by the related parties of the group and Hainan Airlines, in which the amount guaranteed by the related parties was ¥240,000,000.

(iii) Loan of ¥1,787,189,000 (including: ¥1,426,432,000 and \$59,171,000, equivalent to ¥360,757,000) (On 31st Dec. 2012: ¥1,214,542,000) was mortgaged by the withdrawal equity of some airplanes scheduled by the subsidiary of Hainan Airlines to purchase and their mortgage procedures left being unhandled and simultaneously guaranteed by the related parties of the group.

(iv) Loan of ¥308,000,000 (On 31st Dec. 2012: ¥250,000,000) was mortgaged by the fixed assets of the group and simultaneously guaranteed by the related parties of the group.

(v) Loan of \$29,600,000 was pledged by the equities of Hainan Airlines and the related parties of the group, and simultaneously guaranteed by the related parties of the group.

(vi) Loan of \$130,000,000 (equivalent to ¥792,597,000) (On 31st Dec. 2012: no amount) was mortgaged by the planes of the group with the net value of ¥906,987,000 (original value was ¥924,366,000), and simultaneously guaranteed by Hainan Airlines.

(vii) Loan of ¥30,000,000 (On 31st Dec. 2012: no amount) was mortgaged by the planes of the related parties of the group, and simultaneously guaranteed by the related parties of the group.

(viii) Loan of ¥613,000,000 (On 31st Dec. 2012: no amount) was mortgaged by the fixed assets of the group with the net value of ¥7,264,000 (original value was ¥10,531,000) and the intangible assets of the group with the net value of ¥82,476,000 (original value was ¥121,110,000) and simultaneously guaranteed by the related parties of the group.

(ix) Loan of Euro 42,000,000 (equivalent to ¥353,594,000) (On 31st Dec. 2012: no amount) was pledged by the fixed assets of the group with the net value of Euro 6,737,000 (equivalent to ¥56,717,000) (original value was Euro 11,389,000, equivalent to ¥95,886,000) and some equities held by the company, and simultaneously guaranteed by the related parties of the group.

(x) Loan of ¥1,684,593,000 (including: ¥854,500,000 and \$136,150,000, equivalent to ¥830,093,000) (On 31st Dec. 2012: ¥2,111,407,000) was mortgaged by the planes of the related parties of the group, the intangible assets of the company with the net value of ¥30,339,000 (original value was ¥40,421,000) (On 31st Dec. 2012: net value of ¥31,170,000 and original value of ¥40,421,000) and the fixed assets of Hainan Airlines with the net value of ¥335,671,000 (original value was ¥469,786,000) (On 31st Dec. 2012: net value of ¥342,814,000 and original value of ¥465,563,000), and simultaneously pledged by the intangible assets of the related parties of the group and some equities held by them (On 31st Dec. 2012: no amount).

On 31st Dec. 2012 loan of \$30,750,000 was pledged by some equities held by the related parties of the group and mortgaged by the planes of the group was fully repaid at maturity in 2013.

2. On 31st Dec. 2013 guarantee loan of \$80,000,000 of Lucky Air, subsidiary of the company (On 31st Dec. 2012: ¥358,800,000) was guaranteed by HNA Group.

3. On 31st Dec. 2013 pledge loan of ¥140,000,000 of the company was pledged by the 80,000,000 shares of Hainan Airlines held by the company.

Guarantee and pledge loan of the company included:

On 31st Dec. 2013 loan of ¥89,210,000 was guaranteed by Hainan Airlines, subsidiary of the company, and pledged by the deposit of ¥100,000,000 of HNA Group Financing Co. Ltd held by the company and 578,570,000 shares of Xinhua Airlines held by Hainan Airlines, subsidiary of the company.



The loan of ¥1,000,000,000 was guaranteed by HNA Group, Golddeer Airlines and Hainan Airlines and pledged by the right of charge for the future BSP tickets held by the company.

### 32. Notes payable

Items	On 31st Dec. 2012	Increase in this year	Decrease in this year	On 31st Dec. 2013
Corporate note . . . . .	5,632,482.00	13,390.00		5,645,872.00
Note in RMB . . . . .	1,490,623.00	3,256.00	1,493,879.00	
Note in \$ . . . . .		3,079,253.00	87,170.00	2,992,083.00
Total . . . . .	7,123,105.00	3,095,899.00	1,581,049.00	8,637,955.00

Name of notes	Face value	Date of issue	Term of note	Amount of issue	interest payable at the beginning of this year	interest accrued in this year	interest paid in this year	interest payable at the end of this year	Ending balance
Corporate note <sup>(1)</sup> . . . . .	5,000,000	24th May 2011	Five-year and ten-year term	4,920,000.00					
Note in RMB <sup>(2)</sup> . . . . .	1,000,000	27th Sep. 2011	Three-year term	990,371.00					
Note in RMB <sup>(3)</sup> . . . . .	500,000	20th Jan. 2012	three-year term	494,979.00					
Note in \$ <sup>(4)</sup> . . . . .	3,048,450	7th Feb. 2013	Seven-year term	2,961,280.00					
Corporate note <sup>(5)</sup> . . . . .	700,000	14th Dec. 2012	Seven-year term	700,000.00					

- Notes: (1) Approved by the SDP(2011) License No.721 the China Securities Regulatory Commission Hainan Airlines, subsidiary of the company, issued corporate notes with total amount of ¥5,000,000,000 on 24th May 2011. The notes had five-year and ten-year term respectively with the fixed annual interest of 5.6% (five-year term) and 6.2% (ten-year term) paid once each year.
- (2) In Sep. 2011 HNA Hongkong, wholly owned subsidiary of Hainan Airlines which a subsidiary of the company, issued three-year term corporate note of ¥1,000,000,000 with face interest rate of 6% due in 2014. The note was listed in Singapore, and provided unconditional and irrevocable guarantee with joint and several liability for three years by Hainan Airlines, a subsidiary of the company.
- (3) In Jan. 2012 HNA Hongkong, wholly owned subsidiary of Hainan Airlines which a subsidiary of the company, issued three-year term corporate note of ¥500,000,000 with face interest rate of 5.25% due in 2015. The note was provided unconditional and irrevocable guarantee with joint and several liability for three years by Hainan Airlines, a subsidiary of the company. In Jan. 2013 HNA Hongkong repaid back the notes in advance.
- (4) In Feb. 2013 HNA Hongkong, wholly owned subsidiary of Hainan Airlines which a subsidiary of the company, issued seven-year term corporate note of \$500,000,000 with face interest rate of 3.625% due in 2020. The note was listed in Singapore, and provided unconditional and irrevocable guarantee with joint and several liability for seven years by Hainan Airlines, a subsidiary of the company.
- (5) In Dec. 2012 Lucky Air, a subsidiary of the company, issued seven-year term corporate note of \$700,000,000 with face interest rate of 7.29% due in 2019. The note was listed at Shanghai Stock Exchange, and provided unconditional and irrevocable guarantee with joint and several liability for seven years by HNA Aviation Group, a related party of the company.

### 33. Long-term Payable

Items	On 31st Dec. 2013	On 31st Dec. 2012
Accrued financial lease payable . . . . .	2,656,236.00	2,236,998.00
total . . . . .	2,656,236.00	2,236,998.00

**34. Other Non-current Liability**

<b>Items</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>
(a) deferred income-reward bonus for exchange of frequent passengers .....	740,444.00	603,169.00
(b) deferred income-unfulfilled sales and leaseback income .....		22,420.00
financial lease payable-planes and engines import tariff and value-added tax .....		7,359.00
<b>Total .....</b>	<b>740,444.00</b>	<b>632,948.00</b>

**35. Paid-in Capital**

<b>Name of shareholders</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>	<b>On 31st Dec. 2011</b>
Haikou Meilan Airport Corporation Ltd. ....	498,733.00	498,733.00	498,733.00
HNA Group Corporation. Ltd. ....	1,388,360.00	1,388,360.00	1,388,360.00
Hainan Provincial Development holdings Co., Ltd. ....	1,500,000.00	1,500,000.00	1,500,000.00
Yangtze Investment holdings Co., Ltd. ....	250,000.00	250,000.00	250,000.00
Hainan Qixing Industrial Investment Co., Ltd. ....	172,160.00	172,160.00	172,160.00
Shenhua Group Corporation Ltd. ....	334,107.00	334,107.00	334,107.00
Hainan Fly-aviation Tourism Information Consulting Service Co., Ltd. ....	163,291.00	163,291.00	163,291.00
Beijing Hongrui Shengda Commercial Trade Co., Ltd. ....	94,937.00	94,937.00	94,937.00
Beijing Yuejin Shunhe Investment Consulting Co., Ltd. ....	131,646.00	131,646.00	131,646.00
Cixi Jianqiao Investment Co., Ltd. ....	20,800.00	20,800.00	20,800.00
Beijing Detong Shunli Investment Consulting Co., Ltd. ....	131,646.00	131,646.00	131,646.00
Minmetal Investment Development Co., Ltd. ...	33,333.00	33,333.00	33,333.00
Zhejiang US-EU I Investment Consulting Co., Ltd. ....	6,379.00	6,379.00	6,379.00
Hainan Tongyuanhe Trade Co., Ltd. ....	5,345.00	5,345.00	5,345.00
Hainan Aviation Reputation Business Co., Ltd. ..	94,937.00	94,937.00	94,937.00
Pan American Aviation Holdings .....	240,186.00	240,186.00	240,186.00
Union Trans-Atlantic Limited .....	40,031.00	40,031.00	40,031.00
Perfect Star Investment Limited .....	24,019.00	24,019.00	24,019.00
Starstep LTD .....	575,040.00	575,040.00	575,040.00
Tianjin Grand China Express Delivery Holdings Co., Ltd. ....	266,667.00	266,667.00	266,667.00
Others .....	5,063.00	5,063.00	5,063.00
<b>Total .....</b>	<b>5,976,678.00</b>	<b>5,976,678.00</b>	<b>5,976,678.00</b>

