

(I) Company Overview

Registered Chinese name	海南航空股份有限公司
Abbreviation of Registered Chinese name	海南航空
Registered English name	Hainan Airlines Co., Ltd.
Abbreviation of Registered English name	HNA
Legal Representative	Li Xiaoming

(II) Contact Person and Contact Method

	Secretary of BOD	Representative of Stock Affairs
Name	Lv Guangwei	Wang Fei
Address	Haihang Development Building, 29 Haixiu Road, Haikou	Haihang Development Building, 29 Haixiu Road, Haikou
Tel	0898-66739961	0898-66739961
Fax	0898-66739960	0898-66739960
Email	gw_lv@hnair.com	wangfei@hnair.com

(III) General Information

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

(IV) Information Disclosure and Preparation Place

Designated Newspapers for Information Disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po
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

(V) General Information of Company Stock

General Information of Company Stock

Type of Stock	Stock Exchange for Listing of the Company	Stock Short Name	Stock Code	Stock Short Name before Alternation
A Share	Shanghai Stock Exchange	Hainan Airlines	600221	
B Share	Shanghai Stock Exchange	HNA B share	900945	

(VI) Other Related Information

First Registration Date of the Company	October 18, 1989
First Registration Place of the Company	Haikou
First Alternation 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

(I) Key Fiscal Data in the Report Period

Monetary unit: RMB 1,000 Yuan

Item	Amount
Operating profit	-65,540
Total profit	485,549
Net profit attributable to shareholders of listed company	334,670
Net profit after non-recurring gains and losses attributable to shareholders of listed company	-750,269
Net cash flow from operating activities	1,948,465

(II) Non-recurring gains and losses

Non-recurring gains and losses	Amount
Gains/losses on the disposal of non-current assets	-30,293
Other contingent tax refund, exemption	348,883
Government grants recorded into current gains and losses	143,968
Paid or received payment for use of State funds recorded in current profits and losses	128,352
Profits or losses from change in fair value from holding trading financial assets	-7,016
Receivables impairment provision reversal that impairment test is conducted individually	15,492
Gains and losses from changes of the fair value for investment real estate measured through the fair value pattern	597,743
Other non-operating revenues and expenses in addition to above-motioed items	88,531
Other gains/losses items which are in accordance with the definition of non-recurring gains/losses	6,579
Impact on the amount of income tax	-151,075
Impact on the amount of minority stockholder's interest (after tax)	-56,225
Total	1,084,939

(III) Key Fiscal Data and Financial Index by the End of Each Accounting Period in the Past Three Years

Monetary unit: RMB 1,000 Yuan

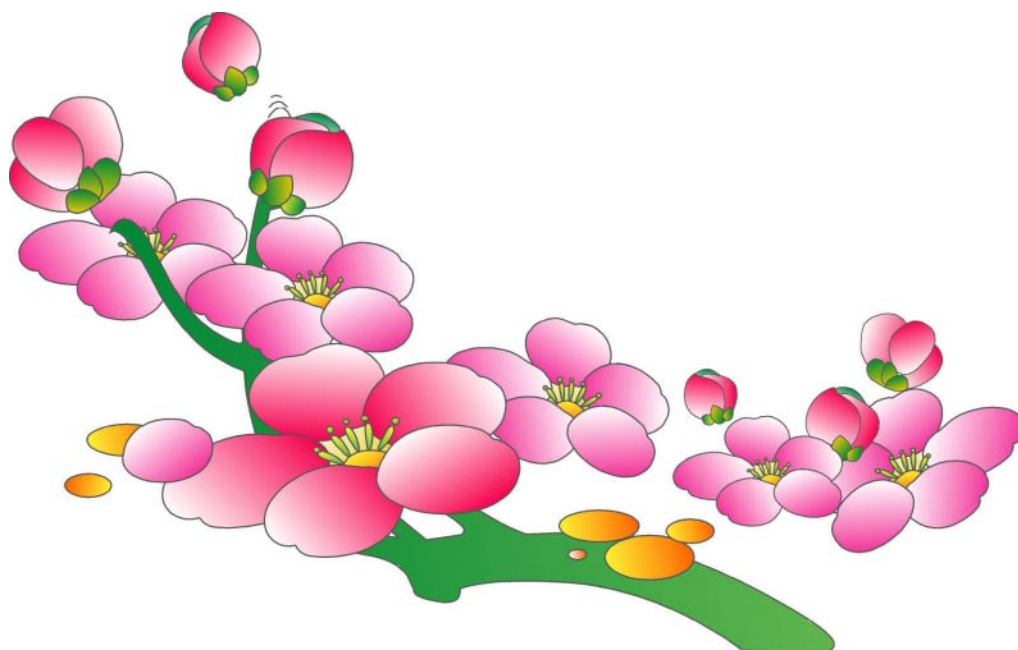
	2009	2008	Increase/Decrease (%)	2007
Income from principal business	15,548,363.00	13,551,661.00	14.73	13,525,347.00
Total Profit	485,549.00	-1,523,717.00	Not Applicable	685,431.00
Net profit attributable to shareholders of listed company	334,670.00	-1,414,354.00	Not Applicable	626,855.00
Net profit after non-recurring gains and losses attributable to shareholders of listed company	-750,269	-1,554,936.00	51.74	576,957.00
Net cash flow from operating activities	1,948,465.00	3,695,760.00	-47.28	2,909,106.00
	At end of 2009	At end of 2008	Increase/Decrease (%)	At end of 2007
Total Assets	59,343,425.00	48,313,700.00	22.83	39,839,946.00
Owner's equity (or shareholder's equity)	6,548,827.00	6,144,778.00	6.58	7,567,153.00

