

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: Li Xiaoming
3. Information of the Secretary of BoD and the Representative of Stock Affairs
Secretary of BOD: Zhang Shanghui
Tel: 0898-66739961
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Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan Province
Representative of Stock Affairs: Lv Guangwei
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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, Securities Times, Wen Wei Po (Hong Kong)
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: 460000400002151
Tax Registration Number: 1150805791
Domestic Accounting Firm Engaged by the Company: PricewaterhouseCoopers Zhongtian CPAs Co., Ltd
Office address: 11/F, PWC Center, 202 Hubin Road, Shanghai, PRC

1. Key Fiscal Data in the Report Period

Monetary unit: RMB 1,000 Yuan

| Item | Amount |
|--|------------|
| Operating profit | -1,683,539 |
| Total profit | -1,536,210 |
| Net profit attributable to shareholders of listed company | -1,424,348 |
| Net profit after non-recurring gains and losses attributable to shareholders of listed company | -1,593,211 |
| Net cash flow from operating activities | 3,695,760 |

2. Non-recurring gains and losses

Monetary unit: RMB 1,000 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 | -6,907 |
| 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 | 154,236 |
| Other non-recurring gains and losses | 21,535 |
| Total | 168,864 |

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

Monetary unit: RMB 1,000 Yuan

| Key fiscal data | 2008 | 2007 | | Increase/ Decrease (%) | 2006 | |
|--|------------|---------------------|----------------------|------------------------------|---------------------|----------------------|
| | | After adjustment | Before adjustment | | After adjustment | Before adjustment |
| Income from principal business | 13,551,661 | 13,525,347 | 13,556,798 | 0.19 | 12,755,968 | 12,774,728 |
| Total Profit | -1,536,210 | 685,431 | 713,344 | -324.12 | 179,422 | 198,182 |
| Net Profit attributable to shareholders of listed company | -1,424,348 | 626,855 | 651,387 | -327.22 | 150,284 | 166,755 |
| Net profit after deducting non-recurring gains and losses attributable to shareholders of listed company | -1,593,211 | 576,957 | 593,982 | -376.14 | 90,697 | 107,168 |
| Basic earnings per share (Yuan) | -0.40 | 0.17 | 0.18 | -335.29 | 0.04 | 0.06 |
| Diluted earnings per share (Yuan) | -0.40 | 0.17 | 0.18 | -335.29 | 0.04 | 0.06 |
| Basic earnings per share after deducting non-recurring gains and losses (Yuan) | -0.45 | 0.16 | 0.17 | -376.58 | 0.03 | 0.03 |
| Fully diluted ROE (%) | -23.19 | 8.28 | 8.50 | -31.47 pts | 2.16 | 2.38 |
| Weighted average ROE (%) | -20.78 | 8.64 | 8.88 | -29.42 pts | 3.13 | 3.43 |
| Fully diluted ROE after deducting non-recurring gains and loss (%) | -25.94 | 7.62 | 7.70 | -33.56 pts | 1.31 | 1.53 |
| Weighted average ROE after deducting non-recurring gains and losses (%) | -23.24 | 7.95 | 8.00 | -31.20 pts | 1.89 | 2.20 |
| Net cash flow from operating activities | 3,695,760 | 2,909,106 | 2,909,106 | 27.04 | 4,999,873 | 4,999,873 |
| Net cash flow per share from operating activities (Yuan) | 1.05 | 0.82 | 0.82 | 28.05 | 1.42 | 1.42 |
| End of 2008 | | End of 2007 | | Increase/ Decrease (%) | End of 2006 | |
| | | After adjustment | Before adjustment | | After adjustment | Before adjustment |
| Total Assets | 48,309,229 | 39,839,946 | 39,839,946 | 21.26 | 35,747,416 | 35,747,416 |
| Shareholder' s equity | 6,142,805 | 7,567,153 | 7,660,406 | -18.82 | 6,942,179 | 7,009,777 |
| Net assets per share contributed to the shareholders of listed company (Yuan) | 1.74 | 2.14 | 2.17 | -18.69 | 1.97 | 1.99 |

1. Changes in Share Capital

1.1 Changes in Shares

In the report period, there are no changes to the total shares and the share structure.

1.2 Changes in share with trading restriction

There was no change in report period.

1.3 Issuance and Listing of Shares

1.3.1 New share issuance in recent three years

Unit: Share Monetary unit: RMB

| Type | Date of Issuance | Price of Issuance (Yuan) | Quantity | Listing Date |
|---|------------------|--------------------------|---------------|------------------|
| Legal person share issued by additionales directional issuance | Jun 30th, 2006 | 2.00 | 2,800,000,000 | Sept. 29th, 2006 |

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).

1.3.2 Changes of Total Share and Share Structure

In the report period, there are no other changes to the total shares and the share structure.

1.3.3 Employee Shares in the Company

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

2. Shareholders

2.1 Number of Shareholders and Particulars about Shares Held

Unit: Share

| | | | | | |
|---|-------------------------|----------------|-----------------------|---|------------------------------------|
| Total number of shareholders at the end of report period | | 258,396 | | | |
| 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 | 1,716,394,743 | 1,703,108,043 | 1,710,000,000 |
| Haikou Meilan International Airport Co., Ltd. | other | 12.22 | 431,424,451 | 254,911,811 | 431,424,451 |
| Changjiang Leasing Co., Ltd. | other | 8.15 | 286,423,501 | 111,103,661 | 284,575,549 |
| Hainan Jiabin Investment Management Co., Ltd. | other | 3.80 | 134,186,890 | 53,580,401 | 127,000,000 |
| HNA Industrial Holding Co., Ltd | other | 3.51 | 123,808,150 | 0 | 123,000,000 |
| American Aviation LDC | foreign shareholder | 3.06 | 108,043,201 | 0 | unknown |
| HNA Real Estate Holding (Group) Co., Ltd | other | 0.57 | 20,000,000 | 0 | 0 |
| Hainan Jincheng State-owned Property Administration Co., Ltd. | state-owned shareholder | 0.47 | 16,575,668 | 0 | 0 |
| Shanxi Sanlian Zhengfeng International Trade Co., Ltd | other | 0.18 | 6,399,187 | 0 | 0 |
| HNA Group Co., Ltd. | other | 0.18 | 6,212,512 | 0 | 0 |
| CITS Group Corporation | other | 0.18 | 6,212,512 | 0 | 6,212,512 |

Shareholding Status of Top Ten Shareholders of Tradable Shares

| Name of Shareholder | Amount of Shares held without Trading Restriction | Type of Share |
|--|--|---------------|
| Haikou Meilan International Airport Co., Ltd | 176,512,640 | A Share |
| Changjiang Leasing Co., Ltd | 175,319,840 | A Share |
| HNA Industrial Holding Co., Ltd | 123,808,150 | A Share |
| American Aviation LDC | 108,043,201 | B Share |
| Hainan Jiaxin Investment Management Co., Ltd. | 80,606,489 | A Share |
| HNA Real Estate Holding (Group) Co., Ltd | 20,000,000 | A Share |
| Hainan Jincheng State-owned Property Administration Co., Ltd. | 16,575,668 | A Share |
| Grand China Air Co., Ltd. | 13,286,700 | A Share |
| Shanxi Sanlian Zhengfeng International Trade Co., Ltd | 6,399,187 | A Share |
| HNA Group Co., Ltd. | 6,212,512 | A Share |
| CITS Group Corporation | 6,212,512 | 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., HNA Industrial Holding 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. The actual controller of American Aviation LDC is Grand China Air Co., Ltd. | |

Shareholders of Non-tradable Shares

Unit: share

| | Name of Shareholder | Amount of Non-tradable Shares held | Details of Trading Restrictions | | Trading Restrictions |
|---|--|--|---------------------------------|------------------------------------|--|
| | | | Tradable Date | Amount of Shares to be Tradable | |
| 1 | Grand China Air Co., Ltd. | 1,703,108,043 | Sep 29,2009 | 1,703,108,043 | 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 | 254,911,811 | Sep 29,2008 Sep 29,2009 | 176,512,640 78,399,171 | None |
| 3 | Changjiang Leasing Co., Ltd | 111,103,661 | Sep 29,2008 | 111,103,661 | None |
| 4 | Jiaxin Investment Management Co., Ltd | 53,580,401 | Sep 29,2008 | 53,580,401 | None |

2.2 Introduction to the Controlling Shareholder and the Actual Controller

2.2.1 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.

2.2.2 Introduction to the Actual Controller

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

Legal Representative: Liu Minggui

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.

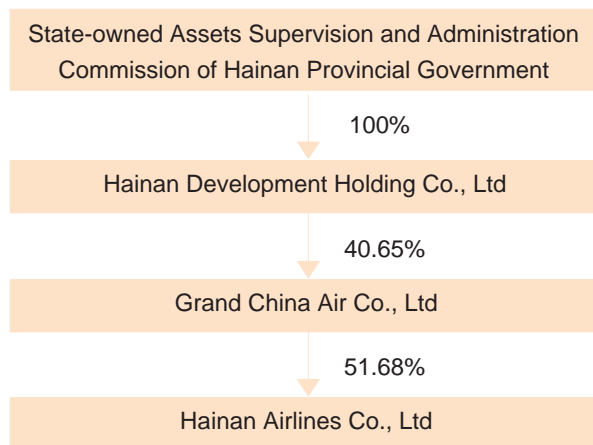
Hainan Development Holding Co., Ltd is the actual controller of the Company. It is established on January 26, 2005 with registered capital of RMB 500 million Yuan. Hainan Development Holding Co., Ltd has a stake of 40.653% in Grand China Air Co., Ltd.

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. Grand China Air Co., Ltd has a stake of 51.68 % in the Company (including 3.06% holding B Share equity by American Aviation LDC).

2.3 Changes of the Controlling Shareholder and the Actual Controller

In the report period, there are no changes in the controlling shareholder and the actual controller.

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 Internationals Airport Co., Ltd | Zhang Han'an | RMB 1,979,780,000 Yuan | 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. |

1. 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) |
|----------------|---------------------------|------|-----|-------------------------|---|---|---------------------|---|
| Li Xiaoming | Chairman | male | 47 | 2008-10-15 ~ 2011-10-14 | | | | 40.20 |
| Wang Yingming | Vice Chairman & President | male | 46 | 2007-11-17 ~ 2010-11-16 | | | | 148.90 |
| Yang Jinglin | Vice Chairman | male | 53 | 2007-05-18 ~ 2010-05-17 | | | | 137.20 |
| Mou Weigang | Director & Vice President | male | 47 | 2007-11-17 ~ 2010-11-17 | | | | 332.40 |
| Wang Zhi | Independent Director | male | 67 | 2006-05-31 ~ 2009-05-30 | | | | 80 |
| Chen Rijin | Independent Director | male | 63 | 2007-05-18 ~ 2010-05-17 | | | | 80 |
| Feng Da'an | Independent Director | male | 62 | 2008-04-25 ~ 2011-04-26 | | | | 80 |
| Zhang Cong | Convener of BoS | male | 50 | 2006-05-31 ~ 2009-05-30 | | | | 0 |
| Chen Ping | Supervisor | male | 34 | 2006-05-31 ~ 2009-05-30 | | | | 25 |
| Li Rui | Supervisor | male | 32 | 2006-05-31 ~ 2009-05-30 | | | | 25 |
| Wu Qingping | Supervisor | male | 44 | 2007-12-28 ~ 2010-12-27 | | | | 0 |
| Xu Xiaojie | Supervisor | male | 41 | 2008-04-25 ~ 2011-04-24 | | | | 25 |
| Yang Jianhong | Vice President | male | 37 | 2008-09-26 ~ 2011-09-25 | | | | 34.3 |
| Liu Dan | CFO | male | 38 | 2006-04-30 ~ 2009-04-29 | | | | 119.40 |
| Zhang Shanghui | Secretary of BoD | male | 38 | 2006-04-30 ~ 2009-04-29 | | | | 102.30 |

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

Li Xiaoming: Male, chairman of the Company, born in Beijing in August 1962. He had been acting the vice office director, general manager of the finance department, CFO and executive vice president of the Company; president of the Sanya Phoenix International Airport Company Limited, chairman of the Yangtze River Real Estate Company Limited; executive vice president of the HNA Group Company Limited, chairman of the HNA Hotel Group Company Limited, chairman of the Yangtze River Property Company Limited and HNA Property Holding (Group) Company Limited.

Wang Yingming: Male, vice chairman of the Company, born in 1963. He worked as the general manager of maintenance department of the Company, CEO of the Company.

Yang Jinglin: Male, vice chairman of the Company, born in 1956. He has been the executive president of China Xinhua Airlines Co., Ltd.

Mou Weigang: Male, vice chairman of the Company, born in 1962. 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.

Wang Zhi: Male. Born in Dec, 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.

Chen Rijin: Male. Born in 1946. He had been the vice mayor of Huangshi City, Hubei Province, vice secretary-general of Hainan Province, director of the Industrial Bureau and the Financial Bureau of Hainan Province.

Feng Da'an: Male, independent director of the fifth BoD of the Company, born in 1947. He had been worked as vice general secretary, vice president of Hainan Construction Bank, vice director and director of Hainan Land and Property Tax Bureau.

Zhang Cong: Male, convener of the Board of Supervisors. He worked as the general manager of the department of project development of HNA Group, Chairman of Hainan Meilan International Airport Co., Ltd and Chairman of Jilin Province Tourism Group Co., Ltd.

Chen Ping: Male, supervisor of the Company. He graduated from Fu Dan University with bachelor's degree. He is now manager of the Human Resources Department of the Grand China Logistics Holding (Group) Co., Ltd.

Li Rui: Male, supervisor of the Company. He is now vice manager of the Securities' Department of the Company.

Wu Qingping: Male, supervisor of the Company. He entered the company since 1993 and had been the assistant of the manager of the general administration of the Company.

Xu Xiaojie: Male, supervisor of the Company. He is now the manager of the corporation management department of the Hainan Jincheng State-owned Property Administration Co., Ltd.

Liu Dan: Male, CFO of the Company. He had worked as CFO of Chang'an Airlines, manager and CFO of China Xinhua Airlines, manager of planning and finance department of HNA Group.

Zhang Shanghui: Male, secretary of Board of Directors of the Company.

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

| Name | Company | Position | Service Term | Remuneration (Yes/No) |
|------------|---------------------------------------|--|--------------|-----------------------|
| Wang Zhi | Shan Dong Airlines Co., Ltd | Independent Director | | Yes |
| | China Southern Airlines Co., Ltd | | | |
| Zhang Cong | Jilin Province Tourism Group Co., Ltd | Chairman | | Yes |
| Xu Xiaojie | Hainan Jincheng State-owned | Manager of the corporation management department | | Yes |
| | Property Administration Co., Ltd | | | |

3. 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 Board Meeting and the General Meeting of Shareholders.

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 reward for an independent director is RMB 80,000 Yuan per year (including liability insurance of RMB 30,000 Yuan) and 25,000 Yuan for a supervisor. To mitigate the concussion of the market crisis and reduce the labor cost, the Company suspends to provide allowances for other directors, supervisors and senior executives. The rewards for them are determined by performances in the relevant period.

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

| Name | Position | Reason |
|--------------|----------------------|------------------|
| Yang Hui | Independent Director | Post expiration |
| Zhu Yimin | Chairman | Personnel change |
| Zhao Zongtao | Supervisor | Personnel change |

The above changes have been considered and approved in the 14th session, the 21st session of the 5th Meeting of BoD, the 8th session of the 5th Meeting of BoS, 2007 annual general meeting of shareholders and the 2nd temporary general meeting of shareholders.

5. Staff

By the end of the report period, the staff number of the Company is 10,027. Among them, there are 6 retired that the Company needs to bear relevant cost.

1. Distribution on Occupation

| Occupation | Number of Staff |
|---------------------|-----------------|
| Pilots | 1,123 |
| Flight Attendants | 1,925 |
| Maintenance Workers | 2,164 |
| Flight Operations | 177 |
| Others | 4,638 |

2. Distribution on Education

| Education Background | Number of Staff |
|-----------------------------------|-----------------|
| Master's Degree or above | 118 |
| Bachelor's Degree | 3,659 |
| Colleague Diploma | 3,830 |
| Intermediate Certificate or below | 2,420 |

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.

According to Notice on Issues Concerning Campaign to Strengthen Corporate Governance of Listed Companies issued by CSRC and No. 130 Inform Document by the Hainan Bureau of CSRC, the Company continued developing special campaign to strengthen corporate governance according to the Self-check Report and Rectification Plan published in 2007. On July 30, 2008 the Company disclosed Explanation on the Rectifiable Problems in the Self-check Report.

The development of a special campaign to strengthen the governance of the Company is a significant measure taken for strengthening the standard operations and improving the information disclosure quality and fulfilling the systems of corporate governance as well as promoting sustainable and healthy development of the Company. The Company will insist on corporate governance works according to the requirements of relevant laws and regulations such as Company Law, Securities Law and Rule for Stock Listing and improve the level of corporate governance.

II. Performance of the Independent directors

1. Present of the board meeting

| Name of the independent director | Times of present in person | Commission | Absence |
|----------------------------------|----------------------------|------------|---------|
| Wang Zhi | 13 | | |
| Chen Rijin | 13 | | |
| Feng Da'an | 12 | | |

Mr. Wang Zhi, Mr. Chen Rijin and Mr. Feng Da'an participated and voted in every Board Meeting in the report period and they have fulfilled their obligations as independent directors.

2. In 2008, the independent directors raised no dissidence against any proposal 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. Establishment and Improvement of Internal Control System of the Company

In order to establish and improve and implement internal control system as well as increase risk management level of the Company and protect legal rights of the investors, the Company prepared a series of administrative provisions and business process according to laws and rules and regulatory documents such as Company Law, Securities Law and Notice of the State Council on Approving and Forwarding the Opinions of China Securities Regulatory Commission on Improving the Quality of Listed Companies and regulations of Rules of Shanghai Stock Exchange on the Listing of Stocks.

1. Safety Production System: Safety production is critical to airlines enterprises. For a long time, the Company develops active safety reporting system continuously to improve safety culture, achieving best industry level of the accident rate per one million flight hours in 2006 and 2007, which turns the passive safety situation of the Company; continuous innovation, in line with international standards, constantly improve safety management system. Complete SMS Experiment successfully and pass review of IOSA smoothly; vigorously develop safety audit and fulfill the rectification and potential safety hazard checking of the general bureau and deeply develop safety rectification; win civil aviation safety cup for two consecutive years. The Company creates zero accident rate per one million flight hours and wins "Golden Eagle Cup" for another time after winning the highest prize "Golden Roc Cup" of civil aviation safety last year.

2. Production Operation System: The Company improves the production operation management system according to market situation, including Annual Production Operation Plan System, Marketing Management System, Safety Production Management System and etc. Through fine flight management, according to seasonal characteristics of the market, the network structure of flight courses is improved; through establishment of three hierarchies monitoring and reporting system of "Overall, Region, Flight", application of flight early warning system and implementation of appropriate price monitoring mechanism, the profits of the Company are maximized.

3. Financial Management System: In order to strengthen the fund management of the Company, raise and arrange the fund effectively and ensure fund safety, the Company prepared various financial management systems strictly in accordance with the regulations of Accounting Law and Accounting Criteria for Enterprises, which explicitly stipulate the fund management, asset management, financial management system, financial accounting, overseas investment management, cost management and management to income and profit distribution. This year, the Company establishes Audit Committee to monitor financial management of the Company effectively, further fulfilling financial management system of the Company.

4. Information Disclosure Management System: According to relevant regulations of China Securities Regulatory Commission and Shanghai Stock Exchange, the Company prepares Methods of Information Disclosure Management, which explicitly stipulate the range, procedure, persons in charge and confidential measures of information disclosure. The awareness of information disclosure of Board of Directors, Board of Supervisors and senior management personnel has been obviously improved. Thus, the corporate governance is strengthened obviously.

In addition, according to relevant requirements of special campaign inspection of corporate governance, the Company implements cumulative voting system this year, at the same time, the Company establishes Audit Committee and Remuneration Committee and completely modifies relevant documents concerning governance such as Rule of Procedure of Shareholders' Meeting, Rule of Procedure of Board of Supervisors, Rule of Procedure of Board of Directors, Independent Director System, Working System of President and Rule of Investor Relationship Management.

In future, in the aspect of system construction, the Company will further fulfill complete budget management system, fund approval system, fixed asset investment management system, materials procurement management system, human resources and labor and capital management system; in the aspect of organization structuring, the Company will strengthen the function of relevant internal control departments such as auditing affairs and legal affairs and monitor and control the fulfillment and implementation of financial auditing, contract reviewing and various internal control systems; in the aspect of risk control, the operation risk is mainly about safety problems of aircrafts. The Company has special safety monitoring department and sets up early warning mechanism of eventualities to resist and prevent risks; in the aspect of operation, according to the characteristics of airline companies, the airline companies of other places belonging to the Company have been consolidated. The financial operation and production operation are separated. Therefore, there is no risk of out of control.

V. Self-evaluation Report of BoD on the Internal Control System of the Company and Opinions of the Auditors.

1. The Company did not disclose the Self-evaluation Report of BoD on the Internal Control System of the Company.

The Company has established the internal control system.

The Company has established specific internal control department named Compliance Department.

The Compliance Department submitted work report to BoD regularly.

2. The auditing organization did not give opinions on the internal control system of the Company.

VI. 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.

VII. Performance Report on Fulfilling the Social Responsibility

The Company did not disclose the Performance Report on Fulfilling the Social Responsibility.

1. Annual General Meeting of Shareholders

On April 25, 2008, 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 China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on April 26, 2008.

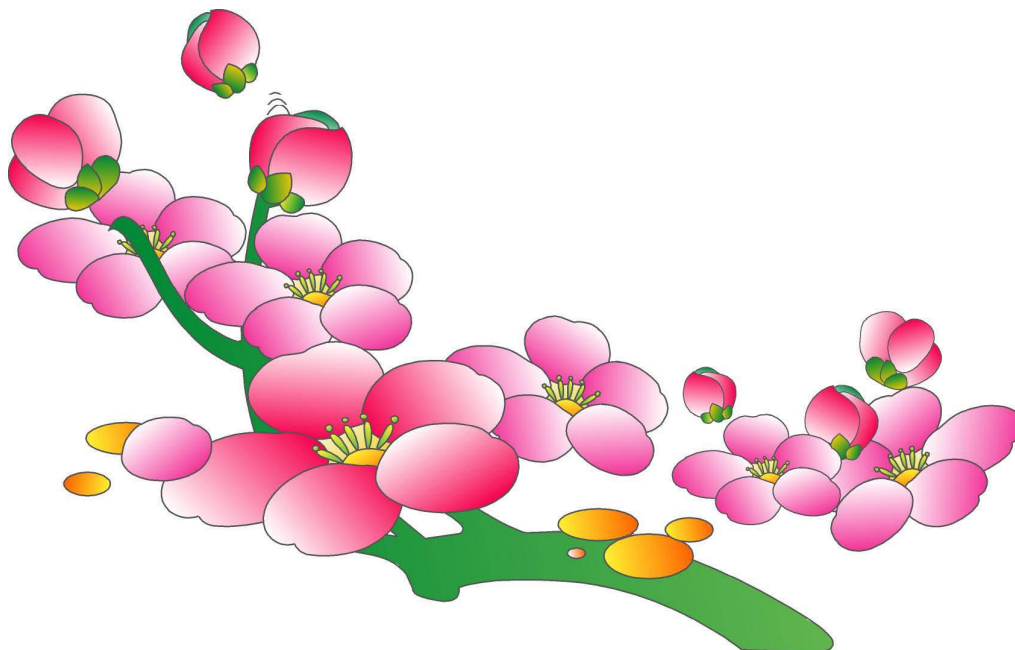
2. Temporary General Meeting of Shareholders

2.1 On May 27, 2008 the Company held the first temporary general meeting of shareholders of 2008. The resolution of the meeting was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on May 28, 2008.

2.2 On Oct 15, 2008 the Company held the second temporary general meeting of shareholders of 2008. The resolution of the meeting was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Oct 16, 2008.

2.3 On Nov 28, 2008 the Company held the third temporary general meeting of shareholders of 2008. The resolution of the meeting was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Nov 29, 2008.

2.4 On Dec 30, 2008 the Company held the fourth temporary general meeting of shareholders of 2008. The resolution of the meeting was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Dec 31, 2008.



I . Discussion and analysis of the managements

Under the impact of the international financial crisis, natural disaster and slowdown of the market demand, the production and operation efficiency declined substantially at the civil aviation market. Facing the complicated macro situation and crucial market environment, the BoD enhanced the management structure adjustment timely and took various measures on broadening sources of income and reducing expenditure, which astoundingly promoted the transformation on management and efficiency. The Company was granted the title of the National Honorable Unit of the Anti-quake and Relief Works, Outstanding Unit in the Activity of Safe & Normal Service in the Olympic Games Year. It also won the awards of the Two-star Prize of Safe Flight and the 10th successive championship in the Activity of Passenger Evaluation on the Civil Aviation. The famous international aviation media, the Skytrax and the Global Traveler, honored the company the Best Airlines Company of China.

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

1.1 General information

In 2008, the income of the principal business of the company is RMB 12.24 billion Yuan, decreasing by 4.33%, in which the passenger income is RMB 11.15 billion Yuan and takes up 91.11%, the cargo income is RMB 0.40 billion Yuan and takes up 3.25%, and the chartered flight income is RMB 0.69 billion Yuan and takes up 5.64%. The net profit of the company in 2008 is RMB -1.42 billion Yuan.

In 2008, the company introduced 10 aircrafts, including 7 B737-800, 2 A330 and 1 A340. As at the date of Dec 31 2008, HNA operated 77 aircrafts in total. Specifics of the aircrafts are as follows:

| Mode | B737-300 | B737-400 | B737-800 | B767-300 | A319 | A330-200 | A340-600 | Total |
|--------|----------|----------|----------|----------|------|----------|----------|-------|
| Number | 12 | 10 | 41 | 3 | 6 | 4 | 1 | 77 |

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

Monetary unit: RMB 1,000 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 |
|--------------------------|--------------------------------|------------|-------------------|---|---|--|
| Passenger Transportation | 11,147,894 | 10,743,035 | 3.63 | -0.69 | 20.20 | -82.30 |
| Cargo Transportation | 397,663 | 385,822 | 2.98 | 12.32 | 34.64 | -82.46 |
| Chartered Flights | 689,769 | 669,339 | 2.96 | -42.98 | -30.81 | -91.57 |

Status of principal business classified by geographic regions

Monetary unit: RMB 1,000 Yuan

| Region | Income of Principal Business | Increase/Decrease of the Income from Principal Business Compare with Previous Year (%) |
|---------|------------------------------|--|
| Haikou | 7,936,450 | -0.61 |
| Beijing | 2,706,226 | -5.57 |
| Xi'an | 1,225,083 | -23.09 |
| Taiyuan | 367,566 | -1.20 |

Key operation indexes

| Index | 2008 | 2007 | Increasing Percentage (%) |
|--|------------|------------|------------------------------|
| ASK | 2,791,479 | 2,696,974 | 3.50 |
| Total Turnover of Transportation (In 10,000 ton*kilometers) | 230,314.23 | 226,916.84 | 1.50 |
| Total Turnover of Passenger Transportation (In 10,000 ton*kilometers) | 194,304.07 | 192,066.13 | 1.17 |
| Total Turnover of Cargo & Mail Transportation (In 10,000 ton*kilometers) | 35,733.40 | 34,850.71 | 2.53 |
| Total Flying Kilometers (In 10,000 kilometers) | 16,827.14 | 18,183.84 | -7.46 |
| Total Flying Hours (In hour) | 264,264 | 295,393 | -10.54 |
| Flying Flights (In flight) | 118,854 | 146,915 | -19.10 |
| Flight Using Rate per Day (In hour) | 10.1 | 9.6 | 16.53 |
| Volume of Passenger Transportation (In 10,000 person*times) | 1,438 | 1,491 | -3.55 |
| Volume of Cargo & Mail Transportation (In 10,000 tons) | 18.65 | 19.83 | -5.95 |
| Average Seating Rate (%) | 78.5 | 80.11 | -2.01 |
| Average Loading Rate (%) | 70.9 | 77.33 | -8.32 |

1.3 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 | -6.14% | Purchase fixed assets |
| Accounts payable | 3.90% | Purchase fixed assets |
| Construction in progress | 3.85% | Purchase new aircrafts |
| Accounts payable | 1.83% | Repay the fuel |
| Long term loans | 3.79% | Repay the loans |

1.4 Changes in the financial data comparing with that of the previous year

Monetary unit: RMB 1,000 Yuan

| Item | Report Period | Previous Year | Increase/Decrease (%) |
|--------------------|---------------|---------------|-----------------------|
| Financing Fee | 648,227 | 811,487 | -20.12 |
| Asset Devalue Loss | 615,590 | 8,146 | 7,456.96 |
| Operating Profit | -1,683,539 | 559,467 | -400.92 |

1.5 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 yuan; the business scope is approved air passenger and cargo transportation. In the report period, the principal business income is RMB 2.73 billion Yuan and the net profit is RMB -382.37 million Yuan. The Company holds 60% equity interests.