**36. Capital Surplus**

<b>Name of shareholders</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>	<b>On 31st Dec. 2011</b>
Capital Premium .....	5,020,754.00	5,020,754.00	5,020,754.00
Other capital surplus .....	48,877.00	32,486.00	2,087.00
Total .....	<u>5,069,631.00</u>	<u>5,053,240.00</u>	<u>5,022,841.00</u>

**37. Surplus Reserve**

<b>Items</b>	<b>On 31st Dec. 2013</b>	<b>On 31st Dec. 2012</b>	<b>On 31st Dec. 2011</b>
legal surplus reserve .....	3,506.00	3,506.00	3,506.00
Discretionary surplus reserve .....	1,753.00	1,753.00	1,753.00
Total .....	<u>5,259.00</u>	<u>5,259.00</u>	<u>5,259.00</u>

**38. Undistributed Profit**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Before adjustment: undistributed profits at the end of last year ...	3,394,735.00	2,475,272.00	1,109,779.00
Adjust: total undistributed profits at the beginning of this year ...			
After adjustment: undistributed profits at the beginning of this year .....	3,394,735.00	2,475,272.00	1,109,779.00
Add: net profit attributable to the Owners of Parent Company in this year .....	506,510.00	685,807.00	1,365,493.00
Other complex income .....		233,656.00	
Less: Statutory accumulation reserve .....			
Discretionary surplus reserve .....			
Generic risk reserve .....			
Dividends Payable on Common Stock .....			
Common Stock Dividends Transferred to Equity .....			
Undistributed Profits at the End of This year .....	3,901,245.00	3,394,735.00	2,475,272.00

**39. Operating Revenue and Operating Cost**

(1) Structure of Operating Revenue and Operating Cost:

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Prime operating revenue .....	31,531,301.00	30,884,703.00	27,803,373.00
Other operating revenue .....	2,166,175.00	1,272,270.00	1,619,167.00
Total operating revenues .....	<u>33,697,476.00</u>	<u>32,156,973.00</u>	<u>29,422,540.00</u>
Prime operating cost .....	25,166,944.00	23,237,326.00	21,118,528.00
Other operating cost .....	1,402,840.00	886,336.00	992,966.00
Total operating costs .....	<u>26,569,784.00</u>	<u>24,123,662.00</u>	<u>22,111,494.00</u>

## (2) Structure of Prime Operating Revenue and Operating Cost:

items	2013		2012		2011	
	Prime operating revenue	Prime operating cost	Prime operating revenue	Prime operating cost	Prime operating revenue	Prime operating cost
Air passengers transportation revenue .....	30,437,555.00	25,166,944.00	29,316,379.00	23,237,326.00	26,731,564.00	21,118,528.00
air freight and overweight package revenue .....	943,324.00		1,008,953.00			
others .....	150,422.00		167,270.00		81,719.00	
fuel surcharge revenue .....			392,101.00			
Air freight revenue .....					990,090.00	
total .....	<u>31,531,301.00</u>	<u>25,166,944.00</u>	<u>30,884,703.00</u>	<u>23,237,326.00</u>	<u>27,803,373.00</u>	<u>21,118,528.00</u>

## 40. Business Taxes and Surcharges

Items	2013	2012	2011
business tax .....	527,507.00	898,652.00	828,207.00
Urban Maintenance and Construction Tax .....	45,905.00	62,952.00	53,919.00
Education Surcharge .....	33,826.00	46,813.00	44,078.00
Others .....	2,020.00	2,593.00	
Total .....	<u>609,258.00</u>	<u>1,011,010.00</u>	<u>926,204.00</u>

## 41. Financial Expense

Items	2013	2012	2011
Interest Expenditure .....	3,339,971.00	3,428,145.00	3,236,185.00
Less: Interest Revenue .....	666,727.00	695,735.00	674,988.00
Profits or Losses on Exchange .....	721,943.00	60,904.00	637,874.00
Charges of Financial Institution .....	6,224.00	7,850.00	
Notes discounted .....	244,356.00	216,649.00	271,488.00
Total .....	<u>2,201,881.00</u>	<u>2,896,005.00</u>	<u>2,194,811.00</u>

## 42. Income of Fair Value Changes

Items	2013	2012	2011
Financial assets for trade .....			26.00
Including: income of fair value changes incurred by derivate financial instruments .....			
Financial liabilities for trade .....			
Real estate for investment accounted by fair value .....	-64,363.00	604,115.00	869,845.00
Others .....			
total .....	<u>-64,363.00</u>	<u>604,115.00</u>	<u>869,871.00</u>

**43. Investment Income**

## 1. Details of investment income

Items	2013	2012	2011
long-term equity investment accounted by cost method . . . . .	12,062.00	9,012.00	3,427.00
long-term equity investment accounted by equity method . . . . .	439,798.00	113,303.00	89,493.00
investment income by disposal of long-term equity investment . . . . .	10,450.00	2,296.00	3,935.00
investment income by holding financial assets for trade . . . . .	108,703.00		
investment income by holding hold-to-maturity investment . . . . .	124,823.00	78,617.00	81,877.00
investment income by holding financial assets for sale . . . . .	4,865.00	4,636.00	8,932.00
investment income by disposal of financial assets for sale . . . . .		-40,116.00	
Others . . . . .			
Total . . . . .	<u>700,701.00</u>	<u>167,748.00</u>	<u>187,664.00</u>

**44. Non-operating Revenue**

## Details of non-operating revenue

Items	2013	2012	2011
gain by disposal of non-current assets . . . . .	22,872.00	79,279.00	34,737.00
gain by disposal of fixed assets . . . . .	22,872.00	79,279.00	34,737.00
Compensation concerning Beijing Kehang by HNA Group . . . . .		117,875.00	109,917.00
government subsidies . . . . .	367,713.00	509,973.00	362,634.00
pilots transferred income . . . . .	68,963.00		
others . . . . .	16,135.00	20,230.00	113,894.00
Total . . . . .	<u>475,683.00</u>	<u>727,357.00</u>	<u>621,182.00</u>

## Notes:

(a) Government subsidies mainly include the subsidy of the special long-distance international air route allocated by Ministry of Finance, the subsidy of the domestic branch air line allocated by Civil Aviation Administration of China and that of the air line given by local government and airport.

(b) Compensation concerning profit of Beijing Kehang by HNA Group: when Hainan Airlines, a subsidiary of the company, was acquiring Beijing Kehang HNA Group made a commitment to Hainan Airlines that if net profit of Beijing Kehang should not have reached the expected level during the future three year from 2009 to 2011 HNA Group would fully make up the difference of net profit by cash compensation according to the equity proportion (95%). Dated to 31st Dec. 2013 the above-mentioned commitment of HNA Group had been already fulfilled.

**45. Non-operating Expenditure**

Items	2013	2012	2011
total loss of disposal of non-current assets . . . . .	2,093.00	1,896.00	70,422.00
loss of disposal of fixed assets . . . . .	2,093.00	1,854.00	70,422.00
loss of disposal of intangible assets . . . . .		42.00	
others . . . . .	1,361.00	11,431.00	7,394.00
Total . . . . .	<u>3,454.00</u>	<u>13,327.00</u>	<u>77,816.00</u>

**46. Income Tax Expense**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
current income tax calculated by the tax law and related regulations .....	332,502.00	116,750.00	160,997.00
adjustment for deferred income tax .....	253,350.00	661,646.00	739,084.00
total .....	<u>585,852.00</u>	<u>778,396.00</u>	<u>900,081.00</u>

**47. Notes to the Items of Cash Flow Statement****(1) Other Cash Received Related with Operating Activities**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
withdrawal of notes and letter of credit guarantee .....	2,698,301.00	2,369,984.00	1,336,994.00
allowance revenues received .....	367,710.00	508,175.00	333,162.00
prepayment for related parties received .....	3,582,925.00	1,074,941.00	
others .....	218,586.00	301,078.00	265,081.00
total .....	<u>6,867,522.00</u>	<u>4,254,178.00</u>	<u>1,935,237.00</u>

