
HAINAN AIRLINES COMPANY LIMITED

2006 ANNUAL REPORT

CONTENTS

I.	Important Notice
II.	Company Profile
III.	Financial Highlights
IV.	Changes in Share Capital and Particulars about Shareholders
V.	Directors, Supervisors and Senior Executives
VI.	Administrative Structure
VII.	Brief Introduction to the General Meeting of Shareholders
VIII.	Report of the Board of Directors
IX.	Report of the Board of Supervisors
X.	Significant Events
XI.	Financial Report
XII.	Documents for Reference
XIII.	International Auditor's Report

← - - - - 带格式的：项目符号和编号

I. Important Notice

1. The board of directors ("BoD"), board of supervisors ("BoS"), supervisors and senior executives of Hainan Airlines Company Limited ("the Company") hereby guarantee to the best of their knowledge that there is no significant omission, fictitious description or serious misleading of information.

2. The entire board of directors participated the meeting of the BOD.

带格式的: 字体: Times
New Roman

3. Shine Wing Certificated Accountant and Pricewaterhouse Coopers Public Accounting Firm issued the standard unqualified Auditors' Report for the Company.

4. Mr. Chen Feng, Chairman of the Company, Mr. Liu Dan, the principal in charge of accounting, Mr. Xie Shufeng, the principal of the account department, hereby declare: we guarantee the authenticity and completeness of the financial report in this report.

II. Company Profile

1. Registered Chinese name: 海南航空股份有限公司 (Abbreviation: 海南航空)
Registered English name: Hainan Airlines Co., Ltd (Abbreviation: HNA)

2. Legal Representative: Chen Feng

3. Information of the Secretary of BoD and the Representative of Stock Affairs

Secretary of BOD: Zhang Shanghui

Tel: 0898-66739961

Fax: 0898-66739960

E-mail: sh_zhang@hnair.com

Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan Province

Representative of Stock Affairs: Lv Guangwei

Tel: 0898-66739961

Fax: 0898-66739960

E-mail: gw_lv@hnair.com

Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan Province

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

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

Post Code: 570206

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

Email: webmaster@hnair.com

5. Designated Newspapers for Information Disclosure:

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

The website appointed by China Securities Regulatory Commission to release the annual report:

<http://www.sse.com.cn>

Annual Report Available at: Office of Secretary of BOD of the Company

6. Stock Exchange for Listing of the Company: Shanghai Stock Exchange

Stock Name: Hainan Airlines

Stock Code: 600221

Stock Name: HNA B share

Stock Code: 900945

7. Other Related Information

First Registration Date of the Company: October 18, 1989

First Registration Place of the Company: Haikou

Business License Number: Qi Gu Qiong Zong Zi No. 008368

Tax Registration Number: 1150805791

Domestic Accounting Firm Engaged by the Company: Shine Wing Certified Accountants

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

Overseas Accounting Firm: Pricewaterhouse Coopers Public Accounting Firm

Office address: 22/F, 10 Hysan Avenue, Causeway Bay, Hong Kong

III. Financial Highlights

1 Key Fiscal Data

1.1 Key Fiscal Data in the Report Period

Monetary unit: RMB
Yuan

Item	Amount
Total profit	201,686,785
Net profit	181,601,676
Net profit after deducting non-recurring gains and losses	-57,598,324
Profit from principal business	1,701,595,118
Profit from other operations	240,021,651
Operating profit	111,234,702
Income from investment	-14,792,684
Subsidy income	47,647,693
Net cash flow from non-operating activities	57,597,074
Net cash flow from operating activities	4,967,734,267
Net increase in cash and cash equivalents	3,428,24

删除的内容: 6

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

	Net profit RMB 1,000		Net Asset RMB 1,000	
	Dec. 31st 2006	Dec. 31st 2005	Dec. 31st 2005	Dec. 31st 2006
As per domestic audited accounts	181,601	-215,818	2,712,976	6,990,594

删除的内容: .68

删除的内容: 7.92

删除的内容: 5.81

删除的内容: 39.90

As per IAS and other adjustments					
Amortization of Long-term deferred Expenses	7,293	27,703		-166,073	删除的内容: -173,366
Increase in interest of finance lease	-48,928	-41,378	-173,366	-361,036	删除的内容: -312,108
Depreciation Adjustment	17,250	12,370	-312,108	-16,403	删除的内容: 98 删除的内容: -34,019
Adjustment to the business credit	0	2,061	-34,019	10,956	删除的内容: 500 删除的内容: 10,956
Deferred tax			10,956		
Income from drawback of VAT adjusted on accrual basis				-53,703	删除的内容: -24,969
Adjustment of transferring into from capital reserve	217		-24,969	-145	
Other			-	-430	删除的内容: 430
After IAS and other adjustments	157,433	-215,062	2,179,040	6,403,760	删除的内容: 482 删除的内容: 808

1.3. Non-recurring gains and losses

Monetary Unit: RMB thousand Yuan

Non-recurring gains and losses	Amounts
Gains/losses from disposal of long-term equity investment, fixed assets, project in construction, intangible assets and other long-term assets	删除的内容: 53,189
Government subsidies in variety	111,758
Various non-operating income and expenses after deducting daily reserve for impairment of assets withdrawn by the Company in line with the regulations of Accounting System for Business Enterprises	删除的内容: -976
Transferred-in from the various decrement provision drawn in previous years	75,229

Total	239,200
--------------	----------------

2. Key Fiscal Data and Financial Index by the End of Each Accounting Period in the Past Three Years

Key fiscal data	2006	2005	Increase/Decrease (%)	2004
Income from principal business	12,448,359,949.00	10,061,468,423.00	23.72	8,410,538,692
Total Profit	201,638,785.00	-218,697,814.00	▲ 76,514,150	带格式的: 字体: 8 磅
Net Profit	181,601,676.00	-215,817,923.00	▲ 90,648,789	带格式的: 字体: 8 磅
Net profit after deducting non-recurring gains and losses	-57,598,324.00	-287,105,924.00	▲ 124,816,211	带格式的: 字体: 8 磅
Income per share	0.051	-0.296	▲ 0.42	带格式的: 字体: 8 磅
			▲	带格式的: 字体: 8 磅
Return on equity (%)	2.60	-7.96	▲ 10.55	带格式的: 字体: 8 磅
Return on equity after deducting non-recurring gains and losses (%)	-0.82	-10.58	▲ 9.76	带格式的: 字体: 8 磅
Weighted average return on equity after non-recurring profit and loss (%)	-1.19	-13.86	▲ 12.67	带格式的: 字体: 8 磅
Net cash flow from operating activities	4,967,734,267.00	3,013,251,601.00	▲ 64.86	3,194,243,081 删除的内容: 265
Net cash flow per share from operating activities	1.41	4.13	▲ -65.93	4.3 带格式的: 字体: 8 磅
			▲	带格式的: 字体: 8 磅
	2006	2005	Increase/Decrease (%)	2004
Total Assets	35,728,868,996.00	30,690,976,786.00	16.41	25,327,877,356
Shareholder's equity (excluding minority interests)	6,990,593,902.00	2,712,975,812.00	157.67	1,428,638,756
Net assets per share	1.98	3.72	-46.70	1.96
Net assets per share after adjustment	1.88	2.67	-29.80	1.16

3. Changes in Shareholder's Equity and Reasons

Monetary unit: RMB Yuan						
Item	Share Capital	Capital Reserve	Surplus Reserve	Statutory Public Welfare Fund	Undistributed Profit	Total Shareholders' Equity
Balance at January 1 st , 2006	730,252,801.00	2,558,884,351.00	▲ 116,002,855.00	53,094,720.00	-730,009,100.00	2,712,975,812.00 删除的内容: 169,097,575.00
Increase in the report period	2,800,000,000	2,800,216,415	53,094,720		181,601,676	5,834,912,810
Decrease in the report period		1,504,200,000		53,094,720		1,557,294,720

Balance at December 31st, 2006	3,530,252,801.00	3,854,900,766.00	169,097,575.00	-	-53,407,424.00	6,990,593,902.00
--------------------------------------	------------------	------------------	----------------	---	----------------	------------------

带格式的: 字体: 倾斜

Pursuant to the approval of Notification on Additional Directional Issuance of Hainan Airlines Company Limited from China Securities Regulatory Commission (file no. Zhengjian Gongsi Zi [2005] 50), and it was approved by the first temporary General Meeting of Shareholders of 2005, the Company issued 2.8 billion legal person shares at RMB 2 Yuan per share on June 29, 2006, raising 5.6 billion Yuan. On June 30th, 2006, the Company has completed related registration at China Securities Depository and Clearing Corporation Limited (Shanghai Branch).

IV. Changes in Share Capital and Particulars about Shareholders

I. Changes in Share Capital

1. Changes in Shares

Unit: Share

Item	Before Changes		Increase/Decrease			After Changes	
	Quantity	%	New Issue	Others	Subtotal	Quantity	%
I. Shares with trading restriction							
1. State-owned share	17,289,355	2.37		-713,687	-713,687	16,575,668	0.5
2. State-owned legal person share							
3. Other domestic share							
Including:							
Domestic legal-person share	156,282,480	21.4	2,800,000,000	-122,032,375	2,677,967,625	2,834,250,105	80.3
Domestic natural-person share							
4. Foreign Share							
Including:							
Foreign legal-person share							
Shares held by foreign natural person							

Total shares with trading restriction	173,571,835	23.8				2,850,825,773	80.8
II. Shares without trading restriction							
1. A Share	371,957,765	50.9		122,746,062	122,746,062	494,703,827	14
2. B Share	184,723,201	25.3				184,723,201	5.2
3. Shares listed overseas							
4. Others							
Total shares without trading restrictions	556,680,966	76.2				679,427,028	19.2
III. Total Shares	730,252,801	100				3,530,252,801	100

Time table to remove trading restrictions on “Shares with trading restrictions”

Unit: share

Date	Quantity of Shares that can be traded upon expiration of trading restriction	Balance of shares subject to trading restriction	Balance of tradable shares	Remark
Sep 29, 2006	0	2,850,825,773	679,427,028	Including B Share of 184,723,201 shares
Sep 29, 2007	728,206,561	2,122,619,212	1,407,633,589	Including B Share of 184,723,201 shares
Sep 29, 2008	341,196,702	1,781,422,510	1,748,830,291	Including B Share of 184,723,201 shares
Sep 29, 2009	1,781,422,510	0	3,530,252,801	Including B Share of 184,723,201 shares

Notes:

① On July 24, 2006, the G Share Reform Plan of the Company was approved by the shareholder’s meeting.

The Resolution on the G Share Reform Plan of Hainan Airlines Company Limited was approved by 99.41% of all A Share holders. In addition, the Company obtained approval from the Ministry of Commerce (file no. ShangZiPi [2006] 1672) on Aug 14th, 2006 regarding share transfer, and obtained approval from China Securities Regulatory Commission (“CSRC”) (file no. ZhengJianGongSiZi [2006] 208) regarding the waiver of tender offer.

② On June 30th, 2006, the newly issued Legal Person Share of 2.8 billion shares have been registered at China Securities Depository and Clearing Corporation Limited (Shanghai Branch). The registration of related changes

as a result of the G Share Reform has also been completed at China Securities Depository and Clearing Corporation Limited (Shanghai Branch) on Sep 29th, 2006.

③ The Company issued a Share Change Statement on June 30th, 2006, disclosing the influence of the issuance of 2.8 billion shares on the Company's financials such as earnings per share and equity per share.

2. Issuance and Listing of Shares

New Share Issuance in Recent Three Years			Unit: Share	Monetary unit: RMB
Type	Date of Issuance	Price of Issuance (Yuan)	Quantity	Tradable Since
Legal person share issued by additional directional issuance	June 30 th , 2006	2.00	2,800,000,000	Sept. 29 th , 2009

The Company issued 2.8 billion legal person shares to strategic investors at RMB 2 Yuan per share, raising 5.6 billion Yuan. On June 30th, 2006, the Company has completed related registration at China Securities Depository and Clearing Corporation Limited (Shanghai Branch).

2.2. Changes of Total Share and Share Structure

After the additional share issuance, the total share of the Company changed from 730,252,801 shares to 3,530,252,801 shares, among which the shares held by domestic legal persons increased from 117,547,200 to 2,917,547,200 shares. There are no other changes to the share structure.

2.3. At the end of the report period, there are no employee shares in the Company.

II. Shareholders

1. Number of Shareholders and Particulars about Shares Held

Unit: Share	
Total number of shareholders at the end of report period	113,90
Shareholding Status of Top Ten Shareholders	

Name of Shareholder	Nature of Shareholders	Percentage (%)	Amount of Shares Held	Amount of Shares with Trading Restriction	Amount of Pledged or Frozen Shares
Grand China Air Co., Ltd.	other	48.62	1,716,310,039	1,703,023,339	unknown
Haikou Meilan International Airport Co., Ltd.	other	12.22	431,424,451	431,424,451	unknown
Changjiang Leasing Co., Ltd.	other	8.15	287,616,301	287,616,301	unknown
Hainan Jiaxin Investment Management Co., Ltd.	other	6.52	230,093,041	230,093,041	unknown
Sanya Phoenix International Airport Co., Ltd.	other	4.07	143,808,150	143,808,150	unknown
American Aviation LTD	Foreign Shareholder	3.06	108,043,201	108,043,201	unknown
Hainan Jincheng State-owned Property Administration Co., Ltd.	other	0.47	16,575,668	16,575,668	unknown
Hainan Taiheng Industrial Co., Ltd.	other	0.27	9,587,210	9,587,210	unknown
China International Travel Agency	other	0.18	6,212,512	6,212,512	unknown
HNA Group Co., Ltd.	other	0.18	6,212,512	6,212,512	unknown

Shareholding Status of Top Ten Shareholders of Tradable Shares

Name of Shareholder	Amount of Shares held without Trading Restriction	Type of Share
American Aviation LTD	108,043,201	B Share
Grand China Air Holding Co., Ltd.	13,286,700	A Share
National Fund of Social Insurance-Category 102	4,046,162	A Share
Jiang Chuanping	3,841,203	A Share
He Linxuan	3,267,880	A Share
China Construction Bank - Bosera Thematic Sector Equity Securities Investment Fund	3,000,000	A Share
Naito Securities Co., Ltd	2,961,060	B Share
Liu Tinglan	1,794,869	A Share
Liu Yeping	1,673,100	A Share
China Life Insurance Co., Ltd. – Traditional - Ordinary Insurance Product-005L-CT001-Shanghai	1,664,468	A Share
Note to relationship or “action in concert” among the top ten shareholders	Among the top ten shareholders, there’s connected relationship among Grand China Air Co., Ltd., Haikou Meilan International Airport Co., Ltd., Changjiang Leasing Co., Ltd., Hainan Jiaxin Investment Management Co., Ltd., Sanya Phoenix International Airport Co., Ltd and HNA Group Co., Ltd. However, there’s no action in concert among them as described by Administrative Rules on Information Disclosure about Changing of Shareholding Status.	

Top 10 Shareholders of Non-tradable Shares

Unit: share

	Name of Shareholder	Amount of Non-tradable	Details of Trading Restrictions		Trading Restrictions
			Tradable	Amount of Shares to	

		Shares held	Date	be Tradable	
1	Grand China Air Co., Ltd.	1,703,023,339	Sep 29,2009	1,703,023,339	It would not transfer the shares held at the stock exchange in 36 months since the date of obtaining the circulation right except for the statutory promise.
2	Haikou Meilan International Airport Co., Ltd	431,424,451	Sep 29, 2007	176,512,640	None
			Sep 29,2008	176,512,640	
			Sep 29,2009	78,399,171	
3	Changjiang Leasing Co., Ltd	287,616,301	Sep 29,2007	176,512,640	None
			Sep 29,2008	111,103,661	
4	Jiaxin Investment Management Co., Ltd	230,093,041	Sep 29,2007	176,512,640	None
			Sep 29,2008	53,580,401	
5	Sanya Phoenix International Airport Co., Ltd	143,808,150	Sep 29,2007	143,808,150	None
6	Hainan Jincheng State-owned Property Administration Co., Ltd.	16,575,668	Sep 29,2007	16,575,668	None
7	Hainan Taiheng Industrial Co., Ltd	9,587,210	Sep 29,2007	9,587,210	None
8	HNA Group Co., Ltd	6,212,512	Sep 29,2007	6,212,512	None
9	China International Travel Agency (head office)	6,212,512	Sep 29,2007	6,212,512	None
10	Beijing Tianye Commerce and Trade Company (head office)	4,141,675	Sep 29,2007	4,141,675	None

Commitment of Trading by Strategic Investors or General Legal Persons Participating in Additional Directional Issuance

Name	Committed Non-tradable Period
Grand China Air Co., Ltd	three years

Grand China Air Co., Ltd has become the actual controller of the Company after the additional directional issuance, and it promised not to trade its shares within 3 years.

2. Introduction to the Controlling Shareholder and the Actual Controller

2.1 Introduction to the Controlling Shareholder

Name of the Company: Grand China Air Co., Ltd.

Legal Representative: Chen Feng

Date of Establishment: July 12, 2004

Registered Capital: RMB 3,689,795,600 Yuan

Principal businesses: Air transportation, aviation maintenance and services, air catering, in-flight supplies; extended services related to air transportation, airport investment and management, airport terminal services and management, hotel investment and management.

2.2 Introduction to the Actual Controller

Name of the Company: Hainan Development Holding Co., Ltd

Legal Representative: Zhang Lei

Date of Establishment: Jan 26, 2005

Registered Capital: RMB 500 million Yuan

Principal Businesses: Marine oil & gas development and utilization, marine aquatic products processing, project development of automobile, tourism, glass, pulp and paper, pharmacy and other industries, project development of highways, ports, water conservancy, urban water supply, gas, electricity, environment protection, finance of projects with minority stake or controlling stake, asset or share management of investment projects, due diligence, counseling, planning and feasibility studies on construction projects and guarantee of construction projects.

Hainan Development Holding Co., Ltd is the actual controller of the Company. It is established on January 26, 2005 with registered capital of RMB 500 million Yuan. Principal businesses of the company include: marine oil & gas development and utilization, marine aquatic products processing, project development of automobile, tourism, glass, pulp and paper, pharmacy and other industries, project development of highways, ports, water conservancy, urban water supply, gas, electricity, environment protection, finance of projects with minority stake or controlling stake, asset or share management of investment projects, due diligence, counseling, planning and feasibility studies on construction projects and guarantee of construction projects. Hainan Development Holding Co., Ltd has a stake of 40.653% in Grand China Air Co., Ltd.

Grand China Air Co., Ltd is the controlling shareholder of the Company. Grand China Air Co., Ltd was established on July 12, 2004 with registered capital of RMB 3,689,795,600 Yuan. Its establishment was approved by CAAC with file no. Zheng Fa Han [2004] 5. Its principal businesses include: air transportation, aviation maintenance and services, air catering, in-flight supplies; extended services related to air transportation, airport investment and management, airport terminal services and management, hotel investment and management. Grand China Air Co., Ltd has a stake of 51.68 % in the Company ([including 3.06% holding B Share equity by American Aviation LTD](#)).

2.3 Changes of the Controlling Shareholder and the Actual Controller

New Controlling Shareholder: Grand China Air Co., Ltd

Actual Controller: Hainan Development Holding Co., Ltd

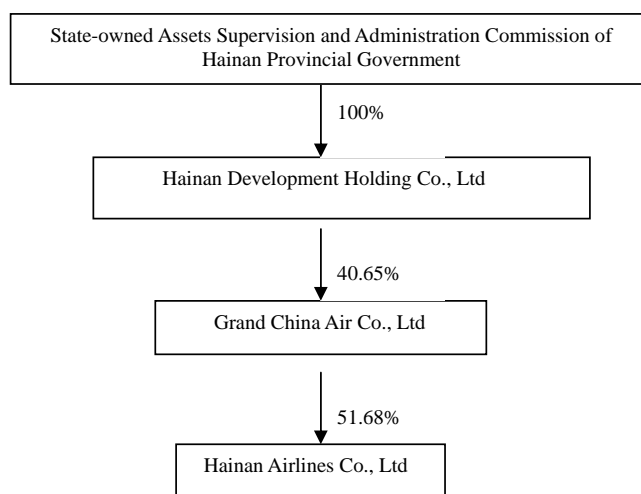
Date of Change: June 30, 2006

Designated Newspapers to Publish Shareholder Change Information: China Securities News, Shanghai Securities News, Wen Wei Po (Hong Kong), Securities Times

Date of Disclosing the Change in Controlling Shareholders: June 30, 2006

On July 4, 2005, CSRC approved the Company to issue new legal person share of no more than 2.8 billion shares, in which the overseas legal person share shall not exceed 1.545 billion shares. On June 30, 2006, the Company implemented the issuance and Hainan Development Holding Co., Ltd acquired 1.65 billion shares and became the actual controller of HNA.

2.4 Property Right and Controlling Relationship between the Actual Controller and the Company



3. Other Legal Person Shareholders Holding over 10% of Shares

Name of the Shareholder	Legal representative	Registered Capital	Date of establishment	Principal Businesses
-------------------------	----------------------	--------------------	-----------------------	----------------------

Haikou Meilan International Airport Co., Ltd	Li Xianhua	RMB 1,486,830,000	Aug 25, 1998	Management of operation and strategic planning of Haikou Meilan International Airport, ground services to air transportation, air tickets sales agent, aviation ground transportation service agent, automobile transportation and real estate.
--	------------	----------------------	--------------	---

V. Directors, Supervisors and Senior Executives

I. Particulars about Directors, Supervisors and Senior Executives

Name	Position	Sex	Age	Service Term	Shares Held at Beginning of the Year	Shares Held at End of the Year	Cause of Changes	Annual Remuneration (RMB 1,000 Yuan)
Chen Feng	Chairman	male	54	2006-05-31 ~ 2009-05-31	41,400	55,158	Received shares in the G Share Reform	282.4
Wang Jian	Vice Chairman	male	46	2006-05-31 ~ 2009-05-31	36,200	48,263	Received shares in the G Share Reform	231.1
Tan Xiangdong	Director	male	40	2006-05-31 ~ 2009-05-31	25,900	34,474	Received shares in the G Share Reform	80
Li Qing	Director	male	50	2006-05-31 ~ 2009-05-31	37,500	49,987	Received shares in the G Share Reform	210.8
Ke Deming	Independent Director	male	72	2006-05-31 ~ 2009-05-31	----	----		80
Yang Hui	Independent Director	male	69	2006-05-31 ~ 2008-05-31	----	----		80
Wang Zhi	Independent Director	male	65	2006-05-31 ~ 2009-05-31	----	----		80
Ronald O. Drake	Director	male	51	2006-05-31 ~ 2009-05-31	----	----		80
Iain Aitken	Director	male	52	2006-05-31 ~ 2009-05-31	----	----		80

Zhang Cong	Convener of the Board of Supervisors	male	48	2006-05-31 ~ 2009-05-31	----	----		25
Li Rui	Supervisor	male	30	2006-05-31 ~ 2009-05-31	----	----		25
Chen Ping	Supervisor	male	32	2006-05-31 ~ 2009-05-31	----	----		99.8
Qian Daoyun	Supervisor	male	56	2006-05-31 ~ 2009-05-31	----	----		25
Zhao Zongtao	Supervisor	male	55	2006-05-31 ~ 2009-05-31	----	----		25
Zhu Yimin	Executive president	male	46	2006-04-29 ~ 2009-04-29	----	----		159.4
Wang Yingming	Executive Vice-president	male	44	2006-04-29 ~ 2009-04-29	----	----		159.4
Mou Weigang	Executive Vice-president	male	45	2006-04-29 ~ 2009-04-29	----	----		156.6
Liu Dan	CFO	male	36	2006-04-29 ~ 2009-04-29	----	----		142.6
Zhang Shanghui	Secretary of the BoD	male	36	2006-04-29 ~ 2009-04-29	----	----		142.5

删除的内容: 6.5

Profiles of Directors, Supervisors and Senior Executives in Recent Five Years

Chen Feng: Chairman of BOD of HNA. Male. Born in Shanxi on June 34, 1953. Senior economist. He's also the Chairman of HNA Group Co., Ltd. He graduated from Lufthansa Air Traffic Management College in Germany 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 Business School. He had 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 once the member of the Standing Committee of Hainan Provincial People's Congress. He is 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 awarded Entrepreneur of the Year. In 2004, he was awarded one of the ten Most Popular Entrepreneurs in China. And in December 2004, he was awarded Excellent Builders of Socialist Cause of Chinese Characteristic by Central United Front Work Department, the State Development and Reform Commission, Ministry of Personnel, State Administration for Industry and the All-China Federation of Industry. In September 2005, he was awarded the Best Commercial

Leader in China by Shanghai Media Group and CNBC. In July 2006, he was awarded the Crown Medal by the Premier of Belgium for his contribution to strengthen the economic relationship between the two countries. In October 2006, he was awarded the Special Meritorious Entrepreneur of Hainan.

Wang Jian: Vice Chairman of HNA. Male. Born in Tianjin on Dec 15, 1961. MBA. He is the Vice Chairman of the fifth BOD of the Company. He has studied abroad at JAL and obtained AOTS and the diploma of JAL. He's well experienced in the fields of air transportation and finance.

Tan Xiangdong: Male. Born in Jiangsu on March 24, 1967. He is director of the fifth BOD of the Company. He graduated from Beijing Finance & Trade Institute and majored in finance. In 1989, he obtained the master degree of economics. In 1999, he obtained the master degree of business and administration at the 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 in Shanxi on March 18, 1957. MBA. He is director of the fifth BOD of the Company. He worked as the director and general manager of Shanxi Airlines Co., Ltd. He's well experienced in the planning and administration of civil aviation enterprises.

Ke Deming: Male. Born on Nov 1, 1935. He is independent director of the fifth BOD of the Company. Senior engineer. He joined the army in 1951 and graduated from the Beijing Aviation College in 1962. He worked as the vice director of CAAC.

Yang Hui: Male. Born on Dec 27, 1938. He is independent director of the fifth BOD of the Company. Bachelor degree. He began to work in 1956, joined the Communist Party of China in 1980, and obtained the senior accounting/auditing certificate in 1988. In 1995 he obtained CPA (Certified Public Accountants) certificate. He 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 director of Economy Inspection department of Hainan Province, the head of the Auditing Department of Hainan Province and 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. Senior engineer. He is independent director of the fifth BOD of the Company. 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. He is director of the fifth BOD of the Company. He graduated from Cornell University and obtained the master degree of Business and Administration of New York University. He had worked with Soros Fund Management Company as the strategic investment director, ABN AMRO Group as the senior vice president and Merrill Lynch Group as the executive director.

Iain Aitken: Male. He is director of the fifth BOD of the Company. He graduated from the University of Stirling in Scotland with a bachelor's degree in economics. He had been a senior vice president of ABN-AMRO Bank NV in New York. He had also been an advisor on North America and related affairs for ABN-AMRO Bank NV in New York and a senior advisor to Soros Private Funds Management LLC in New York.

Zhang Cong: Male. Born on Feb 1, 1959. He is supervisor of the Company with service term from May 2006 to May 2009. He graduated from China Civil Aviation College. He worked as the general manager of the department of project development of HNA Group. He is the Chairman of Meilan International Airport Co., Ltd.

Li Rui: Male. Born on Jan 5, 1977. He is supervisor of the Company with service term from May 2006 to May 2009. He works in the securities department of HNA Group.

Chen Ping: Male. Born on Feb 15, 1975. He is supervisor of the Company with service term from May 2006 to May 2009. He graduated from Fu Dan University with bachelor's degree. He works in the general administration department of the Company.

Qian Daoyun: Male. Born on April 19, 1951. He is supervisor of the Company with service term from May 2006 to May 2009. He is the vice president of the Hainan Branch of Communication Bank of China.

Zhao Zongtao: Male. Born on Feb 25, 1952. He is supervisor of the Company with service term from May 2006 to May 2009. He is the general manager of Hainan Zhengyuan Industrial Co., Ltd. and deputy general manager of Hainan American Corporation.

Zhu Yimin: Male. Born on Oct 16, 1961. He is the executive president of HNA with service term from April 2006 to April 2009. He was graduated from Xia Men University. He had worked as the assistant to the general manager of Xia Men Airlines.

Wang Yingming: Male. Born in 1963. He is executive vice president of the Company with service term from April 2006 to April 2009. He worked as the general manager of maintenance department of the Company and vice general manager of Yangtze River Express Company Limited.

Mou Weigang: Male. Born in 1962. He is vice president of the Company with service term from April 2006 to April 2009. He graduated from No.1 Air Force Flight Academy. He worked as flight commander in certain division of Air Force, deputy chief in certain division of Air Force and etc. He joined in Hainan Airlines in 1992 and worked as vice general manager of the flight department.

Liu Dan: Male. Born in 1971. He is CFO of the Company with service term from April 2006 to April 2009. He graduated from Zhongnan University of Economics and Law. He joined in Hainan Airlines in 1994 and worked as assistant manager of planning and finance division, assistant to general manager of the planning and finance department, CFO of Chang'an Airlines, general manager and CFO of XinHua Airlines, general manager of planning and finance department of HNA Group, and deputy general manager of HNA Group Finance Co., Ltd.

Zhang Shanghui: Male. Born on Dec 13, 1971. He is secretary of BOD with service term from April 2006 to April 2009.

II. Jobs Taken by Directors, Supervisors and Senior Executives in Shareholding Companies

Name	Shareholding Company	Position	Service Term	Remuneration (Yes/No)
Chen Feng	HNA Group Co., Ltd	Chairman	April 16 of 1998 - Present	Yes
Wang Jian	HNA Group Co., Ltd	Vice chairman	April 16 of 1998 - Present	Yes

Mr. Chen Feng and Mr. Wang Jian have acted as the chairman and vice chairman since the foundation of HNA

Group Co., Ltd.

Jobs Taken by Directors, Supervisors and Senior Executives in Companies other than Shareholding Companies

Name	Company	Position	Service Term	Remuneration (Yes/No)
Wang Zhi	Shan Dong Airlines Co., Ltd, China Southern Airlines Co., Ltd	Independent director		Yes

III. Annual Rewards

1. Rewards of Directors, Supervisors and Senior Executives

The approving procedure for rewards of directors, supervisors and senior executives is implemented according to the *Report on Rewards Plan of Directors, Supervisors and Senior Executives* as approved by the 22nd Session of the third Board Meeting and the General Meeting of Shareholders of 2002.

The rewards of directors and supervisors are decided according to the current and relevant administrative procedures. The rewards of senior executives are determined according to their performance.

The rewards for a director are RMB80, 000 Yuan (including liability insurance of RMB30, 000 Yuan) annually.

The reward for a senior executive is determined by performance in the relevant period.

IV. Resignation of Directors, Supervisors and Senior Executives during the Report Period

Name	Position	Reason
Zhao Zhongying	Executive Vice president	Change of Post
Zhang Yi	CFO	Change of Post

Except for the above, there is no change in directors, supervisors and senior executives during the report period.

V. Staff

By the end of the report period, HNA employs 9693 staffs. Among them, there are 53 retired that the Company needs to bear relevant cost.

1. Distribution on Occupation

Occupation	Number of Staff
Pilots	1,535
Flight Attendants	1,775
Mechanics	1,568
Flight Operations	191
Others	4,624

2. Distribution on Education

Education Background	Number of Staff
Masters Degree or above	108
Bachelors Degree	3,214
Colleague Diploma	3,333
Intermediate Certificate or below	3,038

VI. Administrative Structure

I. Current Structure

Ever since its listing, HNA has improved the corporate governance structure, regulated its operation, strictly in accordance with the requirement of *the Company Law*, *the Security Law*, the related regulations by CSRC and *Listing Regulation of SSE*.

1. Shareholders and Shareholders' Meeting: HNA ensures that all shareholders, especially the retail investors, enjoy the same status and rights equally. The Company's 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. The shareholders are encouraged 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 transaction is fair and reasonable, all the related transactions is legal and valid by strictly following the procedures of BoD and Board of Supervisors as stipulated by *Listing Regulation of SSE*.

2. Chief Shareholders and HNA: The chief shareholders exert their rights through General Meetings of Shareholders, and are not directly involved in the policy-making and operation of HNA. HNA is independent from the chief shareholders in assets, finance, organization and operation. The BoD, Board of Supervisors and the management organization of the Company are independent.

3. Directors and the Board of Directors: Directors of HNA are appointed strictly according to the *Articles of Association*. The structure of BoD is in line with related laws, regulations and the *Articles of Association* of HNA. The directors of HNA can fulfill their duties, present the Board Meeting and shareholders' meeting in person. They are familiar with the related laws and regulations and aware of their rights, obligations and responsibilities as directors.

4. Supervisors and the Board of Supervisors: The structure of the Board of Supervisors agrees with the laws, regulations and the *Articles of Association* of HNA. *Rules on Process of Board of Supervisors* has been formulated, and perfected in practice. Supervisors of HNA can fulfill their responsibilities seriously and supervise the performances of directors, managers and other senior management personnel.

5. Performance Evaluation and Incentive Program: HNA is actively formulating a just and transparent performance evaluation and incentive program to directors, supervisors and managers. The appointment of managers is transparent, and complies with the related laws and regulations.

6. Interest-related Parties: HNA safeguards the legal rights and interests of the banks, creditors, customers and other interest-related parties so as to maintain sustainable and healthy development of the Company.

7. Information disclosure and transparency: The secretary to the BoD is appointed to be in charge of the

information disclosure, reception and consultation, and enhance the communication with shareholders. HNA ensures to release the accurate and complete information in time in accordance with related laws, regulations and the *Articles of Association* of HNA so that all the shareholders enjoy the equal opportunity to get the information.

II. Performance of the Independent directors

1. Present of the board meeting

Name of the independent director	Times of present in person	Commission	Absence
Ke Deming	10	0	0
Yang Hui	10	0	0
Wang Zhi	10	0	0

By now, the Company has three independent directors, which is one third of the total members. In the report period, Mr. Ke Deming, Mr. Yang Hui and Mr. Wang Zhi voted on 18th Sessions of 4th Board Meeting – 6th Sessions of 5th Meeting of BoD, they have fulfilled their obligations as independent directors.

2. In 2006, the independent directors raised no dissidence against any proposals on the board meeting or other events of the Company.

III. Independence of the Company's Operation, Assets, Organization, and Finance from the controlling shareholder

1. Operation: the main business of HNA is air passenger and cargo transportation. The operation of the Company is fully independent from the controlling shareholder or other related parties.

2. Corporate governance: The Company has established the complete corporate governance structure

according to *The Company Law*. The executive president, executive vice-presidents 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 Grand China Air Co., Ltd. The Company has established an independent and complete human resource management system.

3. Assets: The Company has its own independent flight system, auxiliary flight system, corresponding facilities and equipments, real estate and trademark, and the delimitation in industrial property rights and non-patent technology is clear. The unavoidable related transactions are completed according to the business common practices, and the related shareholders fulfill the avoiding process according to the Articles of Association of HNA during voting on shareholders' meeting. The Company maintains relative assets integrity from the controlling shareholder.

4. Organization: The Company has independent General Administration Office, Production & Operation Control Center, Planning & Finance Department, Human Resource Department, Marketing & Sales Department, Operation Support Department, Marketing & Sales Department, Flight Department and Maintenance & Engineering Department. The organization and operation facilities of the Company are completely separated and independent from that of the controlling shareholder.

5. Finance: The Company has an independent financial department, independent accounting & managing system and separate bank accounts. HNA has its own tax registration number and pays taxes independently. The financial system of the Company is independent from that of the controlling shareholder.

IV. Performance Evaluation and Incentive Program to Senior Management

The annual rewards of the senior managers are monthly paid according to the related standard approved by the BoD. The Human Resource Department formulated the salary standard on the basis of the operation results of the Company, and submits to the shareholders' meeting for approval.

The performance evaluation system of the senior managers consists of the annual evaluation scheme,

assessment by the chairman, reward program and bonus incentive program.

VI. Brief Introduction to the General Meeting of Shareholders

1. Annual General Meeting of Shareholders

On May 31 of 2006, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on June 1, 2006.

2. Temporary General Meeting of Shareholders

2.1 On Jan 24, 2006, the Company held the first temporary general meeting of shareholders of 2006.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on Jan 25, 2006.

2.2 On Sep 15, 2006, the Company held the second temporary general meeting of shareholders of 2006.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on Sep 16, 2006.

2.3 On Dec 29, 2006, the Company held the third temporary general meeting of shareholders of 2006.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News, Hong Kong's Wen Wei and Securities Times on Dec 30, 2006.

VII. Report of Board of Directors

I . Discussion and analysis of the managements

1. Review of the overall operation status in the report period

1.1 General information

In 2006, the income of the principal business of the Company is RMB 12.448 billion Yuan, increased by 23.72%, in which the passenger income is RMB 10.989 billion Yuan and takes up 88.27%, the cargo and overweight luggage income is RMB 528 million Yuan and takes up 4.24%, and the chartered flight income is RMB 932 million Yuan and takes up 7.49%. The total profit of principal core business is RMB 1.702 billion Yuan; the net profit is RMB 181.6 million Yuan.

删除的内容: 9

删除的内容: 2

In 2006, the total passenger volume is 14.3909 million person* time, increased by 12.41%, the cargo and mailing transportation volume is 198,700 tons, increased by 22.55%, and the total transportation volume is 2.241 billion tons*kilometers, increased by 18.26 %.

In 2006, the Company introduced 9 aircrafts, including 5 Boeing737-800 and 4 Airbus 319. As the date of Dec 31 2006, the Company has 101 aircrafts, including 57 Boeing737, 10 A319, 5 Boeing767 and 29 Dornier 328.

删除的内容: 96

删除的内容: 52

Status of the principal business classified according to the industry or product

Monetary Unit: RMB 100 million Yuan

Principal Business	Income from Principal Business	Cost	Profit Percentage	Increase/Decrease of the Income from Principal Business	Increase/Decrease of the Cost on Principal Business	Increase and Decrease of the Profit Percentage of Principal Business
Aviation Industry	124.48	103.62	13.67%	23.72%	26.18%	-1.58%

Causes for increase in the income from principal business: The Increase in the transportation ability and capacity and income from additional fuel charge contributed mainly to the increase in the income from principal business.

Causes for increase in the cost on principal business: The increase in the transportation ability and productivity and aviation fuel price contributed mainly to the increase in the cost on transportation.