2. Chang'an Airlines Co., Ltd.

The registered capital of Chang'an Airlines Co., Ltd. is RMB 754.39 million yuan; the business scope is air passenger and cargo transportation in Shanxi Province and its neighboring provinces. In the report period, the principal business income is RMB 1.23 billion Yuan and the net profit is RMB -98.29 million Yuan. The Company holds 87.35% equity interests.

3. Shanxi Airlines Co., Ltd.

The registered capital of Shanxi Airlines Co., Ltd. is RMB 658.84 million yuan; the business scope is air passenger and cargo transportation in Shanxi Province and its neighboring provinces. In the report period, the principal business income is RMB 368 million Yuan and the net profit is RMB -77.84 million Yuan. The Company holds 93.21% equity interests.

2. Prospect of the future development

2.1 Development of aviation industry

In 2008 due to the serious natural disasters, international financial crisis and high fuel price, the domestic civil aviation market was badly affected. The total transportation volume, passenger volume and cargo volume decreased by 17.1%, 13% and 14.8% respectively. The passenger and cargo volume in international flight routes and Hong Kong and Macau routes both had negative growth.

In 2009 the international financial crisis will spread furthermore and the global aviation market will be cut down. According to the estimation of IATA, the global passenger and cargo transportation volume will decrease respectively by 3% and 5% in 2009 and the Asian-Pacific region is even worse. Under this background, the domestic air companies will also face great challenges. At the same time, positive issues appeared gradually. The fuel price and interest rate of foreign debts both dropped dramatically. The Chinese government implemented easy credit and monetary policies and strengthen its support towards the civil aviation industry. In general, the domestic civil aviation industry faces both challenges and opportunities in 2009.

2.2 Business plan of 2009

In 2009 we will meet the 60th anniversary of the founding of the nation. The company will implement the guide line "Ensure Safety and Promote Development" of CAAC, improve the safety and operation quality, strengthen the adjustment of management system and promote the construction of service brand.

Target index in 2009:

| Item | Number | Fluctuation |
|--------------------------------|--|-------------|
| Turnover transportation volume | 3.40 billion ton-kilometers | 47.50% |
| Passenger volume | 19.64 million person-times | 37% |
| Cargo volume | 284,200 tons | 52% |
| Flying hours | 366,700 hours | 39% |
| Flight number | 152,200 flights | 28% |
| Safety | Accident and incident rate per 10 thousand hours: ≤ 0.1 . | |
| Punctuality | Punctuality rate: Rank the first three in the industry. | |

2.3 Demand of capital and its utility

It's estimated that the capital of RMB 24.33 billion Yuan will be needed to achieve the operation target of 2009 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

With the spread of international financial crisis, the domestic economy is also badly affected. As a result, the need of aviation market drops and business passengers decreases dramatically, which is the key negative issue the air companies faces. With the drop of the profit, the increase of the financing risks, air companies will face great challenges especially in financing environment.

The international oil price dropped from the highest 147 dollars in July 2008 to about 50 dollars in April 2009, decreasing by 66%. Influenced by this, the domestic aviation fuel price dropped from the highest 8750 yuan/ton in 2008 to 3960 yuan/ton at present, decreasing by 55%. As the market need of the oil is cut down due to the global financial crisis, it is expected the oil price will stay in a comparatively low level, which will help air companies cut down the fuel cost dramatically.

At the same time, the company will benefit from the easy monetary policies home and abroad. Introducing airplanes and related equipments, the company had much dollar liabilities, which interest is accounted by Libor. Influenced by financial crisis, the Libor interest rate has been a relatively low level in five year, which saved much financing cost for the company. According to the forecast from national department, the exchange rate of RMB will increase 1% to 2% in 2009, which benefits the profit of the company. In December 2008, CAAC informed to strengthen the support towards the domestic civil aviation industry from 10 aspects. All these help the company to safely pass the industry winter.

II . Investment of the Company

Monetary Unit: RMB 1,000 Yuan

| | |
|---|-----------|
| Total investment amount in 2008 | 2,346,909 |
| Increase/Decrease compared with last year | 922,179 |
| Fluctuation (%) | 64.73 |

1. Use of the collected capital

SMonetary Unit: RMB 100 million Yuan

| Year Collected | Raising Method | Total Amount of Collected Capital | Used Amount of Collected Capital in Report Year | Accumulated Used Amount of Collected Capital | Balance of the Collected Capital | Uses and Allocation of the Collected Capital Balance |
|----------------|---------------------|-----------------------------------|---|--|----------------------------------|---|
| 2006 | Additional issuance | 56 | 37.39 | 52.27 | 3.73 | In order to secure the safety of the capital, it's been deposited at the HNA Group Finance Company according to the requirement of the Shareholder and would be used to projects related. |

According to the regulations of the Resolution of the 11th session of the 4th Board of Directors and the Resolution of the 2005 First Extraordinary General Meeting of the Company, the collected capital would be use to buy minority equity, repay the bank loan, import aircraft, increase the transportation capacity and supplement the current capital of the Company. Currently, the purchasing of minority equity is carried out accordingly. Meanwhile, influenced by the financial crisis, the delivery of certain aircraft has been postponed. The Company would arrange the related payment according the progress of the above project and the exact time schedule of the aircraft importation.

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

Before 2008, the Company accounted the encourage score of the frequent flight passenger in the incremental cost method and withdrawn preparation for the increased extra cost according to the encourage score which reached the rewarding standard. While the passenger exchanges the score or the score expires, it deducted from the withdrawn preparation. According to the regulations of the Notice on Accomplishing the 2008 Annual Report Preparation of the Enterprise Implementing the Accounting Standards (Cai Kuai Han [2008] No. 60) issued by the Ministry of Finance on December 26 of 2008, the Company started to settle the encourage score of the frequent flight passenger in the deferred income method from January 1 of 2008, that is to distribute the fare income between the income from labor service providing and fair value of the encourage score. The fare income after deducting the fair value of the encourage score would be confirmed as the income. The fair value of the encourage score would be confirmed as deferred income. While the passenger exchanged the score or the score expires, the amount previously confirmed as deferred income and related exchanged score would be confirmed as income.

The Company carried out retroactive adjustment to the accounting policy change. Following is its influence on the Shareholders' Equity of the Company and Consolidated Company on January 1 and December 31 of 2007, and 2007 Net Profit of the Consolidated Company and the Company:

| Item | Monetary Unit: RMB 1,000 yuan | | |
|---|--|--------------------|--|
| | Shareholders' Equity on January 1 of 2007 | 2007 Net Profit | Shareholders' Equity on December 31 of 2007 |
| Amount in 2007 | 7,781,843 | 708,326 | 8,435,434 |
| Influence of the accounting policy change | -76,997 | -27,913 | -104,910 |
| Amount after the retroactive adjustment | 7,704,846 | 680,413 | 8,330,524 |

IV. Routine Work of Board of Directors

1. Meetings of Board of Directors

1.1 On March 24, 2008, the 14th 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 March 25, 2008

1.2 On April 28, 2008, the 15th Session of the 5th Board Meeting of the Company was held, and the First Quarter Report was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on April 29, 2008.

1.3 On May 8, 2008, the 16th 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 May 9, 2008.

1.4 On June 10, 2008, the 17th 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 11, 2008

1.5 On June 19, 2008, the 18th 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 20, 2008.

1.6 On July 18, 2008, the 19th 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 July 19, 2008.

1.7 On July 29, 2008, the Temporary 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 July 30, 2008.

1.8 On Aug 29, 2008, the 20th 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, 2008.

1.9 On Sep 26, 2008, the 21th 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 Sep 27, 2008.

1.10 On Oct 15, 2008, the 22nd 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 Oct 16, 2008.

1.11 On Oct 30, 2008, the 23rd Session of the 5th Board Meeting of the Company was held, the Third Quarter Report was published on China Securities News, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po on Oct 31, 2008.

1.12 On Nov 11, 2008, the 24th 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 Nov 12, 2008.

1.13 On Dec 12, 2008, the 25th 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 13, 2008.

2. Implementation of resolutions of the General Meeting of Shareholders

(1) Guarantee situation

On April 25, 2008, the Company held 2007 annual general meeting of shareholders, considered and approved the mutual guarantee limit of the company and its subsidiaries was RMB 3.5 billion yuan. In the report period, the actual occurred mutual guarantee accounted for RMB 1.59 billion yuan.

(2) Issuance of corporate bonds

On May 27, 2008, the Company held the 1st temporary general meeting of the shareholders, considered and approved The Proposal on Issuance of Corporate Bonds. The Company planned to issue corporate bonds no more than RMB 2.7 billion yuan and had obtained the approval of the Issuance Examination Committee of CSRC, but had not issued yet.

(3) Issuance of short-term Certificate

On Nov 28, 2008, the Company held the 3rd temporary general meeting of the shareholders, considered and approved the company to issue no more than RMB 2.7 billion yuan short-term certificate. The Company had not issued yet.

In 2008, the Company held five General Meeting of Shareholders including the Annual Meeting and four Temporary Meetings. The Board of Directors had mostly accomplished the tasks approved by the General Meeting of Shareholders, such as finishing connected transactions, modifying articles of association, changing directors, etc.

3.Summary Report of the Audit Committee under Board of Directors

The Audit Committee hears the report of management to annual operation in 2008 before entering of annual audit accountants and reviews the financial accounting statements prepared by the Company. The Audit Committee regards that the financial statements can reflect the financial situations and operation results of the Company objectively. After entering of annual certified accountants, the Audit Committee hears the time schedule and works arrangement of annual financial audit works of certified accountants. During the process of auditing, the Audit Committee keeps in touch with certified accountants and supervises and urges annual audit accountants to complete annual audit task with high quality according to predetermined plan. After annual audit certified accountants finishing audit draft, the Audit Committee reviews the financial statements of the Company for another time. The Audit Committee regards that the financial statements of the Company reflect the overall situation of the Company truly, accurately and completely and formed written comments. At the same time, the Audit Committee reviews and submits the summary report of auditing work of accounting firm for this year and comments for continuous employment of accounting firm. The Audit Committee regards that PricewaterhouseCoopers is one of the four international accounting firms and is a well-known firm globally. During annual audit service works in 2008, it well completed all the works consigned by the Company according to principles of independency, objectivity and fairness. Therefore, the Audit Committee suggests that the Company to employ PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd as annual auditing institution of 2009.

4.Summary Report of the Remuneration Committee under Board of Directors

Within report term, the Remuneration and Appraisal Committee under Board of Directors reviews the remuneration and appraisal system of the Company and remuneration distribution schemes of directors, supervisors and senior management personnel in 2008. The Remuneration Committee thinks that various business indexes of the Company has achieved better performance in 2008. The remuneration appraisal systems of the Company played a positive part. The Remuneration Committee totally agrees the remuneration appraisal systems of the Company. For remuneration distribution schemes of directors, supervisors and senior management personnel, the Remuneration Committee agrees to submit them to Board of Directors and Annual Shareholder's Meeting for discussion.

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

As In 2008, the net profit attributed to the shareholders of the Company accounted for RMB -1.42 billion Yuan. The profit distributions will not be carried out and the capital reserve will not be transferred into share capital.

VII. Dividends Distributed in the Last Three Years

| Monetary unit: RMB million Yuan | | | |
|---------------------------------|---|------------|------------|
| Year | Amount of Cash Dividends (Tax Included) | Net Profit | Proportion |
| 2007 | 0 | 651.39 | - |
| 2006 | 0 | 181.60 | - |
| 2005 | 0 | -215.82 | - |

I. Works of Board of Supervisors

1. On Mar 24, 2008, the Company held the 8th Session of the 5th Board of Supervisors. During the meeting, the Report of the Board of Supervisors of 2007, the 2007 Annual Report of the Company and its Summary were discussed and passed.
2. On April 28, 2008, the Company held the 9th Session of the 5th Board of Supervisors. During the meeting, the 1st Quarter Report of the Company was discussed and passed.
3. On Aug 29, 2008, the Company held the 10th Session of the 5th Board of Supervisors. During the meeting, the Semi-annual Report of the Company was discussed and passed.
4. On Oct 30, 2008, the Company held the 11th Session of the 5th Board of Supervisors. During the meeting, the 3rd Quarter Report of the Company was discussed and passed.

II. Independent Opinion of Board of Supervisors on Legal Operation of the Company

In the report period, the Company operated legally and efficiently according to the Company Law and the Articles of Association of the Company. The Internal Control System was further improved and the directors and seniors executives of the Company all fulfilled their responsibilities to protect the interest of the Company and shareholders according to related laws, regulations and the Articles of Association of the Company.

III. Independent Opinion of Board of Supervisors on Financial Condition of the Company

In the report period, the financial condition of the Company kept healthy. The financial report of 2008 can reflect the authenticity and completeness of the financial condition and operation results. PricewaterhouseCoopers Zhong Tian issued the standard unqualified Auditors' Report for the Company.

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

In the report period, 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.

V. Independent Opinion of Board of Supervisors on Purchasing and Selling Assets

In the report period, the pricing basis, transaction mode and procedures of consideration and vote of Company's purchasing and selling assets are legitimate without bringing harm to interests of the whole shareholders.

VI. Independent Opinion of Board of Supervisors on Connected Transaction

In the report period, the connected transaction occurred with fair pricing and compliant procedures without bringing harm to the Company and whole shareholders.

1. Significant Lawsuit or Arbitration

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

2. Bankruptcy and Mergers

In the report period, no bankruptcy and mergers occurred.

3. Other Significant Events and Explanation

3.1 Investment in securities

In the report period, the Company had no investment in securities

3.2 Shareholding in other listed companies

Monetary Unit: RMB 1,000 Yuan

| Stock code | Stock abbreviation | Initial investment amount | Percentage of shareholdings (%) | Book value at the end of reporting period | Gains/Losses during the reporting period | Changes in equity attributable to equity holders during the reporting period | Accounting title | Source of shares |
|------------|--------------------|---------------------------|---------------------------------|---|--|--|-----------------------------------|------------------|
| 0696 | China Travelsky | 29,860 | 1.68 | 29,860 | 7,221 | 7,221 | Long-term share equity investment | |

4. Asset Transaction

4.1 Assets Buying

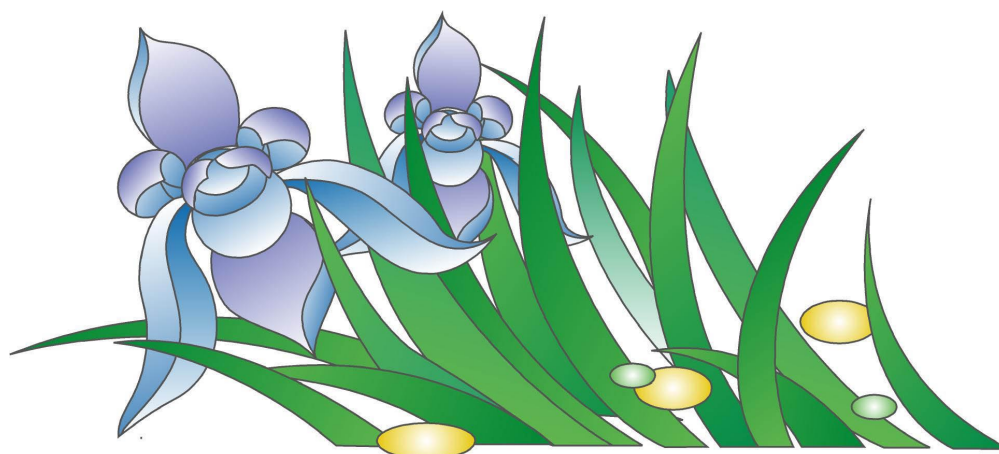
Monetary Unit: RMB 1,000 Yuan

| Transaction partner or final controlling party | Acquired assets | Date of purchasing | Price of asset acquisition | Net profit contribution from the purchasing date to the end of the year | Net profit contribution from the beginning of the year to the end of the year (applicable to the enterprise merge under same control) | Related transaction or not (if it is, please describe the pricing principle) | Pricing principle of asset acquisition | Whether the property right of assets has been completely transferred | Whether the creditor's right and liability has been completely diverted | Net profit contributed to the listed company by the assets in the total profit (%) | Relationship |
|--|-------------------|--------------------|----------------------------|---|---|--|--|--|---|--|--------------|
| Beijing Guorui Xingye Real Estate Co., Ltd | Guorui Building | | 1,907,100 | 0 | 0 | No | Agreement pricings | No | No | 0 | None |
| Beijing Yida E Real Estate Co., Ltd | Sheng yuan Center | Jun 30, 2008 | 600,000 | 0 | 0 | No | Market pricing | No | No | 0 | None |
| Total | | | 2,507,100 | | | | | | | | |

4.2 Assets Selling

Monetary Unit: RMB 1,000 Yuan

| Transaction partner | Sold assets | Date of selling | Price of selling | Net profit contribution from the selling date to the end of the year | Gains/Losses from selling | Related transaction or not (if it is, please describe the pricing principle) | Pricing principle of asset sale | Whether the property right of assets has been completely transferred | Whether the involved creditor's right and liability has been completely diverted | Net profit contributed to the listed company by the assets in the total profit (%) | Relationship |
|------------------------------|--------------------------------------|-----------------|------------------|--|---------------------------|--|---------------------------------|--|--|--|--------------|
| HNA Group | Hainan Business Service Co., Ltd | Jan 1, 2008 | 4,330 | 0 | 19,889 | Yes | Agreement pricing | No | Yes | 0 | Shareholder |
| Grand China Air | Yunnan Lucky Air Co., Ltd | April 23, 2008 | 48,073 | 0 | -773 | Yes | Agreement pricing | No | Yes | 0 | Shareholder |
| Hainan Air Catering Co., Ltd | Beijing Xinhua Air Catering Co., Ltd | Jun 5, 2008 | 70,601 | | 9,401 | Yes | Agreement pricing | No | Yes | | Other |
| Total | | | 123,004 | | 21,536 | | | | | | |



5. Major Connected Transaction

5.1 Connected Transaction Related to Daily Operation

Monetary unit: RMB 1,000 Yuan

| Related party | Relationship | Type of related transaction | Content of related transaction | Pricing principle of related transaction | Book value of transferred assets | Transaction Amount | Proportion in the same type transaction amount (%) | Settling mode | Liquidation method of related transactions |
|--|--------------|-----------------------------|---|--|----------------------------------|--------------------|--|------------------|--|
| Haikou Meilan Airport Co., Ltd | Shareholder | | Payment for the set-off and landing fee | Determined by CAAC | | 34,935 | 3 | Banking transfer | |
| Hainan Meilan International Airport Co., Ltd | Other | | Payment for the set-off and landing fee and airport counter rentals | Determined by CAAC | | 95,795 | 7 | Banking transfer | |
| Sanya Phoenix International Airport Co., Ltd | Other | | Payment for the set-off and landing fee and airport counter rentals | Determined by CAAC | | 19,953 | 2 | Banking transfer | |
| Hainan Meiya Industrial Co., Ltd | Other | | Payment for aviation fuel | Market price/ agreement price | | 542,341 | 10 | Banking transfer | |
| Hainan Pacific Oil Industrial Co., Ltd | Other | | Payment for aviation fuel | Market price/ agreement prices | | 96,034 | 2 | Banking transfer | |
| Hainan Haihang Import & Export Co., Ltd | Other | | Payment for importation commission of aircraft and aviation materials | Market price/ agreement price | | 37,541 | 100 | Banking transfer | |
| Changjiang Leasing Co., Ltd | Shareholder | | Payment for rentals of aircraft and aviation materials | Market price/ agreement price | | 96,098 | 10 | Banking transfer | |
| Yangtze River International Leasing Co., Ltd | Other | | Payment for rentals of aircraft and aviation materials | Market price/ agreement price | | 54,077 | 6 | Banking transfer | |

(cont.)

| Related party | Relationship | Type of related transaction | Content of related transaction | Pricing principle of related transaction | Book value of transferred assets | Transaction Amount | Proportion in the same type transaction amount (%) | Settling mode | Liquidation method of related transactions |
|--|---------------------|-----------------------------|---|--|----------------------------------|--------------------|--|------------------|--|
| Hainan Air Catering Co., Ltd | Other | | Payment for air catering | Market price/ agreement price | | 44,966 | 16 | Banking transfer | |
| Beijing Xinhua Air Catering Co., Ltd | Other | | Payment for air catering | Market price/ agreement price | | 50,211 | 18 | Banking transfer | |
| HNA Group Finance Co., Ltd | Other | | Interest income from fixed-period deposit | Regulated by People's Bank | | 198,365 | 86 | Banking transfer | |
| Beijing Vigorous Vision Advertisement Co., Ltd | Other | | Income from advertisement | Market price/ agreement price | | 25,000 | 100 | Banking transfer | |
| Yangtze River Express Aviation Co., Ltd | Other | | Income from aircraft maintenance | Market price/ agreement price | | 14,051 | 2 | Banking transfer | |
| Golden Deer Jet Co., Ltd | Other | | Income from aircraft leasing | Market price/ agreement price | | 191,419 | 16 | Banking transfer | |
| Yunnan Lucky Air Co., Ltd | Other | | Income from aircraft leasing | Market price/ agreement price | | 208,410 | 17 | Banking transfer | |
| West Airlines Co., Ltd | Other | | Income from aircraft leasing | Market price/ agreement price | | 143,625 | 14 | Banking transfer | |
| Hong Kong Airlines Co., Ltd | Other | | Income from aircraft leasing | Market price/ agreement price | | 74,335 | 12 | Banking transfer | |
| Hong Kong Express Airlines Co., Ltd | Other | | Sale agency of tickets | Market price/ agreement price | | 2,511 | 1 | Banking transfer | Grand |
| China Air Co., Ltd | Holding Shareholder | | Income from aircraft leasing | Market price/ agreement price | | 390,192 | 19 | Banking transfer | |
| Grand China Air Express Co., Ltd | Other | | Income from aircraft leasing | Market price/ agreement price | | 717,173 | 65 | Banking transfer | |
| Total | | | | | | 3,037,032 | | | |

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

5.2 The accounts receivable and payable with related parties

Monetary unit: RMB 10,000 Yuan

| Related Party | Capital Provided to the Related Party | | Capital Provided to the Listing Company by the Related Party | |
|--|---------------------------------------|---------|--|---------|
| | Amount | Balance | Amount | Balance |
| | Occurred | | Occurred | |
| Hainan Haihang Import & Export Company Limited | -5,490 | 14,510 | -10,247 | 1,411 |
| Changjiang Leasing Company Ltd | | | -24,532 | 6,031 |
| Shenzhen Finance Leasing Company Limited | -2,400 | | | |
| Hainan Provincial Aviation Import & Export Trade Company | | 639 | | |
| Haikou Hi-tech Risk Investment Company Limited | | 500 | | |
| Hainan Meilan International Airport Company Limited | | | -1,152 | 9,470 |
| Hainan Meiya Industrial Company Limited | | | 3,350 | 11,409 |
| Hongkong Airlines Company Limited | | | -2,483 | 1,446 |
| Goden Deer VIP Flight Company Limited | | | 3,052 | 6,956 |
| Hongkong Air Express Company Limited | | | 886 | 2,834 |
| Grand China Air Express Company Limited | | | 9,564 | 22,292 |
| Yangtze River International Leasing Company Limited | | | 38,281 | 38,281 |
| Grand China Airlines Company Limited | | | 3,953 | 4,800 |
| Yangtze River Air Express Company Limited | | | 813 | 816 |
| Yunnan Xiangpeng Airlines Company Limited | | | 3,347 | 3,375 |
| Haihang Group Finance Company Limited | 2,295 | 9,607 | | |
| Haihang Hotel Company Limited | | | 582 | 582 |
| Yangtze River Property Group Company Limited | 22 | 22 | | |
| Beijing Xinhua Airport Air Catering Company Limited | | | 1,369 | 1,369 |
| Yangtze River Investment Holding Company Limited | 1,094 | 1,094 | 5,000 | 5,000 |
| West Airlines Company Limited | 2,966 | 2,966 | 5,588 | 5,588 |
| Northwest HNA Property Group Company Limited | | | 1,538 | 1,538 |
| Others | 698 | 2,038 | -14,006 | 6,643 |
| Total | -815 | 31,376 | 24,903 | 129,841 |

In the report period, the current sum of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies is RMB 8,151,000 Yuan, and the balance of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies is RMB 313,755,000 Yuan.

The Company has made allowance for bad debts for the accounts receivable of RMB 11,385 thousand Yuan of Hainan Aviation 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.

6. Major Contracts and Performance

6.1 Trusteeship Situation

The Company had no trusteeship matter in 2008.

6.2 Contract-in Situation

The Company has no contract-in matter in 2008.

6.3 Leasing Situation

| Lessee | Aircraft Type | Quantity (In Flight) | Monthly Rentals | 2008 Yearly Rentals |
|----------------------------------|---------------------|-------------------------|-----------------|---------------------------|
| | 2008 Yearly Rentals | | (In USD 10,000) | (In RMB 100 million yuan) |
| Golden Deer Jet Co., Ltd | A319 | 5 | 53.00 | 1.40 |
| Yunnan Lucky Air Co., Ltd | B737-700 | 5 | 50.00 | 1.58 |
| West Air Co., Ltd | B737-300 | 4 | 30.00/40.00 | 1.18 |
| Hong Kong Airlines Co., Ltd | B737-800 | 2 | 52.15 | 0.74 |
| Grand China Air Co., Ltd | B737-400 | 1 | 25.00 | 0.11 |
| Grand China Air Express Co., Ltd | B737-800 | 4 | 50.00 | 1.29 |
| | D328 | 29 | 14.50 | 3.44 |
| | E190 | 7 | 29.40 | 0.69 |
| | E145 | 2 | 29.39 | 0.20 |
| Total | / | 59 | / | 10.63 |

6.4 Guarantee Situation

Monetary Unit: 1,000 RMB

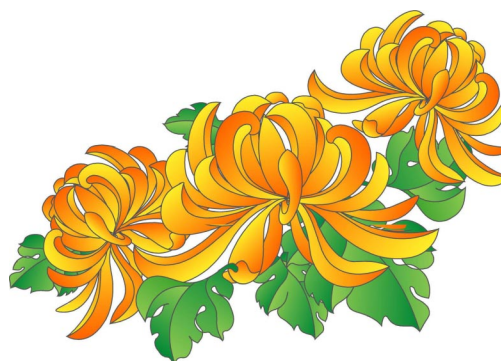
| Outside Guarantee of the Company (Guarantee for the Controlled Subsidiaries Not Included) | | | | | | |
|---|------------------------------------|----------------------|-------------------|-------------------|-----------------------------------|---|
| Name of Guarantee | GuaranteeDate (signature date) | Guaranteed Amount | Guarantee Type | Guarantee Term | Performance Status (Yes or No) | Connected Party Guarantee (Yes or No) |
| Total Guarantee in the Report Period | | | | | | 0 |
| Total Balance of Guarantee at the End of Report Period | | | | | | 0 |
| Guarantee of the Company for the Controlled Subsidiaries | | | | | | |
| Total Guarantee in the Report Period | | | | | | 1,590,000 |
| Total Balance of Guarantee at the End of Report Period | | | | | | 1,590,000 |
| Total Guarantee of the Company (Including Guarantee for the Controlled Subsidiaries) | | | | | | |
| Total Amount of Guarantee | | | | | | 1,590,000 |
| Percentage of the Total Guarantee to the Net Assets of the Company | | | | | | 23.85 |
| Incl.: | | | | | | |
| Guarantee Amount for the Shareholders, Actual Controllers and its Related Parties | | | | | | 0 |
| Direct or Indirect Debt Guarantee for the Guaranteed Party Which Assets-liability Ratio is over 70% | | | | | | 0 |
| Guarantee Amount which is over 50% of the Net Assets | | | | | | 0 |
| Total Amount of Above Three Items | | | | | | 0 |

6.5 Entrusted Financing

There was no entrusted financing in 2008.