Key fiscal data	2009	2008	Increase/Decrease (%)	2007
Basic earning per share (yuan/share)	0.09	-0.40	Not Applicable	0.17
Diluted earning per share (yuan/share)	0.09	-0.40	Not Applicable	0.17
Basic earning per share after deducting non-recurring profits and losses (yuan/share)	-0.21	-0.44	51.74	0.16
Weighted average ROE (%)	5.27	-46.03	Increase by 51.3%	8.64
Weighted average ROE after deducting non-recurring profits and losses (%)	-11.82	-50.61	Increase by 38.79%	7.95
Net cash flows per share from operating activities (yuan/share)	0.55	1.05	-47.62	0.82
	At end of 2009	At end of 2008	Increase/Decrease (%)	At end of 2007
Net assets per share attributable to shareholders of listed company (yuan/share)	1.86	1.74	6.89	2.14

(IV) Items of Fair Value Measurement

Monetary unit: RMB 1,000 Yuan

Item	Balance at the beginning of report period	Balance at the end of report period	Changes in current report period	Effect on current-period profit
Investment real estates	176,775	5,541,735	5,364,960	597,743
Total	176,775	5,541,735	5,364,960	597,743



(I) Changes in Share Capital

1. Changes in Shares

Unit: Share

	Before changes		Increase/Decrease (+, -)				After changes		
	Q'ty	Percentage	New Share Issue	Stock split	Stock From Contributed Capital Surplus	Other	Subtotal	Q'ty	Percentage
I. Floating Shares With Trading Limited Conditions	2,123,039,516	60.14				-2,122,703,916	-2,122,703,916	335,600	0.01
1. State-owned shares									
2. State-owned legal person shares									
3. Other domestic shares	2,123,039,516	60.14				-2,122,703,916	-2,122,703,916	335,600	0.01
Including: domestic non-state-owned legal person shares	2,123,039,516	60.14				-2,122,703,916	-2,122,703,916	335,600	0.01
Domestic natural person shares									
4. Foreign-owned shares									
Including: shares owned by foreign legal person									
Shares owned by foreign natural person									
II. Floating Shares Without Trading Limited Conditions	1,407,213,285	39.86				2,122,703,916	2,122,703,916	3,529,917,201	99.99
1. RMB ordinary shares	1,222,490,084	34.63				2,122,703,916	2,122,703,916	3,345,194,000	94.76
2. Domestic listed foreign shares	184,723,201	5.23				0	0	184,723,201	5.23
3. Overseas listed foreign shares									
4. Others									
III. Total number of shares	3,530,252,801	100						3,530,252,801	100

Other contents that the Company thinks it is necessary to disclose or securities regulatory commission requires to disclose

On January 5, 2010, the Company's non-public offering no more than 595,238,094 A shares is approved by China Securities Regulatory Commission. The Company totally issues 595,238,094 A shares to Hainan Development Holding Co., Ltd and HNA Group Co., Ltd. On February 23, 2010, the Company has completed related registration at China Securities Depository and Clearing Corporation Limited (Shanghai Branch). After non-public offer, there are 595,238,094 new floating shares with trading limited conditions in the Company. The total share numbers of the Company increase to 4,125,490,895.