**(2) Other Cash Paid Related with Operating Activities**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
notes and other guarantee paid .....	1,315,177.00	2,096,013.00	2,370,541.00
tickets sales- agency commission fee paid .....	1,379,392.00	1,388,371.00	766,819.00
prepayment of related parties paid .....	1,516,524.00	2,474,435.00	1,891,334.00
system service fee paid .....	199,714.00	172,080.00	155,490.00
banking commission fee paid .....	160,977.00	123,121.00	135,165.00
other airport fee paid .....	68,608.00	68,979.00	76,609.00
advertisement and business entertainment paid .....	90,632.00	62,364.00	55,473.00
lease guarantee and maintenance reserve paid .....			412,827.00
others .....	580,856.00	692,374.00	659,540.00
Total .....	<u>5,311,880.00</u>	<u>7,077,737.00</u>	<u>6,523,798.00</u>

**(3) Other Cash Received Related with Investing Activities**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Term deposit due received .....	2,225,000.00	3,000,000.00	2,623,115.00
Deposit interest .....	446,472.00	604,482.00	212,252.00
Others .....	12,274.00	—	85663.00
Total .....	<u>2,683,746.00</u>	<u>3,604,482.00</u>	<u>2,921,030.00</u>

**(4) Other Cash paid Related with Investing Activities**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Term deposit deposited .....	4,367,357.00	3,305,000.00	6,170,399.00
Total .....	<u>4,367,357.00</u>	<u>3,305,000.00</u>	<u>6,170,399.00</u>

**(5) Other Cash Received Related with Financing Activities**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
note discount received .....	2,861,128.00	2,753,000.00	6,752,000.00
Total .....	<u>2,861,128.00</u>	<u>2,753,000.00</u>	<u>6,752,000.00</u>

**(6) Other Cash Paid Related with Financing Activities**

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Note discount paid .....	4,113,000.00	5,668,319.00	2,129,952.00
Financial lease paid .....	675,859.00	435,918.00	523,553.00
Interest of note discount .....	292,295.00	460,268.00	599,236.00
Total .....	<u>5,081,154.00</u>	<u>6,564,505.00</u>	<u>3,252,741.00</u>

**48. Supplementary Material for the Cash Flow Statement****(1) Supplementary Material for the Cash Flow Statement**

<b>Supplementary material</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>1. Reconciliation of Net Profits to Cash Flows from Operating Activities:</b>			
Net profits .....	1,931,142.00	1,986,588.00	2,765,264.00
Add: Allowance for Asset Devaluation .....	86,564.00	117,623.00	8,206.00
Depreciation of Fixed Assets, Oil & Gas Assets and Productive Biological Assets .....	2,697,001.00	2,350,502.00	2,179,203.00
Amortisation of Intangible Assets .....	9,698.00	10,152.00	6,153.00
Amortisation of Long-term Deferred Expenses .....	248,263.00	200,971.00	163,767.00
Losses of Disposal from Fixed Assets, Intangible Assets and other Long-term Assets .....	-20,779.00	-77,383.00	35,685.00
Losses of Abandonment of Fixed Assets .....			-
Losses of Changes of Fair Value .....	64,363.00	-604,115.00	-869,871.00
Financial Expenses .....	2,089,155.00	2,709,074.00	2,003,905.00
Investment Losses .....	-700,701.00	-167,748.00	-187,664.00
Decrease in the Deferred Income Tax Assets .....	64	-72	-
Increase in the Deferred Income Tax Liabilities .....	240,532.00	615,324.00	999,624.00
Decrease in the Inventories .....	8,269.00	55,892.00	-78,289.00
Decrease in the Operating Receivables .....	2,686,270.00	-1,992,641.00	-3,527,234.00
Increase in the Operating Payables .....	1,039,536.00	3,618,010.00	872,810.00
Others .....			
Net Cash Flow from Operating Activities .....	10,379,377.00	8,822,177.00	4,371,559.00
<b>2. Significant Investing and Financing Activities Not Involving Cash Revenue and Expenditure</b>			
Debt Transferred to Capital .....			
Convertible Corporate Note Due within One Year .....			
Financial Leased Fixed Assets .....			
<b>3. Net Changes of Cash and Cash Equivalent</b>			
Ending Balance of Cash .....	17,273,733.00	19,487,250.00	16,277,252.00
Less: Beginning Balance of Cash .....	19,487,250.00	16,277,252.00	12,886,681.00
Add: Ending Balance of Cash Equivalent .....			
Less: Beginning Balance of Cash Equivalent .....			
Net Increase in the Cash and Cash Equivalent .....	-2,213,517.00	3,209,998.00	3,390,571.00

## (2) Structure of Cash and Cash Equivalent

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Part One: Cash .....	17,273,733.00	19,487,250.00	16,277,252.00
Including: Cash in Treasury .....	1,207.00	2,737.00	2,010.00
Bank Loan Applicable for Payment at Any Time ..	17,272,526.00	19,484,513.00	16,275,242.00
Other Monetary Funds Applicable for Payment at Any Time .....			
Part Two: Cash Equivalent .....			
Including: Note Investment Due within Three Months .....			
Part Three: Balance of Cash and Cash Equivalents at the end of the year .....	17,273,733.00	19,487,250.00	16,277,252.00
Part Four: Cash and Cash Equivalents restricted within the parent company or subsidiaries of the group .....	5,917,699.00	6,480,783.00	6,285,288.00

**Part Six: Related Parties and Related Transactions****1. Details of Parent Company and the Ultimate Controller**

The company has no parent company with controlling power.

Shareholding and voting right proportion for the first and second largest shareholder:

	<b>On 31st Dec. 2013</b>		<b>On 31st Dec. 2012</b>	
	<b>Shareholding proportion</b>	<b>Voting right proportion</b>	<b>Shareholding proportion</b>	<b>Voting right proportion</b>
Hainan Development Holdings .....	24.97%	24.97%	24.97%	24.97%
HNA Group .....	23.11%	23.11%	23.11%	23.11%

**2. Profiles of Subsidiaries**

Fundamentals of subsidiaries and relevant information are disclosed explicitly in the notes of part four.



### 3. Profiles about the Joint and Co-operated Enterprises of the Company

<u>Types of enterprises</u>	<u>Registered address</u>	<u>Legal representative</u>	<u>Business Nature</u>	<u>Registered capital</u>	<u>Shareholding proportion</u>	<u>Voting right proportion</u>	<u>Organisation Code</u>
Tianjin Airlines	Tianjin	Di Xin	Domestic(including Hongkong and Macao) air transportation of passengers and goods; International air transportation of passengers and goods to peripheral countries; International air transportation of passengers and goods to neighbouring countries from Tianjin to Hongkong, Macao and other neighbouring countries; Accidental Injury Insurance, Health Insurance, Traditional Life Insurance; self-possessed aircrafts leasing and aircrafts maintenance; Professional Aviation Training and Consulting; Import and Export of Goods and technique; Advertising Operation; Freight transport agency services; Trade of Aviation Instrument and daily commodities.	¥ 5,950,000,000	42.02%	42.02%	79496844-2
Bohai Trust	Shijiazhuang	Ping Jin	Asset trust, movable property and real estate trust, marketable securities trust, other property and equity trust, fund-investment as initiator of funds management co. or investment funds, operating asset reorganization for enterprises, M&A and project finance, corporate finance, financial advisor, approved of securities underwriting by the state council, acting as middle man, consulting and investigation, belongings caretaking and safe-deposit box, deposit in the financial institution, borrowing and lending, loans, lease, investment, operation of fixed assets, fixed asset guaranteed for others, inter-bank borrowing, and other business regulated by law or regulations or approved by CBRC.	¥ 2,000,000,000	39.78%	39.78%	104323736
HK Aviation Group	Corporation British Virgin Islands		air transportation of passengers and goods	HK\$5,324,768,000	27.02%	27.02%	Not applicable
HNA Technology	Corporation Haikou	Yingming Wang	Repair, maintenance, renovation of aircraft, engines and other accessory; provision of guarantee on the passengers and aircraft, repair and technology service, technology management of the planes and other engineering, verification, personnel training, development of repair, asset management etc.	¥ 2,080,000,000	48.08%	48.08%	69890098-2

<u>Types of enterprises</u>	<u>Registered address</u>	<u>Legal representative</u>	<u>Business Nature</u>	<u>Registered capital</u>	<u>Shareholding proportion</u>	<u>Voting right proportion</u>	<u>Organisation Code</u>
HNA Finance Corporation Co. Ltd.	Beijing	Shanghai Zhang	Financial and financing consulting, credit verification and relevant consulting, agency business for member units; aid member units fulfil receipt and payment of transaction money; inside accounts transfer and settlement, corresponding settlement, clearing plan design; collect the deposit of member units; loan or financial lease for member units; inter-bank borrowing; issuance of finance corporate notes by approval; corporate note issuance for member units; marketable securities investment	¥2,700,000,000	23.70%	23.70%	102054341
Xi'an Chanba Corporation	Xi'an	Wen Huang		¥1,000,000,000	40.00%	40.00%	57842871-6

