
HAINAN AIRLINES COMPANY LIMITED

2004 ANNUAL REPORT

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I. Important Notice

1. The Board of Directors of HNA guarantees that there is no significant omission, fictitious description or serious misleading of information and take both individual and joint responsibilities for the truthfulness, accuracy and completeness of the content.

2. Mr. Chen Feng, Chairman of HNA, Mr. Zhu Yimin, CEO of HNA, Mr. Zhang Yi, General Manager of Plan and Financial Department of HNA (in charge of accounting division) declare here that: they guarantee the accuracy and completeness of the financial report in this annual report.

II. Company Profile

1. Registered Chinese name : 海南航空股份有限公司

Registered English name : Hainan Airlines Co., Ltd (Shortened as HNA)

2. Legal Representative: Chen Feng

3. Information of the Secretary to the Board and the Security Representative

Secretary to BoD: Zhang Shanghui

E-mail: sh_zhang@hnair.com

BoD representative of security affairs: Lv Guangwei

E-mail: gw_lv@hnair.com

Office Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan, China.

Tel: 0898-66739961

Fax: 0898-66739960

4. Registered Address: 168 Airport West Road, Haikou, Hainan, China

Office Address: Haihang Development Building No.29 Haixiu Road Haikou

Zip Code: 570206

Website: <http://www.hnair.com>

Email: webmaster@hnair.com

5. Designated Newspapers to Publish HNA's Information:

China Securities News, Shanghai Securities News, Wen Wei Po (Hong Kong)

Website Publishing the Report: <http://www.sse.com.cn>

Annual Report Available at: Securities Department of HNA

6. **Stock Listed at:** Shanghai Stock Exchange

Stock Name: Hainan Airlines

Stock Code: 600221

Stock Name: HNA B share

Stock Code: 900945

7. **Miscellaneous**

Date and place of the first incorporation registration: October 1989 in Haikou

Registered number of business operation certificate: Qi Gu Qiong Zong Zi No. 008368

Registered number of taxation certificate: 1150805791

Address of the Accounting Firm:

Domestic Accounting Firm: Shine Wing Certified Accountants

Office address: 6 XinYuan Nan Lu, Chaoyang District, Beijing

Overseas Accounting Firm: Price Water House Coopers Public Accounting Firm

Office address: 10 Hysan Avenue, Causeway Bay, Hongkong

III. Key Fiscal and Business Data

1. Key Fiscal and Business Data of this year:

Monetary Unit: RMB Yuan

Total amount of Profit (RMB):	76,514,150
Net Profit (RMB):	90,648,787
Net profit after non-recurring profit and loss (RMB):	-124,816,213
Profit from principal business (RMB):	1,771,004,111
Profit from other operations (RMB):	76,931,186
Operating profit (RMB):	93,212,984
Income from investment (RMB):	-16,667,047
Subsidy Income (RMB):	13,566,646
Net cash flow from operating activity (RMB):	-13,598,433
Net cash increase (RMB):	3,194,243,082
Net profit (according to the International Accounting Regulation)	136,245,608

2. Adjustments to premium profit to the consolidated shareholders with statutory accounts in China in accordance with international accounting standards (IAS)

Dec. 31st 2004

	Profit proportion of the shareholders RMB 1,000	Consolidated Net Assets RMB 1,000
As per domestic audited accounts	90,649	1,428,639
As per IAS and other adjustments		
Amortization of Long-term deferred Expenses	49,378	201,065
Increase in interest of finance lease	28,149	270,730
Depreciation Adjustment	45,535	46,389
Adjustment to the business credit	871	8,895
Influence of deferred tax	44,218	-
Income from selling the equity of affiliated and joint operation companies	20,323	-
Other	-	430
After IAS and other adjustments	35,633	918,920

3. Non-recurring profit and loss

Monetary Unit: RMB thousand Yuan

Non-recurring profit and loss	Amount
Profit and loss from disposal of other assets except for the Company's assets	4,897
Government subsidies in variety	11,475
Non-operation income and expenditure after provision of assets decrement	-3,202
Transferred-in from the various decrement provision drawn in previous years	24
Adjustment amount of previous period profit prior to the changes in the accounting policy in the comparing financial statement	202,271
Total	215,465

Note: The data listed in the table include irregular profit and loss of subsidiary companies of the Company and is confirmed sum of money according to proportional investment from the Company to subsidiary companies.

4. Key Fiscal Data of the Previous Three Years As of the end of the Fiscal Year

Key Fiscal Data	2004	2003		Increase/ Decrease (%)	2002	
		Before Adjustment	After Adjustment		Before Adjustment	After Adjustment
Profit from principal business	8,410,538,692	5,372,091,313	5,372,091,313	57	5,028,281,733	5,028,281,733
Total Profit	76,514,150	-1,474,615,013	-1,242,202,407		141,008,411	126,565,411
Net Profit	90,648,787	-1,269,246,223	-1,052,291,380		103,056,129	88,613,129
Net profit after non-recurring profit and loss	-124,816,213	-1,266,134,819	-1,049,179,976		97,588,210	83,145,210
	Dec 31, 2004	Dec 31, 2003		Increase/ Decrease (%)	Dec 31, 2002	
		Before Adjustment	After Adjustment		Before Adjustment	After Adjustment
Total Assets	25,327,877,356	23,106,733,501	23,320,694,920	9	19,374,408,098	19,359,965,098
Shareholders' equity	1,428,638,756	1,116,359,615	1,317,666,515	8	2,400,210,894	2,385,767,894
Net cash flow from operating activities	3,194,243,082	-644,977,250	-644,977,250		1,061,924,972	1,061,924,972
Key Financial Data	2004	2003		Increase/ Decrease (%)	2002	
		Before Adjustment	After Adjustment		Before Adjustment	After Adjustment
Income per share (overall diluted)	0.12	-1.74	-1.44		0.14	0.12
Equity ratio (overall diluted) (%)	6.35	-113.70	-79.86		4.29	3.71
Equity ratio after non-recurring profit & loss (overall diluted) (%)	-8.74	-113.42	-79.62		4.15	3.49
Net cash flow from operating activity per share	4.37	-0.88	-0.88		1.45	1.45
Income per share (weighted average)	0.12	-1.74	-1.44		0.14	0.12
Income per share after non-recurring profit & loss (overall diluted)	-0.17	-1.73	-1.44		0.14	0.11
Income per share after non-recurring profit & loss (weighted average)	-0.17	-1.73	-1.44		0.14	0.11
Equity ratio (weighted average) (%)	6.60	-72.19	-57.07		4.39	3.78
Equity ratio after non-recurring profit & loss (weighted average)	-9.09	-72.01	-56.95		4.24	3.55

(%)						
	Dec 31, 2004	Dec 31, 2003		Increase/ Decrease (%)	Dec 31, 2002	
		Before Adjustment	After Adjustment		Before Adjustment	After Adjustment
Net assets per share	1.96	1.53	1.80	8%	3.29	3.27
Net assets per share after adjustment	1.16	0.80	1.07	8%	2.33	2.31

5. Addendum to Income Statement prepared in accordance with the *Regulation on Information Disclosure of Companies Issuing Public Securities (No. 9)* promulgated by CSRC:

(Unit : RMB Yuan)

Item	Rate of Return on Equity (%)		Income per share (RMB Yuan)	
	Overall Diluted	Weighted Average	Overall Diluted	Weighted Average
Profit from principal business	12	128.97	2.43	2.43
Operating profit	6.52	6.79	0.13	0.13
Net profit	6.35	6.60	0.12	0.12
Net profit after non-recurring profit & loss	-8.74	-9.09	-0.17	-0.17

6. Changes in Shareholder's Equity

Item	Share Capital	Capital Reserve	Surplus Reserve	Statutory Public Welfare Fund	Undistributed Profit	Total Shareholders' Equity
Period Beginning	730,252,801	1,038,405,919	169,097,575	53,094,720	-604,839,964	1,317,666,515
Increase	0	20,323,454	0	0	90,648,787	110,972,241
Period End	730,252,801	1,058,729,373	169,097,575	53,094,720	-514,191,177	1,428,638,756

The newly-added capital accumulation fund is RMB20,322,000 in 2004, in which RMB18,091,000 is the balance

between transferring price and book value when the Company sold the share rights of Hainan Air Catering Co., Ltd and Haikou Meilan International Airport Co., Ltd to the related companies of the Company in 2004. And the rest RMB2,231,000 is for long-term share investment according to increased capital accumulation fund of Chang'an Airlines Co., Ltd, a subsidiary company of the Company, and confirmed by the Company's shareholding lot.

IV. Changes in Share Capital and Major Shareholders

I. Changes in Share Capital

1. Share Changes

Unit: Share

	Period- beginning	Bonus Share Distributed					Period-end
1. Unlisted Share							
1) Founders' share	134,836,555						134,836,555
Incl. :							
State share	17,289,355						17,289,355
Domestic legal person share	117,547,200						117,547,200
2) Collection legal person share							
Domestic legal person share	38,735,280						38,735,280
Foreign legal person share							
3) Employee share							
Total Unlisted Share	173,571,835						173,571,835
2. Listed Share							
1)RMB Ordinary share	371,957,765						371,957,765
2)Foreign share listed at home (B share)	184,723,201						184,723,201
Total Listed Share	556,680,966						556,680,966
3. Total share	730,252,801						730,252,801

2. Share Issuing and Listing

- 1) By the end of report period, in the recent three year, there is no new share issuance or listing.
- 2) Since there's no share distribution, ration, new-issuance or transferring into share capital occurred in the report period, the structure and total amount of the Company's shares kept unchanged.
- 3) At the end of the report period, there is no employee shares of the Company.

II. Shareholders

1. By the end of the fiscal year, the total number of shareholders is 134,810, including 23 unlisted shareholders, 115,986 shareholders with A Share, 18,801 shareholders with B Share.

2. Top 10 Shareholders

Shareholder	Increase/Decrease	Shares Held (In share)	Equity Percentage	Share Type	Amount of Impaired or Frozen Shares	Character of the Shareholder
American Aviation LDC		108,43,201	14.8%	Circulation share	Unknown	Foreign shareholder
HNA Group Co., Ltd.		86,549,000	11.85%	Partial circulation share	46,400,000 shares impaired	Legal person shareholder
Hainan Qixing Industrial Investment Co., Ltd.		49,904,680	6.83%	Non-circulation share	47,890,000 shares impaired	Legal person shareholder
Hainan Jincheng State Property Administration Company Ltd.		17,289,355	2.37%	Non-circulation share	Unknown	State-owned shareholder
Bank of Communication, Hainan Branch		6,480,000	0.89%	Non-circulation share	Unknown	Legal person shareholder
China International Travel Agency (head office)		6,480,000	0.89%	Non-circulation share	Unknown	Legal person shareholder
Beijing Tianye Commerce and Trade Company (head office)		4,230,000	0.59%	Non-circulation share	Unknown	Legal person shareholder
ICBC-Tianyuan Securities Investment Fund		6,600,602	0.90%	Circulation	Unknown	Legal person shareholder
Naito Securities Co., Ltd.		3,441,768	0.47%	Circulation	Unknown	Foreign shareholder
China Industrial Trust & Investment Company, Hainan office		3,240,000	0.44%	Non-circulation share	3,240,000 shares impaired	Legal person shareholder

Note: The Company knows neither whether there's any connected relationship among the top 10 shareholders nor any of them are concerted actor defined by the Regulations on Information Disclosing of Changes in the Shares

Held by the Shareholders of the Listed Company.

No strategic investors or ordinary legal person ranked in the top 10 shareholders of the Company through placement of new shares.

3. Introduction to the controlling shareholder and actual controlling party

(1) Information of the controlling shareholder

Name of the Company: American Aviation LDC

Legal representative: Ronald O. Drake

Date of establishment: July 7th 1995

Registration capital: 50,000 common stock and USD 1 per share

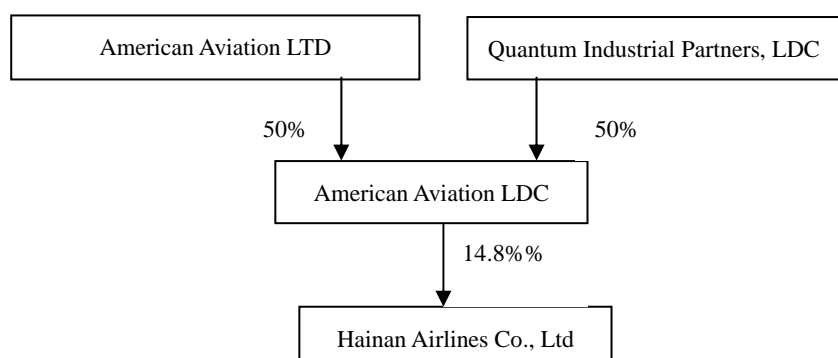
Share Structure: American Aviation LTD	25,000 shares
Quantum Industrial Partners, LDC	25,000 shares

Main business and products: deals with investment, obtaining and holding, on behalf of the company itself or any designated person, stocks, bonds, loan stock, bills and other securities issued or guaranteed by any government, sovereign ruler, consignor, public institution or highest authority, independent governing authority, municipal or local government across the world.

(2) Changes in the controlling shareholder and actual controlling party

There is no change of the controlling shareholder and actual controlling party in the report period.

(3) The chart of the assets right and controlling relations between the Company and its actual controlling party



4. Other legal person shareholders holding over 10% shares

Name of the	Legal	Registered	Date	of	Main business and products
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Shareholder	representative	Capital	establishment	
HNA Group Company Limited	Chen Feng	RMB 500,000,000	Apr. 16 th 1998	Airlines transport, investment and management in airport and hotel golf court; information technology service; investment and development in real estate; import and export trade of airplane and related materials (operating according to the license); investment in energy, transport, new technology and new material.

5. Top 10 listed shareholders

Shareholders	Circulation Shares Held	Share Type
American Aviation LDC	108,043,201	B share
HNA Group Co., Ltd.	6,704,600	A share
Naito Securities Co., Ltd	3,441,768	B share
Hainan Qixing Industrial Investment Co., Ltd.	3,285,400	A share
Huang Jian	2,790,940	A share
CBC-Bank Break Even Value Adding Security Investment Funds	1,906,586	A share
He Jun	1,331,426	A share
Hainan Hongkong & Macao International Trust & Investment Company Ltd.	1,131,848	A share
Haikou Ai Sai Ke Industrial & Trade Company Limited	1,036,800	A share
Zhang Guiquan	1,001,890	A share

Note: The Company knows neither whether there's any connected relationship among the top 10 shareholders of circulation shares nor any of them are concerted actor defined.

V. Directors, Supervisors, Senior Managers and Staff

I. Current directors, supervisors, senior managers and staff

Name	Gender	Age	Term period	Balance of stockholding	Position
Chen Feng	Male	52	2003—2006	4.14	Board Chairman
Wang Jian	Male	44	2003—2006	3.62	Vice Chairman
Tan Xiangdong	Male	38	2003—2006	2.59	Director
Li Qing	Male	48	2003—2006	3.75	Director
Ke Deming	Male	70	2003—2006	—	Independent Director
Yang Hui	Male	67	2003—2006	—	Independent Director
Wang Zhi	Male	63	2003—2006	—	Independent Director
Ronald O. Drake	Male	49	2003—2006	—	Director
Iain Aitken	Male	51	2003—2006	—	Director
Zhang Cong	Male	46	2003—2006	—	Supervisor
Chen Ping	Male	30	2003—2006	—	Supervisor
Li Rui	Male	28	2003—2006	—	Supervisor
Qian Daoyun	Male	54	2003—2006	—	Supervisor
Zhao Zongtao	Male	53	2003—2006	—	Supervisor
Zhu Yimin	Male	44	2002—2005	—	CEO
Zhao Zhongying	Male	57	2002—2005	—	Executive President
Shu Weidong	Male	40	2002—2005	—	Vice Executive President
Wang Yingming	Male	42	2003—2006	—	Vice Executive President
Du Xiaoping	Male	44	2001—2004	—	Vice Executive President
Qin Jianmin	Male	54	2001—2004	—	Vice Executive President
Zhang Yi	Male	34	2003—2006	—	CFO

Zhang Shanghui	Male	34	2003—2006	--	Secretary to the Board
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Resume of the directors, supervisors and senior managers

Chen Feng: chairman of BoD of HNA, male, born on June 34, 1953, senior economist. He's also the Chairman of HNA Group. He was graduated from Germany Lufthansa Airlines Air Traffic Management College in 1984. Later, he obtained the master degree of business administration of Masteryherthe School of Management of Holland and in 2004, he obtained the senior management certificate of Harvard University. Having been working with the planning department of CAAC and State Air Traffic Control Bureau for many years. He had been invited to attend and make presentations at the annual meeting of the World Economy Forum and the meeting of APEC. He was the member of the Standing Committee of Hainan Provincial People's Congress, chairman of Hainan Entrepreneurs Association, chief vice director of Hainan General Chamber of Commerce and vice chairman of China Traffic & Transportation System Engineering Society. In 1996, he was granted titles as the Most Outstanding Entrepreneurs of China, National Model Worker and received the May Day Labor Medal. In 1997, he was awarded the International Outstanding Entrepreneurs Contribution Prize by Sino-US Friendship Association and US Association of Medium & Small Enterprises. In 2000, he was re-entitled as the Merit Entrepreneur of Hainan. In April 2002, he was elected to be the delegate of the 16th China Communist Party Congress, the national committee member of the 10th Chinese Political Consultative Conference and he was invited as the guest professor of several famous universities.

Wang Jian: vice chairman of HNA, male, born on Dec 15, 1961, MBA. He had been studied abroad at JAL and obtained AOTS and diploma of JAL. He's well experienced in the field of air transportation and finance.

Tan Xiangdong: Male, born on March 24, 1967, director of the BoD of HNA. He was graduated from Beijing Finance & Trade Institute and majored in finance. In 1989, he was conferred the master degree of economics. In 1999, he obtained the master degree of business and administration of American College of Insurance. He worked with World Bank Loan Office of China Rural Trust & Investment Company, Hainan World Bank Loan Office, China Xingnan Group Company and Hainan American Company Limited.

Li Qing: Male, born on March 18, 1957, MBA, director of the BoD of HNA. At present, he is the director and general manager of Shan'xi Airlines. He's well experienced in the planning and administration of civil aviation.

Ke Deming: Male, born on Nov 1, 1935, the independent director of HNA, senior engineer. He joined the army in 1951, graduated from the Beijing Aviation College. He worked as the vice director of CAAC.

Yang Hui: Male, born on Dec 27, 1938, the independent director of HNA, bachelor degree. He began to work at 1956, joined the Communist Party of China in 1980, obtained the senior accounting/auditing certificate in 1988, and in 1995 obtained the CPA (Certified Public Accountants). Mr. Yang Hui worked as the accountant of Economy and Trade Committee of Hainan Province, the head of the administration department and vice director of Economy and Trade Committee of Hainan Province, the vice head of Economy Inspection department of Hainan Province, the head of the Auditing Department of Hainan Province, the director of the Financial section of the Standing Committee of People's Congress of Hainan Province.

Wang Zhi: Male, born on Dec 20, 1942, the senior engineer, independent director of HNA. He has been the engineer of the Chen Yang Aircraft Design office, the director of the Planning department of CAAC, the standing director of China Aviation Committee, the independent director of China Southern Airlines Company and Shan Dong Airlines Company.

Ronald O. Drake: Male, director of the BoD of HNA. He was graduated from Cornell University and had obtained the master degree of Business and Administration of New York University. He had been worked with Soros Fund Management Company as the strategic investment director, ABN AMRO Group as the senior vice president, Merrill Lynch Group as the executive director.

Iain Aitken : Male, 49, graduated from the University of Sterling in Scotland with a bachelor's degree in economics. Iain Aitken had been vice president of the Europe-America Bank in New York, and vice president of ABN-AMRO Bank NV in New York in North America. Mr. Iain Aitken had also been an advisor on North America and related affairs for ABN-AMRO Bank NV in New York and has been a senior advisor to the Managing Board of Soros Private Funds in New York since 2000.

Zhang Cong: Male, born on Feb 1, 1959, supervisor of HNA with the term of 2003-2006. He was graduated from China Civil Aviation College. He is the general manager of the department of project of HNA Group.

Li Rui: Male, born on Jan 5, 1977, supervisor of HNA with the term of 2003-2006. He worked in the securities department of HNA Group.

Chen Ping: Male, born on Feb 15, 1975, supervisor of HNA with the term of 2003-2006. He was graduated from Fu Dan University with bachelor degree. At present, he worked in the general administration department of HNA.

Qian Daoyun: Male, born on April 19, 1951, supervisor of HNA with the term of 2003-2006. He was the vice director of Communication Bank Hainan Branch.