2. Changes in share with trading restriction

Unit: Share

Name of Shareholder	Restricted shares at the beginning the of year	Number of shares with selling restrictions expired in 2009	Number of additional shares with selling restrictions in 2009	Restricted shares at the end the of year	Reasons for Selling Restriction	Expiry date of selling restrictions
Grand China Air Co., Ltd.	1,703,108,043	1,703,108,043	0	0	Share reform commitment	September 29, 2009
Haikou Meilan International Airport Co., Ltd.	176,512,640	176,512,640	0	0	Share reform commitment	March 23, 2009
Haikou Meilan International Airport Co., Ltd.	78,399,171	78,399,171	0	0	Share reform commitment	September 29, 2009
Changjiang Leasing Co., Ltd.	111,103,661	111,103,661	0	0	Share reform commitment	March 23, 2009
Hainan Jiaxin Investment Management Co., Ltd.	53,580,401	53,580,401	0	0	Share reform commitment	March 23, 2009
Total	2,122,703,916	2,122,703,916	0	0	/	/

(II) Issuance and Listing of Securities

1. New securities issuance in recent three years

Unit: Share Monetary unit: RMB

Type of share and its derivative securities	Date of Issuance	Price of Issuance (Yuan)	Quantity	Listing Date	Listing Quantity	Date of Expiry
Share						
Issuance of legal -person shares	June 30, 2006	2.00	2,800,000,000	Sept. 29th, 2006	2,800,000,000	

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

2. Changes of Total Share and Share Structure

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

3. Employee Shares in the Company

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

(III) Introduction to the Controlling Shareholder and the Actual Controller

1. Number of Shareholders and Particulars about Shares Held

Unit: Share

Total number of shareholders at the end of report period		164,435				
Shareholding Status of Top Ten Shareholders						
Name of Shareholder	Nature of Shareholders	Percentage (%)	Amount of Shares Held	Increase/ Decrease	Amount of Shares with Trading Restriction	Amount of Pledged or Frozen Shares
Grand China Air Co., Ltd.	other	48.62	1,716,394,743			Pledged 1,669,000,000
Haikou Meilan International Airport Co., Ltd.	other	12.22	431,424,451			Pledged 431,424,451
Changjiang Leasing Co., Ltd.	other	8.06	284,575,549	-1,847,952		Pledged 284,575,549
American Aviation LDC	other	3.06	108,043,201			N/A
HNA Industrial Holding Co., Ltd	other	2.55	90,181,000	-44,005,890		N/A
ICBC-BOC Sustainable Growth Fund	other	0.86	77,477,028			N/A
CCB-Huaxia Dividend Mixed Securities Investment Fund	other	0.33	20,816,082			N/A
CMB-Fuguo Tianhe Preferred Share Type Securities Investment Fund	other	0.25	16,013,010			N/A
BOC-Huaxia Blue Chip Central Mixed Type Securities Investment Fund (LOF)	other	0.24	14,138,975			N/A
CCB-ICBC Credit Suisse Preferred Balance Mixed Type Securities Investment Fun	other	0.19	13,955,314			N/A

Shareholding Status of Top Ten Shareholders of Tradable Shares

Name of Shareholder	Amount of Shares held without Trading Restriction	Type and Quantity of Share
Grand China Air Co., Ltd.	1,716,394,743	A Share
Haikou Meilan International Airport Co., Ltd	431,424,451	A Share
Changjiang Leasing Co., Ltd	284,575,549	A Share
American Aviation LDC	108,043,201	B Share
HNA Industrial Holding Co., Ltd	90,181,000	A Share
ICBC-BOC Sustainable Growth Fund	77,477,028	A Share
CCB-Huaxia Dividend Mixed Securities Investment Fund	20,816,082	A Share
CMB-Fuguo Tianhe Preferred Share Type Securities Investment Fund	16,013,010	A Share
BOC-Huaxia Blue Chip Central Mixed Type Securities Investment Fund (LOF)	14,138,975	A Share
CCB-ICBC Credit Suisse Preferred Balance Mixed Type Securities Investment Fund	13,955,314	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. and HNA Industrial Holding 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.	

2. Introduction to the Controlling Shareholder and the Actual Controller

(1) Introduction to the Controlling Shareholder and the Actual Controller

Grand China Air Co., Ltd. (hereinafter referred to as "Grand China Air") 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) as of December 31, 2009.