6.6 Other important contract

There was no other important contract in 2008.



7.Execution of Commitment

Commitment made by the Company or its shareholders who hold more than 5% equity of the Company during reporting period or lasting to the reporting period

| Commitment | Content of Commitment | Performance |
|-------------------------|---|------------------|
| Share reform commitment | Grand China Air Co. Ltd undertakes, from the date of obtaining listing circulating right, the shares of Hainan Airlines held by it will not be transferred via stock exchange within 36 months. | Under performing |

8.Appointment and Disappointment of Certified Public Accountants

| Whether to change Certified Public Accountants | No |
|--|---|
| Name of domestic Certified Public Accountant | Existing Certified Public Accountant PricewaterhouseCoopers Co., Ltd |

9.The Punishment and Rectifying of Listed Company, Its Directors, Supervisors, Senior Management, Shareholders and Actual Controller

9.1 On January 14, 2008, Hainan Securities Regulatory Bureau of China Securities Regulatory Commission issued Notice on Rectification within Time Limit of Hainan Airlines Co. Ltd to the Company. The Notice indicates the Company does not rectify the change of controlling shareholder through announcement in time. The Company has published the announcement on January 25, 2008 and the name of controlling shareholder has been changed from Xinhua Airlines Holdings Co., Ltd to Grand China Air Co. Ltd on September 10, 2007. Grand China Air Co. Ltd has obtained the airline operation license issued by Civil Aviation Administration of China on September 18, 2007.

9.2 According to China Securities Regulatory Commission's Notice on Issues Concerning Campaign to Strengthen Corporate Governance of Listed Companies and the document notice of Hainan Securities Regulatory Bureau of China Securities Regulatory Commission (Hainan Securities Regulatory Bureau (2008) No. 130), the Company further rectifies and implements the problems to be rectified in Self-check Report and Rectification Plan and Supplementary Announcement of Self-check Report published in 2007 and discloses The Description on Problems to be Rectified listed In Self-check Report of 2007 on July 30, 2008.

Report of Auditors

(English Translation for Reference Only)

PwC ZT Shen Zi (2009) No.10053

TO THE SHAREHOLD OF HAINAN AIRLINES COMPANY LIMITED

We have audited the accompanying financial statements of Hainan Airlines Company Limited ("the Company") and its subsidiaries (together, the Group) which comprise the consolidated and the company balance sheets as at 31 December 2008, and the consolidated and the company income statements, the consolidated and the company cash flow statements and the consolidated and the company statements of changes in equity for the year then ended and notes to these financial statements.

I. Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes:

- 1) Designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- 2) Selecting and applying appropriate accounting policies; and
- 3) 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 the China Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

III. Opinion

In our opinion, the accompanying consolidated and the company financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2008, and of their financial performance and their cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, China

29 April 2009

CONSOLIDATED AND COMPANY BALANCE SHEETS

AS AT 31 DECEMBER 2008

(All amounts in RMB Thousand Yuan unless otherwise stated)

| ASSETS | Notes | 31 December 2008 The Group | 31 December 2007 The Group | 31 December 2008 The Company | 31 December 2007 The Company |
|----------------------------|-------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Current assets | | | | | |
| Cash at bank and on hand | 8(1) | 6,652,245 | 7,930,856 | 2,940,585 | 4,613,814 |
| Accounts receivable | 8(2), 16(1) | 440,829 | 463,859 | 464,660 | 405,481 |
| Advances to suppliers | 8(3) | 272,043 | 355,508 | 236,590 | 340,593 |
| Interest receivable | | 96,069 | 73,118 | 2,755 | 48,225 |
| Dividends receivable | | 2,271 | 2,271 | 2,271 | 2,271 |
| Other receivables | 8(2), 16(1) | 150,568 | 366,652 | 525,493 | 914,864 |
| Inventories | 8(4) | 255,336 | 261,838 | 251,787 | 252,017 |
| Total current assets | | 7,869,361 | 9,454,102 | 4,424,141 | 6,577,265 |
| Non-current assets | | | | | |
| Long-term investments | 8(5), 16(2) | 719,937 | 758,711 | 2,741,075 | 2,721,901 |
| Investment properties | 8(6) | 172,302 | - | 172,302 | - |
| Fixed assets | 8(7) | 23,706,223 | 19,377,612 | 17,911,519 | 14,769,764 |
| Construction in progress | 8(8) | 10,217,872 | 6,891,808 | 9,068,384 | 5,729,218 |
| Intangible assets | 8(9) | 237,133 | 282,940 | 125,129 | 150,070 |
| Goodwill | 8(10) | - | 119,392 | - | - |
| Long-term prepaid expenses | 8(11) | 188,912 | 258,136 | 137,147 | 167,840 |
| Deferred tax assets | 8(26) | - | 52,149 | - | 28,389 |
| Other non-current assets | 8(12) | 5,197,489 | 2,645,096 | 4,848,261 | 2,276,996 |
| Total non-current assets | | 40,439,868 | 30,385,844 | 35,003,817 | 25,844,178 |
| TOTAL ASSETS | | 48,309,229 | 39,839,946 | 39,427,958 | 32,421,443 |

CONSOLIDATED AND THE COMPANY BALANCE SHEETS

AS AT 31 DECEMBER 2008 (CONTINUED)

(All amounts in RMB Thousand Yuan unless otherwise stated)

| LIABILITIES AND OWNERS' EQUITY | Notes | 31 December 2008 The Group | 31 December 2007 The Group | 31 December 2008 The Company | 31 December 2007 The Company |
|--|-------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Current liabilities | | | | | |
| Short-term borrowings | 8(13) | 9,020,315 | 7,465,545 | 5,928,815 | 4,783,545 |
| Notes payable | 8(14) | 1,780,902 | 1,121,632 | 1,331,335 | 804,780 |
| Accounts payable | 8(15) | 4,278,765 | 2,801,545 | 5,235,559 | 3,920,405 |
| Advances from customers | 8(16) | 860,915 | 679,726 | 22,060 | 22,132 |
| Employee benefits payable | 8(17) | 139,034 | 120,318 | 71,918 | 71,627 |
| Taxes payable | 8(18) | 207,589 | 159,084 | 193,534 | 124,265 |
| Interest payable | | 85,003 | 65,474 | 71,136 | 56,281 |
| Dividends payable | 8(19) | 19,078 | 19,426 | 19,078 | 19,426 |
| Other payables | 8(20) | 2,286,642 | 1,404,273 | 1,581,099 | 789,793 |
| Current portion of non-current borrowing | 8(21) | 2,556,457 | 2,072,907 | 1,985,500 | 1,427,106 |
| Total current liabilities | | 21,234,700 | 15,909,930 | 16,440,034 | 12,019,360 |
| Non-current liabilities | | | | | |
| Long-term borrowings | 8(22) | 18,250,709 | 13,540,526 | 14,220,012 | 10,793,591 |
| Deferred revenue | 8(23) | 225,682 | 108,448 | 96,241 | 68,431 |
| Long-term payables | 8(24) | 1,880,832 | 1,844,562 | 1,529,595 | 1,431,098 |
| Special accounts payable | | 20,000 | 20,000 | - | - |
| Other non-current assets | 8(25) | 30,563 | 85,956 | 30,562 | 72,306 |
| Total non-current assets | | 20,407,786 | 15,599,492 | 15,876,410 | 12,365,426 |
| Total liabilities | | 41,642,486 | 31,509,422 | 32,316,444 | 24,384,786 |
| Owners' equity | | | | | |
| Paid-in capital | 8(27) | 3,530,253 | 3,530,253 | 3,530,253 | 3,530,253 |
| Capital surplus | 8(28) | 3,854,143 | 3,854,143 | 3,850,886 | 3,850,886 |
| Surplus reserve | 8(29) | 169,098 | 169,098 | 169,098 | 169,098 |
| Undistributed profits / (Accumulated losses) | | (1,410,689) | 13,659 | (438,723) | 486,420 |
| Total equity attributable to equity holders of the Company | | 6,142,805 | 7,567,153 | 7,111,514 | 8,036,657 |
| Minority interest | 8(30) | 523,938 | 763,371 | - | - |
| Total owners' equity | | 6,666,743 | 8,330,524 | 7,111,514 | 8,036,657 |
| TOTAL LIABILITIES AND OWNER'S EQUITY | | 48,309,229 | 39,839,946 | 39,427,958 | 32,421,443 |

The accompanying Notes form an integral part of these financial statements.

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

CONSOLIDATED AND COMPANY INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in RMB Thousand Yuan unless otherwise stated)

| Items | Notes | 2008 The Group | 2007 The Group | 2008 The Company | 2007 The Company |
|---|--------------|-------------------|-------------------|---------------------|---------------------|
| Revenue | 8(31), 16(3) | 13,551,661 | 13,525,347 | 8,773,070 | 8,396,469 |
| Less: Cost of sales | 8(31), 16(3) | (12,516,141) | (10,590,981) | (8,268,540) | (6,608,160) |
| Tax and levies on operations | 8(32) | (384,266) | (429,020) | (233,214) | (253,059) |
| Selling and distribution expenses | | (587,175) | (624,692) | (380,306) | (389,081) |
| General and administrative expenses | | (515,903) | (514,770) | (236,809) | (250,636) |
| Finance expenses - net | 8(33) | (648,227) | (811,487) | (298,474) | (446,781) |
| Asset impairment losses | 8(34) | (615,590) | (8,146) | (367,663) | (5,515) |
| Add: Investment income | 8(35), 16(4) | 32,102 | 13,216 | 8,131 | 4,392 |
| Including: Share of profit of associates and joint ventures | | 3,346 | 5,276 | 3,309 | 1,453 |
| Operating profit | | (1,683,539) | 559,467 | (1,003,805) | 447,629 |
| Add: on-operating income | 8(36) | 160,337 | 131,346 | 115,324 | 103,552 |
| Less: Non-operating expenses | 8(36) | (13,008) | (5,382) | (8,273) | (3,841) |
| Including: Losses on disposal of non-current assets | | (11,750) | (1,934) | (7,794) | (1,564) |
| Total profit | | (1,536,210) | 685,431 | (896,754) | 547,340 |
| Less: Income tax expenses | 8(37) | (52,195) | (5,018) | (28,389) | (526) |
| Net profit | | (1,588,405) | 680,413 | (925,143) | 546,814 |
| Attributable to equity holders of the Company | | (1,424,348) | 626,855 | (925,143) | 546,814 |
| Minority interest | | (164,057) | 53,558 | - | - |
| Earnings per share for the profit attributable to the shareholders of the Company during the year | | | | | |
| - basic | 8(38) | (0.40) | 0.17 | | |
| - diluted | 8(38) | (0.40) | 0.17 | | |

The accompanying Notes form an integral part of these financial statements.

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in RMB Thousand Yuan unless otherwise stated)

| Items | Notes | 2008 | 2007 | 2008 | 2007 |
|---|----------|--------------|--------------|-------------|-------------|
| | | The Group | The Group | The Company | The Company |
| Cash flows from operating activities | | | | | |
| Cash received from sales of goods or rendering of services | | 13,763,337 | 13,858,919 | 8,765,183 | 9,045,488 |
| Cash received relating to other operating activities | | 1,044,378 | 1,643,090 | 833,467 | 446,178 |
| Sub-total of cash inflows | | 14,807,715 | 15,502,009 | 9,598,650 | 9,491,666 |
| Cash paid for goods and services | | (7,756,415) | (9,981,217) | (4,811,785) | (6,679,956) |
| Cash paid to and on behalf of employees | | (1,149,279) | (790,213) | (572,267) | (499,521) |
| Payments of taxes and levies | | (469,405) | (422,502) | (239,715) | (203,723) |
| Cash paid relating to other operating activities | 8(39)(f) | (1,736,856) | (1,398,971) | (1,088,600) | (485,946) |
| Sub-total of cash outflows | | (11,111,955) | (12,592,903) | (6,712,367) | (7,869,146) |
| Net cash flows from operating activities | 8(39)(a) | 3,695,760 | 2,909,106 | 2,886,283 | 1,622,520 |
| Cash flows from investing activities | | | | | |
| Cash received from disposal of investments | | 48,073 | 36,751 | 500 | 28,666 |
| Cash received from returns on investments | | 7,221 | 6,417 | 4,822 | 2,431 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | 721,513 | 1,338,255 | 522,447 | 599,026 |
| Net cash received from disposal of subsidiary | 8(39)(e) | 68,630 | - | 4,330 | - |
| Cash received relating to other investing activities | | 217,526 | 115,983 | 161,883 | 62,737 |
| Sub-total of cash inflows | | 1,062,963 | 1,497,406 | 693,982 | 692,860 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | (8,508,552) | (6,262,257) | (6,911,110) | (5,614,666) |
| Cash paid to acquire investments | | (10,000) | (4,362) | - | (4,362) |
| Net cash paid to acquire minority interest | 9 | (34,971) | (79,984) | (23,971) | (79,984) |
| Cash paid relating to other investing activities | | (2,346,909) | (1,424,730) | (2,346,909) | (1,424,730) |
| Sub-total of cash outflows | | (10,900,432) | (7,771,333) | (9,281,990) | (7,123,742) |
| Net cash flows from investing activities | | (9,837,469) | (6,273,927) | (8,588,008) | (6,430,882) |
| Cash flows from financing activities | | | | | |
| Cash received from borrowings | | 19,131,453 | 14,345,836 | 13,451,447 | 12,093,849 |
| Sub-total of cash inflows | | 19,131,453 | 14,345,836 | 13,451,447 | 12,093,849 |
| Cash repayments of borrowings | | (11,949,457) | (10,258,887) | (7,771,157) | (7,517,273) |
| Cash repayments of finance lease | | (591,663) | (454,102) | (363,293) | (286,167) |
| Cash payments for interest expenses and distribution of dividends or profits | | (1,859,282) | (1,064,440) | (1,331,637) | (839,813) |
| Sub-total of cash outflows | | (14,400,402) | (11,777,429) | (9,466,087) | (8,643,253) |
| Net cash flows from financing activities | | 4,731,051 | 2,568,407 | 3,985,360 | 3,450,596 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (27,208) | (18,955) | (23,867) | (18,901) |
| Net increase in cash and cash equivalents | 8(39)(c) | (1,437,866) | (815,369) | (1,740,232) | (1,376,667) |
| Add: Cash and cash equivalents at beginning of year | 8(39)(c) | 7,440,802 | 8,256,171 | 4,240,420 | 5,617,087 |
| Cash and cash equivalent at end of year | 8(39)(d) | 6,002,936 | 7,440,802 | 2,500,188 | 4,240,420 |

The accompanying Notes form an integral part of these financial statements.

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in RMB Thousand Yuan unless otherwise stated)

| Items | Note | Attributable to equity holders of the Company | | | | Minority interest | Total owners' equity |
|--|------|---|-----------------|------------------|-----------------------|-------------------|----------------------|
| | | Paid-in capital | Capital surplus | Surplus reserves | Undistributed profits | | |
| Balance at 31 December 2006 | | 3,530,253 | 3,854,901 | 169,098 | (544,475) | 772,066 | 7,781,843 |
| Changes in accounting policies | 4 | - | - | - | (68,721) | (8,276) | (76,997) |
| Balance at 1 January 2007 | | 3,530,253 | 3,854,901 | 169,098 | (613,196) | 763,790 | 7,704,846 |
| Movement for the year ended 31 December 2007 | | | | | | | |
| Net profit | | - | - | - | 651,387 | 56,939 | 708,326 |
| Changes in accounting policies | 4 | - | - | - | (24,532) | (3,381) | (27,913) |
| | | - | - | - | 626,855 | 53,558 | 680,413 |
| Acquisition of minority interests | | - | (758) | - | - | (53,977) | (54,735) |
| Balance at 31 December 2007 | | 3,530,253 | 3,854,143 | 169,098 | 13,659 | 763,371 | 8,330,524 |
| Movement for the year ended 31 December 2008 | | | | | | | |
| Net loss | | - | - | - | (1,424,348) | (164,057) | (1,588,405) |
| Acquisition of minority interests | 9 | - | - | - | - | (28,979) | (28,979) |
| Sale of subsidiary | | - | - | - | - | (46,397) | (46,397) |
| Balance at 31 December 2008 | | 3,530,253 | 3,854,143 | 169,098 | (1,410,689) | 523,938 | 6,666,743 |

The accompanying Notes form an integral part of these financial statements.

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

COMPANY STATEMENT OF CHANGES IN OWNER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

(All amounts in RMB Thousand Yuan unless otherwise stated)

| Items | Note | Paid-in capital | Capital surplus | Surplus reserves | Undistributed profits | Total owners' equity |
|--|------|--------------------|--------------------|---------------------|--------------------------|-------------------------|
| Balance at 1 January 2007 | | 3,530,253 | 3,850,886 | 169,098 | (11,810) | 7,538,427 |
| Changes in accounting policies | 4 | - | - | - | (48,584) | (48,584) |
| Balance at 1 January 2007 | | 3,530,253 | 3,850,886 | 169,098 | (60,394) | 7,489,843 |
| Movement for the year ended 31 December 2007 | | | | | | |
| Net profit | | - | - | - | 563,123 | 563,123 |
| Changes in accounting policies | 4 | - | - | - | (16,309) | (16,309) |
| | | - | - | - | 546,814 | 546,814 |
| Balance at 31 December 2007 | | 3,530,253 | 3,850,886 | 169,098 | 486,420 | 8,036,657 |
| Movement for the year ended 31 December 2008 | | | | | | |
| Net loss | | - | - | - | (925,143) | (925,143) |
| Balance at 31 December 2008 | | 3,530,253 | 3,850,886 | 169,098 | (438,723) | 7,111,514 |

The accompanying Notes form an integral part of these financial statements.

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

1. General information

Hainan Airlines Company Limited recognized from the former("the Company") was a joint stock limited company whose origins trace back to the formation of State Owned Hainan Airlines. 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. ("Hainan Trading"), etc. The Company obtained its business license on 18 October 1993 and was named as "Hainan Airlines Company Limited". Its registered address is Haikou, Hainan province, P.R. China. Grand China Airlines Company Limited (hereinafter referred to "Grand China") is the parent company of the Company. 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.

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.

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 RMB 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 RMB 400,160,001.

On 26 June 1997, 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. Following the widely public issuance, the paid-in capital was remarkably raised to RMB471, 160,001 totally.

On 11 October 1999, the Company issued 205,000 thousand 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. Following the issuance, the paid-in capital was remarkably raised to RMB676, 160,001 totally.

The B shares and A shares above went public at Shanghai Stock Exchange in 1997 and 1999 respectively.

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 RMB 54,092,800 and RMB 67,616,000 respectively. The share capital of the Company increased to RMB 730,252,801 thereafter.

The Company completed the entire issue proceeding at 2 Yuan RMB per share on June 29th, 2006, and raised 5,600,000,000 Yuan RMB in all. Among these, issues 1,650,000,000 shares to Grand China; 450,000,000 shares to Haikou Meilan International Airport Co., Ltd. ("Haikou Meilan"); 300,000,000 shares to Changjiang Leasing Co., Ltd. ("Changjiang Leasing"); 240,000,000 shares to Hainan Jiaxin Investment Management Co., Ltd. ("Hainan Jiaxin"); 150,000,000 shares to Sanya Phoenix International Airport Co., Ltd. ("Sanya Phoenix Airport"); 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, Grand China 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 29, 2006.

On 24 July 2006 the Company went the share restructuring scheme. Under the scheme, the shareholders of the non-public shares offered the listed A share shareholders 122,746,062 shares of non-public shares, set as 3.3 per 10 listed A shares, in return for the conversion of the non-public shares into listed A shares on the registration date. After the allocation and reformation of shares, the Grand China tended to hold 48.24% shares of the Company. Since 20 September 2006, all company share free flow and restricted shares could be traded in the market after the lock up period, including 2,850,826,000 restricted shares, 679,427,000 free flow shares. On 8th October 2007, 727,786,000 shares out of 2,850,826,000 shares have converted into free flow shares and traded in the market. After this conversion, the total free flow shares are 2,123,040,000, and restricted shares are 1,407,213,000 within 1,222,490,000 A shares and 184,723,000 B shares.

In December 2006, Grand China received new equity investments of 8,917,118 shares held by Hainan Airlines Group Co. Ltd. ("HNA Group") in Hainan Airlines Company and 4,369,582 shares held by Hainan Qixing Industrial Investment Company Limited ("Hainan Qixing") in the Company. The registration of shares rights reformed had been terminated effective December 14, 2006. Proceeds from capital injection, the Grand China held 48.62% shares of the Company.

On 28 April 2007, Sanya Phoenix Airport and Hainan Airlines Industrial Holding Co. Ltd ("Hainan Industrial") reached "Shares Transfer Agreement" that will relocate to transfer 4.07% of shares in the Company, namely 143,808,150 shares, from the former to the latter. The registration of shares rights reformed had been terminated effective on August 3, 2007.

The Company and its subsidiaries (collectively referred as "the Group" hereafter) are mainly engaged in Civil Aviation industry, with an approved scope of business including transporting domestic and international passengers, cargo and providing other related services.

The financial statements were authorized for issue by the board of directors on 29 April 2009.

2. Basis of preparation

The Group adopted the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006, Application Guidance of Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as "the Accounting Standard for Business Enterprises", "China Accounting Standards" or "CAS").

Up to 31 December 2008, the net loss of the Group is about RMB1.4 billion, and the current liabilities exceed about RMB13.4 billion over current assets.

The Company's management have already taken positive steps in response, and continually seek to improve the financing channels of the Group's liquidity position. On the day when the financial report is approved, the unused credit line of the Group from the major banks and financial institutions is about 16.4 billion. Besides, the Group obtains new loans of about 6.2 billion from the banks and financial institutions. Based on past experience, the management believe that the credit period and the term of new loans may be extended to later years when necessary.

Hence, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

3.Statement of compliance with the Accounting Standards for Business Enterprises.

The consolidated and the company's financial statements for the year ended 31 December 2008 truly and completely present the financial position of the Group and the Company as of 31 December 2008 and of their financial performance and their cash flows for the year then ended in compliance with the Accounting Standards for Business Enterprises.

4.Changes in accounting policies

Before 2008, the Group adopted the incremental cost method to the frequent flyer bonus accounts, according to this method, the Group withheld provision to increase cost for the bonus up to par, when customers exchange bonus or the bonus became invalidated, the provision withheld should be deducted. According to the "Notice of the 2008 annual report of the companies implementing the new accounting standards" issued by the Ministry of Finance on 26 December 2008(Caikuai letter[2008]60), the Company turned to adopt the deferred revenue method to the bonus, that is, the tickets revenue deducting the fair value of bonus is recognized as income, the fair value of bonus is recognized as deferred revenue. When customers exchange bonus or the bonus became invalidated, the deferred revenue relative with the bonus exchanged is recognized as income of the Company.

The Group takes the change above as changes in accounting policies and the comparative figures of the annual report have been retroactively adjusted and re-expressed. The influence of the accounting policy change on the interests of the shareholders and the net profit on 1 January, 2007 and December 31, 2007 of the Group and the Company are as follows:

| The Group | 1 January, 2007 Owner's Equity | 2007 Net profit | 31 december,2007 Owner's Equity |
|-------------------------------------|-----------------------------------|--------------------|------------------------------------|
| Amount on the annual report 2007 | 7,781,843 | 708,326 | 8,435,434 |
| Changes in accounting policies | (76,997) | (27,913) | (104,910) |
| Amount after retroactive adjustment | 7,704,846 | 680,413 | 8,330,524 |
| The Company | 1 January, 2007 Owner's Equity | 2007 Net profit | 31 december,2007 Owner's Equity |
| Amount on the annual report 2007 | 7,538,427 | 563,123 | 8,101,550 |
| Changes in accounting policies | (48,584) | (16,309) | (64,893) |
| Amount after retroactive adjustment | 7,489,843 | 546,814 | 8,036,657 |

The affected items in the balance sheet on 31 December 2007 are as follows:

| The Group | Before Adjustment | Adjustment | After Adjustment |
|----------------------|-------------------|------------|------------------|
| Other payables | 1,407,811 | (3,538) | 1,404,273 |
| Deferred revenue | - | 108,448 | 108,448 |
| Undistributed profit | 106,912 | (93,253) | 13,659 |
| Minority interest | 775,028 | (11,657) | 763,371 |

| The Company | Before Adjustment | Adjustment | After Adjustment |
|----------------------|-------------------|------------|------------------|
| Other payables | 793,331 | (3,538) | 789,793 |
| Deferred revenue | - | 68,431 | 68,431 |
| Undistributed profit | 551,313 | (64,893) | 486,420 |

The affected items in the income statement on 31 December 2007 are as follows:

| The Group | Before Adjustment | Adjustment | After Adjustment |
|---------------|-------------------|------------|------------------|
| Revenue | 13,556,798 | (31,451) | 13,525,347 |
| Cost of sales | 10,594,519 | (3,538) | 10,590,981 |
| Net profit | 708,326 | (27,913) | 680,413 |

| The Company | Before Adjustment | Adjustment | After Adjustment |
|---------------|-------------------|------------|------------------|
| Revenue | 8,416,316 | (19,847) | 8,396,469 |
| Cost of sales | 6,611,698 | (3,538) | 6,608,160 |
| Net profit | 563,123 | (16,309) | 546,814 |

5.Summary of significant accounting policies and accounting estimates

(1)Accounting period

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

(2)Recording currency

The recording currency is Renminbi (RMB)

(3) Basis of measurement

Historical cost measurement is generally adopted unless the use of the fair value, net realizable value, present value and other measurement attributes is specially explained.

(4) Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot exchange rate at the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated at the balance sheet date using the spot exchange rate at the date of the transaction. The impact of the exchange rate movements on the amount of cash are presented separately in the cash flow statement

(5) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises cash in hand and deposits held at call with bank. Cash equivalents refer to short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6) Financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

(a) Receivables

Receivables, including Notes receivable, accounts receivable, interest receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group currently only includes accounts receivable and other receivables. The detailed accounting policy refers to Note 5 (7).

(b) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, related transaction costs are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired, or all substantial risks and rewards of ownership of the financial assets have been transferred to the transferee.

The balances on accounts receivable should be measured by introducing timely and effective exchange rates to amortise costs.

(c) Impairment of financial assets

The Group assesses the carrying amount of a financial asset other than that at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Group shall determine the amount of any impairment loss.

If an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

(7) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognized at fair value by the Group in accordance with the consideration receivable from the buyer under contract or agreement. Receivables are presented at amortised cost using the effective interest method net of provision for bad debts.

Receivables that are individually significant are subject to individual impairment assessment, if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for impairment of the receivable is established at the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

Receivables that are not individually significant together with those receivables that have been individually evaluated for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The impairment losses for the current year are determined, considering the current conditions, on the basis of historical loss experience for the groups of receivables with the similar credit risk characteristics.

(8) Inventories

Inventory comprises mainly aviation consumables, aviation on-board supplies and low value consumables, and. The aviation consumables are presented at planned price, and the difference between planned price and actual cost is considered as 'Materials Cost Variance'. The aviation on-board supplies and low value consumables are recognized at actual cost.

Aviation consumables are initially charged to cost of sales at planned price when put into use. While at month ends, an overall "Materials Cost Variance" is computed, and relevant adjustment will be made to cost of sales accordingly.

Aviation on-board supplies and low value consumables are charged to cost at actual price. Cost of aviation on-board supplies is determined using the weighted average method; whereas low value consumables are amortized in straight-line method, except for uniform, which is amortized in fifty-fifty method.

Provisions for declines in the value of inventories are determined when the carrying value of the inventories is higher than their net realizable value. Generally provisions are accrued on individual basis. However, it is very probable that a great amount of inventories items are of similar nature and usage, and are produced and sold in the same region, making it extremely difficult or inefficient to distinguish the items from one another. In that case, provisions can be accrued collectively. As for inventories of large quantity but lower unit price, the provision can be determined by particular category. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and relevant taxes.

The Group adopts the perpetual inventory system.

(9) Long-term equity investments

Long-term equity investments comprise the Company's equity investments in its subsidiaries, the Group's equity investments in its joint ventures and associates as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured.