Zhao Zongtao: Male, born on Feb 25, 1952, supervisor of HNA with the term of 2003-2006.

Zhu Yiming: Male, born on Oct 16, 1961, CEO of HNA with the term of 2003-2006, master degree. He was graduated from Xia Men University. He worked as the assistant to the general manager of Xia Men Airlines.

Zhao Zhongying: Male, born on Feb 25, 1952, executive president of HNA with the term of 2003-2006.

Shu Weidong: Male, born on July 12, 1965, vice executive president of HNA with the term of 2003-2006. He worked as the

Wang Yingming: Male, born in 1963, vice executive president of HNA with the term of 2003-2006. He worked as the general manager of maintenance department of HNA and vice general manager of Yangtze River Express Company Limited.

Du Xiaoping: Male, born on Dec 15, 1961, vice executive president of HNA with the term of 2003-2006, MBA, graduated from the business administration of Masteryherte School of Management of Holland.

Qin Jianmin: Male, born on Dec 26, 1951, vice executive president of HNA with the term of 2003-2006, bachelor degree.

Zhang Yi: Male, born on Dec 1, 1971, bachelor degree. In 1995, he was graduated from Wu Han University, CFO of HNA.

Zhang Shanghui: Male, born on Dec 13, 1971, the secretary to the Board with the term of 2003-2006.

II. Directors and supervisors who act at the shareholder's unit

Name	Shareholder's Unit	Position	Service Term	Payment or Allowance Drawn (Yes/No)
Chen Feng	HNA Group Company Ltd	Chairman	Present-April 16 of 1998	Yes
Wang Jian	HNA Group Company Ltd	Vice chairman	Present-April 16 of 1998	Yes

Act in the other unit

Name	Unit	Position	Service Term	Payment or Allowance
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				Drawn (Yes/No)
Wang Zhi	Shan Dong Airlines Co., Ltd, China Southern Airlines Co., Ltd	Independent director		Yes
Ronald O. Drake	American Aviation LDC	Legal representative		Yes
Iain Aitken	Soros Private Funds	Senior consultant		Yes

III. Annual Reward

1. The reward of directors, supervisors and senior managers: the reward of directors is distributed according to the Stipulation on HNA President Fund passed through on the Board Meeting and the General Meeting of Shareholders, the reward of senior managements was distributed according to the items on annual evaluation of the management and their performance during the year..

2. Yearly remuneration of directors, supervisors and senior managements

Total Yearly Remuneration	1,961,300 Yuan
Total Yearly Remuneration of Top-three Paid Directors	566,400 Yuan
Total Yearly Remuneration of Top-three Paid Senior Managements	440,600 Yuan
Allowance of Independent Directors	50,000 Yuan
Other benefits of Independent Directors	The working allowance of the independent director and its payment procedure is according to the current allowance standard for directors approved by the shareholders' general meeting, as RMB 50,000 Yuan per person, responsibility insurance premium of RMB 30,000 Yuan per year, which shall be paid at the convening of the annual shareholders' general meeting. The travel expenses of the independent director on duty shall be examined and repaid according to the actual matter.

3. Remuneration Classification

Remuneration Classification	Amount
Yearly remuneration accounts for more than 200,000 Yuan	1 person
Yearly remuneration accounts for 100,000-200,000 Yuan	6 persons
Yearly remuneration accounts for 50,000-100,000 Yuan	7 persons

Yearly remuneration accounts for less than 50,000 Yuan	8 persons
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IV. Directors and, supervisors and senior managements resigned during the report period and the reason

In the report period, no directors, supervisors and senior managements resigned.

V. Staff

By the end of the report period, HNA has 8389 staffs in total, including 1520 pilots, 1315 light stewardess, 1250 maintenance personnel, 293 technical personnel, and the other is 4011. Among these employees, 87 people have the post graduate degrees, accounting for 1.04% of the total employees; 2588 people have undergraduate degrees, 30.85% of the total; 2672 people were graduated from junior colleges, 31.85% of the total, and 3042 people received professional education, 36.26% of the total. There were 53 retired employees.

VI. Administration Structure of HNA

I. Current Structure

Ever since its listing, HNA has been perfecting the legal representatives administration structure, regulating its operation, and enhancing the information release, strictly in accordance with the requirement of *the Company Law*, *the Security Law*, the related regulations by CSRC and *Listing Regulation of SSE*. And here is the brief of the current administration construction:

1. Shareholders and Meeting of Shareholders: HNA ensures that all shareholders, especially the small and medium ones, enjoy the same status and rights equally as the major ones. The company website has been established to keep efficient communications with shareholders and make them aware of the operating situation of the Company. Regulation on shareholders meeting was formulated, and the General Meetings of Shareholders were held strictly according to *The Rules of the General Meeting of Shareholders* issued by CSRC while the shareholders were encourage to participate in the meetings and to vote as much as possible and lawyers are employed to present as witnesses. The pricing of the related business cooperation is fair, all the related business cooperation is legal and effective by strictly following the procedures of BoD and Board of Supervisors as stipulated by *Listing Regulation of SSE*.

2. Holding Shareholders and HNA: The holding shareholders exert their rights through General Meetings of Shareholders, and are not directly involved in the policy-making and operation and management of HNA. HNA is

independent with the holding shareholders in staff, assets, finance, constructing and business, and the BoD, Board of Supervisors and the interior departments can run independently.

3. Directors and BoD: HNA employs the directors strictly according to the Articles of Association of HNA. The number and organization of directors agree with the laws, stipulation and the Articles of Association of HNA. The directors of HNA attend the meetings of BoD and meetings of shareholders seriously, and are familiar with the related laws and stipulation, and aware of their rights, obligation and responsibility as a director.

4. Supervisors and the Board of Supervisor: The number and organization of Board of Supervisor agree with the laws, stipulations and the Articles of Association of HNA. *Rules on Process of Board of Supervisors* has been formulated, and perfected during practice. Supervisors of the HNA perform their responsibility seriously and supervise the performance of directors, managers and other senior management personnel.

5. Evaluation, encourage and restriction mechanism: HNA is actively formulating a just and transparent evaluation criterion and encouraging and restriction mechanism of directors, supervisors and managers. The employments of managers are exoteric and transparent, and comply with the related laws and stipulations.

6. Related beneficiary: HNA safeguards the legal rights and interests of the Banks, legal representatives, customers and other interest-related parties so as to maintain the sustainable and healthy development of HNA.

7. Information release and transparency: The secretary to the BoD is appointed to be in charge of the information release, reception and consultation, and enhance the communication with shareholders. HNA releases the true and complete information in time according to the related laws, stipulations and constitutions of HNA so that all the shareholders enjoy the equal opportunity to get the information. HNA releases in time the detailed information and the changes of major shareholders or the actual controlling party of the Company in accordance with related regulations.

II. Performance of the Independent directors

1. By now, the Company has three independent directors. In the report period, Mr. Key Deming, Mr. Yang Hui and Mr. Wang Zhi voted on 5th Sessions of 4th Board Meeting – 9th Sessions of 4th Meeting of BoD, they have fulfilled his obligation as an independent director.

2. Situation of demur from independent directors on the Company's related issues

In 2004, there is no any demur from independent directors on proposal of the board and other issues.

III. Independence of the Company with HNA Group in Staff, Assets, Finance, Operation and Organization:

1. HNA mainly deals with air passenger and cargo transportation. The production system, assisting production system and the sale system were independent from HNA Group Co., Ltd. HNA is independent from any shareholder company or related ones.

2. The Company has established the complete legal representative construction according to *The Company Law*. The general manager, deputy general manager and finance staffs do not hold any positions in the shareholders' companies or related companies, with the only exception that the Chairman of the BoD is also the Chairman of the HNA Group Co., Ltd. And in the Company the independent and complete management system and constitution were established. The Company is independent in staff from the holding shareholders.

3. The Company has its own independent flight system, auxiliary flight system, corresponding facilities and equipment, real estate and trademark, and the delimitation in industrial property rights and non-patent technology is clear. The unavoidable relating dealings are completed according to the normal commercial stipulations, and the related directors fulfill the avoiding process according to the Constitution of HNA during voting on the General Meeting of Shareholders. The Company maintains relative assets integrity from the controlling shareholders.

4. The Company has independent President Administration Office, Office of Secretary to BoD, Operation Center, Planning & Financing Department, Human Resource Department, Operation Supporting Department, Marketing & Sale Department, Flight Operations Department, and Maintenance & Engineering Department. The administration offices and operation locations are completely separated and independent.

5. The Company has an independent financial department and has established independent accounting & managing system and separate bank accounts. HNA has its own tax registration number and it is independent in finance from the controlling shareholders.

IV. Evaluation, Encouragement and Reward Mechanism to Senior Management

The annual rewards of the senior managers are monthly distributed according to the related stipulation of salary control formulated by the Company. The Human Resource Department formulated the salary system according to the operation of the Company, and submits to BoD to be considered.

The senior management evaluation system consists of the schema of organizer evaluation, the performance survey of other staff by the President of BoD, the routine reward stipulation of the Company and the evaluation

schema of the general staff.

Moreover, the Company is employing a professional agency to formulate the evaluation and reward schema such as promissory shares, staff shareholder schema and annual salary system, etc.

VI. Brief Introduction to the General Meetings

1. The General Meeting of Shareholders of 2003

On June 3 of 2004, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province. Shareholders and proxies attended the Meeting were 7, representing 266,546,966 shares, 36.5% of the total shares (incl. B-shareholders representing 108,267,961 shares), which conformed to the regulations of the Company Law and the Articles of Association of the Company. The meeting was presided over by Mr. Wang Jian, vice chairman of the Company. During the meeting, 2003 Work Report of Board of Directors of HNA, Report on the Performance of the Board of Supervisors, Financial Report of 2003 & Financial Plan of 2004, Report on Proposed Profit Distribution Plan for 2003, Report on Plan of Annual Salary of Directors, Supervisors and Management Personnel, Report on Amendment of the Articles of Association of HNA, Report on Aircraft Delivery, Report on Renewal of Employment of Accounting Firm, Report On Signing Daily Production Connected Transactions Agreement With Related Parties, Report on Raise the Capital to HNA Group Financial Company, Report on Transferring 10.76% interests of Haikou Meilan Airport Company Limited, Report on Transferring 51% equity interests of Hainan Aviation Catering Company and the Report on Changing the Accounting Policy were considered and passed.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of June 4 of 2004.

2. The First Temporary General Meeting of Shareholders of 2004

On Sep 2 of 2004, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province. Shareholders and proxies attended the Meeting were 4, representing 160,223,035 shares,

21.94% of the total shares, which conformed to the regulations of the Company Law and the Articles of Association of the Company. During the meeting, Report on Signing the Financial Service Agreement and Report on Establishing Shilin Airlines Company Limited were considered and passed through.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Sep 3 of 2004.

VII. Report of Board of Directors

I. Business Review

The year of 2004 is the 2nd year of the 2nd phase of "3, 7, 9" development strategy of Hainan Airlines and also the 1st year of 5-year plan. Under the correct leadership of the board and common efforts of all staffs and based on the working guideline of faithfulness, performance, innovation, idea enhancement, system reform, huge development and new span, the sales income, passenger turnover and total mileage is continuing to grow in a harmonious and speedy way. But due to the increase of the aviation fuel, in the second half of 2004, China civil aviation faced the serious challenge, the net profit of the Company has decreased.

II. Scope and Operation of the Principle Business

1. Scope and operation situation of core business of the company

1.1 introduction to operation situation of core business of the company

In 2004, the income of the core business of the company is RMB 8.411 billion Yuan, increased by 56.56%, in which the passenger income is RMB 7.708 billion Yuan and takes up 91.64%, the cargo and overweight luggage income is RMB 262 million Yuan and takes up 3.12%, and the chartered flight income is RMB 405 million Yuan and takes up 4.8%. The total profit of core business is RMB 1.771 billion Yuan.

In 2004, the passenger throughput is 10.95 million person* time, increased by 44.97%, the cargo and mailing amount is 143,400 tons, increased by 33.19%, and the total transportation volume is 1.566 billion tons*kilometers, increased by 44.08%.

In 2004, the company introduced 13 aircraft, in which there are 2 Boeing767, 5 Boeing737-800, 2 Boeing737-700, 1 Boeing 737-QC and 3 Dornier 328.

There are no great changes for the core business in 2004.

Industry-classification table of core business

Item	Passenger transportation		Mail and cargo transportation		Charter flight		Other		Offset		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Total income from business	7,667,262	5,028,504	258,248	171,642	441,606	158,067	138,733	77,719	-18,379	-32,038	8,487,470	5,403,893
Incl: External operation income	7,648,883	4,996,466	258,248	171,642	441,606	158,067	138,733	77,719	-	-	8,487,470	5,403,893
District operation income	18,379	32,038	-	-	-	-	-	-	-18,379	-32,038	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
Total operating cost	6,001,513	4,742,184	202,142	161,869	345,665	149,067	108,593	73,293	-18,379	-32,038	6,639,535	5,094,375
Inclu: External operation cost	5,983,134	4,710,146	202,142	161,869	345,665	149,067	108,593	73,293	-	-	6,639,535	5,094,375
District operation cost	18,379	32,038	-	-	-	-	-	-	-18,379	-32,038	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	1,581,725	1,420,856	53,275	48,499	91,102	44,663	28,620	21,960	-	-	1,754,722	1,535,978
Total operation profit	84,023	-1,134,536	2,830	-38,726	4,839	-35,663	1,520	-17,535	-	-	93,213	-1,226,460

Total assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-

Note: operation income = income from principal business + income from other business

Operation cost = cost + tax + cost of other business

1.3 district-classification table of core business

Monetary unit: thousand Yuan

Item	Haikou		Beijing		Xi'an		Taiyuan		Offset		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Total operation income	4,428,764	2,977,154	2,671,922	1,630,641	711,582	384,959	693,581	443,177	-18,379	-32,038	8,487,470	5,403,893
Inclu: External operation income	4,410,385	2,945,115	2,671,922	1,630,641	711,582	384,959	693,581	443,177	-	-	8,487,470	5,403,893
District operation income	18,379	32,038	-	-	-	-	-	-	-18,379	-32,038	-	-
Total sales cost	6,001,513	4,742,184	202,142	161,869	345,665	149,067	108,593	73,293	-18,379	-32,038	6,639,535	5,094,375

Inclu: External operation cost	5,983,134	4,710,146	202,142	161,869	345,665	149,067	108,593	73,293	-	-	6,639,535	5,094,375
District operation cost	18,379	32,038	-	-	-	-	-	-	-18,379	-32,038	-	-
Total expenses	1,149,690	1,072,181	438,752	350,525	95,380	65,143	70,901	48,129	-	-	1,754,722	1,535,978
Total operation profit	1,149,690	1,072,181	438,752	350,525	95,380	65,143	70,901	48,129	-	-	93,213	-1,226,460
Total assets	19,970,906	24,012,296	5,224,357	4,691,027	1,777,937	1,364,637	906,473	396,354	-2,551,796	-7,143,620	25,327,877	23,320,695
Total liabilities	18,435,846	18,719,048	3,691,532	3,191,035	1,487,898	613,530	659,761	191,889	-1,085,235	-1,469,329	23,189,802	21,246,172

1.4 main products that takes over 10% of the income from principal business of profit from principal business

Unit: RMB Yuan

Industry	Income of core business	Cost of core business	Margin rate (%)
Air transport	8,410,538,692	6,366,330,309	21.06

2. Operation situation and performance of holding companies and other companies

Unit: RMB Yuan

Name of the company	Business type	Main products or service	Registered capital	Capital scale (RMB 10,000 Yuan)	Net profit (RMB 10,000 Yuan)
Hainan Golden Deer Air Sales Co., Ltd.	Ticket sales	Ticket sales, air cargo transportation and chartered flight agency services	RMB 8,000,000	76,507	0
Hainan Air Business Service Co., Ltd.	Air transportation business	Chartered flights agency	RMB 8,466,000	1,591	0
China Xinhua Airlines Co., Ltd.	Air transportation business	Provision of transportation services	RMB 1.83 billion	522,436	2,079
Chang'an Airlines Co., Ltd.	Air transportation business	Provision of transportation services around Shanxi Province	RMB 754,390,000	177,794	-14,120
Shan'xi Airlines Co., Ltd.	Air transportation business	Provision of transportation services around Shan'xi Province	RMB 320,000,000	90,647	4,235
Beijing Xinhua Airport Air Catering Co., Ltd.	Catering business	Food and souvenirs for passengers	RMB 29,990,00	7,216	0

Shaanxi Chang'an Star Hotel Co., Ltd.	Service business	Accommodation, catering business	RMB 25,000,000	2,793	-24.5
Hainan Haihang Zhongmian Duty Free Co., Ltd	Import approval duty free goods & other goods	Sales of duty free goods & present travel	RMB 1,500,000	150	-5.7

3 An introduction to main suppliers and customers

Unit: RMB 100 million Yuan

Purchase amount of the first 5 suppliers	11.45	Proportion to the total purchase amount	21%
Sales amount of the first 5 sellers	13.12	Proportion to the total sales amount	16%

4. Problems & difficulties and their solutions in operations

4.1 optimize structure, straighten up relationship, clarify responsibility and enhance working efficiency

Pushing forward industrialized management at all aspects. Improving integrity outcome based on the united operation of Air Transport. Conducting system construction in security, operation, service, sales and cost control and establishing scientific, reasonable and long-standing operation structure and system.

4.2 manage strictly, enforce direction, reinforce coordination and foster management team

Clarifying responsibility and localization of management team at all levels. Reinforcing training and direction to those managers and improving their leadership and execution capability. Advocating every manager takes the lead to comb every operation procedure. Stipulating stimulation policy that matches production task. Perfecting manager appointment system and setting up assessment mechanism that matches responsibilities, rights and interests.

4.3 deepen reform, continue innovation, improve system construction and quality

Carrying out the direction of security is deadline and high-voltage line. Insisting security strictness is the foremost and improving construction of security system. Enhancing income control and cost control and improving revenue and operation quality. Perfecting operation guarantee and service system. Keeping security, punctuality and service quality as

No. 1 in the industry.

4.4 reinforce training system construction

Conducting all staff training especially for pilot, maintenance staff and dispatcher to improve their constitution and business techniques.

II. Investment Situation of the Company

In 2004, the Company's total investment is RMB837,493,000, decreased by RMB181,405,000 (18%) than that in previous year.

In April 2004, the Company transferred 160,000,000 shares of Haikou Meilan Airport Co., Ltd ("Meilan Airport") (10.76% of total Meilan Airport) and decreased its investment to Meilan Airport for RMB198,984,000. Therefore, the investment proportion to Meilan Airport reduced to 16.48%. This investment will be audited by cost method instead of previous rights and interests method.

On May 23rd 2003, the Company and its subsidiary, Shanxi Airlines Co., Ltd, signed an agreement with Yunnan Zeyuan Trade Co., Ltd purchasing 54.7% shares of Yunnan Shilin Travel Airlines Co., Ltd held by Yunnan Zeyuan Trade Co., Ltd with RMB8,000,000. The transaction completed on Jan 19th 2004.

In Oct 2003, Xinhua Airlines Co., Ltd, a subsidiary company of the Company, Meilan Airport and HNA Hotel (Group) Co., Ltd (HNA Hotel) signed an agreement with Zhongxin Group Finance Co., Ltd ("Zhongxin Finance"). The above three companies jointly invested in Zhongxin Finance and increased its registered capital from RMB100 million to RMB300 million, in which Xinhua Airlines invested RMB100 million (33.33%), Meilan Airport RMB50 million (16.67%) and HNA Hotel RMB50 million (16.67%). The above increase of capital was finished in Feb 2004 and was validated with a report numbered XYZH/A703030 by Shinewing Certified Public Accountants. After the increase of capital, Zhongxin Finance turned into HNA Group Finance Co., Ltd that completed industrial and commercial alteration formalities in Feb 2004 with an enterprise business license numbered 1100001502096 (2-2) .

1. Usage of the collected capital

In 2004, there is no collected capital for the company. The money collected in the previous year is not used either during this period.