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. It is a wholly state-owned company. Hainan Development Holding Co., Ltd has a stake of 40.653% in Grand China Air Co., Ltd as of December 31, 2009.

On January 8, 2010, Grand China Air Co., Ltd. obtained a new business license after increasing its share capital. The registered capital of Grand China Air Co., Ltd. increases from RMB 3,689,795,600 Yuan to RMB 6,008,323,967 Yuan. Hainan Development Holding Co., Ltd is still the biggest shareholder of Grand China Air Co., Ltd with 24.97% of the stake. After increasing the investment, the controlling shareholder and actual controller of the Company are not changed.

(2) Introduction to the Controlling Shareholder (as of December 31, 2009)

○ Legal Person

Monetary unit: RMB Yuan

Name of the Company	Grand China Air Co., Ltd.
Principal or Legal Representative	Chen Feng
Date of Establishment	July 12, 2004
Registered Capital	3,689,795,600
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 (the businesses which needs administrative approval shall obtain the license).

(3) Introduction to the Actual Controller (as of December 31, 2009)

○ Legal Person

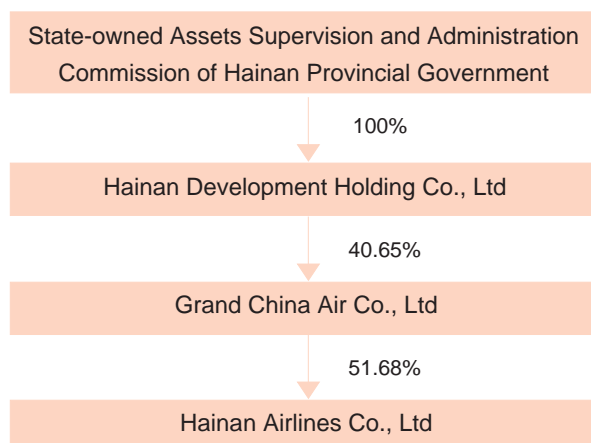
Monetary unit: RMB Yuan

Name of the Company	Hainan Development Holding Co., Ltd
Principal or Legal Representative	Liu Mingui
Date of Establishment	Jan 26, 2005
Registered Capital	500,000,000
Principal Businesses	Marine oil & gas development and utilization; tropical agricultural products and by products processing; 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; land reserve, development and business operation; real estate development and business operation; 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.

(4) 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.

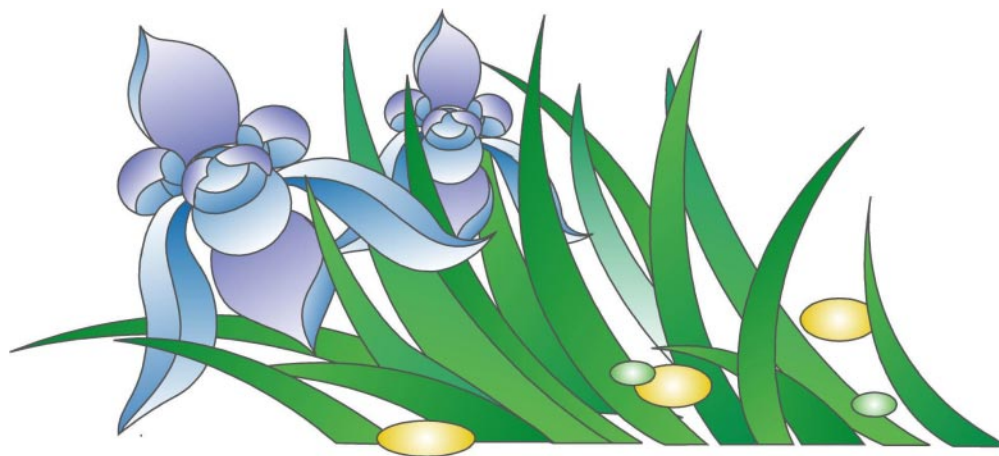
As of December 31, 2009, the property right and controlling relationship between the actual controller and the company is as follows:



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

Monetary unit: RMB Yuan

Name of the Shareholder	Legal representative	Date of establishment	Principal Businesses	Registered Capital
Haikou Meilan International Airport Co., Ltd.	Zhang Han'an	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	1,979,780,000



IV. Directors, Supervisors and Senior Executives



(I) Shareholding Changes and Compensation about Directors, Supervisors and Senior Executives