(a) Subsidiaries

Subsidiaries are all entities over which the Group is able to control, i.e. has the power to govern the financial and operating policies so as to obtain benefits from their operating activities. The existence and effect of potential voting rights derived from the convertible bonds and warrants that are currently convertible or exercisable are considered when assessing whether the Group has control over the investee entity. The Company accounts for investments in subsidiaries using the cost method in its individual financial statements, and makes the appropriate adjustments using equity method when preparing the consolidated financial statements.

Under the cost method of accounting, long-term equity investments are measured at the initial investment cost. Investment income is recognised when the investees declare cash dividends or profit distribution. Investment income is recognised only to the extent of the distributions received from accumulated profits of the investees arising after the investment was made. Cash dividends or distributions received in excess of such profits are regarded as a recovery of the initial cost of the investments.

(b) Associates

Associates are all entities over which the Group has significant influence on their financial and operating policies.

Investments in associates are initially measured at the actual costs and subsequently accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the excess is included in the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

When using the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has incurred obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standard on contingencies, the Group continues recognising the investment losses and the provision. Under the circumstance that the Group's proportion of shareholding in an investee remains unchanged, the Group shall record directly in capital surplus its share of the changes in the investee's owner's equity other than those arising from net profit or loss. The carrying amount of the investment is reduced by Group's share of the profit or cash dividends declared by an investee. The profits or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment income or losses are recognised. The Loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not allowed to be eliminated.

(c) Other long-term equity investments

Other long-term equity investments where the Group does not have control, joint control or significant influence over the investee, and which are not quoted in an active market and whose fair value cannot be reliably measured are accounted for using the cost method.

(10) Acquisition of minority interest

As for the acquisition of minority interest before 7 August 2008, in the consolidated balance sheet, the assets and liabilities of the subsidiary are reflected as the amount of the continuous account from the acquisition date. The difference between the newly-acquired long-term equity investment and the fair value of the identifiable net assets of the invested company on the acquisition date (recognized according to share percentage held by the Company) are recognized as the goodwill in the consolidated balance sheet. The difference between the newly-acquired long-term equity investment and the identifiable net assets recognized according to new share percentage since the acquisition date, except the goodwill, should be used to adjust the capital surplus in the consolidated balance sheet. If the capital surplus can't afford the difference, then the retained earnings should be adjusted in succession.

As for the acquisition of minority interest after 7 August 2008, in the consolidated balance sheet, the assets and liabilities of the subsidiary are reflected as the amount of the continuous account from the acquisition date. The difference between the newly-acquired long-term equity investment and the identifiable net assets of the invested company (recognized according to share percentage held by the Company) should be used to adjust the capital surplus in the consolidated balance sheet. If the capital surplus can't afford the difference, then the retained earnings should be adjusted in succession.

(11) Investment real estates

The investment real estates refer to the buildings and the land use rights for rent, with initial measurement of cost. The relative subsequent expenditures should be recognized as part of the asset cost when the economic benefits associated with the asset will probably flow to the Group and its cost can be reliably measured, or should be recognized in profit or loss in the period which it is incurred.

The cost model is used for the subsequent measurement.

| | Estimated useful lives | Estimated residual value | Annual Depreciation rate |
|-----------------|------------------------|--------------------------|--------------------------|
| Buildings | 40 years | 5% | 2.375% |
| Land use rights | 50 years | 0% | 2% |

If the use of the investment real estates changes to self-use, the investment real estates should be recognized as the fixed assets or the intangible assets from the change date. If the self-use real estates are used to earn rent or capital gain, the fixed assets or intangible assets should be recognized as the investment real estates from the change date. The book value before changing is taken as the entry value.

When the investment real estates are disposed or perpetually out of commission, and no economic benefits are gained from the disposition, the assets are no longer recognized as the investment real estates.

(12) Fixed assets

Fixed assets comprise plants and buildings, aircrafts and engines, high-price rotatable spares, motor vehicles, and machinery and equipment. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the asset when it is probable that economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised.

All other subsequent expenditures are recognized in profit or loss in the period in which it is incurred.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

| | Estimated useful lives | Estimated residual value | Annual Depreciation rate |
|--------------------------------|------------------------|--------------------------|-----------------------------|
| Plant and buildings | 40 years | 5% | 2.375% |
| Aircraft and engines | 10-20 years | 5% | 4.75% to 9.5% |
| Motor vehicles | 10 years | 5% | 9.5% |
| High-price aviation rotatables | 10-15 years | 5% | 6.33% to 9.5% |
| Machinery and equipment | 8-14 years | 5% | 6.78% to 11.875% |

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted if appropriate at least at each financial year-end.

A fixed asset classified as an asset held for sale is presented at the lower of the carrying amount and the fair value less costs to sell. An excess of the original carrying amount over the fair value less the costs to sell is as accounted for as an asset impairment loss.

The carrying amount of a fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

(13) Construction in progress

Construction in progress is measured at actual cost. The actual cost comprises construction costs and other costs necessarily incurred to bring construction to get ready for its intended use. Borrowing costs that are eligible for capitalization are capitalized as part of the cost of assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month

(14) Intangible assets

Intangible assets here stand for land use rights, which are measured at actual cost.

Land use rights are amortised on the straight-line basis over the period of the land use rights of 40~50 years. If it is impracticable to allocate the amount paid for the purchase of land use rights and buildings between the land use rights and the buildings on a reasonable basis, the entire amount is accounted for as fixed assets.

The estimated useful life and amortization method for an intangible asset with an indefinite useful life is reviewed, and adjusted if appropriate at each financial year-end.

(15) Goodwill

The excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination at the acquisition date should be recognized as goodwill.

(16) Long term prepaid expenses

Long-term prepaid expenses incorporate the direct costs in relation to modifying and certifying certain operating leased or financial leased aircrafts, costs on pilot recruiting and training, expenses on improvement and enhancement of operating leased fixed assets, and assured expenses that the amortization period is over one year. Long term prepaid expenses are amortized on basis of benefit period while they are recorded as net amount in the statement when accumulated amortization is deducted from actual expense.

(17) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with limited operating life, investment real estates under cost measurement, long-term equity investment of associated company, and other non-current assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. A provision for asset Impairment is determined and recognized on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested for impairment annually at least, irrespective of whether there is any indication that the assets may be impaired.

Once an impairment loss of these assets is recognized, it is not allowed to be reversed, even if the value of such asset is recovered in the subsequent periods.

(18) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that necessarily takes a substantial period of time for acquisition and construction to get ready for its intended use are capitalized as part of the cost of the asset only when capital expenditures for the asset and borrowing costs have been incurred, and the activities of acquisition and construction necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current period. Capitalization of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed. Other borrowing costs are recognized as finance expenses during the current period when occurred.

The borrowing costs of the Group which can be directly attributed to purchasing the assets, should be capitalized and included in the cost of related assets.

Other borrowing costs except the above are recognized as the finance expenses when occurred.

During the capitalization period, the Group identified the amount of capitalized interest cost in accordance with each accounting period as the following methods:

(a) The specific borrowings satisfying the requirements of capitalization constructing or production of any qualifying assets are recognized as interest expenses incurred for specific borrowings

Against interest receivables incurred for unused loan or investment income/loss incurred for temporary investment.

(b) On the other hand, the common borrowings satisfying the requirements of capitalization applies the value, which is equal to weighted average of excess assets payout between cumulative assets payout and assets payout of specific borrowings multiplied by capitalization rate of the common borrowings, to calculate the exact value of capitalized interest of the common borrowings. The capitalization rate depends upon the weighted average rate of the common borrowings.

Nevertheless, the total amount of capitalization should not exceed aggregate interest expenses of current borrowings.

(19) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and subsequently stated at amortized costs using the effective interest method. Borrowings that will be repaid within 12 months (12 months included) after the balance sheet date are classified as the short-term borrowings, and the others are the long-term borrowings.

(20) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Employee benefits are recognized as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

(21) Anticipation liabilities

Matters that have occurred lead to assume some current obligations, and the performance is likely to lead to the outflow of its economic interests, when the amount of the obligation can be a reliable measurement, the obligations should be recognized as the anticipation liabilities.

Anticipation liabilities take initial measurement according to the best estimate of performing the current obligations, with relative risk, uncertainty, and the time value of currency, etc. to be considered. If the influence of the time value of currency is powerful, the estimated amount should be confirmed by the present value of the future cash flow. The amount increase in the book value of liabilities because of the discount over time should be recognized as interest expense.

At the balance date, the book value of anticipation liabilities should be checked and adjusted to reflect the best estimation.

(22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax base of assets and liabilities and their carrying amount (temporary differences). The deductible losses that can be carried forward to deduct the taxable profit in subsequent years in accordance with the tax law are regarded as the temporary difference and for which a deferred tax asset is recognized. A deferred tax liability is not recognized for a temporary difference arising from the initial recognition of goodwill. For the temporary differences resulting from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (or deductible loss), the resulting deferred tax assets and deferred tax liabilities are not recognized. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are recognized for deductible temporary differences and deductible losses and tax credits to the extent that it is probable that the Group's future taxable profit will be available against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred tax assets and deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities which meet the following conditions at the same time can be listed as the net amount after offset:

- (a) Deferred tax assets and deferred tax liabilities are related with the same taxpayer and imposed by the same tax administration.
- (b) The Group is entitled to settle its tax assets and tax liabilities with the net amount.

(23) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognized when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

(a) Services

(i) Traffic revenues

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.

(ii) Other sales

Other sales include aircraft leasing income, refund fee income, ground services income, commission income, and other air transport related business income; such income should be confirmed at the time of providing the services. Commission income is the commission collected by the Group's agent for booking tickets of other airlines, which should be confirmed when the tickets are sold.

(b) Frequent flyer bonus

The Group Executive Jinpeng Club Frequent Flyer Reward Flight Plan and club members can use the reward points accumulated for reward flight. According to the Group's frequent flyer reward point's policy, when visitors' accumulated points reach a certain standard, they can exchange for free tickets. The Group adapts the deferred revenue method to the bonus, that is, the tickets revenue deducting the fair value of bonus is recognized as income, the fair value of bonus is recognized as deferred revenue. When customers exchange bonus or the bonus became invalidated, the deferred revenue relative with the bonus exchanged is recognized as income of the Company.

(c) Use by others of enterprise assets

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

Lease income from an operating lease is recognized on a straight-line basis over the period of the lease.

(24) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Assets acquired under operating lease

Operating lease rental income and expenses are recognized into the profit or loss in the current period with the straight-line method over the lease term

(b) Assets leased out under operating lease

Lease rental income is recognized in the straight-line method over the lease term. Leases initial direct costs should be capitalized if the amount is large, and confirmed into the in the current profit or loss in accordance with the same basis as rental income during the lease period; small amount should be recognized directly into the current expenses. Contingent rent should be recognized only when it actually occurs.

(c) Assets acquired under finance lease

The lower between the fair value of the leased asset and the minimum present value of lease payments, should be recognized as the book value of assets recorded, and the difference between the book value and the minimum present value of lease payment is recognized as unconfirmed finance cost and should be amortized by the real interest rate method in the lease term. The balance of minimum lease payments minus the unconfirmed finance cost is recognized as long-term payables in the balance sheet.

(d) Sale-leaseback

If the sale-leaseback is recognized as finance lease, the difference between sale price and book value should be deferred, and amortized as the adjustment of depreciation in accordance with the depreciation process.

If the sale-leaseback is recognized as operating lease, the difference between sale price and book value should be recognized into the current income statement when there is conclusive evidence that the sale- leaseback transaction is reached in accordance with the fair value. If the sale- leaseback transaction isn't reached in accordance with the fair value, the shortfall between the fair vale and the sale price should be recognized as a loss in the current period. But if the loss will be compensated by the shortfall between the sale price and the future lease payment, it should be deferred, and amortized in accordance with rent expenses confirmation during the estimated service life of the assets. If the sale price is higher than fair value, the difference should be deferred and amortized during the estimated service life of the assets.

(25) Daily maintenance and overhaul costs

Daily maintenance and overhaul costs should be recognize in the current income statement when it occurs.

The overhaul costs of the aircraft and engine from purchase and finance lease, which accord with the conditions of fixed assets confirmation, should be regarded as aircraft and engine replacement parts for capitalization, and be depreciated by the straight-line method or by the flight-hour workload method during the expected overhaul period. The estimated costs under the appointed overhaul which occur at the termination of the operating lease should be accrued as overhaul provision by the straight-line method during the lease term. Other overhaul costs should be recognized into the current income statement when they occur.

(26) Government grants

Government grants are monetary or nonmonetary assets acquired without consideration by the Group from the government. Grants from the government are recognised at the amount received or should received when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to revenue should follow the rules: Grants to compensate the Group's related expenses or loss in the following periods should be recognized as deferred revenue, and Included in current profit and loss when the related expenses or loss are recognized. Grants to compensate the Group's past expenses or loss should be recognized directly included in current profit and loss.

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.

(27) Profit distribution

Proposed profit distribution is recognized as a liability in the period in which it is approved by the Board of Directors.

(28) Preparation of consolidated financial statements

The scope of consolidated financial statements includes the Company and its subsidiaries.

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. Significant Inter-company balances, transactions and unrealised gain on transactions between group companies are eliminated. The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interest and presented separately within owners' equity in the consolidated balance sheet.

When preparing the consolidated financial statements, if the accounting policies and the accounting period of a subsidiary are different from those of the Company, the Company will make necessary adjustments to the financial statements of the subsidiary in accordance with the Company's accounting policies.

When preparing the consolidated financial statements, for a subsidiary acquired in a business combination involving enterprises not under common control, its financial statements are adjusted based on the fair value of identifiable net assets at the acquisition date; for a subsidiary acquired in a business combination involving enterprises under common control, the assets, liabilities, operating results and cash flows of the subsidiary are included in the consolidated financial statements from the beginning of the earliest period of the reporting period, as if the business combination had incurred at the beginning of the earliest period of the reporting period. In addition, the subsidiary's

Net profit earned before the acquisition date is separately presented in the consolidated income statement.

(29) Segment reporting

Business segment is the component part of the Group which can be differentiable and provide individual or group of related products or services, and assumes the risks and rewards different from the other component parts. Business segment is the component part of the Group which can be differentiable and provide products or services in a specific economic environment, and assumes the risks and rewards different from the other component parts in other economic environment.

The Group is principally in the provision of passenger transport in China and operates a single business; it is not listed in segment reporting.

(30) The determination of the fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using recent market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, the valuation technique is whenever possible incorporate factors that market participants would consider, and less relies on the Group's entity-specific factors.

(31)Critical accounting estimates and judgments

The Group continually evaluates critical estimates and key assumption based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following significant accounting estimates and the existence of the key assumptions would lead to significant risk factors of adjustments in the book value of assets and liabilities in the next fiscal year:

(a) Accounting estimates of impairment provision of fixed assets

The Group make impairment testing for the fixed assets which show signs of impairment at the end of each year, and the recoverable amount of assets group and portfolio should be determined by the higher between the net values of fair value of assets minus disposal costs and the present value of expected future net cash flow. As the calculation of present value of future cash flows needs judgements and assumptions (note 8 (7)), and if the management revised these judgements and assumptions, the provision amounts for impairment of fixed assets may change.

(b)Accounting estimates of impairment provision of goodwill

The Group make impairment testing for goodwill at the end of each year, and the recoverable amount of goodwill group and portfolio should be determined by the use value The calculation of use value needs judgements and assumptions (note 8 (10)). If the management revised these judgements and assumptions, the provision amounts for impairment of goodwill may change.

(c)Income taxation

Whether to recognize deferred income tax assets generated by the tax losses depends largely on the management's judgement on the possibility if adequate taxable income can be obtained to offset the losses and tax deductions in the future period. Calculation of the amount of future taxable income needs a huge amount of judgments and estimates, and the tax planning strategies and overall economic environment should be taken into account Different judgments and estimates will affect the recognition of deferred income tax assets and the amount.

(d)Depreciation of replacement parts related with aircraft and engine overhaul

The replacement parts, related with aircraft and engine overhaul from purchase and finance lease, are depreciated according to the estimated costs of repair and overhaul of the time interval between the flight hours or flight depreciation cycle, the estimate is based on the same or similar models of the past aircraft and engine overhaul of the flight and carried out by historical experience. Different estimates may affect the amount of depreciation impact current profit and loss.

(e)Overhaul provision for surrender of tenancy of aircraft and engine operating lease

Overhaul provision for surrender of tenancy of aircraft and engine operating lease is the estimated expenses when the lease terminates. This needs to estimate the projected flying hours, flight cycles, and the surrender of tenancy overhaul time interval that may occur when the estimated repair costs. These estimates, to a large extent, depend on the termination experiences of the same or similar aircraft and engine models in the past, the actual cost of the overhaul, as well as the use of aircraft and engine of the historical data. Different judgments or estimates of the surrender of tenancy overhaul are expected to have a major impact on provisions

(f) Fair value of frequent flyer bonus

The fair value of frequent flyer bonus is primarily on the basis of the ticket exchange rate and air ticket price. Ticket exchange rate is estimated based on historical experience and projections for the future, and ticket price is estimated with reference to the average price at the end of the year. The uses of different exchange rates and ticket prices have a significant impact on the fair value of frequent flyer bonus.

6. Taxation

(1) Enterprise income tax

On 16 March 2007, National People's Congress passed the "People's Republic of China Enterprise Income Tax Law" ("New Income Tax Law"), and the new law comes into effect since January 1, 2008. The Company is established in the Special Economic Zone of Hainan Province. After the implementation of the new income tax law, the Company's enterprise income tax rate gradually transit to 25% in 5 years from 2008 to 2012. In current year applicable enterprise income tax rate is 18%.

The rates of enterprise income tax applicable to the Group's main subsidiaries during the current year are set out below:

| Company name | rate | Taxable basis & preference reasons |
|---|------|--|
| Hainan Golden-Deer Aviation Sales Co. Ltd. ("Golden-Deer") | 18% | Special Economic Zone of Hainan Province |
| China Xinhua Airlines Co. Ltd. ("Xinhua Airlines") | 25% | Taxable income |
| Chang'an Airlines Co. Ltd. ("Chang'an Airlines") | 25% | Taxable income |
| Shanxi Airlines Co. Ltd. ("Shanxi Airlines") | 25% | Taxable income |
| Shanxi Chang'an Hainan Aviation Star Hotel Co., Ltd. ("Chang'an Star") | 25% | Taxable income |
| Xi'an Aviation Real Estate Co., Ltd. ("Xi'an Real Estate") | 25% | Taxable income |

(2) Business tax

The applicable corporate tax rates of the Group for the main business income and handling charge income are 3% of main business income and handling charge income. In addition, the applicable corporate tax rate for other operation sales is 5% of other operation sales.

According to the Notice "The airline fuel surcharge to be exempted from business tax" (taxation [2008] 178), issued by the Ministry of Finance and the State Administration of Taxation of Taxation, People's Republic of China on December 29, 2008, since January 1, 2008 until December 31, 2010, it's approved for domestic airlines to collect the fuel surcharge exempt from business tax.

(3) Value added tax

In accordance with relevant state regulations, the imported aircraft and engines, high-price aviation retable, other aviation equipment and aviation equipments sent abroad for maintenance of the Group, are in need for value-added tax on imports, and the approved VAT rates are 4% and 17% respectively.

According to "in 2005 the Ministry of Finance on the operation of international air routes to Hong Kong and Macao routes imported domestic airline maintenance equipment by air to inform the tax issues" (fiscal tariff issued [2004] No. 63), issued by the Ministry of Finance People's Republic of China on December 29, 2004, it is approved that, by the approval of the State Council, since January 1, 2005, the imported aircraft and engine (including parts and components sent to foreign maintenance) used by the domestic airlines on international routes to Hong Kong and Macao routes for maintenance, are exempted from import tariffs and value-added tax on imports.

(4)Tax for maintaining and building cities

The Company and its subsidiary, Golden-Deer, are exempted from tax for maintaining and building cities, and other subsidiaries of the Company enjoy the applicable rate of 7%.

(5)Educational Surcharges

The Company and its subsidiary, Golden-Deer, are exempted from educational surcharges, and other subsidiaries of the Company enjoy the applicable rate of 3% on the basis of taxable business taxes.

7.Subsidiaries

(1)Mergers of non-identical control enterprises and other subsidiaries:

| Name of Investee Company | Place of Registration | Registered Capital | Scope of Business | Share-holding Percent | % voting right held by the Company | |
|--------------------------|-----------------------|--------------------|---|-----------------------|------------------------------------|----------|
| | | | | | Direct | Indirect |
| Golden-Deer | Haikou | RMB 8,000,000 | Transportation and chartered flight agency services | 95% | 95% | - |
| Xinhua Airlines | Beijing | RMB 1,830,000,000 | Approved air passenger and cargo transportation | 60% | - | - |
| Chang'an Airlines | Xi'an | RMB 754,390,000 | Air passenger and cargo transportation in Shanxi province and its surrounding provinces | 87.35% | 87.35% | - |
| Shanxi Airlines (a) | Shanxi | RMB 658,840,000 | Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces | 93.21% | 46.29% | 53.71% |
| Chang'an Star (b) | Xi'an | RMB 25,000,000 | Hotel and catering, commodity, costume sales, typing and other office services. | 100% | - | 100% |
| Xi'an Real Estate ? | Xi'an | RMB 30,000,000 | Development & Sale of real estate; scheme and management for industry & civil construction projects | 100% | - | 100% |

(a) As in March 2008, the Company acquired 3.03% shares of Shanxi Airlines from the third party, Shanxi Aviation Industry Company ("Shanxi Aviation Industry") (note9).

(b) As in January 2008, the subsidiary of the Company, Chang'an Airlines, acquired 20% shares of Chang'an Star from the third party, Chang'an Aviation Industry Company ("Chang'an Aviation Industry") (note9).

(c) As in January 2008, the subsidiary of the Company, Chang'an Airlines, acquired 20% shares of Xi'an Real Estate from the related party, Haihang Hotel Group co. Ltd. ("Haihang Hotel Group") (note9).

(2) Subsidiaries no longer included in the scope of the merger on December 31, 2008:

| Name of the invested organization | Location of Incorporation | Registered Capital | Nature of Business and Scope of Operation | the Company's Share of Equity | | the Company's Share of Equity with voting right | |
|--|------------------------------|-----------------------|--|----------------------------------|----------|--|----------|
| | | | | Direct | Indirect | Direct | Indirect |
| Hainan Airlines VIP Flight Service Co., Ltd. ("VIP Company") (a) | Haikou | USD 1,020,408 | Agency for aircraft charter | 51% | - | 51% | - |
| Beijing Xinhua Air Catering Co., Ltd. ("Xinhua Catering") (b) | Beijing | RMB 120,000,000 | Manufacturing and sales for food and drinks | - | 51% | - | 51% |

(a) On 1 January 2008, the Company transferred all the 51% shares of VIP company (directly owned) to HNA Group (note8 (39) (e)).

(b) On 5 June 2008, the Company transferred all the 51% shares of Xinhua Catering (indirectly owned) to Hainan Haihang Air Catering Holding Co. Ltd. ("Air Catering Holding") (note 8 (39) (e)).

8. Notes to consolidated financial statements

(1) Cash at bank and in hand

| | 31 December 2008 | 31 December 2007 |
|------------------------|------------------|------------------|
| Cash in hand(a) | 859 | 3,757 |
| Cash at bank(a) | 6,002,077 | 7,437,045 |
| Other cash balances(b) | 649,309 | 490,054 |
| Total | 6,652,245 | 7,930,856 |

Net monetary assets that are denominated in the foreign currency are shown as follows:

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|----------------------|------------------|-------------------|----------------------|-------------------|-------------------|
| | Original currency | Exchange Rate | RMB equivalent | Original currency | Exchange Rates | RMB equivalent |
| USD | 98,495 | 6.8346 | 673,174 | 2,338 | 7.3046 | 17,078 |
| EUR | 1,132 | 9.6590 | 10,934 | 697 | 10.6669 | 7,435 |
| KRW | 551,406 | 0.0053 | 2,922 | 2,025,922 | 0.0077 | 15,600 |
| JPY | 8,004 | 0.0757 | 606 | 62,370 | 0.0641 | 3,998 |
| HKD | 401 | 0.8819 | 354 | 669 | 0.9364 | 626 |
| | | | 687,990 | | | 44,737 |

(a) As at 31 December 2008 included 4,247,497 thousand Yuan (31 December 2007: 6,457,779 thousand Yuan) of deposit that was deposited at the HNA Group Finance Co. Ltd. ("Finance Company") (Note 11 (7) (a)).

(b) As at 31 December 2008 the amount of 160,000 thousand Yuan (31 December 2007: 120,000 thousand Yuan) of fixed deposit was pledged by the Group to acquire short-term borrowing of 145,000 thousand Yuan (31 December 2007: 100,000 thousand Yuan) (note 8 (13) (a)). This fixed deposit is typically considered as the restricted deposit.

As at 31 December 2008, 465,643 thousand Yuan (31 December 2007: 370,054 thousand Yuan) of saving was guaranteed as Notes payable deposit with amount of 972,043 thousand Yuan (31 December 2007: 835,696 thousand Yuan) by the Company. This deposit is considered as the restricted category of monetary assets.

As at 31 December 2008, 19,842 thousand Yuan (31 December 2007: nil) of fixed deposit was guaranteed for a short-term borrowing of 18,448 thousand Yuan by the Company (note 8 (13) (a)). This deposit is considered as the restricted category of monetary assets.

As at 31 December 2008, 3,824 thousand Yuan (31 December 2007: nil) as guarantee of other contracts are included in the other cash balance. This deposit is considered as the restricted category of monetary assets.

(2) Accounts receivable and other receivable

(a) Accounts receivable

| | 31 December 2007 | | 31 December 2008 | |
|-------------------------------|------------------|---------------------------|--------------------------|----------|
| Account receivable | 501,922 | | 481,273 | |
| | | Current year additions | Current year reversal | |
| Less: provision for bad debts | (38,063) | (2,751) | 370 | (40,444) |
| | 463,859 | | | 440,829 |

The ageing of accounts receivable and related provisions for bad debts are analysed below:

| | 31 December 2008 | | | 31 December 2007 | | |
|-------------------|------------------|------------|-------------------------|------------------|------------|-------------------------|
| | Amount | Percentage | Provision for bad debts | Amount | Percentage | Provision for bad debts |
| Within one year | 431,547 | 90% | 2,751 | 433,693 | 86% | 2,703 |
| 1-2 years | 6,692 | 1% | 2,703 | 28,296 | 6% | 1,346 |
| 2-3 years | 6,997 | 1% | 1,346 | 7,394 | 2% | 1,698 |
| More than 3 years | 36,037 | 8% | 33,644 | 32,539 | 6% | 32,316 |
| Total | 481,273 | 100% | 40,444 | 501,922 | 100% | 38,063 |

Account receivable is analyzed by customer categories as follows:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|------------------|--------------------|-------------------------|------------|------------------|--------------------|-------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Receivables that are individually significant | 247,909 | 52% | - | - | 427,459 | 85% | 646 | - |
| Receivables not individually significant but with high risk in groups | 34,500 | 7% | 27,084 | 79% | 32,252 | 7% | 32,252 | 100% |
| Others | 198,864 | 41% | 13,360 | 7% | 42,211 | 8% | 5,165 | 12% |
| | 481,273 | 100% | 40,444 | 8% | 501,922 | 100% | 38,063 | 8% |

As at 31 December 2008, no balances (31 December 2007: nil) included in above accounts receivable are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right.

As at 31 December 2008, the aggregate amount of the Group's five largest accounts receivable balances was 269,552 thousand Yuan (31 December 2007: 403,372 thousand Yuan), being 56 % (31 December 2007: 80%) of the total accounts receivable balances, all aged within one year.

The accounts receivable balances aged over one year mainly include unsettled Notes and charter flight. In terms of 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 considered.

The board of the Company regards that accounts receivable without individually significant amount but with high risk in group aged more than three years should make full provision for bad debts in the view of the fact that this type of accounts receivable has long time-period and high recovery risk.