#### 4. Profiles of Other Related Parties of the Enterprise

<b>Abbreviation (full name disclosed in the notes of part eleven)</b>	<b>Relationship</b>	<b>Organisation Code</b>
HNA Group	Shareholders with significant influence on the company	708866504
Xinhua Aviation Food	Controlled by HNA Group	708866504
Hainan Aviation Food	Controlled by HNA Group	62001238-7
Xinjiang Aviation Food	Controlled by HNA Group	781752984
Shanya Aviation Food	Cooperated enterprise with HNA Group	74259875-0
Shanya Phoenix Airport	Controlled by HNA Group	20136089-7
Haikou Meilan	shareholder holding more than 5% voting right equities of the company	70886657-1
Gansu Airport	Controlled by HNA Group	924594371
Beijing Commerce & Tourism Culture	Controlled by HNA Group	691699673
Bairuichen Culture	Controlled by HNA Group	55141614-1
HNA Import and Export	Controlled by HNA Group	71385918-1
Yisheng Holdings	Controlled by HNA Group	693161850
Capital Airlines	Controlled by HNA Group	70887277-9
Western Airlines	Controlled by HNA Group	79804682-4
HNA Aviation Sale	Controlled by HNA Group	70887276-0
HNA Airfreight	Controlled by HNA Group	55736841-9
Yangtze Express Delivery	Controlled by HNA Group	741185823
HNA Tourism Group	Controlled by HNA Group	735810119
HNA Hotel Group	Controlled by HNA Group	70886444-5
HNA Drinks	Controlled by HNA Group	747780842
New Urbanarea Construction	Controlled by HNA Group	735830080
Yangtze lease	Controlled by HNA Group	621904344
HNA Airport Holdings	Controlled by HNA Group	75436025-6
HNA Airlines Group	Controlled by HNA Group	68117653-7
HNA Hotel Holdings	Controlled by HNA Group	76597075-4
HNA Properties Holdings	Controlled by HNA Group	79872661-9
Hongkong Airlines	Commonly influenced by the HNA Group	not applicable
Xinsheng Information Technology	Controlled by HNA Group	671060987
Yangtze lease	Controlled by HNA Group	72123031-6
Bohai lease	Controlled by HNA Group	22859736-8
HNA Songzhuang	Controlled by HNA Group	58445217-3
HNA Group Hongkong	Controlled by HNA Group	not applicable
HNA Information	Controlled by HNA Group	713859165
Xinsheng Fly	Controlled by HNA Group	698934891
Beijing HNA Properties	Controlled by HNA Group	789953019
Hainan Jiaxin	Controlled by HNA Group	774290531
Golddeer Public Affairs	Controlled by HNA Group	70887277-9

## 5. Details of Related Transactions

(1) purchase and sale of commodities, offering and receipt of labour

<b>Content of related transactions</b>	<b>pricing way and decision-making procedure of related transaction</b>	<b>Price of related transactions Related parties</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Purchase of aviation food	Mutually agreed-upon prices	Xinhua Aviation Food	145,966	117,751	108,901
		Hainan Aviation Food	43,721	37,955	38,823
		Xinjiang Aviation Food	34,515	24,650	22,682
		Shanya Aviation Food	13,888	12,032	11,551
		HNA Drinks	22,994	2,694	—
			<u>261,084</u>	<u>195,082</u>	<u>181,957</u>
	Price directed by government	Meilan Stock	98,415	97,624	97,544
Acceptance of Take-off and landing service		Haikou Meilan	43,252	39,175	40,774
		Shanya Phoenix Airport	73,775	52,450	37,206
		Gansu Airport	34,833	—	747
			<u>250,275</u>	<u>189,249</u>	<u>176,271</u>
Acceptance of advertisement service	Mutually agreed-upon prices	Beijing Commerce and Tourism Culture			30,000
		Bairuichen Culture			17,473
		HNA Cloud Media			
		Bairuichen Culture	13,425	5,827	—
			<u>13,425</u>	<u>5,827</u>	<u>47,473</u>
Offering of advertisement	Mutually agreed-upon prices	Beijing Commerce and Tourism Culture	15,000	30,000	
payment of agency for import & export commission fee		HNA Import and Export			
	pricing proportionally (0.3%~3%) based on purchase cost		<u>51,226</u>	<u>27,395</u>	<u>19,145</u>
payment of ticket-sale commission fee	Mutually agreed-upon prices	HNA Aviation Sale	188,038	152,344	112,428
	Mutually agreed-upon prices	Yisheng Holdings	4,338	3,747	35,825
	Mutually agreed-upon prices	Xinsheng Information Technology	—	881	14,675
		others	—	118	965
			<u>193,733</u>	<u>171,731</u>	<u>158,490</u>

<b>Content of related transactions</b>	<b>pricing way and decision-making procedure of related transaction</b>	<b>Price of related transactions Related parties</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
receipt of ticket-sale commission fee	Mutually agreed-upon prices Tianjin Airlines		3,122	4,571	6,887
	Mutually agreed-upon prices Capital Airlines		2,702	2,747	2,459
	Mutually agreed-upon prices Western Airlines		514	705	519
	others		226	164	
			<u>6,564</u>	<u>8,187</u>	<u>9,865</u>
payment of commission fee for freight of related parties	Mutually agreed-upon prices HNA Airfreight		57,200	60,929	60,028
	Mutually agreed-upon prices Yisheng Holdings		24,827	37,640	28,935
Sales revenues of new golddeer card			<u><u>          </u></u>	<u><u>          </u></u>	<u><u>          </u></u>
Acceptance of maintenance and safeguard service	Mutually agreed-upon prices HNA Technology		807,166	625,722	615,621
	Yunnan Haiji		27,864		
			<u>835,030</u>	<u>625,722</u>	<u>615,621</u>
Interest revenue	Market price HNA Finance Company		84,193	138,398	122,515
Chartered flight revenue	Mutually agreed-upon prices Gansu Airport		25,225	61,644	
	Tianjin Airlines		28,792	44,520	
Mileage bonus income	Mutually agreed-upon prices Capital Airlines		22,296	28,322	
	Western Airlines		5,557		
			<u>56,645</u>	<u>72,842</u>	
	Kunming HNA Express Delivery		9,621	9,098	

<b>Content of related transactions</b>	<b>pricing way and decision-making procedure of related transaction</b>	<b>Price of related transactions Related parties</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cargo agent revenue	Mutually agreed-upon prices HNA Airfreight		16,156	12,711	
			<u>25,777</u>	<u>21,809</u>	
Guarantee fee for high turnover parts	Mutually agreed-upon prices Capital Airlines		3,777		
Payment for platform service fee	Mutually agreed-upon prices Yisheng Commerce Affairs		<u>35,734</u>		

## (2) lease

① The group acted as a lessor:

<b>Name of lessor</b>	<b>Types of leasing assets</b>	<b>Name of lessee</b>	<b>Beginning date of lease</b>	<b>Ending date of lease</b>	<b>pricing rules of leasing income</b>	<b>Leasing income recognised in 2013</b>	<b>Leasing income recognised in 2012</b>	<b>Leasing income recognised in 2011</b>
The group	planes	Capital Airlines	18th Dec. 2008	Automatically extending each year	Mutually agreed-upon prices	537,918	478,880	421,989
		Tianjin Airlines	25th May 2008	Automatically extending each year	Mutually agreed-upon prices	247,872	246,961	282,838
		Western Airlines	9th Aug. 2010	Automatically extending each year	Mutually agreed-upon prices	48,902	73,800	117,014
		Yangtze Express Delivery	16th Apr. 2010	Automatically extending each year	Mutually agreed-upon prices	2,597	15,585	30,044
						<u>837,289</u>	<u>815,226</u>	<u>851,885</u>
The group	Real estate	Yisheng Holdings	1st Dec. 2009	30th Nov. 2014	Mutually agreed-upon prices			8,730
		HNA Tourism Group	16th Oct. 2008	15th Oct. 2012	Mutually agreed-upon prices	12,619	10,999	7,143
		HNA Properties Holdings	1st Jan. 2009	15th Oct. 2011	Mutually agreed-upon prices			6,270
		HNA Technology	1st Jan. 2001	Automatically extending each year	Mutually agreed-upon prices	37,748	37,748	

Name of lessor	Types of leasing assets	Name of lessee	Beginning date of lease	Ending date of lease	pricing rules of leasing income	Leasing income recognised in 2013	Leasing income recognised in 2012	Leasing income recognised in 2011
		HNA Hotel Group	1st Apr. 2012	31st Mar. 2015	Mutually agreed-upon prices	139,169	142,941	
		HNA Finance Company	1st Oct. 2008	31st Dec. 2013	Mutually agreed-upon prices	9,556	9,558	
		HNA Group	1st Oct. 2008	31st Dec. 2013	Mutually agreed-upon prices	9,080	9,084	
		HNA Hotel Group	30th Apr. 2009	31st Mar. 2012	Mutually agreed-upon prices			86,757
		HNA Finance Company	1st Oct. 2008	31st Dec. 2013	Mutually agreed-upon prices			8,356
		HNA Group	1st Oct. 2008	31st Dec. 2013	Mutually agreed-upon prices			8,278
						<u>208,172</u>	<u>210,330</u>	<u>125,534</u>

② The group acted as a lessee:

Name of lessor	Name of lessee	Types of lease asset	Beginning date of lease	ending date of lease	pricing rules of leasing income	Lease income recognised in 2013	Lease income recognised in 2012	Lease income recognised in 2011
Capital Airlines	the group	planes	15th Mar. 2009	Automatically extending each year	Mutually agreed-upon prices	14,850	16,200	299,888
Hongkong Airlines	the group	planes	1st Oct. 2010	Automatically extending each year	Mutually agreed-upon prices	742,042	322,708	235,697
New Urbanarea Construction	the group	Office building	26th Jan. 2011	26th Sep. 2016	Mutually agreed-upon prices			31,596
Yangtze lease	the group	Planes& engines	15th Jul. 2010	12th Nov. 2017	Mutually agreed-upon prices	22,271	20,462	16,954
Meilan Stock	the group	airport terminal	26th Feb. 2009	31st Dec. 2011	Mutually agreed-upon prices	5,898	5,808	6,189
						<u>785,061</u>	<u>365,178</u>	<u>590,324</u>

(3) The related parties provided guarantee and mortgage for the group.