带格式的: 字体: 加粗

2. Status of principal business classified by geographic regions

Region	Income of Principal Business	Increase/Decrease of the Income from
--------	------------------------------	--------------------------------------

	(RMB Yuan)	Principal Business Compare with Previous Year (%)	删除的内容: 100 million
Haikou	6,809,209,818.60	29.88%	删除的内容: 68.09
Beijing	3,004,400,375.44	13.35%	删除的内容: 0.04
Shaanxi	1,783,730,874.27	48.51%	删除的内容: 7.84
Shanxi	887,700,800.58	-10.04%	删除的内容: 8.88

3. Suppliers and customers

Monetary unit: RMB Yuan

Total Buying Amount from the Top 5 Suppliers	2,590,420,000	Percentage over the Total Buying Amount	25%
Total Turnover of the Top 5 Distributors	2,240,700,000	Percentage over the Total Turnover from product	18%

4. Changes in the assets structure of the Company comparing with that of the previous year

Item	Percentage to the Total Assets (Increase/Decrease)	Causes for the Change
Cash in bank & on hand	26.68% (increased by 64.56%)	Additional Directional Issuance
Accounts receivable	1.81% (Increased by 53.37%)	Increase of transportation income
Fixed assets	55.68% (Increased by 2.73%)	Purchase aircrafts
Construction in progress	5.79% (Increased by 85.18%)	Prepayment for aircrafts and engines
Short term loans	16.68% (Increased by 22.75%)	Increase of fluent capital
Long term loans	31.53% (Decreased by 15.46%)	Repay loans
Notes payables	5.48% (Increased by 139.62%)	Raising price of the aviation fuel
Paid-in capital	9.98% (Increased by 383.43%)	Additional Directional Issuance

5. Changes in the financial data comparing with that of the previous year

Item	Report Period	Previous Year	Increase/Decrease (%)
Profit from other operations	240,021,651	97,715,237	145.63%
Administrative expense	416,413,598	497,436,977	-16.29%
Non-operation income	73,550,096	39,531,134	86.06%

Causes for change: The Company leased aircraft and pilots contributed to the increase in profit from other businesses. The increase in income from pilot transfer contributed to the increase in non-operating income.

6. Cash Flow Analysis

Item	Year-end of the Report Period	Year-beginning of the Report Period	Increase/Decrease (%)
------	-------------------------------	-------------------------------------	-----------------------

Net increase in cash and cash equivalent	3,428,250,737	2,538,240,537	35.06%
Net cash flow from operating activities	4,967,734,267	3,013,251,601	64.86%
Net cash flow from investment activities	-2,906,851,609	-3,781,786,582	-23.14%
Net cash flow from financing activities	1,367,368,078	3,306,775,518	-58.65%

Causes for change: The net cash flow from operating activity of the Company accounted for RMB 4.967 billion Yuan in the report period and increased RMB 1.954 billion Yuan, which was contributed to the increase in the operating cash flow-in caused by the increase in income from transportation. The net cash flow from investment accounted for RMB -2.906 billion Yuan and reduced RMB -876 million Yuan, which should be contributed to the change in the importation method of aircraft from self-purchasing to operational leasing. The net cash flow from financing activity accounted for RMB 1.367 billion Yuan and reduced RMB 1.939 billion Yuan, which should be contributed to the increase in cash used to repay loans.

带格式的: 段落间距段前: 自动, 段后: 自动, 行距: 最小值 12 磅

7. Operation results and performances of the holding subsidiaries

1. China Xinhua Airlines Co., Ltd.

The registered capital of China Xinhua Airlines Co., Ltd is RMB 1.83 billion; the business scope is approved air passenger and cargo transportation. In the report period, the income from principal business is RMB 3.004 billion Yuan and the net profit is RMB 19,7993 million Yuan. The Company holds 60% equity interests.

删除的内容: 8

删除的内容: 51

2. Chang'an Airlines Co., Ltd.

The registered capital of Chang'an Airlines Co., Ltd. is RMB 754,390,000; the business scope is air passenger and cargo transportation in Shanxi Province and its neighboring provinces. In the report period, the income from principal business is RMB 1.784 billion Yuan and the net profit is RMB 16.7528 million Yuan. The Company holds 73.51% equity interests.

3. Shan'xi Airlines Co., Ltd.

The registered capital of Shan'xi Airlines Co., Ltd. is RMB 320 million; the business scope is air passenger and cargo transportation in Shan'xi Province and its neighboring provinces. In the report period, the income from principal business is RMB 888 million Yuan and the net profit is RMB 7,9685 million Yuan. The Company holds 96.97% equity interests.

删除的内容: 2.51

删除的内容: 97

2. Prospect of the future development

2.1 Development of aviation industry

In recent years, Chinese aviation industry is growing rapidly and the fleet is expanding continuously. Currently, there are 35 commercial airlines in domestic aviation industry with 1,041 aircrafts. There are 67 general-purpose carriers with 715 general-purpose aircraft in use flying over 1,257 air routes. Entering into the new century, the average growth rate of Chinese aviation industry keeps at 24%, higher than the growth rate of GDP and other transportation methods. In 2006, the total turnover of the aviation industry of mainland China (Hong Kong, Macao and Taiwan were not included) reached 30.2 billion ton*kilometers, ranked No.2 biggest aviation transportation market next to the US on the board of the partner nations of the ICAO comparing with the 37th in 1978. The civil aviation industry is in the line of the world biggest civil aviation industry.

After experiencing the profit earning bottom line of the aviation industry in 2006, it's estimated that the industry status would get better and its profit earning ability promote to some extent in consideration of the effect of factors such as the expansion in transportation capacity, market demand, oil price at the international market and currency exchange rate, etc.

The macro economy increase of the country reached 10.5% (the highest point of the current economy growth period). It's estimated that the increase of the GDP of 2007 would be 9.6% under the circumstances of the slowing-down of fixed assets investment and foreign trade increases. The slowing-down of the macro economy would result in reduce of business turnover and income of the industry. It's estimated that the total turnover of the aviation industry in 2007 would be 34.2 billion ton*kilometers and sales income RMB 184 billion Yuan, up 13% and 16.09% comparing with that of the same period of 2006. The profit earning ability of the industry would still be decided by three key factors of the providing and demanding relationships, aviation fuel price and the exchange rate of RMB

2.2 Development opportunities, strategy and business plan of 2007

In 2007, it's important for the civil aviation industry to carry out the scientific development concept, push forward the harmonized construction of industry. The Company would stick to implement the theory of Deng Xiaoping and the great thoughts of Three Delegates and the spirit of the 16th National Conference of the CCP and the work conference of the national civil aviation industry to actively join into the construction of the civil aviation industry, improve the safety and operation quality management and strive to contribute to the construction of civil aviation industry.

Guidelines in 2007: To connect to the international standards in all direction, push forward the management efficiency, re-establish the brand value and realize the harmonized development of the Company.

Target index in 2007:

---Safety: To prohibit accident of flying, grounds, air defense and serious maintenance accident of aircraft; To prohibit aircraft hijacking and explosion. The ten thousand hour rate with trouble symptom discounted with the Company's responsibility should be zero.

---Punctuality: To rank as the first three punctual airlines in the civil aviation industry.

---Service: The complain rate at the level of general bureau from the customer should be controlled under 3 times per 1,000,000 persons. The valid complain rate of the customer should be under 57 times per 1,000,000

persons. The complain rate of customer should be lower than 130 times per 1,000,000 persons. The satisfaction degree of the customer should not be under 87.8%.

---Operation: to realize the total turnover of 1.98 billion ton*kilometers, passenger transportation volume of 12,810,000 person times and cargo and mail transportation volume of 187,300 tons.

2.3 Demand of capital and its utility

It's estimated that the capital of RMB 4 billion Yuan will be needed to achieve the operation target of 2007 which will be collected through bank loans, short-term financial certificates, assets securitization, etc. To insure the increase in transportation ability would be the major use of the capital.

2.4 Analysis on risks facing

The domestic price of the aviation fuel increased three times in 2006 owing to the crude oil price increase at the international market. Currently, the retail price of the aviation fuel reached RMB 6,310 Yuan per ton, increased RMB 1,090 Yuan per ton (approximately 20.88%) comparing with the price of RMB 5,220 Yuan per ton at the year beginning. The expense on the aviation fuel takes about 40% of the Company's cost currently. In 2007, the crude oil price at the international market started to reduce a little from the highest price of USD 79 per barrel in July of 2006, while the price of the crude oil and product oil might not reduce in large scale considering the lack of production ability and surplus production ability of oil refine. It's estimated that the price of crude oil at the international market would keep at the price of USD63 per barrel, off 8.03% comparing with the price of USD68.5 per barrel in 2006. Otherwise, the possibility of price reduce in the produced oil at the domestic market might be minor before the crude oil price validly reduced to USD55 per barrel. Therefore, the airlines would still suffer the situation of high oil price in 2007.

By Dec. 19 of 2006, the increase in the exchange rate of RMB to USD exceeded 3% and reached 3.01%. In 2007, the increasing trend of the exchange rate of RMB would not change under the pressure of continuously enlarging foreign trade difference. The increase rate of the exchange rate of RMB would be over 3% in consideration of the slowdown of the economy increase of USA, the possibility of interest rate increase of the Federal Reserve and the exchange rate reduce of USD. Therefore, it's estimated that the net benefit from the exchange rate in 2007 would have positive influence on the Company's result of 2007.

2.5 Changes in the accounting policy, accounting estimates and influence on the financial status and operation achievement upon performance of the New Accounting Standards for Enterprise

The Company would adopt the new accounting standards on January 1 of 2007 according to the regulation of the Enterprise Accounting Standards No. 38---Initial Execution of Enterprise Accounting Standards and combining the features and actual situations. It would recognize the difference between the new accounting standards and current accounting standards on the basis of 2006 consolidated financial statements and the principle of importance as following:

a. Income Tax: The Group Company adopted tax payable method to calculated the income tax. According to the new accounting standards, the balance sheet liability approach should be adopted. On Jan. 1 of 2007, the deferred income-tax assets and deferred income-tax liabilities should be recognized according to the related

带格式的：两端对齐，无项目符号或编号，无孤行控制

conditions in case of the temporary difference caused by the difference between the book value of the assets and liabilities and its taxation basis. It would influence the retained income and resulted in the increase in the shareholders' equity of RMB 131,105 thousand Yuan, including the shareholders' equity of the parent company of RMB 106,549 thousand Yuan and minority interest of RMB 24,556 thousand Yuan.

Monetary Unit: RMB 1,000 Yuan

Adjusted Item	Deductive Difference	Difference of Tax Payable	Influence on the Shareholders' Equity
The book value is less than the tax payable assets	175,095	0	41,596
Total	175,095	0	41,596

b. Minority interest: On Jan. 1 of 2007, the Company listed the minority interest in the consolidated balance sheet of Dec. 31 of 2006 compiled according to the current accounting standards, which caused the increase in shareholder's equity of RMB 772,702 thousand Yuan.

Changes in the accounting policy, accounting estimates and influence on the financial status and operation achievement upon performance of the New Accounting Standards for Enterprise

A. The long-term investment of the Company to subsidiaries would be measured based on cost method in accordance with the provisions in *Accounting Standards for Business Enterprises No.2 – Long-term Investment* from equity method based on current accounting policy, this change of such accounting policy would affect on the profits and losses of current period of parent company, but there was no influence on consolidated statement of the Company.

B. According to new *Accounting Standard for Business Enterprise No.3 – Investment Oriented Real Estate*, the Company would change the calculation of the investment oriented real estate from fixed assets and inventories under the prevailing policy to the calculation of the investment oriented real estate. The Company would use cost method to calculate the investment oriented real estate. The matter shall not affect the Company's profit and shareholders' equity.

C. In accordance with the provisions of *Accounting Standards for Business Enterprise No. 17 – borrowing cost* for capitalization was changed into the special borrowing cost and general borrowing cost eligible for capitalization from the special borrowing cost under current accounting system, such change would increase borrowing capitalization scope of the Company, decrease financial expense of current period, while increase profits and losses of current period and shareholders' equity of the Company.

D. In accordance with the provisions in *Accounting Standards for Business Enterprises No. 18- Income tax*, the Company would change the accounting method of income tax from tax payment to balance sheet debt method. Such change of accounting policy would affect the Company's income tax expenses of the current period, profits and losses of current period and shareholders' equity.

E. In accordance with the regulations of *Accounting Standards for Business Enterprises No.30- Consolidated*

带格式的：字体：小五
带格式的：首行缩进：0 字符，段落间距段前：自动，段后：自动，行距：最小值 12 磅，无孤行控制，对齐网格

带格式的：字体：小五，字体颜色：自动设置

带格式的：字体：小五

带格式的：字体：小五

带格式的：字体：小五

带格式的：字体：小五，倾斜

带格式的：字体：小五

带格式的：字体：小五

带格式的：字体：小五，倾斜

带格式的：字体：小五

带格式的：字体：小五

financial statements, the minority shareholders' equity in consolidated financial statement under the current accounting policy was singly listed and changed to item of minority shareholders' equity listed in shareholders' equity of consolidated balance sheet.

II. Investment Situation of the Company

1. Application of the collected capital

Pursuant to the *Notification on Additional Directional Issuance of Hainan Airlines Company Limited* (Zheng Jian Gong Si Zi [2005] No. 50) by CSRC, it approved the Company to issue new legal person share of no more than 2.8 billion shares. In the report period, the Company has issued 2.8 billion shares and collected capital of RMB 5.6 billion Yuan. The Company completed the registration at China Securities Depository and Clearing Corporation Limited (Shanghai Branch) after audited by Asia-pacific Zhong Hui Accounting Firm.

The use of proceeds of the raised capital is accorded with the resolution of the 11th session of the 4th board meeting and the resolution of the first temporary general meeting of shareholders of 2005, as follows:

To acquire the interests of the minority shareholders, repay bank loans, purchase new aircrafts, expand the fleet and increase working capital.

By now, the progress of the use of the collected capital is as follows:

To acquire the interests of the minority shareholders: the Company is engaged with the minority shareholders and made good progress, but it did not been completed;

To purchase new aircrafts: it mainly used for the future introduction and the related payment did not be paid by now.

In order to supervise the use of the collected capital and in consideration of fund safety, the above stated capital is deposited in HNA Group Finance Co., Ltd provisionally by the shareholders' requirement, and it will be paid as soon as the use of the collected capital is confirmed.

2. Introduction to non-collected capital

In the report period, there is no investment for non-collected capital.

III. Reasons for and Influence of Changes in Accounting Policy

删除的内容: III.

带格式的: 项目符号和编号

IV. Routine Work of Board of Directors

1. Meetings of Board of Directors

1.1 On April 28, 2006, the 18th Session of the 4th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on April 29, 2006.

1.2 On April 28, 2006, the 19th Session of the 4th Board Meeting of the Company was held and the First Quarter Report was published.

1.3 On May 19, 2006, the 20th session of the 4th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on May 20, 2006.

1.4 On May 31, 2006, the 1st Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on June 1, 2006.

1.5 On June 28, 2006, the 2nd Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on June 30, 2006.

1.6 On July 5, 2006, the Temporary Board Meeting for G Share Reform of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on July 6, 2006.

1.7 On Aug. 17, 2006, the 3rd Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Aug. 19, 2006.

1.8 On Aug. 29, 2006, the 4th Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong

Kong Wen Wei Po on Aug. 30, 2006.

1.9 On Oct. 27, 2006, the 5th Session of the 5th Board Meeting of the Company was held, and the Third Quarter Report was published.

1.10 On Dec. 12, 2006, the 6th Session of the 5th Board Meeting of the Company was held, and the Resolution Announcement was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Dec. 14, 2006.

2. Subsequent events on resolutions of the General Meeting of Shareholders

In 2006, the Company held five General Meeting of Shareholders including the Annual Meeting, three Temporary Meetings and one Meeting for G Share Reform. The Board of Directors has accomplished the tasks approved by the General Meeting of Shareholders, such as issuing short-term certificates, additional directional issuance and G Share Reform, etc. Moreover, the Board of Directors has also completed the tasks approved by the 2005 Annual Shareholders' Meeting, the 1st, 2nd and 3rd Temporary Meetings of the Company.

V. Preplans for Profit Distribution /Preplan for Capitalization of Capital Reserve

By the end of the fiscal year of 2006, the after-tax profit of the Company audited in accordance with the domestic auditing principle is RMB 181.6 million Yuan, while the after-tax profit audited in accordance with the international auditing principle is RMB 157.43 million Yuan.

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

VI. No Preplan for Profit Distribution

The Company has made profit in this fiscal year but will not distribute cash profit simply because the profit will be applied to cover the loss of the previous year.

IX. Report of Board of Supervisors

I. Works of Board of Supervisors

1. On April 28 of 2006, the 6th Session of the 4th Board of Supervisors was held. During the meeting, the Report by the Board of Supervisors of 2005, the Report on the Annual Report of 2005 and its Summary, the Report on Election of a New Board of Supervisors were discussed and passed.
2. On April 30 of 2006, the 1st Session of the 5th Board of Supervisors was held. During the meeting, the Report on Electing Mr. Zhang Cong as the Convener of the Board of Supervisors was discussed and passed.
3. On June 28 of 2006, the 2nd Session of the 5th Board of Supervisors was held. During the meeting, the Interim report of the Company was discussed and passed.

II . Independent Opinion of Board of Supervisors on Actual Investment of Latest Fund Collected

In the fiscal year of 2006 the Company succeeded in making a private placement of 2.8 billion legal person shares and collected a total capital of RMB 5.6 billion Yuan. So far there is no change in the actual investment of the capital collected.

X. Significant Events

1. Significant Lawsuit or Arbitration

In the report period, no significant lawsuit or arbitration occurred in this Company.

2. Mergers and Assets Buying & Selling

In the report period, no mergers and assets buying and selling occurred.

3. Important Connected Transactions

3.1 Routine Productive Connected Transaction

(1) Connected transaction for purchasing goods or accepting services

Monetary unit: RMB 10,000 Yuan

Company	Nature of transaction	Principle for price	2006	Settling mode
HNA Group Finance Co., Ltd	Deposit	Regulated by People's Bank	31,832,858	Banking transfer
HNA Group Finance	Draw-down	Regulated by People's	31,065,828	Banking transfer

Co., Ltd		Bank			
Changjiang River Leasing Co., Ltd	Financing lease	Market price/ agreement price	2,780,355		Banking transfer
Shen Zhen Finance Leasing Co., Ltd	Financing lease	Market price/ agreement price	457,952		Banking transfer
Hainan Meiya Industrial Co., Ltd.	Payment for aircrafts oil fees	Market price/ agreement price	329,850		Banking transfer
Hainan Pacific Petroleum Industrial Co., Ltd	Payment for aircrafts oil fees	Market price/ agreement price	93,826		Banking transfer
Hainan Meilan International Airport Co., Ltd.	Taking-off and landing services charges	Determined by CAAC	73,899		Banking transfer
Yangtze River International Leasing Co., Ltd	Financing lease	Market price/ agreement price	65,757		Banking transfer
HNA Catering Co., Ltd.	Catering Payment	Market price/ agreement price	29,536		Banking transfer
Sanya Phoenix International Airport Co., Ltd.	Taking-off and landing service charges	Determined by CAAC	25,252		Banking transfer
Haikou Meilan International Airport Co., Ltd.	Taking-off and landing services charges	Determined by CAAC	24,150		Banking transfer
Gan Su Airport Group Co., Ltd	Taking-off and landing services charges	Determined by CAAC	17,793		Banking transfer
Hainan Haihang Aviation Imp. &Exp. Co., Ltd.	Aviation materials agency fees	Market price/ agreement price	12,651		Banking transfer
Senior executives of the Company and subsidiaries	Salary		2,174		Banking transfer

(2) Connected transaction for selling goods or providing services

Monetary unit: RMB 10,000 Yuan

Company	Nature of transaction	Principle for price	2006		Settling mode
Yun Nan Lucky Air Co., Ltd	Aircraft rents and pilots transfer expenses	Market price/ agreement price	131,190		Banking transfer
Hong Kong Airlines	Aircraft rents	Market price/ agreement price	77,081		Banking transfer
HNA Finance Group Co., Ltd	Interests	Market price	74,114		Banking transfer
Yangtze River Express Co., Ltd	Pilots rents and transfer expenses	Market price/ agreement price	59,579		Banking transfer
Deer Jet Co., Ltd.	Advance payment for airport rents	Market price/ agreement	44,541		Banking transfer

		price			
Beijing Vigorous Vision Advertisement Co., Ltd	Advertising expenses	Market price/ agreement price	25,000		Banking transfer
HNA Group Co., Ltd	Interests for entrusted loans	Market price/ agreement price	267		Banking transfer

The above stated transactions are the necessary routine productive connected transactions. It does not affect the independence of the Company.

3.2 Assets selling

The Company transferred Dornier 328 to Grand China Express Co., Ltd (associated company) at a transaction price of 20,723 thousand Yuan.

3. The accounts receivable and payable with related parties

Monetary unit: RMB 1,000 Yuan

	Company	Relationship with the Company Relationship with the Company	The Company's Funds provided for the related companies		The related companies' Funds provided for the Company	
			Current	Balance	Current	Balance
	Hainan Jiahui Investment Co., Ltd	Other	-348,024			
	Hainan Yangpu Huanmei Industrial Co., Ltd	Other	-333,680		-10,000	
	Yangtze River Real Estate Group Co., Ltd	Other	-117		-11,700	
	HNA Hotel Holding Group Co., Ltd	Shareholder's subsidiary company	-8,870			
	Haihang Building & Development Co., Ltd	Other	-20,879			
	Kangle Garden Hotel	Other	-79,989			
	Beijing Kehang Investment Co., Ltd	Shareholder's subsidiary company			-52,500	
	Hainan Air Catering Co., Ltd	Shareholder's subsidiary company			-61,200	
	Beijing Yanjing Hotel Co., Ltd	Shareholder's subsidiary company			-32,013	
	Lucky Deer Aviation & Tour Group Co., Ltd	Shareholder's subsidiary company	2,305	2,305		
	Chang Jiang Leasing Co., Ltd	Shareholder	359,389	359,389	169,633	169,633
	HNA Group Finance Co., Ltd	Associated company	68,098	68,098		
	Hainan Haihang Import & Export Co., Ltd	Associated company	-83,650	8,588	-30,703	
	Hainan Haihang Import & Export Trading Co., Ltd	Other		6,385		

删除的内容:

Haikou	High-tech Risk Investment Co., Ltd	Other		5,000		
	HNA Hotel Co., Ltd	Shareholder's subsidiary company	-24,670	3	10,481	10,481
Hainan	Meilan International Airport Co., Ltd	Shareholder's subsidiary company			-12,385	62,723
Hainan	Meiya Industrial Co., Ltd	Shareholder's subsidiary company			50,623	87,291
Sanya	Phoenix International Airport Co., Ltd	Shareholder			24,529	47,605
	Hainan Air Catering Co., Ltd	Shareholder's subsidiary company			-5,272	16,717
Yun Nan	Lucky Air Co., Ltd	Associated company			17,690	17,690
	Hong Kong Express Co., Ltd	Shareholder's subsidiary company			13,488	13,488
Haikou	Meilan International Airport Co., Ltd	Associated company	-9,000		43,597	82,172
	Yangtze River Express Co., Ltd	Associated Company	-127,142		-3,217	50,772
	HNA Group Co., Ltd	Shareholder	-13,290		-105,099	1,210
	Deer Jet Co., Ltd	Shareholder's subsidiary company	-208,869		-44,048	18,028
	Grand China Express Co., Ltd	Associated company			26,487	26,487
Lucky	International Tour Co., Ltd	Associated company			-29,115	271
	Other		-25,540	850	-6,771	15,404
	Total		-853,928	450,618	-47,495	619,972

In the report period, the current sum of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies is RMB -853,928 thousand Yuan, and the balance of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies is RMB 450,618 thousand Yuan.

The Company has made allowance for bad debts for the accounts receivable of RMB 11,358 thousand Yuan of Hainan Haihang Import & Export Trading Co., Ltd and Haikou High-tech Risk Investment Co., Ltd. The other accounts of connected claim and debt are formed due to the daily operation.

带格式的: 段落间距段前: 0 磅, 段后: 0 磅, 行距: 单倍行距

Occupation of funds and debt pay-off progress of 2006

Balance of non-operating occupation by large shareholders and their affiliated enterprises(10,000 Yuan)		Total amount for debt cleaning in report period (10,000 Yuan)	Debt cleaning mode	Debt cleaning amount (10,000 Yuan)	Debt cleaning time (Month)
Period Beginning	Period End				
121,231	1,136	120,095	Cash	60,023	April 2006
			Other	60,072	January 2006
Detailed explanation to the non-operating occupation of funds from listed companies by large shareholders and their affiliated		At the end of 2005, the balance of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies is RMB 1,304,546 thousand Yuan. In the report period, the Company has signed a debt reorganization agreement with over 50 associated companies, including Hainan Jaihui Investment Co., Ltd., Jeer Jet,			

enterprises	<p>Hainan Haihang Aviation Imp. & Exp., and Yangtze River Express dated in January 2006. All the parties agreed to reorganize the Company's accounts receivable and payable: the total amount of deducted accounts receivable is 647,967 thousand, and the total amount of deducted accounts payable is 600,722 thousand, the Company has received the amount of 723,680 thousand due from Hainan Jiahui Investment Co., Ltd. and Hainan Yangpu Huanmei Industrial Co., Ltd. in April 2006.</p> <p>Effect on the operation achievement and financial status of the Company: In January 2006, the Company has received amount of RMB 600,722 thousand Yuan by the debt reorganization, and, the Company has received amount of RMB 723,680 thousand Yuan due from Hainan Jiahui Investment Co., Ltd. and Hainan Yangpu Huanmei Industrial Co., Ltd. in April 2006. The issue of capital occupation had been settled. Thus the related debts and claims would not influence the operation achievement and financial status of the Company.</p>
-------------	--

4. Trusteeship Situation

The Company has no trusteeship matter in 2006.

5. Contract-in Situation

The Company has no contract-in matter in 2006.

6. Leasing Situation

Please find the details in item 3 Important Connected Transactions.

7. Guarantee Situation

Monetary Unit: 10,000 RMB

Outside Guarantee of the Company (Guarantee for the Controlled Subsidiaries Not Included)						
Name of Guarantee	Guarantee Date (signature date)	Guaranteed Amount	Guarantee Type	Guarantee Term	Performance Status (Yes or No)	Connected Party Guarantee (Yes or No)
Haikou Meilan International Airport Company Limited		50,300	With joint responsibility			Yes
Total Guarantee in the Report Period						
Balance of Guarantee at the End of Report						

删除的内容: 1,500

删除的内容: 51,500

删除的内容: 51,500

Guarantee of the Company for the Controlled Subsidiaries	
Total Guarantee in the Report Period	
Total Balance of Guarantee at the End of Report Period	151,948.5
Total Guarantee of the Company (Including Guarantee for the Controlled Subsidiaries)	
Total Amount of Guarantee	202,248.5
Percentage of the Total Guarantee to the Net Assets of the Company	28.93%
Incl.:	
Guarantee Amount for the Shareholders, Actual Controllers and its Related Parties	
Direct or Indirect Debt Guarantee for the Guaranteed Party Which Assets-liability Ratio is over 70%	
Guarantee Amount which is over 50% of the Net Assets	
Total Amount of Above Three Items	202,248.5

删除的内容: 153,419.84

删除的内容: 153,419.84

删除的内容: 4,919.84

删除的内容: 4,919.8

8. Entrusted Financing

There is no entrusted financing in 2006.

9. Other important contract

There is no other important contract in 2006.

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

Except for statutory promises, Grand China Air Co., Ltd, the controlling shareholder of the Company, made special promises hereunder:

In order to better protect the interests of shareholder of circulation A-share and promote the stock right splitting, it would not transfer the shares held at the stock exchange in 36 months since the date of obtaining the circulation right except for the statutory promise.

The shareholders of non-circulation shares promise that if there's loss in the related party they would cover the losses of other shareholders caused by the non-performance or incomplete performance of the promises.

Promises and execution of the original shareholders of the non-circulation shares in the process of G Share Reform

带格式的: 缩进: 左侧: 0 磅, 首行缩进: 0 磅, 段落间距段前: 6 磅, 段后: 6 磅, 行距: 固定值 18 磅

Shareholder	Promises	Performance of Promises	Remark
-------------	----------	-------------------------	--------

<u>Grand China Air Co., Ltd</u>	<u>In order to protect the interests of shareholder of circulation A-share and promote the stock right splitting, it would not transfer the shares held at the stock exchange in 36 months since the date of obtaining the circulation right except for the statutory promise.</u>	<u>Complete performance</u>	
---------------------------------	--	-----------------------------	--

Increase and decrease in the circulation share amount without trading restrictions for more than 5% of the Company's total amount of shares held by the original shareholders of non-circulation shares at the end of the report period

带格式的: 缩进: 左侧: 0 磅, 首行缩进: 0 磅

<u>Shareholder</u>	<u>Amount of Circulation Shares without Trading Restrictions on the Listing Day of the Shares with Trading Restrictions (in 1,000 shares)</u>	<u>Increase/Decrease (in 1,000 shares)</u>	<u>Amount of Circulation Shares without Trading Restrictions at the End of Report Period (in 1,000 shares)</u>	<u>Causes for Change</u>
<u>Grand China Air Co., Ltd</u>	<u>132,867,000</u>	<u>0</u>	<u>132,867,000</u>	<u>No change</u>

11. Remuneration and Engagement & Dismissal of the Accounting Firms

In the report period, the Company continued to engage the Shine Wing Certified Accountants and PriceWaterHouse Coopers Public Accounting Firm to audit the financial statements of the Company. The auditing fee paid to them account for RMB 1.89 million Yuan and HK\$ 2.6 million respectively.

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

In the report period, there is no penalty on the Company, the Board of Directors by CSRC, administrative penalty or SSE.

13. Other Important Events:

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

XI. Financial Report

ATTACHMENTS: Hainan Airlines Company Limited

Balance Sheet

As at 31 December 2006

Monetary Unit: RMB Yuan

删除的内容: As at 31
December 2006

<u>Item</u>	<u>Consolidated Company</u>		<u>Parent Company</u>	
	<u>2006-12-31</u>	<u>2005-12-31</u>	<u>2006-12-31</u>	<u>2005-12-31</u>
<u>Current Assets</u>				
Cash in bank & on hand	9,531,856,105	5,792,487,997	5,962,043,716	3,430,324,735
Short investment		30,000,000		
Notes receivable				
Dividend receivable				
Interest receivable				
Accounts receivable	648,218,952	422,641,761	991,274,853	7,402,711
Other receivables	1,390,723,129	1,913,348,852	805,337,938	2,611,108,388
Advances to suppliers	71,754,195	110,631,861	65,125,199	100,501,927
Subsidy receivable				
Inventories	296,818,636	323,701,783	285,025,221	309,577,087
Deferred and prepaid expenses	40,585,276	49,971,167	30,530,288	30,378,103
<u>Long term investment maturing within one year</u>				
Other current assets				
<u>Total current assets</u>	<u>11,979,956,293</u>	<u>8,642,783,421</u>	<u>8,139,337,215</u>	<u>6,489,292,951</u>
<u>Long-term investment</u>				
Long term equity investment	911,424,080	858,444,018	2,155,523,749	2,055,557,404
Long term bond investment				
<u>Long-term investment</u>	<u>911,424,080</u>	<u>858,444,018</u>	<u>2,155,523,749</u>	<u>2,055,557,404</u>
Incl. consolidation difference	94,142,179	111,805,010		
Incl. equity investment difference	94,142,179	111,805,010		
<u>Fixed assets</u>				
Fixed assets - cost	25,474,552,063	24,635,678,949	18,946,686,289	15,952,931,105

<u>Less: Accumulated depreciation</u>	<u>5,564,507,250</u>	<u>5,245,916,183</u>	<u>4,080,510,986</u>	<u>3,250,143,251</u>
<u>Fixed assets - net book value</u>	<u>19,910,044,813</u>	<u>19,389,762,766</u>	<u>14,866,175,303</u>	<u>12,702,787,854</u>
<u>Less: Provision for decrement of fixed assets</u>	<u>17,279,712</u>	<u>25,259,499</u>	<u>16,378,237</u>	<u>24,378,237</u>
<u>Fixed assets - net book value</u>	<u>19,892,765,101</u>	<u>19,364,503,267</u>	<u>14,849,797,066</u>	<u>12,678,409,617</u>
<u>Engineering materials</u>				
<u>Construction in progress</u>	<u>2,069,960,732</u>	<u>1,117,782,507</u>	<u>1,259,582,616</u>	<u>374,963,565</u>
<u>Disposal of fixed assets</u>	<u>183,704,792</u>		<u>113,401,792</u>	
<u>Total fixed assets</u>	<u>22,146,430,625</u>	<u>20,482,285,774</u>	<u>16,222,781,474</u>	<u>13,053,373,182</u>
<u>Intangible & other assets</u>				
<u>Intangible assets</u>	<u>13,869,949</u>	<u>14,271,976</u>		
<u>Long-term deferred expenses</u>	<u>321,534,499</u>	<u>351,696,053</u>	<u>229,368,708</u>	<u>256,779,632</u>
<u>Other long-term assets</u>	<u>355,653,552</u>	<u>341,495,542</u>	<u>227,833,695</u>	<u>276,513,615</u>
<u>Total intangible & other assets</u>	<u>691,058,000</u>	<u>707,463,571</u>	<u>457,202,403</u>	<u>533,293,247</u>
<u>Deferred tax</u>				
<u>Deferred tax debits</u>				
<u>Total assets</u>	<u>35,728,868,998</u>	<u>30,690,976,784</u>	<u>26,974,844,841</u>	<u>22,131,516,784</u>
<u>Liabilities and shareholders' equity</u>				
<u>CURRENT LIABILITIES</u>				
<u>Short term loans</u>	<u>5,958,713,552</u>	<u>4,854,388,029</u>	<u>2,583,750,032</u>	<u>2,116,388,029</u>
<u>Notes payable</u>	<u>1,958,705,765</u>	<u>817,433,490</u>	<u>1,598,240,064</u>	<u>654,795,763</u>
<u>Accounts payable</u>	<u>1,672,498,796</u>	<u>1,533,233,355</u>	<u>2,554,172,560</u>	<u>1,482,462,917</u>
<u>Advances from customers</u>	<u>27,323,076</u>	<u>27,579,232</u>	<u>22,132,009</u>	<u>22,132,009</u>
<u>Accrued payroll</u>	<u>64,914,450</u>	<u>23,459,318</u>	<u>42,063,290</u>	<u>22,483,155</u>
<u>Staff and workers' bonus and welfare fund</u>	<u>676,789</u>	<u>3,840,802</u>		
<u>Dividends payable</u>	<u>19,425,969</u>	<u>26,889,152</u>	<u>19,425,969</u>	<u>26,889,152</u>
<u>Taxes payable</u>	<u>66,972,470</u>	<u>296,934,145</u>	<u>32,530,536</u>	<u>108,685,677</u>
<u>Other payables to government</u>	<u>345,379,912</u>	<u>313,907,717</u>	<u>47,342,092</u>	<u>38,058,547</u>
<u>Other payables</u>	<u>599,803,166</u>	<u>361,824,164</u>	<u>249,281,928</u>	<u>90,108,840</u>
<u>Accrued expenses</u>	<u>1,296,091,672</u>	<u>1,166,737,295</u>	<u>1,135,259,707</u>	<u>1,087,048,734</u>
<u>Sales in advance of carriage-international</u>	<u>633,915,134</u>	<u>477,140,789</u>		
<u>Sales in advance of carriage-domestic</u>	<u>46,825,605</u>	<u>12,762,948</u>	<u>602,000</u>	
<u>Liability estimation</u>				
<u>Long-term liability maturing within one year</u>	<u>1,909,012,873</u>	<u>2,054,983,724</u>	<u>1,461,848,247</u>	<u>1,498,333,721</u>
<u>Other current liabilities</u>				
<u>Total current liabilities</u>	<u>14,600,259,229</u>	<u>11,971,114,160</u>	<u>9,746,648,434</u>	<u>7,147,386,544</u>
<u>LONG TERM LIABILITIES</u>				
<u>Long term loans</u>	<u>11,265,882,903</u>	<u>13,326,240,757</u>	<u>8,644,694,606</u>	<u>10,631,972,795</u>
<u>Bonds payable</u>				
<u>Long term payable</u>	<u>1,972,135,078</u>	<u>1,766,873,007</u>	<u>1,485,149,066</u>	<u>1,510,601,937</u>
<u>Special accounts payable</u>	<u>20,000,000</u>	<u>20,000,000</u>		
<u>Other long-term liability</u>	<u>107,295,984</u>	<u>143,113,207</u>	<u>92,509,018</u>	<u>113,329,882</u>

<u>Total long term liabilities</u>	<u>13,365,313,965</u>	<u>15,256,226,971</u>	<u>10,222,352,690</u>	<u>12,255,904,614</u>
<u>Deferred tax</u>				
Deferred tax credits				
<u>TOTAL LIABILITIES</u>	<u>27,965,573,194</u>	<u>27,227,341,131</u>	<u>19,969,001,124</u>	<u>19,403,291,158</u>
<u>Minority interest</u>	<u>772,701,903</u>	<u>750,659,843</u>		
<u>OWNERS' EQUITY (Shareholder's Equity)</u>				
<u>Paid-in capital</u>	<u>3,530,252,801</u>	<u>730,252,801</u>	<u>3,530,252,801</u>	<u>730,252,801</u>
<u>Less: Returned investment</u>				
<u>Net value of actual received capital</u>				
<u>Capital surplus</u>	<u>3,854,900,766</u>	<u>2,558,884,351</u>	<u>3,854,900,766</u>	<u>2,558,884,351</u>
<u>Reserve fund</u>	<u>169,097,575</u>	<u>169,097,575</u>	<u>169,097,575</u>	<u>169,097,575</u>
<u>Incl.: Public welfare fund</u>	<u>53,094,720</u>	<u>53,094,720</u>	<u>53,094,720</u>	<u>53,094,720</u>
<u>Unrecognized investment loss</u>	<u>-15,249,816</u>	<u>-15,249,816</u>		
<u>Undistributed profits</u>	<u>-548,407,425</u>	<u>-730,009,101</u>	<u>-548,407,425</u>	<u>-730,009,101</u>
<u>Incl.: Proposed cash dividends</u>				
<u>Total owners' equity</u>	<u>6,990,593,901</u>	<u>2,712,975,810</u>	<u>7,005,843,717</u>	<u>2,728,225,626</u>
<u>TOTAL LIABILITIES AND OWNERS' EQUITY</u>	<u>35,728,868,998</u>	<u>30,690,976,784</u>	<u>26,974,844,841</u>	<u>22,131,516,784</u>