Accounts receivable that are dominated in foreign currencies are shown below:

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|----------------------|------------------|-------------------|----------------------|-------------------|-------------------|
| | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rates | RMB equivalent |
| USD | 110 | 6.8346 | 752 | - | - | - |
| EUR | 70 | 9.6590 | 676 | 111 | 10.6669 | 1,184 |
| HUF | 189,282 | 0.0357 | 6,757 | - | - | - |
| THB | - | - | - | 6,306 | 0.2168 | 1,367 |
| | | | 8,185 | | | 2,551 |

(b) Other receivables

| | 31 December 2007 | | 31 December 2008 | |
|--|------------------|-----------|---------------------------|--------------------------|
| Lease deposit and maintenance reserve of aircraft & engine | | 139,450 | | 13,491 |
| Subscription of aircraft parts | | 235,497 | | 92,312 |
| Others | | 100,330 | | 159,079 |
| | | 475,277 | | 264,882 |
| | | | Current year additions | Current year reversal |
| Less: Provision for bad debts | | (108,625) | (8,725) | 3,036 |
| | | 366,652 | | (114,314) |
| | | | | 150,568 |

Other receivables and corresponding provision for bad debts are analyzed as follows:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|-------------------|------------------|-----------------------|----------------------------|------------|------------------|-----------------------|----------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Within 1 year | 96,079 | 36% | - | - | 226,228 | 48% | - | - |
| 1-2 years | 53,310 | 20% | 9,594 | 18% | 113,966 | 24% | 8,048 | 7% |
| 2-3 years | 15,063 | 6% | 5,738 | 38% | 14,927 | 3% | 379 | 3% |
| More than 3 years | 100,430 | 38% | 98,982 | 99% | 120,156 | 25% | 100,198 | 83% |
| | 264,882 | 100% | 114,314 | 43% | 475,277 | 100% | 108,625 | 22% |

Other receivables are analysed by customer categories as follows:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|------------------|--------------------|-------------------------|------------|------------------|--------------------|-------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Receivables that are individually significant | 114,158 | 43% | 29,242 | 26% | 314,457 | 66% | 36,987 | 12% |
| Receivables not individually significant but with high risk in groups | 80,765 | 31% | 64,902 | 80% | 83,232 | 18% | 65,789 | 79% |
| Others | 69,959 | 26% | 20,170 | 29% | 77,588 | 16% | 5,849 | 8% |
| | 264,882 | 100% | 114,314 | 43% | 475,277 | 100% | 108,625 | 23% |

As at 31 December 2008, no balances (31 December 2007: nil) included in above other receivables are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right.

As at 31 December 2008, the aggregate amount of the Group's five largest other receivables balances were 125,961 thousand Yuan (31 December 2007: 251,356 thousand Yuan), being 47% (31 December 2007: 68%) of the total accounts receivable balances. Thereinto, the balance of aging within one year is 32,391 thousand Yuan, the balance of aging during one to two years is 41,039 thousand Yuan, the balance of aging during two to three years is 13,283 thousand Yuan and the balance of aging over three years is 39,248 thousand Yuan.

Other receivables that are dominated in foreign currency are shown below:

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|-------------------|---------------|----------------|-------------------|----------------|----------------|
| | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rates | RMB equivalent |
| USD | 18,926 | 6.8346 | 129,352 | 43,973 | 7.3046 | 321,205 |

(3) Advances to suppliers

| Aging | 31 December 2008 | | 31 December 2007 | |
|-------------------|------------------|--------------------|------------------|--------------------|
| | Amount | % of total balance | Amount | % of total balance |
| Within 1 year | 231,768 | 85% | 310,319 | 87% |
| 1-2 years | 30,430 | 11% | 9,747 | 3% |
| 2-3 years | 8,642 | 4% | 293 | - |
| More than 3 years | 1,203 | - | 35,149 | 10% |
| | 272,043 | 100% | 355,508 | 100% |

The balances at the year end includes advance to related party -Hainan Haihang Airlines Aviation Import & Export Co., Ltd ("Haihang Import & Export") with a amount of)145,100 thousand Yuan of aircraft parts (Note 11(7)(b)).

As at 31 December 2008, the group did not have any balances which were due to parties having 5% or above shareholdings in the Company (31 December 2007: nil).

The advance to suppliers that is denominated in the foreign currency is shown below:

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|----------------------|------------------|-------------------|----------------------|-------------------|-------------------|
| | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rates | RMB equivalent |
| USD | 9,683 | 6.8346 | 66,179 | 29,296 | 7.3046 | 213,996 |
| EUR | 171 | 9.6590 | 1,652 | 100 | 10.6669 | 1,067 |
| HKD | 24 | 0.8819 | 21 | - | - | - |
| | | | 67,852 | | | 215,063 |

(4) Inventories

| | 31 December 2007 | 31 December 2008 |
|---------------------------------|--------------------------------------|---------------------------|
| Cost - | | |
| Aircraft spare parts | 242,636 | 239,455 |
| Aviation on-board supplies | 8,596 | 8,106 |
| Low cost consumables | 7,084 | 5,643 |
| Others | 8,720 | 7,330 |
| | 267,036 | 260,534 |
| | Current year addition/ (reversal) | Current year write-off |
| Less: provision for impairment- | | |
| Aircraft spare parts | (5,115) | (5,115) |
| Aviation on-board supplies | (83) | - |
| | (5,198) | - |
| | 261,838 | 255,336 |

As at the year ended, there are neither capitalized borrowing costs in the balance of inventories, nor inventories for guarantee.

(5) Long-term equity investments

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Associate (a) | 86,518 | 132,018 |
| Other long-term equity investments (b) | 640,193 | 641,467 |
| | 726,711 | 773,485 |
| Less: Provision for impairment of long-term equity investments (c) | (6,774) | (14,774) |
| | 719,937 | 758,711 |

The Group has no investment abroad and thus the long-term equity investments of the Group are not subject to restriction on conversion into cash or restriction on remittance of investment income.

(a) Associate

| | Place of registration | Business Scope | Registered Capital | Share-holding percentage | % voting right held by the Company | 31 December 2008 | | 2008 | |
|---|-----------------------|--|--------------------|--------------------------|------------------------------------|------------------|-----------------|------------------|------------|
| | | | | | | Total capital | Total liability | Operating income | Net profit |
| Haihang Import & Export | Haikou | Flight equipment and spare parts trading | RMB1,000 万元 | 30% | 30% | 327,037 | 295,918 | 36,430 | 5,694 |
| Hainan Xin Guo Hotel Limited ("Xin Guo Hotel") | Haikou | Hotel operation and management | RMB1 亿元 | 40% | 40% | 275,287 | 62,414 | 31,551 | 391 |
| Xin Da International Transportation Agency Limited ("Xin Da International") | Beijing | International transportation services | USD80 万元 | 49% | 49% | 10,770 | 5,117 | 58,186 | 47 |
| Beijing Vision Advertising Co., Ltd. ("Beijing Vision") | Beijing | Advertising | RMB1,000 万元 | 30% | 30% | 9,756 | 195 | - | 48 |
| Hainan Hansha Technology Training Limited ("Hainan Hansha Training") (*) | Haikou | Aircraft maintenance training and consultation | USD100 万元 | 50% | 25% | 11,954 | 5,751 | 11,844 | 2,366 |
| Beijing Yanjing Hotel Co., Ltd. ("Yanjing Hotel") | Beijing | Hotel operation and management | RMB11,268.9 万元 | 35% | 35% | 775,164 | 664,361 | - | - |
| | | | | | | 1,409,968 | 1,033,756 | 138,011 | 8,546 |

Investment in associates:

| | Initial Investment | Addition/ (write-off) | 31 December 2007 | Net profit/ loss under equity method | Dividend receipts | Other equity movement | 31 December 2008 |
|-------------------------|--------------------|-----------------------|------------------|--------------------------------------|-------------------|-----------------------|------------------|
| Haihang Import & Export | 3,000 | - | 1,710 | 2,191 | - | - | 9,340 |
| Xin Guo Hotel | 15,000 | 25,000 | 156 | 1,172 | - | - | 40,621 |
| Xinda International | 3,312 | - | 23 | 168 | - | - | 2,770 |
| Yanjing Hotel | 11,270 | 39,530 | - | - | - | - | 27,514 |
| Beijing Vision | 3,000 | - | 14 | 16 | - | - | 2,870 |
| Yunnan Xiangpeng (*) | 47,073 | - | - | 4,085 | (48,846) | - | - |
| Hainan Hansa Training | 3,862 | - | 1,443 | (1,902) | - | - | 3,403 |
| | 86,517 | 64,530 | 3,346 | 5,276 | (48,846) | - | 86,518 |

*In 2008, the Group transferred 30.33% shares of Yunnan Xiangpeng to the related company, Grand China, with the price of 48,073 thousand Yuan (book value: 48,846 thousand Yuan). All the purchase fee has been received during this year (note 11 (6) (q)).

(b) Other long-term equity investment

| Investee Company | 31 December 2007 | Current year addition | Current year write-off | 31 December 2008 |
|--|---------------------|--------------------------|---------------------------|---------------------|
| Haikou Meilan | 304,765 | - | - | 304,765 |
| Yangtze River Lease | 45,013 | - | - | 87,327 |
| Hainan Airlines Hotel (Group) Company | 58,161 | - | - | 58,161 |
| China Aviation Information System Company Limited | 17,000 | - | - | 29,860 |
| Grand China Airlines Express Company Limited (“Grand China Express”) | 19,000 | - | - | 19,000 |
| Yangtze River Express Company Limited (‘Yangtze river Express’) | 10,000 | - | - | 10,000 |
| Hainan Meilan Airport Company Limited | 6,906 | - | - | 6,906 |
| Yunnan Shilling Travel Airlines Company Limited (‘Yunnan Shilling’) (note 11 (6) (q)) | 3,610 | - | (3,610) | - |
| Hainan Airlines Tourism Development Co., Ltd | 3,274 | - | (3,274) | - |
| Others | 5,775 | - | (500) | 12,613 |
| | 473,504 | - | (7,384) | 640,193 |

(c) Provision for impairment of long-term equity investments

| | 31 December 2007 | Current year addition | Current year write-off | 31 December 2008 |
|------------------------------------|---------------------|--------------------------|---------------------------|---------------------|
| Other long-term equity investments | | | | |
| Yunnan Shilin (note 11 (6) (q)) | 8,000 | - | (8,000) | - |
| Others | 6,774 | - | - | 6,774 |
| | 14,774 | - | (8,000) | 6,774 |

After verified the financial status of the equity investments, the board of the Company regards that there is no impairment indication for the investments and thus no provision should be considered. (2007: Nil)

(6) Investment properties

| | Plant & Building |
|---|------------------|
| Cost | |
| 31 December 2007 | - |
| Fixed assets transferred in(Note 8(7)) | 164,738 |
| Intangible assets transferred in(Note 9(7)) | 25,814 |
| 31 December 2008 | 190,552 |
| Accumulated depreciation | |
| 31 December 2007 | - |
| Fixed assets transferred in(Note 8(7)) | 10,559 |
| Intangible assets transferred in(Note 9(7)) | 3,270 |
| Increase this year | 4,421 |
| 31 December 2008 | 18,250 |
| Provision for impairment | |
| 31 December 2007 and 31 December 2008 | - |
| Net book value | |
| 31 December 2008 | 172,302 |
| 31 December 2007 | - |

As in 2008, the plants and buildings with the net book value of 154,179 thousand Yuan (cost of 164,738 thousand Yuan) and land use rights with the net book value of 22,544 thousand Yuan (cost of 25,814 thousand Yuan) are changed for lease use by the Group. Since the uses change, those related fixed assets and intangible assets are recognized as investment real estate.

Up to 31 December 2008, included in the net book value of the building is total of 123,749 thousand Yuan (cost of 133,528 thousand Yuan), which property certification have not been obtained, the application of property certification for these building is still in process. According to the legal opinion by the independent legal counsel of the Group, the board of the Company regards that there is no legal obstacles for the Company to get the property certification for theses buildings.

(7)Fixed assets

| | Plant & Building | Aircraft & Engines | High-price rotatable spares | Vehicles | Equipment | Total |
|-------------------------------|---------------------|-----------------------|--------------------------------|----------|-----------|-------------|
| Cost | | | | | | |
| 31 December 2007 | 1,623,680 | 20,890,118 | 2,422,336 | 230,918 | 390,855 | 25,557,907 |
| CIP transferred in(Note 8(8)) | 13,280 | 6,400,172 | - | - | 87 | 6,413,539 |
| Additions (others) | 276 | 962,120 | 224,520 | 20,503 | 22,628 | 1,230,047 |
| Transferred to IRE(Note 8(6)) | (164,738) | - | - | - | - | (164,738) |
| Disposal(note8 (39) (e)) | (43,094) | - | - | (12,835) | (36,208) | (92,137) |
| Decreases (others) | (28,138) | (1,631,599) | (51,419) | (37,093) | (5,358) | (1,753,607) |
| 31 December 2008 | 1,401,266 | 26,620,811 | 2,595,437 | 201,493 | 372,004 | 31,191,011 |
| Accumulated depreciation | | | | | | |
| 31 December 2007 | 236,774 | 4,424,576 | 1,170,735 | 128,672 | 203,132 | 6,163,889 |
| Transferred to IRE(Note 8(6)) | (10,559) | - | - | - | - | (10,559) |
| Additions | 39,401 | 1,207,885 | 196,631 | 16,631 | 36,167 | 1,496,715 |
| Disposal(note8 (39) (e)) | (3,789) | - | - | (3,845) | (13,417) | (21,051) |
| Decreases (others) | (8,097) | (574,470) | (27,265) | (27,534) | (3,955) | (641,321) |
| 31 December 2008 | 253,730 | 5,057,991 | 1,340,101 | 113,924 | 221,927 | 6,987,673 |
| Provision for impairment | | | | | | |
| 31 December 2007 | 28 | - | 16,378 | - | - | 16,406 |
| Additions | - | 480,730 | - | - | - | 480,730 |
| Decreases | (21) | - | - | - | - | (21) |
| 31 December 2008 | 7 | 480,730 | 16,378 | - | - | 497,115 |
| Net book value | | | | | | |
| 31 December 2008 | 1,147,529 | 21,082,090 | 1,238,958 | 87,569 | 150,077 | 23,706,223 |
| 31 December 2007 | 1,386,878 | 16,465,542 | 1,235,223 | 102,246 | 187,723 | 19,377,612 |

(a) In 2008, the Group sale fixed assets to related party with the amount of 6,001 thousand Yuan, refer to Note 11(6) (p).

(b)As at 31 December 2008, the details for fixed assets pledged as security for the Group's bank borrowing refer to the Note8(13)(a)、Note8(22)(a).

(c)Up to 31 December 2008, included in the net book value of the building is total of 130,493 thousand Yuan (31 December 2007: 247,599 thousand Yuan) (cost of165, 483 thousand Yuan), which property certification have not been obtained, the application of property certification for these building is still in process. According to the legal opinion by the independent legal counsel of the Group, the board of the Company regards that there is no legal obstacles for the company to get the property certification for theses buildings.

(d) Up to 31 December 2008, because of the current downturn in the aviation market, the Group make impairment tests with aircrafts and engines. Based on the results of impairment testing, the provision for impairment of D328 aircrafts and engines, a relatively lower operating earnings aircraft model, is recognized with the amount of .RMB480, 730 thousand Yuan according to their recoverable amount. In the calculation of the amount recoverable, the Group compares the asset's future cash flows and present value minus the fair value of net disposal fee.

(e) In 2008, the depreciation charges of 1,430,756 thousand Yuan (2007: 1,237,438 thousand Yuan) has been expensed in direct operating cost, 5,277 thousand Yuan (2007: 5,003 thousand Yuan) in selling expense, 46,209 thousand Yuan (2007: 61,475 thousand Yuan) in administrative expenses.

(f) Up to 31 December 2008, including the net book value of aircraft and engines are total of 7,577,726 thousand Yuan (cost of 10, 029,148 thousand Yuan) (31 December 2007: net book value of 6,232,178 thousand Yuan, cost of 7,375,732 thousand Yuan) held under finance leases (note 10 (1)).

(g) Up to 31 December 2008, there are no fix assets held to be disposed.

(8) Construction in progress

| Items | Budget | 31 December 2007 | Current year additions | Transfer to fixed assets during the current year (Note 8(7)) | Other reductions | 31 December 2008 | Source of Fund | Project investment Percentage |
|--|------------|---------------------|---------------------------|--|---------------------|---------------------|-------------------|-------------------------------------|
| Prepayment for aircraft & Engine | 27,450,840 | 6,407,253 | 7,526,745 | (6,400,172) | - | 7,533,826 | 银行借款 | 78% |
| Beijing Guorui Project (*) | 1,336,798 | - | 1,336,798 | - | - | 1,336,798 | 银行借款 | 100% |
| Basement in Beijing International Airport (Phase I) | 1,542,000 | 461,700 | 258,809 | (87) | (1,435) | 718,987 | 银行借款 | 48% |
| Grand China Mansion(*) | 612,160 | - | 612,160 | - | - | 612,160 | 银行借款 | 100% |
| Basement in Tianzhu Town(Phase III) | 64,764 | 13,219 | 61 | (13,280) | - | - | 自有资金 | 22% |
| Others | | 11,943 | 7,343 | - | (878) | 18,408 | 自有资金 | - |
| Total | | 6,894,115 | 9,741,916 | (6,413,539) | (2,313) | 10,220,179 | | |
| Including:capitalized borrowing costs | | 337,460 | 529,221 | (228,385) | - | 638,296 | | |
| Prepayment for aircraft | | 299,559 | 460,541 | (228,385) | - | 531,715 | | |
| Basement in Beijing International Airport (Phase I) | | 37,901 | 56,520 | - | - | 94,421 | | |
| Grand China Mansion | | - | 12,160 | - | - | 12,160 | | |
| Less: provision for impairment of | | (2,307) | - | - | - | (2,307) | | |
| construction in progress | | 6,891,808 | | | | 10,217,872 | | |

(*)Up to 31 December 2008, these constructions haven't reached the state of putting into use.

Borrowing costs have been capitalized in 2008 at an average interest rate of 6.15% (2007: 6.63 %).

Up to 31 December 2008, the CIP with the book value of 612,160 thousand Yuan are pledged for long-term borrowings, the details refer to note8 (22) (a).

(9)Intangible assets

| | Original cost | 31 December 2007 | Current year additions | Current year deductions by disposal of subsidiaries (note8(39(e))) | Transferred to IRE (note8(6)) | Other current deductions | Current year amortization | 31 December 2008 | Accumulative amortization |
|---|------------------|---------------------|---------------------------|--|-------------------------------------|-----------------------------|------------------------------|---------------------|------------------------------|
| Land use rights | 346,308 | 283,814 | 7,282 | (23,754) | (22,544) | (874) | (6,791) | 237,133 | 109,175 |
| Less: provision for impairment of intangible assets | | (874) | - | - | | 874 | - | - | |
| | | 282,940 | | | | | | 237,133 | |

Up to 31 December 2008, the land use rights with the net book value of 201,794 thousand Yuan (31 December 2007: 6,792 thousand Yuan) (cost of 237,030thousand Yuan (31 December 2007: 211,217 thousand Yuan) are pledged for short-term and long-term borrowings, the details refer to note8 (13) (a) and note8 (22) (a).

Up to 31 December 2008, included in the net book value of the land use rights is total of 19,485 thousand Yuan (cost of 22,494 thousand Yuan), which property certification have not been obtained, the application of property certification for these assets is still in process. According to the legal opinion by the independent legal counsel of the Group, the board of the Company regards that there is no legal obstacles for the company to get the property certification for theses intangible assets.

(10)Goodwill

The goodwill arose from acquisition the following subsidiaries :

| | 31 December 2007 | Addition in current year (Note 9) | Reduction in current year | 31 December 2008 |
|------------------------------------|---------------------|---|------------------------------|---------------------|
| Xinhua Airlines | 68,109 | - | - | 68,109 |
| Chang'an Airlines | 35,127 | - | - | 35,127 |
| Shanxi Airlines | 99,033 | 5,614 | - | 104,647 |
| Chang'an Star | - | 363 | - | 363 |
| Xi'an Real Estate | - | 15 | - | 15 |
| | 202,269 | 5,992 | | 208,261 |
| Less: provision for impairment (a) | (82,877) | (125,384) | - | (208,261) |
| | 119,392 | (119,392) | - | - |

The additions in current year is from the acquisition of 3.03% shares of Shanxi Airlines, 20% shares of Chang'an Star, and 20% shares of Xi'an Real Estate(note9).

At the year ended, the Group takes impairment testing with passenger transportation business asset group of goodwill by discounted future cash flow method. According to the results of the testing, the provision for impairment of goodwill is recognized with the amount of 125,384thousand Yuan (note8 (34)), and the key assumptions used in the testing are as follows:

| | |
|---|----------|
| The annual average passenger growth rate of income levels | 0 - 3% |
| Passenger load factor | 65%-80% |
| utilization rates (hours per day) | 5.6-10.8 |
| Discount rate | 10% |

(11)Long-term prepaid expense

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Pilots training fee | 171,315 | 225,471 |
| Rent of Tianzhu Basis | 13,365 | 14,458 |
| Improvement to fixed assets held under operating leases | 4,167 | 6,994 |
| Others | 65 | 11,213 |
| | 188,912 | 258,136 |

(12)Other long-term assets

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Payment in advance for investment and acquisition of shares (a) | 3,771,639 | 1,424,730 |
| Deferred losses under sale- leaseback transactions | 432,804 | 301,746 |
| Guarantee of aircraft and engine lease | 623,260 | 632,463 |
| Maintenance reserve of aircraft and engine | 369,786 | 286,157 |
| | 5,197,489 | 2,645,096 |

(a)The details of payment in advance for investment are as follows:

(i)In accordance with the agreements, the Company prepaid 829,280 thousand Yuan in August 2007 for 39.14% shares of Bohai International Trust Co., Ltd. (formerly Hebei International Trust and Investment Co., Ltd.), 545,792 thousand Yuan in December 2008 for 30% shares of Beijing Kehang Investment Company("Kehang Investment"), 618,568thousand Yuan in December 2008 for 45% shares of Beijing Yanjing Hotel Company("Yanjing Hotel") to the related company, HNA Hotel Holding Group Co., Ltd. ("HNA Hotel Holdings") (note11(7)(b)). As of December 31, 2008, related to share transfer formalities are being processed.

(ii)In December 2008, according to the agreement, the Company prepaid 1,182,549 thousand Yuan for 65% shares of Kehang Investment to the related company - Yangtze Real Estate Group Co., Ltd. (hereinafter referred to as "Yangtze River real estate") (Note 11 (7) (b)). As of December 31, 2008, related to share transfer formalities are being processed.

(iii) In December 2007, according to the agreement, the Group prepaid 595,450 thousand Yuan for 0.9227% shares of China Merchants Securities Co., Ltd. to the related company - HNA Group (Note 11 (7) (b)). As of December 31, 2008, related to share transfer formalities are being processed.

(13) Borrowing

| | 31 December 2008 | 31 December 2007 |
|------------------------------|------------------|------------------|
| Secured (a) | | |
| - Pledge | 305,500 | 439,831 |
| - Impawn | 1,221,448 | 1,637,191 |
| - Guarantee | 5,263,000 | 2,852,000 |
| - Pledge, impawn & guarantee | 1,010,000 | - |
| Unsecured | 1,220,367 | 36,523 |
| Short-term financing bond | - | 2,500,000 |
| | 9,020,315 | 7,465,545 |

(a) As at 31 December 2008, secured short-term borrowings comprised:

Among the short-term pledge borrowings:

Bank borrowings of 255,500 thousand Yuan secured with pledge by certain buildings with a net book value of RMB 151,681 thousand Yuan (original cost of 185,363 thousand Yuan) (Note 8 (7)) and the intangible assets (original cost of RMB 31,673 thousand Yuan and net book value of 28,092 thousand Yuan) (Note 8 (9)). Bank borrowings of 50,000 thousand Yuan secured with pledge by intangible assets held by the related parties.

Among the short-term impawn borrowings:

Bank borrowings of 1,058,000 thousand Yuan were mortgaged by the investment shares held by the related parties; borrowings of 163,448 thousand Yuan were mortgaged by the Company's fixed deposit in an amount of 179,842 thousand Yuan.

Among the short-term guarantee borrowings:

Bank borrowings of 1,013,000 thousand Yuan were pledged by the Company, 4,170,000 thousand Yuan by the related parties, and 80,000 thousand Yuan by both.

Among the short-term secured borrowings (with pledge, impawn and guarantee):

Bank borrowings of 210,000 thousand Yuan secured with pledge by certain buildings with a net book value of 20,592 thousand Yuan (original cost of 22,494 thousand Yuan) (Note 8 (7)) of the Group and the intangible assets and stock rights (valuation value of 28,255 thousand Yuan) of the related party. Bank borrowings of 450,000 thousand Yuan secured with pledge by 7 engines under purchase agreements of the Company and transition guarantee by the related party. Bank borrowings of 210,000 thousand Yuan secured with impawn by stock rights of the related party and guaranteed by the related party. Bank borrowings of 140,000 thousand Yuan secured with pledge by buildings and intangible assets of related party, with impawn by the stock rights of related party and guaranteed by the Company.

The details of the above short-term borrowings which were pledged by related party refer to Note11 (6) (s).

The weighted average interest rate of short-term borrowings in 2008 is 6.45% per annum (2007: 6.74%); as at 31 December 2008, the USD short-term borrowings were 108,099 thousand dollars (31 December 2007: 91,250 thousand dollars).

(14)Notes Payable

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Trade acceptance Notes (note11 (7) (e)) | 971,335 | 448,725 |
| Bank acceptance Notes | 809,567 | 672,907 |
| | 1,780,902 | 1,121,632 |

As at 31 December 2008, no balances (31 December 2007: nil) included in above notes payable are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right.

The Notes Payable above will all expire within one year.

(15)Accounts Payable

As at 31 December 2008, the balance included in the accounts payable the shareholders of the Company who hold over 5% (including 5%) shares with voting right is 3,071 thousand Yuan(note11 (7) (f)) (31 December 2007: 2,468 thousand Yuan),

As at 31 December 2008, the balance of aging over one year was 330,711 thousand Yuan (31 December 2007: 971,258thousand Yuan), mainly included payables of aviation material, fuel oil fee, take-off and landing charges, catering expenses and maintenance costs, since the Group has the long-term operation relationship ,the balance hasn't been settlement .

The details for the related party balance included in account payable described in Note 11(7) (f).

The accounts payable that is denominated in the foreign currency is shown below:

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|----------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rate | RMB equivalent |
| USD | 161,975 | 6.8346 | 1,107,034 | 52,202 | 7.3046 | 381,315 |

(16)Advances from customers

| | 31 December 2008 | 31 December 2007 |
|-----------------|------------------|------------------|
| Presold tickets | 833,713 | 654,835 |
| Others | 27,202 | 24,891 |
| | 860,915 | 679,726 |

As at 31 December 2008, no balances (31 December 2007: nil) included in above advances from customers are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right.

Advances from customers that are dominated in foreign currencies are shown below :

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|----------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rate | RMB equivalent |
| EUR | 1,021 | 9.6590 | 9,862 | 60 | 10.6669 | 640 |
| USD | 1,378 | 6.8346 | 9,418 | - | - | - |
| KRW | 1,248,128 | 0.0053 | 6,615 | 581,641 | 0.0077 | 4,479 |
| HUF | 156,917 | 0.0357 | 5,602 | - | - | - |
| JPY | 15,406 | 0.0757 | 1,166 | 4,628 | 0.0641 | 297 |
| | | | 32,663 | | | 5,416 |

(17) Employee benefits payable

| | 31 December 2007 | Current year additions | Current year reductions | 31 December 2008 |
|---|---------------------|---------------------------|----------------------------|---------------------|
| Wages and salaries, bonuses, allowances and subsidies | 102,165 | 1,002,380 | (1,048,455) | 56,090 |
| Social security contributions | 6,459 | 95,658 | (75,566) | 26,551 |
| Including: Medical insurance | 2,130 | 33,309 | (26,080) | 9,359 |
| Basic pensions, | 3,452 | 51,544 | (41,136) | 13,860 |
| Unemployment insurance | 342 | 5,074 | (3,983) | 1,433 |
| Work injury insurance | 323 | 3,503 | (2,687) | 1,139 |
| Maternity insurance | 212 | 2,228 | (1,680) | 760 |
| Housing funds | 635 | 47,575 | (23,527) | 24,683 |
| Labor union funds and employee education funds | 11,059 | 22,382 | (1,731) | 31,710 |
| | 120,318 | 1,167,995 | (1,149,279) | 139,034 |

(18) Taxes payable

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Enterprise income tax payable | 13,346 | 9,924 |
| Business tax payable | 61,439 | 76,692 |
| Custom duty payable & Value-added-tax payable | 110,657 | 74,759 |
| Individual income tax payable | 26,641 | 5,442 |
| City maintenance and construction tax payable | 1,232 | 2,117 |
| Housing property tax payable in advance | (11,091) | (15,038) |
| Others | 5,365 | 5,188 |
| | 207,589 | 159,084 |

(19) Dividend payable

The dividend hadn't pay mainly because it's long time since the declare for the dividend payment and the company above hadn't asked for the payment

(20) Other payable

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Payable of building purchase agreement | 795,485 | - |
| Payable of related party and recharge fee | 321,895 | 498,656 |
| Payable of aircraft purchase agreement | 292,636 | 10,890 |
| Airport construction fee (a) | 211,647 | 174,675 |
| Payable of exclusive selling benefits | 128,073 | 110,834 |
| Payable of pilot training fee | 97,516 | 105,073 |
| Payable of civil aviation infrastructure fund (b) | 95,706 | 77,076 |
| Payable of foregift and funds | 79,814 | 118,548 |
| Payable of aviation material maintenance costs | 42,206 | 37,028 |
| Payable of insurance | 31,987 | - |
| Payable of bid benefits for ticket in aircraft | 3,657 | 27,684 |
| Others | 186,020 | 243,809 |
| | 2,286,642 | 1,404,273 |

(a) Airport Construction Fee is the charge to be paid by passengers when they buy air tickets under the Civil Aviation Regulations [2004] No. 109 "About changes in the management of the construction of civil airport charges means the notice, Finance[2004] No. 51, "the Ministry of Finance, the Civil Aviation Administration of Civil Aviation on the reform of the management of the construction of the airport charges management methods, such as notification of the relevant issues "and Accounting [2004] No. 8 issued by the Ministry of Finance on the" management of the construction of civil airport management charges relating to accounting treatment of post-reform provisions " Charge for domestic flights is 50 Yuan per person, and for international flights is 90 Yuan per person. The airport construction fee is reflected separately in the ticket prices, and is collected by the airlines.