<b>Guarantor and mortgage-provider</b>	<b>The guaranteed parties and mortgaged parties</b>	<b>Amount of guarantee and mortgage</b>	<b>Beginning date of guarantee and mortgage</b>	<b>ending date of guarantee and mortgage</b>	<b>Whether or not the obligation of guarantee and mortgage had been fulfilled to 31st Dec. 2013</b>
(i) short-term loans					
HNA Group	HNA Airlines	80,000	18/09/2013	18/09/2014	no
HNA Group	HNA Airlines	3,294,456	03/05/2013	18/12/2014	no
HNA Group	HNA Airlines	300,000	08/05/2013	20/11/2014	no
Haikou Meilan	HNA Airlines	40,000	15/05/2013	12/05/2014	no
HNA Hotel Group	HNA Airlines	70,000	08/05/2013	27/04/2014	no
Haikou Meilan	HNA Airlines	1,000,000	18/06/2013	17/06/2014	no
HNA Group and Grand China Air	HNA Airlines	7,700,601	01/03/2013	15/12/2014	no
HNA Group	HNA Airlines	4,982,500	06/04/2012	20/12/2013	yes
HNA Group	HNA Airlines	300,000	16/11/2012	15/11/2013	yes
HNA Group and Grand China Air	HNA Airlines	5,437,000	04/01/2013	11/12/2013	yes
HNA Group and Haikou Meilan	HNA Airlines	1,131,390	28/06/2012	27/06/2013	yes
HNA Group and HNA Finance Company	HNA Airlines	300,000	26/07/2012	25/07/2013	yes
HNA Properties	HNA Airlines	20,000	13/02/2012	13/02/2013	yes
HNA Group	Lucky Air	100,000.00	29/10/2013	29/10/2014	no
HNA Group	Lucky Air	150,000.00	29/10/2013	29/10/2014	no
HNA Group	Lucky Air	100,000.00	29/10/2013	29/10/2014	no
HNA Group	Lucky Air	150,000.00	26/12/2013	26/12/2014	no
Yangtze lease HNA Airlines	Lucky Air	150,000.00	04/07/2013	03/07/2014	no
Group	Lucky Air	196,000.00	23/05/2013	23/05/2014	no
HNA Group	Lucky Air	300,000.00	26/03/2013	25/03/2014	no
HNA Group	Lucky Air	59,000.00	14/01/2013	14/01/2014	no
(ii) long-term loans					
HNA Group & Haikou Meilan	HNA Airlines	320,000	20/12/2005	17/10/2016	no
HNA Group & Haikou Meilan	HNA Airlines	390,000	19/05/2005	28/10/2016	no
HNA Group	HNA Airlines	1,345,449	29/09/2007	31/08/2020	no
HNA Group	HNA Airlines	4,789,829	11/04/2007	31/07/2025	no
HNA Group & Grand China Air & Hainan Guoshan	HNA Airlines	308,000	24/12/2012	23/12/2015	no
HNA Group & HNA Airport Holdings	HNA Airlines	180,468	02/08/2002	02/08/2035	no
HNA Group & HNA Airport Holdings	HNA Airlines	30,000	31/03/2004	31/03/2014	no



<b>Guarantor and mortgage-provider</b>	<b>The guaranteed parties and mortgaged parties</b>	<b>Amount of guarantee and mortgage</b>	<b>Beginning date of guarantee and mortgage</b>	<b>ending date of guarantee and mortgage</b>	<b>Whether or not the obligation of guarantee and mortgage had been fulfilled to 31st Dec. 2013</b>
HNA Group & HNA Hotel Group & HNA Airlines Group	HNA Airlines	1,684,593	30/06/2003	07/07/2018	no
HNA Group & Grand China Air HNA Airport	HNA Airlines	225,000	18/06/2013	17/06/2016	no
HNA Group Holdings	HNA Airlines	193,279	19/12/2003	01/03/2013	yes
HNA Group	HNA Airlines	116,875	09/03/2009	07/03/2013	yes
HNA Group	HNA Airlines	160,938	03/08/2009	01/08/2013	yes
HNA Group & Haikou Meilan	HNA Airlines	110,000	17/06/2005	17/10/2013	yes
HNA Group & Haikou Meilan	HNA Airlines	120,000	19/05/2005	20/12/2013	yes
HNA Group & Haikou Meilan	HNA Airlines	700,000	11/30/2010	29/11/2013	yes
HNA Group	Lucky Air	80,000.00	29th Nov. 2012	28th Nov. 2024	no
HNA Group	Grand China Air	1,000,000	6th Sep. 2013	6th Mar. 2015	no
(iii) Note payable HNA Airlines Group	Lucky Air	700,000.00	14th Dec. 2012	13th Dec. 2019	no

(4) The group provided guarantee for the related parties

<b>guarantor</b>	<b>The guaranteed parties</b>	<b>Amount guaranteed</b>	<b>Beginning date of guarantee</b>	<b>Ending date of guarantee</b>	<b>Whether or not the obligation of guarantee and mortgage had been fulfilled to 31st Dec. 2013</b>
(i) Short-term loan					
HNA Airlines	HNA Group	147,000	13/08/2013	13/08/2014	no
HNA Airlines	HNA Hotel Holdings	100,000	12/06/2013	06/06/2014	no
HNA Airlines	Capital Airlines	200,000	15/04/2013	15/04/2014	no
HNA Airlines	HNA Hotel Holdings	500,000	11/03/2013	10/03/2014	no
HNA Airlines	HNA Hotel Holdings	200,000	14/08/2013	13/02/2014	no
HNA Airlines	HNA Hotel Holdings	100,000	10/09/2013	10/09/2014	no
HNA Airlines	HNA Group	280,000	06/06/2012	06/06/2013	yes
HNA Airlines	HNA Group	117,200	18/12/2012	18/12/2013	yes
HNA Airlines	HNA Group	111,700	06/06/2012	06/06/2013	yes

<b>guarantor</b>	<b>The guaranteed parties</b>	<b>Amount guaranteed</b>	<b>Beginning date of guarantee</b>	<b>Ending date of guarantee</b>	<b>Whether or not the obligation of guarantee and mortgage had been fulfilled to 31st Dec. 2013</b>
HNA Airlines	Yangtze Express Delivery	100,000	29/09/2012	28/09/2013	yes
HNA Airlines	Bohai lease	30,000	02/07/2012	02/07/2013	yes
HNA Airlines	HNA Hotel Holdings	193,000	24/05/2013	30/11/2013	yes
(ii) Long-term loan					
Grand China Air	HNA Properties Holdings	1,500,000	02/09/2010	02/08/2013	yes
HNA Airlines	Yangtze lease	262,000	02/11/2012	02/05/2015	no
HNA Airlines	HNA Tourism Group	300,000	10/11/2011	08/11/2014	no
HNA Airlines	HNA Airlines Group	238,800	18/09/2012	17/09/2017	no
HNA Airlines	HNA Group	754,260	31/12/2009	03/08/2013	yes
HNA Airlines	Yangtze lease	525,468	01/02/2007	30/12/2013	yes
HNA Airlines	Yangtze lease	33,000	01/02/2007	30/12/2013	yes

## (5) Transfer of assets

<b>Related parties</b>	<b>Content of related transaction</b>	<b>Pricing rules of related transaction</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Yangtze Express Delivery	Planes transfer	Evaluated value	122,581		156,282
Xi'an HNA Properties	Land transfer	Evaluated value			92,066
HNA Airlines Group	Office equipment transfer	Mutually agreed-upon prices			1,419
New Urbanarea Construction	Transfer of fixed assets & land	Evaluated value		-701,609	
			<u>122,581</u>	<u>-701,609</u>	<u>249,767</u>

## (6) transfer of equities

<b>Related parties</b>	<b>Content of related transaction</b>	<b>Pricing rules of related transaction</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
HNA Real Estate Holdings	Transfer of equity – Qionghai Baron	Mutually agreed-upon prices			155,875
HNA Airlines Group	Transfer of equity – Xi'an HNA Properties	Mutually agreed-upon prices			30,330
HNA Airlines Group	Transfer of equity – North-western HNA Properties	Mutually agreed-upon prices			10,136
Total equities transfer					<u>196,341</u>
Yunnan Xiangpeng Investment	Transferee of equity – Lucky Air	Mutually agreed-upon prices			712,000
HNA Group	Transferee of equity – HNA Finance Company	Mutually agreed-upon prices			705,600
Tianjin Airlines holdings	Transferee of equity – Tianjin Airlines	Mutually agreed-upon prices			694,000
HNA Group	Transferee of equity – Tianjin Airlines	Mutually agreed-upon prices	1,093,400		
HNA Group International	Transferee of equity – Hongkong Airlines Group	Mutually agreed-upon prices	321,183		
Haikou Meilan, HNA Hotel Holdings, Yangtze Properties, Yanjing Restaurant, HNA Information	Transferee of equity – Bohai Trust	Mutually agreed-upon prices		2,760,906	
HNA Tourism Group	Transferee of equity – Capital Airlines Holdings	Mutually agreed-upon prices		508,620	
Total transferee of equities			<u>1,414,583</u>	<u>3,269,526</u>	<u>2,111,600</u>