2. Introduction to non-collected capital

-
- A. In May 2004, the registered capital of HNA Group Financial Co., Ltd increased from RMB100, 000,000 to RMB300, 000,000. The company's subsidiary, China Xinhua Airlines Co., Ltd, invested RMB100, 000,000 that takes up 33.33% of the total registered capital.
- B. In Apr 2004, the company and Hainan HNA Airport Group Co., Ltd signed a share transferring agreement. The company transferred 160,000,000 shares (10.76% of Haikou Meilan International Airport Co., Ltd) of Haikou Meilan International Airport Co., Ltd to Hainan HNA Airport Group Co., Ltd with transferred price of RMB201, 600,000. After the transaction, the company holds 16.48% shares of Haikou Meilan International Airport Co., Ltd.
- C. In Apr 2004, the company and Hainan Air Catering Holding Co., Ltd signed a share transferring agreement. The company transferred 51% shares of Hainan Air Catering Co., Ltd to Hainan Air Catering Holding Co., Ltd with price of RMB40, 000,000. After the transaction, the company won't have any shares of Hainan Air Catering Co., Ltd.
- D. In Sep 2004, the company and its subsidiary, Shan'xi Airlines Co., Ltd, together invested to establish Shilin Airlines Co., Ltd with registered capital of RMB771, 580,000, in which Shan'xi Airlines Co., Ltd invested RMB393,505,800 that takes up 51% while the company invested RMB377,074,200 that takes up 48.87%. Besides, Yunnan Shilin Air Travel Co., Ltd invested RMB1 million that takes up 0.13%.
- E. The company and Yangtze River Real Estate Group Co., Ltd signed a share transferring agreement. The company transferred 34% shares of Hainan Sunshine City International Golf Club Co., Ltd to Yangtze River Real Estate Group Co., Ltd with book value of RMB34, 000,000. After the transaction, the company won't hold any shares of Hainan Sunshine City International Golf Club Co., Ltd.
- F. The company's subsidiaries, China Xinhua Airlines Co., Ltd and Chang'an Airlines Co., Ltd signed a share transferred agreement with Yangtze River Real Estate Group Co., Ltd. The two subsidiaries respectively transferred 50% and 25% of Beijing Kehang Investment Co., Ltd to Yangtze River Real Estate Group Co., Ltd with prices of RMB15, 000,000 and RMB7, 500,000. After the transactions, China Xinhua Airlines Co., Ltd and Chang'an Airlines Co., Ltd won't hold any shares of Beijing Kehang Investment Co., Ltd.
- G. On Nov 30th 2004, Chang'an Airlines Co., Ltd, a subsidiary company of the Company, transferred 4 Y-7 aircraft and related spare parts to Yangtze River Investment Holding Co., Ltd with book value RMB111,330,000. By Dec 31st 2004, the transferring money has been totally captured and the alteration procedure of property right is in progress.

III. Operation Analysis of Financial Status of the Company in 2004

Unit: RMB Yuan

Item	Period end	Period beginning	Increase/decrease amount	%e
Total assets	25,327,877,356	23,320,694,920	2,007,182,436	9
Profit of core business	1,771,004,111	277,716,628	1,493,287,483	538
Net profit	90,648,787	-1,052,291,380	1,318,716,557	
Net increasing value of cash and cash equivalent	136,245,608	1,542,393,832	-1,406,147,774	-91
Shareholders' interests	1,428,638,756	1,317,666,515	110,972,241	8

(1) The main reason for change of total capital is increase of fleet scale.

(2) The main reason for change of main business profit is that the operation of the Company was not affected by SARS any more in 2004 and the production operation became normal.

(3) The main reason for change of net profit is that the operation of the Company was not affected by SARS any more in 2004 and the production operation became normal.

(4) The main reason for change of net increasing amount of cash and its equivalent is purchase of aircraft.

(5) The main reason for change of rights and interests of shareholders is because of making profit in 2004.

IV. Reason and Effect of Accounting Estimation Changes and Substantial Accounting Mistake of the Company's

Accounting Policy

In order for the business accounting mode for high-price piece of aviation materials to be in accordance with that of other airlines and in order to eliminate difference of accounting policies adopted by international accounting report form and domestic accounting report form, the business accounting mode for high-price piece of aviation materials will be changed from accounting by existing stock into accounting by fixed assets from Jan 1st 2004 via resolution of temporary board meeting of the Company on Mar 22nd 2004. And according to usage term of high-price piece of aviation materials and detailed situation of aviation materials management, the original cost of 5-year amortization will be depreciated by usage term. For the effects brought by alteration of accounting policy, the Company made backward adjustment, that is, adjusted original subsistent income, merchandise, original value of fixed assets and original accumulated depreciation. The report forms will display adjusted data. The altered accounting policy increased RMB202,271,000 net profit of 2004 and RMB202,512,000 original subsistent income of 2004, in which increased RMB216,955,000 net profit of 2003 and decreased RMB14,443,000 original subsistent income of 2003.

The board of the Company concluded that the above alteration of accounting policies can more fairly reflect the Company's financial status and operation performance. The application document on regulating the business accounting

mode for high-price piece of aviation materials has been submitted to the Ministry of Finance of the State Council and has been approved by corresponding document issued by the Ministry of Finance.

V. An Introduction to Great Changes of Operation Environment, Macro Policy and Laws and Regulations

The year of 2005 is the last year of the 10th 5-year plan and is also a key year of implementation of sound financial policy and currency policy, a year of consolidation and development of macro adjustments and controls and a year of maintenance of economic development and social development. From the development trend, China's aviation industry will enter into a new increasing stage with over 20% growth rate. This will bring to the company wide space and development opportunity. At the same time, we will also encounter fierce challenge brought by the macro adjustments and controls of state and industry and domestic and international market competition.

VI. Operation Plan for 2005

According to macro economic situation and the company's development strategy, the company localized the year of 2005 a reform year, a benefit year and a security year. The working guideline of 2005 is to grasp historical development opportunity, deepen reforms of faithfulness, performance and innovation, complete structural regulation in order to accomplish greater developments. The sales income, passenger throughput and total mileage will keep harmonious and speedy development.

VII. Routine Work of Board of Directors

1. Meeting of Board of Directors

On April 27, 2004, the 5th session of the 4th Board Meeting of the Company was held and the reports were considered and approved as followed:

A. Work Summary of 2003 & Work Plan for 2004 of the Company;

B. 2003 Annual Report of the Company and its Summary;

C. Report on Performance of the Board of Directors;

D. Report on Plan of Annual Salary of Directors, Supervisors and Management Personnel;

E. Report on Amendment of the Articles of Association of HNA;

F. Report on Aircraft Delivery

G. 2003 Financial Report and 2004 Financial Plan of the Company;

H. Report on Renewal of Employment of Accounting Firm;

I. Report on Proposed Profit Distribution Plan for 2003;

J. Report On Signing Daily Production Connected Transactions Agreement With Related Parties;

K. Report on Capital Increase to HNA Group Financial Corporation

L. Report on Transferring 10.76% Holding Interests of Haikou Meilan Airport to HNA Airport Administration Company

M. Report on Assignment of 51% of HNA Catering

N. Report on Modification of Accounting Policy and Accounting Estimate

O. Report on Holding the General Meeting of Shareholders of 2003

The related information was published on China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po of Apr. 29 of 2004.

1.2. On April 29, 2004, the 6th session of the 4th Board Meeting of the Company was held and the First Quarter Report were considered and approved, The related information was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of Apr. 30 of 2004.

1.3 On July 26, 2004, the 7th session of the 4th Board Meeting of the Company was held and the Report on Signing the Financial Service Agreement, the Report on Establishment of Shilin Airlines Co., Ltd and the Report on Holding the First temporary General Meeting of Shareholders were considered and approved, The related information was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of July. 29 of 2004

1.4 On August 30, 2004, the 8th session of the 4th Board Meeting of the Company was held and the Semi-Annual Report was considered and approved, The related information was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of August 31 of 2004.

1.5 On Oct 29, 2004, the 9th session of the 4th Board Meeting of the Company was held and the Third Quarter Report was considered and approved, The related information was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of Oct 30 of 2004.

2.Subsequent Events on Resolution of the Meetings of Shareholders

The General Meeting of Shareholders of 2003 considered and passed through the 2003 Work Report of Board of Directors of HNA, Report on the Performance of the Board of Supervisors, Financial Report of 2003 & Financial Plan of 2004, Report on Proposed Profit Distribution Plan for 2003, Report on Plan of Annual Salary of Directors, Supervisors and Management Personnel, Report on Amendment of the Articles of Association of HNA, Report on Aircraft Delivery, Report on Renewal of Employment of Accounting Firm, Report On Signing Daily Production Connected Transactions Agreement With Related Parties, Report on Raise the Capital to HNA Group Financial Company, Report on Transferring 10.76% interests of Haikou Meilan Airport Company Limited, Report on Transferring 51% equity interests of Hainan Aviation Catering Company and the Report on Changing the Accounting Policy and The 1st Temporary General Meeting of Shareholders of 2003 considered and passed through Report on Signing the Financial Service Agreement and Report on Establishing Shilin Airlines Company Limited. the proposal has been carried into execution.

VIII. Profit Distribution Preplan / Preplan for Capitalization of Capital Reserve in 2004

By the end of the fiscal year of 2004, the after-tax profit of the Company audited in accordance with the domestic auditing principle is RMB 90,650,000 Yuan, while after-tax profit audited in accordance with the international auditing principle is RMB 35,630,000 Yuan.

The Company will not take any profit distribution and the capital reserve will not be transferred into shares capital in this fiscal year.

X. The audit explanations for fund impropriation by the holding shareholders or related parties

CPA's special explanations for fund impropriation by the holding shareholders or related parties

The Board of Directors of Hainan Airlines Co. ,Ltd,

We have accepted the appointment of the Hainan Airlines Company Limited (hereafter “the Company”)to audit consolidated balance sheet of the parent company of Hainan Airlines Co., Ltd (“the Company”) by Dec 31st 2004 and consolidated profit sheet, profit distribution sheet and cash flow sheet of the parent company in 2004 and finally issued audit report numbered XYZH/A705024.

According to requirements of Notice on Standardizing Capital Exchange Between Listed Company and Related Party and External Guarantee of the Listed Company released by China Securities Supervision and Administration Committee, the Company compiled the attached table (“Situation Table”) on capital occupying situation by holding shareholders and

other related parties by Dec 31st 2004 and in 2004.

It is the Company's responsibility to compile and disclose the Situation Table and ensure its authenticity, validity and integrity. We have checked and compared the Situation Table and audited accounting report forms of 2004 and didn't find disagreement in all important aspects. We conducted the same auditing procedure to the Situation Table and accounting report forms of 2004.

In order to better understand the listed information in the Situation Table, it is suggested to read the report and auditing report numbered XYZH/A705024 together.

This letter is only for the Company to release the Annual Report to CSRC, and by no means have to serve as any other goals without the written permission by us.

Capital occupation and payment by related parties

Unit: RMB1, 000

Type	Occupant	relations with listed company	capital occupied by Dec 31 2003	capital occupied by Dec 31 2004	newly-added capital occupied in 2004	accumulated capital occupied in 2004	occupation mode and balance		Reason for occupation	payment and mode in 2004	
							operational	Non-operational		Cash	Non-cash
capital occupation by shareholders of the listed company											
capital occupation by other related parties	HNA Group Co., Ltd	shareholder	88,615	108,659	20,044	1,864,176		108,659	Come-and-go capital	1,844,132	0
	Hainan Air Catering Co., Ltd	under-control	0	5,217	5,217	5,217		5,217	Come-and-go capital	0	0
	Hainan Yangpu Huanmei Co., Ltd	under-control	445,203	333,803	445,203	624,600		333,803	Come-and-go capital	179,397	0
	HNA Hotel Co., Ltd	under-control	15,408	21,560	6,152	46,874		21,560	Come-and-go capital	40,722	0
	Haikou Meilan International Airport Co., Ltd	Joint enterprise	173,203	196,959	23,756	270,343	12,036	184,923	pre-paid capital for takeoff and landing	246,587	0
	Hainan HNA Im & Ex Co., Ltd	Joint enterprise	76,112	99,442	23,330	99,442	99,442		pre-paid agent fee and cargo fee	76,112	0
	Hainan Jiahui Investment Co., Ltd	under-control	278,000	501,398	223,398	1,866,118		501,398	Come-and-go capital	1,642,720	0
	Deer Jet Co., Ltd	under-control	317,323	39,116	-278,207	59,651		39,116	Come-and-go capital	337,858	0
	Yangtze River Real Estate Group Co., Ltd	under-control	0	56,073	56,073	64,570		56,073	Come-and-go capital	8,497	0
	Yangtze River Express Co., Ltd	under-control	14,609	88,032	73,423	88,032		88,032	Come-and-go capital	14,609	0
	Hainan Aviation Im & Ex Co., Ltd	under-control	21,284	21,284	0	0		21,284	Come-and-go capital	0	0
	Haikou High-tech Risk Investment Co., Ltd	under-control	10,000	10,000	0	0		10,000	Come-and-go capital	0	0

	Beijing Yanjing Hotel Co., Ltd	Joint enterprise	3	0	-3	0		0	Come-and-go capital	3	0
Total			1,439,760	1,481,543	598,386	4,989,023	111,478	1,370,065		4,390,637	0

XI. Special explanation and independent opinion on external guarantee by independent directors of the Company

According to requirements of the Notice on Standardizing Capital Exchange Between Listed Company and Related Party and External Guarantee of the Listed Company, we made inquiry to capital occupation and provided guarantee by related parties. By Dec 31st 2004, the occupied capital by shareholders and related parties is RMB1,481,543,000, in which HNA Group Co., Ltd occupied RMB108,659,000 and other related parties RMB1,372,884,000.

By Dec 31st 2004, the Company and its subsidiaries provided RMB138,700,000 loan guarantee for companies controlled by HNA Group Co., Ltd.

IX. Report of the Board of Supervisors

1. Works of the Board of Supervisors:

On April 27 of 2004, the 2nd session of the 4th board of supervisors was held. During the meeting, the Working Report of the Board of Supervisors of 2003, the Report on the Annual Report and the Annual Report Summary of 2003 and the Report on Changing the Accounting policy were considered and passed.

2. Comments of the Board of Supervisors on the Legality of the Company's Operation:

1. Legality of the Operation:

The decision-making procedure of the Company is in strict compliance with the Company Law, Security Law, Listing Regulations of SSE and other related regulations. The Company had established and perfected the internal control system. No activities violating the laws, rules and Articles of the Association or the interests of the Company of the directors and managers occurred.

2. Status of the Finance:

The accounting firms engaged in the report period issued the auditing reports without reservation. The board of supervisors considered that the auditing reports had expressed the views truly on the actual operation achievements and financial status of the Company in the report period.

3. The latest fund-raising was completed in 1999. The investment orientation adjustments to certain collected capital were carried out according to the legal procedure, the details of which had been published in the related announcement and the annual report of 2000.

4. In 2004, the price of buying and selling assets carried out by the Company was reasonable. Both the assets and shareholders' equity of the Company were not harmed or lost. No insider dealing occurred.

5. The connected transactions reached in the report period conform to the principles of “Equality, Fairness and Publicity”. No activities against the interests of the Company occurred.

X. Important Events

1. In the report period, no significant lawsuit or arbitration occurred.

2. Mergers and Assets Buying & Selling:

Please find the introduction of investment.

3. Important Connected Transactions:

3.1 Substantial connected transaction of transferring of capital and shares

(1) The Company transferred 10.76% shares of Haikou Meilan Airport Co., Ltd to Hainan HNA Airport Group Co., Ltd with RMB201, 600,000. The book value is the pricing principle, which is RMB201, 600,000. The transaction has been released in Shanghai Securities News, China Securities News and Hong Kong Wenweipo on Apr 29th 2004.

(2) The Company transferred 51% shares of Hainan Air Catering Co., Ltd to Hainan Air Catering Holding Co., Ltd with RMB40 million. The negotiated price is the pricing principle, which is RMB28,710,000, book value of the capital. The transaction has been released in Shanghai Securities News, China Securities News and Hong Kong Wenweipo on Apr 29th 2004.

3.2 Substantial connected transaction of external joint investment

(1) The subsidiary company of the Company—China Xinhua Airlines Co., Ltd invested RMB100 million to set up HNA Finance Co., Ltd together with HNA Hotel Group Co., Ltd. The main business of HNA Finance Co., Ltd is to provide finance service for technical reform, new product development and product sales to the member enterprises according to the Company Law of PRC and the Administration Measure of Finance Company of Enterprise. It is a non-banking finance institution focused on mid- and long-term finance business. The registered capital is RMB300 million. The transaction has been released in Shanghai Securities News, China Securities News and Hong Kong Wenweipo on Apr 29th 2004.

(2) The Company invested RMB377, 070,000 to set up Shilin Airlines Co., Ltd together with Shanxi Airlines Co., Ltd. The main business of Shilin Airlines Co., Ltd is to provide air transport. The registered capital is RMB771, 580,000. The transaction has been released in Shanghai Securities News, China Securities News and Hong Kong Wenweipo on July 28th 2004.

4. Important Agreements and Performance:

4.1 Trusteeship situation

The Company has no trusteeship matter in 2004.

4.2 Contract-in situation

The Company has no contract-in matter in 2004.

4.3 Leasing situation

The Company has no leasing matter in 2004.

4.4 Guarantee situation

Guarantee object	Date of occurrence	Guarantee capital	Guarantee Type	Guarantee Term	If guarantee over or not	If guarantee for related parties
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Hainan Air Catering Co., Ltd		RMB8,700,000	Guarantee for related responsibility	~	Not	Yes
Haikou Meilan International Airport Co., Ltd		RMB130,000,000	Guarantee for related responsibility	~	Not	Yes
Total guarantee capital in 2004			RMB138,700,000			
Guarantee balance at the end of 2004			RMB138,700,000			

4.5 Other important contract

In 2004, there is no other important contract.

5. Promises of the Company or its shareholders holding more than 5% of the Company's total amount of shares and execution of the promises

in the report period, no promises of the Company or its shareholders holding more than 5% of the Company's total amount of shares and execution of the promises occurred.

6. Remuneration and Engagement & Dismissal of the Accounting Firms:

In the report period, the Company continued to engage the Shine Wing Certified Accountants and PriceWater House Coopers Public Accounting Firm to audit the financial statements of it. The auditing fee paid to them account for RMB 850 thousand Yuan and HK\$ 1.95 million respectively.

7. Penalty on the Company, the Board and the Directors and correction situation

Hainan Securities Supervision & Administration Bureau of China Securities Supervision & Administration Committee issued the Notice on Correction of Problems in Special Inspection to Hainan Airlines Co., Ltd ("Correction Notice") on Nov 9th 2004. After receiving the Correction Notice, the Company conducted careful self-examination to the problems and deficiencies. The examination result and countermeasures have been submitted to and approved by the 10th session of 4th board meeting. The announcement of the board meeting has been released on the appointed newspapers on Jan 29th 2005.

8. Other Important Events:

In the report period, there are no other important events.

XI. Financial Report

(English Translation For Reference Only)

TO THE SHAREHOLD OF HAINAN AIRLINES COMPANY LIMITED

We have accepted the appointment to audit the accompanying consolidated balance sheet of the Hainan Airlines Company Limited (hereafter "the Company") as of December 31, 2004, and the related consolidated income and cash flows statement for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with Standards for Independent Audits of PRC Certified Public Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above conform with the Accounting Standards for Business Enterprises and the “ Accounting System for Business Enterprises ” promulgated by the Central Government of the People’s Republic of China and present fairly in all material respects, the financial position of the Company as at 31 December 2004 and the results of its operations and its cash flow for the year then ended.