(b) Civil construction funds are the balance withheld but not yet paid in accordance with the Ministry of Finance (2004) No. 38 "issued by the Ministry of Finance on the" civil aviation infrastructure construction fund levy the use of Interim Measures for the Administration, "notice". It is calculated based on routes, aircraft, maximum takeoff weight the whole flight, as well as the corresponding mileage charged at the standard calculation, and recognized in the expenses..

As at 31 December 2008, the balance of other payable due to shareholders holding over 5%(including 5%) interest of the Company is 108,315 thousand Yuan (31 December 2007: 314,105 thousand Yuan) (notes 11(7)(g)).

The payable of related party and recharge fee was stated in notes 101(6) (t) and notes 11(7) (g).

As at 31 December 2008, the balance of aging over one year was 236,867 thousand Yuan (31 December 2007: 643,573 thousand Yuan), mainly included the payable of foregift and others, the balance hadn't settled with the agency.

Other payable that are dominated in foreign currencies are shown below :

| | 31 December 2008 | | | 31 December 2007 | | |
|-----|----------------------|------------------|-------------------|----------------------|-------------------|-------------------|
| | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rates | RMB equivalent |
| USD | 2,766 | 6.8346 | 18,905 | 2,184 | 7.3046 | 15,953 |

(21)Current portion of non-current borrowing

| | 31 December 2008 | 31 December 2007 |
|--|------------------|------------------|
| Current portion of non-current borrowing | | |
| Long-term borrowings (note8(22)) | 1,962,174 | 1,518,618 |
| Payable of finance lease (note8(24)) | 594,283 | 554,289 |
| | 2,556,457 | 2,072,907 |

(22)Long-term borrowings

| | 31 December 2008 | 31 December 2007 |
|--------------------------------|------------------|------------------|
| - Guarantee | 1,506,346 | 1,543,046 |
| - Pledge | 9,227,812 | 5,977,109 |
| - Impawn | 1,069,843 | 785,000 |
| - Pledge, Impawn and Guarantee | 7,925,07 | 6,745,880 |
| Unsecured | 483,808 | 4,160 |
| Other | - | 3,949 |
| | 20,212,883 | 15,059,144 |

Minus:Current portion of long-term borrowing (note8(21))

| | | |
|--------------------------------|-------------|-------------|
| - Pledge | (488,346) | (290,000) |
| - Impawn | (572,870) | (434,213) |
| - Guarantee | (300,000) | (244,733) |
| - Pledge, Impawn and Guarantee | (431,167) | (549,672) |
| Unsecured | (169,791) | - |
| | (1,962,174) | (1,518,618) |
| | 18,250,709 | 13,540,526 |

(a)As at 31 December 2008, long-term guaranteed borrowing included:

1,196,346 thousand Yuan was pledged by the related party, and 310,000 thousand Yuan was pledged by the third party banks. The details refer to note11 (6) (s)

Long-term secured bank borrowings:

| Purpose | Loan repayment period | Currency | 31 December 2008 | 31 December 2007 |
|-------------------|-----------------------|----------|------------------|------------------|
| Construction | 2009 | RMB | 310,000 | 310,000 |
| Aircraft purchase | 2009-2021 | RMB | 1,128,000 | 1,160,000 |
| Liquid capital | 2009 | USD | 68,346 | 73,046 |
| | | | 1,506,346 | 1,543,046 |

Long-term pledged bank borrowings:

5,166,268 thousand Yuan secured with pledge by the Group's plants and buildings with a net book value of 106,579 thousand Yuan (original cost of 121,079 thousand Yuan) (Note 8 (7)), aircraft & engine (original cost of 5,412,182 thousand Yuan and net book value of 4,867,246 thousand Yuan (Note 8(7)) and intangible assets (original cost of 121,110 thousand Yuan and net book value of 98,952 thousand Yuan.

4,061,544 thousand Yuan secured with pledge by the Company's 13 B737-800 model aircrafts which the Company plans to purchase but hasn't taken mortgage procedure, 2 B787 model aircrafts, and 6 A319 model aircrafts.

| Purpose | Loan repayment period | Currency | 31 December 2008 | 31 December 2007 |
|----------------------------|-----------------------|----------|------------------|------------------|
| Aircraft purchase | 2009-2022 | RMB | 3,317,894 | 1,270,345 |
| Aircraft purchase | 2009-2023 | USD | 5,034,858 | 4,262,764 |
| Construction | 2009-2021 | RMB | 400,000 | 400,000 |
| Technical equipment import | 2009-2015 | RMB | 431,060 | - |
| Liquid capital | 2009 | RMB | 44,000 | 44,000 |
| | | | 9,227,812 | 5,977,109 |

Long-term impawned bank borrowings:

344,843 thousand Yuan was impawned by the delivery right of 1 B737-800 model aircraft the Company plans to purchase. 725,000 thousand Yuan was impawned by the stock rights of related party.

| Purpose | Loan repayment period | Currency | 31 December 2008 | 31 December 2007 |
|-------------------------|-----------------------|----------|------------------|------------------|
| Aircraft parts purchase | 2009-2011 | RMB | 725,000 | 625,000 |
| Aircraft purchase | 2009-2011 | USD | 344,843 | - |
| Liquid capital | 2008 | RMB | - | 160,000 |
| | | | 1,069,843 | 785,000 |

Long-term borrowings with pledge, impawn and guarantee :

7,614,605 thousand Yuan were pledged by the aircrafts and engines of the Company with a net book value of 5,832,439 thousand Yuan (original cost of 7,315,072 thousand Yuan) (Note 8 (7)), plants and buildings of the Group with a net book value of 591,598 thousand Yuan (original cost of 719,274 thousand Yuan) (Note 8 (7)), intangible assets of the Group (original cost of 84,248 thousand Yuan and net book value of 74,750 thousand Yuan) (Note 8 (9)), and CIP of the Company with the book value of 612,160 thousand Yuan (Note 8 (8)), impawned by the stock rights of the Company's subsidiaries and other stock rights held by related parties, and guaranteed by the related parties.

310,469 thousand Yuan were pledged by 10 ERJ and 1 B737-800 model aircrafts which the Group plan to purchase but haven't take the mortgage procedure and guaranteed by HNA Group.

| Purpose | Loan repayment period | Currency | 31 December 2008 | 31 December 2007 |
|--------------------|-----------------------|----------|------------------|------------------|
| Aircraft purchase | 2009-2023 | RMB | 3,211,681 | 3,732,999 |
| Aircraft purchase | 2009-2021 | USD | 4,162,818 | 2,730,732 |
| Plant purchase | 2009-2018 | RMB | 293,594 | - |
| Simulator purchase | 2009-2035 | USD | 256,981 | 282,149 |
| | | | 7,925,074 | 6,745,880 |

The details of the above long-term borrowing which were pledged by related party refer to Note 11 (6) (s).

Long-term borrowings listed by bank :

| | 31 December 2008 | 31 December 2007 |
|----------------------------|------------------|------------------|
| The four major state banks | 4,350,929 | 4,173,440 |
| Other domestic banks | 13,316,493 | 8,771,594 |
| Foreign banks | 583,287 | 595,492 |
| | 18,250,709 | 13,540,526 |

Long-term borrowings are repayable as follow :

| | 31 December 2008 | 31 December 2007 |
|----------------------|------------------|------------------|
| Between 1 to 2 years | 2,405,970 | 2,096,625 |
| Between 2 to 5 years | 6,860,823 | 5,396,901 |
| Over 5 years | 8,983,916 | 6,047,000 |
| | 18,250,709 | 13,540,526 |

The weighted average interest rate of long-term borrowings in 2008 is 6.12% per annum (2007: 6.61%).

As at 31 December 2008, long-term borrowings included USD borrowing which amount was 1,246,435 thousand dollars (31 December 2007: 1,006,036 thousand dollars).

(23)Deferred revenue

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Unrealized gains from sale- leaseback (a) | 73,162 | - |
| Frequent flyer bonus(b) | 152,520 | 108,448 |
| | 225,682 | 108,448 |

(a) Unrealized gains from sale- leaseback

The items mainly refer to the difference between the sale price and the book value of the aircrafts sold, and they are amortized during the depreciation period of the assets under finance sale-leaseback.

| | 2008 | 2007 |
|-----------------------|----------|------|
| 1 January | - | - |
| Current additions | 83,530 | - |
| Current amortizations | (10,368) | - |
| 31 December | 73,162 | - |

Additions in this year are from the sale-leaseback transactions between Xinhua Airlines and two separate leasing companies, the Far East International Leasing Co., Ltd. and Jiangsu Financial Leasing Co., Ltd. , with B2578 and B2908 as transaction subjects respectively.

(b) Frequent flyer bonus

| | 2008 | 2007 |
|--------------------|----------|----------|
| 1 January | 108,448 | 76,995 |
| Current additions | 69,356 | 54,283 |
| Current deductions | (25,284) | (22,830) |
| 31 December | 152,520 | 108,448 |

(24)Long-term payable

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Present vale of the minimum payments for finance lease (Note 10 (2)). | 2,475,115 | 2,398,851 |
| Less: current portion of long-term payable (Note 8 (21)). | (594,283) | (554,289) |
| | 1,880,832 | 1,844,562 |

Long-term payables are repayable as follows:

| | 31 December 2008 | 31 December 2007 |
|----------------------|------------------|------------------|
| Between 1 to 2 years | 444,327 | 446,714 |
| Between 2 to 5 years | 989,694 | 627,087 |
| Over 5 years | 446,811 | 770,761 |
| | 1,880,832 | 1,844,562 |

As at 31 December 2008, the USD balance included in the long-term payable was 151,519 thousand dollars (31 December 2007: 187,482 thousand dollars).

(25) Other non-current liabilities

Other non-current liabilities are payable import tariffs and value-added tax of aircrafts and engine, and the Group should be paid when the Group pays the rent fee of the finance lease to foreign companies in the future.

(26) Deferred tax assets

| | 31 December 2008 | | 31 December 2007 | |
|--------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|
| | Deferred tax assets | Deductible temporary difference | Deferred tax assets | Deductible temporary difference |
| Provision for asset impairment | - | - | 52,149 | 208,595 |

Because the Company and its subsidiaries can't gain sufficient future taxable profits to offset the losses in the next periods, the Group can not recognize relative deferred tax assets of 560,637 thousand Yuan (31 December 2007: 24,515 thousand Yuan) according to the deductible loss of 812,688 thousand Yuan (31 December 2007: 125,971 thousand Yuan) and deductible temporary differences of 1,429,860 thousand Yuan (31 December 2007: 634,645 thousand Yuan), and reverse deferred tax assets of 51,901 thousand Yuan confirmed last year (note 8 (37)). The above-mentioned loss of 812,688 thousand Yuan (December 31, 2007: 46,353 thousand Yuan) can be offset by the amount of taxable income before 2013.

(27) Share Capital

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Shares with restriction on disposals – | | |
| Others | 2,123,040 | 2,123,040 |
| Shares without restriction on disposals – | | |
| PRC public shares | 1,222,490 | 1,222,490 |
| Domestically listed foreign shares | 184,723 | 184,723 |
| Subtotal | 1,407,213 | 1,407,213 |
| Total | 3,530,253 | 3,530,253 |

Details of sale limit conditions refer to Note 1.

(28)Capital surplus

| | 31 December 2007 | Current year additions | Current year reductions | 31 December 2008 |
|--|---------------------|---------------------------|----------------------------|---------------------|
| Capital premium | 3,823,150 | - | - | 3,823,150 |
| Other capital surplus | | | | |
| Long-term investment under equity method of accounting | 1,850 | - | - | 1,850 |
| Transfer from the balance of capital surplus recognized under previous accounting system | 29,143 | - | - | 29,143 |
| | 3,854,143 | - | - | 3,854,143 |

| | 31 December 2006 | Current year additions | Current year reductions | 31 December 2007 |
|--|---------------------|---------------------------|----------------------------|---------------------|
| Capital premium | 3,823,150 | - | - | 3,823,150 |
| Other capital surplus | | | | |
| Long-term investment under equity method of accounting | 2,608 | - | (758) | 1,850 |
| Transfer from the balance of capital surplus recognized under previous accounting system | 29,143 | - | - | 29,143 |
| | 3,854,901 | - | (758) | 3,854,143 |

Transfer from the balance of capital surplus recognized under previous accounting system included related party price differences and aviation material of donation.

(29)Surplus reserve

| | 31 December 2007 | Current year additions | Current year utilized | 31 December 2008 |
|--------------|---------------------|---------------------------|--------------------------|---------------------|
| Reserve fund | 169,098 | - | - | 169,098 |
| | | | | |
| | 31 December 2006 | Current year additions | Current year utilized | 31 December 2007 |
| Reserve fund | 169,098 | - | - | 169,098 |

According to the Articles of Association of the Company and the Company Law of PRC, the Company has to appropriate 10% of its net

profit after making good of the deficit of prior years to the statutory surplus reserve, until where the reserve balance has reached 50% of the paid in share capital of the Company. With the approval obtained from the relevant government authorities, the statutory surplus reserve can be utilized to offset any deficit or to increase the share capital of the Company, provided that the remaining balance of the reserve, after such utilizations, does not fall below 25% of the issued share capital balance.

During the year 2008, the Company didn't appropriate statutory surplus reserve out of its net profits (2007: Nil).

(30)Minority Interests

The minority interests contribute to the subsidiaries shown as follow:

| | 31 December 2008 | 31 December 2007 |
|---------------------|------------------|------------------|
| Xinhua Airlines | 480,272 | 632,929 |
| Chang'an Airlines | 37,684 | 50,116 |
| Golden-Deer | 5,982 | 5,982 |
| Shanxi Airlines | - | 18,058 |
| HNA VIP | - | (14,949) |
| Xinhua Air Catering | - | 60,613 |
| Chang'an Star | - | 4,636 |
| Xi'an Real Estate | - | 5,986 |
| | 523,938 | 763,371 |

(31)Revenue and cost of sales

| | 2008 | 2007 |
|-------------------|------------|------------|
| Revenue (a) | 12,235,326 | 12,788,847 |
| Other revenue (b) | 1,316,335 | 736,500 |
| | 13,551,661 | 13,525,347 |

(a)Revenue from main operations and cost of goods sold

| | 2008 | | 2007 | |
|---|------------|------------|------------|------------|
| | Revenue | Cost | Revenue | Cost |
| Passenger revenue | 11,147,894 | 10,743,035 | 11,225,067 | 8,937,302 |
| Cargo and Excessive weight of luggage revenue | 397,663 | 385,822 | 354,056 | 286,556 |
| Charter flight revenue | 663,474 | 639,199 | 1,180,394 | 953,535 |
| Income from the sale of mileage points | 11,076 | - | 4,529 | - |
| Catering revenue | 15,219 | 30,140 | 24,801 | 13,820 |
| | 12,235,326 | 11,798,196 | 12,788,847 | 10,191,213 |

The sales to the Group's top five customers were amounting to 7,449,942 thousand Yuan (2007: 7,400,377 thousand Yuan), account for 55% of the Group's total sales (2007: 55%).

In 2008, according to the agreement between the Group and Hainan Baixiang Company Limited ("Hainan Baixiang"), the third party, the Group contracted out most of its domestic cargo and mail service to Hainan Baixiang at a price of 305,350 thousand Yuan (2007: 485,350).

(b) Other revenue and cost

| | 2008 | | 2007 | |
|---|-----------|---------|---------|---------|
| | Revenue | Cost | Revenue | Cost |
| Rental on lease of aircraft (Note 11(6)(h)) | 1,062,430 | 673,966 | 549,421 | 348,532 |
| Ticket refund incomes | 61,753 | - | 52,754 | - |
| Ground service incomes | 36,110 | 19,786 | 29,483 | 13,674 |
| Commission incomes | 13,928 | - | 4,231 | - |
| Rental on lease of pilots | - | - | 31,083 | 31,083 |
| Others | 142,114 | 24,193 | 69,528 | 6,479 |
| | 1,316,335 | 717,945 | 736,500 | 399,768 |

The borrowing interest cost of 466,715 thousand Yuan (2007: 241,355 thousand Yuan) coming from the aircraft rental and purchase is excluded in the aircraft leasing costs above, and this part of interest cost is included in the finance expenses.

(32) Tax and levies on operations

| | 2008 | 2007 |
|---------------------------------------|---------|---------|
| Business tax | 370,325 | 413,231 |
| City maintenance and construction tax | 9,083 | 10,008 |
| Educational surcharge | 4,515 | 4,994 |
| Others | 343 | 787 |
| | 384,266 | 429,020 |

(33) Finance expenses-net

| | 2008 | 2007 |
|-----------------------|-----------|-----------|
| Interest expenses | 1,356,434 | 1,297,596 |
| Less: interest income | (240,477) | (121,010) |
| Net exchange gains | (524,585) | (389,072) |
| Others | 56,855 | 23,973 |
| | 648,227 | 811,487 |

The details of interests from the related party refer to Note 11(6) (i).

(34) Impairment losses

| | 2008 | 2007 |
|---|---------|-------|
| Provision for bad debts | 9,476 | 7,306 |
| Impairment losses for goodwill (Note8(10)) | 125,384 | - |
| Impairment losses for fixed assets (Note8(7)) | 480,730 | - |
| Impairment losses for CIP | - | 840 |
| | 615,590 | 8,146 |

(35) Investment income

| | 2008 | 2007 |
|--|--------|--------|
| Share of profit of investees under equity method of accounting | 3,346 | 5,276 |
| Profit/ cash dividends declared by investees under cost method of accounting | 7,221 | 6,417 |
| Income on disposal of long-term equity investments | 21,535 | 1,523 |
| | 32,102 | 13,216 |

(36) Non-operating income and expenses

(a) Non-operating income

| | 2008 | 2007 |
|----------------------------------|---------|---------|
| Government grant | 138,974 | 43,129 |
| Gain on disposal of fixed assets | 4,843 | 3,720 |
| Others | 16,520 | 84,497 |
| | 160,337 | 131,346 |

Government grant mainly includes 20,881 thousand Yuan of flight root subsidy from CAAC, and 118,093 thousand Yuan of fiscal incentives and tax discount from local government.

The Group received the subsidy for adding flight course from the local government.

(b) Non-operating costs

| | 2008 | 2007 |
|----------------------------------|--------|-------|
| Loss on disposal of fixed assets | 11,750 | 1,934 |
| Others | 1,258 | 3,448 |
| | 13,008 | 5,382 |

(37)Income tax expenses

| | 2008 | 2007 |
|---------------------|--------|----------|
| Current income tax | 294 | 15,571 |
| Deferred income tax | 51,901 | (10,553) |
| | 52,195 | 5,018 |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weight average tax rate applicable to profit of the consolidated entities as follows:

| | 2008 | 2007 |
|---|-------------|-----------|
| Profit before income tax | (1,536,210) | 685,431 |
| Tax calculated at applicable tax rate | (257,529) | 102,815 |
| Effect of different applicable rates of subsidiaries | (37,377) | 24,371 |
| Effect of change in tax rate due to issuance of new CIT law | - | (3,752) |
| Expenses not deductible for tax purpose | 5,020 | 31,693 |
| Tax-free incomes | (2,072) | - |
| Tax losses not recognised as deferred tax asset in the previous years | - | (150,109) |
| Tax losses not recognised as deferred tax asset this year | 166,306 | - |
| Reverse of deferred tax asset in the previous years (*) | 50,560 | - |
| Deductible temporary difference of deferred tax assets this year | 127,287 | - |
| Income tax expenses | 52,195 | 5,018 |

(*) Within 52,149 thousand Yuan of deferred income tax assets (Note 8 (26)) recognized in the previous year, 51,901 thousand Yuan is reversed this year, and 248 thousand Yuan is transferred out due to the disposal of a subsidiary -s Xinhua Aviation Catering (Note 8 (39) (e)) .

(38)Earnings per share

(a)Earnings per share - basic (RMB Yuan)

Basic earning's per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2008 | 2007 |
|---|-------------|-----------|
| Consolidated profit attributable to shareholders of the Company | (1,424,348) | 626,855 |
| Weighted average number of ordinary shares in issue | 3,530,253 | 3,530,253 |
| Basic earnings per share | (0.40) | 0.17 |

(b)Earnings per share- diluted (RMB Yuan)

The Company had not potential dilutive outstanding equity instruments issued as at 31 December 2008 (31 December 2007: Nil), accordingly the diluted earnings per share are the same as basic ones.

(39) Notes to consolidated cash flow statements

(a) Reconciliation from the net profit to the cash flows from operating activities

| | 2008 | 2007 |
|--|-------------|-----------|
| Net profit | (1,588,405) | 680,413 |
| Add: Provisions for assets impairment | 615,590 | 7,512 |
| Depreciation of fixed assets (Note 8(7)) | 1,496,715 | 1,319,609 |
| Depreciation of IRE (Note 8(6)) | 4,421 | - |
| Amortization of intangible assets (Note 8(9)) | 6,791 | 9,667 |
| Amortization of long-term prepaid expenses | 113,307 | 123,370 |
| Amortization of other long-term assets | 57,954 | 45,713 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | 6,907 | (1,786) |
| Finance expenses | 591,372 | 573,762 |
| Investment incomes | (32,102) | (13,216) |
| Decrease in deferred tax assets | 51,901 | (10,553) |
| Increase in deferred revenue | 33,704 | 20,051 |
| Decrease in inventories | 4,547 | 34,981 |
| Decrease in operating receivables | 37,363 | 491,782 |
| Increase in operating payables | 2,295,695 | (372,199) |
| Net cash flows from operating activities | 3,695,760 | 2,909,106 |

(b) Investing and financing activities that do not involve cash receipts and payments

| | 2008 | 2007 |
|---------------|---------|---------|
| Finance lease | 746,910 | 514,469 |

(c) Net increase / (decrease) in cash and cash equivalents

| | 2008 | 2007 |
|---|-------------|-------------|
| Cash at end of year | 859 | 3,757 |
| Less: cash at beginning of year | (3,757) | (945) |
| Add: cash equivalents at end of year | 6,002,077 | 7,437,045 |
| Less: cash equivalents at beginning of year | (7,437,045) | (8,255,226) |
| Net increase in cash and cash equivalents | (1,437,866) | (815,369) |

(d) cash and cash equivalents

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Cash at bank and in hand | | |
| - Cash in hand | 859 | 3,757 |
| - Cash in bank | 6,002,077 | 7,437,045 |
| - Other | 649,309 | 490,054 |
| | 6,652,245 | 7,930,856 |
| Less: restricted cash at bank (Note8 (1)) | (649,309) | (490,054) |
| Cash and cash equivalents at end of year | 6,002,936 | 7,440,802 |

(e) Disposal of subsidiaries

As at 1 January 2008, the Company transferred 51% shares of VIP Company to related party-HNA Group; as at 5 June 2008, the Company transferred 51% shares of Xinhua Aviation Catering to related party-Aviation Catering Holdings. Related information on the disposal date is listed as follows:

| | VIP Company | Xinhua Aviation Catering | Total |
|--|----------------|-----------------------------|---------|
| Disposal price | 4,330 | 70,601 | 74,931 |
| Cash and cash equivalents from disposal | 4,330 | 70,601 | 74,931 |
| less: Cash and cash equivalents held by the disposed companies | (12) | (6,289) | (6,301) |
| Net cash received from disposal | 4,318 | 64,312 | 68,630 |

| | On the disposal date | | 31 December 2007 | |
|---------------------------------|----------------------|-----------------------------|------------------|-----------------------------|
| Net assets | VIP Company | Xinhua Aviation Catering | VIP Company | Xinhua Aviation Catering |
| Cash at bank and on hand | 12 | 6,289 | 12 | 46,219 |
| Accounts receivable | 2,178 | 65,939 | 2,178 | 29,866 |
| Other current assets | - | 2,479 | - | 2,229 |
| Fixed assets (note8 (7)) | - | 71,086 | - | 73,272 |
| Intangible assets | - | 23,754 | - | 24,472 |
| Deferred tax assets(note8 (37)) | - | 248 | - | 248 |
| Other non-current assets | 3,076 | - | 3,076 | 54 |
| borrowings | - | (15,000) | - | (25,000) |
| Accounts payable | (31,615) | (26,270) | (31,615) | (22,677) |
| Other current liabilities | - | 1,002 | - | (653) |
| Non-current liabilities | (4,160) | - | (4,160) | - |
| | (30,509) | 129,527 | (30,509) | 128,030 |

The income, expense and profit of Xinhua Aviation Catering form 1 January 2008 to the disposal date are listed as follows:

| | Amount |
|---------------------------|----------|
| Income | 34,101 |
| Less: cost and expense | (32,165) |
| Total profit | 1,936 |
| Less: income tax expenses | (439) |
| Net profit | 1,497 |

(f)Cash paid relating to other operating activities

In the cash flow statement, cash paid relating to other operating activities comprises:

| | 2008 | 2007 |
|---|-----------|-----------|
| Deposits for bills payable, borrowings and others | 649,309 | 356,459 |
| Agency fees | 208,364 | 251,881 |
| Airport construction fee | 176,761 | 174,675 |
| Computer reservation expenses | 141,137 | 123,748 |
| Deposits for operating aircraft leases | 112,471 | 103,947 |
| Expenses for office representative | 54,173 | 36,634 |
| Rental | 41,493 | 22,781 |
| Administrative | 41,923 | 54,281 |
| Advertising | 37,588 | 27,521 |
| Others | 273,637 | 247,044 |
| | 1,736,856 | 1,398,971 |

9.Acquisition of minority interests

In March 2008, the Company acquired the 3.03% shares of Shanxi Airlines-one of its subsidiaries from Shanxi Airline Industry Co., Ltd-minority shareholder of Shanxi Airlines with the cost of 23,971 thousand Yuan, after which the share percentage of Shanxi Airlines directly and indirectly owned by the Company arises from 96.97% to 100% .

In January 2008, the subsidiary of the Company-Chang'an Airlines acquired the 20% shares of Chang'an Star-one of its subsidiaries from Chang'an Airlines Industry Co., Ltd-minority shareholder of Chang'an Star with the cost of 5,000 thousand Yuan, after which the share percentage of Chang'an Star indirectly owned by the Company through Chang'an Airlines arises from 80% to 100% .