Income Statement
For the Year 2006

Monetary Unit: RMB Yuan* --- 带格式的: 右

<u>Item</u>	<u>Consolidated Company</u>		<u>Parent Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>20</u>
<u>1. Income from principal business</u>	<u>12,448,359,949</u>	<u>10,061,468,423</u>	<u>6,809,209,819</u>	<u>5,24</u>
<u>Less: Cost on principal business</u>	<u>10,361,696,743</u>	<u>8,211,652,702</u>	<u>5,793,000,663</u>	<u>4,26</u>
<u>Taxes and surtaxes on principal business</u>	<u>385,068,087</u>	<u>315,450,723</u>	<u>197,685,148</u>	<u>15</u>
<u>2. Profit from principal business</u>	<u>1,701,595,119</u>	<u>1,534,364,998</u>	<u>818,524,008</u>	<u>82</u>
<u>Add: Profit from other operations</u>	<u>240,021,651</u>	<u>97,715,237</u>	<u>129,924,227</u>	<u>6</u>
<u>Less: Operating expense</u>	<u>550,035,303</u>	<u>585,248,011</u>	<u>275,488,967</u>	<u>28</u>
<u>Administrative expense</u>	<u>416,365,598</u>	<u>497,436,977</u>	<u>157,618,781</u>	<u>27</u>
<u>Financial expense</u>	<u>863,981,167</u>	<u>818,951,555</u>	<u>467,799,759</u>	<u>57</u>
<u>3. Operating profit</u>	<u>111,234,702</u>	<u>-269,556,308</u>	<u>47,540,728</u>	<u>-24</u>

Add: Investment income	<u>-14,792,684</u>	<u>-15,834,919</u>	<u>41,913,031</u>	<u>-</u>
Income from subsidy	<u>47,647,693</u>	<u>49,411,000</u>	<u>18,193,100</u>	<u>2</u>
Non-operating revenue	<u>73,550,096</u>	<u>39,531,134</u>	<u>72,402,487</u>	<u>3</u>
Less: Non-operating expenditure	<u>15,953,022</u>	<u>22,248,722</u>	<u>-1,552,330</u>	<u>1</u>
4. Total Profit	<u>201,686,785</u>	<u>-218,697,815</u>	<u>181,601,676</u>	<u>-21</u>
Less: Income tax	<u>3,715,774</u>	<u>10,091</u>		
Profit and loss of minority	<u>16,369,335</u>	<u>-2,889,982</u>		
Add: Unrecognized loss on investment				
5. Net Profit	<u>181,601,676</u>	<u>-215,817,924</u>	<u>181,601,676</u>	<u>-21</u>
Add: Undistributed profit at beginning of the year	<u>-730,009,101</u>	<u>-514,191,177</u>	<u>-730,009,101</u>	<u>-51</u>
Transferred-in from others				
6. Profit available for dividends	<u>-548,407,425</u>	<u>-730,009,101</u>	<u>-548,407,425</u>	<u>-73</u>
Less: Statutory surplus reserve drawn				
Statutory public welfare fund drawn				
Employee rewards and welfare fund drawn				
Reserved fund drawn				
Enterprise development fund drawn				
Profit returned to investment				
7. Profit available for dividends to shareholders	<u>-548,407,425</u>	<u>-730,009,101</u>	<u>-548,407,425</u>	<u>-73</u>
Less: Preference dividends payable				
Voluntary earnings surplus drawn				
Common stock dividends payable				
Common stock dividends carried forward into share capital				
8. Undistributed profit	<u>-548,407,425</u>	<u>-730,009,101</u>	<u>-548,407,425</u>	<u>-73</u>
Supplementary materials:				
Income from disposal, selling of departments or invested units				
Losses caused by natural disasters				
Increase/decrease in total profit caused by the accounting policy				
Increase/decrease in total profit caused by the accounting estimates				

Losses caused by debt reorganization				
Others				

Cash Flow Statement

For the Year 2006

Monetary Unit: RMB Yuan

带格式的: 字体: (中文)
宋体

带格式的: 缩进: 首行缩进: 18.09 字符

<u>Item</u>	<u>Consolidated Company</u>	<u>Parent Company</u>
<u>1.Cash flow from operating activity</u>		
Cash received from merchandise sale or service	12,094,497,807	6,401,704,323
Tax refund received		
Other cash received from operation related activity	13,811,974,161	11,009,900,286
<u>Subtotal of cash inflow</u>	<u>25,906,471,968</u>	<u>17,411,604,609</u>
Cash paid for commodity and service buying	5,851,960,341	2,493,904,929
Cash paid to and on behalf of employee	765,575,312	119,678,082
Taxes paid	712,210,176	404,276,623
Other cash paid for operation related activity	13,608,991,872	10,910,182,830
<u>Sub-total of cash outflow</u>	<u>20,938,737,701</u>	<u>13,928,042,464</u>
<u>Net cash flow from operating activity</u>	<u>4,967,734,267</u>	<u>3,483,562,145</u>
<u>2.Cash flow from investment activity</u>		
Cash received from investment recovery	31,050,000	1,050,000
Incl. Cash received from sales of subsidiaries		
Cash received from investment income	5,048,973	2,251,600
Cash received from disposal of fixed asset, intangible asset and other long-term assets	30,894,806	30,891,081
Other cash received from investment related activity		
<u>Sub-total of cash inflow</u>	<u>66,993,779</u>	<u>34,192,681</u>
Cash paid to acquire fixed asset, intangible asset and other long-term asset	2,880,766,074	2,363,944,384
Cash paid to investment	92,000,000	68,000,000
Other cash paid to investment related activity	1,079,314	
<u>Sub-total of cash outflow</u>	<u>2,973,845,388</u>	<u>2,431,944,384</u>
<u>Net cash flow from investment activity</u>	<u>-2,906,851,609</u>	<u>-2,397,751,703</u>
<u>3.Cash flow from financing activity</u>		
Cash received from equity investment absorption	4,647,688,000	4,641,688,000
Incl.: Cash received by subsidiaries absorbing minority equity investment		
Proceeds from borrowings	8,789,968,924	5,118,071,004

Other proceeds relating to financing activities	885,648,240	305,733,246
Sub-total of cash inflow	14,323,305,164	10,065,492,250
Cash repayments of amounts borrowed	7,156,886,080	3,840,015,655
Cash payments for distribution of dividends or profits or interests expenses	1,085,448,265	755,851,698
Incl.: Cash payments for minority dividend		
Other cash payments relating to financing activities	4,713,602,740	4,201,441,067
Incl. Cash paid to the minorities by the subsidiary owing to legal reduction of capital contribution		
Sub-total of cash outflow	12,955,937,085	8,797,308,420
Net cash flow from financing activity	1,367,368,079	1,268,183,830
4. Influence of exchange rate fluctuation		
5. Net increase in cash and cash equivalent	3,428,250,737	2,353,994,272
Supplementary Materials		
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	181,601,676	181,601,674
Add: profit and loss of minorities	16,369,335	
Less: Unrecognized loss on investment		
Add: Provision for decrement of assets	-87,656,369	-102,144,450
Depreciation of fixed assets	1,303,916,349	900,716,368
Amortisation of intangible assets	402,027	
Amortisation of long-term deferred charges	111,949,322	76,385,804
Decrease in deferred charge (or deduct: increase)	9,385,891	-152,185
Increase in accrued expenses (or deduct: decrease)	129,354,377	48,210,973
Loss on disposal of fixed, intangible and other long-term assets (or deduct: gains)	10,998,218	6,147,170
Loss on retirement of fixed assets		
Financial expenses	1,126,418,817	705,263,817
Loss on investments (or deduct: gains)	14,792,684	-41,913,031
Deferred tax credit (or deduct: debit)		
Decrease in inventories (or deduct: increase)	26,883,147	24,551,866
Decrease in operating receivables (or deduct: increase)	410,208,281	945,057,986
Increase in operating payables (or deduct: decrease)	1,713,110,512	739,836,151
Others (Increase in liability estimation)		
Net cash flow from operating activities	4,967,734,267	3,483,562,145
2. Investing & financing activities that do not involve in cash receipts and payments		
Capital transferred-in from debt		
Convertible company bonds matured within one year		
Finance leasing of fixed assets		
3. Net increase in cash and cash equivalents		
Balance of monetary fund at the end of the period	9,046,170,815	5,647,251,086

Less: Balance of monetary fund at the beginning of the period	5,617,920,078	3,293,256,814
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	3,428,250,737	2,353,994,272

删除的内容: Monetary unit:
RMB Yuan
Assets

Hainan Airlines Company Limited
Statement of Provision
For the Year 2006

Monetary unit: RMB Yuan

删除的内容: Hainan
Airlines Company Limited
Cash Flow Statement
For the Year 2006
Monetary unit: RMB Yuan

Consolidated

Items	2005.12.31	Addition	Write-off					2006.12.31
			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	
Total Amount of Provisions	266,391,496	18,248,081	8,000,000	30,676,051	6,361,500	60,866,899	105,904,450	178,735,127
1. Provision for bad debts	214,298,127	17,260,868	-	30,676,051	-	60,866,899	91,542,950	140,016,045
Including: Account Receivable	18,779,030	5,614,806	-	-	-	-	-	24,393,836
Other Receivable	195,519,097	11,646,062	-	30,676,051	-	60,866,899	91,542,950	115,622,209
2. Provision for loss on short-term investments								
Including: Investment in stock								
Investment in bonds								
3. Provision for loss on realization of inventories	5,198,370	-	-	-	-	-	-	5,198,370
Including: Goods for sales								
Materials	5,198,370	-	-	-	-	-	-	5,198,370
4. Provision for loss on long-term investment	14,774,000	-	-	-	-	-	-	14,774,000
Including: Investment in equity	14,774,000	-	-	-	-	-	-	14,774,000
Investment in bonds								
5. Provision for loss of fixed assets	25,259,499	20,213	8,000,000	-	-	-	8,000,000	17,279,712
Including: Plant & building	8,337,262	20,213	8,000,000	-	-	-	8,000,000	357,475
Equipment	16,778,237	-	-	-	-	-	-	16,778,237
6. Provision for loss of intangible assets								
Including: Patents								

Proprietary technology								
7. Provision for loss of construction in progress	6,861,500	967,000	-	-	6,361,500	-	6,361,500	1,467,000
8. Provision for loans of authority								

Holding Company

Items	2005.12.31	Addition	Write-off					2006.12.31
			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	
Total Amount of Provisions	192,065,799	3,760,000	8,000,000	30,676,051	6,361,500	60,866,899	105,904,450	89,921,349
1. Provision for bad debts	147,517,692	3,760,000	-	30,676,051	-	60,866,899	91,542,950	59,734,742
Including: Account Receivable	1,126,582	-						1,126,582
Other Receivable	146,391,110	3,760,000		30,676,051		60,866,899	91,542,950	58,608,160
2. Provision for loss on short-term investments								
Including: Investment in stock								
Investment in bonds								
3. Provision for loss on realization of inventories	5,198,370	-	-	-	-	-	-	5,198,370
Including: Goods for sales								
Materials	5,198,370	-	-	-	-	-	-	5,198,370
4. Provision for loss on long-term investment	8,610,000	-	-	-	-	-	-	8,610,000
Including: Investment in equity	8,610,000	-						8,610,000
Investment in bonds								
5. Provision for loss of fixed assets	24,378,237	-	8,000,000				8,000,000	16,378,237
Including: Plant & building	8,000,000	-	8,000,000				8,000,000	-
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	6,361,500	-			6,361,500		6,361,500	-
8. Provision for loans of authority								

Report of Auditors **(English Translation For Reference Only)**

TO THE SHAREHOLD OF HAINAN AIRLINES COMPANY LIMITED

We have audited the accompanying consolidated balance sheet and balance sheet of Hainan Airlines Company Limited (hereafter “the Company”) as at 31 December 2006, the related consolidated income statement and income statement, consolidated statement of changes in equity, consolidated cash flow statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

I .Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with China accounting standards for business enterprises and China accounting system for business enterprises. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

II .Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China’s Independent Auditing Standards of the Certified Public Accountants. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for audit opinion.

III. Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with China accounting standards for business enterprises and China accounting system for business enterprises.

ShineWing Certified Public Accountants

Beijing, China

11 April 2007

HAINAN AIRLINES COMPANY LIMITED

(English translation for reference only)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 January 2006 to 31 December 2006

(All the amounts are in thousand Yuan, except otherwise specified)

Company Organization and Principal Activities

1. Hainan Airlines Company Limited (hereinafter referred as “the Company”) was a joint stock limited company reorganized from the former state owned Hainan Airlines (hereinafter referred as “the State Owned Company”) by the way of share subscription in according with the approval of the Hainan Provincial Office for Joint Stock Limited Companies by its circular Qiong Gu Ban Zi No.[1992]18 in September 1992. The net assets of the State owned company amounting to 13,340,552 was determined as the State capital of the Company in according with the appraisal of Hainan Consultative & Investing Company Limited and approval of the Bureau of Finance, Hainan Province by its circular Qiong Cai Shui [1992] Guo Zi No.639. The promoters of the Company comprised 24 legal enterprises, including the State owned company, China Everbright International Trust and Investment Co. Ltd., Hainan Branch, Bank of Communication, Hainan Aviation Import & Export Co., Ltd., etc. The Company obtained its business license on 8 January 1993 and was named as “Hainan Airlines Company Limited”. The registered share capital was 250,100,000, and the total amount of shares was 250,100,000 with par share value 1.00 for each.
2. The scrip dividend for 1993 was approved by the resolution of the 2nd general meeting of shareholders held in March 1994. 50,020,000 shares were distributed and the total capital had increased to 300,120,000.
3. Pursuant to the approval of Hainan Provincial Office for Joint Stock Limited Companies by its circular Gu Ban Zi No.[1993]17 in May 1993, 96,059,448 legal person shares were listed in STAQ system. The number of legal person shares listed in STAQ system increased to 115,271,337 after the scrip dividend.
4. Pursuant to the approval of the Ministry of Foreign Trade and Economic Cooperation of PRC by its circular Wai Jing Mao Yi Han Zi No.[1995]615 on 2 November 1995, the Company issued 100,040,001 shares to American Aviation LDC at a price of USD 0.25 per share with a par value of 1.00 each. The company was changed into a Sino-foreign joint stock company limited after the issuance of shares. Among the total raised fund USD 25,000,000 (equivalent to 207,905,000), 100,040,001 was recognized as share capital and the remaining amount of 70,177,849.79 was recognized as capital reserve after deducting the related issuing expenses. 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 400,160,001.00.
5. Pursuant to the approval of China Securities Regulatory Commission by its circular Zheng Wei Fa No. [1997]24, the Company issued 71,000 thousand B Shares at a premium price of USD 0.47 per share with a par value of 1.00 each. Among the total raised fund USD 33,370,000 (equivalent to 276,690,000), 71,000,000 was recognized as share capital and the remaining amount of 186,822,000 was recognized as capital reserve after deducting the related issuing expenses.

6. Pursuant to the approval of China Securities Regulatory Commission by its circular Zheng Jian Fa Xing Zi No. [1999]129, the Company issued 205 million Ordinary Shares (A Shares) at an issue price of 4.6 yuan per share with a par value of 1.00 each to the public. Among the total raised fund 943,000,000, 205,000,000 was recognized as share capital and the remaining amount of 708,745,226 was recognized as capital reserve after deducting the related issuing expenses.

7. In accordance with the profit appropriation resolution for year 1999 approved by the general meeting of shareholders on 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 1.00 (tax included) to all shareholders with total amount of 54,092,800 yuan and 67,616,000 respectively. The share capital of the Company increased to 730,252,801 thereafter.

带格式的: 项目符号和编号

8. China Everbright International Trust and Investment Co., Ltd. transferred its 4.5% interest to Hainan Airlines Group Co., Ltd. ("HNA Group") entirely in 2004, and then the interest held by HNA Group increased from 7.3% to 11.85%. There is no other change among the shareholders with over 5% interest.

带格式的: 项目符号和编号

9. In 2006, Xinhua Airline Holding Company Limited (Xinhua Holding) granted 11.85% shares of the Company from Hainan Airline Group Co., Ltd. and 6.83% shares from Hainan Xingqi Industry Investment Co., Ltd. respectively.

带格式的: 项目符号和编号

10. According to China Securities Regulatory Commission [2005] No. 50 Document "Notification about Hainan Airline Co., Ltd. directionally issue more stocks", as well as the decision of the first temporary shareholders meeting in 2005, which held in May 24th, 2005, the Company directionally increasing issued less than 28 billion corporation shares. The Company completed the entire issue proceeding at 2 Yuan RMB per share in June 29th, 2006, and raised 5,600,000,000 Yuan RMB in all. Among these, issues 1,650,000,000 shares to Xinhua Holding; 450,000,000 shares to Haikou Meilan International Airport Co., Ltd.; 300,000,000 shares to Changjiang Leasing Co., Ltd.; 240,000,000 shares to Hainan Jiabin Investment Management Co., Ltd.; 150,000,000 shares to Sanya Phoenix International Airport Co., Ltd.; 10,000,000 shares to Hainan Taiheng Industry Co., Ltd. Meanwhile, the Company's capital stocks increased to 3,530,252,801.00 Yuan RMB after this directionally increasing issue and shares transfer. Therefore, Xinhua Airline Holding Co., Ltd. became the biggest shareholders with 48.24% shares of the Company. The above mentioned increasing issued shares have completed the capital changing registration procedure at China Securities Registration and Liquidation Company, Shanghai Branch at June 29th, 2006.

带格式的: 项目符号和编号

11. The Company held the shareholders meeting at July 4th, 2006, discussed and passed "the reformation scheme of shares allocation for Hainan Airline Stock Co., Ltd.", according to the base of 3,530,252,801 shares in total, made a payment of 3.3 shares per 10 shares from non-current shareholders to "A stock" current shareholders, which have been registered on the date when the scheme been implemented and stocks registration date.

paid 122,746,062 shares in total to “A stock” current shareholders. After the allocation and reformation of shares, all the shares can be circulated on the market after the limited period

12. The Company and the branches (hereinafter referred as “the Group”) are the carrying trade in civil aviation. The main business is authorized domestic and international passenger transportation and freight, as well as any other related services.

Basis of Preparation

Up to December 31st, 2006, the Group’s current liability exceeds current assets to an amount 26.2 billion, and the accumulated losses are 5.48 billion. The Group’s ability to continue on a going concern basis depends on the success of its future operations in generating cash flows and obtaining the continuation and renewal of the Group’s borrowing facilities from banks. The company and management believe that the Group has the ability to get borrowing facilities from banks. Up to December 31st, 2006, the Group acquired 1,527,690 thousand Yuan RMB credits from financing institutions. In addition, the management of the Company planned to make an application to issue financing bonds amount to 28 billion Yuan RMB.

Based on the above information, the Company and the management made a cash flow forecast in the future 12 month after the Company’s financial statement date. The Group and the management believed that the Group is capable to compensate the mature debts, and continue to maintain normal operation, therefore, made this year’s financial statement based on the hypothesis of continuous operation.

Principal Accounting Policies, Accounting Estimations and Basis of Consolidation

1. Accounting Policies Applied

← --- 带格式的：项目符号和编号

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 and its supplementary regulations. The Group also follows the Accounting Treatment for Civil Aviation Industry issued by the Ministry of Finance (“MOF”).

2. Accounting Period

← --- 带格式的：项目符号和编号

The Group’s accounting year starts on 1 January and ends on 31 December.

3. Functional Currency

← --- 带格式的：项目符号和编号

The Group adopts Renminbi as its functional currency.

4. Principle and Basis of Accounting

← --- 带格式的：项目符号和编号

The Group adopts accrual basis. All items are recorded at actual cost upon acquisition.

except assets and liabilities are initially recognized at their appraised value upon contributed to the Group.

5. Translation of Foreign Currency

← --- 带格式的: 项目符号和编号

Foreign currency transactions are translated into at the exchange rate issued by the People's Bank of China ("PBOC") at the transaction date. Monetary assets and liabilities in foreign currencies are translated into at the exchange rate prevailing at the balance sheet day. The differences between equivalents and carrying amounts are treated as exchange differences. Exchange differences during preparation period are included in long-term amortization charges. Exchange differences of specific borrowings related to the acquisition or construction of a fixed asset should be capitalized in the period in which they are incurred when the relevant fixed asset being acquired or constructed is not ready for its intended use. Exchange differences in normal operations are included in the exchange gains and losses of the current period.

6. Cash Equivalents

← --- 带格式的: 项目符号和编号

Cash equivalents are short-term (with a holding period of less than three months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Bad Debt Treatment

← --- 带格式的: 项目符号和编号

Recognition of Bad Debts

The Group adopts the following standards in determination of bad debts:

When the debtor is bankrupt or dead, the accounts receivable that are unable to be recovered even after liquidation of the debtor's bankrupt estate or legacy;

If there is obvious evidence proving the uncollectibility of the accounts, then the bad debt loss is confirmed.

Measurement of Bad Debts

The Group adopts allowance method for bad debts. At the end of each accounting period the company analyses the recoverability of receivable items (including accounts receivable and other receivable) and makes allowance for bad debts according to the aging method and analysis result. Allowance for bad debts is not made for the items that are surely to be recovered, including accounts receivable from related parties, prepayments, etc. The allowance for remaining accounts receivable shall refer to the following ratios.

<u>Aging</u>	<u>Ratio</u>
<u>Within 1 year</u>	<u>0%</u>
<u>1-2 year</u>	<u>5%</u>
<u>2-3 year</u>	<u>10%</u>
<u>3-4 year</u>	<u>30%</u>
<u>4-5 year</u>	<u>50%</u>
<u>5-6 year</u>	<u>80%</u>

Over 6 years

100%

In addition, the bad debt loss will be confirmed on individual base in according with the receivable percentage while the operating condition of the debtor is deterioration, insolvency or ceased.

8. Inventory

← --- 带格式的: 项目符号和编号

The inventory of the Group mainly comprises aviation consumables, aviation on-board supplies and low cost consumables, etc. The aviation consumables are recorded at planned price and the difference between planned price and actual cost is recorded in 'Materials Cost Variance'. The aviation on-board supplies and low cost consumables are recognized at actual cost.

Aviation consumables are charged to cost according to the adjusted actual cost when put into use at the end of each month, and aviation on-board supplies are recognized as related cost while in use.

The Group will make provision for impairment of the unrecoverable aviation consumables and aviation on-board supplies which is the cost less net realizable value item by item at end of each period.

The low cost consumables are charged to cost in total while in use, except for uniform, which is amortized in fifty-fifty method.

9. Long-term Investments

← --- 带格式的: 项目符号和编号

Long-term Equity Investment

Measurement of Long-term Equity Investment

Long-term equity investment is recognized at the initial cost of acquisition or at the agreed price of relevant parties. The cost method is applied wherever the Group holds less than 20% of the voting capital, or holds 20% or more voting capital but has no significant influence over the investee enterprise. The equity method is applied wherever the Group holds 20% or more voting capital of the investee enterprises or holds less than 20% of the voting capital but has significant influence over the investee enterprise. The investee enterprises will be included in the consolidated financial statements when the Group holds more than 50% or more voting capital of the investee enterprises (50% not included), or hold less than 50% but has real control over the investee enterprise.

The Amortization Method and period of Equity Investment Difference

The debit difference (referred to as "equity investment difference") between the initial investment cost and the Group's share of owners' equity of the investee enterprise should be amortized evenly over a period of 10 years or the agreed period and charged into profit and loss account of corresponding period, the credit difference should be amortized evenly over a period of no less than 10 years (including 10 years), the credit difference shall be

recognized as capital reserve since 17 March 2003.

Provision for Impairment

The long-term investment is recorded at the lower of carrying amount and recoverable amount at the end of each period. If the recoverable amount of a long-term investment is lower than its carrying amount as a result of a continuing decline in market value or deterioration in operating conditions of the investee enterprise, the Group shall make provision for impairment on long-term investment on an individual item basis and charge into the current period.

10. Fixed Assets

← --- 带格式的: 项目符号和编号

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

Fixed assets purchased or self-constructed by the Group 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:

<u>Plant and buildings</u>	<u>40 years</u>
<u>Aircraft and engines</u>	<u>10 to 20 years</u>
<u>High-price rotables</u>	<u>10 to 15 years</u>
<u>Leasehold improvements</u>	<u>7 years</u>
<u>Vehicles</u>	<u>10 years</u>
<u>Machinery and equipment</u>	<u>8 to 14 years</u>

While the recoverable amount of the asset is lower than its carrying amount (caused by overcapacity, significantly declining revaluation, etc), the Group shall make provision for impairment of fixed assets at the excess of the carrying amount over its recoverable amount on an individual item basis. If one of the indications is present, the Group shall make provision for impairment of fixed assets in full amount:

Permanently withdraw from use and no future economic benefit is expected and being recognized no income during transactions;

No future economic benefit is expected for technical reasons;

Fixed assets have fully damaged without any usage-value and conversion value.

11. Construction in progress

← --- 带格式的: 项目符号和编号

Construction in progress comprises construction in progress assets and prepayment for airplanes and aviation materials, etc. which is recognized at the actual cost on an individual item basis. The 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 readiness for use.

Upon completion and readiness for use, the construction-in-progress is to be transferred to the account of fixed assets and accounts to be depreciated in the next month.

The Group assesses at each reporting date whether there is any indication that the construction-in-process maybe impaired. If any of the following indications is present, the Group shall estimate the recoverable amount of the asset. While the recoverable amount of the asset is lower than its carrying amount, the Group shall make provision for impairment at the excess of the carrying amount over its recoverable amount on an individual item basis and charge to the current period. The following indications include:

The project has been suspended for long time and is not expected to restart in 2 years;

The project has been obsolescent in function and technology and it is significant uncertainty that the economic benefits associated with it will flow to the Group;

There is any other indication that the construction-in-process may be impaired.

12. Borrowing costs

← --- 带格式的: 项目符号和编号

Borrowing costs may include: interest on borrowings, amortization of discounts or premiums relating to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs should be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized as part of the cost of that asset while borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when:

Expenditures for the asset are being incurred;

Borrowing costs are being incurred; and

Activities that are necessary to prepare the asset for its intended use or sale are in progress.

When substantially all the activities necessary to prepare the qualifying asset for its intended until the qualifying asset reaches its intended use or sale are completed, the capitalization of borrowing costs should cease and the borrowing costs should be recognized as an expense in the period in which they are incurred.

13. Intangible Assets

← --- 带格式的: 项目符号和编号

Recognition of land use rights

The acquired land use right is recorded at purchase price (including related taxes). The invested land use right is recognized at valued price.

Amortization of land use right

Land use right is amortized over their use years on a straight-line basis.

Provision for impairment

The intangible asset is recorded at the lower of carrying amount and recoverable amount at the end of each period. If the recoverable amount of an intangible asset is lower than its carrying amount, the Group shall make provision for impairment on intangible asset on an individual item basis and charge into the current period.

14. Long-term Amortization Charges

← --- 带格式的: 项目符号和编号

Long-term amortization charges refer to the expenses that the amortization period is over one year (not including one year), including the direct costs incurred in relation to modifying and certifying certain operating leased or financial leased aircrafts, expenses on pilot recruiting, training, etc. All long-term amortization charges are amortized evenly over 3 to 7 years based on the benefit period of each item.

15. Other Long-term Assets

← --- 带格式的: 项目符号和编号

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

16. Leases

← --- 带格式的: 项目符号和编号

Leases, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the present value of the minimum lease payments at the inception of the lease. The minimum lease payments are recorded as payables under finance leases. The difference between the present value of the minimum lease payments and the minimum lease payments is recognized as unrecognized finance charges which shall be amortized using the effective interest rate method over the period of the lease.

All the rest of leases are classified as operating leases. Payments under operating leases are recognized as expenses on a straight-line basis over the period of the lease.

17. Revenue Recognition

← --- 带格式的: 项目符号和编号

The Group's revenue from rendering transportation service of passengers, charter flight and cargo is recognized when the revenue and costs could be measured reliably, relevant economic benefits could flow into the Group, and the completion stage of transportation services provided could be measured reliably.

The interest income and royalty arising from the use by others of the assets held by the Group is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

18. Income tax

← --- 带格式的: 项目符号和编号

The Group adopts tax payable method in recognition of income tax.

19. Profit Appropriation

← --- 带格式的: 项目符号和编号

Pursuant to related regulations and statute, the net profit of the Group is appropriated in the following order:

(a) To cover accumulated losses;

(b) Provision for Statutory Surplus Reserve, accounted for 10%. (The provision for Statutory Surplus Reserve can be ceased while it reaches 50% of the registered capital.)

← --- 带格式的: 项目符号和编号

(c) Provision for Statutory Public Welfare Fund, accounted for 5-10%

(d) Provision for Discretionary Surplus Reserve

← --- 带格式的: 项目符号和编号

(e) Payment of dividends. According to related regulations, profit available for distribution to owners is the lower net profits after the adjustment and appropriation in according with PRC accounting regulations and International Financial Reporting Standards.

← --- 带格式的: 项目符号和编号

20. Basis of Consolidation

← --- 带格式的: 项目符号和编号

The consolidated financial statements are prepared in according with Cai-Kuai-Zi No.(1995) 11 Provisional Regulation on Consolidation of Financial Statements issued by the Ministry of Finance, Cai-Kuai-Er-Zi No.(1996) 2 Answer to Questions about Consolidation Scope, and other subsidiary requirements.

The investee enterprises will be included in the consolidated financial statements wherever the Group holds more than 50% or more voting capital of the investee enterprises, or hold less than 50% but has real control over the investee enterprise.

All significant inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, have been eliminated on consolidation.

Taxation Item

1. Income tax

(1) The Group's income tax rate

Pursuant to the approval of Hainan Government by its circular Qiong Fu No.[1998]27, the income tax rate of the Company is 15% for year 2006.

(2) Subsidiaries income tax

(a). The applicable tax rate for Hainan Golden-Deer Aviation Sales Co., Ltd. is 15% for year 2006.

(b). The applicable tax rate for Hainan Airlines VIP Flight Services Co., Ltd. is 15% for year 2006.

(c). The applicable tax rate for China Xinhua Airlines Co., Ltd. is 33% for year 2006.

(d). The applicable tax rate for Chang'an Airlines Co. Ltd, and its subsidiary Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd. is 33% for year 2006.

(e). The applicable tax rate for Shanxi Airlines Co. Ltd is 33% for year 2006.

2. Turnover Tax and surcharges

<u>Tax</u>	<u>Basis of computation</u>	<u>Tax rate</u>
<u>Value added tax</u>	<u>Catering revenues</u>	<u>6%</u>
<u>Business tax</u>	<u>Traffic revenues and Ground Service Income</u>	<u>3%</u>
<u>City construction tax</u>	* <u>Turnover tax</u>	<u>7%</u>
<u>Education surcharge</u>	* <u>Turnover tax</u>	<u>3%</u>
	—	

* Pursuant to circular Qiong-Cai-Shui No. [2004] 987 approved by the Bureau of Finance and Bureau of Taxation, The Company enjoys the Preferential Policy: the Company is exempted from city construction tax and education surcharge since 1 October 2004, which is applicable to foreign investment enterprises and foreign companies.

3. Individual income tax

The Group withholds individual income tax which is the burden of employees.

Stock-held Subsidiaries and associated Companies

Brief introduction of stock-held subsidiaries included in the consolidated statement as at 31 December 2005:

<u>Name of Investee Company</u>	<u>Registered Capital</u>	<u>Total Investment</u>	<u>Share-holding Percent</u>	<u>Scope of Business</u>
A <u>Hainan Golden-Deer Aviation Sales Co., Ltd.</u>	<u>8,000,000</u>	<u>7,600,000</u>	<u>95%</u>	<u>Transportation and chartered flight agency services</u>
B <u>Hainan Airlines VIP Flight Service Co., Ltd.</u>	<u>USD 1,020,408</u>	<u>USD 502,408</u>	<u>51%</u>	<u>Chartered flights agency service</u>
C <u>China Xinhua Airlines Co., Ltd.</u>	<u>1,830,000,000</u>	<u>933,300,000</u>	<u>60%</u>	<u>Approved air passenger and cargo transportation</u>
D <u>Chang'an Airlines Co., Ltd.</u>	<u>754,390,000</u>	<u>554,563,300</u>	<u>73.51%</u>	<u>Air passenger and cargo transportation in Shanxi province and its surrounding provinces</u>
E <u>Shanxi Airlines Co., Ltd.</u>	<u>320,000,000</u>	<u>285,000,000</u>	<u>82.74%</u>	<u>Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces</u>
F <u>Beijing Xinhua Air Catering Co., Ltd.</u>	<u>29,990,000</u>	<u>15,294,900</u>	<u>51%</u>	<u>Production and sale of pastry, food and beverage</u>
G <u>Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.</u>	<u>25,000,000</u>	<u>20,000,000</u>	<u>80%</u>	<u>Hotel and catering, commodity, costume sales, typing and other office services.</u>
H <u>Xian Aviation Real Estate Co., Ltd.</u>	<u>30,000,000</u>	<u>24,000,000</u>	<u>80%</u>	<u>Development & Sale of real estate scheme and management for industry & civil construction projects</u>

A. Hainan Golden-Deer Aviation Sales Co., Ltd. ("Golden Deer") is jointly established by the Company and Hainan Aviation Imp. & Exp. Trading Co., Ltd. with 95% and 5% equity interest respectively.

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. with 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 jointly established by the Company, Shenhua Group Co., Ltd. and Hainan Airlines Group Co., Ltd. ("HNA Group") with registered capital 1.83 billion. The Company contributed 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 has been included in the consolidated scope since 1 September 2001. Pursuant to the capital transfer agreement signed by the Company and HAN Group in December 2002, the Company acquired HNA Group's interest 9% of share capital in Xinhua Airlines. As a result, the Company holds 60% of total equity interest, and Shenhua Group Co., Ltd. holds the rest of 40%. - - - 带格式的: 项目符号和编号
- D. Chang'an Airlines Co. Ltd. ("Chang'an Airlines") was jointly established by the Company, Chang'an Aviation Industrial Company and HNA Group with registered capital 754,390,000. The Company contributes 200 million to hold 26.51% interest. 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. Pursuant to the capital transfer agreement signed by the Company and HAN Group on 30 October 2001, the Company acquired HNA Group's interest 9% of share capital in Shang'an Airlines. As a result, the Company holds 73.51% of total equity interest, Chang'an Aviation Industrial Company holds 13.48% and HNA Group holds the rest of 12.65%. - - - 带格式的: 项目符号和编号
- E. Shanxi Airlines Co., Ltd. ("Shanxi Airlines") was jointly established by the Company, Shanxi Aviation Industrial Co., Ltd. and Chang'an Airlines Co., Ltd with registered capital 320 million. The Company contributed 285 million to own an interest of 89.06 % share capital. Shaxi Aviation Industrial Company contributed the original net assets equivalent to 20 million to own an interest of 6.25% share capital. Chang'an Airlines contributed 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. In year 2006, the Company, Chang'an Airline and Shanxi Airline Industry Company signed a contract together, which was about adding capital by cash&bank unilaterally from Chang'an Airline to Shanxi Airline, the adding amount was 338.84 million Yuan RMB, which was validated by Shanxi Yinze CPA firm [2006] NO.0528. after this capital adding matter, the capital of Shanxi Airline was changed to 658.84 million, the Company's direct holding shares was 43.26%, Chan'an Airline's direct holding shares was 53.71%, and Shanxi Airline Industry's direct holding shares was 3.03%. - - - 带格式的: 项目符号和编号
- F. Beijing Xinhua Air Catering Co., Ltd. ("Xinhua Catering") was jointly established by China Xinhua Airlines Co., Ltd. ("Xinhua Airlines"), a subsidiary of the Company, and Beijing Air Fushi International Investment Co., Ltd. ("Air Fushi") with registered capital 29,990 thousand in September 2002. Xinhua Airlines contributed 15,294.9 thousand in - - - 带格式的: 项目符号和编号

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.

Pursuant to the increased capital agreement signed between Xinhua Airlines and Konggang Fushi dated 21 May 2004, Xinhua increased its share in Xinhua Airport in amount of 45,905 thousand in cash, and Konggang Fushi increased its share in Xinhua Airport by land use right with valued amount of 27,100 thousand and in amount of 17,005 thousand in cash. The registered capital increased from 29,990 thousand to 120,000 thousand thereafter and the interest of two shareholders does not change: Xinhua Airlines has a 51% interest with a mount of 61,200 thousand, and Konggang Fushi has the rest of 49% with a mount of 58,800 thousand. The change in business license has been completed up to the end of the balance sheet date.

G. Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd. ("Chang'an Hainan Aviation Star") was jointly established by Chang'an Airlines Co. Ltd. ("Chang'an Airlines"), a subsidiary of the Company, and Hainan Aviation Hotel (Group) Co., Ltd. ("Hainan Aviation Hotel") with registered capital 25 million in May 2003. Chang'an Airlines contributed 20 million to own an interest of 80% and Hainan Aviation Hotel contributed 5 million to own an interest of 20%.

带格式的: 项目符号和编号

H. Xi'an Haihang Real Estate Co. Ltd. ("Real Estate Company") was invested by Chang'an Airline and Xi'an Minsheng Real Estate Company Limited together at January 12th, 2006. The Real Estate Company has registered capital 30 million Yuan RMB, thereinto, Chang'an Airline invested 24 million Yuan RMB, which accounts for 80% of the total capital, Xi'an people's livelihood Real Estate Company Limited invested 6 million Yuan RMB, which accounts for 20% of the total capital. Each investor has already paid the regulated amount, and was validated by Xi'an Xinshiji CPA Co., Ltd. [2006] NO.002, capital verification report.

带格式的: 项目符号和编号

2. In year 2006, the Company signed a share-transfer contract with the Aviation Group, which is one of the related parties. The Company transferred all the 70% shares of Hainan Aviation Zhongmian Duty Free Co., Ltd. (Zhongmian Company). After this transfer, the Company doesn't own the shares of Zhongmian Company any more, and Zhongmian Company was not included into this report.

Notes to the consolidated financial statements

1. Cash in Bank and on Hand

带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
Cash on hand	945	1,557
Cash in bank	3,086,119	3,407,933
Other monetary assets	6,444,792	2,382,998
Total	9,531,856	5,792,488

The main reason of the increases of the Group's Cash & Bank this period was that the Company completed the placing of shares at June, 2006, and accumulated funds 56 million Yuan RMB.