ShineWing Certified Public Accountants
Beijing China

April 26, 2005

ATTACHMENTS: Hainan Airlines Company Limited
Balance Sheet
As at 31 December 2004

Monetary unit: RMB Yuan

Assets	Notes	2004		2003	
		CONSOLIDATED	HOLDING COMPANY	CONSOLIDATED	HOLDING COMPANY
CURRENT ASSETS					
Cash in bank & on hand		3,149,786,832	907,111,360	2,943,433,933	2,211,584,122
Short investment					
Notes receivable					
Dividend receivable					2,253,208
Interest receivable					
Accounts receivable		282,625,854	531,880,423	327,721,607	25,435,882
Other receivables		1,954,827,569	1,522,130,407	2,067,855,789	1,408,256,047
Advances to suppliers		462,772,715	411,732,171	1,158,031,509	950,507,191
Subsidy receivable				1,725,000	
Inventories		338,044,172	319,922,005	194,903,374	137,477,806
Deferred and prepaid expenses		70,886,124	49,387,415	63,377,093	37,219,099
Long term investment maturing within one year					
Other current assets					
Total current assets		6,258,943,266	3,742,163,781	6,757,075,305	4,772,733,355
LONG-TERM INVESTMENTS					
Long term equity investment		837,493,008	2,066,078,093	1,018,898,398	2,396,301,999
Long term bond investment					
Long-term investments-net value		837,493,008	2,066,078,093	1,018,898,398	2,396,301,999
Incl. consolidation difference		129,467,842		147,133,565	
FIXED ASSETS					
Fixed assets - cost		19,272,480,883	14,527,202,810	17,166,034,038	12,656,243,737

Less: Accumulated depreciation		4,200,977,802	2,477,441,785	3,341,322,493	1,775,684,874
Fixed assets - net book value					
Less: Provision for decrement of fixed assets					
Fixed assets - net book value		15,071,503,081	12,049,761,025	13,824,711,546	10,880,558,863
Less: Provision for decrement of fixed assets		18,311,409	16,378,237	17,767,237	16,378,237
Fixed assets- net book value		15,053,191,672	12,033,382,788	13,806,944,308	10,864,180,626
Engineering materials					
Construction in progress		2,378,105,885	740,024,104	890,269,989	847,858,203
Disposal of fixed assets					
Total fixed assets		17,431,297,557	12,773,406,892	14,697,214,298	11,712,038,829
INTANGIBLE ASSETS					
Intangible assets		14,674,004		19,392,698	
Long-term deferred expenses		406,117,409	301,202,612	410,905,190	290,681,679
Other long-term assets		379,352,472	305,572,823	417,209,031	334,632,031
Total intangible & other assets		800,143,525	606,775,435	847,506,919	625,313,710
TOTAL ASSETS		25,327,877,356	19,188,424,201	23,320,694,919	19,506,387,893

The accompanying notes form an integral part of these financial statements

**Hainan Airlines Company Limited
Balance Sheet (continued)**

	2004		2003	
	CONSOLIDATED	HOLDING COMPANY	CONSOLIDATED	HOLDING COMPANY
CURRENT LIABILITIES				
Short term loans	3,308,284,166	1,365,564,166	3,927,349,522	1,980,349,522
Notes payable	642,436,548	391,672,180	438,446,972	438,446,972
Accounts payable	967,918,901	1,214,890,287	892,950,001	1,764,959,253
Advances from customers	24,588,746	22,132,009	28,654,981	22,003,009
Accrued payroll	14,226,670	13,694,820	3,121,681	3,119,079
Staff and workers' bonus and welfare fund	4,185,160		12,032,641	
Dividends payable	26,891,312	26,891,312	26,912,033	26,912,032
Taxes payable	274,286,183	242,678,503	212,354,364	206,919,417
Other payables to government	145,318,235	24,750,841	3,723,612	1,285,477
Other payables	634,746,366	85,144,328	408,759,460	122,545,909
Accrued expenses	928,922,279	898,912,212	562,241,696	553,487,274
Sales in advance of carriage-domestic	329,729,616		162,471,011	1,588,033
Sales in advance of carriage-international	5,648,383		4,207,256	
Liability estimation				
Long-term liability maturing within one year	2,032,747,432	1,402,098,632	1,610,877,758	1,081,738,308
Other current liabilities				
Total current liabilities	9,339,929,997	5,688,429,290	8,294,102,988	6,203,354,285
LONG TERM LIABILITIES				
Long term loans	11,514,594,187	10,028,757,737	9,962,760,539	950,457,463
Bonds payable				
Long term payable	2,180,257,775	1,892,328,462	2,274,393,122	2,194,744,319
Special accounts payable	20,000,000		20,000,000	
Other long-term liability	135,020,140	135,020,140	244,915,495	244,915,495
Total long term liabilities	13,849,872,102	12,056,106,339	12,952,069,156	11,970,117,277
Deferred tax				
Deferred tax credits				

TOTAL LIABILITIES		23,189,802,099	17,744,535,629	21,246,172,143	18,173,471,562
Minority interest					
Minority interest		709,436,501		756,856,261	
OWNERS' EQUITY					
Paid-in capital		730,252,801	730,252,801	730,252,801	730,252,801
Capital surplus		1,058,729,373	1,058,726,373	1,038,405,919	1,038,405,919
Reserve fund		169,097,575	169,097,575	169,097,575	169,097,575
Inclu.:Public welfare fund		23,094,720	53,094,720	53,094,720	53,094,720
Unrecognized investment loss		-15,249,816		-15,249,816	
Undistributed profits / (accumulated losses)		-514,191,177	-514,191,177	-604,839,964	-604,839,964
Inclu: Proposed cash dividends				14,605,056	14,650,056
Total owners' equity		1,428,638,756	1,443,888,572	1,317,666,515	1,332,916,331
TOTAL LIABILITIES AND OWNERS' EQUITY		25,327,877,356	19,188,424,201	23,320,694,919	19,506,387,893

Hainan Airlines Company Limited
Income Statement
For the Year 2004

Monetary unit: RMB Yuan

ITEMS	Notes	2004		2003	
		CONSOLIDATED	HOLDING COMPANY	CONSOLIDATED	HOLDING COMPANY
1. Sales revenue		8,410,538,692	4,346,952,816	5,372,091,313	2,919,452,797
Less: Cost of sales		6,366,330,309	2,972,864,419	5,030,666,636	2,487,095,946
Sales tax and surtax		273,204,272	142,020,895	63,708,049	37,021,632
2. GROSS PROFIT ON SALES		1,771,004,111	1,232,067,502	277,716,628	395,335,219
Add: Income from other Operations		76,931,186	57,777,240	31,801,811	17,527,565
Less: Selling expenses		538,283,866	295,287,849	379,753,722	209,993,936
General and administrative expenses		421,947,769	265,839,264	416,742,466	255,556,435
Financial expenses/(income)		794,490,678	582,083,998	739,482,089	592,475,505
3. OPERATING PROFIT / (LOSS)		93,212,984	146,633,631	-1,226,459,838	-645,173,092
Add: Income from investments		-16,667,047	-60,957,365	-12,631,165	-386,626,799
Subsidies Income		13,566,646	8,203,646	8,466,428	
Non-operating income		2,040,620	512,712	11,995,468	1,078,122
Less: Non-operating expenses		15,639,053	3,743,846	23,573,300	21,050,242
4. TOTAL PROFIT / (LOSS)		76,514,150	90,648,787	-1,242,202,407	-1,051,772,011
Less: Income tax		4,924,546		4,373,618	519,369
Minority interest		-19,059,183		-194,284,645	
5. NET PROFIT/(LOSS) AFTER TAX		90,648,787	90,648,787	-1,052,291,380	-1,052,291,380
Add: Undistributed profit at beginning of the year		-604,839,964	-604,839,964	462,056,472	462,056,472
Transferred in from surplus reserve					
6. Profit Available for Dividends		-514,191,177	-514,191,177	-590,234,908	-590,234,908
Less: Statutory surplus reserve					
Statutory public welfare fund					
7. Profit Available for Dividends to Shareholders		-514,191,177	-514,191,177	-590,234,908	-590,234,908
Less: Preference dividends payable					
Voluntary earnings surplus drawn					
Common stock dividends payable				14,605,056	14,605,056
Dividends being transferred to share capital					
8. Undistributed Profit		-514,191,177	-514,191,177	-604,839,964	-604,839,964

Supplementary Materials

1. Profit from sale, disposal of business unit or investments				
2. Loss due to natural disaster				
3. Increase/decrease in total profit (loss) as a result	202,270,610	175,698,601	39,637,094	48,180,539
4. Increase/decrease in total profit as a result of changes in accounting estimates			-51,179,253	-26,322,978

5. Losses from debt restructuring				
Others				

Hainan Airlines Company Limited
Cash Flow Statement
For the Year 2004

	Notes	CONSOLIDATED	HOLDING COMPANY
1. Cash Flows From Operating Activities			
Cash received from sales of goods or rendering of services		8,728,399,480	3,941,755,435
Refund of tax		14,891,646	8,203,646
Other cash received relating to operating activities		905,696,083	2,311,370,240
Sub-total of cash inflows		9,648,987,209	6,261,329,321
Cash paid for goods and services		4,760,980,213	2,787,884,630
Cash paid to and on behalf of employees		512,848,558	275,516,649
Income tax paid		357,765,429	135,088,017
Other cash paid relating to operating activities		823,149,927	2,251,152,842
Sub-total of cash outflows		6,454,744,127	5,449,642,138
Net cash from operating activities		3,194,243,082	811,687,183
2. Cash Flows from Investing Activities:			
Cash received from return of investments		275,600,000	275,600,000
Cash received from distribution of dividends or profits		7,387,310	4,042,000
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		139,656,156	4,560,590
Other cash received relating to investing activities		841,125	
Sub-total of cash inflows		423,484,591	284,202,590
Cash paid to acquire fixed assets, intangible assets and other long-term assets		2,703,356,730	1,340,718,895
Cash paid to acquire equity investments		178,175,991	78,175,991
Other cash paid relating to investing activities		11,254,312	
Sub-total of cash outflows		2,892,787,033	1,418,894,886
Net cash from investing activities		-2,469,302,442	-1,134,692,296
3. Cash Flows from Financing Activities			
Proceeds from issuing shares		735,502	
Proceeds from investment		6,350,656,882	3,291,656,882
Other proceeds relating to financing activities			
Sub-total of cash inflows		6,351,392,384	3,291,656,882
Cash repayments of amounts borrowed		4,993,477,973	3,040,053,248
Cash payments for distribution of dividends or profits and interest expenses		1,260,849,848	878,950,063
Other cash payments relating to financing activities		685,756,728	424,228,511
Sub-total of cash outflows		6,940,084,549	4,343,231,822
Net cash from financing activities		-588,692,165	-1,051,574,940
4. Effect of Foreign Exchange Rate Changes on Cash	23	-2,867	
5. Net Increase in Cash and Cash Equivalent		136,245,608	-1,374,580,053

Hainan Airlines Company Limited
Cash Flow Statement
For the Year 2004

A.

Monetary unit: RMB Yuan

	Notes	CONSOLIDATED	HOLDING COMPANY
1. Reconciliation of Net Profit to Cash Flows from the rating Activities			
Net profit		90,648,787	90,648,787
Add: Minority interest		-19,059,183	
Add: Provision for bad debt or bad debt written off		-2,641,098	-8,344,867
Depreciation of fixed assets		964,482,853	701,756,910
Amortization of intangible assets and other long-term assets		38,358,587	29,059,208
Amortization of long-term deferred assets		456,038,110	400,257,287
Decrease in deferred and prepaid expenses (or deduct: increase)		-7,594,555	-12,168,316
Increase in accrued expenses (or deduct: decrease)		364,673,666	342,404,938
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)		11,265,314	3,743,846
Losses on scrapping of fixed assets		45,024	
Financial expenses		795,599,892	582,083,998
Losses arising from investments (or deduct: gains)		16,667,047	60,957,365
Deferred tax credit (or deduct: debit)			
Decrease in inventories (or deduct: increase)		-130,406,527	-169,363,333
Decrease in operating receivables (or deduct: decrease)		509,855,231	-697,824,890
Increase in operating payables (or deduct: decrease)		106,309,934	-511,523,750
Others			
Net cash from operating activities		3,194,243,082	811,587,183
2. Investing and Financing Activities that do not Involve in Cash Receipts and Payments			
Transferred-in capital by debt			
Negotiable bond due in one year			
Capital leasing of fixed assets			
3. Net Increase in Cash and Cash Equivalents			
Cash at the end of the period		3,079,679,541	837,004,069
Less: cash at the beginning of the period		2,943,433,933	2,211,584,122
Plus: cash equivalents at the end of the period			
Less: cash equivalents at the beginning of the period			
Net increase in cash and cash equivalents		136,245,608	-1,374,580,053

Hainan Airlines Company Limited
Statement of Provision
For the Year 2004

Monetary unit: RMB Yuan

Consolidated

Items	2003.12.31	Addition	Write-off				2004.12.31
			Reserve of P	Write-off for actu	Transferring due	Reserve (decrease)	

			Provision for decrement of assets	Actual loss	Provision to the sale of assets	Provision due to other reasons		
1. Provision for bad debts	98,516,617	64,191,140	32,688				32,688	162,675,069
Including: Account Receivable	17,487,791	1,126,000	32,688				32,688	18,581,103
Other Receivable	81,028,826	63,065,140						144,093,966
2. Provision for loss on short-term investments								
Including: Investment in stock								
Investment in bonds								
3. Provision for loss on realization of inventories	18,279,237	3,297,370				16,378,237	16,378,237	5,198,370
Including: Goods for sales								
Materials	18,279,237	3,297,370				16,378,237	16,378,237	5,198,370
4. Provision for loss on long-term investment	6,774,000	8,000,000						14,747,000
Including: Investment in equity	6,774,000	8,000,000						14,747,000
Investment in bonds								
5. Provision for loss of fixed assets	6,556,593	16,378,237			4,623,421		4,623,421	18,311,409
Including: Plant & building	6,556,593				4,623,421		4,623,421	1,933,173
Equipment		16,378,237						16,378,237
6. Provision for loss of intangible assets								
Including: Patents								
Proprietary technology								
7. Provision for loss of construction in progress	500,000							500,000
8. Provision for loans of authority								

Holding Company

Items	2003.12.31	Addition	Write-off					2004.12.31
			Reserve of Provision for decrement of assets	Write-off for actual loss	Transferring due to the sale of assets	Reserve (decrease) due to other reasons	Total	
1. Provision for bad debts	37,598,187	62,461,320						100,059,507
Including: Account Receivable	582	1,126,000						1,126,582
Other Receivable	35,597,605	61,335,320						98,932,925
2. Provision for loss on short-term investments								
Including: Investment in stock								
Investment in bonds								
3. Provision for loss on realization of inventories	18,279,237	3,297,370				16,378,237	16,378,237	5,198,370
Including: Goods for sales								

Materials	18,279,237	3,297,370				16,378,237	16,378,237	5,198,370
4. Provision for loss on long-term investment	5,000,000	3,610,000						8,610,000
Including: Investment in equity	5,000,000	3,610,000						8,610,000
Investment in bonds								
5. Provision for loss of fixed assets		16,378,237						16,378,237
Including: Plant & building								
Equipment		16,378,237						16,378,237
6. Provision for loss of intangible assets								
Including: Patents								
Proprietary technology								
7. Provision for loss of construction in progress								
8. Provision for loans of authority								

HAINAN AIRLINES COMPANY LIMITED
(English translation for reference only)

NOTES TO FINANCIAL STATEMENTS - 1 January to 31 December 2004
(The currency is in RMB thousand Yuan except otherwise indicated)

I. General

- Hainan Airlines Company Limited (hereinafter referred as “the Company”) is a joint stock limited company reorganized from the former state owned Hainan Airlines (hereinafter referred as “the State Owned Company”) pursuant to the Qiong Gu Ban Zi [1992] No. 18 issued by the Hainan Provincial Office for Joint Stock Limited Companies in September 1992. The net assets of the State owned company was revalued by Hainan Consultative & Investing Company and approved by the Finance Bureau of Hainan Province (the reference of the approval is Qiong Cai Shui [1992] GuoZi No.639) as RMB 13,340,552 yuan was determined as the State capital of the Company. The Company was established by way of promotion and the promoters were 24 legal enterprises including the State owned company, China Everbright International Trust and Investment Co., Bank of Communication Hainan Branch, Hainan Aviation Import & Export Co., etc. The Company was registered on 8 January 1993 at Hainan Industrial & Commercial Administration Bureau. The registered share capital was RMB 250,100,000 yuan, and the total amount of shares was 250,100,000.
- The scrip dividend for 1993 was approved by the resolution of the 2nd shareholders meeting of the Company in March 1994. 50,020,000 shares were distributed and the total capital had increased to RMB 300,120,000 yuan.
- In May 1993, with the approval of the Gu Ban Zi [1993] No. 17 issued by Hainan Provincial Office for Joint Stock Limited Companies, 96,059,448 shares were listed in STAQ system. The number of legal person shares listed in STAQ system is 115,271,337 after the scrip dividend.
- On 2 November 1995, pursuant to the approval of the Wai Jing Mao Yi Han Zi [1995] No. 615 issued by the Ministry of Foreign Trade and Economic Co-operation of PRC, the Company issued 100,040,001 shares to American Aviation LDC at a price of USD 0.25 per share. The par value of the Company's shares is RMB 1 yuan per share. The company changed into a

Sino-foreign joint stock limited company after the issuance of shares. The Company raised a fund of USD 25,000,000 (equivalent to RMB 207,905,000 yuan). After deducting the related issuing expenses, RMB 100,040,001 yuan of the amount was stated as share capital and the remaining amount of RMB 70,177,849.79 yuan was stated as capital surplus. The Company obtained a new business license in November 1996 after increasing its share capital stated above. Also its name has been changed to Hainan Airlines Company Limited and the registered capital was RMB 400,160,001 yuan.

5. Following the approval of Zheng Wei Fa [1997] No. 24 issued by the Securities Commission of the State Council, the Company had issued 71,000 thousand B Shares at an issue price of USD 0.47 per share and the fund raised was USD 33,370,000 (equivalent to RMB 276,690,000 yuan). After deducting the related issuing expenses, RMB 71,000,000 yuan was stated as share capital and the remaining amount of RMB 186,822,000 yuan was stated as capital surplus.

5. According to the approval of Zheng Jian Fa Xing Zi [1999] No.129 issued by CSRC, the Company issued 205 million Ordinary Shares (A Shares) at an issue price of RMB 4.6 yuan per share and the fund raised was RMB 943,000,000 yuan. After deducting the related issuing expenses, RMB 205,000,000 yuan was stated as share capital and the remaining amount of RMB 708,745,226 yuan was stated as capital surplus.
7. In accordance with a profit appropriation resolution for report of the year 1999 passed by the shareholders' meeting in 18 May 2000, the Company distributed stock dividend at 0.8 shares per ten shares (on the basis of total number of shares 676,160,000) and cash dividend RMB 1 yuan (tax included) to all shareholders with total amount of RMB 54,092,800 yuan and RMB 67,616,000 yuan respectively. The share capital of the Company is increased to RMB 730,252,801 yuan thereafter.
8. China Everbright International Trust and Investment Co., the shareholder of the Company, transferred the hold interest of 4.5% share capital to Hainan Airlines Group entirely. The interest hold by Hainan Airlines Group changed from 7.3% to 11.9% after transferring.
9. The Company is attribute to airport industry. It mainly deals with approved international and domestic air passenger and cargo transportation and other related transportation service.

Basis of Preparation

As at 31 December 2004, the Company suffered an accumulated losses amounting to RMB 514 million. Current liabilities exceed current assets by RMB 3,081 million. The assurance of continuation of the business of the Company depends on the future operating capital and continuing financial support from the financial institution. The directors believe that the Company has ability to get continuing credit limitation from the financial institution. Additional, as mentioned as note XI, subsequent events, the Company will issue no more than 2,800 million legal person shares to the investors approved by government and the Board of Directors. The capital from issuance will be used to pay for the banking loans and for the purchasing of aircraft and for the other operating activities. The Company prepared the forecast of cash flow within future twelve months base on the above situations so as to enable the Company to meet its liabilities in the future. The directors believe that the Company will continue as a going concern and consequently have prepared the financial statements for the year 2004 on the going concern basis.

Principal Accounting Policies

1. Accounting Policy

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations of the People's Republic of China for Business Enterprises.

2. Accounting Period

The Company's accounting year starts on 1 January and ends on 31 December.

3. Reporting Currency of the Company

The Company uses the Renminbi (RMB) as its reporting currency.

4. Basis of preparation and cost principle

The financial statements are prepared on accrual -basis accounting principles. Assets and liabilities

are initially recorded at their approved value upon contributed to the Company, otherwise are initially recorded at their acquired costs.

5. Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into RMB at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken into the profit and loss account.

6. Cash equivalents

Cash equivalents are short-term, highly liquid investments (normally less than three months from date of purchase to due date) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Bad Debt Provision

The Company records bad debts upon the death or insolvency of debtors, or proved by sufficient evidences that the outstanding in the receivables are irrecoverable, bad debts are recognized and charged to income statement as an expense in the year in which they arise.

The Company accounts for bad debts using provision methods. Aging analysis method of the provision for bad debts is adopted. The following ratios of bad debts provision are used, after taking considerations of debtor's financial positions and cash flow performances, except for the receivable amounts for the related parties or the amounts that are approved receivable by sufficient evidences.

Within one year	0%
1-2 years	5%
2-3 years	10%
3-4 years	30%
4-5 years	50%
5-6 years	80%
More than 6 years	100%

In addition, specific provisions are set against balances that have been assessed to be uncollectible in the case of unfavorable operating position, insolvency or suspended business.

8. Inventory

Inventories mainly include aviation consumption materials, catering supplies and low cost consumables. Aviation consumption materials are recorded at standard cost, and the difference between the weighted average cost and standard cost is recorded in the cost variances of materials account. Aviation consumption materials are expensed when used and the cost variances of materials are allocated at the end of each month. Catering supplies are recorded at cost and recognized as expenses in the period used at the end of the year.

The provision of consumption aviation materials and catering supplies is provided for on the basis of the lower of the cost and the market price.

Low cost consumables are recorded at cost and expensed when consumed except for the uniform.

Uniform are recognized as expense by half of value when used and expensed another half when disposal.