In January 2008, the subsidiary of the Company-Chang'an Airlines acquired the 20% shares of Xi'an Real Estate-one of its subsidiaries from Haihang Hotel Group-minority shareholder of Xi'an Real Estate with the cost of 6,000 thousand Yuan, after which the share percentage of Xi'an Real Estate indirectly owned by the Company through Chang'an Airlines arises from 80% to 100% .

| | Shanxi Airlines | Chang'an Star | Xi'an Real Estate | Total |
|--|-----------------|---------------|-------------------|----------|
| Purchase consideration | | | | |
| paid by cash | 23,971 | 5,000 | 6,000 | 34,971 |
| Less: the share acquired of the fair value of the identifiable net assets | (18,357) | (4,637) | (5,985) | (28,979) |
| Goodwill | 5,614 | 363 | 15 | 5,992 |
| Purchase consideration | | | | |
| paid by cash | 23,971 | 5,000 | 6,000 | 34,971 |
| Less: share of net assets of the subsidiary is calculated based on the % of equity granted on the transaction date | (18,357) | (4,637) | (5,985) | (28,979) |
| Goodwill | (5,614) | (363) | (15) | (5,992) |
| | - | - | - | - |

10. Lease

(1) Financial leased assets

| | Aircraft | Engines | High-price rotatable spares | Others | Total |
|--------------------------|-----------|---------|--------------------------------|--------|------------|
| Cost | | | | | |
| 31 December 2008 | 9,738,215 | 290,933 | - | - | 10,029,148 |
| 31 December 2007 | 6,878,859 | 290,560 | 205,071 | 1,242 | 7,375,732 |
| Accumulated depreciation | | | | | |
| 31 December 2008 | 2,418,378 | 33,044 | - | - | 2,451,422 |
| 31 December 2007 | 1,111,143 | 13,779 | 18,308 | 324 | 1,143,554 |
| Net book amount | | | | | |
| 31 December 2008 | 7,319,837 | 257,889 | - | - | 7,577,726 |
| 31 December 2007 | 5,767,716 | 276,781 | 186,763 | 918 | 6,232,178 |

(2) Minimum lease payments

The minimum lease payments of future rental disclosures as Long-term payables are summarized as below:

| | 31 December 2008 | 31 December 2007 |
|-----------------------------------|------------------|------------------|
| Within 1 year | 684,174 | 633,764 |
| Between 1 and 2 years | 504,252 | 492,590 |
| Between 2 and 3 years | 372,995 | 313,028 |
| Over 3 years | 1,352,101 | 1,574,415 |
| | 2,913,522 | 3,013,797 |
| Less: Unrecognised finance charge | (438,407) | (614,946) |
| | 2,475,115 | 2,398,851 |

11. Related Party Relationship and Transactions

(1) Parent companies and subsidiary company

Please refer to Notes 7 for subsidiary companies' basic condition and information.

(2) General information of the parent company.

The parent company of group is Grand China Airlines Company located at Haikou. The nature of its transactions is transportation.

(3) Parent company's registered capital (RMB Yuan)

| | 31 December 2007 | Additions in this year | Reduction in this year | 31 December 2008 |
|--------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Grand china airlines Co., Ltd. | RMB3,689,795,600 | - | - | RMB3,689,795,600 |

(4) The proportion of share stock and voting rights in the Company held by the parent company

| | 31 December 2007 | | 31 December 2008 | |
|-------------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | Share stock proportion | Voting rights proportion | Share stock proportion | Voting rights proportion |
| Grand china airlines Co., Ltd | 48.62% | 48.62% | 48.62% | 48.62% |

(5)The nature of related parties without control relationship

| Related parties | Relationship |
|---|--|
| HNA Group Company Co., Ltd. | Shareholder of the company and Grand china airlines Co., Ltd |
| Haikou Meilan | Shareholder of the company |
| Changing Leasing Co., Ltd | Shareholder of the company |
| Beijing Yanjing Hotel | Associated company |
| Hainan Aviation Import & Export Trade Company Limited | Associated company |
| Yangtze River Real Estate Group (Yangtze River Real Estate) | Associated company |
| Yangtze Leasing Co., Ltd | Associated company |
| Grand China Airlines Express Company Limited | Associated company |
| Hainan Meiya Industry Co., Ltd (Hainan Meiya) | Associated company's subsidiary company |
| Yunnan Xiangpeng Aviation Company Limited | Under Grand China control both |
| Hong Kong Airlines Co., Ltd ("Hong Kong Airlines") | Parent company's associated company |
| Hong Kong Airlines Express("Hong Kong Express") | Parent company's associated company |
| Western Airlines Co., Ltd ("Western Airlines") | Parent company's associated company |
| Hainan Pacific Oil Industry Co., Ltd(Hainan Pacific Oil) | Parent company's associated company |
| HNA Group Finance Co., Ltd | Under HNA Group control |
| Haihang Hotel(Group) Co., Ltd(Haihang Hotel) | Under HNA Group control |

| Related parties | Relationship |
|--|-------------------------|
| Haihang Industry Co., Ltd. ("Haihang Industry") | Under HNA Group control |
| Hainan Airlines Catering Company Limited (Hainan Airlines Catering) | Under HNA Group control |
| Hainan Jiahui Investment Company Limited (Hainan Jiahui) | Under HNA Group control |
| Hainan Meilan Airport Company Limited (Meilan Airport) | Under HNA Group control |
| Haikou High-Tech Venture Capital Company Limited (Haikou High-Tech) | Under HNA Group control |
| Hainan Import&Export Trade Company Limited | Under HNA Group control |
| Deer Jet Co., Ltd | Under HNA Group control |
| Sanya Phoenix International Airport Company Limited | Under HNA Group control |
| Yangtze River express Company Limited | Under HNA Group control |
| Yangtze River Investment Holding Company Limited | Under HNA Group control |
| Guoyin Finance Leasing Co. Ltd.(formerly Shenzhen Finance leasing Co., Ltd(Shenzhen Finance Leasing)("Guoyin Lease") (*) | Under HNA Group control |
| Northwest Haihang Real Estate Group (formerly Xi'an Minsheng Real Estate Co., Ltd(Xi'an Minsheng) ("Northwest Haihang Real Estate") | Under HNA Group control |
| Beijing Kehang Investment Company Limited(Beijing Kehang) | Under HNA Group control |
| Beijing Huoli Huanxiang Commercial Co., Ltd(Huoli Huanxiang) | Under HNA Group control |
| Hainan Yuhong Trade development Company Limited(Hainan Yuhong) | Under HNA Group control |
| Hainan Airline Catering Holding Co., Ltd(Catering Holding) | Under HNA Group control |
| Haihang Travel Holding | Under HNA Group control |
| Haihang Henghe Property Management Co., Ltd(Henghe Property Management) | Under HNA Group control |
| Hainan Tonghui Insurance Agency Co., Ltd(Hainan Tonghui) | Under HNA Group control |
| Haihang Hotel Holding | Under HNA Group control |
| Xinhua Aviation Catering | Under HNA Group control |
| Haihang Safe Car-rental Company ("Haihang Safe") | Under HNA Group control |

(*) As in 2008, after HNA Group transferred some shares of Guoyin Lease to China Development Bank and Guoyin Lease increased its registered capital, the share percentage of Guoyin Lease held by HNA Group went down to 8.3%, correspondingly, the relationship between the Group and Guoyin Lease changed to unrelated party.

(6) Related party transactions

(a) Price policy

Except purchases of fuel oil fee, payment of take-off and landing charges and transfer of pilots and other specified are according to governmental directional prices, pricing of sales to related parties, purchases from related party, providing services to related parties, and accepting services from related parties are based on treats agreed.

(b) Purchases of fuel oil fee

| | 2008 | 2007 |
|--------------------|---------|---------|
| Hainan Meiya | 542,341 | 361,085 |
| Hainan Pacific Oil | 96,034 | 104,064 |
| | 638,375 | 465,149 |

In 2008, the Group purchased fuel oil fee from related parties accounted for 12% of amount (2007: 11%)

(c) Purchase of aviation food

| | 2008 | 2007 |
|---|--------|--------|
| Xinhua Aviation Catering | 50,211 | - |
| Hainan Airline Catering Company Limited | 44,966 | 32,523 |
| | 95,177 | 32,523 |

In 2008, the Group purchased aviation food from related parties accounted for 34% of amount. (2007: 13%)

(d) take-off and landing charges、field rent and franchise

| | 2008 | 2007 |
|-----------------------|---------|---------|
| Meilan Airport | 95,795 | 75,036 |
| Haikou Meilan | 34,935 | 23,593 |
| Sanya Phoenix Airport | 19,953 | 27,289 |
| | 150,683 | 125,918 |

In 2008, the Group payment of take-off and landing charges to related parties accounted for 12% of amount (2007: 10%).

(e) Import and Export Agency Fee

| | 2008 | 2007 |
|---|--------|--------|
| Hainan Aviation Import & Export Trade Company Limited | 37,541 | 21,179 |

This agency fee is made a price as some rate (0.3%~3%) of agency imports and exports goods.

In 2008 the Group payment of agency fee to related parties accounted for 100% of amount (2007: 100%).

(f) Salary of key managers

| | 2008 | 2007 |
|------------------------|-------|-------|
| Salary of key managers | 1,230 | 1,523 |

(g) Advertisement income

| | 2008 | 2007 |
|-----------------|--------|--------|
| Huoli Huanxiang | 25,000 | 25,000 |

In 2008, the Group earned labour income from related parties accounted for 100% of amount (2007: 100%)

(h) Aircraft leasing income (note 8 (31)(b))

| | 2008 | 2007 |
|---------------------------------|-----------|---------|
| Grand china airlines express(i) | 432,057 | 257,559 |
| Yunnan xiangpeng airlines(ii) | 158,337 | 138,278 |
| Grand China(iii) | 139,926 | 15,739 |
| Western Airlines(iv) | 118,036 | 41,320 |
| Hong Kong Airlines(v) | 74,335 | 96,525 |
| Deer Jet Airlines(vi) | 139,739 | - |
| Total | 1,062,430 | 549,421 |

This aircraft leasing income is made a price based on the cost of aircrafts (including depreciation, rent, imports & value-added tax and corresponding financing cost).

(i) In 2008, the Group leased 29 Dornier the whole year, 7 EMB and 2 ERJ by stages to Grand China Airlines Express. The amount of leasing income is 343,406 thousand Yuan, 68,980 thousand Yuan and 19,671 thousand Yuan (2007: 257,559 thousand Yuan) respectively. This money has been taken back in this year.

(ii) In 2008, the Group leased 5 B738 the whole year to Yunnan Xiangpeng Airlines. The amount of leasing income is 158,337 thousand Yuan (2007: 138,278 thousand Yuan)). This money has been taken back in this year.

(iii) In 2008, the Group leased 4 B738 and 1 B734 by stages to Grand China Airlines. The amount of leasing income is 128,726 thousand Yuan and 11,200 thousand Yuan (2007: 15,739 thousand Yuan)) respectively. This money has been taken back in this year.

(iv) In 2008, the Group leased 3 B737 by stages to Western Airlines. The amount of leasing income is 118,036 thousand Yuan (2007: 41,320 thousand Yuan)). This money has been taken back in this year.

(v) In 2008, the Group leased 2 B738 the whole year to Hong Kong Airlines. The amount of leasing income is 74,335 thousand Yuan (2007: 96,525 thousand Yuan)). This money has been taken back in this year.

(vi) In 2008, the Group leased 12 A319 by stages to Deer Jet Airlines. The amount of leasing income is 139,739 thousand Yuan (2007: Nil)). This money has been taken back in this year.

In 2008, the Group earned leasing aircrafts leasing income from related parties accounted for 100% of amount (2007: 100%).

(i) Leasing pilots income

| | 2008 | 2007 |
|-----------------------|------|--------|
| Deer Jet Airlines | - | 20,043 |
| Yangtze River Express | - | 11,040 |
| | - | 31,083 |

(j) Interest income

| | 2008 | 2007 |
|---|---------|---------|
| HNA Group Finance Co., Ltd (Note 7(30)) | 198,365 | 106,262 |

The details refer to note 8 (33).

In 2008, the Group earned saving interest income from related parties accounted for 82% of amount (2007: 88%).

s

(k) Charter flight revenue

| | 2008 | 2007 |
|------------------------|------|--------|
| Haihang Travel Holding | - | 47,659 |

(l) Related parties supplied capital to the Group.

| | 2008 | 2007 |
|---------------------------|-----------|------------|
| Hainan Jiahui | 2,083,680 | 4,738,400 |
| Changjiang Leasing | 688,406 | 1,897,135 |
| Haikou Meilan | 81,119 | 1,042 |
| Yangtze Investment | 70,800 | - |
| HNA Group | 64,000 | 1,906,782 |
| Hainan Tonghui | 2,129 | - |
| Haihang Imp&Exp | - | 1,421,947 |
| Grand China Express | - | 591,668 |
| Deer Jet Airlines | - | 331,093 |
| Yunnan Xiangpeng | - | 168,173 |
| Western Airlines | - | 146,920 |
| Yangtze River Leasing | - | 115,201 |
| Yangtze River Real Estate | - | 47,476 |
| Grand China Airlines | - | 23,624 |
| Others | - | 8,222 |
| | 2,990,134 | 11,397,683 |

The capital above supplied by related parties is used to purchase aviation materials, aviation on-board supplies or temporary financing. This capital is without mortgage and interest, and it will be compensated in short-term.

(m) The Group paid back to related parties.

| | 2008 | 2007 |
|-----------------------|-----------|-----------|
| Haihang Jiahui | 2,076,959 | 3,675,577 |
| Changjiang Leasing | 933,726 | 518,432 |
| Haikou Meilan | 81,076 | 137,067- |
| HNA Group | 55,752 | 846,707 |
| Yangtze Investment | 20,800 | - |
| Hainan Tonghui | 2,122 | - |
| Haihang Hotel Holding | - | 830,567 |
| Haihang Imp&Exp | - | 265,079 |
| Grand China Express | - | 197,666 |
| Yangtze River Leasing | - | 88,587 |
| Yunnan Xiangpeng | - | 39,780 |
| Others | - | 16,533 |
| total | 3,170,435 | 6,615,995 |

(n)Debt compensation

| | 2008 | 2007 |
|---------------------------|------|--------|
| Yangtze River Real Estate | - | 47,476 |

(o)Lease fee

| | 2008 | 2007 |
|-----------------------|---------|--------|
| Yangtze River Leasing | 54,077 | 53,151 |
| Changjiang Leasing | 96,098 | 11,588 |
| Guoyin Leasing (*) | - | 10,193 |
| | 150,175 | 74,932 |

(*) As in 2008, after HNA Group transferred some shares of Guoyin Lease to China Development Bank and Guoyin Lease increased its registered capital, the share percentage of Guoyin Lease held by HNA Group went down to 8.3%, correspondingly, the relationship between the Group and Guoyin Lease changed to unrelated party.

This leasing fee is calculated as the agreed rate and term in financing agreement.

In 2008 the Group paid leasing fee to related parties accounted for 14% of amount (2007:26%).

(p)Transfer Assets

| | 2008 | 2007 |
|-----------------------------------|-------|---------|
| Xinhua Aviation Catering (i) | 2,404 | - |
| Haihang Safe (ii) | 2,180 | - |
| Grand China Airlines Express (ii) | 1,417 | 2,194 |
| HNA Group | - | 462,648 |
| | 6,001 | 464,842 |

In 2008, the Group transferred:

(i)Transportation facilities with the net book value of 2,404 thousand Yuan (cost of 3,310 thousand Yuan) to related party- Xinhua Aviation Catering (2007: nil).

(ii)Transportation facilities with the net book value of 2,180 thousand Yuan (cost of 5,108 thousand Yuan) to related party- Haihang Safe (2007: nil).

(ii)Transportation facilities with the net book value of 1,417 thousand Yuan (cost of 1,475 thousand Yuan) to related party- Grand China Airlines Express (2007: 2,194 thousand Yuan)).

In 2008, the Group transferred assets to related parties accounted for 18% of amount (2007: 100%).

(q)Transfer stock

| | 2008 | 2007 |
|------------------------------|---------|--------|
| HNA Group (i, ii) | 4,330 | 28,666 |
| Grand China (iii) | 48,073 | - |
| Hainan Airline Catering (iv) | 70,601 | - |
| Haihang Travel Holding | - | 16,245 |
| | 123,004 | 44,911 |

In the year 2008,

(i)The Company transferred 51% share stock of VIP Company to the related party-HNA Group with the amount of 4,330 thousand Yuan (4,330 thousand Yuan of book value). The transfer money has been taken back all in this year.

(ii)The Group transferred all the share stock of Yunnan Shilin held to the related party-HNA Group with the amount of 0 (book value: 0). (note8 (5) (b))

(iii)The Group transferred 30.33% share stock of Yunnan Xiangpeng Airlines to the related party-Grand China with the amount of 48,073 thousand Yuan (48,846 thousand Yuan of book value). The transfer money has been taken back all in this year. (note8 (5) (a))

(iv)The Group transferred 51% share stock of Xinhua Aviation Catering to the related party-Hainan Airline Catering with the amount of 70,601 thousand Yuan (61,200 thousand Yuan of book value). The transfer money has been taken back all in this year. (note8 (39) (e))

(r)Recharge fee

| | 2008 | 2007 |
|------------------------------|---------|---------|
| Grand china airlines express | 154,903 | 307,062 |
| Deer Jet Airlines | 39,629 | 57,202 |
| Yunnan Xiangpeng | 29,429 | 32,597 |
| Western Airlines | 15,342 | 8,003 |
| Yangtze River Express | 14,051 | 17,190 |
| Grand China Express | 12,597 | 228 |
| Hong Kong Airlines | - | 13,463 |
| Hong Kong Express | - | 492 |
| | 265,951 | 436,237 |

The money which is paid by the group for related parties is used to maintain aviation materials and aviation high-price rotatable spares.

In 2008, the Group paid maintain fee for related parties accounted for 15% of amount (2007: 47%).

(s)Related parties supplied loan secure for the Group

| | 2008 | 2007 |
|---------------------------------------|-----------|-----------|
| Short term loan | | |
| HNA Group | 3,630,000 | 1,337,000 |
| Haikou Meilan | 260,000 | 760,000 |
| Yangtze Investment | 40,000 | 40,000 |
| Grand China | - | 972,191 |
| Haihang Industry | - | 78,000 |
| HNA Group and Haikou Meilan | 450,000 | - |
| HNA Finance and the Company | 60,000 | - |
| Haihang Hotel Holding and the Company | 20,000 | 20,000 |
| | 4,460,000 | 3,207,191 |
| Long term loan | | |
| HNA Group | 3,585,610 | 2,904,980 |
| Haikou Meilan | 68,346 | 355,195 |
| Grand China | - | 425,000 |
| HNA Group and Haikou Meilan | 1,820,000 | - |
| | 5,473,956 | 3,685,175 |
| | 9,933,956 | 6,892,366 |

(t)Selling tickets for related parties

| | 2008 | 2007 |
|------------------------------|---------|---------|
| Grand china | 237,669 | 40,588 |
| Grand china airlines express | 128,613 | 318,293 |
| Yunnan Xiangpeng | 20,644 | - |
| Deer Jet Airlines | 12,051 | - |
| Western Airlines | 10,247 | - |
| Hong Kong express | 2,511 | - |
| | 411,735 | 358,881 |

In 2008, the Group sold tickets for related parties accounted for 4% of amount of ticket sales. (2007:3%)

(u)Transfer pilots revenue

| | 2008 | 2007 |
|---------------------|-------|--------|
| Grand China Express | 1,600 | 6,000 |
| Western Airlines | - | 49,400 |
| Yunnan Xiangpeng | - | 19,800 |
| Deer Jet Airlines | - | 4,800 |
| | 1,600 | 80,000 |

In 2008, transfer pilots revenue of the Group for related parties accounted for 11% of amount. (2007:100%)

(7) Related party balance

(a) Cash at bank and in hand

| | 31 December 2008 | 31 December 2007 |
|--------------------------|------------------|------------------|
| HNA Finance (Notes 8(1)) | 4,247,497 | 6,457,779 |

As at 31 December 2008, the cash deposits into the related party's of the Group accounts for 63% of total balance of cash at bank and in hand. (31 December 2007: 81%)

(b) Advance to Suppliers (note 8 (3))

| | 31 December 2008 | 31 December 2007 |
|---------------------|------------------|------------------|
| Haihang Imp & Exp | 145,100 | 200,000 |
| Yangtze Real Estate | 216 | - |
| | 145,316 | 200,000 |

As at 31 December 2008, the advances into the related party of the Group accounts for 53% of total balance. (31 December 2007: 56%)

(c) Interest receivables

| | 31 December 2008 | 31 December 2007 |
|-------------|------------------|------------------|
| HNA Finance | 96,069 | 73,118 |

As at 31 December 2008, the interest receivables from the related party accounts for 100% of total balance of Interest receivables. (31 December 2007: 100%)

(d) Other Receivables

| | 31 December 2008 | 31 December 2007 |
|--------------------|------------------|------------------|
| Western Airlines | 29,662 | - |
| Yangtze Investment | 10,944 | - |
| Hainan Imp & Exp | 6,385 | 6,385 |
| Haikou High- Tech | 5,000 | 5,000 |
| Guoyin Lease (*) | - | 24,000 |
| Others | 20,379 | 13,403 |
| | 72,370 | 48,788 |

At 31 December 2008, the amounts due from related parties included in other receivables was accounted for 27% to the total balance of other receivables. (31 December 2007: 32%).

(e)Notes payable (Notes 8(14))

| | 31 December 2008 | 31 December 2007 |
|-----------------------|------------------|------------------|
| Hainan Imp & Exp | 782,000 | 140,000 |
| Haikou Meilan | - | 150,000 |
| Sanya Phoenix Airport | - | 60,000 |
| Yangtze Investment | - | 50,000 |
| | 782,000 | 400,000 |

(f)Account payable

| | 31 December 2008 | 31 December 2007 |
|--------------------------|------------------|------------------|
| Yangtze River Leasing | 382,808 | - |
| Grand China Express | 122,669 | - |
| Hainan Meiya | 114,087 | 80,584 |
| Meilan Airport | 94,698 | 106,220 |
| Western Airlines | 55,883 | - |
| Yangtze Investment | 50,000 | - |
| Hong Kong Express | 28,342 | 19,483 |
| Deer Jet Airlines | 17,635 | 32,878 |
| Hong Kong Airlines | 14,460 | 39,291 |
| Hainan Imp & Exp | 14,105 | 116,571 |
| Xinhua Aviation Catering | 13,692 | - |
| Others | 60,189 | 155,694 |
| | 968,568 | 550,721 |

At 31 December 2008, the amounts due to related parties included in accounts payables was accounted for 18% to the total balance of accounts payables. (31 December 2007: 19%).

(g)Other payables(Notes 8(19))

| | 31 December 2008 | 31 December 2007 |
|-------------------------------|------------------|------------------|
| Grand China Express | 100,255 | 127,282 |
| Changjiang Leasing | 60,310 | 305,630 |
| Deer Jet Airlines | 51,931 | 6,171 |
| Grand China | 48,005 | 8,475 |
| Yunnan Xiangpeng | 33,747 | 279 |
| Northwest Haihang Real Estate | 15,380 | - |
| Yangtze River Express | 8,160 | 25 |
| HNA Hotel Group | 5,817 | - |
| Others | 6,238 | 50,794 |
| | 329,843 | 498,656 |

At 31 December 2008, Changjiang Leasing and Grand China hold more than 5% (including 5%) equity interest of the Company, respectively, the total amounts due to them is 108,315 thousand (Notes 8(20)).(31 December 2007: 314,105)

At 31 December 2008, the amounts due to related parties are accounted for 14% of the total balance of other payables. (2007: 40%).

The above amounts due to related parties are secured, with interest and repayable within one year.

(h)The minimum lease payments (Note10(2))

| | 31 December 2008 | 31 December 2007 |
|-----------------------|------------------|------------------|
| Changjiang Leasing | 446,811 | 999,053 |
| Guoyin Leasing | - | 238,316 |
| Yangtze River Leasing | - | 54,533 |
| | 446,811 | 1,291,902 |

As 31 December 2008, related party balance of long-term payable accounted for 18% of the total ending balance. (31 December 2007: 43%).

(i)Short-term Loans

| | 31 December 2008 | 31 December 2007 |
|-------------|------------------|------------------|
| HNA Finance | 36,907 | 36,523 |

As 31 December 2008, related party balance of short-term loans accounted for 0.41% of the total ending balance. (31 December 2007: 0.4%).

12.Commitment

(1)Capital commitments

As at 31 December 2008, the total amount of significant capital commitment been signed but not recognized in the financial statement is as follows:

| | 31 December 2008 | 31 December 2007 |
|---|------------------|------------------|
| Purchase aircrafts | 11,871,058 | 9,117,508 |
| Purchase buildings Constructions and machines | 233,431 | 23,940 |
| | 12,104,489 | 9,141,448 |

(2)Leases commitment

As at 31 December 2008, the rents payable under operating leases are as follows:

| | 31 December 2008 | 31 December 2007 |
|-------------------|------------------|------------------|
| Within 1 year | 1,017,365 | 956,321 |
| The second year | 990,704 | 917,276 |
| The third year | 902,791 | 911,903 |
| Over than 3 years | 3,629,233 | 3,238,752 |
| Total | 6,540,093 | 6,024,252 |

13.Events after balance sheet date

(1)As at 14 January 2009, in accordance with the Company's Board resolution (the 26th of 5th session) and Xinhua Airlines' 1st Board resolution in 2009, Haikou Haiping Asset Appraisal Office issued the overall property assessment report for Yangtze River Leasing on 30 November 2008 which confirmed the value of net asset of Yangtze River Leasing is 512,303 thousand Yuan. The Group approved to transfer 15.38% share of Yangtze River Leasing to Tianjin Bohai Leasing Co. Ltd. ("Bohai Leasing").at a price of 90,000 thousand Yuan according to the assessment report.

(2)As at 17 March 2009, in accordance with the document issued by the Department of Finance of Hainan Province ([2009] (328)), interest subsidies supplied by the government will be fully given to HNA Group, Grand China, Haikou Meilan, Sanya Phoenix Airport and the Company to compensate the interest costs of 800 million RMB borrowings from 2009 to 2011, support the development of five companies and reduce their financial cost.

(3)As at 14 January 2009, in accordance with the Company's Board resolution (the 26th of 5th session), Board of Directors considered and adopted the "Regulations on credit with the Hainan Airlines Group signed a framework agreement of mutual insurance companies, as well as draw the attention of shareholders in 2009 the General Assembly approved the report of the amount of related security", according to the framework agreement in 2009 HNA Group and its affiliates provide the amount of the credit guarantee for 10 billion Yuan.

(4)In January 2009, the Ministry of Finance and the CAAC issued a fiscal document [2009] 4th, "the Ministry of Finance and CAAC about the civil aviation infrastructure fund reimburse taxes collected to inform policy," under the State Council's approval, domestic airlines can enjoy the policy that civil aviation infrastructure funds payable from 1 July, 2008 to June 30, 2009 should be paid by the can be returned, and the returned funds should be recognized as an enterprise revenue. Accordingly, the Company has received the return of the civil aviation infrastructure construction fund with an amount of about 160 million Yuan in April 2009 and recognized in the financial statements of 2009.

14.Financial risk management

The business activities of the Group are facing a variety of financial risks, including business risk, market risk, credit risk and liquidity risk. The Group's overall risk management plan focuses on difficulty to forecast the financial markets, and seek to minimize the potential adverse effects to the financial performance of the Group.

(1) Business risk

To large extent the Group's aviation business is affected by the global political and economic factors. Any unexpected events, war, natural disasters are likely to result in the Group's significant impact on the civil aviation industry. In addition, the Group's main business in China, thus the commercial risk borne by the Group is different from the Western airlines. These business risks include political, economic and legal environment of risk, air passenger, cargo and freight services industries, as well as the Civil Aviation Administration of China's civil aviation industry and so on.

(2) Interest rate change risk

In addition to bank deposits, the Group doesn't have other significant interest bearing assets. The Group's principal income and working capital are not essentially affected by the changes in market interest rates.

The Group's interest rate risk primarily comes from bank borrowings; Notes 8 (13) and Notes 8 (22) have made the disclosure. Management believes that rise or drop of the interest rates will have a significant impact on performance of the Group.

(3) Exchange rate fluctuation risk

RMB exchange rate fluctuations are impacted by the domestic and international economic, political and monetary supply-demand relationship, the future exchange rate of the RMB might have a greater difference with the current exchange rate.

Part of the Group's borrowing and financing payment is settled by USD. The Group may obtain deficit or surplus in USD from the process of USD loans and finance lease payments. Because the Group's U.S. dollar payment is generally higher than income, the devaluation of the RMB against the U.S. dollar or revaluation will have a significant impact on performance of the Group.

There is no other way to effectively avoid the currency risk for the Group except that the Group retains their foreign currency denominated earnings and revenue permitted by the State Administration of Foreign Exchange.