**6. Balance of the Receivables and Payables of Related Parties**

		<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>	<b>31st Dec. 2011</b>
Monetary funds	HNA Finance Company	5,000,911	5,407,728	5,778,686
Interest payable	HNA Finance Company	226,716	169,806	121,506
	HNA Group	27,779	27,106	
	HNA Airlines Holdings	21,160		
	HNA Tourism Group	13,613	3,761	
		289,268	200,673	121,506
Dividend payable	Haikou Meilan	966	966	
	Meilan Stock	899	899	
		1,865	1,865	
Accounts receivable	Xinsheng Information Technology		19,087	102,896
	Yisheng Holdings	243,836	69,524	83,164
	Tianjin Airlines	1,843	21,891	84,807
	HNA Airfreight	7,686	4,333	19,903
	Capital Airlines	19,397	19,583	
	Xinhua Travel	8,764		
	Kunming HNA Express Delivery	5,189	1,072	
	Others	21,884	18,039	25,772
		308,599	153,529	316,542
Notes receivable	Hainan Finance	25,000		
Other receivables	HNA Airlines Group	560,527	1,529,124	4,477,608
	Yangtze lease	1,503,700	1,478,000	1,478,000
	HNA Group	34,759	42,952	1,267,096
	Hainan Jiaxin	600,000	600,000	600,000
	HNA Capital Group		522,000	522,000
	HNA Aviation Sale	548,110	530,000	517,904
	HNA Tourism Group	479,402	289,478	288,989
	HNA Import and Export	14,147	1,289,269	287,079
	Capital Airlines	71,579		198,959
	HNA Real Estate Holdings			162,069
	Tianjin Airlines	56,002		120,129
	Western Airlines			101,537
	Golddeer Public Affairs			70,103
	HNA Technology			57,495
	Yangtze Express Delivery	96,745	96,745	44,812
	HNA Hotel Group	43,500	43,500	43,500
	HNA Sifu			587
	Meilan Stock	13,809		
	south-western Headquarter	244,000	244,000	
	Yunnan Haiji	22,713		
	Hainan Island Construction	12,899		
	North-western Headquarter	10,000	60,000	
	HNA Group Hongkong	65,798		
	Others	56,441	31,117	154,484
		4,434,131	6,756,185	10,392,351

		<u>31st Dec. 2013</u>	<u>31st Dec. 2012</u>	<u>31st Dec. 2011</u>
Accounts prepaid	HNA Import and Export	–		
	HNA South-China Headquarter	2,000	2,000	
	HNA Hangyu Commerce Affair Co., Ltd.		100,000	
	HNA South-China Group Holding Co., Ltd.	3,300		
	Hainan Island Construction	60,000	60,000	
	HNA Technology	270,060		
	Tianjin Airlines	1,306	1,047	
	Others	6,666	7,602	2,762
		<u>343,332</u>	<u>170,649</u>	<u>2,762</u>
Other current assets- Entrusted loan	HNA Group	870,000	720,000	
	HNA Tourism Group	100,000	425,000	
	Capital Airlines		55,000	
		<u>970,000</u>	<u>1,200,000</u>	
Other non-current assets	Yangtze lease	359,366	359,366	339,188
	Western Airlines	966,940		
	Hongkong Airlines	36,500	345,538	
	Hongkong International lease	15,085		
		<u>1,377,891</u>	<u>704,904</u>	<u>339,188</u>
Notes payable	HNA Import and Export	3,350,000	4,053,000	5,080,000
	Xinhua Aviation Food	80,483		
	Hainan Aviation Food	16,580		
	Yangtze Investment		820,000	
	Shanya Phoenix Airport		54,000	–
		<u>3,447,063</u>	<u>4,927,000</u>	<u>5,080,000</u>
Interest payable	Hainan Finance		<u>5,450</u>	<u>3,611</u>
Accounts payable	Capital Airlines			105,300
	Haikou Meilan			31,905
	HNA Airlines Group			27,207
	Meilan Stock			25,374
	HNA Airport Holdings	200,000		10,829
	HNA Group Hongkong			10,005
	HNA Airlines			–
	Golddeer Sale			–
	HNA Technology	87,410	61,789	
	Hongkong Airlines	76,010	68,309	
	Western Airlines	33,879	16,194	
	Xinsheng Fly	11,093	8,277	
	HNA Information	9,429	7,199	
	HNA Aviation Sale		18,888	
	HNA Infrastructure Industrial Group Co., Ltd.	60,000	120,000	
	HNA Airfreight	1,743	28	
	HNA Aviation Sale		12,100	
	others	120,932	84,096	37,410
		<u>600,496</u>	<u>396,880</u>	<u>248,030</u>

		<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>	<b>31st Dec. 2011</b>
Other payables	HNA Group	155,794	755,264	274,098
	Capital Airlines		33,044	264,541
	Tianjin Airlines			133,857
	Western Airlines			100,065
	Yunnan Xiangpeng Investment	200,529	52,695	95,739
	HNA Airfreight			50,014
	HNA Airlines Group	248,891	20,477	50,000
	Yangtze lease			14,146
	Yangtze lease		20,967	790
	HNA Aviation Sale			632
	Yangtze Real Estate			334
	HNA Airlines			–
	Yunnan Provincial State-owned Asset Supervision and Administration Commission.	9,878	9,878	
	HNA Technology		20,027	
	Hainan Hangyu Commercial Affairs Co., Ltd		350,000	
	Hainan Feihang Tourism Information Consulting Service Co., Ltd.		700,000	
	Others	28,903	59,190	251,680
		<u>643,995</u>	<u>2,021,542</u>	<u>1,235,896</u>
Long-term payables	Yangtze lease	398,999	409,678	415,523
	Yangtze lease	69,591	89,360	105,808
		<u>468,590</u>	<u>499,038</u>	<u>521,331</u>

## 7. Commitment of Related Parties

The following is the commitment events of the group relevant with related parties which signed agreements and were not necessarily listed in the balance sheet on B/S date:

	<b>31st Dec. 2013</b>	<b>31st Dec. 2012</b>	<b>31st Dec. 2011</b>
Lease out of operating lease			
– Capital Airlines .....	314,069	341,667	277,290
– Tianjin Airlines .....	228,465	115,416	132,135
– Yunnan Lucky Air .....	182,107	114,872	255,001
– Grand China Air .....	65,231	105,096	108,235
– Western Airlines .....	64,948	33,825	74,165
– Yangtze Express Delivery .....	–	12,511	19,773
	<u>854,820</u>	<u>723,387</u>	<u>866,599</u>

## Part Seven: Contingent Issues

Besides the guarantee provided by the group for the related parties and disclosed in part six of notes, 5 (4) items, the group had no other contingent issues necessary to be disclosed dated to the declaration date of this report.

**Part Eight: Commitment Issues****(1) fulfilment detail of the former commitment**

The commitment of capital expenditure and operating leasing made by the group on 31 Dec. 2011 was fulfilled in accordance with the former commitment.

**(2) Capital expenditure commitment issues:**

The following is on B/S date the capital expenditure commitment signed but unnecessarily listed in the B/S:

<b>31 Dec. 2013</b>	<b>31 Dec. 2012</b>	<b>31 Dec. 2011</b>
64,544,811	75,627,309	85,433,972
4,235,060		
331,828	614,480	
574,934	147,411	234,214
69,686,633	76,389,200	85,668,186

<b>31 Dec. 2013</b>	<b>31 Dec. 2012</b>	<b>31 Dec. 2011</b>
3,035,443.00	2,228,601.00	2,024,199
2,597,083.00	1,853,245.00	1,547,226
1,388,261.00	1,366,628.00	1,435,528
5,341,519.00	5,747,970.00	4,384,839
12,362,306.00	11,196,444.00	9,391,792

**Part Nine: Events after B/S date**

In March 2014 the listed subsidiary of the company, Hainan Airlines, paid ¥1,720,000,000 for the 52.90% equity of Lucky Air held by the company according the equity transfer agreement. After the completion of the purchase, Hainan Airlines held totally the 86.68% equity of the registered capital of Lucky Air.

In June 2014 according to their decision the board committee of the company approved of funding \$900,000 setting up Grand China Air (Hongkong) Corporation Ltd. with the company holding the 100% equity of its registered capital.

**Part Ten: Other Major Events**

No other important events should be disclosed by the company in this year.