The 7,409,325 thousand Yuan RMB, Cash & Bank at December 31st, 2006, was deposited at the HNA Group Finance Co., Ltd. ("Finance Company"), which is the related party of the Group, and it accounted for 78% of the ending balance.

Other Cash & Bank at December 31st, 2006 included: the fixed deposit 5,955,122 thousand Yuan RMB, and security deposit 485,685 thousand Yuan RMB (thereinto, Note Security 455,290 thousand Yuan RMB, future date credit security 30,395 thousand Yuan RMB were not regarded as cash equivalent, but as payment of raising money, which lead to the differences between Cash & Cash equivalent in the cash flow statement and Cash & Bank.); The fixed deposit 790,000 thousand Yuan RMB was mortgage of the Company's bank loans.

Following are foreign currencies at 31 December 2006

<u>Currency</u>	<u>Amount</u>	<u>Exchange Rate</u>	<u>31 December 2006</u>
USD	120,813	7.8087	943,390
HKD	8,224	1.0043	8,259
Others	87		892
Total	129,124		952,541

2. Current Investment

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>		<u>31 December 2005</u>	
	<u>Amount</u>	<u>Provision for Impairment</u>	<u>Amount</u>	<u>Provision for Impairment</u>
Trust Lending	0	0	30,000	0
Total	0	0	30,000	0

Xinhua Catering, one of the Company's Subsidiaries, consigned HNA Group Finance Co., Ltd. to lend money to HNA Group: the principal is 30,000 thousand, loan time limit is from May 2005 to May 2006, and the annual rate is 6.138%, this consigned loan has already drawn back on time.

3. Receivable (Including Accounts Receivable and Other Receivable)

← --- 带格式的: 项目符号和编号

(1) Account receivable aging analysis:

<u>Aging</u>	<u>31 December 2006</u>			<u>31 December 2005</u>		
	<u>Amount</u>	<u>Percentage</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Percentage</u>	<u>Provision for bad debts</u>
<u>Within one year</u>	<u>503,566</u>	<u>75</u>	<u>0</u>	<u>392,380</u>	<u>89</u>	<u>0</u>
<u>1-2 years</u>	<u>125,401</u>	<u>18</u>	<u>1,965</u>	<u>22,430</u>	<u>5</u>	<u>0</u>
<u>2-3 years</u>	<u>19,138</u>	<u>3</u>	<u>1,913</u>	<u>7,385</u>	<u>2</u>	<u>35</u>
<u>More than 3 years</u>	<u>24,508</u>	<u>4</u>	<u>20,516</u>	<u>19,226</u>	<u>4</u>	<u>18,744</u>
<u>Total</u>	<u>672,613</u>	<u>100</u>	<u>24,394</u>	<u>441,421</u>	<u>100</u>	<u>18,779</u>

The top 5 companies owed a total amount of 532,307 thousand Yuan RMB, accounting for 79% of the total ending balance. There was no account receivables due from shareholders with over 5% (include 5%) voting right of the Company.

(2). Other Receivables

Other receivable aging analysis:

<u>Aging</u>	<u>31 December 2006</u>			<u>31 December 2005</u>		
	<u>Amount</u>	<u>Percentage%</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Percentage%</u>	<u>Provision for bad debts</u>
<u>Within 1 year</u>	<u>780,191</u>	<u>52</u>	<u>7,445</u>	<u>1,156,504</u>	<u>55</u>	<u>2,998</u>
<u>1-2 years</u>	<u>241,361</u>	<u>16</u>	<u>3,346</u>	<u>325,564</u>	<u>15</u>	<u>5,453</u>
<u>2-3 years</u>	<u>152,448</u>	<u>10</u>	<u>6,627</u>	<u>94,475</u>	<u>5</u>	<u>13,606</u>
<u>More than 3 years</u>	<u>332,345</u>	<u>22</u>	<u>98,204</u>	<u>532,325</u>	<u>25</u>	<u>173,462</u>
<u>Total</u>	<u>1,506,345</u>	<u>100</u>	<u>115,622</u>	<u>2,108,868</u>	<u>100</u>	<u>195,519</u>

The top 5 companies owed an amount of 667,415 thousand Yuan RMB in total, accounting for 44% of the total ending balance.

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 8). 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 provision should be made. Provision for bad debts is not made for the items that are surely to be recovered, including guaranteed deposit for aircraft lease, security fund for customs duty, etc. The Group makes allowance for the remainders according to the aging method and individual analysis results.

The arrearage situation of the other receivables due from shareholders holding over 5% (including 5%) voting right of the Company is: the guaranteed leasing deposit of Changjiang Leasing Co., Ltd. is amount to 359,366 thousand Yuan RMB.

(3). Detail Information of 100% Provision for Other Receivables

<u>Companies</u>	<u>31 December 2006</u>	<u>Aging</u>	<u>Percentage</u>	<u>Provision for Bad Debts</u>	<u>Owners</u>	<u>Remarks</u>
<u>Shanxi Airlines Industry Co., Ltd</u>	<u>9,574</u>	<u>1—3years</u>	<u>100%</u>	<u>9,574</u>	<u>Shanxi Airlines</u>	<u>Irrecoverable</u>
<u>Wangfu Department</u>	<u>11,799</u>	<u>over 6years</u>	<u>100%</u>	<u>11,799</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Aojinsen Special Equipment Co., Ltd.</u>	<u>5,280</u>	<u>over 6years</u>	<u>100%</u>	<u>5,280</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Pratt & Whitney Canada ADA Corporation</u>	<u>17,443</u>	<u>4—5years</u>	<u>100%</u>	<u>17,443</u>	<u>The company</u>	<u>Irrecoverable</u>
<u>Hainan Aviation Traiding Co.,Ltd</u>	<u>6,385</u>	<u>over 6years</u>	<u>100%</u>	<u>6,385</u>	<u>The company</u>	<u>Irrecoverable</u>
<u>Hainan American Co.,Ltd</u>	<u>6,503</u>	<u>4—5years</u>	<u>100%</u>	<u>6,503</u>	<u>The company</u>	<u>Irrecoverable</u>
<u>Haikou High-Tech Venture Capital Company Limited</u>	<u>5,000</u>	<u>5—6years</u>	<u>100%</u>	<u>5,000</u>	<u>The company</u>	<u>Irrecoverable</u>
<u>Former Xinhua Airline Shenzhen Sale Department</u>	<u>5,876</u>	<u>over 6years</u>	<u>100%</u>	<u>5,876</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Former Xinhua Airline Haikou Sale Department</u>	<u>3,186</u>	<u>over 6years</u>	<u>100%</u>	<u>3,186</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Daye Development Co.,Ltd</u>	<u>2,500</u>	<u>over 6years</u>	<u>100%</u>	<u>2,500</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Huazhao Industry Development Co.,Ltd</u>	<u>2,250</u>	<u>over 6years</u>	<u>100%</u>	<u>2,250</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Zhongyatu Traiding Co.,Ltd</u>	<u>2,002</u>	<u>over 6years</u>	<u>100%</u>	<u>2,002</u>	<u>Xinhua Airlines</u>	<u>Irrecoverable</u>
<u>Bank of Communication Hainan branch</u>	<u>2,800</u>	<u>3—4years</u>	<u>100%</u>	<u>2,800</u>	<u>The company</u>	<u>Irrecoverable</u>
<u>Euro-China Aviation Service Co.,Ltd.</u>	<u>2,073</u>	<u>3—4years</u>	<u>100%</u>	<u>2,073</u>	<u>The company</u>	<u>Irrecoverable</u>
<u>Others</u>	<u>5,846</u>	<u>5—6years</u>	<u>100%</u>	<u>5,846</u>	<u>The group</u>	<u>Irrecoverable</u>

Within this report period, cancel the bad debts provision 30,676 thousand Yuan RMB in total after verification, which was fully made last year and generated from GE Capital Aviation, China Leasing Co., Ltd. and Hainan Fudi Real Estate Exploring Company.

Within this report period, the Company signed a “counteract credits and debts” contract with Pacific America Company. Both sides agreed that counteract the Company’s accounts payable of aviation materials to Pacific America Company with other receivables of Pacific America Company amount to 60,867 thousand Yuan RMB.

4. Advance to Suppliers

← --- 带格式的: 项目符号和编号

<u>Aging</u>	<u>31 December 2006</u>		<u>31 December 2005</u>	
	<u>Amount</u>	<u>Percentage%</u>	<u>Amount</u>	<u>Percentage%</u>
<u>Within 1 year</u>	<u>19,512</u>	<u>27</u>	<u>31,091</u>	<u>28</u>
<u>1—2 years</u>	<u>2,535</u>	<u>4</u>	<u>13,257</u>	<u>12</u>
<u>2—3 years</u>	<u>1,337</u>	<u>2</u>	<u>38,320</u>	<u>35</u>
<u>More than 3 years</u>	<u>48,370</u>	<u>67</u>	<u>27,964</u>	<u>25</u>
<u>Total</u>	<u>71,754</u>	<u>100</u>	<u>110,632</u>	<u>100</u>

The top 5 companies owed a total amount of 55,263 thousand Yuan RMB, accounting for 77% of the total ending balance.

There’s no advance to suppliers due from shareholders holding over 5% (including 5%) voting right of the Company.

5. Inventories and provision for loss on realization of inventory

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>		<u>31 December 2005</u>	
	<u>Amount</u>	<u>Provision for loss on realization of inventory</u>	<u>Amount</u>	<u>Provision for loss on realization of inventory</u>
<u>Aviation consumables</u>	<u>271,518</u>	<u>5,115</u>	<u>293,067</u>	<u>5,115</u>
<u>Aviation on-board supplies</u>	<u>8,721</u>	<u>83</u>	<u>9,098</u>	<u>83</u>
<u>Low cost consumables</u>	<u>10,837</u>	<u>0</u>	<u>10,754</u>	<u>0</u>
<u>Others</u>	<u>10,941</u>	<u>0</u>	<u>15,981</u>	<u>0</u>
<u>Total</u>	<u>302,017</u>	<u>5,198</u>	<u>328,900</u>	<u>5,198</u>

6. Deferred and Prepaid Expenses

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>Remarks</u>
<u>Aircraft operating lease rental</u>	<u>25,689</u>	<u>48,674</u>	<u>Regular balance</u>
<u>Interest expenses</u>	<u>12,164</u>	<u>0</u>	<u>Regular balance</u>
<u>Others</u>	<u>2,732</u>	<u>1,297</u>	<u>Regular balance</u>
<u>Total</u>	<u>40,585</u>	<u>49,971</u>	

7. Long-term Equity Investments

← --- 带格式的: 项目符号和编号

(1). Long-term equity investment:

<u>Items</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Investment in associates</u>	<u>285,917</u>	<u>320,835</u>
<u>Other equity investment</u>	<u>546,139</u>	<u>440,579</u>
<u>Total</u>	<u>832,056</u>	<u>761,414</u>
<u>The investment difference in Xinhua Airlines</u>	<u>31,602</u>	<u>38,373</u>
<u>The investment difference in Chang'an Airlines</u>	<u>4,771</u>	<u>5,759</u>
<u>The investment difference in Shanxi Airlines</u>	<u>57,769</u>	<u>67,672</u>
<u>Less: Provision for impairment</u>	<u>14,774</u>	<u>14,774</u>
<u>Net value</u>	<u>911,424</u>	<u>858,444</u>

(2). Long-term equity investment breakdown:

<u>Items</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>Share-holding</u> <u>Percentage</u>	<u>Provision for</u> <u>Impairment</u>	<u>Remarks</u>
<u>Investment in associates</u>					
<u>Hainan Haihang Aircraft Maintenance Co., Ltd.</u>	<u>28,667</u>	<u>28,775</u>	<u>48%</u>	<u>0</u>	
<u>Hainan Haihang Airlines Aviation Import & Export Co., Ltd.</u>	<u>7,707</u>	<u>9,498</u>	<u>30%</u>	<u>0</u>	
<u>Lucky Internantional Travel Services Co., Ltd.</u>	<u>16,313</u>	<u>18,419</u>	<u>44%</u>	<u>0</u>	
<u>Beijing Yanjing Hotel Co., Ltd.</u>	<u>50,102</u>	<u>59,764</u>	<u>35%</u>	<u>0</u>	<u>A</u>
<u>Beijing Vision Advertising Co., Ltd.</u>	<u>2,840</u>	<u>2,886</u>	<u>30%</u>	<u>0</u>	

<u>Xinda International Transportation Agency Co., Ltd.</u>	<u>2,579</u>	<u>2,461</u>	<u>49%</u>	<u>0</u>	
<u>Shenzhen Aviation Hotel</u>	<u>0</u>	<u>2,574</u>	<u>25%</u>	<u>0</u>	<u>B</u>
<u>Yangtze River International Leasing Company Limited</u>	<u>86,717</u>	<u>39,040</u>	<u>40%</u>	<u>0</u>	<u>C</u>
<u>Xinhua Airlines United Transportation Services Co., Ltd.</u>	<u>0</u>	<u>784</u>	<u>50%</u>	<u>0</u>	<u>D</u>
<u>Yunnan Shilin Travel Airlines Company Limited</u>	<u>8,000</u>	<u>8,000</u>	<u>54.70%</u>	<u>8,000</u>	<u>E</u>
<u>Hainan Airlines Group Finance Company Limited</u>	<u>0</u>	<u>101,561</u>	<u>0</u>	<u>0</u>	<u>F</u>
<u>Hainan Xinguo Hotel Co., Ltd.</u>	<u>39,230</u>		<u>40%</u>	<u>0</u>	<u>G</u>
<u>Yunnan Xiangpeng Airlines Co., Ltd.</u>	<u>43,762</u>	<u>47,073</u>	<u>31.38%</u>	<u>0</u>	
<u>Subtotal of investment in associates</u>	<u>285,917</u>	<u>320,835</u>		<u>8,000</u>	
<u>Other Equity Investment</u>					
<u>Hainan Aviation Hotel (Group) Co., Ltd.</u>	<u>58,161</u>	<u>58,161</u>	<u>19%</u>	<u>0</u>	
<u>Hainan Xinguo Hotel Co., Ltd.</u>	<u>0</u>	<u>15,000</u>	<u>15%</u>	<u>0</u>	<u>G</u>
<u>Hainan Airlines Tourism Development Co. Ltd.</u>	<u>3,274</u>	<u>3,274</u>	<u>3.30%</u>	<u>0</u>	
<u>Hainan Meilan Airport Co., Ltd.</u>	<u>6,906</u>	<u>6,906</u>	<u>2.20%</u>	<u>0</u>	
<u>China Civil Aviation Information Network Co. Ltd.</u>	<u>29,860</u>	<u>29,860</u>	<u>3.39%</u>	<u>0</u>	
<u>Hainan Development Bank</u>	<u>5,000</u>	<u>5,000</u>	<u>0.30%</u>	<u>5,000</u>	
<u>Yangtze River Express Co., Ltd.</u>	<u>10,000</u>	<u>10,000</u>	<u>2%</u>	<u>0</u>	
<u>Shenhua Finance Co., Ltd.</u>	<u>5,000</u>	<u>5,000</u>	<u>1.60%</u>	<u>0</u>	
<u>Haikou Meilan Airport Co., Ltd.</u>	<u>304,765</u>	<u>304,765</u>	<u>16.48%</u>	<u>0</u>	
<u>Hainan Airlines Group Finance Company Limited</u>	<u>101,561</u>	<u>0</u>	<u>12.50%</u>	<u>0</u>	<u>F</u>
<u>Grand China Airlines Express</u>	<u>19,000</u>	<u>0</u>	<u>19%</u>		<u>H</u>

Co., Ltd.			
Others	<u>2,612</u>	<u>2,613</u>	<u>1,774</u>
Subtotal of other equity investment	<u>546,139</u>	<u>440,579</u>	<u>6,774</u>
Total long-term equity investment	<u>832,056</u>	<u>761,414</u>	<u>14,774</u>

- A Xinhua Airline signed a “shares transfer” contract with Aviation Hotel Group Co. Ltd. to transfer 5% shares of Beijing Yanjing Hotel Co. Ltd at 2002., and acquired all the transferring payment of 8,687 thousand Yuan RMB at 2006. After this transfer, the shares of Beijing Yanjing Hotel Group Co. Ltd. held by Xinhua Airline decreased from 40% to 35%.
- B Xinhua Airline signed a “share transfer” contract with Aviation Hotel Group Co. Ltd. and Aviation Hotel Holding Group to transfer 25% shares of Shenzhen Airline Hotel Co. Ltd. at 2004, and acquired all the transferring payment of 6,600 thousand Yuan RMB at 2006. After this transfer, Xinhua Airline doesn’t hold shares of Shenzhen Airline Hotel Co. Ltd. any more.
- C At March, 2006, each shareholder of the Company, Xinhua Airline and Yangzi International finance Leasing Co. Ltd. (original name: Chongqing Changjiang Leasing Company) added capital to Yangzijiang International Finance Leasing Co. Ltd. at the same proportion. After this capital adding, the registered capital of Yangzijiang International Finance Leasing Co. Ltd. increased from 10,000 thousand US dollar to 25,000 thousand US dollar, the investing proportion of each shareholder are unchanged. The investment of the Company increased from 2,000 thousand US dollar to 5,000 thousand US dollar, and the holding proportion is 20%; The investment of Xinhua Airline increased from 2,000 thousand US dollar to 5,000 thousand US dollar, and the holding proportion is 20%.
- D Xinhua Airline signed a contract with Godeng Puer Investing Co., Ltd. to transfer 50% shares of Xinhua Airlines United Transportation Services Co., Ltd., the transferring payment was 2,000 thousand Yuan RMB. After this transfer, Xinhua Airline doesn’t hold the shares of Xinhua Airlines United Transportation Services Co., Ltd. any more.
- E Because of Yun’nan Shilin Airline Company Ltd. failed to operate in normal, the Group didn’t includ it into the united report, and fully made a devaluation provision of the investment.
- F At May, 2006, verified by Beijing Banking Regulatory Commission [2006] NO.190 Document, Hainan Airlines Group Finance Co., Ltd. and Haikou Meilan International Airport Co., Ltd. added capital to Aviation Financial Co., Ltd. amount to 500,000 thousand Yuan RMB. After the capital adding, the registered capital of Aviation Financial Co., Ltd. increased from 300,000 Yuan RMB to 800,000 Yuan RMB, the holding proportion of Xinhua Airlines decreased from 33.33% to 12.5%. This change has been validated by Hainan Lixin Changjiang CPA firm [2006] NO. 234 capital verification report. After this

change, Xinhua Airlines applied Cost Method to calculate their long-term investment.

G At October, 2006, the Company added investment to Hainan Xinguo Hotel amount to 25,000 Yuan RMB, the increasing amount is unpaid investment of the Company when Hainan Xinguo Hotel established. After this adding, the Company invested 40,000 Yuan RMB in total, accounting for 40% of its registered capital. Meanwhile, the Company used Rights and Interests Method instead Cost Method to calculate this long-term investment.

H At November, 2006, approved by China Civil Airline Department, the Company and Aviation Group Co., Ltd. invested together to establish the Daxinhua Giggit Co., Ltd., and it got the corporation charter in the establishing month. The registered capital is 100,000 thousand Yuan RMB, thereinto, the Company invested 19,000 thousand Yuan by cash and bank, accounting for 19% of the total registered capital; Aviation Group Co., Ltd. invested 81,000 thousand Yuan, accounting for 81% of the total. Each investor has already fully made the payment. Moreover, this matter has been validated by Tianjin Zhongshenlian CPA firm Co., Ltd [2006] NO.17 capital verification report.

(3). Long-term equity investment with equity method breakdown:

<u>Item</u>	<u>Initial Amount</u>	<u>Addition</u>	<u>Accrued Investment income</u>	<u>Accrued Increase/ Decrease</u>	<u>Ending amount</u>
Hainan Haihang Aircraft Maintenance Co., Ltd	50,000	-19,517	-1,816	-21,333	28,667
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	3,000	0	4,707	4,707	7,707
Lucky International Travel Services Co., Ltd.	22,000	0	-5,686	-5,686	16,314
Beijing Yanjing Hotel Co., Ltd.	11,269	62,119	-23,286	38,833	50,102
Beijing Vision Advertising Co., Ltd.	3,000	0	-160	-160	2,840
Xinda International Transportation Agency Co., Ltd.	3,312	0	-733	-733	2,579
Shenzhen Aviation Hotel	5,082	0	-5,082	-5,082	0
Yangtse River International Leasing Co., Ltd.	40,545	48,000	-1,829	46,171	86,716
Xinhua Airlines United Transportation Services Co., Ltd.	2,750	0	-2,750	-2,750	0
Yunnan Shilin Travel Airlines Company Limited	8,000	0	0	0	8,000
Hainan Airlines Group Finance Company Limited	100,000	0	-100,000	-100,000	0
Yunnan Xiangpeng Airlines Co., Ltd.	47,073	0	-3,311	-3,311	43,762
Hainan Xinguo Hotel Co., Ltd	15,000	25,000	-770	24,230	39,230
<u>Total</u>	<u>311,031</u>	<u>115,602</u>	<u>-140,716</u>	<u>-25,114</u>	<u>285,917</u>

(4) Consolidation differences

<u>Items</u>	<u>Initial Amount</u>	<u>31 December 2005</u>	<u>Addition</u>	<u>Amortization</u>	<u>31 December 2006</u>
Xinhua Airlines	68,109	38,373	0	6,771	31,602
Chang'an Airlines	9,878	5,759	0	988	4,771
Shanxi Airlines	99,033	67,673	0	9,904	57,769
Total	177,020	111,805	0	17,663	94,142

8. Fixed Assets

← --- 带格式的: 项目符号和编号

(1) Cost, Accumulated depreciation

← --- 带格式的: 项目符号和编号

		<u>Plant & Building</u>	<u>Aircraft & Engines owned</u>	<u>Aircraft & Engines held under finance lease</u>	<u>Leasehold improvement</u>	<u>Vehicles</u>	<u>Other Equipments</u>	<u>High-price rotatable spares</u>	<u>Total</u>
<u>Cost</u>									
31 December 2005		2,103,031	14,188,008	5,240,166	211,953	208,860	340,612	2,343,049	24,635,679
Additions		17,325	2,522,126	3,874,098	0	12,539	33,051	105,975	6,565,114
Including CIP									
transferred in		15,131	2,139,329	41,032	0	0	1,598	0	2,197,090
Disposals		158,155	3,859,478	1,595,223	0	2,780	5,288	105,317	5,726,241
31 December 2006		1,962,201	12,850,656	7,519,041	211,953	218,619	368,375	2,343,707	25,474,552
<u>Accumulated depreciation:</u>									
31 December 2005		227,118	1,895,355	1,726,358	177,140	101,366	140,636	977,943	5,245,916
Additions		51,764	663,010	343,262	14,348	18,024	36,780	176,728	1,303,916
Disposals		33,827	187,162	716,964	0	2,170	4,405	40,797	985,325
31 December 2006		245,055	2,371,203	1,352,656	191,488	117,220	173,011	1,113,874	5,564,507
Net book value:									
31 December 2005		1,875,913	12,292,653	3,513,808	34,813	107,494	199,976	1,365,106	19,389,763
31 December 2006		1,717,146	10,479,453	6,166,385	20,465	101,399	195,364	1,229,833	19,910,045

A. Within the report period, the increases in plant & building in amount of 17,325 thousand Yuan were mainly transferred from construction in progress including Sanya Travel

← --- 带格式的: 项目符号和编号

Training College, Meilan Airport Base, 1# maintaining garage.

- B. Within the report period, "aircraft & Engines owned" increased 2,522,126 thousand Yuan, 带格式的: 项目符号和编号
mainly because the Group purchased two A319 aircrafts, one 737-800 aircrafts, and capitalization of material reconstruction of two 767 aircrafts; meanwhile, the Group held four A319 and four B737 aircrafts under finance lease with Changjiang Leasing Co., Ltd. The leaseback formed financing leasing, which made the original value of "aircraft & Engines owned" decreased 3,356,647 thousand Yuan, and the net value decreased 3,297,547 thousand Yuan; besides, the Group held one B767 engine and one B737 engine under finance lease with South International Finance Leasing Company, The leaseback formed financing leasing, which made the original value decreased 119,706 thousand Yuan, and the net value decreased 80,806 thousand Yuan; Chang'an Airlines sole its owned two DH84 aircrafts, which made the original value decreased 37,520 thousand Yuan, and the net value decreased 285,389 thousand Yuan; Chan'an Airlines planned to sell its owned DH84 aircraft's engine and the high-price rotatable spares, therefore, transferred the engine, which original value is 12,606 thousand Yuan, net value is 9,611 thousand Yuan, and the high-price rotatable spares, which original value is 99,207 thousand Yuan, net value is 38,515 thousand Yuan into disposal of fixed assets.
- C. Other increases and decreases in financing lease of aircrafts & engine are due to the 带格式的: 项目符号和编号
Group re-leaseback the four B737 aircrafts, whose financing leasing period have already been mature, and capitalization of material reconstruction of one financed leased 767 aircrafts.
- D. High-price spares increased 105,975 thousand Yuan, mainly because the models and 带格式的: 项目符号和编号
quantities of the aircrafts increased.
- E. Up to December 31st, 2006, the original value of Plant & Building been pledged was 带格式的: 项目符号和编号
1,095,514 thousand Yuan, the net value was 959,785 thousand Yuan; the original value of Aircraft & Engine was 17,103,724 thousand Yuan, the net value was 13,715,995 thousand Yuan, thereinto, the original value of financing leased aircrafts and engines was 9,227,840, and the net value was 7,546,704 thousand Yuan.
- F. Up to the balance sheet date, included in the net book value of buildings is a total of 带格式的: 项目符号和编号
431,188 thousand Yuan, which property certificates have not been obtained, the application of property certificates for these buildings is still in process. According to Hainan Baodao Attorney Firm Bao Yi Zi (2007) NO. 2 legal report, there is no legal obstacles for the Company to get the property certificates for these buildings.

(2) Provision for Impairment

<u>Items</u>	<u>31 December 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2006</u>
<u>Plant and Buildings</u>	<u>8,337</u>	<u>21</u>	<u>8,000</u>	<u>358</u>

High-price rotatable spares	16,378	0	0	16,378
Furniture & Office Equipment	130	0	0	130
Machinery Equipment	400	0	0	400
Others	14	0	0	14
Total	25,259	21	8,000	17,280

A. The Group made a devaluation provision amount to 21 thousand Yuan for the Plant & Building, whose recoverable value is lower than the book value in 2006.

B. Within the report period, the Group signed a “house property” transferring contract with HNA Group, to transfer a house property, which book value was 146,818 thousand Yuan, net value was 113,402 thousand Yuan, this asset was transferred into disposal of fixed assets at the end of the report period. Meanwhile, the Company wrote back 8,000 thousand Yuan, which has been made devaluation provision previous years.

(3) Disposal of fixed assets

Items	Cost	Accumulated depreciation	Net book value
Plant and Buildings	146,818	33,416	113,402
Aircraft Engine	12,605	2,994	9,611
High-price rotatable spares	99,207	38,515	60,692
Total	258,630	74,925	183,705

9. Construction in Progress

带格式的: 项目符号和编号

(1). Construction in Progress includes:

Items	31 December 2006	31 December 2005
Prepayment for aircraft & Engine	1,302,113	784,815
Construction Projects	769,315	339,830
Total	2,071,428	1,124,645
Provision for impairment	1,467	6,862
Net book value	2,069,961	1,117,783

(2). Prepayment for aircraft and engines Breakdown

<u>Items</u>	<u>31 December</u> <u>2005</u>	<u>Additions</u>	<u>Transferred</u> <u>to FA</u>	<u>Lessee</u> <u>n</u>	<u>31</u> <u>December</u> <u>2006</u>
Dornier 328 aircrafts	20,723	0	0	20,723	0
B737-800 aircrafts	433,434	1,737,007	1,295,548	0	874,893
A319 aircrafts	226,491	855,185	758,623	0	323,053
B787 aircrafts	104,167	0	0	0	104,167
<u>Total</u>	<u>784,815</u>	<u>2,592,192</u>	<u>2,054,171</u>	<u>20,723</u>	<u>1,302,113</u>

Within the report period, the Company signed a “purchasing rights” transferring contract with Grand China Airlines Express Co., Ltd to transfer the D328 aircraft. The Company transferred the prepayment of D328 aircraft on the book value in an amount of 20,723 thousand Yuan. After the transfer, all the rights and obligations relating to the original purchasing contract have been transferred to Daxinhua Giggitt Airline Co., Ltd.

(3). Construction Projects Breakdown

<u>Name</u>	<u>31</u> <u>December</u> <u>2005</u>	<u>Addition</u>	<u>Transferred</u> <u>to Fix</u> <u>Assets</u>	<u>Other</u> <u>Disposals</u>	<u>31</u> <u>December</u> <u>2006</u>	<u>Source of</u> <u>Fund</u>	<u>Stage of</u> <u>completion</u>	<u>Remarks</u>
Sanya Travel Training School PROS income management system	2,726	14,756	13,598	0	3,884	Loan	Bacially finished	
GENESYS software	2,837	1,614	0	0	4,451	Owned	In progress	
Basement in Beijing International Airport	1,470	0	0	0	1,470	Owned	In progress	
Kehang Mansion	2,000	401,217	0	9	403,208	Loan	In progress	A
Tianzhu 3 rd Stage	301,430	0	0	0	301,430	Owned	In progress	B
Xiguan Airport	0	12,527	168	909	11,450	Owned	In progress	
B767 aircrafts reconstruction	500	0	0	0	500	Owned	In progress	
Others	0	123,095	123,095	0	0	Owned	finished	C
<u>Total</u>	<u>28,867</u>	<u>23,255</u>	<u>6,058</u>	<u>3,142</u>	<u>42,922</u>	<u>Owned</u>	<u>In progress</u>	
	<u>339,830</u>	<u>576,464</u>	<u>142,919</u>	<u>4,060</u>	<u>769,315</u>			

A. Within the report period, Xinhua Airline continued to proceed the construction of Basement in Beijing International Airport, and consigned Beijing Airport Construction Service Center to take charge the compensation of pulling down. Up to year end of 2006, Xinhua Airline has paid “pulling down” fee in an amount

← - - - 带格式的: 项目符号和编号

of 255,500 thousand Yuan, accounting for 70% of the total, the payables were 109,500 thousand Yuan, and other related capitalized payment was 36,000 thousand Yuan.

B. At July, 2004, Xinhua Airline made an agreement to corporate with Beijing Kehang Investment Co., Ltd. to construct Beijing Kehang Mansion. The Company planed to invested 338,820 thousand Yuan, and the Company will got a house property with 36,041 square meters after construction. According to the agreement, the house property should be handed before December 31st, 2006. At December, 2006, both sides signed a complementary contract to postpone the handed date to August 31st, 2008. Up to December 31st, 2006, Xinhua Airline made a payment of 301,430 thousand Yuan for construction in total.

← --- 带格式的: 项目符号和编号

C. The reconstruction of B767 was that reconstructed three B767 aircrafts of the Company at 2006, and transferred into "Aircraft & Engine owned" and "Held Aircrafts & Engine under Finance Leasing" after reconstruction.

← --- 带格式的: 项目符号和编号

D. The increases in construction in progress this year included capitalized interest in an amount of 31,874 thousand Yuan, and exchange loss or gain in an amount of -34,067 thousand Yuan at the capitalization rate as follow: 7.17% for A319, 6.84% for B737-800, and 6.39% for Capital Airport Base.

← --- 带格式的: 项目符号和编号

(4) Provision of Impairment

Item	31 December 2005	Additions	Disposals	31 December 2006	The reason
Xiguan Airport	500	0	0	500	Stop construction
3 Dornier 328 signed in 2003	6,362	0	6,362	0	
The 18 th building in Yantai economic district	0	800	0	800	Stop construction
Others	0	167	0	167	
Total	6,862	967	6,362	1,467	

See Note VI. 9, (2), the Company transferred Dornier 328 to related parties on the book value, therefore, canceled the impairment provision in an amount of 6,362 thousand Yuan made previous years.

10. Intangible Assets

← --- 带格式的: 项目符号和编号

Items	Land Use Right
Acquisition method	Purchase
Cost	16,081

<u>31 December 2005</u>	<u>14,272</u>
<u>Additions</u>	<u>0</u>
<u>Amortization</u>	<u>402</u>
<u>Other disposal</u>	<u>0</u>
<u>Accumulated amortization</u>	<u>2,211</u>
<u>31 December 2006</u>	<u>13,870</u>
<u>Remaining years</u>	<u>34</u>

11. Long-term deferred expenses

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>31</u> <u>December</u> <u>2005</u>	<u>Additions</u>	<u>Amortization</u>	<u>31</u> <u>December</u> <u>2006</u>	<u>Initial</u> <u>Amount</u>	<u>Remaining</u> <u>Years</u>	<u>Accumulated</u> <u>Amortization</u>
<u>Supervision for Reforming Aircraft</u>	<u>13,313</u>	<u>0</u>	<u>8,562</u>	<u>4,751</u>	<u>208,922</u>	<u>1-5years</u>	<u>204,171</u>
<u>Initial acquisition of Pilots & training Fee</u>	<u>289,030</u>	<u>74,344</u>	<u>83,572</u>	<u>279,802</u>	<u>676,893</u>	<u>1-7years</u>	<u>397,091</u>
<u>Rents of Tianzhu Basis</u>	<u>16,644</u>	<u>0</u>	<u>1,093</u>	<u>15,551</u>	<u>26,587</u>	<u>23years</u>	<u>11,036</u>
<u>Using charge for Tianjin Aircraft Parking Area</u>	<u>7,932</u>	<u>0</u>	<u>381</u>	<u>7,551</u>	<u>9,760</u>	<u>21years</u>	<u>2,209</u>
<u>Others</u>	<u>24,777</u>	<u>7,443</u>	<u>18,341</u>	<u>13,879</u>	<u>162,436</u>	<u>1-6years</u>	<u>148,557</u>
<u>Total</u>	<u>351,696</u>	<u>81,787</u>	<u>111,949</u>	<u>321,534</u>	<u>1,084,598</u>		<u>763,064</u>

12. Other long-term assets

← --- 带格式的: 项目符号和编号

Deferred losses and gains under sale and leaseback transactions breakdown:

<u>Lessor</u>	<u>31</u> <u>December</u> <u>2005</u>	<u>Addition</u>	<u>Amortization</u>	<u>Other</u> <u>Disposals</u>	<u>31</u> <u>December</u> <u>2006</u>	<u>Initial</u> <u>Amount</u>	<u>Remaining</u> <u>Years</u>	<u>Accumulated</u> <u>Amortization</u>
<u>Sumisho Aircraft Asset Management B.V</u>	<u>37,014</u>	<u>0</u>	<u>8,218</u>	<u>0</u>	<u>28,796</u>	<u>65,744</u>	<u>3.5years</u>	<u>36,948</u>
<u>Mc. Aviation Financial Services (Europe) B.V</u>	<u>37,300</u>	<u>0</u>	<u>8,158</u>	<u>0</u>	<u>29,142</u>	<u>65,264</u>	<u>3.5years</u>	<u>36,120</u>
<u>Jiangsu Leasing Co., Ltd.</u>	<u>-1,366</u>	<u>0</u>	<u>-81</u>	<u>0</u>	<u>-1,285</u>	<u>-1,616</u>	<u>16years</u>	<u>-331</u>
<u>Chongqing Changjiang</u>	<u>36,537</u>	<u>-21,244</u>	<u>50</u>	<u>35,699</u>	<u>-20,456</u>	<u>32,373</u>	<u>13years</u>	<u>17,130</u>

International Leasing Co., Ltd.								
Far East International Leasing Co., Ltd.	29,282	0	3,962	0	25,320	39,844	6.5years	14,520
South Leasing Co., Ltd.	0	111,453	9,842	0	101,611	111,453	4.5years	9,842
Shanghai Trust&Investment Co., Ltd.	0	992	104	0	888	992	2.5years	104
Shenzhen Leasing Co., Ltd.	202,729	0	11,091	0	191,638	235,055	0.5-16years	43,417
Total	341,496	91,201	41,344	35,699	355,654	549,109		157,753

Other long-term assets refer to deferred losses and gains under sales with leasebacks, which represents the difference between the selling price of the aircrafts and engines under sales with leasebacks and their carrying amount. Deferred losses or gains arisen from operating leases are amortized evenly over the lease period. Deferred losses or gains arisen from finance leases are amortized evenly over the estimated useful lives.

Within the report period, "other disposal" is due to Xihua Airline returned the payment of four B737-800 aircrafts financed leased previously, and ended the leasing contract with Yangzijiang International Leasing Co., Ltd.

13. Short-term Loans

← --- 带格式的: 项目符号和编号

Item		31 December 2006	31 December 2005	Annual Interest Rate
Bank loans				
Including:	Unsecured loans	0	530,000	5.05%
	Mortgaged loans	370,000	442,000	5.86%
	Guaranteed loans	3,049,964	3,233,000	5.022%-5.58%
	Hypothecation loans	1,890,771	506,779	4.72%-5.58%
Loans from other financial institutions				
Including:	Unsecured loans	106,291	112,609	5.59%
	Guaranteed loans	0	30,000	8.3%
Short-term financing bond		541,688	0	3.38%

Total	<u>5,958,714</u>	<u>4,854,388</u>
-------	------------------	------------------

(1). Bank loans

The pledges of 280,000 thousand Yuan were mortgaged by access right of the plants, buildings and Golf field of Hainan Xinglong Spa and Golf Co., Ltd., Hainan Xinglong Spa and Golf guild, Haikou Xincheng Construction Exploring Co., Ltd. Meanwhile, part of them was pledged by Haikou Meilan International Airport Co., Ltd. The pledges of 90,000 thousand Yuan were mortgaged by one B737-800 aircraft owned by Xinhua Airlines.

Pledged loans of 2,007,964 thousand Yuan were pledged by Haikou Meilan International Airport Co., Ltd. and HNA Group Co., Ltd.; 20,000 thousand Yuan were pledged by HNA Hotel Holding Co., Ltd and Xinhua Airlines; the remainder of 1,022,000 thousand Yuan were pledged by the Company to the branches.