9. Long-term Investments

(1) Long-term equity investments

- A. Long-term equity investment price and revenue recognized method: Long-term equity investments are recorded at the initial cost of acquisition. When the Company owns an interest of 20% or less of the voting rights or otherwise does not have the ability to exercise significant influence over the financial and operational decisions, then these investments are accounted for using the cost method of accounting. When the Company owns an interest of 20% or more of the voting rights or otherwise has the ability to exercise significant influence over the financial and operational decisions, then these investments are accounted for using the equity method of accounting.
- B. Equity investment difference amortized method and years: When the equity investments are accounted for using the equity method of accounting, the difference between the initial costs on acquisition and the proportionate share of the net assets of the investee is accounted for as an “equity investment difference” and are amortized on a straight-line basis over a certain period of years. If the investment period is stipulated in the contract, then the amortization should be taken over this period. If there is no time limit, then debit balances should be amortized less than 10 years and credit balances should be amortized at least 10 years. However, credit balances occurred behind March 2003 should be accounted for as a “capital surplus- provision for equity investment”.

- (2) Provision for impairment of long-term investments recognized method: At the end of period, provisions are set against balances in the case of continuous dip in market price or unfavorable operating position and the dip in price is expected irrecoverable in the future. Provision for impairment of long-term investments is made individually based on the excess of the original cost of the share investment over its market price.

10. Fixed Assets

Fixed assets refer to the tangible assets that holding for production, services supply, lease or management, which include aircraft and engines, high value spare parts, improvement of fixed assets by operating lease, plant and building, equipment, vehicles and other equipment related to the operation of the Company with useful lives of over one year. Fixed assets also include equipment other than the main production equipment with individual values of over RMB 2,000 yuan and useful lives in excess of 2 years.

Fixed assets purchased or constructed by the Company are initially recorded at historical cost. Assets held under finance leases are recorded at the net present value of the lowest contract price.

Depreciation of fixed assets is calculated on the straight-line basis over the following useful lives, after taking into account their residual value, which is 5% of cost:

Plant and buildings	40 years
Aircraft and engines	10 to 20 years
High value spare parts	10 to 15 years
Improvement of fixed assets by operating lease	7 years
Vehicles	10 years
Machinery and equipment	8 to 14 years

After fixed assets decreased in value because of over-function, impairment or loss, decrease of revaluation price and low coverage of the cost of the fixed assets, a provision was made based on the excess of the original cost of the fixed assets over its net realizable value. The following fixed assets are made provision in full amount:

- (1) Permanently withdraw from use and no future economic benefit is expected and being recognized no income during transactions.
- (2) No future economic benefit is expected for technical reasons.
- (3) Damaged fixed assets without any value and use.

11. Construction in progress

Construction in progress represents capital assets under construction or being installed and prepayment for purchase of airplane and aviation materials, which is stated at cost. Cost comprises original cost of aircraft, equipment, installation, construction and other direct costs which includes interest accrued on loans financing the capital assets and related foreign currency exchange gains or losses, prior to the date of reaching their expected usable condition.

Construction in progress is transferred to the fixed assets account when they have been substantially completed or reached their expected usable condition, and made accumulated depreciation from the next month.

At the end of each year, the Company reevaluates the construction in progress. Provision is made for the loss of construction in progress under the following situation:

- (1) Stopped project that is not expected to reopen in two years.
- (2) Obsolescent project in performance and technology and is unable to bring future economic benefit.
- (3) Decrease in value has incurred with satisfied proof.

12. Borrowing costs

Borrowing costs include interest incurred, amortization of discounts or premiums and exchange differences in connection with the foreign currency borrowing. Specific borrowings represent the borrowings for acquisition of fixed assets.

Borrowing costs on specific borrowings are capitalized if they meet the following three criteria:

- (1) Ancillary costs incurred.
- (2) Interest incurred.
- (3) The constructions in progress have reached their expected usable conditions.

The capitalization of borrowing costs is ceased when the constructions in progress have reached their expected usable conditions. Borrowing costs incurred thereafter are recognized as financial expense in the periods in which they are incurred.

13. Intangible assets

-
- (1) Purchased land use rights are accounted for at actual cost (including relevant taxes). Invested land use rights are accounted for at evaluation cost.
 - (2) Land use rights are amortized over their transfer years on a straight-line basis.
 - (3) Intangible assets are accounted on the basis of the lower of the cost and the recoverable value. At the end of period, a provision for the intangible assets is made based on the excess of the book value of the investment over its recoverable value.

14. Long-term deferred assets

Long-term deferred expenses include leasehold improvements in connection with the finance and operating leases and initial recruitment pilot training expenses that should be amortized for more than 1 year. These expenses are amortized over a period from 3 to 7 years on a straight-line basis.

15. Other Long-term Assets

Other long-term assets refer to deferred losses and gains of sales and leaseback, which represents the deferred losses or deferred gains arisen from the aircraft and engine sales and leaseback transactions. Deferred losses or deferred gains arisen from the operating leaseback transactions are amortized using the straight-line method over the lease period. Deferred losses or deferred gains arisen from the finance leaseback transactions are amortized using the straight-line method over the estimated useful lives.

16. Leases

When significant risks and rewards of ownership of the assets are transferred to the leasees pursuant to the contract, these leases are classified as finance leases. Assets held under finance leases are recorded at the net present value of the lowest contract price while the long-term liability are recorded at the lowest contract price, and the difference between the above two value are recognized as an "unrecognized financial expenses" should be allocated by actual discount rate. Other leases are classified as operating lease. The costs are amortized using the straight-line method over the lease period.

17. Sales

Passenger, charter flight and cargo revenues are recognized when the relevant sales and costs could be measured reliably, relevant economic benefits could flow into the Company, and the completion stage of transportation services provided could be measured reliably.

Interest revenues and using chare fee gain from releasing the assets using right are recognized when the relevant sales and costs could be measured reliably, relevant economic benefits could flow into the Company.

18. Income tax

The Company accounts for corporate income tax using the Tax Payable method.

19. Profit distribution

According to the relevant regulations for Joint Stock Limited Company and the Company's articles of association, the after-tax profit is appropriated in the following order:

-
- (a) To cover accumulated losses;
 - (b) Appropriation of 10% statutory surplus reserve; (The Statutory Surplus Reserve Fund can cease to accrue until the fund balance reaches 50% of the registered share capital.)
 - (c) Appropriation of 5-10% statutory welfare reserve;
 - (d) Appropriation of discretionary surplus reserve;
 - (e) Payment of dividends. According to relevant CSRC regulations, profit distribute to shareholders is the lower of the retained profits after appropriation of reserves as mentioned above, as shown in the PRC statutory accounts and the accounts prepared under International Accounting Standards.

20. Basis of Consolidation

According to Cai Kuai Zi (1995) No. 11 approved by Ministry of Finance (“MOF”), the Interim Provisions for consolidated financial statements, and Cai Kuai Er Zi (96) No. 2, the Answer of the Interim Provisions for consolidated financial statements, the Company prepared the consolidated financial statements of 2004. The consolidated financial statements comprise the consolidation of financial statements of the Company and its subsidiaries, which are those companies in which the Group, directly or indirectly, has an interest of more than 51% the capital or total share capital as on 31 December 2004 and of the results for the year ended. All inter-company transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated.

21. The change explanation in principle accounting policy and accounting estimate

For keeping consistency with the accounting policy of other airline companies of aviation and for avoiding the difference between PRC GAAP with IFRS, approved in the temporary Board of Direct Meeting on 22 March 2004, the Company reclassified the high value spare parts from inventory to fixed assets on 1 January 2004. The Company changed amortizing the standard cost of high value spare parts on a straight-line basis for a period of five years to calculating on the straight-line basis over the useful live. This change is attribute to change in accounting policy and is applicable to retrospective adjustment method that refer to the adjustment of the beginning balance of retained earning and beginning balance of other related accounts in 2004, also refer to the adjustment of the related accounts of income statement for the year 2003. This change increased the net profit as amount to RMB 202,271 thousand, increased the beginning balance of retained earning as amount to RMB 202,512 thousand in 2004, also increased the net profit as amount to RMB 216,955 thousand, decreased the beginning balance of retained earning as amount to RMB 14,443 thousand in 2003.

This change is approved by Ministry of Finance (“MOF”), agree the Hainan Airlines Company Limited manage and account the high value spare parts as fixed assets.

II. Taxation

1. Income tax

(1) Parent Company income tax

According to Qiong Di Shui Fa [1998] No.27 approved by Hainan Government, income tax rate of the Company is 15% for year 2004.

(2) Subsidiaries income tax

- (a). The applicable tax rate for Hainan Golden-Deer Aviation Sales Co., Ltd. (“Golden Deer”) is 15% for year 2004.
- (b). The applicable tax rate for Hainan Airlines VIP Flight Services Co., Ltd. (“VIP Flight Services”) is 15% for year 2004.
- (c). The applicable tax rate for China Xinhua Airlines Co., Ltd. (“Xinhua Airlines”) is 33% for year 2004.
- (d). The applicable tax rate for Chang'an Airlines Co. Ltd, (“Chang'an Airlines”) and its subsidiary Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd. are 33% for year 2004.
- (e). The applicable tax rate for Shanxi Airlines Co. Ltd (“Shanxi Airlines”) is 33% for year 2004.

2. Turnover Tax and surcharges

Tax	Basis of computation	Tax rate
Value added tax	Catering revenues	6%
Sales tax	Traffic revenues and handling charges	3%
City construction tax	* Turnover tax payable	7%
Education surcharge	* Turnover tax payable	3%

* According to Xiong Cai Shui [2004] No.987 noticed by Finance Office and Tax Bureau of Hainan Province, the head office of Hainan Airlines Company Limited has Preferential Policy in relation to city construction tax and education surcharge exemption from PRC sales tax which applicable to the foreign investment enterprises and foreign company from 1 October 2004.

3. Individual income tax

The Company withholds individual income tax from employees to the tax authorities.

III. Group accounting

The financial statements of the Company represent the consolidated financial statements of the Company itself and its consolidated subsidiaries for the year ended 31 December 2004. All significant transactions among its consolidated entities are eliminated upon consolidation.

The followings are the information of the major subsidiaries as of 31 December 2004:

Company Name	Registered Capital	Amount Investment	Owned interest	Principal activities
A Hainan Golden-Deer Aviation Sales Co., Ltd.	RMB 8,000,000	RMB 7,600,000	95%	Transportation and chartered flight agency services
B Hainan Airlines VIP Flight Service Co., Ltd.	USD 1,020,408	USD 502,408	51%	Chartered flights agency services
C China Xinhua Airlines Co., Ltd.	RMB 1,830,000,000	RMB 933,300,000	60%	Approved air passenger and cargo transportation
D Chang'an Airlines Co.,Ltd.	RMB 754,390,000	RMB 554,563,300	73.51%	Air passenger and cargo transportation in Shanxi province and its surrounding provinces
E Shanxi Airlines Co., Ltd.	RMB 320,000,000	RMB 285,000,000	92.51%	Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces
F Beijing Xinhua Air Catering Co., Ltd.	RMB 29,990,000	RMB 15,294,900	51%	Production and sale of pastry, food and beverage
G Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.	RMB 25,000,000	RMB 20,000,000	80%	Hotel and catering, commodity, costume sales, typing and other office services.
H Hainan Haihang Zhongmian Duty Free Co., Ltd	RMB 1,500,000	RMB 1,050,000	70%	Sale of duty free goods and present of travel

A. Hainan Golden-Deer Aviation Sales Co., Ltd. ("Golden Deer") is a limited company in which the Company and Hainan Aviation Import & Export Trading Company ("HAIETC") hold 95% and 5% equity interests respectively. According to the authorization letter signed with Hainan Aviation Import & Export Company on 10 May 1995, all the risks and benefits in relation to HAIETC's 5% interest have been assigned to the Company.

B. Hainan Airlines VIP Flight Service Co., Ltd. ("VIP Flight Service") is a Sino-foreign joint venture established by the Company and Swiss Mid-Europe Airline Development Co., Ltd. withholds 51% and 49% equity interest respectively. Both sides have already fully contributed their portions of the registered capital.

C. China Xinhua Airlines Co., Ltd. ("Xinhua Airlines") is a limited Company that was recombined by the Company, Shenhua Group Co., Ltd. and Hainan Airlines Group. The registered capital of China Xinhua Airlines is RMB 1.83 billion. The Company contributed RMB 933.3 million to hold 51% of total equity interest. According to validation by Hainan Weixin CPA Firm, all sides have already fully contributed their portions of the registered capital up to 31 August 2001. Accordingly, China Xinhua Airlines is consolidated from 1 September 2001. The Company and Hainan Airlines Group Co. Ltd entered into a capital transfer agreement in December 2002. Pursuant to which the Company accepted the Hainan Airlines Group Co. Ltd's transfer of the interest of 9% share capital to the Xinhua Airlines. As at 31 December 2002, the Company holds 60% of total equity interest, Shenhua Group Co., Ltd. holds 40% of total equity interest.

E. Chang'an Airlines Co. Ltd. ("Chang'an Airlines") was contributed and established by the Company, Chang'an Aviation Industrial Company and Hainan Airline Group Co. Ltd. The registered capital of Chang'an Airlines is RMB 754,390,000 yuan, in which the Company contributes RMB 200,000 thousand to hold 26.51% of registered capital. All sides have already fully contributed their portions of the registered capital on 30 October 2001, which was validated by Shan'xi Xinghua CPA Firm,. The Company signed equity transfer agreement with Hainan Airlines Group Co., Ltd., according to which acquiring equity investment RMB 354,563 thousand from Hainan Airlines Group Co., Ltd. The holding share of the Company is changed to 73.51% as control holder, Chang'an Aviation Industrial Company is 13.84% and Hainan Airlines

- Group is 12.65%. Accordingly, Chang'an Airlines is consolidated from 1 November 2001.
- F. Shanxi Airlines Co., Ltd. ("Shanxi Airlines") was contributed and established by the Company, Shanxi Aviation Industrial Co., Ltd. and Chang'an Airlines Co., Ltd. The registered capital of recombined Shanxi Airlines Co., Ltd. is RMB320 million. The Company contributed RMB 285 million to own an interest of 89.06% share capital. Shanxi Aviation Industrial Company contributed the original net assets equivalent to RMB 20 million to own an interest of 6.25% share capital. Chang'an Airlines contributed RMB 15 million to own an interest of 4.69% share capital. All sides have already fully contributed their portions of the registered capital on 30 September 2002, which was validated by Taiyuan Zhongyuan CPA Firm.
- G. China Xinhua Airlines Co., Ltd. ("Xinhua Airlines"), a subsidiary of the Company, and Beijing Air Fushi International Investment Co., Ltd. ("Air Fushi") entered into an contribution agreement to establish the Beijing Xinhua Air Catering Co., Ltd. ("Xinhua Catering") in September 2002. The register capital of Xinhua Catering is RMB 29,990 thousand. Xinhua Airlines contributed RMB 15,294.9 thousand in cash to own an interest of 51% registered capital. All sides have already fully contributed their portions of the registered capital on 29 November 2002, which was validated by Beijing Yongtuo CPA Firm.
- H. Chang'an Airlines Co. Ltd. ("Chang'an Airlines"), a subsidiary of the Company, and Hainan Aviation Hotel (Group) Co., Ltd. ("Hainan Aviation Hotel") entered into an contribution agreement to establish Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd. ("Chang'an Hainan Aviation Star") in May 2003. The register capital of Chang'an Hainan Aviation Star is RMB 25,000 thousand. Chang'an Airlines contributed RMB 20,000 thousand to own an interest of 80% and Hainan Aviation Hotel contributed RMB 5,000 thousand to own an interest of 20%.
- I. Hainan Haihang Zhongmian Duty Free Co., Ltd ("Zhongmian Company") was contributed and established by the Company and China Duty Free (Group) Company on 21 October 2004. The registered capital of Zhongmian Company is RMB 1,500,000 yuan, and the holding equity interest is 70% and 30% respectively. All sides have already fully contributed their portions of the registered capital at the end of 31 December 2004, which was validated by Hainan Zhongzhou CPA Firm. The financial statements of Zhongmian Company should be consolidated this year.

Compare with last year, the consolidated statements of the Company have not included the statements of Hainan Airlines Catering Holding Company (Catering Company). The Company transferred the entire interest of 51% share capital to Hainan Airlines Catering Holding Company in July 2004, so the Company consolidated the income statement of Catering Company from January to June. This change decreased the total assets as amount to RMB 93,029 thousand and decreased the total liabilities as amount to RMB 36,733 thousand.

IV. Notes to the consolidated financial statements

1. Cash in Bank and on Hand

	2004	2003
Cash on hand	1,243	732
Cash in bank	1,459,788	2,835,986
Other monetary assets	1,688,756	106,716
Total	3,149,787	2,943,434

The balance of cash & bank on 31 December 2004 include the deposit in Hainan Airlines Group Finance Co., Ltd. as amount to 1,283,828 thousand cover 41% of the accounts.

The balance of other monetary assets includes the guarantee deposit as amount to 82,664 thousand

(includes guarantee deposit for notes as amount to 70,107 thousand which is payment for investment but cash equivalents) and bank fixed deposit as amount to 1,606,092 thousand which deposit and withdraw without restriction.

Following are foreign currencies at 31 December 2004

Currency	Amount	Exchange Rate	2004
USD	54,071	8.2765	447,519
HKD	709	1.0637	754
Others	27		176
Total	54,807		448,449

2. Receivable (Including Account Receivable and Other Receivable)

(1) Account receivable aging analysis:

Aging	2004			2003		
	Amounts	Percentage	Provision for bad debts	Amounts	Percentage	Provision for bad debts
Within one year	197,456	66		316,421	92	0
1-2 years	78,708	26	6	7,020	2	1,448
2-3 years	3,400	1	29	3,182	0	35
More than 3 years	21,643	7	18,546	18,663	6	16,081
Total	301,207	100	18,581	345,286	100	17,564

Account receivables of the top five companies amounting to RMB 163,001 thousand covered 54% of the accounts.

Account receivables due from shareholders with over 5% (include 5%) interest of the Company include Hainan Airlines Group Co. as amount to RMB 9,000 thousand.

(2). Other Receivables

Other receivable aging analysis:

Aging	2004			2003		
	Amounts	Percentage	Provision for bad debts	Amounts	Percentage	Provision for bad debts
Within 1 year	1,192,579	57	3,451	1,447,378	67	0
1-2 years	256,495	12	20,969	490,006	23	14,616
2-3 years	511,151	24	82,113	105,304	5	18,279
More than 3 years	138,697	7	37,561	105,320	5	47,257
Total	2,098,922	100	144,094	2,148,008	100	80,152

Other receivables of the top five companies amounting to RMB 1,070,435 thousand cover 51% of the accounts.

The Company reclassified advance to suppliers to other receivables lead to the fluctuation of aging between 2004 and 2003.

The balance of other receivable mainly includes receivable amount due from deposits for operating aircraft leases and customs duty and related parties etc. (See Note VIII). According to the opinion of the board of directors of the Company there is no recovery risk for receivables due from related parties and no bad debts provision should be provided for the related party receivables. No provision for bad debts is prepared for balance in relation to down payment and security deposits for leasing aircraft. Aging analysis method and individual cognizance method is adopted on the rest of other receivables.

Other receivables due from shareholders holding over 5% (including 5%) interest of the Company include Hainan Airlines Group Co., Ltd in amount of RMB 99,659 thousand.

(3). Detail information of 100% provision of bad debts of Other Receivables

Companies	2004	Aging	Ratios	Bad Debts	Accounts for	Reasons
Shanxi Airlines Company	4,292	Within 1 year	100%	4,292	Shanxi Airlines	Irrecoverable
Wangfu Department	11,799	4-5 years	100%	11,799	Xinhua Airlines	Irrecoverable
Aojinsen Special Equipment Company	4,930	4-5 years	100%	4,930	Xinhua Airlines	Irrecoverable
GE Capital Aviation Service	14,176	5-6 years	100%	14,176	The Company	Irrecoverable
China Leasing Company Limited	6,302	2-3 years	100%	6,302	The Company	Irrecoverable
Hainan Fudi Real Estate Development Company	10,198	1-2 years	100%	10,198	The Company	Irrecoverable

3. Advance to Suppliers

Aging	2004		2003	
	Amount	Percentage	Amount	Percentage
Within 1 year	281,682	61	858,886	74
1—2 years	108,058	23	235,356	21
2—3 years	40,179	9	60,711	5
More than 3 years	32,854	7	3,079	0
Total	<u>462,773</u>	<u>100</u>	<u>1,158,032</u>	<u>100</u>

The main reason for decreases in advance to suppliers from 2003 to 2004 is due to the Company received the advances to Hainan Yuhong Trade Co., Ltd. as amount to 400,000 thousand and Hainan Yangpu Huanmei Co., Ltd as amount to 193,000 thousand. There's no advance to suppliers due from shareholders holding over 5% (including 5%) interest of the Company.