**Part Eleven: Details of the Abbreviated and Full Name of Part of Companies Mentioned in the Notes of Financial Statement:**

**full name of companies (in alphabetical order by pinyin of the abbreviated name of companies)**

**Shortened name of companies**

American Aviation LDC. ....	AAL
Beijing HNA Properties Corporation Ltd. ....	Beijing HNA Properties
Beijing Kehang Investment Corporation Ltd. ....	Beijing Kehang
Brussels Data Hotel ....	Brussels DATA
Brussels EDIP Hotel ....	Brussels EDIP
Brussels SODE Hotel ....	Brussels SODE
Changan Airlines Corporation Ltd. ....	Changan Airlines
Yangtze Leasing Corporation Ltd. ....	Yangtze Leasing
HNA Freight Corporation Ltd. ....	HNA Freight
Grand China Air Corporation Ltd. ....	Grand China Air
HNA Aviation Technology Corporation, Ltd. ....	HNA Technology
Gansu Airport Group Corporation Ltd. ....	Gansu Airport
Hainan International Tourism Island Development and Construction (Group) Corporation Ltd. ....	Hainan Island Construction
HNA Group Finance Corporation Ltd. ....	HNA Finance Corporation
HNA Real Estate Holdings (Group) Corporation Ltd. ....	HNA Real Estate Holdings
HNA Aviation Group Corporation Ltd. ....	HNA Aviation Group
Hainan HNA Aviation Sales Corporation Ltd. ....	HNA Aviation Sales
Hainan HNA Aviation Import and Export Corporation Ltd. ....	HNA Import & Export
HNA Airport Holding (Group) Corporation Ltd. ....	HNA Airport Holding
HNA Hotel (Group) Corporation Ltd. ....	HNA Hotel Group
HNA Hotel holdings Group Corporation Ltd. ....	HNA Hotel holdings
HNA Group Corporation Ltd. ....	HNA Group
HNA Group North-western Headquarters Corporation Ltd. ....	HNA Group North-western Headquarters
HNA Group (HK) Corporation Ltd. ....	HNA Group (HK)
HNA Tourism Group Corporation Ltd. ....	HNA Tourism Group
HNA Sifu Automobile Leasing Corporation Ltd. ....	HNA Sifu
Hainan Aviation (HK) Corporation Ltd. ....	HNA HongKong
HNA Group (HK) Investment Corporation Ltd. ....	HNA Group (HK) Investment
HNA Properties Holdings (Group) Corporation Ltd. ....	HNA Properties Holdings
Hainan HNA Drink Corporation Ltd. ....	HNA Drink
Haikou Meilan International Airport Corporation Ltd. ....	Haikou Meilan
Hainan Provincial Development Holding Corporation Ltd. ....	Hainan Development Holding
Hainan Guoshan Industry Corporation Ltd. ....	Hainan Guoshan
Hainan Guoxu Industry Corporation Ltd. ....	Hainan Guoxu
Hainan Jiaxin Investment Management Corporation Ltd. ....	Hainan Jiaxing
Hainan Hangpeng Industry Corporation Ltd. ....	Hainan Hangpeng
Hainan Airlines Stock Corporation Ltd. ....	Hainan Airlines
Hainan Aviation Foods Corporation Ltd. ....	Hainan Aviation Foods
Hainan Hansha Technology Training Corporation Ltd. ....	Hainan Hansha Training
Hainan Qixing Industry Corporation Ltd. ....	Hainan Qixing
HNA Aviation Food Holdings Corporation Ltd. ....	Aviation Food Holdings
Hubei Wanxin Asset Appraisal Corporation Ltd. ....	Hubei Wanxin
Hunan Golddeer Investment Management Corporation Ltd. ....	Hunan Golddeer
HNA Cloud-edge Media (Beijing) Corporation Ltd. ....	HNA Cloud-edge Media
Jilin Provincial Tourism Group Corporation Ltd. ....	Jilin Tourism Group
Hainan Golddeer Aviation Sales Corporation Ltd. ....	Golddeer Sales



**full name of companies (in alphabetical order by pinyin of the abbreviated name of companies)****Shortened name of companies**

Golddeer Public Affairs Aviation Corporation Ltd. ....	Golddeer Public Affairs
Hainan Meilan International Stock Golddeer Public Affairs ....	Meilan Stock
Perfect Star Investment Limited ....	Perfect Star
Qionghai Knight HNA Investment Corporation Ltd. ....	Qionghai Knight
Starstep Limited ....	Starstep
Beijing Capital Airlines Corporation Ltd. ....	Capital Airlines
Shanxi Airlines Corporation Ltd. ....	Shanxi Airlines
Shenhua Group Corporation Ltd. ....	Shenhua Group
Shanya Phoenix International Airport Corporation Ltd. ....	Shanya Phoenix Airport
Shanya Hansha Aviation Food Corporation Ltd. ....	Shanya Aviation Food
Tianjin Airlines Holdings Corporation Ltd. ....	Tianjin Airlines holdings
Tianjin Airlines Corporation Ltd. ....	Tianjin Airlines
Xi'an Chanba Financing Guarantee Corporation Ltd ....	Xi'an Chanba
Xi'an HNA Properties Corporation Ltd ....	Xi'an HNA Properties
North-west HNA Properties Corporation Ltd. ....	North-western HNA Properties
Western Airlines Corporation Ltd. ....	Western Airlines
Hongkong Airlines Corporation Ltd. ....	Hongkong Airlines
Hongkong Airlines Group Holdings Corporation Ltd. ....	Hongkong Airlines Holdings
Hongkong Airlines Consulting Service Corporation Ltd. ....	Hongkong Airlines Consulting
Haikou New Urban-area Construction and Development Corporation Ltd. ....	New Urban-area Construction
Hainan Xinguo Hotel Corporation Ltd. ....	Xinguo Hotel
China Xinhua Airlines Group Corporation Ltd. ....	Xinhua Airlines
Beijing Xinhua Airport Aviation Food Corporation Ltd. ....	Xinhua Aviation Food
Bairuichen Culture Media (Beijing) Corporation Ltd. ....	Bairuichen Culture
Xinjiang HNA Hansha Aviation Food Corporation Ltd. ....	Xinjiang Aviation Food
Hainan Newborn Information Technology Information Ltd. ....	Newborn Information Technology
Yunnan Lucky Air Corporation Ltd. ....	Yunnan Lucky Air
Yunnan Xiangpeng Investment company ....	Yunnan Xiangpeng Investment
Tianjin Yanshan Aviation Leasing Industrial ....	Yanshan Funds
Equity investment Funds partnership ....	
HNA Yisheng Holdings Corporation Ltd. ....	Yisheng Holdings
Yangtze Real Estate Group Corporation Ltd. ....	Yangtze Real Estate
Yangtze Express Delivery Aviation Corporation Ltd. ....	Yangtze Express Delivery
Yangtze International Leasing Corporation Ltd. ....	Yangtze Leasing
Yangtze Investment Holdings Corporation Ltd. ....	Yangtze Investment
HNA Capital Group Corporation Ltd. ....	HNA Capital Group
China Civil Aviation Information Network Stock Corporation Ltd. ...	China Civil Aviation Information Network
Merchants Securities Stock Corporation ....	Merchants Securities
Beijing HNA Songzhuang Investment Development ....	HNA Songzhuang
Corporation Ltd. ....	

**Part Twelve: Notes of the major items of the financial statements of the parent company****1. Accounts Receivable**

(1) Accounts receivable disclosed by classification:

types	2013.12.31			
	Book balance		Bad debt allowance	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable accounted bad debt allowance by portfolio				
Accounts receivable accounted bad debt allowance by aging .....	36,075.00	5.25	2,780.00	7.70
Accounts receivable from the government and related parties .....	651,360.00	94.75		
Portfolio subtotal .....	687,435.00	100.00	2,780.00	0.40
total .....	687,435.00	100.00	2,780.00	0.40

Continued sheet:

types	31st Dec. 2012			
	Book balance		Bad debt allowance	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable accounted bad debt allowance by portfolio				
Accounts receivable accounted bad debt allowance by aging .....	30,054.00	7.84	993.00	3.30
Accounts receivable from the government and related parties .....	353,452.00			92.16
Portfolio subtotal .....	383,506.00	100.00	993.00	0.26
total .....	383,506.00	100.00	993.00	0.26

(2) Details of the customers of the accounts receivable of large amount:

Name of units	Relationship with the company	Amount	Aging	Proportion in the total amount of the accounts receivable (%)
Hainan Gold-deer Aviation Sales Co., Ltd. ....	subsidiary of HNA	651,360.00	Within one year	94.75
Beijing Office of International Aviation Association ...	The third party	10,351.00	Within one year	1.51
Beijing Vocation Travel Agency Co., Ltd. ....	The third party	1,985.00	More than five years	0.29
Total .....		663,696.00		96.55

## 2. Other Receivables

### (1) Other receivables disclosed by classification

Types	31st Dec. 2013			
	Book balance		Bad debt allowance	
	Amount	Proportion (%)	Amount	Proportion (%)
other receivables accounted bad debt allowance by portfolio				
portfolio of aging analysis .....	656,611.00	18.85	60,010.00	9.14
other receivables from the government and related parties .....	2,827,439.00	81.15		
portfolio subtotal .....	3,484,050.00	100.00	60,010.00	1.72
total .....	3,484,050.00	100.00	60,010.00	1.72