Among the impawned loans, 600,000 thousand Yuan was mortgaged by the Company's fixed deposit in an amount of 790,000 thousand Yuan; 196,000 thousand Yuan was mortgaged by 582.65 million shares of Xinhua Airlines held by the Company; 200,000 thousand Yuan was mortgaged by 160 million shares of the Company held by Xinhua Airlines Holdings; 312,348 thousand Yuan was mortgaged by 80 million shares of Hainan Meilan International Airport Co., Ltd. held by Haikou Meilan International Airport Co., Ltd.; the remainders of 582,423 thousand Yuan was mortgaged by 130 million shares of Yangzijiang, 270 million shares of HNA Group Financial Co., Ltd., 50 million corporation shares of Xi'an Mingsheng (Group) Company Limited, 10.76% shares of Haikou Meilan International Airport Co., Ltd, 143.4864 million shares of Guangdong Xinhua Industry, and 15.9429 million shares of Shanxi Yingze aviation Hotel held by Aviation Group, Xinhua Airlines and Aviation Hotel Group Co., Ltd. Meanwhile, Binhai Road 111# house property was mortgaged by the Company, and pledged by Haikou Meilan International Airport Co., Ltd.

(2). Non-Financing Institutions Loans

Non-bank financing institutions loans included: the loans of 4,778 thousand Yuan from Hainan America Company, loans of 101,513 thousand Yuan from Hong Kong Qianjiangyuan Investment Co., Ltd.

(3). Short-term Financing Loans

Approved by China Bank "Yin Fa [2006] NO. 137" Document, the Group published short-term financing bonds with the highest face value of 560,000 thousand Yuan,

and the expired period is one year, with an interest of 3.38%.

14. Notes Payable

带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Bank Acceptance</u>	<u>335,485</u>	<u>116,000</u>
<u>Commercial Acceptance</u>	<u>1,623,221</u>	<u>701,433</u>
<u>Total</u>	<u>1,958,706</u>	<u>817,433</u>

(1). There is no payable due to shareholders holding over 5% (including 5%) interest of the Company.

(2). In the balance, the bank acceptance draft payables of 40,000 thousand Yuan were pledged by Haikou Meilan International Airport Co., Ltd. 85,485 thousand Yuan were pledged by Aviation Group Co., Ltd. and the Company to Xinhua Airlines; and the commercial acceptance draft payables of 1,028,961 thousand Yuan were pledged by Aviation Group Co., Ltd. 559,378 thousand Yuan were pledged by HNA Group Co., Ltd. and Xinhua Airlines.

15. Payable

带格式的: 项目符号和编号

(1). Accounts Payable

The balance of accounts payable is 1,672,499 thousand Yuan at December 31st, 2006. (December 31st, 2006: 1,533,233 thousand Yuan) mainly included payables of aviation material, fuel oil fee, take-off and landing charges and payables of selling tickets for other airline companies.

Account payable due to shareholders holding over 5% (including 5%) interest of the Company included 169,633 thousand Yuan of Changjiang Leasing Co., Ltd.; 82,172 thousand Yuan of Haikou Meilan International Co., Ltd.

(2). Other Payables

The balance of other payable is 599,803 thousand Yuan at December 31st, 2006, (December 31st, 2005: 361,824 thousand Yuan).

There is no the other payable due to shareholders holding over 5% (including 5%) interest of the Company.

16. Dividend Payable

带格式的: 项目符号和编号

<u>Items</u>	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>Remarks</u>
<u>Legal person shares</u>	<u>13,548</u>	<u>21,011</u>	<u>Normal arrears to pay</u>
<u>Others</u>	<u>5,878</u>	<u>5,878</u>	<u>Normal arrears to pay</u>
<u>Total</u>	<u>19,426</u>	<u>26,889</u>	

17. Taxes Payable

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Value-added Tax</u>	<u>107,465</u>	<u>288,226</u>
<u>Business tax</u>	<u>-24,380</u>	<u>27,695</u>
<u>City construction tax</u>	<u>1,954</u>	<u>2,988</u>
<u>Income tax</u>	<u>-606</u>	<u>-1,766</u>
<u>Customs duty</u>	<u>-17,376</u>	<u>-21,841</u>
<u>Others</u>	<u>-85</u>	<u>1,632</u>
<u>Total</u>	<u>66,972</u>	<u>296,934</u>

For details of the tax rate of the Group goes to Note V: Taxation Items.

18. Other statutory payable

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Civil aviation infrastructure Fund</u>	<u>112,206</u>	<u>140,052</u>
<u>Education surcharge</u>	<u>2,515</u>	<u>2,947</u>
<u>Airport Construction Fee</u>	<u>230,659</u>	<u>170,909</u>
<u>Total</u>	<u>345,380</u>	<u>313,908</u>

According to circular Cai Zong No.[2004]51 the Answer of reform the collection of civil aviation construction fee approved by the Ministry of Finance ("MOF") and the Civil Aviation Administration of China, the carrier withholds airport construction fee from passengers for the Civil Aviation Administration of China ("CAAC") and hand in to CAAC per month effected 1 September 2004. The balance of airport construction fee is mainly the payables of the fee.

19. Accrued Expenses

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>remarks</u>
<u>Fuel expenses</u>	<u>119,092</u>	<u>271,399</u>	<u>Accrued charge not paid</u>
<u>Take-off and landing charges</u>	<u>484,770</u>	<u>391,530</u>	<u>Accrued charge not paid</u>
<u>Catering expenses</u>	<u>40,070</u>	<u>20,525</u>	<u>Accrued charge not paid</u>
<u>Loan interest</u>	<u>64,768</u>	<u>47,051</u>	<u>Accrued charge not paid</u>
<u>Aircraft & engine maintenance costs</u>	<u>424,558</u>	<u>282,159</u>	<u>Accrued charge not ha ppen</u>
<u>Fee of computer reservation</u>	<u>75,837</u>	<u>66,284</u>	<u>Accrued charge not paid</u>
<u>Aircraft insurance premium</u>	<u>61,206</u>	<u>61,318</u>	<u>Accrued charge not paid</u>
<u>Others</u>	<u>25,791</u>	<u>26,471</u>	<u>Accrued charge not paid</u>
<u>Total</u>	<u>1,296,092</u>	<u>1,166,737</u>	

20. Sales in Advance of Carriage

← --- 带格式的: 项目符号和编号

The balance of sales in advance of carriage represents the amount of sold but unused tickets in an amount of 633,915 thousand Yuan at December 31st, 2006. (477,141 thousand Yuan at December 31st, 2005).

21. Current Portion of Long-term Liabilities

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Current portion of long-term loans (a)</u>	<u>1,564,586</u>	<u>1,529,199</u>
<u>Current portion of long-term payable (b)</u>	<u>485,087</u>	<u>589,171</u>
<u>Total</u>	<u>2,049,673</u>	<u>2,118,370</u>
<u>Decreases: Unrecognized finance leasing expenses</u>	<u>140,660</u>	<u>63,386</u>
<u>Current Portion of Long-term Liabilities</u>	<u>1,909,013</u>	<u>2,054,984</u>

(a) Current portion of long-term loans

<u>Item</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>
<u>Bank Loans</u>		
<u>Including:</u>		
<u>Unsecured loans</u>	<u>348,055</u>	<u>269,968</u>
<u>Mortgaged loans</u>	<u>459,098</u>	<u>425,178</u>
<u>Guaranteed loans</u>	<u>410,000</u>	<u>450,000</u>
<u>Hypothecation loans</u>	<u>347,433</u>	<u>384,053</u>
<u>Subtotal</u>	<u>1,564,586</u>	<u>1,529,199</u>

A. Unsecured loans are the loans from financial institution for the acquisition of aircrafts.

B. Mortgaged loans are pledged by the owned aircraft as security.

C. Guaranteed loans of 410,000 thousand Yuan were pledged by Haikou Meilan International Airport and HNA Group.

D. In hypothecation loans, the 160,000 thousand Yuan were pledged by the Company's BPS benefits; the 30,000 thousand Yuan were impawned with 60 million shares of Haikou Meilan International Airport Co., Ltd. by HNA Group; the 93,705 thousand Yuan were impawned with shares of Haikou Meilan International Airport Co., Ltd. by HNA Group, and meanwhile by three B737-800 aircrafts owned by the Company as mortgages; 12,494 thousand Yuan impawned with shares of Haikou Meilan International Airport Co., Ltd. by the Company, and meanwhile pledged by the HNA Group; and the remainders were impawned with shares of Haikou Meilan International Airport Co., Ltd., shares of Xinhua Airlines, shares of Chang'an Airlines, and shares of Shanxi Airlines, held by the Company.

b) Current portion of long-term payables

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

<u>Lessor</u>	<u>Period</u>	<u>Initial</u> <u>Amount</u>	<u>Interest Payable</u>	<u>31</u> <u>December</u> <u>2006</u>
<u>Jiangsu Leasing Co., Ltd.</u>	<u>6years</u>	<u>37,111</u>	<u>0</u>	<u>8,994</u>
<u>Shenzhen Finance & Leasing Co. Ltd</u>	<u>10years</u>	<u>885,860</u>	<u>16,882</u>	<u>12,112</u>
<u>Chongqing Changjiang International Leasing Co., Ltd.</u>	<u>13.5years</u>	<u>1,012,946</u>	<u>39,181</u>	<u>39,181</u>
<u>Yangzts River international leasing Co.,Ltd</u>	<u>1-4years</u>	<u>11,734</u>	<u>493</u>	<u>10,644</u>

<u>Hainan Biao Zhun Leasing Co., Ltd.</u>	<u>6years</u>	<u>145,264</u>	<u>6,581</u>	<u>28,445</u>
<u>Raytheon Aircraft Co.Ltd</u>	<u>11.5years</u>	<u>82,880</u>	<u>0</u>	<u>6,553</u>
<u>Sino-America Aviation</u>	<u>11-13years</u>	<u>1,437,975</u>	<u>38,911</u>	<u>164,672</u>
<u>Far East International Leasing Co., Ltd.</u>	<u>2-4.5years</u>	<u>290,000</u>	<u>6,917</u>	<u>81,529</u>
<u>South International Leasing Co., Ltd.</u>	<u>5years</u>	<u>431,482</u>	<u>20,563</u>	<u>96,564</u>
<u>Shanghai Trust&Investment Co.,Ltd</u>	<u>3years</u>	<u>166,953</u>	<u>11,132</u>	<u>36,393</u>
<u>Total</u>		<u>4,502,205</u>	<u>140,660</u>	<u>485,087</u>

22. Long-term Loans

← --- 带格式的: 项目符号和编号

		<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Bank loans</u>			
<u>Including:</u>	<u>Unsecured loans</u>	<u>774,807</u>	<u>1,272,079</u>
	<u>Mortgaged loans</u>	<u>3,881,556</u>	<u>2,516,790</u>
	<u>Guaranteed loans</u>	<u>2,211,780</u>	<u>2,443,667</u>
	<u>Hypothecation loans</u>	<u>4,393,773</u>	<u>7,089,738</u>
	<u>Subtotal</u>	<u>11,261,916</u>	<u>13,322,274</u>
<u>Loans from other financial institutions</u>			
<u>Including:</u>	<u>Unsecured loans</u>	<u>3,967</u>	<u>3,967</u>
	<u>Subtotal</u>	<u>3,967</u>	<u>3,967</u>
<u>Total</u>		<u>11,265,883</u>	<u>13,326,241</u>

310,000 thousand Yuan mortgaged loans were mortgaged with the house property of Xinhua Airlines Base, and the rest of them were mortgaged by aircrafts owned by the Group.

Meilan Airport and HNA Group guaranteed for the guaranteed loans of the Group as amount to 2,031,780 thousand Yuan, and the Company pledged the rest of them to the branches.

—
In hypothecation loans, the 160,000 thousand Yuan were pledged by the Company's BPS benefits; the 708,640 thousand Yuan were impawned with shares of Haikou Meilan International Airport Co., Ltd. by HNA Group, and meanwhile by three B737-800 aircrafts owned by the Company as mortgages; 289,610 thousand Yuan impawned with shares of Haikou Meilan International Airport Co., Ltd. by the Company, and meanwhile pledged by the HNA Group; and the remainders were impawned with shares of Haikou Meilan International Airport Co., Ltd., shares of Xinhua Airlines, shares of Chang'an Airlines, and shares of Shanxi Airlines, held by the Company.

23. Long-term Payables

带格式的: 项目符号和编号

(1) Long-term payables by remaining due years breakdown:

带格式的: 项目符号和编号

Items	31 December 2006	31 December 2005
Minimum Lease Payments		
Including: The second year	375,143	395,755
The third year	421,704	283,694
Following years	1,870,927	1,263,467
Total	2,667,774	1,942,916
Decreases: Unrecognized finance leasing expenses	695,639	176,043
Long-term Payables	1,972,135	1,766,873

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

(2) Long-term payables by clients breakdown

带格式的: 项目符号和编号

Lessor	Remaining Years	Initial Amount	Interest Payable	31 December 2006	Type
Shenzhen Finance & Leasing Co. Ltd	10years	885,860	73,027	223,365	Finance leasing aircraft
Changjiang Leasing Co., Ltd.	13.5years	1,012,946	463,272	973,776	Finance leasing aircraft
Yangtze River international leasing Co., Ltd.	1-4years	11,734	0	608	Finance leasing aviation consumables & vehicle
Hainan Biaozhun Leasing Co., Ltd.	6years	145,264	8,826	94,722	Finance leasing aircraft
Raytheon Aircraft Co., Ltd.	11.5years	82,880	0	38,572	Finance leasing aircraft
Sino-America Aviation	11-13years	1,437,975	112,327	897,453	Finance leasing aircraft
Far East International Leasing Co., Ltd.	2-4.5years	290,000	142	36,410	Finance leasing aircraft
South International Leasing Co., Ltd.	5years	431,482	31,272	287,871	Finance leasing aircraft&engine
Shanghai Trust&Investment Co., Ltd	3years	166,953	6,773	114,997	Finance leasing aircraft
Total		4,465,094	695,639	2,667,774	

Within the report period, the Group sold four A319 aircrafts with a net value of 1,466,729 thousand Yuan, and four 737 aircrafts with a net value of 1,830,818 thousand Yuan to Changjiang Leasing Co., Ltd, which is the shareholder of the Group, and then leased back after

financing lease. The financing amount was 412,920.7 thousand US dollar in total, the leasing period and long-term leasing period is up to December 29th, 2019; in this period, the Group paid the principal covered the 25 periods from December, 2006 to November, 2008, and the payment was 3.475444 billion US dollar.

Within the report period, the Group signed a contract with Shenzhen Finance Leasing Co., Ltd and Yangtse River International Leasing Company, the related parties, to consign to pay off money in advance. The Group paid 28,910 thousand Yuan, which was the last three periods principals of financing leases of four 737 engines from Shenzhen Finance Leasing Co., Ltd. in advance; and paid 341,250 thousand Yuan, which was the principal of financing lease of B2492 aircraft covered the periods from September, 2006 to December, 2012.

Within the report period, Xinhua Airlines ceased the original financing lease contract with Yangzijiang International Leasing Co., Ltd. by paid off 81,908 thousand Yuan of four B737-800 aircrafts, which were financed leased in advance, and transferred the four aircrafts into self-owned, then sold two of them to South International Leasing Company, furthermore, made a leaseback of them, and finance 200,000 thousand Yuan in total, the leasing period is five years; besides, sold one aircraft to Shanghai Trust & Investment Co., Ltd., and made a leaseback by financing lease. The financing amount was 140,000 thousand Yuan, leasing period was three years.

24. Specific Payables

← --- 带格式的: 项目符号和编号

The balance of specific payment for the year ended 31 December 2006 is 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 its circular Shan Ji Tou Zi No.[2001]1239.

25. Other Long-term Liabilities

← --- 带格式的: 项目符号和编号

The balance of other long-term liabilities is 107,296 thousand as of 31 December 2006 which is the VAT payables and customs duty for the imported aircraft in 2007 and later.

Minority Interests

<u>Subsidiary Company</u>	<u>Owners Equity as at 31 December 2006</u>	<u>Percentage</u>	<u>Amount</u>
<u>China Xinhua Airlines Co., Ltd.</u>	<u>1,540,713</u>	<u>40%</u>	<u>616,368</u>
<u>Changan Airlines Co., Ltd.</u>	<u>295,550</u>	<u>26.49%</u>	<u>78,519</u>
<u>Shanxi Airlines Co., Ltd.</u>	<u>602,336</u>	<u>17.26%</u>	<u>18,196</u>
<u>Deer Jet Co., Ltd.</u>	<u>119,631</u>	<u>5%</u>	<u>5,982</u>
<u>Hainan Airlines VIP Flight Services Co., Ltd.</u>	<u>-29,902</u>	<u>49%</u>	<u>-14,652</u>
<u>Beijing Xinhua Air Catering Co., Ltd.</u>	<u>117,673</u>	<u>49%</u>	<u>57,660</u>
<u>Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.</u>	<u>23,211</u>	<u>20%</u>	<u>4,642</u>
<u>Xi'an Haihang Real Estate Co., Ltd</u>	<u>29,934</u>	<u>20%</u>	<u>5,987</u>
<u>Total</u>			<u>772,702</u>

26. Share Capital

← --- 带格式的: 项目符号和编号

Par share value is 1.00, the Share capital breakdown:

<u>Item</u>	<u>31 December 2004</u>	<u>Increase /Decrease</u>	<u>31 December 2005</u>
<u>(1) Unlisted shares</u>			
<u>(a) Promoter shares</u>	<u>134,837</u>	<u>-134,837</u>	<u>0</u>
<u>Including: State shares</u>	<u>17,289</u>	<u>-17,289</u>	<u>0</u>
<u>(b) Domestic legal person shares</u>	<u>38,735</u>	<u>-38,735</u>	<u>0</u>
<u>Subtotal</u>	<u>173,572</u>	<u>-173,572</u>	<u>0</u>
<u>(2) Listed shares</u>			
<u>1、 Limited sale of shares conditions</u>	<u>0</u>	<u>2,850,826</u>	<u>2,850,826</u>
<u>2、 Unlimited shares in circulation for sale</u>	<u>556,681</u>	<u>122,746</u>	<u>679,427</u>
<u>Subtotal</u>	<u>556,681</u>	<u>2,973,572</u>	<u>3,530,253</u>
<u>Total</u>	<u>730,253</u>	<u>2,800,000</u>	<u>3,530,253</u>

In according with the approval of China Regulatory Securities Commission by its circular Zheng Jian Gong Si Zi No.[2005]50 Notice of Hainan Airlines issuing directional shares, Hainan Airlines can issue no more than 2,800million personal legal shares. The Company finished all the adding issues with a price of 2 Yuan at June 29th, 2006, accumulated funds 5,600,000,000 Yuan in total, and completed the changeable registration procedure by China

Security Registration and Liquidation Company Shanghai Branch. Thereinto, added 1,650,000,000 shares to Xinhua Airlines Holding Co., Ltd., 450,000,000 shares to Haikou Meilan International Airport Co., Ltd, 300,000,000 shares to Changjiang Leasing Co., Ltd, 240,000,000 shares to Hainan Jiaxin Investment Co., Ltd., 150,000,000 shares to Sanya Phenix International Airport Co., Ltd, and 10,000,000 shares to Hainan Taiheng Industry Co., Ltd. the amount of added capital have been validated by Asian Pacific Zhonghui CPA firm Ya Tai Yan Zi [2006] NO. D-A-011 to [2006] NO. D-A-019 capital verification report. After this added issues, the Company's shares increased to 3,530,252,801.00 Yuan.

According to the decision of Shareholders Meeting held at July 24th, 2006, the Ministry of Commerce Shang Zi Pi [2006] NO. 1672 Document "About agree to Aviation Airline Stock Company transferred shares", and the State-owned Assets Supervision and Administration Commission of Hainan government Qiong Guo Zi Han [2006] NO. 330 Document "verification of Hainan Airline Stock Co., Ltd. shares allocation reformation matters", the Company implemented shares allocation scheme: according to the base of 3,530,252,801 shares in total, made a payment of 3.3 shares per 10 shares from non-current shareholders to "A stock" current shareholders, which have been registered on the date when the scheme been implemented and stocks registration date, paid 122,746,062 shares in total to "A stock" current shareholders. After the allocation and reformation of shares, all the shares can be circulated on the market after the limited period.

27. Capital Reserve

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>31 December</u> <u>2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>31 December</u> <u>2006</u>
Share premium	965,745	2,800,000	4,200	3,761,545
Donated aviation materials	11,056	0	0	11,056
Share premium from Associated Company	61,605	0	0	61,605
Related party transactions difference	18,091	0	0	18,091
Provision for equity investment	2,387	217	0	2,604
Others	1,500,000	0	1,500,000	0
<u>Total</u>	<u>2,558,884</u>	<u>2,800,217</u>	<u>1,504,200</u>	<u>3,854,901</u>

According to the decision made at the first shareholders meeting in 2005, which held at May 24th, 2005, and the verification of China Security Supervision and Administration Commission "Security Supervision and Administration Company Zi [2005] NO. 50 Document "About Notices of Hainan Airline Stock Company directional added shares": the Company can directionally issue no more than 2,800million legal person shares. The excess part of selling price to face value will be written into share premium.

After finished shares registration, business registration and changeable registration for letter of license and any related procedures relating to adding capital at June, 2006, the Company transferred the received capital adding money of 15 billion Yuan into capital stock and share premium respectively.

28. Surplus Reserve

带格式的: 项目符号和编号

<u>Items</u>	<u>31 December</u> <u>2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>31 December</u> <u>2006</u>
Statutory surplus reserve	115,003	54,095	0	169,098
Statutory Employee Welfare Fund	54,095	0	54,095	0
Total	169,098	54,095	54,095	169,098

According to the requirement of Finance Department Cai Qi [2006] NO. 67 Document "The Notice of About the Accounting Dealing Problems after the Implementation of 'Enterprise Law'", the Group transferred the Statutory Employee Welfare Fund into Statutory surplus reserve.

29. Retained Earning

带格式的: 项目符号和编号

<u>Item</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>
Retained profit at the Beginning of the Year	-730,009	-514,191
Add: Current profit	181,602	-215,818
Less: Provision for statutory surplus reserve	0	0
Dividends being transferred to share capital	0	0
Dividends for Common Shares	0	0
Ending balance	-548,407	-730,009

30. Revenue from principal operations

带格式的: 项目符号和编号

<u>Items</u>	<u>2006</u>	<u>2005</u>
Passenger revenue	10,988,520	9,125,754

<u>Cargo and Excessive weight of luggage revenue</u>	<u>527,624</u>	<u>312,126</u>
<u>Charter flight revenue</u>	<u>921,385</u>	<u>623,588</u>
<u>Others</u>	<u>10,831</u>	<u>0</u>
<u>Total</u>	<u>12,448,360</u>	<u>10,061,468</u>

31. Turnover Tax and Surcharge

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>2006</u>	<u>2005</u>
<u>Business tax</u>	<u>369,125</u>	<u>301,591</u>
<u>City construction tax</u>	<u>10,337</u>	<u>9,070</u>
<u>Education surcharge</u>	<u>5,180</u>	<u>4,388</u>
<u>Regulating Fund for Price Fluctuation</u>	<u>426</u>	<u>402</u>
<u>Total</u>	<u>385,068</u>	<u>315,451</u>

32. Income from other operations

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>2006</u>	<u>2005</u>
<u>Ticket refund profit</u>	<u>43,831</u>	<u>32,157</u>
<u>Agent handling profit</u>	<u>5,394</u>	<u>4,048</u>
<u>Cargo Service profit</u>	<u>0</u>	<u>1,317</u>
<u>Cargo wrapping boxes profit</u>	<u>21,948</u>	<u>23,792</u>
<u>Aircraft lease income</u>	<u>98,881</u>	<u>0</u>
<u>Pilot lease income</u>	<u>27,705</u>	<u>0</u>
<u>Aircraft Ad. Income</u>	<u>23,750</u>	<u>18,930</u>
<u>Catering Income</u>	<u>7,284</u>	<u>8,074</u>
<u>Others</u>	<u>11,229</u>	<u>9,397</u>
<u>Total</u>	<u>240,022</u>	<u>97,715</u>

33. Within the report period, the main reason of increases in “income from other operations” is the Group leased more aircrafts and pilots to others. See more details at Note VIII, 5, (2).

← --- 带格式的: 项目符号和编号

34. Financial Expenses

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>2006</u>	<u>2005</u>
<u>Interest expenses</u>	<u>1,126,419</u>	<u>929,915</u>
<u>Less: Interest income</u>	<u>105,827</u>	<u>17,823</u>
<u>Less: Exchange gain</u>	<u>236,243</u>	<u>152,522</u>
<u>Others</u>	<u>79,632</u>	<u>59,382</u>
<u>Total</u>	<u>863,981</u>	<u>818,952</u>

35. Investment Income

1. Items

		<u>2006</u>	<u>2005</u>
<u>Hainan Haihang Airlines Aviation Import & Export Co., Ltd.</u>	<u>A</u>	<u>2,529</u>	<u>1,385</u>
<u>Hainan Haihang Aircraft Maintenance Co., Ltd.</u>	<u>A</u>	<u>-108</u>	<u>-91</u>
<u>Lucky International Travel Services Limited</u>	<u>A</u>	<u>-2,096</u>	<u>-1,276</u>
<u>Shenzhen Aviation Hotel</u>	<u>A</u>	<u>0</u>	<u>365</u>
<u>Chongqing Changjiang International Leasing Co., Ltd.</u>	<u>A</u>	<u>271</u>	<u>162</u>
<u>Beijing Yanjing Hotel Co., Ltd.</u>	<u>A</u>	<u>2,416</u>	<u>502</u>
<u>Hainan Airlines Group Finance Co., Ltd.</u>	<u>A</u>	<u>0</u>	<u>3,361</u>
<u>China Aviation Information System Co., Ltd.</u>	<u>B</u>	<u>6,305</u>	<u>395</u>
<u>Haikou Meilan Airport Co., Ltd.</u>	<u>B</u>	<u>0</u>	<u>835</u>
<u>Hainan Aviation Kaiya Co., Ltd.</u>	<u>B</u>	<u>0</u>	<u>168</u>
<u>Hainan Airlines Group Co., Ltd.</u>	<u>C</u>	<u>267</u>	<u>540</u>
<u>Lucky Airlines Co., Ltd.</u>		<u>-3,311</u>	<u>0</u>
<u>Hainan Xinguo Hotel Co., Ltd.</u>		<u>-770</u>	<u>0</u>
<u>Assigned income</u>		<u>1,725</u>	<u>0</u>
<u>Amortization of Equity Investment Difference</u>	<u>D</u>		
<u>Including: China Xinhua Airlines Co., Ltd.</u>		<u>-6,772</u>	<u>-6,772</u>
<u>Changan Airlines Co., Ltd.</u>		<u>-988</u>	<u>-988</u>
<u>Shanxi Airlines Co., Ltd.</u>		<u>-9,903</u>	<u>-9,903</u>
<u>Chongqing Changjiang Leasing Co., Ltd.</u>		<u>-865</u>	<u>-865</u>
<u>Beijing Yanjing Hotel Co., Ltd.</u>		<u>-3,391</u>	<u>-3,391</u>
<u>Hainan Airlines Group Finance Co., Ltd.</u>		<u>0</u>	<u>-1,780</u>
<u>Others</u>		<u>-102</u>	<u>1,518</u>
<u>Total</u>		<u>-14,793</u>	<u>-15,835</u>

A Long-term investment income is calculated by equity method.

B Received earning is calculated by cost method.

C It is the interest income of trusting income, which has been lent to HNA Group by Xinhua Catering Co., Ltd.

D It is the amortization of equity investment difference of the Company's interest in its subsidiaries and the Group's interest in associates.

There is no restriction in the return of investment income method mentioned above.

36. Subsidiary Income

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>2006</u>	<u>2005</u>
<u>Turnover tax refund</u>	<u>19,627</u>	<u>1,000</u>
<u>Subsidy for improvement in technology</u>	<u>19,987</u>	<u>42,811</u>
<u>Subsidy for flight</u>	<u>8,034</u>	<u>5,600</u>
<u>Total</u>	<u>47,648</u>	<u>49,411</u>

Within the report period, Chang'an Airline received operation tax refunds in an amount of 4,590 thousand Yuan from Xi'an Finance Department; Xinhua Airlines received procedure fee of accrued tax refunds in an amount of 37 thousand Yuan, and tax bounty 15,000 thousand Yuan from Beijing Shunyi District Tianju Town Finance Department.

Within the report period, Sanya sale department and Xinjiang sale department, which are branches of the company received a subsidy for improvement in technology 13,359 thousand Yuan in total from local Finance Department respectively in 2005; Xinhua Airlines received technical subsidy 5,308 thousand Yuan from Tianjin Finance Department, and received financial subsidy 1,320 thousand Yuan from Beijing Shunyi District Tianju Town Finance Department for year 2005 and 2006.

The Company received operation tax subsidy for opening flight in an amount of 3,673 thousand Yuan and out-territory subsidy for flight in an amount of 1,161 thousand Yuan from Hainan Finance Department for year 2005; Chang'an Airlines received a subsidy for adding flight course in an amount of 3,200 thousand Yuan from Yan'an Government.

37. Non-operating Income and non-operating expenses

← --- 带格式的: 项目符号和编号

(1) Non-operating Income

<u>Items</u>	<u>2006</u>	<u>2005</u>
<u>Net gain from disposal of fixed assets</u>	<u>6,779</u>	<u>2,069</u>
<u>Penalty income</u>	<u>390</u>	<u>496</u>
<u>Missing number punishment income</u>	<u>196</u>	<u>1,610</u>
<u>Transfer pilots income</u>	<u>65,455</u>	<u>34,840</u>
<u>Others</u>	<u>730</u>	<u>516</u>
<u>Total</u>	<u>73,550</u>	<u>39,531</u>

Within the report period, the reason of increases in non-operating income is increases in transfer pilots income. See more details in Note VIII, 5, (2).

(2) Non-operating expenses

<u>Items</u>	<u>2006</u>	<u>2005</u>
Net loss from disposal of fixed assets	27,454	3,708
Provision for impairment of fixed assets	-7,980	8,000
Provision for impairment of CIP	-5,395	6,362
Donation	433	0
Penalty for breaking contracts	0	4,000
Others	1,441	179
<u>Total</u>	<u>15,953</u>	<u>22,249</u>

38. Other cash received relating to operating activities

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>2006</u>	<u>Remarks</u>
Current accounts	11,584,882	Current accounts with other company
Transfer accounts	96,606	Transfer pilots with other companies
Others	2,130,486	Rental Income, Penalty income and the of guaranteed deposit
<u>Total</u>	<u>13,811,974</u>	

39. Other cash paid relating to operating activities

← --- 带格式的: 项目符号和编号

<u>Items</u>	<u>2006</u>	<u>Remarks</u>
rental	487,850	Rental payment for operating lease
Others	1,777,826	Administrative expenses
Current accounts	11,343,316	Current accounts with other company
<u>Total</u>	<u>13,608,992</u>	

40. Other cash paid relating to investing activities

← --- 带格式的: 项目符号和编号

<u>Item</u>	<u>2006</u>	<u>Remarks</u>
Renting	3,846,777	The renting and expense for aircrafts, engines and materials under finance lease
Security Deposit	866,826	Security Deposit for notes

<u>Total</u>	<u>4,713,603</u>
--------------	------------------

VII. Significant notes to the Company's financial statements

(1). Long-term equity investment

<u>Item</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Investment in Subsidiaries</u>	<u>1,609,372</u>	<u>1,573,584</u>
<u>Investment in Associated Companies</u>	<u>130,381</u>	<u>70,201</u>
<u>Others</u>	<u>424,381</u>	<u>420,382</u>
<u>Total</u>	<u>2,164,134</u>	<u>2,064,167</u>
<u>Less: Provision for Impairment</u>	<u>8,610</u>	<u>8,610</u>
<u>Net value</u>	<u>2,155,524</u>	<u>2,055,557</u>

(2). Long-term equity investment Breakdown

<u>Company</u>	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>Share-holding Percentage</u>
<u>Subsidiaries</u>			
Hainan Golden-Deer Aviation Sales Co., Ltd.	<u>113,649</u>	<u>113,649</u>	<u>95.00%</u>
China Xinhua Airlines Co., Ltd	<u>956,154</u>	<u>950,830</u>	<u>60.00%</u>
Chang'an Airlines Co., Ltd	<u>222,662</u>	<u>211,334</u>	<u>73.51%</u>
Shanxi Airlines Co., Ltd	<u>316,907</u>	<u>296,670</u>	<u>82.74%</u>
	<u>0</u>	<u>1,101</u>	<u>70.00%</u>
Hinan Haihang Zhongmian Duty Free Co., Ltd			
Subtotal	<u>1,609,372</u>	<u>1,573,584</u>	
<u>Associates</u>			
Hainan Haihang Aircraft Maintenance Co. Ltd	<u>28,667</u>	<u>28,775</u>	<u>48.00%</u>
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	<u>7,707</u>	<u>9,498</u>	<u>30.00%</u>
Chongqing Changjiang International Leasing Co., Ltd.	<u>43,010</u>	<u>19,114</u>	<u>20.00%</u>
Lucky Internantional Travel Services Limited	<u>8,157</u>	<u>9,204</u>	<u>22.00%</u>
Yunnan Shilin Airlines Company Limited	<u>3,610</u>	<u>3,610</u>	<u>54.70%</u>
Hainan Xinguo Hotel Co.,Ltd	<u>39,230</u>	<u>0</u>	<u>40%</u>
Subtotal	<u>130,381</u>	<u>70,201</u>	
<u>Other Equity Investment</u>			
Hainan Airlines Hotel (Group) Co., Ltd.	<u>58,161</u>	<u>58,161</u>	<u>19.00%</u>
Hainan Air Tourism Developing Co., Ltd	<u>3,274</u>	<u>3,274</u>	<u>3.30%</u>
Hainan Meilan Airport Company Limited	<u>6,906</u>	<u>6,906</u>	<u>2.20%</u>
Hainan Xinguo Hotel Co.,Ltd	<u>0</u>	<u>15,000</u>	<u>15.00%</u>
China Airline Infor Network Co., Ltd.	<u>17,000</u>	<u>17,000</u>	<u>1.93%</u>
Hainan Development Bank	<u>5,000</u>	<u>5,000</u>	<u>0.30%</u>
Yangtze River Express Co., Ltd.	<u>10,000</u>	<u>10,000</u>	<u>2.00%</u>
Haikou Meilan Airport Co., Ltd.	<u>304,765</u>	<u>304,765</u>	<u>16.48%</u>
Daxinhua Giggit Airline Co., Ltd.	<u>19,000</u>	<u>0</u>	<u>19%</u>
Others	<u>275</u>	<u>276</u>	
Subtotal	<u>424,381</u>	<u>420,382</u>	
Total	<u>2,164,134</u>	<u>2,064,167</u>	

3) Long-term equity investment with equity method Breakdown

<u>Item</u>	<u>Original</u>	<u>Additions</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>31 December</u>
	<u>Amount</u>		<u>income</u>	<u>changes</u>	<u>2006</u>
Hainan Golden-Deer Aviation Sales Co., Ltd.	8,000	0	105,649	105,649	113,649
China Xinhua Airlines Co., Ltd	927,571	161,177	-132,594	28,583	956,154
Changan Airlines Co., Ltd	553,575	0	-330,913	-330,913	222,662
Shanxi Airlines Co., Ltd	275,097	0	41,810	41,810	316,907
Hinan Haihang Zhongmian Duty Free Co., Ltd	1,050	0	-1,050	-1,050	0
Hainan Haihang Aircraft Maintenance Co. Ltd	50,000	-19,517	-1,816	-21,333	28,667
Yunnan Shilin Airlines Company Limited	3,610	0	0	0	3,610
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	3,000	0	4,707	4,707	7,707
Chongqing Changjiang International Leasing Co., Ltd.	19,505	24,000	-495	23,505	43,010
Lucky International Travel Services Limited	11,000	0	-2,843	-2,843	8,157
Hainan Xinguo Hotel Co., Ltd	15,000	25,000	-770	24,230	39,230
Total	1,867,408	190,660	-318,315	-127,655	1,739,753

2、Investment income:

<u>Item</u>		<u>2006</u>	<u>2005</u>
China Xinhua Airlines Co., Ltd	A	11,880	1,582
Changan Airlines Co., Ltd	A	12,315	-4,170
Shanxi Airlines Co., Ltd	A	30,141	9,126
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	A	2,529	1,385
Lucky International Travel Services Limited	A	-1,048	-642
Chongqing Changjiang International Leasing Co., Ltd.	A	-105	-293
Hainan Haihang Aircraft Maintenance Co. Ltd	A	-108	-91
Hainan Xinguo Hotel Co., Ltd	A	-770	0
Hinan Haihang Zhongmian Duty Free Co., Ltd	A	-51	91
Aviation Information System Company	B	4,793	0
Hainan Meilan Airport Co., Ltd.	B	0	835
Amortization of Equity Investment Difference Including: China Xinhua Airlines Co., Ltd.	C	-6,772	-6,772

	<u>Changan Airlines Co., Ltd.</u>		<u>-988</u>	<u>-988</u>
	<u>Shanxi Airlines Co., Ltd.</u>		<u>-9,903</u>	<u>-9,903</u>
<u>Total</u>	<u>C</u>		<u>41,913</u>	<u>-9,840</u>

A Investment income from subsidiaries and associates is calculated by equity method.

B Received earning from long-term shares investment is calculated by cost method.

C The balance is the amortized equity investment difference in this year.