(4) Oil price risk

Oil prices abroad are mainly affected by the impact of supply and demand of the global market, while domestic aviation fuel prices are regulated by the National Development and Reform Commission and the Civil Aviation Administration and other government regulatory agencies. The aviation fuel is one of the major operating costs of the Group, thus the volatility of fuel prices have a significant impact on the Group's performance

(5) Credit risk

The Group's revenue are primarily collected through cash, therefore the Group has no significant credit risk.

Receivable and other receivables mainly located in more than a ticket sales agent and other business partners in China. The Group makes credit rating to its clients, and usually asked clients to provide a pledge of receivables. The Group prepares provision for bad debt, and actual bad debt losses are expected to range management.

(6) Cash flow risk

The Group's principal demand for cash is from the aircrafts and engines purchase or improvement, and related debts or liabilities repayment. The Group meets working capital needs by funding money from operating businesses and short-term or long-term bank borrowing. The Group usually purchases aircrafts by finance leasing and bank loans.

In December 31, 2008, the Group's net current liabilities are about 13.4 billion Yuan. In the reporting year, the Group's net cash inflow from operating activities is approximately 3.7 billion, net cash outflow for investment activities and financing activities is approximately 5.1 billion Yuan, and cash equivalents are reduced by about 1.4 billion.

The cash flow risk assessment by the Company's management refers to Note 2.

15. Net profit after extra ordinary gains and losses

| | 2008 | 2007 |
|--|-------------|-----------|
| Net profit | (1,588,405) | 680,413 |
| Add: losses on disposal of non-current | 6,907 | (1,786) |
| Effects of changes in income tax rates | - | - |
| Less: Other non-operating expenses-net | (154,235) | (124,178) |
| Gains generated by disposal of long-term equity investment | (21,535) | (1,523) |
| Tax effects on extraordinary gain and losses | - | 24,031 |
| Net profit before extraordinary gain to losses | (1,757,268) | 576,957 |
| Of which: attributable to parent company shareholders | (1,498,353) | 548,796 |
| Attributable to minority shareholders | (258,915) | 28,161 |

(1) The basis of preparation of net profit before extraordinary gains and losses reconciliation

According to the Q&A on Disclosure of Information by Public Companies No 1 - Extraordinary gains and losses, extraordinary gain and losses are the gain and losses being resulted from the transactions/events which are not incurred by the operation of the entity, or, though incurred by the operation, the nature, amounts or the frequency of such transactions/events will lead to a misleading presentation of the normal performance and profitability of the operation of the entity.

16. Notes to the Company's financial statements

(1) Accounts receivable and other receivable

(a) Accounts receivable

| | 31 December 2007 | | 31 December 2008 |
|-------------------------------|------------------|---------------------------|--------------------------|
| Accounts receivable | 414,791 | | 473,970 |
| | | Current year additions | Current year reversal |
| Less: Provision for bad debts | (9,310) | - | - |
| | 405,481 | | 464,660 |

Accounts receivable and corresponding Provision for bad debts are analyzed as followed:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|-------------------|------------------|--------------------|-------------------------|------------|------------------|--------------------|-------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Within 1 year | 464,621 | 98% | - | - | 399,424 | 96% | - | - |
| 2-3 years | - | - | - | - | 131 | - | - | - |
| More than 3 years | 9,351 | 2% | 9,310 | 99% | 15,236 | 4% | 9,310 | 61% |
| | 473,970 | 100% | 9,310 | 2% | 414,791 | 100% | 9,310 | 2% |

Accounts receivable are analyzed by customer categories as followed:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|------------------|--------------------|-------------------------|------------|------------------|--------------------|-------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Receivables that are individually significant | - | - | - | - | 398,666 | 96% | - | - |
| Receivables not individually significant but with high risk in groups | 9,351 | 2% | 9,310 | 100% | 9,183 | 2% | 9,183 | 100% |
| Others | 464,621 | 98% | - | - | 6,942 | 2% | 127 | 2% |
| | 473,972 | 100% | 9,310 | 2% | 414,791 | 100% | 9,310 | 2% |

As at 31 December 2008, no balances (31 December 2007: nil) included in above accounts receivable are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right.

As at 31 December 2008, the aggregate amount of the Company's five largest accounts receivable balances was 403,648 thousand Yuan (31 December 2007: 412,733 thousand Yuan), being 85 % (31 December 2007: 99%) of the total accounts receivable balances, all aged within one year.

The balances of aging over one year mainly include unsettled Notes and charter flight. In terms of the opinion of the board of directors of the Company, they should consider provision for bad debts on the basis of appropriate risk judgment.

The individually significant account receivable aged within 3 months is mainly BSP receivable which involves no recovery risk and no provision according to the board of the Company.

(b) Other receivables

| | 31 December 2007 | | 31 December 2008 |
|--|------------------|------------------------|-------------------------|
| Lease deposit and maintenance reserve of aircraft & engine | 124,980 | | 13,491 |
| Subscription of aircraft parts | 235,497 | | 88,016 |
| Others | 604,542 | | 482,675 |
| | 965,019 | | 584,182 |
| | | Current year additions | Current Year deductions |
| Less: Provision for bad debts | (50,155) | (8,534) | - |
| | 914,864 | | (58,689) |
| | | | 525,493 |

Other receivable and corresponding provision for bad debts were analyzed as followed:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|-------------------|------------------|--------------------|-------------------------|------------|------------------|--------------------|-------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Within 1 year | 479,813 | 82% | - | - | 832,342 | 87% | - | - |
| 1-2 years | 42,937 | 8% | 2,104 | 5% | 80,203 | 8% | 230 | - |
| 2-3 years | 2,314 | - | 230 | 10% | 1,100 | - | 46 | 4% |
| More than 3 years | 59,118 | 10% | 56,355 | 95% | 51,374 | 5% | 49,879 | 97% |
| | 584,182 | 100% | 58,689 | 10% | 965,019 | 100% | 50,155 | 5% |

Other receivable were analyzed by customer categories as followed:

| | 31 December 2008 | | | | 31 December 2007 | | | |
|---|------------------|--------------------|-------------------------|------------|------------------|--------------------|-------------------------|------------|
| | Amount | % of total balance | Provision for bad debts | Percentage | Amount | % of total balance | Provision for bad debts | Percentage |
| Receivables that are individually significant | 515,694 | 88% | 17,443 | 3% | 854,207 | 88% | 17,443 | 2% |
| Receivables not individually significant but with high risk in groups | 42,538 | 7% | 40,330 | 95% | 43,426 | 5% | 28,543 | 66% |
| Others | 25,950 | 5% | 916 | 4% | 67,386 | 7% | 4,169 | 6% |
| | 584,182 | 100% | 58,689 | 10% | 965,019 | 100% | 50,155 | 5% |

As at 31 December 2008, no balance included in above other receivables are due to the shareholders of the Company who hold over 5% (including 5%) shares with voting right (31 December 2007: nil)

As at 31 December 2008, the aggregate amount of the Company's five largest other receivables balances were 547,695 thousand Yuan (2007:825,612 thousand Yuan), being 93 % (2007:85%) of the total accounts receivable balances. Thereinto, the balance of aging within 1 year is 477,768 thousand Yuan, the balance of aging during one to two years is 41,039 thousand Yuan, the balance of aging during two to three years is 1,439 thousand Yuan and the balance of aging over three years is 27,449 thousand Yuan.

(2)Long-term equity investment

| | 31 December 2008 | 31 December 2007 |
|--|------------------|------------------|
| Investment in Subsidiaries(a) | 2,226,592 | 2,206,952 |
| Investment in Associated Companies (b) | 53,364 | 50,055 |
| Others (c) | 466,119 | 473,504 |
| | 2,746,075 | 2,730,511 |
| Less: Provision for Impairment (d) | (5,000) | (8,610) |
| | 2,741,075 | 2,721,901 |

2,815,645 thousand Yuan (2007: 2,994,981 thousand Yuan) of long-term borrowing is impawned by 1.098 billion shares of Xinhua Airlines, 55.456 million shares of Chang'an Airlines and 28.5 million shares of Shanxi Airlines held by the Company (note8 (22) (a))

(a)Subsidiaries

| | Initial investment cost | Additional cost | 31 December 2007 | Current year additions | Currentyear write-off | 31 December 2008 |
|--------------------------|----------------------------|--------------------|---------------------|---------------------------|--------------------------|---------------------|
| Xinhua Airlines | 933,300 | 232,807 | 1,166,107 | - | - | 1,166,107 |
| Chang'an airlines | 200,000 | 444,418 | 644,418 | - | - | 644,418 |
| Shanxi Airlines | 285,000 | 99,497 | 384,497 | 23,970 | - | 408,467 |
| Hainan Golden-Deer | 7,600 | - | 7,600 | - | - | 7,600 |
| Aviation Sales Co., Ltd | | | | | | |
| Hainan Airlines VIP | 4,330 | - | 4,330 | - | (4,330) | - |
| Flight Service Co., Ltd. | | | | | | |
| | | | 2,206,952 | 23,970 | (4,330) | 2,226,592 |

(b) Associates

| | Initial investment cost | Additional cost | 31 December 2007 | Net profit/ loss under equity method | Dividend receipts | Other equity movement | 31 December 2008 |
|-------------------------|-------------------------|-----------------|------------------|--------------------------------------|-------------------|-----------------------|------------------|
| Haihang Import & Export | 3,000 | - | 7,630 | 1,710 | - | - | 9,340 |
| Xin Guo Hotel | 15,000 | 25,000 | 40,465 | 156 | - | - | 40,621 |
| Hainan Hansa Training | 3,862 | - | 1,960 | 1,443 | - | - | 3,403 |
| | 21,862 | 25,000 | 50,055 | 3,309 | - | - | 53,364 |

(c) Other long-term equity investment

| Investee Company | 31 December 2007 | Current year addition | Current year write-off | 31 December 2008 |
|---|------------------|-----------------------|------------------------|------------------|
| Haikou Meilan | 304,765 | - | - | 304,765 |
| Yangtze River Lease | 45,013 | - | - | 45,013 |
| Hainan Airlines Hotel (Group) Company | 58,161 | - | - | 58,161 |
| China Aviation Information System Company Limited | 17,000 | - | - | 17,000 |
| Grand China Airlines Express Company Limited ("Grand China Express") | 19,000 | - | - | 19,000 |
| Yangtze River Express Company Limited ("Yangtze river Express") | 10,000 | - | - | 10,000 |
| Hainan Meilan Airport Company Limited | 6,906 | - | - | 6,906 |
| Yunnan Shilling Travel Airlines Company Limited ("Yunnan Shilling") (note 11 (6) (q)) | 3,610 | - | (3,610) | - |
| Hainan Airlines Tourism Development Co., Ltd | 3,274 | - | (3,274) | - |
| Others | 5,775 | - | (501) | 5,275 |
| | 473,504 | - | (7,385) | 466,120 |

(d) Provision for impairment of long-term equity investments

| | 31 December 2007 | Current year addition | Current year write-off | 31 December 2008 |
|------------------------------------|------------------|-----------------------|------------------------|------------------|
| Other long-term equity investments | | | | |
| Yunnan Shilin (note 11 (6) (q)) | 3,610 | - | (3,610) | - |
| Others | 5,000 | - | - | 5,000 |
| | 8,610 | - | (3,610) | 5,000 |

After verified the financial status of the equity investments, the board of the Company regards that there is no impairment indication for the investments and thus no provision should be considered. (2007: Nil)

(3) Revenue and Cost of sales

| | 2008 | 2007 |
|-------------------|-----------|-----------|
| Revenue (a) | 7,936,450 | 7,984,854 |
| Other revenue (b) | 836,620 | 411,615 |
| | 8,773,070 | 8,396,469 |

(a) Revenue from main operations and cost of goods sold

| | 2008 | | 2007 | |
|---|-----------|-----------|-----------|-----------|
| | Revenue | Cost | Revenue | Cost |
| Passenger revenue | 7,227,383 | 7,138,828 | 7,080,006 | 5,708,319 |
| Cargo and Excessive weight of luggage revenue | 287,087 | 283,570 | 231,105 | 186,669 |
| Charter flight revenue | 410,904 | 405,870 | 669,214 | 540,540 |
| Income from the sale of mileage points | 11,076 | - | 4,529 | - |
| | 7,936,450 | 7,828,268 | 7,984,854 | 6,435,528 |

As at 31 December 2008, the aggregate amount of the company's five largest sales income balances were 4,817,169 thousand Yuan (2007: 4,505,272 thousand Yuan), being 60% of the total sales income balances (2007: 56%).

(b) Other revenue and cost

| | 2008 | | 2007 | |
|---|---------|---------|---------|---------|
| | Revenue | Cost | Revenue | Cost |
| Rental on lease of aircraft (Note 11(6)(h)) | 614,111 | 396,295 | 252,449 | 121,389 |
| Ticket refund incomes | 40,187 | - | 32,914 | - |
| Ground service incomes | 36,110 | 19,785 | 29,483 | 13,681 |
| Commission incomes | 9,262 | - | 2,452 | - |
| Rental on lease of pilots | - | - | 31,083 | 31,083 |
| Others | 136,950 | 24,192 | 63,234 | 6,479 |
| | 836,620 | 440,272 | 411,615 | 172,632 |

The borrowing interest cost of 347,143 thousand Yuan (2007: 142,704 thousand Yuan) coming from the aircraft rental and purchase is excluded in the aircraft leasing costs above, and this part of interest cost is included in the finance expenses.

(4)Investment income

| | 2008 | 2007 |
|--|-------|-------|
| Share of profit of investees under equity method of accounting | 3,309 | 1,453 |
| Profit/ cash dividends declared by investees under cost method of accounting | 4,822 | 2,431 |
| Income on disposal of long-term equity investments | - | 508 |
| | 8,131 | 4,392 |

(5)Related party transactions

(a)Price policy

Except purchases of fuel oil fee, payment of take-off and landing charges and transfer of pilots and other specified are according to governmental directional prices, pricing of sales to related parties, purchases from related party, providing services to related parties, and accepting services from related parties are based on treats agreed.

(b)Purchases of fuel oil fee

| | 2008 | 2007 |
|--------------------|---------|---------|
| Hainan Meiya | 383,980 | 223,291 |
| Hainan Pacific Oil | 67,993 | 68,084 |
| | 451,973 | 291,375 |

In 2008, the Company purchased fuel oil fee from related parties accounted for 13% of amount (2007: 12%)

(c)Purchase of aviation food

| | 2008 | 2007 |
|---|--------|--------|
| Xinhua Aviation Catering | 43,200 | - |
| Hainan Airline Catering Company Limited | 38,687 | 29,412 |
| | 81,887 | 29,412 |

In 2008, the Company purchased aviation food from related parties accounted for 44% of amount. (2007: 19%)

(d)Take-off and landing charges、field rent and franchise

| | 2008 | 2007 |
|-----------------------|---------|--------|
| Meilan Airport | 72,483 | 33,382 |
| Haikou Meilan | 26,433 | 14,307 |
| Sanya Phoenix Airport | 15,097 | 15,019 |
| | 114,013 | 62,708 |

In 2008, the Company payment of take-off and landing charges to related parties accounted for 13% of amount (2007: 9%).

(e) Import and Export Agency Fee

| | 2008 | 2007 |
|---|--------|--------|
| Hainan Aviation Import & Export Trade Company Limited | 37,540 | 21,179 |

This agency fee is made a price as some rate (0.3%~3%) of agency imports and exports goods.

In 2008 the Company payment of agency fee to related parties accounted for 100% of amount (2007: 100%).

(f) Salary of key managers

| | 2008 | 2007 |
|------------------------|-------|-------|
| Salary of key managers | 1,230 | 1,523 |

(g) Advertisement income

| | 2008 | 2007 |
|-----------------|--------|--------|
| Huoli Huanxiang | 25,000 | 25,000 |

In 2008, the Company earned labour income from related parties accounted for 100% of amount (2007: 100%)

(h) Aircraft leasing income (note 16 (3)(b))

| | 2008 | 2007 |
|---------------------------------|---------|---------|
| Grand china airlines express(i) | 280,186 | 195,390 |
| Grand China (ii) | 139,926 | 15,739 |
| Western Airlines(iii) | 85,678 | 41,320 |
| Deer Jet Airlines(iv) | 108,321 | - |
| Total | 614,111 | 252,449 |

This aircraft leasing income is made a price based on the cost of aircrafts (including depreciation, rent, imports & value-added tax and corresponding financing cost).

(i) In 2008, the Company leased 24 Dornier the whole year to Grand China Airlines Express. The amount of leasing income is 280,186 thousand Yuan. This money has been taken back in this year.

(ii) In 2008, the Company leased 4 B738 and 1 B734 by stages to Grand China Airlines. The amount of leasing income is 139,926 thousand Yuan. This money has been taken back in this year.

(iii) In 2008, the Company leased 2 B737 by stages to Western Airlines. The amount of leasing income is 85,678 thousand Yuan. This money has been taken back in this year.

(iv) In 2008, the Company leased 8 A319 by stages to Deer Jet Airlines. The amount of leasing income is 108,321 thousand Yuan. This money has been taken back in this year.

In 2008, the Company earned leasing aircrafts leasing income from related parties accounted for 100% of amount (2007: 100%).

(i) Leasing pilots income

| | 2008 | 2007 |
|-----------------------|------|--------|
| Deer Jet Airlines | - | 20,043 |
| Yangtze River Express | - | 11,040 |
| | - | 31,083 |

(j) Interest income

| | 2008 | 2007 |
|-------------|--------|--------|
| HNA Finance | 47,783 | 48,225 |

In 2008, the Company earned saving interest income from related parties accounted for 41% of amount (2007: 77%).

(k) Charter flight revenue

| | 2008 | 2007 |
|------------------------|------|--------|
| Haihang Travel Holding | - | 47,659 |

(l) Related parties supplied capital to the Company.

| | 2008 | 2007 |
|---------------------------|-----------|------------|
| Hainan Jiahui | 2,083,680 | 4,738,400 |
| Changjiang Leasing | 688,406 | 1,897,135 |
| Haikou Meilan | 81,119 | 1,042 |
| Yangtze Investment | 70,800 | - |
| HNA Group | 64,000 | 1,906,782 |
| Hainan Tonghui | 2,129 | - |
| Haihang Imp&Exp | - | 1,421,947 |
| Grand China Express | - | 591,668 |
| Deer Jet Airlines | - | 331,093 |
| Yunnan Xiangpeng | - | 168,173 |
| Western Airlines | - | 146,920 |
| Yangtze River Leasing | - | 115,201 |
| Yangtze River Real Estate | - | 47,476 |
| Grand China Airlines | - | 23,624 |
| Others | - | 8,222 |
| | 2,990,134 | 11,397,683 |

The capital above supplied by related parties is used to purchase aviation materials, aviation on-board supplies or temporary financing. This capital is without mortgage and interest, and it will be compensated in short-term.

(m) The Company paid back to related parties.

| | 2008 | 2007 |
|-----------------------|-----------|-----------|
| Haihang Jiahui | 2,076,959 | 3,675,577 |
| Changjiang Leasing | 933,726 | 518,432 |
| Haikou Meilan | 81,076 | 137,067 |
| HNA Group | 55,752 | 846,707 |
| Yangtze Investment | 20,800 | - |
| Hainan Tonghui | 2,122 | - |
| Haihang Hotel Holding | - | 830,567 |
| Haihang Imp&Exp | - | 265,079 |
| Grand China Express | - | 197,666 |
| Yangtze River Leasing | - | 88,587 |
| Yunnan Xiangpeng | - | 39,780 |
| Others | - | 16,533 |
| total | 3,170,435 | 6,615,995 |

(n)Lease fee

| | 2008 | 2007 |
|-----------------------|---------|--------|
| Yangtze River Leasing | 54,077 | 53,151 |
| Changjiang Leasing | 96,098 | 11,588 |
| Guoyin Leasing (*) | - | 10,193 |
| | 150,175 | 74,932 |

(*) As in 2008, after HNA Group transferred some shares of Guoyin Lease to China Development Bank and Guoyin Lease increased its registered capital, the share percentage of Guoyin Lease held by HNA Group went down to 8.3%, correspondingly, the relationship between the Group and Guoyin Lease changed to unrelated party.

This leasing fee is calculated as the agreed rate and term in financing agreement. In 2008 the Company paid leasing fee to related parties accounted for 16% of amount (2007:26%).

(o)Transfer Assets

| | 2008 | 2007 |
|------------------------------|-------|---------|
| Grand China Airlines Express | 1,417 | - |
| HNA Group | - | 462,648 |
| | 1,417 | 462,648 |

(p)Transfer stock

| | 2008 | 2007 |
|-----------|-------|--------|
| HNA Group | 4,330 | 36,571 |

In the year 2008,

(i)The Company transferred 51% share stock of VIP Company to the related party-HNA Group with the amount of 4,330 thousand Yuan (4,330 thousand Yuan of book value). The transfer money has been taken back all in this year.

(ii)The Company transferred all the share stock of Yunnan Shilin held to the related party-HNA Group with the amount of 0 (book value 0). (note8 (5) (b)):

(q)Recharge fee

| | 2008 | 2007 |
|------------------------------|---------|---------|
| Grand china airlines express | 132,331 | 307,062 |
| Deer Jet Airlines | 39,629 | 57,202 |
| Yunnan Xiangpeng | 29,429 | 32,597 |
| Western Airlines | 15,342 | 8,003 |
| Yangtze River Express | 14,051 | 17,190 |
| Grand China Express | 12,597 | 228 |
| Hong Kong Airlines | - | 13,463 |
| Hong Kong Express | - | 492 |
| | 243,379 | 436,237 |

The money which is paid by the group for related parties is used to maintain aviation materials and aviation high-price ratable spares.

In 2008, the Company paid maintain fee for related parties accounted for 56% of amount (2007: 77%).

(r)Related parties supplied loan secure for the Company

| | 2008 | 2007 |
|-----------------------------|-----------|-----------|
| Short term loan | | |
| HNA Group | 2,700,000 | 270,000 |
| Haikou Meilan | - | 350,000 |
| HNA Group and Haikou Meilan | 400,000 | - |
| | 3,100,000 | 620,000 |
| Long term loan | | |
| HNA Group | 1,418,309 | 1,303,531 |
| Haikou Meilan | 10,000 | 73,046 |
| | 1,428,309 | 1,376,577 |
| | 4,528,309 | 1,996,577 |

(s)Transfer pilots revenue

| | 2008 | 2007 |
|---------------------|-------|--------|
| Grand China Express | 1,600 | 6,000 |
| Western Airlines | - | 49,400 |
| Yunnan Xiangpeng | - | 19,800 |
| Deer Jet Airlines | - | 4,800 |
| | 1,600 | 80,000 |

In 2008, transfer pilots revenue of the Company for related parties accounted for 11% of amount. (2007:100%)

(6) Related party balance

(a) Cash at bank and in hand

| | 31 December 2008 | 31 December 2007 |
|--------------------------|------------------|------------------|
| HNA Finance (Notes 8(1)) | 1,069,186 | 3,391,460 |

As at 31 December 2008, the cash deposits into the related party's of the Company accounts for 33% of total balance of cash at bank and in hand. (31 December 2007: 74%)

(b) Advance to Suppliers (note 8 (3))

| | 31 December 2008 | 31 December 2007 |
|---------------------|------------------|------------------|
| Haihang Imp & Exp | 145,100 | 200,000 |
| Yangtze Real Estate | 216 | - |
| | 145,316 | 200,000 |

As at 31 December 2008, the advances into the related party of the Company accounts for 61% of total balance. (31 December 2007: 59%)

(c) Interest receivables

| | 31 December 2008 | 31 December 2007 |
|-------------|------------------|------------------|
| HNA Finance | 96,069 | 73,118 |

As at 31 December 2008, the interest receivables from the related party accounts for 100% of total balance of Interest receivables. (31 December 2007: 100%)

(d) Other Receivables

| | 31 December 2008 | 31 December 2007 |
|-------------------|------------------|------------------|
| Hainan Imp & Exp | 6,385 | 6,385 |
| Haikou High- Tech | 5,000 | 5,000 |
| Guoyin Lease (*) | - | 24,000 |
| Others | 17,832 | 2,800 |
| | 29,217 | 38,185 |

At 31 December 2008, the amounts due from related parties included in other receivables was accounted for 5% to the total balance of other receivables. (31 December 2007: 16%).

(e)Notes payable (Notes 8(14))

| | 31 December 2008 | 31 December 2007 |
|-----------------------|------------------|------------------|
| Hainan Imp & Exp | 560,000 | 140,000 |
| Haikou Meilan | - | 150,000 |
| Sanya Phoenix Airport | - | 60,000 |
| | 560,000 | 350,000 |

At 31 December 2008, the amounts due to related parties included in notes payables was accounted for 31% to the total balance of accounts payables. (31 December 2007: 31%).

(f)Account payable (Notes 8(15))

| | 31 December 2008 | 31 December 2007 |
|--------------------------|------------------|------------------|
| Yangtze River Leasing | 382,808 | - |
| Hainan Meiya | 114,087 | 80,584 |
| Meilan Airport | 69,698 | 106,220 |
| Yangtze Investment | 50,000 | - |
| Western Airlines | 47,722 | - |
| Hong Kong Express | 25,831 | 19,483 |
| Hong Kong Airlines | 14,460 | 39,291 |
| Xinhua Aviation Catering | 13,692 | - |
| Others | 66,400 | 238,634 |
| | 784,698 | 484,212 |

At 31 December 2008, the amounts due to related parties included in accounts payables was accounted for 14% to the total balance of accounts payables. (31 December 2007: 12%).

(g)Other payables(Notes 8(20))

| | 31 December 2008 | 31 December 2007 |
|---------------------|------------------|------------------|
| Grand China Express | 76,148 | 127,282 |
| Changjiang Leasing | 60,310 | 305,630 |
| Deer Jet Airlines | 49,211 | 6,171 |
| Grand China | 48,005 | 8,475 |
| Others | 12,824 | 26,835 |
| | 246,498 | 474,393 |

At 31 December 2008, Changjiang Leasing and Grand China hold more than 5% (including 5%) equity interest of the Company, respectively, the total amounts due to them is 108,315 thousand (Notes 8(20)).(31 December 2007: 314,105)

At 31 December 2008, the amounts due to related parties are accounted for 15% of the total balance of other payables. (2007: 60%).

The above amounts due to related parties are secured, with interest and repayable within one year.

(h)The minimum lease payments (Note10(2))

| | 31 December 2008 | 31 December 2007 |
|-----------------------|------------------|------------------|
| Changjiang Leasing | 446,811 | 999,053 |
| Guoyin Leasing | - | 238,316 |
| Yangtze River Leasing | - | 54,533 |
| | 446,811 | 1,291,902 |

As 31 December 2008, related party balance of long-term payable accounted for 32% of the total ending balance. (31 December 2007: 43%),

(i)Short-term Loans

| | 31 December 2008 | 31 December 2007 |
|-------------|------------------|------------------|
| HNA Finance | 36,907 | 36,523 |

As 31 December 2008, related party balance of short-term loans accounted for 0.62% of the total ending balance. (31 December 2007: 0.4%).

Supplemental information: Asset impairment

| | 31 December 2007 | Current year additions | Current year reverse | Current year reduction Current year write off | Subtotal | 31 December 2008 |
|---|------------------|------------------------|----------------------|--|----------|------------------|
| 1. Provision for bad debts | 146,688 | 11,476 | (2,000) | (1,406) | (3,406) | 154,758 |
| Of which: Trade receivable | 38,063 | 2,751 | - | (370) | (370) | 40,444 |
| Other receivable | 108,625 | 8,725 | (2,000) | (1,036) | (3,036) | 114,314 |
| 2. Provision for inventory loss | 5,198 | - | - | - | - | 5,198 |
| 3. Provision for long term investment loss | 14,774 | - | - | (8,000) | (8,000) | 6,774 |
| 4. Provision for fixed asset impairment | 16,406 | 480,730 | - | (21) | (21) | 497,115 |
| 5. Provision for CIP impairment | 2,307 | - | - | - | - | 2,307 |
| 6. Provision for intangible assets impairment | 874 | - | - | (874) | (874) | - |
| 7. Provision for goodwill impairment | 82,877 | 125,384 | - | - | - | 208,261 |
| Total | 269,124 | 617,590 | (2,000) | (10,301) | (12,301) | 874,413 |

- 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 2008.**

Hainan Airlines Company Limited
April 30, 2009