4. Inventories and provision for loss on realization of inventory

	2004		2003	
	Amount	Provision for loss on realization of inventory	Amount	Provision for loss on realization of inventory
Aviation materials	311,355	5,115	170,373	1,818
Catering supplies	9,366	83	6,916	83
Low cost consumables	13,403	0	8,084	0
Others	9,118	0	11,458	0
Total	<u>343,242</u>	<u>5,198</u>	<u>196,831</u>	<u>1,901</u>

The main reason for increases in inventories from 2003 to 2004 is due to the purchasing of

aviation materials as result of the increase of airplane and air basis.

The change of accounting policy as mention as note III.21 decreased the ending balance of inventory as amount to RMB 893,326 thousand and decreased provision for loss on realization of inventory as amount to RMB 16,378 thousand at year ended 2004, also decreased the ending balance of inventory as amount to RMB 918,369 thousand and decreased provision for loss on realization of inventory RMB 16,378 thousand at year ended 2003.

5. Deferred and Prepaid Expenses

Items	2004	2003	The reason of balance
Aircraft operating lease rental	70,075	60,177	Regular balance
Others	811	3,200	Regular balance
Total	<u>70,886</u>	<u>63,377</u>	

6. Long-term Equity Investments

(1). Long-term equity investment:

Items	2004	2003
Associated company investment	282,221	741,376
Other equity investment	440,578	135,388
Total	<u>722,799</u>	<u>876,764</u>
The acquisition difference between investment of Xinhua	45,145	51,917
The acquisition difference between investment of Chang'an	6,747	7,737
The acquisition difference between investment of Shanxi	77,576	87,480
Less: Provision for loss on long-term investment	14,774	5,000
Long-term investment-net value	<u>837,493</u>	<u>1,018,898</u>

(2). Detail information of long-term equity investment:

Items	2004	2003	Shareholding	Provision for Loss	Notes
Associated undertakings company investment					
Haikou Meilan Airport Co., Ltd.	0	505,801	27.24%		A
Hainan Haihang Aircraft Maintenance Co., Ltd.	28,865	28,951	48%		
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	8,113	5,642	30%		
Hainan Sunshine City International Golf Club Co., Ltd.	0	34,000	34%		B
Lucky Internantional Travel Services Limited	19,694	21,166	44%		
Beijing Yanjing Hotel Co., Ltd.	62,652	66,713	40%		
Beijing Vision Advertising Co., Ltd.	2,764	2,949	30%		
Xinda International Transportation Substitute Company	2,360	2,322	49%		
Beijing Hengshi Real Estate Development Limited	5,469	5,800	20%		
Beijing Tianchen Exhibition Company	1,049	958	20%		
Shenzhen Aviation Hotel	2,210	1,769	25%		

Chongqing Changjiang Leasing Company Limited	39,744	40,055	40%		
Beijing Kehang Investment Company Limited	0	22,500	75%		B
Xinhua Airlines United Transportation Services Company	992	2,750	50%		
Yunnan Shilin Airlines Company Limited	8,000	0	54.70%	8,000	C
Hainan Airlines Group Finance Company Limited	100,309	0	33.33%		D
Sub-total for associated undertaking company investment	<u>282,221</u>	<u>741,376</u>		<u>8,000</u>	
Other Investment					
Hainan Aviation Hotel (Group) Co., Ltd.	58,161	58,161	19%		
Hainan Xinguo Hotel Limited	15,000	15,000	15%		
Hainan Airlines Tourism Development Co. Ltd.	3,274	3,274	3.30%		
Hainan Meilan Airport Co., Ltd.	6,906	6,906	2.20%		
China Civil Aviation Information Network Co. Ltd.	29,860	29,860	3.39%		
Hainan Development Bank	5,000	5,000	0.30%	5,000	
Yangtze River Express Co., Ltd.	10,000	10,000	5%		
Shenhua Finance Co., Ltd.	5,000	5,000	1.60%		
Haikou Meilan Airport Co., Ltd.	304,765	0	16.48%		A
Other investment	<u>2,612</u>	<u>2,187</u>		<u>1,774</u>	
Subtotal of other investment	<u>440,578</u>	<u>135,388</u>		<u>6,774</u>	
Total long term equity investment	<u>722,799</u>	<u>876,764</u>		<u>14,774</u>	

A The Company and Hainan Airline Airport Management Co., Ltd. entered into an interest transfer agreement dated in April 2004. Pursuant to which the Company agree to transfer 160,000,000 shares of Haikou Meilan Airport Co., Ltd (10.76% equity interests of Haikou Meilan Airport Co., Ltd) own by the Company to Hainan Airline Airport Management Co., Ltd. Transfer price is 201,600 thousand. After transferring, the equity interests of Haikou Meilan own by the Company fall to 16.48%, the amount fall to RMB 198,984 thousand. The Company changed the account method from cost method to equity method. For the details please refer to note VIII.5

The hold interest of Meilan Airport was entirely mortgaged for borrowing up.

B Detail information of this transferring please refer to note VIII.5

C Shanxi Airline and Yunnan Zeyuan Trade Co., Ltd. entered into a contribution agreement to accepted the interest of 54.7% share capital of Yunnan Shilin Airline Co., Ltd. which hold by Yunnan Zeyuan Trade Co., Ltd. by the price as amount to RMB 8,000 thousand on 23 May 2003. The transaction has done on 19 January 2004.

Yunnan Shilin Airline Co., Ltd. has not operated formally. Accordingly, the Company made a provision for decrement at 100% of total investment due to the high risk of irrecoverable.

D In October 2003, Xinhua Airline, the subsidiaries of the Company, Meilan Airport, Hainan Aviation Hotel (Group) Co., Ltd. (Hotel Group) and Zhongxin Group Finance Co., Ltd. (Zhongxin Finance) entered into an increasing Zhongxin Finance's capital stated agreement. The register capital of Zhongxin Finance increased from RMB 100,000 thousand to RMB 300,000 thousand. Pursuant to which Xinhua Airline contributed RMB 100,000 thousand to hold 33.33% of total equity interest, Meilan Airport contributed RMB 50,000 thousand to hold 16.67% of total equity interest and Hotel Group contributed RMB 50,000 thousand to hold 16.67% of total equity interest. All sides have already fully contributed their portions of the registered capital in February 2004, which was validated by ShineWing CPA Firm. After increasing its capital sated, Zhongxin Finance renamed as Hainan Airlines Group Finance Company Limited and obtained a new business license No.

1100001502096 (2-2).

(3). Detail information of long-term equity investment:

	Initial investment	Addition in investment	Investment income	Increase/ Decrease	31/12/2004
Hainan Haihang Aircraft Maintenance Co., Ltd	50,000	-19,517	-1,618	-21,135	28,865
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	3,000		5,113	5,113	8,113
Hainan Sunshine City International Golf Club Co., Ltd.	34,000	-34,000		-34,000	0
Lucky International Travel Services Limited	22,000		-2,306	-2,306	19,694
Beijing Yanjing Hotel Co., Ltd.	11,269	62,119	-10,736	51,383	62,652
Beijing Vision Advertising Co., Ltd.	3,000		-236	-236	2,764
Xinda International Transportation Substitute Company	3,312		-952	-952	2,360
Beijing Hengshi Real Estate Development Limited	5,800		-331	-331	5,469
Beijing Tianchen Exhibition Company	1,038		11	11	1,049
Shenzhen Aviation Hotel	5,082		-2,872	-2,872	2,210
Beijing Kehang Investment Company Limited	22,500	-22,500		-22,500	0
Chongqing Changjiang International Leasing Company Limited	40,545		-801	-801	39,744
Xinhua Airlines United Transportation Services Company	2,750		-1,758	-1,758	992
Yunnan Shilin Airlines Company Limited	8,000				8,000
Hainan Airlines Group Finance Company Limited	100,000		309	309	100,309
Total	312,296	-13,898	-16,177	-30,075	282,221

(4) Consolidation differences, represents the acquisition difference between investment, the detail information as follow:

Items	Initial Difference	2003	Addition	Amortization	2004
Acquisition difference between investment of Xinhua	68,109	51,917		6,772	45,145
Acquisition difference between investment of Chang'an	9,878	7,737		990	6,747
Acquisition difference between investment of Shanxi	99,033	87,480		9,904	77,576
Total	177,020	147,134		17,666	129,468

7. Fixed Assets

(1) Cost and Accumulated depreciation

	Plant & Building	Finance Leased Aircraft & Engines	Purchased Aircraft & Engines	Improvement of fixed assets by operating lease	Vehicles	Machinery & Equipment	High Value Spare Parts	Total
Cost								
1 January 2004	1,831,464	7,643,493	5,231,321	209,086	166,137	288,094	1,796,439	17,166,034
Additions of Subsidiaries								
Additions*	74,757	1,882,835	9,994	1,486	35,129	48,596	339,249	2,392,046
Including: Construction in progress	74,448	1,333,683	0	0	0	0	0	1,408,131
Disposals	<u>65,032</u>	<u>189,550</u>	<u>0</u>	<u>0</u>	<u>7,895</u>	<u>23,122</u>	<u>0</u>	<u>285,599</u>
31 December 2004	<u>1,841,189</u>	<u>9,336,778</u>	<u>5,241,315</u>	<u>210,572</u>	<u>193,371</u>	<u>313,568</u>	<u>2,135,688</u>	<u>19,272,481</u>
Accumulated depreciation:								
1 January 2004	148,568	993,634	1,231,583	134,017	74,249	96,365	662,906	3,341,322
Additions of Subsidiaries by purchase								
Charge for the year	40,433	443,124	260,974	22,822	16,772	30,296	149,368	963,789
Disposals	<u>9,309</u>	<u>80,289</u>	<u>0</u>	<u>42</u>	<u>4,292</u>	<u>10,201</u>	<u>0</u>	<u>104,133</u>
31 December 2004	<u>179,692</u>	<u>1,356,469</u>	<u>1,492,557</u>	<u>156,797</u>	<u>86,729</u>	<u>116,460</u>	<u>812,274</u>	<u>4,200,978</u>
Net book value:								
1 January 2004	<u>1,682,896</u>	<u>6,649,859</u>	<u>3,999,738</u>	<u>75,069</u>	<u>91,888</u>	<u>191,729</u>	<u>1,133,533</u>	<u>13,824,712</u>
31 December 2004	<u>1,661,497</u>	<u>7,980,309</u>	<u>3,748,758</u>	<u>53,775</u>	<u>106,642</u>	<u>197,108</u>	<u>1,323,414</u>	<u>15,071,503</u>

A. Increases in plant & building for RMB 74,757 thousand are mainly transferred from construction in progress including Xianyang Aircraft Parking Area, Holiday Beach, Maintenance Project, Tianhai Garden and Huamei Wenxuan Garden.

Decrease in plant & building for RMB 65,032 thousand are mainly due to sale Residential Building-Bailong, Fuhai Garden, Jinrong Garden and transfer assets of Catering Company.

B. Increase in purchased Aircraft & engines for RMB 1,882,835 thousand is mainly due to the Company transferred four B737-800 aircraft and one Dornier 328 from construction in progress and purchased one B767 engine.

C. Decrease in purchased Aircraft & engines for RMB 189,550 thousand is mainly due to the sale of aircraft (See Note VIII.5).

D. Fix assets of the Company mortgaged for borrowing up to 31 December 2004: Cost of plant and building is RMB 1,132,571 thousand, net value RMB 1,054,153 thousand; Cost of purchased aircraft and engine is RMB 6,091,215 thousand, net value RMB 5,465,267 thousand. (Cost of five finance leased Donier standby aircraft and engine is RMB 74,550 thousand, net value RMB 67,315 thousand.)

E. The Company has not obtained property rights for part of buildings, the net book value of which

is RMB 88,577 thousand. The Company confirmed that the acquisition of property rights is in process. According to Wan Yi Zi [2005] No. 55 verified by Hainan Wanli Legal Firm, the Company will get property rights without any legal barriers.

- F. The change of accounting policy as mention as note III.21 increased ending balance of cost of fixed assets as amount to RMB 2,135,689 thousand, increased accumulated depreciation as amount to RMB 812,274 thousand and increased provision for decrement as amount to RMB 16,378 thousand at year ended 2004, also increased ending balance of cost of fixed assets as amount to RMB 1,796,439 thousand, increased accumulated depreciation as amount to RMB 662,906 thousand and increased provision for decrement as amount to RMB 16,378 thousand at year ended 2003.

(2) Provision

Items	2003	Additions	Disposals	2004
Plant and Buildings	1,389	4,624	4,624	1,389
High value spare parts	16,378	0	0	16,378
Furniture & Office Equipment	0	130	0	130
Machinery & Equipment	0	400	0	400
Others	0	14	0	14
Total	17,767	5,168	4,624	18,311

The provision of high value spare parts is reclassified from inventory due to the change of accounting policy. The disposal of provision for plant and buildings is arisen from the sales of fixed assets.

8. Construction in Progress

- (1). Construction in Progress includes:

Items	2004	2003
Advance to supplier of Engine	1,544,169	822,508
Construction Projects	834,437	68,262
Total	2,378,606	890,770
Provision for loss of Construction in Progress	500	500
Construction in progress net value	2,378,106	890,270

- (2). Movements of advance to suppliers of aircraft and engines

Items	2003	Additions	Transfer to FA	Disposal	2004
8 D-328 aircraft	12,220	62,039	74,259	0	0
4 B737-800 aircraft for SAS Company	808,216	451,208	1,259,424	0	0
4 B737-800 aircraft	2,072	924,679	0	2,072	924,679
5 D-328 aircraft	0	20,723	0	0	20,723
A319 aircraft	0	598,767	0	0	598,767
Total	822,508	2,057,416	1,333,683	2,072	1,544,169

(3). Detailed Movements of Construction Projects

Projects		2003	Additions of Subsidiary	Additions	Transfer to Fix Assets	Other Disposals	2004	Source of Fund	Stage of completion
No.1 Maintenance Project		0		7,514	7,514	0	0		
Zhidi Garden		1,070		0	0	1,070	0		
Tianhai Garden		1,893		7,181	9,074	0	0		
Townhouse 3 rd Stage		21,998		0	0	0	21,998	Owned	In progress
Jinpu Garden		618		0	0	618	0		
Sanya Travel Training School	A	550		450,742	0	0	451,292	Bank loans	In progress
Huamei Wenxuan Garden Building 5		0		8,611	8,611	0	0		
PROS System		0		2,342	0	0	2,342	Owned	In progress
Tianzhu Base 2nd Stage		20,243		4,778	20,273	0	4,748	Owned	In progress
Beijing Airport Catering Building		17,137		22,750	0	0	39,887	Owned	In progress
Beijing Aircraft Parking Area		493		7,497	113	0	7,877	Owned	In progress
Beijing Kehang Mansion	B	0		301,430	0	0	301,430	Owned	In progress
Xianyang Aircraft Parking Area		0		20,970	20,970	0	0		
Others		4,260		9,302	7,893	806	4,863	Owned	In progress
Total		68,262		843,117	74,448	2,494	834,437		

A Sanya Travel Training School is constructed with Sanya government for the purpose of education. The total budget is RMB 450,000 thousand and the project was in completion at the year ended 2004.

B Beijing Kehang Mansion is constructed with Beijing Kehang Company limited. The total budget is RMB 451,760 thousand and will be completed on 31 December 2006.

Increase in construction in progress includes capitalized interest in amount of RMB 15,676 thousand at the rate as follow: 6.02% of B737, 3.99% of SAS 737-800, 6.12% of Air Bus A319, 5.54% of B737-800.

(4) Provision of loss for construction in progress

Project	2003	Additions	Disposals	2004
Xiguan Airport	500	0	0	500
Total	500	0	0	500

9. Intangible Assets

Items	Land Use Right
Acquisition method	Purchase
Cost	21,091
31 December 2003	19,393
Additions of Subsidiary	
Additions	0
Amortization	502
Other disposal	4,217
Accumulated amortization	2,200
31 December 2004	14,674
Remaining amortization years	36

Other disposal mainly represents the transfer of the intangible assets of Hainan Airlines Catering Co., Ltd.

10. Long-term deferred expenses

Items	2003	Additions of Subsidiary	Additions	Amortization	2004	Cost Value	Remaining Amortization Years	Accumulated Amortization
Supervision for Reforming Aircraft	46,744		0	18,449	28,295	208,048	1-5	179,753
Initial recruitment Pilot training Fee	289,787		96,574	72,332	314,029	518,492	1-7	204,463
Rental for Tianzhu Basis	18,830		0	1,093	17,737	26,587	23	8,850
User charge for Tianjin Aircraft Parking Area	8,694		0	381	8,313	9,760	21	1,447
Others	46,850		565	9,672	37,743	146,621	1-6	108,878
Total	410,905		97,139	101,927	406,117	909,508		503,391

11. Other long-term assets

The detail of deferred losses and gains of sales and leaseback as follow:

Lesser	2003	Additions	Amortization	Other Disposals	2004	Cost Value	Remaining Amortization Years	Accumulated Amortization
Sumisho Aircraft Asset Management B.V	53,450	0	8,218	0	45,232	65,744	5.5	20,512
Mc. Aviation Financial Services (Europe) B.V	53,616	0	8,158	0	45,458	65,264	5.5	19,806
Jiangsu Leasing Co., Ltd.	-1,528	0	-81	0	-1,447	-1,616	18	-169
Chongqing Changjiang International Leasing Company Limited	49,556	0	6,510	0	43,046	53,616	1.5-8.5	10,570
Far East International Leasing Company Limited	37,204	0	3,961	0	33,243	39,844	8.5	6,601
Shenzhen Leasing Co., Ltd.	224,911	0	11,091	0	213,820	235,055	3-18	21,235
Total	417,209	0	37,857	0	379,352	457,907		78,555

The balance of Deferred losses and gains of sales and leaseback represents the deferred losses or deferred gains arisen from the aircraft and engine sales and leaseback transactions. Deferred losses or deferred gains arisen from the operating leaseback transactions are amortized using the straight-line method over the lease period. Deferred losses or deferred gains arisen from the finance leaseback transactions are amortized using the straight-line method over the estimated useful lives.

12. Short-term Loans

		2004	2003	Interest rate per annum
Bank loans				
Including:	Unsecured loans	100,000	100,000	5.0455%
	Mortgaged loans	400,000	237,334	5.31%-6.417%
	Guaranteed loans	2,359,049	3,585,001	4.779%-7.965%
	Hypothecation loans	422,500	0	4.779%-5.841%
Loans from other financial institutions				
Including:	Unsecured loans	26,735	5,015	5.04%-10%
	Total	<u>3,308,284</u>	<u>3,927,350</u>	

The balance of loans from other financial institutions on 31 December 2004 include the loan that subsidiary of the Company borrow from Hainan American Co., Ltd. as amount to RMB 5,015 thousand and from Hainan Airlines Group Finance Co., Ltd. as amount to RMB 21,720 thousand.

Hainan Airlines Group and Meilan Airport guaranteed for the bank loans of the Company as total amount to RMB 400,000 thousand which constituted of mortgaged loans as amount to RMB 320,000 thousand mortgaged by the real estate of the Company and Xinguo Hotel Company Limited, also mortgaged by the shareholding of Hainan Airlines Group, another mortgaged loans as amount to RMB 80,000 thousand mortgaged by the real estate of Chang' an Airlines.

Haikou Meilan Airport Co., Ltd. and Hainan Airlines Group Co., Ltd. guaranteed for the bank loans of the Company as amount to RMB 1,553,559 thousand. Other guaranteed loans guaranteed by the subsidiaries. The Company guaranteed for the bank loans of the subsidiaries as amount to RMB 784,000 thousand. Xinhua Airlines guaranteed for the bank loans of its subsidiaries as amount to RMB 21,490 thousand.

Hypothecation loans as total amount to RMB 422,500 thousand which constituted of hypothecation loans as amount to RMB 70,000 thousand impawned by Meilan Airport, Sanya Phoenix Airport and Hainan Airlines Group, another hypothecation loans as amount to RMB 40,000 thousand impawned by 80 million shares of Meilan Airport that hold by the Company, and the last hypothecation loans as amount to RMB 312,500 thousand impawned by 407,530 thousand shares of Chang' an Airlines that hold by the Company.

13. Notes Payable

	2004	2003
Bank Acceptance	371,672	0
Commercial Acceptance	270,765	438,447
Total	<u>642,437</u>	<u>438,447</u>

The balance of notes payable mainly represents payment of fuel, take-off and catering expenses.

14. Payable

(1) Accounts Payable

The balance of accounts payable amounting to RMB 967,919 thousand on 31 December 2004 (RMB 892,950 thousand for 2003) mainly represent payables of aviation material, fuel oil fee, take off expenses and payables of selling tickets for other airline companies.