VIII. Related Party Relationship and Transactions

(1). Related parties with control relationship

<u>Company Name</u>	<u>Registered Address</u>	<u>Scope of Business</u>	<u>Relationship</u>	<u>Business Character /Style</u>	<u>Legal representative</u>
<u>Grand China Airlines Express Company Limited</u>	<u>Haikou</u>	<u>Aviation maintain and services,catering,transferring and other extend services;investment and management for the airport and the avication hotel</u>	<u>Shareholde</u>	<u>Limited Company</u>	<u>Feng Chen</u>
<u>Hainan Airlines Group Co. Ltd.</u>	<u>Haikou</u>	<u>Air transportation, investment and management of airport; Investment and development of real estate; Import and export of airplane and aviation materials.</u>	<u>Shareholder</u>	<u>Limited Company</u>	<u>Feng Chen</u>
<u>Hainan Golden-Deer Aviation Sales Co., Ltd.</u>	<u>Haikou</u>	<u>Provision of transportation and chartered flight agency services.</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Feng Chen</u>
<u>Hainan Airlines VIP Flight Service Co. Ltd.</u>	<u>Haikou</u>	<u>Chartered flights agency.</u>	<u>Subsidiary</u>	<u>Joint Venture</u>	<u>Feng Chen</u>
<u>China Xinhua Airlines Co., Ltd</u>	<u>Beijing</u>	<u>approved international and domestic air passenger and cargo transportation.</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Jiaxu Liu</u>
<u>Chang'an Airlines Co., Ltd</u>	<u>Xi'an</u>	<u>Air passenger and cargo transportation in Shanxi province and its surrounding provinces.</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Yining She</u>
<u>Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.</u>	<u>Xi'an</u>	<u>Hotel and catering, commodity, costume sales, typing and other office services.</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Yongqing Ma</u>
<u>Shanxi Airlines Co., Ltd</u>	<u>Taiyuan</u>	<u>Air passenger and cargo branch line transportation in Shanxi</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Jianmin Qin</u>

<u>Beijing Xinhua Air Catering Co., Ltd.</u>	<u>Beijing</u>	<u>province and its surrounding provinces.</u> <u>Production and sale of pastry, food and beverage.</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Zhongying Zhao</u>
<u>Hainan Haihang Zhongmian Duty Free Co., Ltd</u>	<u>Haikou</u>	<u>Sale of duty free items and present of travel</u>	<u>Subsidiary</u>	<u>Limited Company</u>	<u>Zhongying Zhao</u>

(2). Registered Capital, Stock Held and their Movement of Related Parties with Control Relationship

<u>Company</u>	<u>A. Registered Capital</u>		<u>Share-held Percentage</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Grand China Airlines Express Company Limited</u>	<u>3,689,795</u>	<u>2,000,000</u>	<u>48.24%</u>	<u>0%</u>
<u>Hainan Airlines Group Co. Ltd.</u>	<u>500,000</u>	<u>500,000</u>	<u>0%</u>	<u>11.9%</u>
<u>Hainan Golden-Deer Aviation Sales Co., Ltd.</u>	<u>8,000</u>	<u>8,000</u>	<u>95%</u>	<u>95%</u>
<u>Hainan Airlines VIP Flight Service Co., Ltd.</u>	<u>USD 1,020</u>	<u>USD 1,020</u>	<u>51%</u>	<u>51%</u>
<u>Xinhua Airlines Co., Ltd.</u>	<u>1,830,000</u>	<u>1,830,000</u>	<u>60%</u>	<u>60%</u>
<u>Changan Airlines Co., Ltd.</u>	<u>754,390</u>	<u>754,390</u>	<u>73.51%</u>	<u>73.51%</u>
<u>Shanxi Airlines Co., Ltd.</u>	<u>658,840</u>	<u>320,000</u>	<u>82.74%</u>	<u>92.51%</u>
<u>Beijing Xinhua Air Catering Co., Ltd.</u>	<u>120,000</u>	<u>120,000</u>	<u>51%</u>	<u>51%</u>
<u>Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.</u>	<u>25,000</u>	<u>25,000</u>	<u>80%</u>	<u>80%</u>
<u>Xi'an Haihang Zhiye Co., Ltd.</u>	<u>300,000</u>	<u>0</u>	<u>80%</u>	<u>0</u>

(3). Pricing Policy for related party transactions

Market price is used for all significant related party transactions.

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

<u>Company</u>	<u>Relationship</u>
<u>Beijing Yanjing Hotel Company Limited</u>	<u>Associated Company</u>
<u>Hainan Airline Catering Holding Co., Ltd.</u>	<u>Under Common Control</u>
<u>HNA Group Finance Co., Ltd.</u>	<u>Associated Company</u>
<u>Hainan Airlines Hotel (Group) Company Limited</u>	<u>Under Common Control</u>
<u>Haikou Meilan International Airport Company Limited</u>	<u>Associated Company</u>
<u>Hainan Haihang Airlines Aviation Import & Export Company Limited</u>	<u>Associated Company</u>
<u>Hainan Haihang Airport Group Company Limited</u>	<u>Under Common Control</u>
<u>Hainan Airlines Catering Company Limited</u>	<u>Under Common Control</u>
<u>Hainan Jiahui Investment Company Limited</u>	<u>Under Common Control</u>
<u>Hainan Meilan Airport Company Limited</u>	<u>Under Common Control</u>
<u>Haikou High-Tech Venture Capital Company Limited</u>	<u>Under Common Control</u>
<u>Hainan Meiya Industry Co., Ltd.</u>	<u>Subsidiy of associated Company</u>
<u>Hainan Aviation Import & Export Trade Company Limited</u>	<u>Under Common Director</u>
<u>Deer Jet Company Limited</u>	<u>Under Common Control</u>
<u>Sanya Phoenix International Airport Company Limited</u>	<u>Under Common Control</u>
<u>Yangtze River Real Estate Group</u>	<u>Associated Company</u>
<u>Yangtze River Express Company Limited</u>	<u>Associated Company</u>
<u>Yangtze River Investment Holding Company Limited</u>	<u>Under Common Control</u>
<u>Chongqing Changjiang International Leasing Company Limited</u>	<u>Associated Company</u>
<u>Hainan Yangpu Huanmei Company Limited</u>	<u>Under Common Control</u>
<u>Lucky International Travel Services Limited</u>	<u>Associated Company</u>
<u>Xi'an Minsheng Real Estate Co., Ltd.</u>	<u>Under Common Control</u>
<u>Beijing Kehang Investment Co., Ltd</u>	<u>Under Common Control</u>
<u>Shenhua Group Co., Ltd.</u>	<u>Shareholder of Subsidiary</u>
<u>Changjiang Leasing Co.,Ltd</u>	<u>Shareholder</u>
<u>Beijing Huoli Huanxiang Commercial Co., Ltd.</u>	<u>Under Common Control</u>
<u>Shenzhen Finance Leasing Co.,Ltd</u>	<u>Under Common Control</u>
<u>Yunnan Xiangpeng Aviation Company Limited</u>	<u>Associated Company</u>
<u>Hainan Yuhong Trade development Company Limited</u>	<u>Under Common Control</u>
<u>Daxinhua Giggit Airline Co., Ltd.</u>	<u>Associated Company</u>

(5). Significant transactions with related parties.

(a) Current capital due to or due from related parties

<u>Company</u>	<u>Relationship with the Group</u>	<u>Related parties provided capital to the Company</u>	<u>Providing capital to related parties</u>
<u>Hainan Jiahui Investment Company Limited</u>	<u>Under Common Contro</u>	<u>3,265,561</u>	<u>3,061,546</u>
<u>Hainan Yuhong Trade development Company Limited</u>	<u>Under Common Contro</u>	<u>2,391,300</u>	<u>2,551,300</u>
<u>Hainan Hainang Imp. & Exp.</u>	<u>Associated Company</u>	<u>940,736</u>	<u>976,255</u>

Co., Ltd.			
Changjiang Leasing Co., Ltd.	Shareholder	938,996	789,384
HNA Group	Shareholder	792,425	829,931
Chongqing Changjiang International Leasing Company Limited	Associated Company	502,000	502,000
Yangzi River Investment Holding Co., Ltd.	Under Common Control	449,209	473,278
Hainan Yangpu Industrial Co., Ltd.	Under Common Control	323,680	0
Haikou Meilan International Airport Co., Ltd.	Under Common Control	264,447	277,307
Hainan Airlines Hotel (Group) Company Limited	Under Common Control	160,040	160,040
Yunnan Xiangpeng Aviation Company Limited	Associated Company	17,690	0
Xi'an Minsheng Real Estate Co., Ltd.	Under Common Control	6,000	6,000
Beijing Yanjing Hotel	Associated Company	0	30,000
Hainan Golden-Deer Aviation Sales Co., Ltd.	Under Common Control	0	10,000
Total		10,052,084	9,667,041

(b) Other Transactions

Companies	Relationship	Nature of transaction	2006	2005	Remarks
HNA Group Finance Co., Ltd.	Associated Company	Deposits	31,832,858	13,887,540	A
HNA Group Finance Co., Ltd.	Associated Company	Withdrawn	31,065,828	12,408,955	A
Changjiang River Leasing Co., Ltd.	Shareholder	Leasing aircraft	2,780,355	0	B
Shenzhen Finance Leasing Co., Ltd.	Under Common Control	Leasing aircraft & engineer	457,952	0	C
Hainan Meiya Industrial Co., Ltd.	Under Common Control	Payment for aircrafts oil fees	329,850	309,771	
Yunnan Xiangpeng Aviation Company Limited	Subsidiary of associates	Leasing aircraft, transfer pilots and charges incurred	131,190	0	D
Hainan Pacific oil industry Company Limited	Subsidiary of associates	Payment for aircrafts oil fees	93,826	0	
Hong Kong Airlines Limited	Under Common Control	Leasing aircraft and charges incurred	77,081	0	E
Haikou Meilan International Airport Stock Company	Under Common Control	Taking-off and landing services charges, rent for field and franchise	73,899	86,054	

<u>HNA Finance Co., Ltd.</u>	<u>Under Common Control</u>	<u>Interest income</u>	<u>74,114</u>	<u>0</u>	
<u>Chongqing International Renting Co., Ltd.</u>	<u>Associated Company</u>	<u>Renting aircrafts and engines</u>	<u>65,757</u>	<u>84,359</u>	
<u>Yangzijiang Express Co., Ltd.</u>	<u>Associated Company</u>	<u>Advance money for airports rents</u>	<u>59,579</u>	<u>117,951</u>	<u>F</u>
<u>Jeer Jet Co., Ltd.</u>	<u>Under Common Control</u>	<u>Advance money of airport rents</u>	<u>44,541</u>	<u>175,603</u>	<u>G</u>
<u>HNA Catering Co., Ltd.</u>	<u>Under Common Control</u>	<u>Catering Payment</u>	<u>29,536</u>	<u>34,719</u>	
<u>Beijing Huoli Huanxiang Commercial Co., Ltd.</u>	<u>Under Common Control</u>	<u>Advertisement and purchase of magazines</u>	<u>25,000</u>		<u>H</u>
<u>Sanya Phoenix International Airport Co., Ltd.</u>	<u>Shareholder</u>	<u>Taking-off and landing service charges</u>	<u>25,252</u>	<u>18,396</u>	
<u>Hainan Meiya Industrial Co., Ltd.</u>	<u>Shareholder</u>	<u>Taking-off and landing service charges</u>	<u>24,150</u>	<u>27,137</u>	
<u>Daxinhua Giggitt Airline Co., Ltd.</u>	<u>Under Common Control</u>	<u>D328 transfer</u>	<u>20,723</u>	<u>0</u>	
<u>Gansu Airport Group Co., Ltd.</u>	<u>Under Common Control</u>	<u>Taking-off and landing service charges</u>	<u>17,793</u>	<u>0</u>	
<u>Hainan Haihang Aviation Imp. & Exp. Co., Ltd.</u>	<u>Associated Company</u>	<u>Aviation materials agency fees</u>	<u>12,651</u>	<u>17,799</u>	
<u>Hainan Hotel Holding Group Co., Ltd.</u>	<u>Under Common Control</u>	<u>Stock right transfer and Advance money for payroll</u>	<u>8,687</u>	<u>8,870</u>	<u>I</u>
<u>Hainan Hotel Group Co., Ltd.</u>	<u>Under Common Control</u>	<u>Stock right transfer and Advance money for payroll</u>	<u>6,600</u>	<u>0</u>	<u>J</u>
<u>Key Management of the Group HNA Group</u>	<u>Key management Shareholder</u>	<u>Payment emolument</u>	<u>2,174</u>	<u>3,008</u>	<u>K</u>
<u>Hainan Aviation training Co., Ltd.</u>	<u>Under Common Control</u>	<u>Trusting lending</u>	<u>267</u>	<u>54,366</u>	
<u>Xi'an Minsheng Real Estate Co., Ltd.</u>	<u>Under Common Control</u>	<u>Advance money for aircraft models</u>	<u>0</u>	<u>16,685</u>	
		<u>Transferring investment</u>	<u>0</u>	<u>7,000</u>	

A. Pursuant to the finance service agreement signed between the Company and HNA Group Finance Co., Ltd in 2004, HNA Group Finance provided general bank services to the Company and loaned money to the Company on the issued interest rate by PBOC. The above-mentioned amount is the accumulated transaction in year 2006.

带格式的: 项目符号和编号

B. The Group signed some contracts about leaseback of four B737-800 aircrafts and four A319 aircrafts with Changjiang Leasing Co., Ltd., like “assets and liabilities transferring contract”, “Lease contract”, “future lease contract”, “future purchase-back of flights contract”, “BSP accounts administration

带格式的: 项目符号和编号

contract”, and foreign exchange loans changeable contract etc. According to these contracts, the Group sold proprietorship to Changjiang Leasing Co., Ltd. by eight flights with a book value of 412,920.7 thousand US dollar for fixed assets, and transferred the relating debts of 3.68 billion US dollar to it. Meanwhile, leaseback these flights from Changjiang Leasing Co., Ltd., the rent and principal are 392,272.8 thousand US dollar in total, lease period is till December, 2019, lease interest is annual interest six months US dollar LIBOR+2.2%. The Group will purchase back in 20,649.3 thousand US dollar when the lease period are expired. The Group has paid principal 347,544.4 US dollar at June, 2006, the rest of principal and purchase back money is 65,376.3 US dollar in total.

C. The Group signed contract with Shenzhen Finance Leasing Co., Ltd. and Yangzijiang International Leasing Co., Ltd at June 29th, 2006 to consign to pay off in advance. According to the contract, the Company paid leasing principal 28,910 thousand Yuan of four financing leased 737 engines, which is supposes to be paid during September, 2006 to March, 2007, and leasing principal 341,250 thousand Yuan of leased BOYIN flights, which is supposed to be paid during September, 2006 to December, 2012. After paid in advance, the Group doesn't assume the leasing interests in relating periods. Meanwhile, Yangzijiang International Leasing Co., Ltd. accepted all the money on the behalf of Shenzhen Finance Leasing Co., Ltd.

带格式的: 项目符号和编号

D. The Group signed contract with Yunnan Xiangpeng Airline Co., Ltd. to transfer 34 pilots in the money of 53,700 thousand Yuan; Chang'an Airline and Shanxi Airline signed leasing contract with it to rent three B737-700 aircrafts, the lease amount is 66,939 thousand Yuan in 2006; besides, the Group paid 10,551 thousand Yuan in advance, which will be paid back by others later within the report period.

带格式的: 项目符号和编号

E. Shanxi Airlines signed a contract with Hong Kong Airline Co., Ltd. to lease three B737-800 flights, the leasing amount was 73,553 thousand Yuan in 2006; besides, the Group paid 3,527 thousand Yuan in advance, which will be paid back by others later within the report period.

带格式的: 项目符号和编号

F. The Group signed contract with Yangzijiang Giggitt Airline Co., Ltd. to transfer 18 pilots in the money of 15,200 thousand Yuan; the leasing period is one year,

带格式的: 项目符号和编号

the leasing amount was 9,767 thousand Yuan in 2006; besides, the Group paid 34,612 thousand Yuan in advance, which will be paid back by others later within the report period.

G. The Group signed contract with Deer Jet Co., Ltd. to transfer pilots, the leasing period is one year, the leasing amount was 17,105 thousand Yuan in 2006; besides, the Group paid 27,436 thousand Yuan in advance, which will be paid back by others later within the report period.

带格式的: 项目符号和编号

H. Within the report period, the Group signed a contract with Beijing Huoli Huanxiang Commercial Co., Ltd. to make flights commercials, the agent fee was 25,000 thousand Yuan in 2006. besides, the Group purchased flights magazines from it in the money of 3,383 thousand Yuan.

带格式的: 项目符号和编号

I. Xinhua Airline signed a contract with HNA Hotel Holding Group to transfer 5% shares of Beijing Yanjing Hotel Co., Ltd. in 2002, the transferring payment was 8,687 thousand Yuan.

带格式的: 项目符号和编号

J. Xinhua Airline signed a contract with HNA Hotel Group and HNA Hotel Holding Group to transfer 25% shares of Shenzhen Airline Hotel Co., Ltd. in 2004, the transferring payment was 6,600 thousand Yuan.

带格式的: 项目符号和编号

K. It's salaries paid to significant administrative staff by the Company and branches. These staff included: directors, members of supervisory committee, CEO, executive presidents, vice executive presidents, financial directors and secretaries of directorate.

带格式的: 项目符号和编号

—

(c) Guarantee of related parties

Detail information that the Company guaranteed for related parties please refer to Note VI, 13, VI, 22 and IX, 2.

(d) Credits and Debts Counteraction Contract

According to the reformation contracts signed between the Group and Hainan Jiahui Investment Co., Ltd, Deer Jet Co., Ltd, Hainan Aviation Airline Import & Export Co., Ltd., Yangzijiang Giggit Airline Company and more than fifty related parties to reform the payables and receivables. This reformation counteracted receivables of 647,967 thousand Yuan of the Group,

payables of 600,722 thousand Yuan, and the differences between the payables and receivables after counteraction were written into the account of Hainan Jiahui Investment Co., Ltd.

According to the reformation contracts signed between the Group and HNA Group Co., Ltd., Daxinhua Giggit Airline Co., Ltd., Hainan Jiahui Investment Co., Ltd., Deer Jet Co., Ltd., Yangzijiang Giggit Airline Company and Aviation Airline Import & Export Co., Ltd., each sides agreed to reform the payables and receivables of the Group. This reformation counteracted receivables of 190,665 thousand Yuan of the Group, payables of 190,665 thousand Yuan.

(e) Related party balance

<u>Items</u>	<u>Company</u>	<u>31 December 2006</u>	<u>31 December 2005</u>
<u>Cash in bank & on hand</u>			
	<u>Hainan Airlines Group Finance Company Limited</u>	<u>7,409,325</u>	<u>2,762,413</u>
<u>Account receivable</u>			
	<u>Lucy Jinlu Airline Tourism Group</u>	<u>2,305</u>	<u>1,951</u>
	<u>Yangtze River Express Company Limited</u>	<u>0</u>	<u>18,867</u>
	<u>Haikou Meilan Airport Co., Ltd.</u>	<u>0</u>	<u>9,000</u>
	<u>Deer Jet Company Limited</u>	<u>0</u>	<u>67,161</u>
	<u>Subtotal</u>	<u>2,305</u>	<u>96,979</u>
<u>Advance to Suppliers</u>			
	<u>Hainan Haihang Airlines Aviation Import & Export Co., Ltd.</u>	<u>0</u>	<u>3,272</u>
	<u>Others</u>	<u>120</u>	<u>2,125</u>
	<u>Subtotal</u>	<u>120</u>	<u>5,397</u>
<u>Other Receivable</u>			
	<u>Changjing River Leasing Co.,Ltd</u>	<u>359,389</u>	<u>0</u>
	<u>Hainan Airlines Group Finance Company Limited</u>	<u>68,098</u>	<u>0</u>
	<u>Hainan Haihang Airlines Aviation Import & Export Co., Ltd</u>	<u>8,588</u>	<u>88,966</u>
	<u>Hainan Aviation Import & Export Trade Company Limited</u>	<u>6,385</u>	<u>6,385</u>
	<u>Haikou High-Tech Venture</u>	<u>5,000</u>	<u>5,000</u>

	<u>Capital Company Limited</u>		
	<u>Hainan Airlines Hotel Company</u>		
	<u>Limited</u>	<u>3</u>	<u>24,673</u>
	<u>Hainan Jiahui Investment</u>		
	<u>Company Limited</u>	<u>0</u>	<u>348,024</u>
	<u>Hainan Yangpu Huanmei</u>		
	<u>Company Limited</u>	<u>0</u>	<u>333,680</u>
	<u>HNA Group</u>	<u>0</u>	<u>12,893</u>
	<u>Yangtze River Express</u>		
	<u>Company Limited</u>	<u>0</u>	<u>108,275</u>
	<u>Deer Jet Company Limited</u>	<u>0</u>	<u>141,708</u>
	<u>Hainan Airlines Hotel Holding</u>		
	<u>Group Company Limited</u>	<u>0</u>	<u>8,870</u>
	<u>Hainan Airline Construction</u>		
	<u>Development Company</u>	<u>0</u>	<u>20,879</u>
	<u>Kang le yuan Hotel</u>	<u>0</u>	<u>79,989</u>
	<u>Others</u>	<u>730</u>	<u>24,265</u>
	<u>Subtotal</u>	<u>448,193</u>	<u>1,203,607</u>
<u>Accounts Payable</u>			
	<u>Changjiang River Leasing</u>		
	<u>Co.,Ltd</u>	<u>169,633</u>	<u>0</u>
	<u>Hainan Meiya Industry Co., Ltd.</u>	<u>87,291</u>	<u>36,668</u>
	<u>Haikou Meilan Airport</u>		
	<u>Company Limited</u>	<u>82,172</u>	<u>38,575</u>
	<u>Hainan Meilan Airport</u>		
	<u>Company Limited</u>	<u>62,723</u>	<u>74,336</u>
	<u>Sanya Phoenix International</u>		
	<u>Airport Co.,</u>	<u>41,167</u>	<u>16,638</u>
	<u>Hainan Aviation Catering Co.,</u>		
	<u>Ltd.</u>	<u>16,717</u>	<u>21,989</u>
	<u>Hong Kong Express Airways</u>		
	<u>Limited</u>	<u>13,488</u>	<u>0</u>
	<u>Hainan Hotel Group Co.,Ltd.</u>	<u>10,481</u>	<u>0</u>
	<u>Yangzi River Express Co., Ltd.</u>	<u>731</u>	<u>53,989</u>
	<u>HNA Group</u>	<u>478</u>	<u>92,003</u>
	<u>Deer Jet Co., Ltd.</u>	<u>105</u>	<u>30,294</u>
	<u>Hainan HNA Aviation Import &</u>		
	<u>Export Trade Company Limited</u>	<u>0</u>	<u>24,375</u>
	<u>Beijing Kehang Investment</u>		
	<u>Company limited</u>	<u>0</u>	<u>52,500</u>
	<u>Hainan Aviation Catering</u>		
	<u>Holding Co., Ltd.</u>	<u>0</u>	<u>61,200</u>
	<u>Lucky travel agency Co., Ltd.</u>	<u>0</u>	<u>8,568</u>
	<u>Others</u>	<u>8,880</u>	<u>15,728</u>
	<u>Subtotal</u>	<u>493,866</u>	<u>526,863</u>

<u>Other Payables</u>			
	<u>Yangzi River Express Co., Ltd.</u>	<u>50,041</u>	<u>0</u>
	<u>Daxinhua Giggitt Airline Co., Ltd.</u>	<u>26,487</u>	<u>0</u>
	<u>Deer Jet Co., Ltd.</u>	<u>17,923</u>	<u>31,782</u>
	<u>Yunnan Xiangpeng Aviation Co.,Ltd</u>	<u>17,690</u>	<u>0</u>
	<u>Sanya Phoenix International Airport Co., Ltd.</u>	<u>6,438</u>	<u>6,438</u>
	<u>HNA Group</u>	<u>732</u>	<u>14,306</u>
	<u>Lucky travel agency Co., Ltd.</u>	<u>271</u>	<u>20,818</u>
	<u>Beijing Yanjing Hotel</u>	<u>0</u>	<u>32,013</u>
	<u>Hainan HNA Aviation Import & Export Trade Company Limited</u>	<u>0</u>	<u>6,328</u>
	<u>Hainan Yangpu Huanmei Company Limited</u>	<u>0</u>	<u>10,000</u>
	<u>Yangzi River Real Estate Group</u>	<u>0</u>	<u>11,700</u>
	<u>Other</u>	<u>6,524</u>	<u>7,219</u>
	<u>Total</u>	<u>126,106</u>	<u>140,604</u>
<u>Notes Payable</u>			
	<u>Hainan Haihang Aviation Import & Export Trade Company Limited</u>	<u>210,000</u>	<u>100,000</u>
	<u>Yangzi River Investment Holding Co., Ltd.</u>	<u>40,000</u>	<u>16,000</u>
	<u>Subtotal</u>	<u>250,000</u>	<u>116,000</u>
<u>Current Portion of Long-term Liabilities</u>			
	<u>Chongqing Changjiang International Leasing Company Limited</u>	<u>10,644</u>	<u>82,952</u>
	<u>Changjing River Leasing Co.,Ltd</u>	<u>391,181</u>	<u>0</u>
	<u>Subtotal</u>	<u>401,825</u>	<u>82,952</u>
<u>Long-term Payables</u>			
	<u>Chongqing Changjiang International Leasing Company Limited</u>	<u>608</u>	<u>0</u>
	<u>Changjing River Leasing Co.,Ltd</u>	<u>973,776</u>	<u>0</u>
	<u>Subtotal</u>	<u>974,384</u>	<u>0</u>
<u>Trusting Lend</u>			

IX. Contingency

1. Guarantee

Up to 31 December 2006, the Group provided guarantee for the loans of the companies controlled by HNA Group in amount of 503,000 thousand Yuan, the Company provided guarantee for its subsidiaries' loans in an amount of 1,434,000 thousand Yuan, and for its subsidiaries' banking acceptance in amount of 85,485 thousand Yuan.

2. Other contingency

According to the changeable contract for foreign exchange loans signed between the Company, Changjiang Leasing Co., Ltd. and related financial institutions, the Company transferred 3.68 billion US dollar loans relating to corresponding financial institutions to Changjiang Leasing Co., Ltd., and added BSP account administration violation-partaking system based on the mortgages of eight aircrafts. The Company's fixed resource of payment is BSP account income acquired from China Civil Department BSP system. According to the "BSP account administration contract" signed between the Company and Changjiang Leasing Co., Ltd., the Company has to pay weekly the principal and interests of next term within the existing period, and accumulated to specified sinking fund account of appointed financial institutions.

X. Commitments

1. Capital commitments

As at 31 December 2006, the total amount of significant capital expenditure been signed but not recognized in the consolidated financial statements is mainly included purchases of aircrafts and construct-in-progress, and in an amount of 13,644,215 thousand Yuan. Thereinto, the committed expenditure for acquisition of aircrafts is 12,950,415 thousand Yuan, including 2,729,530 thousand Yuan needed to be paid in year 2007; the committed expenditure for construct-in-progress is 693,800 thousand Yuan, including 238,200 thousand Yuan expected to be paid in year 2007.

2. Rents payable under operating leases

As at 31 December 2005, the rents payable under operating leases are as follows:

Item	31 December 2006	31 December 2005
Within one year	800,819	600,907
The second year	795,220	533,571
The third year	741,384	489,406

带格式的: 项目符号和编号

Over three years	2,105,847	1,298,739
Total	4,443,270	2,922,623

XI. Subsequent events after the balance sheet date

There are no significant subsequent events after the balance sheet date.

XII. Other Matters

1. Related transactions with Changjiang Leasing Co., Ltd.

← --- 带格式的: 项目符号和编号

Approved by the decision of the third temporary shareholders meeting of 2006 held at December 29th, 2006, the Company will implement a leaseback contract with Changjiang Leasing Co., Ltd. The Company planed to sell four B737-800 aircrafts, which will be received during 2008 to 2009 to Changjiang Leasing Co., Ltd. at a price of 220,000 thousand US dollar, and planned to make a leaseback at a leasing price between 630 to 770 US dollar in six years.

2. Civil Airline Construction Funds Matters

← --- 带格式的: 项目符号和编号

According to the relevant regulations issued by the MOF and CAAC: PRC airlines companies were required to pay civil aviation infrastructure fund equal to 10% of domestic traffic revenues before 1 January 1998; the rate was 8% for domestic traffic revenues between January 1st, 1998 and December 31st, 2003; the rate was 5% for domestic traffic revenues and 2% for international traffic revenues between January 1st, 1999 and April 3rd, 2003. All the PRC airlines were exempted to pay civil aviation infrastructure fund between 1 May 2003 and 31 December 2003 because of SARS influence. From April 1st, 2004, the Company started to account for civil aviation infrastructure fund pursuant to the notice of the collection of civil aviation infrastructure fund payable (Cai Zong [2004] No.38) issued by the Ministry of Finance, and detail rules of the collection of civil aviation infrastructure fund payable (Civil Aviation Gui Cai Fa [2004] No.94) issued by the Civil Aviation Administration of China. As at March 31st, 2004, the Company had total fund exposure of 950,534 thousand Yuan. At November 1994, the Hainan Provincial Government applied Qiong Fu Han [1994] No.77 to the MOF for exemption of the payment of the levies or treating the levies due by the Company as infrastructure investment granted by CAAC to the Company. As at the date of issuance of these consolidated financial statements, such application has still not been approved by the MOF yet. A circular Qiong Cai Shui Han No.[1996] No.132 was issued by the Hainan Provincial Finance and Tax Bureau on October 18th, 1996. Pursuant to the circular, Finance and Tax Bureau agreed to assist in relation to the application for exemption of payment of levies with the MOF and CAAC and has undertaken to resolve the matter through other means if the application is rejected. According to another circular Qiong Fu Han No.[1999] No.83 issued on August 24th, 1999, the Hainan Provincial Government has undertaken to resolve the payment of levies, if any, through other means. At this point, it is proved by Hainan Baodao Attorney Firm's Bo Yi Zi [2007] No. 04 legal report that the promise of Hainan Government is valid. Accordingly, no provision for payment of such levies

has been made in these consolidated financial statements.

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) issued by China Securities Regulatory Commission, the extraordinary gain and loss of the Group are set out below:

<u>Item</u>	<u>Amount</u>
1. Disposal gains or losses in long-term investment, fixed assets, CIR, intangible assets and other long-term assets	-15,711
2. tax refundable or exemption with official approval	0
3. various type of government subsidies	111,758
4. interest income of lent money to non-financial enterprises	0
5. gains or losses in short-term investment	0
6. income of consigned investment	0
7. non-operating income or payment after deducting all type of provision for impairment based on the applied accounting policies	67,924
8. provision for impairment caused by unexpected events	0
9. recoverable impairment of prior years	75,229
10. debt reorganization gains or losses	0
11. transferred assets gains or losses	0
12. gains or losses of exceeding fair value part of unfair transactions	0
13. the influence of changed accounting policies	0
14. other non-operating profit or loss items	0
<u>Total</u>	<u>239,200</u>

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

-

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 issued by China Regulatory Securities Committee, net assets profit ratio and earning per share of the Company in year 2006 are set out below:

<u>Profit earned during the year</u> <u>2006</u>	<u>Net assets profit ratio (%)</u>		<u>Earning per share (Yuan / share)</u>	
	<u>Overall Diluted</u>	<u>Average weighted</u>	<u>Overall Diluted</u>	<u>Average weighted</u>

<u>Gross profit on sales</u>	<u>24%</u>	<u>53%</u>	<u>0.48</u>	<u>0.80</u>
<u>Operating profit</u>	<u>2%</u>	<u>3%</u>	<u>0.03</u>	<u>0.05</u>
<u>Net profit</u>	<u>3%</u>	<u>6%</u>	<u>0.05</u>	<u>0.09</u>
<u>Net profit after deduction</u>				
<u>extraordinary profit/loss</u>	<u>-1%</u>	<u>-2%</u>	<u>-0.02</u>	<u>-0.03</u>

XII. Documents for Reference

1. Accounting Statements with the signatures and seals of the Legal Representative, Chief Financial Officer and the person in charge of the accounting department.
2. Original of the Auditor's Report with seal of Certified Public Accountant and signatures of certified public accountants.
3. Original of all documents and announcements published in the presses designated by CSRC during year 2006.

Hainan Airlines Company Limited

April 13, 2007

删除的内容: 10

XIV. International Auditor's Report

带格式的: 居中

带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

HAINAN AIRLINES COMPANY LIMITED**CONSOLIDATED BALANCE SHEET****AS AT 31 DECEMBER 2006**

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	As at 31 December		
	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	<u>5</u>	<u>20,197,483</u>	<u>19,245,561</u>
Land use rights	<u>6</u>	<u>265,503</u>	<u>275,058</u>
Advances on aircraft and flight equipment		<u>1,305,097</u>	<u>778,453</u>
Goodwill	<u>7</u>	<u>94,142</u>	<u>111,805</u>
Deferred payments under sale and leaseback transactions	<u>8</u>	<u>301,281</u>	<u>278,539</u>
Investments in associates	<u>9</u>	<u>277,921</u>	<u>312,836</u>
Available-for-sale financial assets	<u>10</u>	<u>485,661</u>	<u>438,834</u>
Lease and equipment deposits		<u>956,611</u>	<u>409,819</u>
		<u>23,883,699</u>	<u>21,850,905</u>
Current assets			
Inventories	<u>11</u>	<u>296,818</u>	<u>323,707</u>
Trade and other receivables	<u>12</u>	<u>1,005,035</u>	<u>1,852,598</u>
Pledged bank deposits	<u>13</u>	<u>485,916</u>	<u>385,347</u>
Cash and cash equivalents	<u>13</u>	<u>9,045,941</u>	<u>5,407,142</u>
		<u>10,833,710</u>	<u>7,968,794</u>
Non-current assets held for sale	<u>14</u>	<u>183,705</u>	<u>-</u>
		<u>11,017,415</u>	<u>7,968,794</u>
Total assets		<u>34,901,114</u>	<u>29,819,699</u>

The notes on page 7 to 49 are an integral part of these consolidated financial statements.

HAINAN AIRLINES COMPANY LIMITED
CONSOLIDATED BALANCE SHEET (continued)
AS AT 31 DECEMBER 2006

(All amounts in Renminbi Yuan thousands unless otherwise stated)

		<u>As at 31 December</u>	
	<u>Notes</u>	<u>2006</u>	<u>2005</u>
<u>EQUITY</u>			
<u>Capital and reserves attributable to equity holders of the Company</u>			
Share capital	<u>15</u>	<u>3,530,253</u>	<u>730,253</u>
Reserves	<u>16</u>	<u>3,970,296</u>	<u>2,703,008</u>
Accumulated losses		<u>(1,096,789)</u>	<u>(1,254,222)</u>
		<u>6,403,760</u>	<u>2,179,039</u>
<u>Minority interests in equity</u>		<u>678,325</u>	<u>653,388</u>
<u>Total equity</u>		<u>7,082,085</u>	<u>2,832,427</u>
<u>LIABILITIES</u>			
<u>Non-current liabilities</u>			
Borrowings	<u>18</u>	<u>11,265,883</u>	<u>13,326,240</u>
Obligations under finance leases	<u>19</u>	<u>1,942,065</u>	<u>1,699,926</u>
Other liabilities		<u>107,296</u>	<u>143,113</u>
		<u>13,315,244</u>	<u>15,169,279</u>
<u>Current liabilities</u>			
Trade and other payables	<u>17</u>	<u>6,633,106</u>	<u>4,911,631</u>
Borrowings	<u>18</u>	<u>7,523,299</u>	<u>6,383,587</u>
Obligations under finance leases	<u>19</u>	<u>327,954</u>	<u>495,885</u>
Dividend payable		<u>19,426</u>	<u>26,890</u>
		<u>14,503,785</u>	<u>11,817,993</u>
<u>Total liabilities</u>		<u>27,819,029</u>	<u>26,987,272</u>
<u>Total equity and liabilities</u>		<u>34,901,114</u>	<u>29,819,699</u>

The notes on page 7 to 49 are an integral part of these consolidated financial statements.

HAINAN AIRLINES COMPANY LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	<u>Notes</u>	<u>Year ended 31 December</u>	
		<u>2006</u>	<u>2005</u>
Revenue	<u>20</u>	<u>12,063,289</u>	<u>9,746,017</u>
Direct operating costs	<u>22</u>	<u>(10,418,801)</u>	<u>(8,250,712)</u>
Gross profit		<u>1,644,488</u>	<u>1,495,305</u>
Other income	<u>21</u>	<u>464,024</u>	<u>200,603</u>
Selling expenses	<u>22</u>	<u>(550,036)</u>	<u>(585,246)</u>
Administrative expenses	<u>22</u>	<u>(428,602)</u>	<u>(523,594)</u>
Recharge of expenses	<u>30(b)</u>	<u>76,126</u>	<u>87,520</u>
Operating profit		<u>1,206,000</u>	<u>674,588</u>
Finance costs – net	<u>24</u>	<u>(1,018,736)</u>	<u>(884,529)</u>
Share of losses of associates	<u>9</u>	<u>(6,257)</u>	<u>(1,942)</u>
Loss on disposal of a subsidiary	<u>28</u>	<u>(330)</u>	<u>-</u>
Profit/(loss) before income tax		<u>180,677</u>	<u>(211,883)</u>
Income tax expense	<u>25</u>	<u>(3,715)</u>	<u>-</u>
Profit/(loss) for the year		<u>176,962</u>	<u>(211,883)</u>
Attributable to:			
Equity holders of the Company		<u>157,433</u>	<u>(215,063)</u>
Minority interest		<u>19,529</u>	<u>3,180</u>
		<u>176,962</u>	<u>(211,883)</u>
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company			
- basic and diluted (expressed in RMB per share)	<u>26</u>	<u>0.06</u>	<u>(0.29)</u>

The notes on page 7 to 49 are an integral part of these consolidated financial statements.

HAINAN AIRLINES COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

	Attributable to equity shareholders of the Company				Total
	Share capital	Reserves	Accumulated losses	Minority interest	
	(Note 15)	(Note 16)			
Balance at 1 January 2005	<u>730,253</u>	<u>1,227,826</u>	<u>(1,039,159)</u>	<u>606,108</u>	<u>1,525,028</u>
Capital received	-	<u>1,500,000</u>	-	-	<u>1,500,000</u>
Capital injection by minority shareholders	-	-	-	<u>44,100</u>	<u>44,100</u>
(Loss)/profit for the year	-	-	<u>(215,063)</u>	<u>3,180</u>	<u>(211,883)</u>
Fair value adjustment of available-for-sale financial assets	-	<u>(24,969)</u>	-	-	<u>(24,969)</u>
Others	-	<u>151</u>	-	-	<u>151</u>
Balance at 31 December 2005	<u>730,253</u>	<u>2,703,008</u>	<u>(1,254,222)</u>	<u>653,388</u>	<u>2,832,427</u>
Balance at 1 January 2006	<u>730,253</u>	<u>2,703,008</u>	<u>(1,254,222)</u>	<u>653,388</u>	<u>2,832,427</u>
Placing of shares	<u>2,800,000</u>	<u>1,300,000</u>	-	-	<u>4,100,000</u>
Capital injection by minority shareholders	-	-	-	<u>6,000</u>	<u>6,000</u>
Profit for the year	-	-	<u>157,433</u>	<u>19,529</u>	<u>176,962</u>
Fair value adjustment of available-for-sale financial assets	-	<u>(28,734)</u>	-	-	<u>(28,734)</u>
Disposal of a subsidiary (Note 28)	-	-	-	<u>(592)</u>	<u>(592)</u>
Others	-	<u>(3,978)</u>	-	-	<u>(3,978)</u>
Balance at 31 December 2006	<u>3,530,253</u>	<u>3,970,296</u>	<u>(1,096,789)</u>	<u>678,325</u>	<u>7,082,085</u>

The notes on page 7 to 49 are an integral part of these consolidated financial statements.