Unit: Share

Name	Position	Sex	Age	Starting Date of Service Term	Expiry Date of Service Term	Shares Held at Beginning of the Year	Shares Held at End of the Year	Cause of Changes	Total Remuneration in the Reporting Period (RMB 1,000 Yuan) (Before Tax)	Remuneration from Shareholding Companies or other Related Companies (Yes/No)
Li Xiaoming	Chairman	Male	48	June 5, 2009	June 4, 2012				26.24	No
Wang Yingming	Vice Chairman & President	Male	47	June 5, 2009	June 4, 2012				24.7	No
Yang Jinglin	Vice Chairman	Male	54	June 5, 2009	June 4, 2012				23.13	No
Mou Weigang	Director & Vice President	Male	48	June 5, 2009	June 4, 2012				35.99	No
Chen Rijin	Independent Director	Male	64	June 5, 2009	June 4, 2012				8	No
Wu Banghai	Independent Director	Male	68	June 5, 2009	June 4, 2012				8	No
Lin Shiluan	Independent Director	Male	62	September 18, 2009	September 17, 2012				8	No
Zhang Cong	Convener of BoS	Male	51	June 5, 2009	June 4, 2012				0	Yes
Gao Jian	Supervisor	Male	29	June 5, 2009	June 4, 2012				0	Yes
Li Rui	Supervisor	Male	33	June 5, 2009	June 4, 2012				2.5	No
Chen Ping	Supervisor	Male	35	June 5, 2009	June 4, 2012				2.5	No
Xu Xiaojie	Supervisor	Male	42	June 5, 2009	June 4, 2012				2.5	No
Chen Ming	Vice President	Male	45	April 29, 2009	April 28, 2012				16.04	No
Yu Wenyong	Vice President	Male	44	July 21, 2009	July 20, 2012				11.53	No
Xie Shufeng	CFO	Male	33	August 31, 2009	August 30, 2012				8.86	No
Lv Guangwei	Secretary of BoD	Male	39	April 29, 2009	April 28, 2012				10.4	No

Li Xiaoming: Male, chairman of the Company, born in Beijing in August 1962. He graduated from China University of Political Science and Law. He had been acting the 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 and president of the Company, born in Tianjin in 1963. He graduated from aeroengine control major, Northwestern Polytechnical University. He had been acting the deputy manager, general manager of maintenance department of the Company, managing executive vice president, CEO and executive vice president of the Company.

Yang Jinglin: Male, vice chairman of the Company and executive president of China Xinhua Airlines Co., Ltd, born in Harbin, Heilongjiang Province in 1956. He has been working in Qiqihar Locomotive Depot and had been acting the political tutor of an army. He serves as the executive president of China Xinhua Airlines Co., Ltd. since February 1997.

Mou Weigang: Male, director and vice president of the Company, born in 1962. He graduated from the first Flight of the Air Force Academy. He worked as flight commander in certain division of Air Force, deputy chief in certain division of Air Force and etc. He joined in Hainan Airlines in 1992 and worked as the Deputy Commander, Commander of Flight Team, vice general manager and vice president of the flight department.

Chen Rijin, male, was born in 1946. Chen graduated from Northwestern Industry University and is currently an independent member of Board of Directors of Hainan Airlines. He previously served as secretary of the party committee of Hubei Huangshi Metalforming Machine Factory, deputy director of Huangshi Economic Committee, Vice Mayor of Huangshi Municipal Government, Vice Head of the Industry Department of Hainan province, Deputy Chief Secretary for the Hainan provincial government, Director of the Industry Department, and Director of Finance Department of Hainan Province.

Wu Banghai, male, was born in 1942. Wu is a postgraduate, a communist party member and a native of Tianjin. He is currently Independent Director of Hainan Airlines, and formerly Vice-President of Intermediate People's Court in Zhangjiakou, Hebei Province, Economy Division Chief Judge and Associate Director of Political Department of Higher People's Court of Hainan Province, President and Party Secretary of Intermediate People's Court, Deputy Secretary of Political and Law Committee, Deputy Director of Comprehensive Management Committee.

Lin Shiluan, male, was born in 1948. Lin is a postgraduate and a communist party member. He is a senior economist. He has been acting President of Hainan State Farms Guilinyang Farm, Deputy Director General of Hainan State Farms, Secretary Municipal Committee of the CPC and Mayor of Wenchang, Director-general of Department of Land Environment & Resources of Hainan Province. He is currently the Chairman of Financial and Economic Committee of Standing Committee of Hainan People's Congress.