Account payable due to shareholders holding over 5% (including 5%) interest of the Company include Hainan Airlines Group Co., Ltd. as amount to 67,933 thousand.

(2) Other Payables

The balance of other payable is RMB 634,746 thousand in the end of year 2004 (RMB 408,759 thousand for 2003). The main reason for increases in other payables from 2003 to 2004 is due to payables of Hainan Jiahui Investment Co., Ltd. in amount of 273,000 thousand.

The other payable due to shareholders holding over 5% (including 5%) interest of the Company is the payables due to Hainan Airlines Group Co., Ltd. as amount of 18,387 thousand.

15. Dividend Payable

Items	2004	2003	Reason
Legal person shares	21,013	21,034	Normal arrears to pay
Others	5,878	5,878	Normal arrears to pay
Total	<u>26,891</u>	<u>26,912</u>	

16. Taxes Payable

Taxation	2004	2003
VAT payable	210,649	177,415
Business tax payable	16,881	1,601
City construction tax payable	1,200	1,607
Income tax payable	-2,081	1,004
Withhold IIT	0	1,427

Customs duty	40,888	29,002
Others	6,749	298
Total	<u>274,286</u>	<u>212,354</u>

For details of the tax rate of the Company and the subsidiary company see note V.

17. Other payable to government

	2004	2003
Civil aviation infrastructure levies payable	69,949	2,386
Education surcharge	2,906	1,338
Airport Fee	72,463	0
Total	<u>145,318</u>	<u>3,724</u>

Increase in other payable to government as amount to 141,594 thousand from 2003 to 2004 cover 3802% is mainly due to the increase of civil aviation infrastructure levies payable and airport fee. Increase in civil aviation infrastructure levies payable is due to the reason as mentioned as note XIII.1 that made the balance at year ended 2003 less than 2004. The balance as at 31 December 2004 is mainly represented the civil aviation infrastructure levies payable.

According to Cai Zong [2004] No.51, approved by Ministry of Finance (“MOF”) and the Civil Aviation Administration of China, the Answer of reform the collection of civil aviation infrastructure levies payable, from 1 September 2004, the carrier withholds airport fee from passengers to the Civil Aviation Administration of China and settlement per month. The balance of airport fee is mainly represented the payables of fee.

18. Accrued Expenses

Items	2004	2003
fuel expenses	362,469	232,889
Take-off expenses	358,559	191,362
Catering expenses	45,439	43,630
Loan interest	31,408	34,663
Provision for aircraft overhaul	34,737	1,838
Fee of computer reservation	40,943	41,658
Promotion expenses	10,870	0
Aircraft insurance premium	39,955	11,959
Others	4,542	4,243
Total	<u>928,922</u>	<u>562,242</u>

The main reason for increases in Accrued Expenses from 2003 to 2004 is due to the increases of flight lead to the increases of fuel expenses and take-off expenses.

19. Sales in Advance of Carriage

The balance of sales in advance of carriage represents the amount of sold but unused tickets in amount of RMB 329,730 thousand on 31 December 2004.

20. Current Portion of Long-term Liabilities

		2004	2003
Current portion of long-term loans	(a)	1,521,720	1,058,177
Current portion of long-term payable	(b)	589,423	644,315
Total		<u>2,111,143</u>	<u>1,702,492</u>
Plus: Unrecognized finance leasing expenses		<u>78,396</u>	<u>91,614</u>
Current Portion of Long-term Liabilities		<u><u>2,032,747</u></u>	<u><u>1,610,878</u></u>

(a) Current portion of long-term loans

		2004	2003
Bank loans			
Including:	Unsecured loans	180,000	55,000
	Mortgaged loans	341,336	306,700
	Guaranteed loans	242,415	525,978
	Hypothecation loans	575,076	0
	Subtotal	<u>1,338,827</u>	<u>887,678</u>
Loans from other financial institutions			
Including:	Unsecured loans	182,893	170,499
	Subtotal	<u>182,893</u>	<u>170,499</u>
Total		<u><u>1,521,720</u></u>	<u><u>1,058,177</u></u>

Balance of loans from other financial institutions represented the borrowings for purchasing aircraft which guaranteed by financial institutions.

Meilan Airport guaranteed for the mortgaged loans of the Company as amount to RMB 50,000 thousand mortgaged by the assets of subsidiaries of the Company and other mortgaged loans mortgaged by the aircrafts of the Company.

Meilan Airport guaranteed for the guaranteed loans of the Company as amount to RMB 30,000 thousand. Other guaranteed loans guaranteed by the subsidiaries.

Hypothecation loans as total amount to RMB 500,000 thousand which constituted of hypothecation loans as amount to RMB 37,500 thousand impawned by Hainan Airlines Group, another hypothecation loans as amount to RMB 12,500 thousand impawned by 407,530 thousand shares of Chang'an Airlines that hold by the Company, the last hypothecation loans impawned by 933 million and 100 million shares of Xinhua Airlines respectively hold by the Company and Hainan Airlines Group.

(b) Current portion of long-term payables

Current portion of long-term payables of the Company is payables due within one year for finance leasing aircraft and engines.

Name	Period	Cost Value	Interest Payable	2004
International Commercial Machinery	2years	3,512	0	460
Chongqing Changjing International Leasing Co., Ltd.	2-3years	214,960	3,837	64,920
Pacific American Corporation	4.5years	24,921	0	11,708
Raytheon	11.5years	82,880	1,898	9,011
Xinjiang Leasing Co., Ltd	8years	150,000	11,341	24,914
Shenzhen Finance & Leasing Co. Ltd	5-10years	885,860	44,094	137,193
Sino-America Aviation	11.5years	1,437,975	0	129,255
Jiangsu Leasing Co., Ltd.	3years	37,111	0	8,963
Structured Trade Finance Group	11-13years	1,176,864	5,906	140,392
Far East International Leasing Co., Ltd.	2-4.5years	307,040	11,321	62,607
Total		<u>4,321,123</u>	<u>78,397</u>	<u>589,423</u>

21. Long-term Loans

		2004	2003
Bank loans			
Including:	Unsecured loans	114,436	781,627
	Mortgaged loans	7,224,681	6,243,832
	Guaranteed loans	1,994,350	677,919
	Hypothecation loans	954,662	850,000
	Subtotal	<u>10,288,129</u>	<u>8,553,378</u>
Loans from other financial institutions			
Including:	Unsecured loans	<u>1,226,465</u>	<u>1,409,383</u>
	Subtotal	<u>1,226,465</u>	<u>1,409,383</u>
Total		<u>11,514,594</u>	<u>9,962,761</u>

Mortgaged loans mortgaged by the assets of the Company such as aircraft, engine, plant & buildings, landing rights, and so on. Additional, Hainan Airlines Group guaranteed for the mortgaged loans of the Company and mortgaged the 15 thousand shares of Meilan Airport own by Hainan Airlines Group.

Meilan Airport and Hainan Airlines Group guaranteed for the guaranteed loans of the Company as amount to RMB 1,345,663 thousand. Other guaranteed loans guaranteed by the subsidiaries.

Hypothecation of the loans include the income right of BSP, 407,530 thousand shares of Chang'an Airlines, interest of Meilan Airport, 285,000 thousand shares of Shanxi Airlines, 933 million shares of Xinhua Airlines own by the Company. Also include the interest of Meilan Airport, interest of Chang'an Airlines, interest of Deer Jet Co., Ltd., interest of Yangtze River Express Co., Ltd. own by Hainan Airlines Group. Also include the interest of other companies own by Hainan Airlines Hotel (Group) Co., Ltd. Also include the interest of the Company own by Hainan Qingxing

Investment Co., Ltd.

22. Long-term Payables

(1) Detail information of long-term payables by remaining due years:

Items	2004	2003
Minimum Lease Payments		
Including: The second year	463,709	603,089
The third year	402,083	453,673
Following years	1,572,256	1,940,706
Total	<u>2,438,048</u>	<u>2,997,468</u>
Plus: Unrecognized finance leasing expenses	257,790	273,075
Long-term Payables	<u>2,180,258</u>	<u>2,724,393</u>

Long-term payables represent payments for finance leasing aircraft and engines. The long-term payable due within one year is classified as current portion of long-term liabilities.

(2) Detail information of long-term payables by clients:

Name	Remaining Amortization Years	Cost Value	Interest Payable	2004	Nature
Raytheon	11.5	82,880	6,352	60,827	Finance leasing aircraft
Xinjiang Leasing Co., Ltd	8	150,000	28,082	128,429	Finance leasing aircraft
Shenzhen Finance & Leasing Co. Ltd	5-10	885,860	197,075	800,474	Finance leasing aircraft engines
Sino-America Aviation	11.5	1,437,975	0	1,116,182	Finance leasing aircraft
Jiangsu Leasing Co., Ltd.	3	37,111	0	17,926	Finance leasing aircraft engines
Chongqing Changjing International Leasing Co., Ltd.	2	150,000	412	17,540	Finance leasing aircraft engines
Structured Trade Finance Group	11-13	1,176,864	8,859	117,293	Finance leasing aircraft
Far East International Leasing Co., Ltd.	2-4.5	290,000	17,009	179,377	Finance leasing aircraft
Total		<u>4,210,690</u>	<u>257,789</u>	<u>2,438,048</u>	

23. Specific Payables

The balance of specific payment for the year ended 31 December 2004 is RMB 20,000 thousand, which is a financial allocation appropriated by the Shanxi Development and Planning Committee to Chang'an Airlines for the project of Xianyang Aircraft Parking Area pursuant to Shan Ji Tou Zi [2001] No.1239.

24. Other Long-term Liabilities

The balance of other long-term liabilities is RMB 135,020 thousand as of 31 December 2004 is the VAT payables and customs duty for finance lease and purchased aircraft which due after year 2005.

25. Minority Interests

Subsidiary Company	Owners Equity	Proportion of Minority interest	Minority Interests
China Xinhua Airlines Co., Ltd.	1,518,127	40%	607,251
Changan Airlines Co., Ltd.	285,321	26.49%	75,581
Shanxi Airlines Co., Ltd.	246,712	6.2525%	15,426
Deer Jet Co., Ltd.	119,631	5%	5,982
Hainan Airlines VIP Flight Services Co., Ltd.	-29,902	49%	-14,652
Hainan Haihang Zhongmian Duty Free Co., Ltd.	1,443	30%	433
Beijing Xinhua Air Catering Co., Ltd.	29,995	49%	14,698
Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.	23,589	20%	4,718
Total			709,437

26. Share Capital

Share capital of the Company is RMB 1 Yuan per share

	2003	Increase /Decrease	2004
(1) Unlisted shares			
(a) Promoter shares	134,837	0	134,837
Including: State shares	17,289	0	17,289
(b) PRC legal person shares	38,735	0	38,735
(c) Foreign legal person shares	108,043	-108,043	0
Subtotal	281,615	-108,043	173,572
(2) Listed shares		0	0
(a) Domestic investment shares-A shares	371,958	0	371,958
(b) Foreign investment shares-B shares	76,680	108,043	184,723
Subtotal	448,638	108,043	556,681
Total	730,253	0	730,253

In accordance with the approval of Notice on Appraisal of Issuing Unlisted Foreign Investment Shares for HNA Co., Ltd. (Zheng Jian Zi [2003] No.2) issued by the CSRC, the unlisted foreign investment shares of the company which hold by American Aviation LDC was transferred 108,043,201 shares to B shares and be listed on 30 January 2004 at Shanghai Stock Exchange.

27. Capital Surplus

Items	2003	Additions	Disposals	2004
Share premium	965,745	0	0	965,745
Donated aviation materials	11,056	0	0	11,056
Share premium from Associated Company	61,605	0	0	61,605
Related party transactions difference	0	18,091	0	18,091
Provision for equity investment	0	2,232	0	2,232

Closing Balance	<u>1,038,406</u>	<u>20,323</u>	<u>0</u>	<u>1,058,729</u>
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Addition of related party transactions difference as amount to RMB 20,323 thousand includes 18,091 thousand that is arisen from the transfer of holding interest of share capital of Catering Company and Meilan Airport.

Provision for equity investment as amount to RMB 2,232 thousand is represent the difference between the additions of capital surplus of Chang'an Airline, the subsidiaries of the Company, and the proportionate share of the net assets of the Company.

28. Surplus Reserve

Items	2003	Additions	Disposals	2004
Statutory surplus reserve	115,003	0	0	115,003
Statutory Employee Welfare Reserve	<u>54,095</u>	<u>0</u>	<u>0</u>	<u>54,095</u>
Total	<u>169,098</u>	<u>0</u>	<u>0</u>	<u>169,098</u>

29. Retained Earning

	2004	2003
Beginning balance	-604,840	462,056
Add: Current year profit	90,649	-1,052,291
Less: Appropriation to statutory surplus reserve	0	0
Appropriation to general surplus reserve	0	0
Appropriation to statutory welfare reserve	0	0
Dividends being transferred to share capital	0	0
Dividends declared	<u>0</u>	<u>14,605</u>
Ending balance	<u>-514,191</u>	<u>-604,840</u>

There is a difference of undistributed profit between the beginning balance at year ended 2004 and the ending balance at year ended 2003. It is represent the difference between the share of accumulated loss of Hainan Airlines VIP Flight Services Co., Ltd., the subsidiaries of the Company and the initial costs on acquisition. The Company consolidated this difference in consolidated statement at year ended 2003 and account for it as an "unrecognized investment loss" as amount to 15,250 thousand in consolidated statement at year ended 2004. It is also represent the difference as mentioned as note XIII-21. Another difference is due from the elimination of internal transactions as amount to 1,203 thousand and the Company decreased the beginning balance at year ended 2004 and 2003.

30. Sales

Items	2004	2003
Passenger revenue	7,707,738	4,976,714
Cargo and Excessive weight of luggage revenue	261,998	213,012
Charter flight revenue	404,710	171,263
Others	<u>36,093</u>	<u>11,102</u>
Total	<u>8,410,539</u>	<u>5,372,091</u>

The main reason for increases in sales revenue from 2003 to 2004 is due to the impact of SARS disappeared and increase of flight.

31. Turnover Tax and Surtax

Items	2004	2003
Business tax	251,907	57,663
City construction tax	14,579	4,180
Education surcharge	6,103	1,824
Regulating Fund for Price Fluctuation	<u>615</u>	<u>41</u>
Total	<u>273,204</u>	<u>63,708</u>

The main reason for increases in turnover tax and surtax from 2003 to 2004 is due to the Company had preferential policy of tax during the SARS, but this year. And the increases of sales revenue also lead to the increases of tax.

32. Income from other operations

Items	2004	2003
Ticket refund charges	27,218	17,135
Net gain from sales of aviation materials	2,929	4,128
Agent handling fees	21,375	16,288
Cargo Service Fee	19,504	0
Others	<u>5,905</u>	<u>-5,749</u>
Total	<u>76,931</u>	<u>31,802</u>

33. Financial Expenses

Items	2004	2003
Interest expenses	766,081	724,000
Less: Interest income	10,779	8,989
Exchange loss	0	308
Less: Exchange gain	10,111	0
Others	<u>49,300</u>	<u>24,163</u>
Total	<u>794,491</u>	<u>739,482</u>

34. Investment Income

1. Items		2004	2003
Haikou Meilan Airport Co., Ltd	A	0	4,778
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	A	2,471	2,056
Hainan Haihang Aircraft Maintenance Co.	A	-86	0
Lucky International Travel Services Limited	A	-1,472	-688
Shenzhen Aviation Hotel	A	441	625
Chongqing Changjiang International Leasing Co., Ltd.	A	179	-375
Beijing Yanjing Hotel Co., Ltd.	A	-670	107
Hainan Airlines Group Finance Co., Ltd.	A	2,089	0
Haikou Meilan Airport Co., Ltd	B	-2,052	0
Aviation Information System Company	B	5,472	2,033
Hainan Meilan Airport Co., Ltd	B	756	1,100
Shenzhen Aviation Kaiya Co., Ltd.	B	205	167
Hainan Airlines Catering Co., Ltd.	B	8,363	0
Amortization of Equity Investment Difference	C	-23,324	-21,544
Including: China Xinhua Airlines Co., Ltd.		-6,772	-6,772
Changan Airlines Co., Ltd.		-988	-988
Shanxi Airlines Co., Ltd.		-9,903	-9,903
Chongqing Changjiang Leasing Co., Ltd.		-490	-490
Beijing Yanjing Hotel Co., Ltd.		-3,391	-3,391
Hainan Airlines Group Finance Co., Ltd.		-1,780	0
Provision for loss on long-term investment	D	-8,000	0
Others		-1,039	-890
Total		-16,667	-12,631

A Investment income is accounted for by using equity method.

B Return earning is accounted for by using cost method.

C Balance is the amortized acquisition difference in this year.

D Balance is provision for decrement at 100% total investment of Yunnan Shilin Airlines Company Limited.

Above investment income will be received without restriction.

35. Subsidiary Income

Item		2004	2003
Turnover tax refund	A	13,167	7,966
Interest refund of loan with discount		0	500
Subsidy for flight	B	400	0
Total		13,567	8,466

A、The turnover tax refund income include the business tax refund by government as amount to RMB 8,827 thousand and VAT refund by Netherlands government as amount to RMB 4,340 thousand according to the local law.

B、 The subsidy for flight is the subsidy of Chang'an Airline Company by government.

36. Non-operating Income and non-operating expenses

(1) Non-operating Income

Items	2004	2003
Insurance income	0	124
Penalty income	0	352
Net gain from disposal of fixed assets	1,015	6,960
Carriage punishment income	334	0
Missing number punishment income	179	0
Others	<u>513</u>	<u>4,559</u>
Total	<u>2,041</u>	<u>11,995</u>

(2) Non-operating expenses

Items	2004	2003
Net loss from disposal of fixed assets	9,497	14,607
Provision for loss of fixed assets	5,168	0
Donation	7	0
Others	<u>967</u>	<u>8,966</u>
Total	<u>15,639</u>	<u>23,573</u>

37. Other cash received relating to operating activities

Items	2004	Notes
Current accounts	890,537	Current accounts with other company
Others	<u>15,159</u>	Rental and guarantee deposit
Total	<u>905,696</u>	

38. Other cash paid relating to operating activities

Items	2004	Notes
Operating lease rental	654,809	Rental payment for operating lease
Others	<u>168,341</u>	Administrative expenses
Total	<u>823,150</u>	

39. Other cash paid relating to investing activities

Items	2004	Notes
Construction of parking area	3,469	Construction of parking area of Chang'an Airlines
Transferring of the subsidiaries	<u>7,785</u>	Cash-flow of transferring Catering Company
Total	<u>11,254</u>	

40. Other cash payments relating to financing activities

Items	2004	Notes
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VII. Disclosures of significant matters in relation to the holding company

(1). Long-term stock investment

	2004	2003
Subsidiary	1,584,464	1,681,203
Associated undertakings	69,842	604,482
Others	420,382	115,617
Total	<u>2,074,688</u>	<u>2,401,302</u>
Less: Provision for loss on long-term investments	<u>8,610</u>	<u>5,000</u>
Long-term investment –Net value	<u><u>2,066,078</u></u>	<u><u>2,396,302</u></u>

(2). Detail information of Long-term stock investments

Company	2004	2003	Owned Interests
Subsidiary			
Hainan Golden-Deer Aviation Sales Co., Ltd.	113,649	113,649	95.00%
Hainan Airlines Catering Co., Ltd.	0	28,711	
China Xinhua Airlines Co., Ltd	956,021	950,315	60.00%
Changan Airlines Co., Ltd	216,487	319,044	73.51%
Shanxi Airlines Co., Ltd	297,297	269,484	89.06%
Hinan Haihang Zhongmian Duty Free Co., Ltd	1,010	0	70.00%
Subtotal	<u>1,584,464</u>	<u>1,681,203</u>	
Associated undertakings			
Haikou Meilan Airport Co., Ltd	0	505,801	
Hainan Haihang Aircraft Maintenance Co. Ltd	28,865	28,951	48.00%
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	8,113	5,642	30.00%
Hainan Sunshine city International Golf Club Ltd.	0	34,000	
Chongqing Changjiang International Leasing Co., Ltd.	19,407	19,505	40.00%
Lucky Internantional Travel Services Limited	9,847	10,583	44.00%
Yunnan Shilin Airlines Company Limited	3,610	0	54.70%
Subtotal	<u>69,842</u>	<u>604,482</u>	
Others			
Hainan Airlines Hotel (Group) Co., Ltd.	58,161	58,161	19.00%
Hainan Air Tourism Developing Co., Ltd	3,274	3,274	3.30%
Hainan Meilan Airport Company Limited	6,906	6,906	2.20%
Hainan Xinguo Hotel Limited	15,000	15,000	15.00%
China Airline Infor Network Co., Ltd.	17,000	17,000	1.93%
Hainan Development Bank	5,000	5,000	0.30%
Yangtze River Express Co., Ltd.	10,000	10,000	15.00%
Haikou Meilan Airport Co., Ltd.	304,765	0	16.48%
Others	276	276	
Subtotal	<u>420,382</u>	<u>115,617</u>	