HAINAN AIRLINES COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	Year ended 31 December		
	<u>Notes</u>	<u>2006</u>	<u>2005</u>
<u>Cash flows from operating activities</u>			
Cash generated from operations	27	5,347,557	3,085,747
Interest received		38,975	17,823
Net cash generated from operating activities		5,386,532	3,103,570
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment		(2,123,845)	(3,157,656)
Advances on aircraft and flight equipment		(1,305,097)	(611,344)
Purchase of investments in associates		(73,000)	(47,074)
Purchase of available-for-sale financial assets		(19,000)	(30,000)
Proceeds from disposal of property, plant and equipment	27	504,661	11,047
Proceeds from disposal of associates		-	6,517
Proceeds from disposal of available-for-sale financial assets		30,000	-
Dividends received from available-for-sale financial assets		9,125	3,407
Proceeds from disposal of a subsidiary	28	243	-
Net cash used in investing activities		(2,976,913)	(3,825,103)
<u>Cash flows from financing activities</u>			
Proceeds from borrowings		8,625,077	9,053,367
Capital received, net of issuance cost		4,096,022	1,500,000
Capital injection by minority shareholders		6,000	17,000
Repayments of borrowings		(6,357,890)	(5,524,967)
Finance handling charges paid		(68,037)	(51,539)
Finance lease principal payments		(3,747,624)	(579,412)
Dividend paid		(7,464)	-
Interest paid on borrowings		(1,112,774)	(941,231)
Interest paid on finance leases		(103,561)	(108,983)
Increase in pledged bank deposits		(100,569)	(315,240)
Net cash from financing activities		1,229,180	3,048,995
<u>Net increase in cash and cash equivalents</u>		3,638,799	2,327,462
Cash and cash equivalents at beginning of year		5,407,142	3,079,680
<u>Cash and cash equivalents at end of year</u>	13	9,045,941	5,407,142

The notes on page 7 to 49 are an integral part of these consolidated financial statements.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

1 General information

带格式的: 项目符号和编号

Hainan Airlines Company Limited (the "Company") was first established as a local air transportation enterprise in the People's Republic of China (the "PRC") on 18 October 1989. 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 Company was approved to be reorganised into a joint stock limited company by way of share subscription. The Company obtained its business licence on 8 January 1993 and was then established as a joint stock limited company. It secured listings on the Shanghai Stock Exchange for its domestically listed foreign ordinary shares ("B shares") and domestically listed Renminbi ordinary shares ("A shares") in June 1997 and October 1999 respectively.

The address of the Company's registered office is as follows:

Haihang Development Building
29 Haixiu Road, Haikou
Hainan Province, PRC

The Company and its subsidiaries (collectively the "Group") are principally engaged in the provision of air transportation and related airline services.

These consolidated financial statements have been approved for issue by the board of directors on 11 April 2007.

2 Summary of significant accounting policies

带格式的: 项目符号和编号

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

带格式的: 项目符号和编号

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This basis of accounting differs in certain respects from that used in the preparation of the Group's PRC statutory financial statements. The PRC statutory financial statements of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC (the "PRC GAAP"). Appropriate changes have been made to the PRC statutory financial statements to conform with IFRS. Differences arising from the changes are not incorporated in the Group's accounting records.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Standards, amendments and interpretations effective in 2006 but not relevant for or have no material impact on the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 Amendment - Employee Benefits;
- IAS 21 Amendment - Net Investment In a Foreign Operation;
- IAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment - The Fair Value Option;
- IAS 39 and IFRS 4 Amendment - Financial Guarantee Contracts;
- IFRS 6 - Exploration For and Evaluation of Mineral Resources;
- IFRS 1 and 6 Amendments - First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources;
- IFRIC 4 - Determining Whether an Arrangement Contains a Lease;
- IFRIC 5 - Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6 - Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- IFRS 7 - Financial instruments - Disclosures, and the complementally Amendment to IAS1 - Presentation of Financial Statement - Capital Disclosure, effective for annual periods beginning on or after 1 January 2007. The Group will apply IFRS 7 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

- IFRIC 8 - Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and
- IFRIC 10 - Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(c) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRIC 7 - Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC - 7 is not relevant to the Group's operations; and
- IFRIC 9 - Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

带格式的: 项目符号和编号

带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The financial statements have been prepared on a going concern basis. The Group had accumulated losses amounting to approximately RMB1,096,789,000 at 31 December 2006, and its current liabilities exceeded its current assets by approximately RMB3,486,370,000. The Group's ability to continue on a going concern basis depends on the success of its future operations in generating cash flows and obtaining the continuation and renewal of the Group's borrowing facilities from banks. Management has prepared projected cash flow information for the twelve-month period from the date of their approval of these financial statements. On the basis of this cash flow information and the borrowing facilities available from banks, management is confident that the Group has sufficient funds to pay its liabilities when they fall due and to continue its operations for the foreseeable future. As a result, management believes that it is appropriate for these financial statements to be prepared on a going concern basis.

The names of certain companies referred to in these financial statements represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

带格式的: 项目符号和编号

带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss) (Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

← --- 带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.4 Property, plant and equipment

带格式的: 项目符号和编号

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on owned property, plant and equipment and aircraft and engines held under finance leases is calculated using straight-line method to allocate their cost to residual value over their estimated useful lives, or their lease terms as follows:

<u>Buildings</u>	<u>40 years</u>
<u>Aircraft and engines</u>	<u>10 to 20 years</u>
<u>Rotables</u>	<u>10 to 15 years</u>
<u>Vehicles</u>	<u>10 years</u>
<u>Furniture, fixtures and office equipment</u>	<u>8 to 14 years</u>
<u>Leasehold improvements</u>	<u>7 to 12 years</u>

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

Construction in progress is stated at cost to the Group which includes all expenditures and other direct costs attributable to the construction and interest charges arising from borrowings used to finance the construction during the construction period. Depreciation is not provided on construction in progress until the related asset is completed and put into its intended use upon transfer to property, plant and equipment.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.5 Non-current assets held for sale

带格式的: 项目符号和编号

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.6 Land use rights

带格式的: 项目符号和编号

Land use rights represent up-front payments to acquire the rights of use of long-term interest in land. These payments are stated at cost and charged to the income statement over the period of lease on a straight-line basis.

2.7 Goodwill

带格式的: 项目符号和编号

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Non-current assets". Goodwill on acquisitions of associates is included in "Investments in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.8 Deferred payments under sale and leaseback transactions

带格式的: 项目符号和编号

Deferred payments represent differences between the sale price of assets under sale and leaseback transactions and their fair value.

When a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease period.

For a sale and leaseback transaction resulting in an operating lease established at fair value, if it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately; if the sale price is below fair value, the difference is deferred and amortised over the related lease period provided that such difference is to be compensated by future lease payments at below market price; and if the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 **Summary of significant accounting policies (continued)**

2.9 **Impairment of non-financial assets**

带格式的: 项目符号和编号

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 **Financial assets**

带格式的: 项目符号和编号

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

During the year, the Group only held "Loans and receivables" and "Available-for-sale financial assets".

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.12).

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through equity are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on equity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.12.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.11 Inventories

Inventories, comprising spare parts and consumables, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories are expensed when used in operations.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other administrative expenses in the income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

带格式的: 项目符号和编号

带格式的: 项目符号和编号

带格式的: 项目符号和编号

带格式的: 项目符号和编号

带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.16 Borrowings and borrowing costs

← --- 带格式的: 项目符号和编号

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the acquisition, construction or production of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.17 Deferred income tax

← --- 带格式的: 项目符号和编号

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee retirement benefits

← --- 带格式的: 项目符号和编号

The Group provides defined contribution retirement scheme based on local laws and regulations.

The scheme cover full-time employees and provide for contributions at certain percentage of salary as determined by the respective local government authorities. The Group's contributions to defined contribution scheme are charged to income statement in the year to which they relate.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2 **Summary of significant accounting policies (continued)**

2.19 **Revenue recognition**

Passenger, charter flight and cargo revenues are recognised as traffic revenues when the transportation services are provided. The value of sold but unused tickets is included in the current liabilities as sales in advance of carriage.

Commission and revenues from other aviation related business are recognised when related services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

2.20 **Lease**

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current obligations under finance lease. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21 **Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

3 Financial risk management

← --- 带格式的: 项目符号和编号

3.1 Financial risk factor

← --- 带格式的: 项目符号和编号

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Planning and Finance Department under policies approved by the Board of Directors of the Company.

(a) Market risk

← --- 带格式的: 项目符号和编号

(i) Foreign exchange

← --- 带格式的: 项目符号和编号

Certain bank loans and finance lease payments of the Group are denominated in United States dollars ("USD"). The Group may generate a deficit or surplus over repayment of loans and finance lease payments in USD from time to time. The Group is not able to hedge its foreign currency exposure effectively other than by retaining its foreign exchange denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange. The Group's results of operations may also be affected by changes in the USD value.

(ii) Price risk

← --- 带格式的: 项目符号和编号

The Group is exposed to commodity price risk, especially for fuel which is the major cost of the Group. It has not used any futures to hedge its price risk exposure.

(b) Credit risk

← --- 带格式的: 项目符号和编号

The Group has no significant concentration of credit risk because most of its revenue are received on cash basis.

Trade and other receivables are spread among numerous ticketing agents and other business partners in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

3 Financial risk management (continued)

3.1 Financial risk factor (continued)

(c) Liquidity risk

← --- 带格式的: 项目符号和编号

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group's treasury aims at maintaining flexibility in funding by keeping committed credit facilities available.

Cash and short-term deposits are mainly placed with certain banks that are not state-owned and a related non-bank financial institution, which resulted in more risk exposure than that are placed with state-owned banks.

(d) Interest rate risk

← --- 带格式的: 项目符号和编号

The Group has no significant interest bearing assets but borrowed loans from banks. The interest rates and terms of repayment of borrowings are disclosed in Note 18.

3.2 Fair value estimation

← --- 带格式的: 项目符号和编号

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

← --- 带格式的: 项目符号和编号

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

5

Property, plant and equipment

← --- 带格式的：项目符号和编号

	<u>Buildings</u>	<u>Aircraft and engines</u>	<u>Rotables</u>	<u>Vehicles</u>	<u>Furniture, fixtures and office equipment</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Total</u>
At 1 January 2005								
Cost	1,538,608	14,319,797	1,997,423	193,331	348,732	392,184	833,938	19,624,013
Accumulated depreciation	(153,537)	(2,862,621)	(680,681)	(86,729)	(137,169)	(243,409)	-	(4,164,146)
Accumulated impairment charge	-	-	-	-	(1,059)	-	-	(1,059)
Net book amount	1,385,071	11,457,176	1,316,742	106,602	210,504	148,775	833,938	15,458,808
Year ended 31 December 2005								
Opening net book amount	1,385,071	11,457,176	1,316,742	106,602	210,504	148,775	833,938	15,458,808
Additions	364	4,473,924	209,799	23,809	21,670	982	145,155	4,875,703
Transfers	241,327	376,158	-	-	21,881	398	(639,764)	-
Disposals	(5,589)	-	(421)	(5,062)	(7,567)	-	-	(18,639)
Depreciation charge	(39,035)	(760,212)	(167,687)	(17,896)	(37,597)	(40,943)	-	(1,063,370)
Impairment (charge)/write-back	(8,000)	-	-	-	1,059	-	-	(6,941)
Closing net book amount	1,574,138	15,547,046	1,358,433	107,453	209,950	109,212	339,329	19,245,561
At 31 December 2005								
Cost	1,773,348	19,169,879	2,206,421	208,820	375,777	393,564	339,329	24,467,138
Accumulated depreciation	(191,210)	(3,622,833)	(847,988)	(101,367)	(165,827)	(284,352)	-	(5,213,577)
Accumulated impairment charge	(8,000)	-	-	-	-	-	-	(8,000)
Net book amount	1,574,138	15,547,046	1,358,433	107,453	209,950	109,212	339,329	19,245,561
Year ended 31 December 2006								
Opening net book amount	1,574,138	15,547,046	1,358,433	107,453	209,950	109,212	339,329	19,245,561
Additions	2,175	5,990,726	115,870	12,539	31,389	-	446,393	6,599,092
Transfers	15,131	3,095	-	-	1,665	-	(19,891)	-
Disposals	(10,930)	(4,137,232)	(13,828)	(610)	(883)	-	-	(4,163,483)
Transfer to non-current assets held for sale (Note 14)	(113,402)	(9,611)	(60,692)	-	-	-	-	(183,705)
Depreciation charge	(42,510)	(995,228)	(176,727)	(18,023)	(38,560)	(35,967)	-	(1,307,015)
Impairment (charge)/write-back (Note 22)	8,000	-	-	-	-	-	(967)	7,033
Closing net book amount	1,432,602	16,398,796	1,223,056	101,359	203,561	73,245	764,864	20,197,483
At 31 December 2006								
Cost	1,633,046	20,111,508	2,206,973	218,579	402,120	393,564	765,831	25,731,621
Accumulated depreciation	(200,444)	(3,712,712)	(983,917)	(117,220)	(198,559)	(320,319)	-	(5,533,171)
Accumulated impairment charge	-	-	-	-	-	-	(967)	(967)
Net book amount	1,432,602	16,398,796	1,223,056	101,359	203,561	73,245	764,864	20,197,483

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

5 Property, plant and equipment (continued)

Included in the net book amount of aircraft and engines are a total of RMB6,145,261,000 (2005: RMB3,195,195,000) representing assets held under finance leases.

At 31 December 2006, the net book amount of property, plant and equipment pledged as security for the Group's bank borrowings (Note 18) amounted to RMB10,413,311,000 (2005: RMB8,289,834,000).

All the Group's buildings are located in the PRC. Included in the net book amount of buildings are a total of RMB431,187,000 (2005: RMB238,713,000) for which property certificates have not yet been obtained. According to the legal opinion issued by the independent legal counsel of the Group, the Group will not have any legal obstacles in obtaining the property certificates for these buildings. Management of the Company are of the opinion that there is no reason for them to believe that the said property certificates cannot be obtained.

Depreciation charges of RMB1,211,511,000 (2005: RMB1,005,962,000) has been expensed in direct operating costs, RMB5,003,000 (2005: RMB4,483,000) in selling expenses, RMB61,475,000 (2005: RMB52,925,000) in administrative expenses and RMB29,026,000 (2005: Nil) in other income.

Interest cost on borrowings capitalised during the year amounted to RMB58,965,000 (2005: RMB91,086,000) and the capitalisation rate used is 6.70% (2005: 5.56%) per annum.

6 Land use rights

带格式的: 项目符号和编号

The Group's land use rights represent prepaid operating lease payments for land located in the PRC and held on leases for periods between 10 to 50 years.

	<u>2006</u>	<u>2005</u>
<u>At 1 January</u>		
<u>Cost</u>	<u>311,922</u>	<u>284,822</u>
<u>Accumulated amortisation charge</u>	<u>(36,864)</u>	<u>(27,637)</u>
<u>Opening net book amount</u>	<u>275,058</u>	<u>257,185</u>
<u>Additions</u>	<u>-</u>	<u>27,100</u>
<u>Amortisation charge (Note 22)</u>	<u>(9,555)</u>	<u>(9,227)</u>
<u>Closing net book amount</u>	<u>265,503</u>	<u>275,058</u>
<u>At 31 December</u>		
<u>Cost</u>	<u>311,922</u>	<u>311,922</u>
<u>Accumulated amortisation charge</u>	<u>(46,419)</u>	<u>(36,864)</u>
<u>Net book amount</u>	<u>265,503</u>	<u>275,058</u>

As at 31 December 2006, the net book value of land use rights pledged as security for the Group's

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

bank borrowings (Note 18) amounted to RMB203,750,000 (2005: RMB211,083,000).

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

7

Goodwill

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
<u>Year ended 31 December</u>		
Opening net book amount	<u>111,805</u>	<u>127,408</u>
Impairment charge (Note 22)	<u>(17,663)</u>	<u>(15,603)</u>
<u>Net book amount</u>	<u>94,142</u>	<u>111,805</u>
<u>At 31 December</u>		
<u>Cost</u>	<u>127,408</u>	<u>127,408</u>
Accumulated impairment charge	<u>(33,266)</u>	<u>(15,603)</u>
<u>Net book amount</u>	<u>94,142</u>	<u>111,805</u>

The goodwill arose from the acquisitions of China Xinhua Airlines Company Limited ("XACL") and Chang'an Airlines Company Limited ("CACL") in 2001 and from the acquisition of Shanxi Airlines Company Limited ("SACL") and the increase in equity interest in XACL in 2002.

Impairment charge of RMB17,663,000 (2005: RMB15,603,000) was included in administrative expenses.

8

Deferred payments under sale and leaseback transactions

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
<u>Year ended 31 December</u>		
Opening net book amount	<u>278,539</u>	<u>307,810</u>
Additions	<u>52,750</u>	<u>-</u>
Amortisation charge (Note 22)	<u>(30,008)</u>	<u>(29,271)</u>
<u>Net book amount</u>	<u>301,281</u>	<u>278,539</u>
<u>At 31 December</u>		
<u>Cost</u>	<u>424,810</u>	<u>372,060</u>
Accumulated amortisation	<u>(123,529)</u>	<u>(93,521)</u>
<u>Net book amount</u>	<u>301,281</u>	<u>278,539</u>

Deferred payments represent differences between sale prices and their fair values of aircraft and engines and rotables under sale and leaseback transactions.

Amortisation charge of RMB30,008,000 (2005: RMB29,271,000) is included in administrative expenses.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

9

Investments in associates

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
<u>Beginning of the year</u>	<u>312,836</u>	<u>274,221</u>
<u>Additions</u>	<u>73,000</u>	<u>47,074</u>
<u>Transfer from available-for-sale financial assets (Note 10)</u>	<u>15,000</u>	<u>-</u>
<u>Deemed disposal (Note 10)</u>	<u>(101,561)</u>	<u>-</u>
<u>Disposals</u>	<u>(10,777)</u>	<u>(6,517)</u>
<u>Share of operating (loss)/profit</u>	<u>(2,001)</u>	<u>4,094</u>
<u>Impairment charge of goodwill</u>	<u>(4,256)</u>	<u>(6,036)</u>
<u>Share of losses (Note 27)</u>	<u>(6,257)</u>	<u>(1,942)</u>
<u>Dividend declared</u>	<u>(4,320)</u>	<u>-</u>
<u>End of the year</u>	<u>277,921</u>	<u>312,836</u>

Share of losses is after tax and minority interest of associates.

Investments in associates at 31 December 2006 include goodwill of RMB30,755,000 (2005: RMB35,011,000).

The Group's share of results of its associates, all of which are unlisted and incorporated in the PRC, and its share of the assets (including goodwill and liabilities) are as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Profit/(loss)</u>	<u>% interest held</u>
<u>2006</u>	<u>572,298</u>	<u>309,042</u>	<u>133,531</u>	<u>(2,001)</u>	<u>20% - 49%</u>
<u>2005</u>	<u>1,915,280</u>	<u>1,602,444</u>	<u>175,617</u>	<u>4,094</u>	<u>20% - 49%</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

9

Investments in associates (continued)

The Group's interests in its principal associates were as follows:

<u>Name</u>	<u>Interest held</u>		<u>Principal activities</u>
	<u>2006</u>	<u>2005</u>	
<u>Directly held:</u>	<u>%</u>	<u>%</u>	
Hainan Haihang Aviation Import & Export Company Limited ("Haihang Import & Export")	30	30	Flight equipment and spare parts trading
Hainan Haihang Aircraft Maintenance Company Limited	48	48	Provision of aircraft and related vehicle repairs and maintenance services
Yangzi River International Lease Company Limited ("Yangzi River Lease")	40	40	Finance lease services
Hainan Xin Guo Hotel Limited ("Xin Guo Hotel") (Note (a))	40	15	Hotel operation and management
<u>Indirectly held:</u>			
Xinda International Forwarder Company Limited	49	49	Agent for aviation transportation
Lucky Travel International Company Limited ("Lucky Travel")	44	44	Domestic travel services
Beijing Vision Advertising Company Limited	30	30	Advertising
Beijing Yanjing Hotel Limited ("Beijing Yanjing")	35	40	Hotel operation and management
HNA Group Finance Company Limited ("HNA Finance") (Note (b))	12.5	33.33	Provision of financial services
Yunnan Xiangpeng Aviation Company Limited ("Yunnan Xiangpeng")	31.38	31.38	Local air transportation services
Shenzhen Aviation Hotel	-	25	Hotel operation and management

- (a) During the year, the Company contributed additional capital of RMB25,000,000 into Xin Guo Hotel, and thus the equity interest held by the Company in Xin Guo Hotel was increased from 15% to 40%. Accordingly, Xin Guo Hotel became an associate of the Company.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

9 Investments in associates (continued)

(b) HNA Finance is an authorised non-bank financial institution approved by the China Banking Regulatory Commission and is principally engaged in the provision of financial services in the PRC. HNA Finance is controlled by Hainan Airlines Group Company Limited ("HAGCL"), the controlling entity of the Company. In 2005, HNA Finance was an associate which was indirectly held through XACL, a subsidiary of the Company.

In 2006, HAGCL and another shareholder of HNA Finance contributed additional capital into HNA Finance and as a result, the equity interest held by XACL was diluted from 33.33% to 12.5% and the Group no longer has significant influence on HNA Finance. Accordingly, HNA Finance was reclassified from investment in associates to available-for-sale financial assets.

10 Available-for-sale financial assets

	<u>2006</u>	<u>2005</u>
At beginning of year	438,834	433,803
Additions	19,000	30,000
Transfer from investment in associates (Note 9(b))	101,561	-
Transfer to investment in associates (Note 9(a))	(15,000)	-
Disposals	(30,000)	-
Fair value adjustment (Note 16)	(28,734)	(24,969)
At end of year	485,661	438,834

These investments mainly represent interest in certain unlisted companies which do not have a quoted market price in an active market.

11 Inventories

	<u>2006</u>	<u>2005</u>
Aircraft spare parts and consumables - at cost	302,017	328,906
Less: provision for impairment	(5,199)	(5,199)
	296,818	323,707

The cost of inventories recognised as expenses and included in direct operating costs amounted to RMB136,570,000 (2005: RMB148,804,000) (Note 22).

带格式的: 项目符号和编号

带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

12 Trade and other receivables

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
Trade receivables	667,193	336,282
Amounts due from related parties (Note 30(c))	296,460	1,143,439
Prepayments	72,154	98,571
Other receivables	109,245	488,605
	<u>1,145,052</u>	<u>2,066,897</u>
Less: provision for impairment of receivables	<u>(140,017)</u>	<u>(214,299)</u>
Trade and other receivables - net	<u>1,005,035</u>	<u>1,852,598</u>

The carrying amounts of trade and other receivables approximate their fair value.

13 Cash and cash equivalents

带格式的: 项目符号和编号

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Cash at bank and in hand		2,121,946	1,142,253
Short-term bank deposits (over 3 months)		=	1,887,836
		<u>2,121,946</u>	<u>3,030,089</u>
Cash in HNA Finance		654,203	2,441,806
Short-term deposits in HNA Finance (within 3 months)		=	9,000
Short-term deposits in HNA Finance (over 3 months) (a)		6,755,708	311,594
		<u>9,531,857</u>	<u>5,792,489</u>
Less: Pledged bank deposits (b)		<u>(485,916)</u>	<u>(385,347)</u>
Cash and cash equivalents		<u>9,045,941</u>	<u>5,407,142</u>

(a) The effective weighted average rate of these short-term deposits was 2.28% (2005: 1.88%) per annum. These deposits have an average maturity of 401 days (2005: 300 days) but could be withdrawn anytime without restriction.

The above cash and short-term deposits with HNA Finance were guaranteed by HAGCL.

(b) The amount represents bank deposits pledged for commercial bills issued by the Group and bank borrowings (Note 18) of the Group.

14 Non-current assets held for sale

带格式的: 项目符号和编号

The amount represents certain buildings, engines and rotables which are planned to be sold in 2007. These buildings are non-core assets of the Group and to be sold for the purpose of improving the cash flows of the Group. The engines and rotables to be sold are related to the two aircraft which had been sold in 2006.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

15 Share capital

带格式的: 项目符号和编号

	Unlisted shares		Listed A shares		Listed B shares		Total
	Shares held by the State	Shares held by legal persons	Restrictions on trading	No restrictions on trading	Restrictions on trading	No restrictions on trading	
As at 31 December 2005	17,289	156,283	-	371,958	-	184,723	730,253
Placing of shares (note (a))	-	2,800,000	-	-	-	-	2,800,000
Reclassification due to share segregation reform (note (b))	(17,289)	(2,956,283)	2,850,826	122,746	-	-	-
As at 31 December 2006	-	-	2,850,826	494,704	-	184,723	3,530,253

(a) The amount represents the capital received from Xinhua Airline Holdings Co., Ltd. ("Xinhua Holdings") and five other companies in connection with the placing of 2,800,000,000 legal person shares with nominal value of RMB1 at a price of RMB2 per share. Total proceeds received from the placement amounted to RMB5,600,000,000, RMB2,800,000,000 of which has been credited to share premium account.

The usage of the proceeds is restricted by the resolutions of the 11th Session of the 4th Board Meeting of the Company and the 1st Temporary Board Meeting of 2005 of the Company as follows:

- (1) to acquire minority interests;
- (2) to repay bank borrowings;
- (3) to purchase aircraft for the expansion of the fleet of the Company; and
- (4) as working capital of the Company.

As requested by Xinhua Holdings and other shareholders, the unused portion of the placement proceeds was deposited with HNA Finance. As at the date of issuance of these consolidated financial statements, the applications for usage of funds to certain relevant projects are under the process of approval by relevant government authorities.

(b) A share segregation reform of the Company (the "Reform Scheme") was approved by the shareholders' meeting on 24 July 2006 and by the relevant government authorities on 14 August 2006. Pursuant to the Reform Scheme, the shareholders of the unlisted A shares agreed to offer 3.3 shares for every 10 shares held by the shareholders of the listed A shares in exchange for their agreement that all the unlisted A shares be converted into listed shares. The total number of issued shares of the Company remained unchanged and the unlisted shares became listed A shares on 20 September 2006, which are subject to certain restrictions on trading for various periods. The Reform Scheme has no financial impact on the Group.

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and, except for the denominated currency of dividend, registered ordinary shares are with equal rights.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

16

Reserves

带格式的: 项目符号和编号

			Statutory		Statutory		
	Share	Other	surplus	Discretionary	public	Fair value	
	premium	reserves	reserve	surplus	welfare	adjustment	Total
	(Note (a))	(Note (b))	fund	reserve fund	fund		
	(Note (a))	(Note (b))	(Note (c))	(Note (c))	(Note (d))		
Balance at 1 January 2005	<u>1,027,350</u>	<u>31,379</u>	<u>114,445</u>	<u>1,559</u>	<u>53,093</u>	<u>-</u>	<u>1,227,826</u>
Capital received	-	<u>1,500,000</u>	-	-	-	-	<u>1,500,000</u>
Fair value losses of available-for-sale financial assets	-	-	-	-	-	<u>(24,969)</u>	<u>(24,969)</u>
Others	-	<u>151</u>	-	-	-	-	<u>151</u>
Balance at 31 December 2005	<u>1,027,350</u>	<u>1,531,530</u>	<u>114,445</u>	<u>1,559</u>	<u>53,093</u>	<u>(24,969)</u>	<u>2,703,008</u>
Balance at 1 January 2006	<u>1,027,350</u>	<u>1,531,530</u>	<u>114,445</u>	<u>1,559</u>	<u>53,093</u>	<u>(24,969)</u>	<u>2,703,008</u>
Placing of shares	<u>2,050,000</u>	-	-	-	-	-	<u>2,050,000</u>
Transfer from other reserves	<u>750,000</u>	<u>(1,500,000)</u>	-	-	-	-	<u>(750,000)</u>
Fair value losses of available-for-sale financial assets (Note 10)	-	-	-	-	-	<u>(28,734)</u>	<u>(28,734)</u>
Transfer to statutory surplus reserve funds	-	-	<u>53,093</u>	-	<u>(53,093)</u>	-	-
Issuance cost	<u>(3,978)</u>	-	-	-	-	-	<u>(3,978)</u>
Balance at 31 December 2006	<u>3,823,372</u>	<u>31,530</u>	<u>167,538</u>	<u>1,559</u>	<u>-</u>	<u>(53,703)</u>	<u>3,970,296</u>

(a) The amount represents share premium received less related expenses from the issues of shares.

(b) In 2005, the Company received RMB1,500,000,000 from Xinhua Holdings as consideration for acquisition of 750,000,000 legal person shares of the Company. This consideration was recorded as other reserves because the registration procedures were still in progress as of 31 December 2005. It was transferred from other reserves to share capital and share premium account respectively in 2006 upon the completion of the placement of a total of 2,800,000,000 shares as mentioned in Note 15(a) above.

The remaining balance of the reserves mainly consisted of profits transferred from accumulated losses that are undistributable in pursuance of relevant PRC regulations.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

16

Reserves (continued)

- (c) Pursuant to the relevant PRC regulations and the articles of association of the Company, profit after tax shall be appropriated according to the following sequence:
- (i) make up accumulated losses if any;
 - (ii) transfer to the statutory surplus reserve at 10% of the profit after tax. When the balance of the statutory surplus reserve reaches 50% of the share capital, additional transfer need not be made;
 - (iii) transfer to the discretionary surplus reserve at an amount as approved by the shareholders in the Annual General Meeting; and
 - (iv) distribute as dividends to shareholders as approved by the shareholders in the Annual General Meeting.
- The amounts of transfer to the reserve funds shall be determined based on profit after tax reported in the PRC statutory financial statements of the Company prepared in accordance with the PRC GAAP.
- (d) Pursuant to the relevant PRC regulations, effective on 1 January 2006, the Company ceased to transfer any amount to statutory public welfare fund. The balance of statutory public welfare fund as at 31 December 2005 has been reclassified to the statutory surplus reserve fund in 2006.

17

Trade and other payables

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
Trade payables	1,148,691	957,476
Notes payables	1,958,706	817,434
Amounts due to related companies (Note 30(c))	473,979	490,702
Other payables, receipt in advance and accrued expenses	2,370,989	2,156,114
Sales in advance of carriage	680,741	489,905
	<u>6,633,106</u>	<u>4,911,631</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

18

Borrowings

带格式的: 项目符号和编号

	Note	2006	2005
Non-current			
Bank borrowings			
- Unsecured		113,960	294,428
- Guaranteed and secured	(a)	11,703,619	13,309,426
	(c)	11,817,579	13,603,854
Other borrowings			
- Unsecured	(d)	1,012,889	1,251,585
		12,830,468	14,855,439
Less: Current portion of borrowings included under current liabilities		(1,564,585)	(1,529,199)
	(b)	11,265,883	13,326,240
Current			
Bank borrowings			
- Unsecured		-	530,000
- Guaranteed and secured	(a)	5,310,735	4,181,779
	(e)	5,310,735	4,711,779
Add: Current portion of non-current borrowings		1,564,585	1,529,199
		6,875,320	6,240,978
Debentures	(f)	541,688	-
Other borrowings			
- Unsecured	(g)	106,291	112,609
- Guaranteed and secured		-	30,000
		7,523,299	6,383,587
Total borrowings		18,789,182	19,709,827

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

18 Borrowings (continued)

(a) Details of the guarantee and security arrangements associated with the bank borrowings outstanding as at the end of 2006 and 2005 are summarised as follows:

Amount	Guaranteed by	Secured by:
As at 31 December 2006:		
Current:		
RMB3,049,964,000	HAGCL, Haikou Meilan Airport Co., Ltd. ("Haikou Meilan"), XACL, Haihang Airlines Hotel Holding Company Limited ("Haihang Hotel Holding")	Nil
RMB2,260,771,000	Haikou Meilan	the Group's certain property (Note 5) and land use rights (Note 6) and short term deposits (Note 13), the Company's equity interest in XACL, HAGCL's certain equity interest in its subsidiaries and associates, Haihang Hotel Holding's certain equity interests in its subsidiaries, Haikou Meilan's equity interest in its subsidiaries, certain land use rights of Haikou New City Construction and Development Co., Ltd., Xihua Holdings equity interest in the Company, certain land use rights of Sanya Phoenix International Airport Company Limited ("Sanya Phoenix Airport"), certain land use rights and property of Hainan Xinglong Garden Golf Co., Ltd. ("Xinglong Golf") and Hainan Xinglong Hot Spring Garden Co., Ltd. ("Xinglong Hot Spring")
RMB5,310,735,000		
Non-current:		
RMB2,931,780,000	HAGCL, Haikou Meilan	Nil
RMB8,451,839,000	HAGCL	the Group's certain property, plant and equipment (Note 5), land use rights (Note 6), the Company's equity interests in CACL, XACL, SACL and Haikou Meilan, HAGCL's equity interests in the Company, CACL, XACL and other subsidiaries, certain investments of Hainan Airlines Hotel (Group) Company Limited ("Hainan Airlines Hotel") and Hainan Qixing Industrial Investment Company Limited's ("Hainan Qixing") equity interests in the Company, certain land use rights of Xinglong Hot Spring
RMB320,000,000	Nil	air ticket proceeds due from China BSP settlement centre ("BSP"), the balance of which was RMB289,892,000 as at 31 December 2006
RMB11,703,619,000		
As at 31 December 2005:		
Current:		
RMB3,233,000,000	HAGCL, Haikou Meilan, XACL, Golf Xinglong	Nil
RMB948,779,000	Haikou Meilan, Shanxi Yingze Haihang Hotel Co., Ltd.	the Group's certain property (Note 5) and land use rights (Note 6) and short term deposits (Note 13), the Company's equity interest in XACL, HAGCL's certain equity interest in its subsidiaries, certain

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
 (All amounts in Renminbi Yuan thousands unless otherwise stated)

		land use rights of Hainan Xinglong
RMB4,181,779,000		

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

18 Borrowings (continued)

(a) Details of the guarantee and security arrangements associated with the bank borrowings outstanding as at the end of 2006 and 2005 are summarised as follows: (continued)

<u>As at 31 December 2005:</u>		
<u>Non-current:</u>		
RMB2,893,667,000	HAGCL and Haikou Meilan	Nil
RMB9,935,759,000	Nil	the Group's certain property, plant and equipment (Note 5), land use rights (Note 6), the Company's equity interests in CACL, XACL, SACL and Haikou Meilan, HAGCL's equity interests in the Company, CACL, XACL and other subsidiaries, certain investments of Hainan Airlines Hotel and Hainan Qixing equity interests in the Company
RMB480,000,000	Nil	air ticket proceeds due from BSP, the balance of which was RMB215,429,000 as at 31 December 2005
RMB13,309,426,000		

2006 2005

(b) Maturity of non-current borrowings is as follows:

Between 1 and 2 years	1,453,064	1,627,750
Between 2 and 5 years	4,414,717	3,706,703
Over 5 years	5,398,102	7,991,787
	<u>11,265,883</u>	<u>13,326,240</u>

(c) Non-current bank borrowings are bearing interest at rates ranging from 0.2% to 7.55% (2005: 0.2% to 6.64%) per annum. The weighted average interest rate for the non-current bank borrowings was 6.45% (2005: 5.92%) per annum.

(d) Other non-current borrowings represented syndicate borrowings granted by financial institutions for the acquisition of aircraft for an original period from 1998 to 2012 and with interest rates ranging from 4.504% to 7.98% (2005: 2.74% to 7.98%) per annum.

(e) Current bank borrowings are with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates are ranging from 5.02% to 9.18% (2005: 4.72% to 8.37%) per annum. The weighted average interest rates are 5.88% (2005: 5.42%) per annum.

(f) The amount represents short-term finance bonds issued to certain banks on 12 May 2006. These bonds will be due on 15 May 2007 and the interest rate is 3.38% (2005: Nil) per annum.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

(g)	<u>Other current borrowings represented an unsecured borrowing of RMB4,778,000 (2005: RMB5,014,000) obtained from Hainan American Company Limited ("Hainan American"), a related party, for a period of 1 year and with interest rate of 10% (2005: 10%) per annum, an unsecured borrowing of RMB101,513,000 (2005: RMB107,595,000) from Headstream Investment Company Limited, for a period of 14 months and with interest rate of floating 3 months LIBOR plus 1.2% per annum.</u>
-----	--

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

18 Borrowings (continued)

- (h) The fair value of non-current bank and other borrowings approximated their carrying amounts.
- (i) Included in non-current bank and other borrowings were borrowings of RMB5,899,970,000 (2005: RMB4,209,859,000) which were denominated in USD. The remaining non-current bank and other borrowings are denominated in RMB.
- (j) Included in current bank and other borrowings are borrowings of RMB485,035,000 (2005: RMB323,388,000) which are denominated in USD, and RMB90,423,000 (2005: Nil) which are denominated in HKD. The remaining current bank and other borrowings are denominated in RMB.

As at 31 December 2006, the Group has the following unutilised available bank borrowing facilities:

	<u>2006</u>	<u>2005</u>
At floating rate and expiring within one year	<u>4,131,896</u>	<u>1,060,000</u>

19 Obligations under finance leases

带格式的: 项目符号和编号

As at 31 December 2006, the future minimum lease payments are as follows:

	<u>2006</u>	<u>2005</u>
Not later than 1 year	<u>443,036</u>	<u>638,357</u>
Later than 1 year and not later than 5 years	<u>1,427,780</u>	<u>1,275,419</u>
Later than 5 years	<u>1,293,194</u>	<u>777,641</u>
Total minimum lease payments	<u>3,164,010</u>	<u>2,691,417</u>
Less: future finance charge on finance leases	<u>(893,991)</u>	<u>(495,606)</u>
Present value of minimum lease payments	<u>2,270,019</u>	<u>2,195,811</u>
Less: current portion of obligations under finance leases	<u>(327,954)</u>	<u>(495,885)</u>
Non-current portion of obligations under finance leases	<u>1,942,065</u>	<u>1,699,926</u>
Maturity of present value of minimum lease payments		
Not later than 1 year	<u>327,954</u>	<u>495,885</u>
Later than 1 year and not later than 5 years	<u>990,999</u>	<u>991,571</u>
Later than 5 years	<u>951,066</u>	<u>708,355</u>
	<u>2,270,019</u>	<u>2,195,811</u>

Included in obligations under finance leases are obligations of RMB1,008,922,000 (2005:

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in Renminbi Yuan thousands unless otherwise stated)

RMB1,341,709,000) which are denominated in USD. In addition, included in obligations under finance leases are obligations of RMB10,760,000 (2005: RMB82,952,000) which are contracted with Yangzi River Lease, an associate of the Group, and of RMB510,493,000 (2005: Nil) with Changjiang Lease Company Limited ("Changjiang Lease"), a related party of the Group.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

20 Revenue

带格式的: 项目符号和编号

Revenues mainly comprise sales net of discounts from airlines and other services rendered in the PRC and are stated net of sales tax and surcharges.