Continued sheet:

Types	31st Dec. 2012			
	Book balance		Bad debt allowance	
	Amount	Proportion (%)	Amount	Proportion (%)
other receivables accounted bad debt allowance by portfolio				
portfolio of aging analysis .....	600,098.00	15.41	30,005.00	5.00
other receivables from the government and related parties .....	3,294,114.00	84.59		
portfolio subtotal .....	3,894,212.00	100.00	30,005.00	0.77
total .....	3,894,212.00	100.00	30,005.00	0.77

### (2) Details of the customers of the other receivables of large amount

Name of units	Relationship with the company	amount	aging	proportion in the total amount of the accounts receivable (%)
Yangtze Leasing .....	equity-participating shareholders	1,478,000	Two to three years	42.42
HNA Group .....	the second largest shareholder	1,053,756	Within one year	30.25
Hainan Jiaxing .....	controlled by HNA Group	600,000	Two to three years	17.22
Yangtze Express Delivery .....	controlled by HNA Group	96,745	One to two years	2.78
HNA Group(HK) .....	controlled by HNA Group	65,798	Within one year	1.89
Total .....		3,294,299		94.56

### 3. Long-term equity investment

<u>Invested units</u>	<u>31st Dec. 2012</u>	<u>changes of increase or decrease</u>	<u>31st Dec. 2013</u>	<u>Devaluation allowance</u>	<u>devaluation allowance accounted in this period</u>	<u>Cash dividends</u>
American Aviation LDC . . .	372,790.00		372,790.00			
Hainan Guoshan Industry Co., Ltd. . . . .	693,080.00	-693,080.00				
Hainan Guoxu Industry Co., Ltd. . . . .	1,209,574.00	-1,209,574.00				
Hainan Hangpeng Industry Co., Ltd . . . . .	824,256.00	-824,256.00				
HNA International Tourism Island Development and Construction(Group) Co., Ltd. . . . .	1,611,895.00	-1,611,895.00				
Haikou New Urban Area Construction & Development Co., Ltd . . .		1,616,214.00	1,616,214.00			
Lianxun Securities Co., Ltd . . . . .		73,509.00	73,509.00			
Hainan Airlines Stock Co. Ltd. . . . .	3,770,750.00		3,770,750.00			
Yunnan Lucy Air Aviation Co., Ltd. . . . .	717,782.00	500,000.00	1,217,782.00			
total . . . . .	<u>9,200,127.00</u>	<u>-2,149,082.00</u>	<u>7,051,045.00</u>			

Continued sheet:

<u>Invested units</u>	<u>Accounting method</u>	<u>Investment cost</u>	<u>Shareholding proportion in the invested units (%)</u>	<u>Voting right proportion in the invested units (%)</u>	<u>Explanation for the difference between the shareholding proportion and voting right proportion in the invested units</u>
American Aviation LDC . . . .	Cost method	372,790.00	100.00	100.00	
Hainan Guoshan Industry Co., Ltd. . . . .	Cost method	1,616,214.00	100.00	100.00	
Hainan Guoxu Industry Co., Ltd. . . . .	Cost method	73,509.00	100.00	100.00	
Hainan Hangpeng Industry Co., Ltd . . . . .	Cost method	3,770,750.00	100.00	100.00	
HNA International Tourism Island Development and Construction(Group) Co., Ltd. . . . .	Equity method	1,500,000.00	33.00	33.00	
Haikou New Urban Area Construction & Development Co., Ltd . . . .	Cost method	1,616,214.00	13.39	13.39	

<b>Invested units</b>	<b>Accounting method</b>	<b>Investment cost</b>	<b>Shareholding proportion in the invested units (%)</b>	<b>Voting right proportion in the invested units (%)</b>	<b>Explanation for the difference between the shareholding proportion and voting right proportion in the invested units</b>
Lianxun Securities Co., Ltd. ....	Cost method	73,509.00	8.89	8.89	
Hainan Airlines Stock Co. Ltd. ....	Cost method	3,770,750.00	29.95	29.95	
Yunnan Lucy Air Aviation Co., Ltd. ....	Cost method	1,217,782.00	95.11	95.11	
total .....		<u>14,011,518.00</u>			

#### 4. Operating Revenue & Operating Cost

(1) Structure of Operating Revenue and Operating Cost:

<b>items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Prime operating revenue .....	548,498.00	706,989.00	600,180.00
Other Operating Revenue .....	789.00	53.00	18.00
Total Operating Revenues .....	<u>549,287.00</u>	<u>707,042.00</u>	<u>600,198.00</u>
Prime operating revenue .....	542,832.00	517,890.00	485,955.00
Other Operating cost .....			
Total Operating Costs .....	<u>542,832.00</u>	<u>517,890.00</u>	<u>485,955.00</u>

(2) Structure of Main Operating Revenue and Operating Cost:

<b>item</b>	<b>2013</b>		<b>2012</b>		<b>2011</b>	
	<b>Main Operating revenue</b>	<b>Main Operating cost</b>	<b>Main Operating revenue</b>	<b>Main Operating cost</b>	<b>Main Operating revenue</b>	<b>Main Operating cost</b>
Passengers transportation ....	537,333.00	542,832.00	685,526.00	517,890.00	522,561.00	485,955.00
Goods transportation, delivery etc. ....	11,165.00		21,463.00		77,619.00	
total .....	<u>548,498.00</u>	<u>542,832.00</u>	<u>706,989.00</u>	<u>517,890.00</u>	<u>600,180.00</u>	<u>485,955.00</u>

## 5. Investment Income

### (1) Detail of investment income

<b>Name of clients</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
the long-term equity investment income examined and calculated by cost method .....	192,236.00	185,371.00	85,820.00
the long-term equity investment income examined and calculated by equity method .....	4,319.00	11,895.00	
investment income brought by the disposal of the long-term equity investment .....	257,828.00		222,607.00
investment income attained during the period of holding financial assets for trade .....			
investment income attained during the period of holding held-to-maturity investment .....			
investment income attained during the period of holding financial assets for sale .....			
investment income attained by the disposal of financial assets for trade .....			
invest income attained by holding held-to-maturity investment .....			
investment income attained by selling financial assets for sale .....			
other .....			
total .....	<u>454,383.00</u>	<u>197,266.00</u>	<u>308,427.00</u>

### (2) the long-term equity investment income examined and calculated by cost method

<b>Invested units</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Hainan Airlines .....	192,236.00	185,371.00	85,820.00
total .....	<u>192,236.00</u>	<u>185,371.00</u>	<u>85,820.00</u>

### (3) the long-term equity investment income examined and calculated by equity method

<b>Invested units</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Hainan Island Construction .....	4,319.00	11,895.00	
Total .....	<u>4,319.00</u>	<u>11,895.00</u>	

## 6. Supplementary Material of Cash Flow Statement

Supplementary material	2013	2012	2011
<b>1. Reconciliation of Net Profits to Cash Flows from Operating Activities:</b>			
Net Profit	99		
Add: Allowance for Asset Devaluation	205,895.00	34,525.00	226,904.00
Depreciation of Fixed Assets, Oil & Gas Assets and Productive Biological Assets	31,792.00	30,998.00	—
Amortisation of Intangible Assets			
Amortisation of Long-term Deferred Expenses			
Losses of Disposal from Fixed Assets, Intangible Assets and other Long-term Assets ( gains “-” )			
Losses of Abandonment of Fixed Assets ( gains “-” )			
Losses of Changes of Fair Value( gains “-” )			
Financial Expenses ( gains “-” )	201,071.00	128,457.00	90,842.00
Investment Losses( gains “-” )	-454,383.00	-197,266.00	-85,820.00
Decrease in the Deferred Income Tax Assets( increase “-” )			
Increase in the Deferred Income Tax Liabilities( decrease “-” )			
Decrease in the Inventories( increase “-” )			
Decrease in the Operating Receivables( increase “-” )	285,113.00	-297,805.00	-696,680.00
Increase in the Operating Payables( decrease “-” )	-148,282.00	-153,408.00	-38,281.00
Others			—
Net Cash Flow from Operating Activities	121,206.00	-454,499.00	-503,035.00
<b>2. Significant Investing and Financing Activities Not Involving Cash Revenue and Expenditure</b>			
Debt Transferred to Capital			
Convertible Corporate Note Due within One Year			
Financial Leased Fixed Assets			
<b>3. Net Changes of Cash and Cash Equivalent</b>			
Ending Balance of Cash	70,342.00	125,999.00	774,914.00
Less: Beginning Balance of Cash	125,999.00	774,914.00	128,668.00
Add: Ending Balance of Cash Equivalent			
Less: Beginning Balance of Cash Equivalent			
Net Increase in the Cash and Cash Equivalent	-55,657.00	-648,915.00	646,246.00

## Part Thirteen: Approval of Financial Statements

The financial statements were approved and adopted for their issuance by the board of directors on 30th Sep. 2014.

(No text in this page)

Name of company: Grand China Air Co. Ltd.

Legal Representative:

Supervisor of Accounting  
Department:

Head of Accounting Department:

Date: 10th Sep. 2014

Date: 10th Sep. 2014

Date: 10th Sep. 2014



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