Total	<u>2,074,688</u>	<u>2,401,302</u>
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3) Detail information of Long-term equity investments:

Item	Original Amount	Additions	Accumulated income	Accumulated changes	2004
Hainan Golden-Deer Aviation Sales Co., Ltd.	8,000	0	105,649	105,649	113,649
Hainan Airlines Catering Co., Ltd.	15,810	-26,548	10,738	-15,810	0
China Xinhua Airlines Co., Ltd	927,571	161,177	-132,727	28,450	956,021
Changan Airlines Co., Ltd	553,575	0	-337,088	-337,088	216,487
Shanxi Airlines Co., Ltd	275,097	0	22,200	22,200	297,297
Hinan Haihang Zhongmian Duty Free Co., Ltd	1,050	0	-40	-40	1,010
Hainan Haihang Aircraft Maintenance Co. Ltd	50,000	-19,517	-1,618	-21,135	28,865
Yunnan Shilin Airlines Company Limited	3,610	0	0	0	3,610
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	3,000	0	5,113	5,113	8,113
Hainan Sunshine city International Golf Club Ltd.	34,000	-34,000	0	-34,000	0
Chongqing Changjiang International Leasing Co., Ltd.	19,505	0	-98	-98	19,407
Lucky International Travel Services Limited	11,000	0	-1,153	-1,153	9,847
Total	<u>1,902,218</u>	<u>81,112</u>	<u>-329,024</u>	<u>-247,912</u>	<u>1,654,306</u>

2、Investment income:

Item	2004	2003
China Xinhua Airlines Co., Ltd	A 12,477	-187,378
Changan Airlines Co., Ltd	A -103,800	-200,988
Shanxi Airlines Co., Ltd	A 37,715	7,667
Deer Jet Co., Ltd.	A 0	0
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	A 2,471	2,056
Haikou Meilan Airport Co., Ltd	A 0	4,778
Lucky International Travel Services Limited	A -736	-304
Chongqing Changjiang International Leasing Co., Ltd.	A -98	-375
Hainan Haihang Aircraft Maintenance Co. Ltd	A -86	0
Hinan Haihang Zhongmian Duty Free Co., Ltd	A -40	0
Haikou Meilan Airport Co., Ltd	B -2,052	0
Aviation Information System Company	B 3,249	2,033
Hainan Meilan Airport Co., Ltd.	B 756	1,099
Shenzhen Aviation Kaiya Co., Ltd.	B 39	0
Hainan Airlines Catering Co., Ltd.	B 10,421	2,448
Amortization of Acquisition Difference between equity investment	C -17,663	-17,663
Including: China Xinhua Airlines Co., Ltd.	-6,772	-6,772
Changan Airlines Co., Ltd.	-988	-988

Shanxi Airlines Co., Ltd.		-9,903	-9,903
Provision for loss on long-term investment	D	-3,610	0
Total		-60,957	-386,627

A Investment income from subsidiaries and affiliated company is accounted for by using equity method.

B Return earning is accounted for by using cost method.

C Balance is the amortized acquisition difference in this year.

D Balance is provision for decrement at 100% total investment of Yunnan Shilin Airlines Company Limited.

VIII. Related Party Transactions

(1). Related parties with controlling interest

Company Name	Registered Place	Principal activities	Relationship	Business Character /Style	Legal represent-ative
Hainan Airlines Group Co. Ltd.	Haikou	Air transportation, investment and management of airport; Investment and development of real estate; Import and export of airplane and aviation materials.	Shareholder	Limited Company	Feng Chen
Hainan Golden-Deer Aviation Sales Co., Ltd.	Haikou	Provision of transportation and chartered flight agency services.	Subsidiary	Limited Company	Feng Chen
Hainan Airlines VIP Flight Service Co. Ltd.	Haikou	Chartered flights agency.	Subsidiary	Joint Venture	Feng Chen
China Xinhua Airlines Co., Ltd	Beijing	approved international and domestic air passenger and cargo transportation.	Subsidiary	Limited Company	Jiaxu Liu
Chang'an Airlines Co., Ltd	Xi'an	Air passenger and cargo transportation in Shanxi province and its surrounding provinces.	Subsidiary	Limited Company	Yining She
Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.	Xi'an	Hotel and catering, commodity, costume sales, typing and other office services.	Subsidiary	Limited Company	Yongqing Ma
Shanxi Airlines Co., Ltd	Taiyuan	Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces.	Subsidiary	Limited Company	Jianmin Qin
Beijing Xinhua Air Catering Co., Ltd.	Beijing	Production and sale of pastry, food and beverage.	Subsidiary	Limited Company	Zhongying Zhao
Hinan Haihang Zhongmian Duty Free Co., Ltd	Haikou	Sale of duty free items and present of travel	Subsidiary	Limited Company	Zhongying Zhao

(2). Change of owned interests and registered capital for the related parties with controlling interests

Company Name	B. Registered Capital		Owned interest	
	2004	2003	2004	2003
Hainan Airlines Group Co. Ltd.	RMB 500,000,000 yuan	RMB 500,000,000 yuan	11.9%	7.3%
Hainan Golden-Deer Aviation Sales Co., Ltd.	RMB 8,000,000 yuan	RMB 8,000,000 yuan	95%	95%
Hainan Airlines VIP Flight Service Co., Ltd.	USD 1,020,408 yuan	USD 1,020,408 yuan	51%	51%

Xinhua Airlines Co., Ltd.	RMB 1,830,000,000 yuan	RMB 1,830,000,000 yuan	60%	60%
Changan Airlines Co., Ltd.	RMB 754,390,000 yuan	RMB 754,390,000 yuan	73.51%	73.51%
Shanxi Airlines Co., Ltd.	RMB 320,000,000 yuan	RMB 320,000,000 yuan	92.51%	92.51%
Hinan Haihang Zhongmian Duty Free Co., Ltd. *2	RMB 1,500,000 yuan	0	70%	0
Beijing Xinhua Air Catering Co., Ltd.	RMB 29,990,000 yuan	RMB 29,990,000 yuan	51%	51%
Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.	RMB 25,000,000 yuan	RMB 25,000,000 yuan	80%	80%

(3). Pricing Policy

Market prices were used for all significant related party transactions.

(4). Related parties without controlled relationship: (Only included significant transactions of related parties)

Companies	Relationship
Beijing Yanjing Hotel Company Limited	Associated Undertaking
Hainan Airlines Catering Holding Company Limited	Under Common Control
Hainan Airlines Group Finance Company Limited	Associated Undertaking
Hainan Airlines Hotel (Group) Company Limited	Under Common Control
Haikou High-Tech Venture Capital Company Limited	Under Common Control
Haikou Meilan Airport Company Limited	Associated Undertaking
Hainan Haihang Airlines Aviation Import & Export Company Limited	Associated Undertaking
Hainan Haihang Airport Group Company Limited	Under Common Control
Hainan Airlines Catering Company Limited	Under Common Control
Hainan Jiahui Investment Company Limited	Under Common Control
Hainan Meilan Airport Company Limited	Under Common Control
Hainan Meiya Aviation Fuel Company Limited	Subsidiaries of Associated Company
Hainan Aviation Import & Export Trade Company Limited	Under Common Director
Deer Jet Company Limited	Under Common Control
Sanya Phoenix International Airport Company Limited	Under Common Control
Yangtze River Real Estate Group	Associated Undertaking
Yangtze River Express Company Limited	Associated Undertaking
Yangtze River Investment Holding Company Limited	Under Common Control
Chongqing Changjiang International Leasing Company Limited	Associated Undertaking
Hainan Yangpu Huanmei Company Limited	Under Common Control
Lucky International Travel Services Limited	Associated Undertaking

(5). The Company has the following significant transactions of related parties.

(a) Transactions of related parties

Companies	Relationship	Description	2004	2003	Note	
Hainan Aviation Group Company Limited	Shareholder	Equity investments acquiring and transfer of construction project		34,000	134,375	H
Hainan Meiya Aviation Fuel Company Limited	Associated Undertaking	Payment for fuel	249,408		187,891	
Haikou Meilan Airport	Associated	Payment for take-off expenses	37,158		43,108	

Company Limited	Undertaking	and so on				
Hainan Meilan Airport Company Limited	Associated Undertaking	Payment for take-off expenses	80,876	71,370		
Yangtze River Investment Holding Company Limited	Under Common Control	Sales of aircraft and aviation materials	111,327	0	A	
Yangtze River Real Estate Group	Under Common Control	Transfer investment	22,500	0	B	
Hainan Airlines Catering Company Limited	Under Common Control	Payment for catering	18,379	0	C	
Hainan Haihang Airlines Aviation Import & Export Company Limited	Associated Undertaking	Handling fee in related to purchases of airplanes, aviation materials	15,429	7,176		
Sanya Phoenix International Airport Company Limited	Associated Undertaking	Payment for take-off expenses and so on	10,758	7,065		
Chongqing Changjiang International Leasing Company Limited	Associated Undertaking	Finance lease of aviation material	100,386	238,521		
Hainan Airlines Catering Holding Company Limited	Under Common Control	Transfer investment	40,000	0	D	
Hainan Haihang Airport Group Company Limited	Under Common Control	Transfer investment	201,600	0	E	
Hainan Airlines Group Finance Company Limited	Associated Undertaking	Deposit	4,673,667	0	F	
Hainan Airlines Group Finance Company Limited	Associated Undertaking	Withdraw	3,389,839	0	F	
Directors of the Company and Subsidiaries	Under Common Director	Payment for salary	3,008	3,008	G	

A. Chang'an Airlines, the subsidiary of the Company, transferred four "Yun 7" aircraft and spare parts to Yangtze River Investment Holding Co., Ltd. as amount to RMB 111,330 thousand and the above receivables have been received at year ended 2004 but the change of the property right is still pending.

B. Xinhua Airline Co., Ltd., the subsidiary of the Company, transferred the holding interest of 50% share capital of Beijing Kehang Investment Co., Ltd. (Beijing Kehang) to Yangtze River Real Estate Group and by the price as amount to RMB 15,000 thousand.

Chang'an Airline Co., Ltd., the subsidiary of the Company, transferred the holding interest of 25% of share capital of Beijing Kehang to Yangtze River Real Estate Group and by the price as amount to RMB 7,500 thousand.

C. The Company transferred the entire interest of 51% share capital to Hainan Airlines Catering Holding Company (Catering Holding) in July 2004, so the Company consolidated the income statement of Catering Company from January to June.

D. The Company and Catering Holding entered into an interest transfer agreement to transfer the interest of 51% share capital of Catering Company to Catering Holding by price as amount to RMB 40,000 thousand, more than the cost of value as amount to RMB 9,232 thousand, the Company recognized as capital surplus.

E. The Company and Hainan Haihang Airport Group Co., Ltd. (Airport Group) entered into an interest transfer agreement pursuant to which the Company agreed to transfer 160,000,000 shares of Haikou Meilan Airport Co., Ltd own by the Company to Airport Group. Transfer price is 201,600 thousand, more than the cost of value as amount to RMB 2,616 thousand, the Company recognized as capital surplus.

F. The Company and Hainan Airlines Group Finance Co., Ltd. (Hainan Airlines Finance) entered into a finance service agreement pursuant to which Hainan Airlines Finance provide the

monetary services such as deposit and withdraw which account the interest at the rates stipulated by People's Bank of China. The above is the accumulated amount of both deposit and withdraw for the year 2004.

G. Balance represented the salaries that the Company pay for the directors includes directors of Board, CEO, CFO and so on.

H. The Company transferred the interest of 34% share capital of Hainan Sunshine City International Golf Club Co., Ltd. to Yangtze River Real Estate Group as amount to RMB 34,000 thousand in November 2004 the above receivables have been received.

(b) Guarantee of related parties

Detail information that the Company guaranteed for related parties please refer to note IX.2

(c) Related party balance

Items	Companies	2004	2003
Cash & Bank	Hainan Airlines Group Finance Company Limited	1,283,828	0
Account receivable	Yangtze River Express Company Limited	17,769	13,529
	Hainan Aviation Group Co., Ltd.	9,000	1
	Total	<u>26,769</u>	<u>13,530</u>
Advance to Suppliers	Hainan Jiahui Investment Company Limited	174,898	0
	Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	99,442	68,866
	Hainan Yangpu Huanmei Company Limited	39,683	192,683
	Haikou Meilan Airport Co. Ltd	15,815	216
	Hainan Airlines Catering Co., Ltd.	5,217	0
	Hainan Aviation Import & Export Trade Company Limited	0	8,691
	Others	532	324
	Total	<u>335,587</u>	<u>270,780</u>
Other Receivables	Hainan Jiahui Investment Company Limited	326,500	278,000
	Hainan Yangpu Huanmei Company Limited	294,120	252,520
	Haikou Meilan Airport Co. Ltd	181,144	172,987
	Hainan Airlines Group Co. Ltd	99,659	88,614
	Yangtze River Express Company Limited	70,263	1,080
	Yangtze Real Estate Group Company Limited	56,073	0
	Deer Jet Company Limited	39,116	294,637
	Hainan Airlines Hotel (Group) Company Limited	21,560	15,406
	Hainan Aviation Import & Export Trade Company Limited	21,284	12,593
	Haikou High-Tech Venture Capital Company Limited	10,000	10,000

	Others	13,876	10,443
	Total	<u>1,133,595</u>	<u>1,136,280</u>
Accounts Payable	Hainan Meilan Airport Company Limited	98,973	81,497
	Haikou Meilan Airport Company Limited	89,223	89,391
	Hainan Airlines Group Co. Ltd	67,933	0
	Yangtze River Express Company Limited	54,284	35,906
	Hainan Haihang Airlines Aviation Import & Export Company Limited	49,046	8,763
	Hainan Meiya Aviation Fuel Company Limited	27,628	5,682
	Hainan Airlines Catering Co., Ltd.	26,015	0
	Deer Jet Company Limited	9,916	1,216
	Others	6,309	11,504
	Total	<u>429,327</u>	<u>233,959</u>
Other Payables	Hainan Jiahui Investment Company Limited	273,000	0
	Beijing Yanjing Hotel Company Limited	42,003	42,001
	Haikou Meilan Airport Company Limited	33,000	33,000
	Deer Jet Company Limited	30,504	28,682
	Lucky International Travel Services Limited	21,627	23,318
	Hainan Airlines Group Co. Ltd	18,387	38,602
	Hainan Meilan Airport Company Limited	2,588	2,588
	Others	4,922	12,342
	Total	<u>426,031</u>	<u>180,533</u>
Short-term Loan	Hainan Airlines Group Finance Company Limited	21,720	0
Current Portion of Long-term Liabilities	Chongqing International Leasing Company Limited	60,913	94,832
Long-term Payables	Chongqing International Leasing Company Limited	17,128	82,289

IX. Contingency

1 Litigations

Shanxi Airlines Company Limited, the subsidiary of the Company, be involved in a lawsuit relate to the political loans as amount to RMB 54,000 thousand. According to government and the financial institution, this case will be settled by auction, mortgaged assets and so on. Shanxi Airlines would not be suffered from this litigation. The solution and amount related to this case are still pending at year ended 2004.

2 Guarantees

As at 31 December 2004, the Company and subsidiaries guaranteed for the banking loans of the companies that under common control by Hainan Airlines Group as amount to RMB 138,700 thousand.

X. Commitment

1 Capital and financial commitments

As of 31 December 2004 the Company had capital and financial commitments in respect of the purchase of aircraft and engines, construction with total amount of RMB 7,380,944 thousand that include commitment of the purchase of aircraft as amount to RMB 6,101,925 thousand (should be paid within 2005 as amount to RMB 2,942,256 thousand), commitment of construction as amount to RMB 1,279,018 thousand (should be paid within 2005 as amount to RMB 595,618 thousand).

2 Obligation under operating leases

As of 31 December 2004, the Company had obligation under non-cancelable operating leases of aircraft in the respective periods as follows:

	2004	2003
Within one year	673,599	566,751
The second year	540,986	467,776
The third year	481,511	274,508
The following years	1,533,046	1,097,313
Total	<u>3,229,142</u>	<u>2,406,348</u>

XI. Subsequent events

According to the approval of government, the Company will issue no more than 2,800 million legal person shares to the investors at the issue price not less than net assets per share as at 31 December 2004 and no more than 90% of average closing price of twenty transactions day before issuance.

The proposal was passed in the 11th session of the 4th board of directors on 23 April 2005.

XII. Extraordinary gain and loss

In accordance with the requirements of “Questions and answers on the preparation of information disclosures of companies issuing public shares No. 1 – Extraordinary gain and loss” (revised 2004), the extraordinary gain and loss of the Company are set out below:

Items	Amount
1. Loss on sale of long-term investments, fixed assets, CIP, intangible assets and other long-term assets	4,897
2. Various subsidiary income from government	11,475
3. Other non-operating income and expenses except for ordinary provision of decrement of assets according to Accounting Standards for Business Enterprises	-3,202
4. Reverse of provision of decrement of assets	24
5. Impact on comparative financial statements due to the change of accounting policy	202,271
Total	<u>215,465</u>

The above extraordinary gain and loss includes the data of subsidiaries of the Company according to the share of the Company.

XIII. Other Matters

According to the relevant regulations issued by the Ministry of Finance and the Civil Aviation Administration of China, PRC airlines companies are required to pay civil aviation infrastructure levies equal to 10% of domestic traffic revenues. In addition, according to Cai Zong Zi [1999] No. 11 “Notification of reduction civil aviation infrastructure levies” approved by the Ministry of Finance and the National Developing and Planning Committee, civil aviation infrastructure levies was reduced to 8% of domestic traffic revenues from 1 January 1998, and 5% of domestic and 2% of international traffic revenues were levied from 1 January 1999. Civil aviation infrastructure levies was exempted from 1 May 2003 to 31 December 2003 due to SARS. From 1 April 2004, the Company should account for civil aviation infrastructure levies pursuant to interim of the collection of civil aviation infrastructure levies payable (Cai Zong [2004] No.38) issued by the Ministry of Finance, and detail rules of the collection of civil aviation infrastructure levies payable (Civil Aviation Gui Cai Fa [2004] No.94) issued by the Civil Aviation Administration of China. As of April 2003, the Company had accumulated total levies liabilities of RMB 950,534 thousand. In November 1994, the Hainan Provincial Government applied in Qiong Fu Han [1994] No. 77 to the Ministry of Finance for exemption of the payment of the levies or granting the levies by the Company so paid as infrastructure investment in the Company. As at the date of this report, such application has not yet been approved by the Ministry of Finance.

A circular Qiong Cai Shui (1996) No. 132 was issued by the Hainan Provincial Finance and Tax Bureau on 18 October 1996, pursuant to which the Finance and Tax Bureau agreed to assist in relation to the application for exemption of payment of levies with the Ministry of Finance and the Civil Aviation Administration of China and to undertake to resolve the matter through other means if the application is rejected. Hainan WanLi Law Office has independently issued an opinion that under the PRC law and on the strength of the said circular, the Company will have entirely been relieved of its liability and obligation to make any payment or provision in its financial statements in respect of the contributions to the civil aviation infrastructure levies on 29 March 2005. On this basis no provision for payment of such levies has been made in this report.

Supplementary

In accordance with the requirements of “Questions and answers on the preparation of information disclosures of companies issuing public shares No. 9 – Net assets profit ratio and earning per share”, net assets profit ratio and earning per share of the Company are set out below:

Profit earned during the year 2004	Net assets profit ratio (%)		Earning per share (Yuan / share)	
	Overall Diluted	Average weighted	Overall Diluted	Average weighted
Gross profit on sales	123.96%	128.97%	2.43	2.43
Operating profit	6.52%	6.79%	0.13	0.13
Net profit	6.35%	6.60%	0.12	0.12
Net profit after deduction extraordinary profit/loss	-8.74%	-9.09%	-0.17	-0.17

XII. Documents for Reference

The complete set of documents is available at the office of the Company for the reference of the China Securities Regulatory Committee, Shanghai Stock Exchange, Hainan Provincial Securities Administration Office as well as relevant authorities and shareholders:

1. The accounting statement bearing signatures and stamps of the legal representative, chief financial officer and chief of the accounting institution.
2. The original copy of the auditing report bearing the stamp of the accounting firm and signature & stamp of the certified accountant.
3. The original copies of documents and notices published on Shanghai Securities News, China Securities News and Hong Kong's Wen Wei Po in the report period.

Hainan Airlines Company Limited

Chairman:

Date: April 29, 2004