	<u>2006</u>	<u>2005</u>
Passenger	<u>10,988,520</u>	<u>9,133,101</u>
Charter flight	<u>921,385</u>	<u>614,881</u>
Cargo and mail	<u>521,607</u>	<u>308,803</u>
Others	<u>16,846</u>	<u>4,683</u>
	<u>12,448,358</u>	<u>10,061,468</u>
Less: Sales tax and surcharge	<u>(385,069)</u>	<u>(315,451)</u>
	<u>12,063,289</u>	<u>9,746,017</u>

No segmental information is presented as the Group mainly operates in one business segment which is the carriage of passenger, cargo and mail over various routes in the PRC.

In 2006, pursuant to an agreement entered into between the Group and Hainan Baixiang Company Limited ("Hainan Baixiang"), the Group contracted out all of its domestic cargo and mail service to Hainan Baixiang at a price of RMB 485,350,000.

21 Other income

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
Commission	<u>49,225</u>	<u>40,331</u>
Ground services	<u>29,232</u>	<u>23,792</u>
Advertisement income	<u>25,000</u>	<u>18,930</u>
Government grants	<u>47,648</u>	<u>49,411</u>
Gain on transfer of pilots	<u>68,900</u>	<u>34,840</u>
Rental on lease of pilots	<u>27,705</u>	-
Rental on lease of aircraft - net	<u>91,355</u>	-
Gain on disposal of an associate	<u>1,776</u>	-
Dividends income	<u>9,125</u>	<u>3,407</u>
Catering income	<u>7,284</u>	<u>8,074</u>
Interest income	<u>105,827</u>	<u>17,823</u>
Others	<u>947</u>	<u>3,995</u>
	<u>464,024</u>	<u>200,603</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

22 Expenses by nature

带格式的: 项目符号和编号

Total direct operating costs, selling expenses and administrative expenses are analysed as follows:

	<u>2006</u>	<u>2005</u>
Fuel	<u>4,201,199</u>	<u>2,995,927</u>
Take-off and landing charges	<u>1,210,688</u>	<u>1,095,631</u>
Operating lease rentals in respect of aircraft and engines	<u>858,423</u>	<u>808,191</u>
Depreciation on property, plant and equipment		
- Owned assets	<u>945,771</u>	<u>825,075</u>
- Leased assets under finance leases	<u>332,218</u>	<u>238,295</u>
Repairs and maintenance expenditure	<u>1,057,676</u>	<u>719,810</u>
Staff costs (Note 23)	<u>798,538</u>	<u>604,350</u>
Agency fees	<u>289,897</u>	<u>285,144</u>
Civil aviation infrastructure levies	<u>322,534</u>	<u>271,795</u>
Aircraft spare parts and consumables (Note 11)	<u>136,570</u>	<u>148,804</u>
Food and beverages	<u>226,017</u>	<u>196,612</u>
Ticket reservation fees	<u>98,537</u>	<u>140,421</u>
Training costs	<u>159,397</u>	<u>94,366</u>
Insurance costs	<u>138,352</u>	<u>145,600</u>
Other flight operating expenses	<u>190,884</u>	<u>187,065</u>
(Write-back of)/provision for impairment of advances on aircraft and engines	<u>(6,362)</u>	<u>6,362</u>
(Write-back of)/provision for impairment of property, plant and equipment (Note 5)	<u>(7,033)</u>	<u>6,941</u>
Loss on disposal of property, plant and equipment (Note 27)	<u>17,664</u>	<u>7,592</u>
Impairment of goodwill (Note 7)	<u>17,663</u>	<u>15,603</u>
Amortisation of deferred payments (Note 8)	<u>30,008</u>	<u>29,271</u>
(Write-back of)/provision for impairment charge for bad and doubtful debts	<u>(43,643)</u>	<u>51,624</u>
Amortisation of land use rights (Note 6)	<u>9,555</u>	<u>9,227</u>
Others	<u>412,886</u>	<u>475,846</u>
	<u>11,397,439</u>	<u>9,359,552</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

23 Staff costs

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
<u>Wages, salaries and other staff benefits</u>	<u>729,951</u>	<u>544,199</u>
<u>Pension costs – defined contribution plans</u>	<u>68,587</u>	<u>60,151</u>
	<u>798,538</u>	<u>604,350</u>

In accordance with the state regulations, the Group participates in a defined contribution pension scheme organised by the relevant municipal government authorities where the Group operates. The Group is required to make contributions to the retirement scheme at a rate ranging from 20% to 23% (2005: 20% to 23%) of the basic salary of its staff.

24 Finance costs – net

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
<u>Interest expense:</u>		
- Bank borrowings	<u>1,025,890</u>	<u>890,475</u>
- Other borrowings	<u>86,884</u>	<u>72,257</u>
	<u>1,112,774</u>	<u>962,732</u>
<u>Less: Amount capitalised as property, plant and equipment</u>	<u>(58,965)</u>	<u>(91,086)</u>
	<u>1,053,809</u>	<u>871,646</u>
<u>Interest element of finance leases</u>	<u>103,561</u>	<u>108,983</u>
<u>Finance handling charges</u>	<u>68,037</u>	<u>51,539</u>
	<u>1,225,407</u>	<u>1,032,168</u>
<u>Net foreign exchange gains</u>	<u>(206,671)</u>	<u>(147,639)</u>
	<u>1,018,736</u>	<u>884,529</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

25 **Income tax expense** ← 带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
<u>Current tax</u>	<u>3,715</u>	<u>-</u>

PRC enterprises are subject to an income tax rate of 33%. However, according to the circular Qiong Fu (1988) No. 27 issued by the Hainan Provincial Government, the applicable tax rate of the Company is 15%.

PRC income taxes attributable to the subsidiaries and associates are provided based on the rates as applicable to the relevant companies.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit/(loss) of the Group as follows:

	<u>2006</u>	<u>2005</u>
<u>Profit/(loss) before income tax</u>	<u>180,677</u>	<u>(211,883)</u>
<u>Tax calculated at a tax rate of 15%</u>	<u>27,102</u>	<u>(31,782)</u>
<u>Utilisation of previous unrecognised tax losses</u>	<u>(23,387)</u>	<u>-</u>
<u>Unrecognised tax losses</u>	<u>-</u>	<u>31,782</u>
<u>Tax charge</u>	<u>3,715</u>	<u>-</u>

The Group did not recognise deferred income tax assets of RMB215,990,000 (2005: RMB239,377,000) in respect of losses amounting to RMB1,439,938,000 (2005: RMB1,595,851,000) that can be carried forward against future taxable profit. Losses amounting to RMB1,228,055,000 (2005: RMB1,383,968,000) and RMB211,883,000 (2005: RMB211,883,000) expire in 2008 and 2010 respectively.

26 **Earnings/(loss) per share** ← 带格式的: 项目符号和编号

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	<u>2006</u>	<u>2005</u>
<u>Profit/(loss) attributable to the equity holders of the Company</u>	<u>157,433</u>	<u>(215,063)</u>
<u>Weighted average number of ordinary shares in issue (thousands)</u>	<u>2,619,924</u>	<u>730,253</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

Basic earnings/(loss) per share (RMB per share)	0.06	(0.29)
---	------	--------

The Company has no dilutive potential shares.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

27

Cash generated from operations

带格式的: 项目符号和编号

	<u>2006</u>	<u>2005</u>
Profit/(loss) before income tax	<u>180,677</u>	<u>(211,883)</u>
Adjustments for:		
Depreciation (Note 5)	<u>1,307,015</u>	<u>1,063,370</u>
Amortisation of land use rights (Notes 6, 22)	<u>9,555</u>	<u>9,227</u>
Impairment of goodwill (Notes 7, 22)	<u>17,663</u>	<u>15,603</u>
Amortisation of deferred payments (Notes 8, 22)	<u>30,008</u>	<u>29,271</u>
(Write-back of)/impairment of property, plant and equipment (Notes 5, 22)	<u>(7,033)</u>	<u>6,941</u>
(Write-back of)/provision for impairment of advances on aircraft and engines (Note 22)	<u>(6,362)</u>	<u>6,362</u>
Loss on disposal of property, plant and equipment (Note 22)	<u>17,664</u>	<u>7,592</u>
Gain on disposal of associates	<u>(1,776)</u>	-
Loss on disposal of a subsidiary (Note 28)	<u>330</u>	-
Dividend income (Note 21)	<u>(9,125)</u>	<u>(3,407)</u>
Interest income (Note 21)	<u>(105,827)</u>	<u>(17,823)</u>
Interest expense (Note 24)	<u>1,053,809</u>	<u>871,646</u>
Finance handling charges (Note 24)	<u>68,037</u>	<u>51,539</u>
Interest element of finance leases (Note 24)	<u>103,561</u>	<u>108,983</u>
Exchange gains on borrowings	<u>(243,832)</u>	<u>(163,171)</u>
Exchange gains on obligations under finance leases	<u>(35,221)</u>	<u>(30,867)</u>
Share of results of associates (Note 9)	<u>6,257</u>	<u>1,942</u>
Changes in working capital (excluding the effects of incorporation and disposal of subsidiaries):		
Decrease in inventories	<u>25,113</u>	<u>13,237</u>
(Decrease)/increase in trade and other receivables	<u>1,208,055</u>	<u>(1,200)</u>
Increase in trade and other payables	<u>1,728,989</u>	<u>1,328,385</u>
Cash generated from operations	<u>5,347,557</u>	<u>3,085,747</u>

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	<u>2006</u>	<u>2005</u>
Net book amount (Note 5)	<u>4,163,483</u>	<u>18,639</u>
Loss on sale of property, plant and equipment	<u>(17,664)</u>	<u>(7,592)</u>
Receivables	<u>(644,408)</u>	-
Transfer to deferred payments under sale and leaseback transactions	<u>(52,750)</u>	-

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

<u>Net of borrowings</u>	<u>(2,944,000)</u>	<u>-</u>
<u>Proceeds from sale of property, plant and equipment</u>	<u>504,661</u>	<u>11,047</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

27 Cash generated from operations (continued)

Non-cash transactions

During the year, the Group acquired certain property, plant and equipment amounting to RMB3,874,098,000 (2005: RMB248,019,000) by way of finance leases.

28 Disposal of a subsidiary

带格式的: 项目符号和编号

On 30 October 2006, the Group disposed of its 70% equity interest in Hainan HNA Zhongmian Tax-free Commodity Company Limited (“HNA Tax-free”) to HAGCL.

The assets and liabilities in respect of the above disposal were as follows:

	<u>2006</u>
<u>Cash and cash equivalents</u>	<u>807</u>
<u>Inventories</u>	<u>1,776</u>
<u>Receivables and prepayments</u>	<u>1,459</u>
<u>Payables</u>	<u>(2,070)</u>
<u>Minority interests</u>	<u>(592)</u>
<u>Carrying amount of net assets</u>	<u>1,380</u>
<u>Loss on disposal</u>	<u>(330)</u>
<u>Proceeds from disposal</u>	<u>1,050</u>
<u>Less: Cash and bank balances in the subsidiary disposed</u>	<u>(807)</u>
<u>Cash inflow on disposal</u>	<u>243</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

29 Commitments

带格式的: 项目符号和编号

(a) Capital commitments

带格式的: 项目符号和编号

As at 31 December 2006, the Group had capital expenditure contracted for but not recognised in the consolidated financial statements as follows:

	<u>2006</u>	<u>2005</u>
<u>Aircraft *</u>	<u>12,950,415</u>	<u>11,715,050</u>
<u>Other property, plant and equipment</u>	<u>693,800</u>	<u>1,703,620</u>
	<u>13,644,215</u>	<u>13,418,670</u>

* The acquisition of these aircraft has been approved by the Civil Aviation Administration of China ("CAAC"). The committed expenditure, subject to an inflation increase built in the contracts and any discounts available upon delivery of aircraft, is expected to be paid as follows:

	<u>2006</u>	<u>2005</u>
<u>Not later than 1 year</u>	<u>2,729,530</u>	<u>1,719,908</u>
<u>Later than 1 year and not later than 5 years</u>	<u>10,220,885</u>	<u>9,995,142</u>
	<u>12,950,415</u>	<u>11,715,050</u>

(b) Operating lease payable commitments

带格式的: 项目符号和编号

As at 31 December 2006, the Group had commitments under irrevocable operating leases in respect of aircraft and engines to make payments in the following years as follows:

	<u>2006</u>	<u>2005</u>
<u>Not later than 1 year</u>	<u>800,819</u>	<u>600,696</u>
<u>Later than 1 year and not later than 5 years</u>	<u>2,709,168</u>	<u>1,871,587</u>
<u>Later than 5 years</u>	<u>933,283</u>	<u>450,340</u>
	<u>4,443,270</u>	<u>2,922,623</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

30	<u>Related party transactions</u>	带格式的: 项目符号和编号
(a)	<p>In addition to the associates and shareholders disclosed in Note 9 and 15, the Company has the following related companies which were controlled or significantly influenced by HAGCL, the controlling entity of the Company:</p> <p><u>Haikou Meilan</u> <u>Hainan Meilan International Airport Company Limited ("Meilan Airport")</u> <u>Hainan Yangpu Huanmei Industrial Company Limited ("Yangpu Huanmei")</u> <u>Sanya Phoenix Airport</u> <u>Hainan Meiya Company Limited ("Hainan Meiya")</u> <u>Hainan Airlines Catering Co., Ltd. ("Hainan Airlines Catering")</u> <u>Yangtze River Investment Holding Company Limited ("Yangtze River Investment")</u> <u>Yangtze River Real Estate Company Limited ("Yangtze River Real Estate")</u> <u>Hainan Jiahui Investment Company Limited ("Hainan Jiahui")</u> <u>Yangtze River Express Company Limited ("Yangtze River Express")</u> <u>Hainan Airlines Hotel</u> <u>Haikou High-Tech Venture Capital Company Limited ("High-Tech Venture Capital")</u> <u>Deer Jet Company Limited ("Deer Jet")</u> <u>Hainan Yuhong Trade Company Limited ("Hainan Yuhong")</u></p> <hr/> <p><u>Hainan Aviation Import and Export Trading Company ("Hainan Trading")</u> <u>Hainan Airlines Training & Education Co., Ltd. ("HNA T&E")</u> <u>Hainan American</u> <u>Beijing Kehang Investment Company Limited ("Kehang Investment")</u> <u>Kangle Garden Resort Ltd, Hainan ("Kangle Garden")</u> <u>Hainan Airlines Construction Development Co., Ltd. ("HNA Construction")</u> <u>Hainan Tonghui Insurance Agents Co., Ltd. ("Hainan Tonghui")</u> <u>Hainan Airlines Information System Co., Ltd. ("Hainan Information")</u> <u>Beijing Huoli Vision Advertising Co., Ltd. ("Huoli Vision")</u> <u>Hainan Airlines Catering Holding Company Limited ("Catering Holding")</u> <u>Haihang Hotel Holding</u> <u>Xi'an Minsheng Real Estate Co., Ltd. ("Minsheng Real Estate")</u> <u>Yunnan Xiangpeng</u> <u>Hong Kong Airlines Limited ("Hong Kong Airlines")</u> <u>Changjiang Lease</u> <u>Grand China Airlines Express Company Limited ("Grand China Express")</u> <u>Hong Kong Express Airways Limited ("Hong Kong Express")</u> <u>Hainan Airlines (Sanya) Holiday Centre Co., Ltd ("Sanya Holiday Centre")</u> <u>Hainan Henghe Property Management Co., Ltd ("Henghe Property")</u> <u>Qionghai HNA Training Centre Hotel ("Qionghai Training Centre")</u></p>	带格式的: 项目符号和编号

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

30 Related party transactions (continued)

(b) Apart from those transactions with related parties disclosed in other notes in these consolidated financial statements, the Group had the following material transactions with related companies during the year:

带格式的: 项目符号和编号

<u>Related companies</u>	<u>Nature of transactions</u>	<u>2006</u>	<u>2005</u>
<u>Haikou Meilan</u>	<u>Charge for catering and other service, take-off and landing fees</u>	<u>24,150</u>	<u>26,958</u>
<u>Meilan Airport</u>	<u>Charge for catering service, take-off and landing fees, rental payment for airport counters and cargo centre</u>	<u>73,899</u>	<u>86,054</u>
<u>Sanya Phoenix Airport</u>	<u>Charge of take-off fee</u>	<u>25,152</u>	<u>18,539</u>
	<u>Recharge for usage of special vehicles and aircraft crew</u>	<u>-</u>	<u>6,438</u>
<u>Hainan Meiya</u>	<u>Purchase of fuel</u>	<u>328,411</u>	<u>304,501</u>
<u>Haihang Import & Export</u>	<u>Handling charges for purchase of aircraft, flight equipment and spare parts</u>	<u>12,651</u>	<u>25,335</u>
<u>Yangtze River Express</u>	<u>Proceeds from transfer of pilots</u>	<u>15,200</u>	<u>22,700</u>
	<u>Proceeds from lease of pilots</u>	<u>9,767</u>	<u>-</u>
	<u>Purchase of furniture and fixtures</u>	<u>-</u>	<u>3,259</u>
	<u>Recharge of expenses *</u>	<u>34,612</u>	<u>43,775</u>
<u>Huoli Vision</u>	<u>Sales of advertising service</u>	<u>25,000</u>	<u>18,930</u>
	<u>Purchase of magazines</u>	<u>3,383</u>	<u>3,845</u>
<u>Deer Jet</u>	<u>Proceeds from lease of pilots</u>	<u>17,105</u>	<u>19,650</u>
	<u>Recharge of expenses *</u>	<u>27,436</u>	<u>36,625</u>
<u>Hainan Airlines Catering</u>	<u>Charge of catering services</u>	<u>28,612</u>	<u>34,145</u>
	<u>Recharge of expenses*</u>	<u>-</u>	<u>3,452</u>
<u>Yunnan Xiangpeng</u>	<u>Proceeds from lease of aircraft</u>	<u>46,827</u>	<u>-</u>
	<u>Proceeds from transfer of pilots</u>	<u>53,700</u>	<u>-</u>
	<u>Recharge of expenses *</u>	<u>10,551</u>	<u>-</u>

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

<u>Hong Kong Airlines</u>	<u>Proceeds from lease of aircraft</u>	<u>44,528</u>	-
	<u>Recharge of expenses *</u>	<u>3,527</u>	-

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

30 Related party transactions (continued)

(b)		(continued)	
<u>Related companies</u>	<u>Nature of transactions</u>	<u>2006</u>	<u>2005</u>
<u>Changjiang Lease</u>	<u>Lease of aircraft and engines</u>	<u>2,780,355</u>	<u>:</u>
<u>Grand China Express</u>	<u>Transfer of aircraft</u>	<u>20,723</u>	<u>:</u>
<u>HNA Finance</u>	<u>Interest income from fixed deposits</u>	<u>74,114</u>	<u>:</u>
<u>Hainan Airlines Hotel</u>	<u>Recharge of expenses*</u>	<u>:</u>	<u>3,668</u>
	<u>Transfer of associates</u>	<u>15,286</u>	<u>:</u>
<u>HAGCL</u>	<u>Disposal of a subsidiary</u>	<u>1,050</u>	<u>:</u>
<u>Minsheng Real Estate</u>	<u>Transfer of associates</u>	<u>:</u>	<u>6,517</u>
<u>Yangtze River Lease</u>	<u>Finance lease payment</u>	<u>65,757</u>	<u>84,359</u>
	<u>Investment expenditure</u>	<u>24,000</u>	<u>:</u>

* According to the agreements entered into with these related parties, the Group recharged expenses to these related parties on a mutually agreed basis for a total of RMB76,126,000 (2005: RMB87,520,000) for the resources and services provided.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

30 Related party transactions (continued)

(c) As at 31 December 2006, the Group had the following balances with related companies:

带格式的: 项目符号和编号

Amounts due from related companies:

	<u>2006</u>	<u>2005</u>
<u>Changjiang Lease</u>	<u>189,769</u>	<u>-</u>
<u>Yangpu Huanmei</u>	<u>-</u>	<u>323,680</u>
<u>Hainan Jiahui</u>	<u>-</u>	<u>348,024</u>
<u>Deer Jet</u>	<u>-</u>	<u>148,368</u>
<u>Haihang Import & Export</u>	<u>8,588</u>	<u>61,533</u>
<u>Yangtze River Express</u>	<u>-</u>	<u>69,707</u>
<u>Hainan Airlines Hotel</u>	<u>-</u>	<u>24,675</u>
<u>High-Tech Venture Capital</u>	<u>5,000</u>	<u>5,000</u>
<u>Kangle Garden</u>	<u>-</u>	<u>79,902</u>
<u>HNA T&E</u>	<u>-</u>	<u>16,685</u>
<u>HNA Construction</u>	<u>-</u>	<u>20,878</u>
<u>HNA Finance</u>	<u>76,169</u>	<u>7,212</u>
<u>Shenzhen Aviation Hotel</u>	<u>-</u>	<u>4,900</u>
<u>Hainan Information</u>	<u>-</u>	<u>4,635</u>
<u>Hainan Trading</u>	<u>6,385</u>	<u>6,385</u>
<u>Haihang Hotel Holding</u>	<u>-</u>	<u>8,870</u>
<u>Others</u>	<u>10,549</u>	<u>12,985</u>
	<u>296,460</u>	<u>1,143,439</u>

Amounts due from related companies represent current account balances arising from trade receivable due, advances and payments made on their behalf. These balances are unsecured, interest free and repayable upon request.

During the year and as at 31 December 2006, pursuant to agreements among the Group and certain of its related parties, the Group had carried debt assignments to offset certain current balances with the relevant related parties.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

30 Related party transactions (continued)

Amounts due to related companies:

	<u>2006</u>	<u>2005</u>
Yunnan Xiangpeng	17,674	-
Deer Jet	18,028	-
HAGCL	119	91,284
Hong Kong Express	13,477	-
Grand China Express	26,487	-
Sanya Holiday Centre	5,602	-
Yangtze River Express	50,772	-
Huoli Vision	5,344	-
Qionghai Training Centre	2,397	-
Beijing Yanjing	-	31,925
Meilan Airport	62,723	75,108
Hainan Meiya	87,291	36,668
Lucky Travel	-	25,601
Hainan Airlines Catering	16,717	21,989
Sanya Phoenix Airport	47,605	21,420
Haikou Meilan	82,172	29,575
Kehang Investment	-	52,438
Yangtze River Real Estate	-	11,556
Catering Holding	-	61,197
Yangtze River Investment	-	16,069
Hainan Airlines Hotel	10,478	-
Hainan American	9,575	9,578
Henghe Property	6,500	-
Others	11,018	6,294
	<u>473,979</u>	<u>490,702</u>

Amounts due to related companies represent current account balances arising from trade payables and payments made on behalf of the Group. These amounts are unsecured, interest free and repayable upon request or in accordance with the services and sales agreements.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

31 **Contingent liabilities**

带格式的: 项目符号和编号

(a) According to the relevant regulations issued by the Ministry of Finance ("MoF") and the CAAC, PRC airlines were required to pay civil aviation infrastructure levies calculated at certain percentage of traffic revenues. The Company has not paid these levies up to 1 April 2004 and, in this regard, as at 31 December 2006, the Company had total unpaid levies exposure of RMB122,968,991 (these "Levies").

In November 1994, the Hainan Provincial Government applied Qiong Fu Han (1994) No. 77 to the MoF for exemption of the payment of levies or treating the levies due by the Company as infrastructure investment granted by CAAC to the Company. As at the date of issuance of these consolidated financial statements, such application has still not yet been approved by the MoF. A circular Qiong Cai Shui Han (1996) No. 132 was issued by the Hainan Provincial Finance and Tax Bureau on 18 October 1996. Pursuant to the circular, Finance and Tax Bureau agreed to assist in relation to the application for exemption of payment of levies with the MoF and CAAC and has undertaken to resolve the matter through other means if the application is rejected. According to another circular Qiong Fu Han (1999) No. 83 issued on 24 August 1999, the Hainan Provincial Government has undertaken to resolve the payment of levies, if any, through other means.

Pursuant to the legal opinion issued by independent legal counsel, above-mentioned undertakings of the Hainan Provincial Government are effective. In addition, the directors of the Company are of the opinion that the Company have already been exempted from the payment of these Levies and accordingly, no provision for payment of these Levies has been made in these consolidated financial statements.

(b) As of 31 December 2006, the Group had provided guarantees for bank borrowings granted to certain companies under the control of HAGCL amounting to RMB503,000,000 (2005: RMB505,350,000).

(c) According to the agreement entered into among the Company, Changjiang Lease and the banks in respect of a bank loan of USD368,000,000, the Company is committed to make weekly loan repayment on behalf of Changjiang Lease by transferring the required sum to the designated bank account of Changjiang Lease.

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

32 Principal subsidiaries

带格式的: 项目符号和编号

At 31 December 2006, the Group held interests in the following principal subsidiaries, all of which are established in the PRC:

Name	Effective equity interest		Nature of business
	2006	2005	
Directly held:	%	%	
Hainan Airlines VIP Flight Service Company Limited	51	51	Chartered flight agency services
CACL	73.51	73.51	Provision of carriage of passenger, cargo and mail
XACL	60	60	Provision of carriage of passenger, cargo and mail
SACL	96.97	92.51	Provision of carriage of passenger, cargo and mail
HNA Tax-free	-	70	Sales of tax-free commodity
Indirectly held:			
Chang'an Haihang Hotel Limited	58.81	58.81	Hotel operation and management
Beijing Xinhua Aviation Catering Company Limited	51	51	Catering Services
Xi'an Haihang Real Estate Company Limited	80	-	Construction project development, decoration service

The equity interest in CACL, XACL and SACL held by the Company were pledged to secure certain borrowings of the Group (Note 18).

HAINAN AIRLINES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi Yuan thousands unless otherwise stated)

Monetary unit: RMB Yuan

Assets	Notes	CONSOLIDATED		HOLDING COMPANY	
		2006-12-31	2005-12-31	2006-12-31	2005-12-31
CURRENT ASSETS					
Cash in bank & on hand		9,531,856,105	5,792,487,997	5,962,043,716	3,430,324,735
Short investment			30,000,000		
Notes receivable					
Dividend receivable					
Interest receivable					
Accounts receivable		648,218,952	422,641,761	991,274,853	7,402,711
Other receivables		1,390,723,129	1,913,348,852	805,337,938	2,611,108,388
Advances to suppliers		71,754,195	110,631,861	65,125,199	100,501,927
Subsidy receivable					
Inventories		296,818,636	323,701,783	285,025,221	309,577,087
Deferred and prepaid expenses		40,585,276	49,971,167	30,530,288	30,378,103
Long term investment maturing within one year					
Other current assets					
Total current assets		11,979,956,292	8,642,783,421	8,139,337,215	6,489,292,951
LONG-TERM INVESTMENTS					
Long term equity investment		911,424,080	858,444,018	2,155,523,749	2,055,557,404
Long term bond investment					
Long-term investment		911,424,080	858,444,018	2,155,523,749	2,055,557,404
Incl. consolidation difference		94,142,179	11,805,010		
FIXED ASSETS					
Fixed assets - cost		25,474,552,063	24,635,678,949	18,946,686,289	15,952,931,105
Less: Accumulated depreciation		5,564,507,250	5,245,916,183	4,080,510,986	3,250,143,251
Fixed assets - net book value		19,910,044,812	19,389,762,766	14,866,175,304	12,702,787,853
Less: Provision for decrement of fixed assets		17,279,712	25,259,499	16,378,237	24,378,237
Fixed assets - net book value		19,892,765,100	19,364,503,268	14,849,797,067	12,678,409,617
Less: Provision for decrement of fixed assets					
Fixed assets- net book value					
Engineering materials					
Construction in progress		2,069,960,732	1,117,782,507	1,259,582,616	374,963,565
Disposal of fixed assets		183,704,792	-	113,401,792	
Total fixed assets		22,146,430,625	20,482,285,775	16,222,781,475	13,053,373,182
INTANGIBLE ASSETS					
Intangible assets		13,869,949	14,271,976	-	-
Long-term deferred expenses		321,534,499	351,696,053	229,368,708	256,779,632
Other long-term assets		355,653,552	341,495,542	227,833,695	276,513,615

Total intangible & other assets		691,058,000	707,463,572	457,202,403	533,293,247
TOTAL ASSETS		35,728,868,996	30,690,976,786	26,974,844,842	22,131,516,784
The accompanying notes form an integral part of these financial statements					
Hainan Airlines Company Limited					
Balance Sheet (continued)					
		CONSOLIDATED		HOLDING COMPANY	
		2006-12-31	2005-12-31	2006-12-31	2005-12-31
CURRENT LIABILITIES					
Short term loans		5,958,713,552	4,854,388,029	2,583,750,032	2,116,388,029
Notes payable		1,958,705,765	817,433,490	1,598,240,064	654,795,763
Accounts payable		1,672,498,796	1,533,233,355	2,554,172,560	1,482,462,917
Advances from customers		27,323,076	27,579,232	22,132,009	22,132,009
Accrued payroll		64,914,450	23,459,318	42,063,290	22,483,155
Staff and workers' bonus and welfare fund		676,789	3,840,802	-	-
Dividends payable		19,425,969	26,889,152	19,425,969	26,889,152
Taxes payable		66,972,470	296,934,145	32,530,536	108,685,677
Other payables to government		345,379,912	313,907,717	47,342,092	38,058,547
Other payables		599,851,166	361,824,164	249,329,928	90,108,840
Accrued expenses		1,296,091,672	1,166,737,295	1,135,259,707	1,087,048,734
Sales in advance of carriage-domestic		633,915,134	477,140,789	-	-
Sales in advance of carriage-international		46,825,605	12,762,948	602,000	-
Liability estimation					
Long-term liability maturing within one year		1,909,012,873	2,054,983,724	1,461,848,247	1,498,333,721
Other current liabilities					
Total current liabilities		14,600,307,228	11,971,114,161	9,746,696,434	7,147,386,545
LONG TERM LIABILITIES					
Long term loans		11,265,882,903	13,326,240,757	8,644,694,606	10,631,972,795
Bonds payable					
Long term payable		1,972,135,078	1,766,873,007	1,485,149,066	1,510,601,937
Special accounts payable		20,000,000	20,000,000		
Other long-term liability		107,295,984	143,113,207	92,509,018	113,329,882
Total long term liabilities		13,365,313,965	15,256,226,970	10,222,352,691	12,255,904,614
Deferred tax					
Deferred tax credits					
TOTAL LIABILITIES		27,965,621,193	27,227,341,131	19,969,049,125	19,403,291,159
Minority interest					
Minority interest		772,701,903	750,659,843		

OWNERS' EQUITY					
Paid-in capital		3,530,252,801	730,252,801	3,530,252,801	730,252,801
Capital surplus		3,854,900,766	2,558,884,351	3,854,900,766	2,558,884,351
Reserve fund		169,097,575	169,097,575	169,097,575	169,097,575
Inclu.:Public welfare fund		53,094,720	53,094,720	53,094,720	53,094,720
Unrecognized investment loss		-15,249,816	-15,249,816	-	-
Undistributed profits / (accumulated losses)		-548,455,424	-730,009,100	-548,455,426	-730,009,100
Inclu: Proposed cash dividends					
Total owners' equity		6,990,545,902	2,712,975,812	7,005,795,717	2,728,225,628
TOTAL LIABILITIES AND OWNERS' EQUITY		35,728,868,998	30,690,976,786	26,974,844,842	22,131,516,787

Hainan Airlines Company Limited

Income Statement

For the Year 2006

Monetary unit: RMB Yuan

ITEMS	Notes	CONSOLIDATED		HOLDING COMPANY	
		2006	2005	2006	2005
1. Sales revenue		12,448,359,949	10,061,468,423	6,809,209,819	5,242,591,350
Less: Cost of sales		10,361,696,743	8,211,652,702	5,793,000,663	4,262,318,357
Sales tax and surtax		385,068,087	315,450,723	197,685,148	156,566,278
2.GROSS PROFIT ON SALES		1,701,595,118	1,534,364,999	818,524,007	823,706,715
Add: Income from other Operations		240,021,651	97,715,237	129,924,227	66,135,427
Less: Selling expenses		550,035,303	585,248,011	275,488,967	288,186,399
General and administrative expenses		416,413,598	497,436,977	157,618,781	278,782,550
Financial expenses/(income)		863,981,167	818,951,555	467,799,759	571,295,198
3.OPERATING PROFIT / (LOSS)		111,234,702	-269,556,306	47,540,727	-248,422,005
Add: Income from investments		-14,792,684	-15,834,919	41,913,031	-9,840,243
Subsidies Income		47,647,693	49,411,000	18,193,100	23,122,000
Non-operating income		73,550,096	39,531,134	72,402,487	36,943,772
Less: Non-operating expenses		15,953,022	22,248,722	-1,552,330	17,621,448
4.TOTAL PROFIT / (LOSS)		201,638,785	-218,697,814	181,601,674	-215,817,923
Less: Income tax		3,715,774	10,091	-	-
Minority interest		16,369,335	-2,889,982	-	-
5.NET PROFIT/(LOSS) AFTER TAX		181,601,676	-215,817,923	181,601,674	-215,817,923
Add: Undistributed profit at beginning of the year		-730,009,100	-514,191,177	-730,009,100	-514,191,177
Transferred in from surplus reserve					
6. Profit Available for Dividends		-548,455,424	-730,009,100	-548,407,426	-730,009,100
Less: Statutory surplus reserve					
Statutory public welfare fund					
7. Profit Available for Dividends to Shareholders		-548,455,424	-730,009,100	-548,407,426	-730,009,100
Less: Preference dividends payable					
Voluntary earnings surplus drawn					
Common stock dividends payable					
Dividends being transferred to share capital					
8. Undistributed Profit		-548,455,424	-730,009,100	-548,407,426	-730,009,100

Hainan Airlines Company Limited

Cash Flow Statement

For the Year 2006

	Notes	CONSOLIDATED	HOLDING COMPANY
1. Cash Flows From Operating Activities			
Cash received from sales of goods or rendering of services		12,094,497,807	6,401,704,323
Refund of tax			
Other cash received relating to operating activities		13,811,974,161	11,009,900,286
Sub-total of cash inflows		25,906,471,968	17,411,604,608
Cash paid for goods and services		5,851,960,341	2,493,904,929
Cash paid to and on behalf of employees		765,575,312	119,678,082
Income tax paid		712,210,176	404,276,623
Other cash paid relating to operating activities		13,608,991,872	10,910,182,830
Sub-total of cash outflows		20,938,737,701	13,928,042,465
Net cash from operating activities		4,967,734,265	3,483,562,143
2. Cash Flows from Investing Activities:			
Cash received from return of investments		31,050,000	1,050,000
Inclu: cash received from disposition of subsidiaries			
Cash received from distribution of dividends or profits		5,048,973	2,251,600
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		30,894,806	30,891,081
Other cash received relating to investing activities			
Sub-total of cash inflows		66,993,779	34,192,681
Cash paid to acquire fixed assets, intangible assets and other long-term assets		2,880,766,074	2,363,944,384
Cash paid to acquire equity investments		92,000,000	68,000,000
Inclu: cash paid to acquire subsidiaries			
Other cash paid relating to investing activities		1,079,314	0
Sub-total of cash outflows		2,973,845,388	2,431,944,384
Net cash from investing activities		-2,906,851,609	-2,397,751,703
3. Cash Flows from Financing Activities			
Proceeds form issuing shares		4,647,688,000	4,641,688,000
Proceeds from borrowings		8,789,968,924	5,118,071,004
Other proceeds relating to financing activities		885,648,240	305,733,246
Sub-total of cash inflows		14,323,305,164	10,065,492,250
Cash repayments of amounts borrowed		7,156,886,080	3,840,015,655
Cash payments for distribution of dividends or profits and interest expenses		1,085,448,265	755,851,698
Other cash payments relating to financing activities		4,713,602,740	4,201,441,067
Sub-total of cash outflows		12,955,937,085	8,797,308,420
Net cash from financing activities		1,367,368,078	1,268,183,830
4. Effect of Foreign Exchange Rate Changes on Cash			
5. Net Increase in Cash and Cash Equivalents		3,428,250,736	2,353,994,272

Hainan Airlines Company Limited

Cash Flow Statement

For the Year 2006

Monetary unit: RMB Yuan

	Notes	CONSOLIDATED	HOLDING COMPANY
1. Reconciliation of Net Profit to Cash Flows from the rating Activities			
Net profit		181,601,676	181,601,674
Add: Minority interest		16,369,335	0
Less: Unrealized Investment Loss			
Add: Provision for bad debt or bad debt written off		-87,656,369	-102,144,450
Depreciation of fixed assets		1,303,916,349	900,716,368
Amortization of intangible assets and other long-term assets		402,027	0
Amortization of long-term deferred assets		111,949,322	76,385,804
Decrease in deferred and prepaid expenses (or deduct: increase)		9,385,891	-152,185
Increase in accrued expenses (or deduct: decrease)		129,354,377	48,210,972
Losses arising from disposition of fixed assets, intangible assets and other long-term assets (or deduct: gains)		10,998,218	6,147,170
Losses on scrapping of fixed assets			
Financial expenses		1,126,418,817	705,263,817
Losses arising from investments (or deduct: gains)		14,792,684	-41,913,031
Deferred tax credit (or deduct: debit)			
Decrease in inventories (or deduct: increase)		26,883,147	24,551,865
Decrease in operating receivables (or deduct: decrease)		410,208,281	945,057,986
Increase in operating payables (or deduct: decrease)		1,713,158,512	739,836,151
Others			
Net cash from operating activities		4,967,734,265	3,483,562,143
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			
Others			
3. Net Increase in Cash and Cash Equivalents			
Cash at the end of the period		9,046,170,814	5,647,251,086

Less: cash at the beginning of the period		5,617,920,078	3,293,256,814
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		3,428,250,736	2,353,994,272