Zhang Cong, male, was in February 1959. He graduated from Civil Aviation University of China and holds a bachelor's degree. He is the 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. He is currently the Executive Chairman and President of Jilin Province Tourism Group Co., Ltd.

Gao Jian, male, was born in 1981. Gao is a graduate from China Civil Aviation University, communist party member and presently Deputy Director of the Office of HNA Group.

Li Rui, male, was born in January 1977. Li is a member of the Board of Supervisors. He has a bachelor's degree in Information Management from the Central China Science and Technology University.

Chen Ping: Male, supervisor of the Company. He graduated from Fu Dan University with bachelor's degree.

Xu Xiaojie, male, was born in January 1968. He is a native of Guangdong Province and a postgraduate from University of Finance & Economics. Xu is currently Supervisor of Hainan Airlines and previously held positions as General Manager of Credit Department and Security Department of China International Trust and Investment Corporation, Finance Director of Baotonghang Co., Ltd and currently Manager of Enterprise Management of Jincheng State-owned Assets Management Company since October 2006.

Chen Ming, male, was born in July 1965 in Urumchi. He is a communist party member. He is currently Vice President of Hainan Airlines. He graduated from Maastricht School of Management, majoring in Enterprise Management. Chen became a member of Hainan Airlines since 1994 and was previously General Manager of Marketing and Sales Department of Hainan Airlines, Director of Office, Executive President of China Xinhua Airlines, CEO and General Manager of Deerjet Company, Chairman of Hainan Air Catering Holding Ltd and Vice President of HNA Eating Holding Company.

Yu Wenyong, male, Han nationality, was born in May 1966 in Yilan, Heilongjiang. He is a communist party member. As a postgraduate majoring Mechanical from Northwestern Polytechnic University, Yu is formerly Executive Deputy Manager of Flight Department, and Maintenance and Engineering Department of Hainan Airlines, Deputy Manager of Maintenance and Engineering Department of China Xinhua Airlines, Executive Vice President of Chang'an Airlines, President and Chairman of Tianjin Airlines.

Xie Shufeng, male, was born in April 1977 in Ma'anshan, Anhui. He was graduated from Wuhan University, majoring in Certified Public Accountants Specialization. Xie became a member of Hainan Airlines since 1999. He is currently CFO of Hainan Airlines. He was previously Deputy General Manager, Executive Deputy General Manager and General Manager of Planning & Finance Department, General Manager of Finance Department of HNA Group Co., Ltd and CFO of HNA Industrial Holding Co., Ltd.

Lv Guangwei, male, was born in May 1971. Lv is the current Secretary of the Board of Directors. He was a graduate of Management from Qiqihar University and previously Securities Represent of Hainan Airlines.

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

Name	Company	Position	Starting Date of Service Term	Expiry Date of Service Term	Remuneration (Yes/No)
Li Xiaoming	Grand China Air Co., Ltd.	Director			No
Yang Jinglin	Grand China Air Co., Ltd.	Director			No

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

Name	Name of Other Companies	Position	Starting Date of Service Term	Expiry Date of Service Term	Remuneration (Yes/No)
Chen Rijin	Haikou Agriculture & Industry & Trade Luoniushan Co., Ltd	Independent director	September 9, 2009		Yes
Chen Rijin	Hainan Dadonghai Tourism Centre (Holdings) Co., Ltd.	Independent director	May 22, 2009		Yes
Chen Rijin	Hubei Guangji Pharmaceutical Co., Ltd.	Independent director	April 7, 2009		Yes
Lin Shiluan	Financial and Economic Committee of Standing Committee of Hainan People's Congress	Director	February 1, 2008		Yes
Zhang Cong	Jilin Province Tourism Group Co., Ltd	Executive Chairman & President	September 24, 2008		Yes
Xu Xiaojie	Hainan Jincheng State-owned Property Administration Co., Ltd	Manager of the corporation management department	October 1, 2006		Yes

(III) Rewards of Directors, Supervisors and Senior Executives

Decision-making procedures for 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.
Basis of rewards of directors, supervisors and senior executives	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.

(IV) Personnel Changes of Directors, Supervisors and Senior Executives

Name	Position	Change	Reason
Wang Zhi	Independent director	Leave the post	Expiration
Feng Da'an	Independent director	Leave the post	Private reasons
Wu Banghai	Independent director	Recruitment	Working requirement
Lin Shiluan	Independent director	Recruitment	Working requirement
Wu Qingping	Supervisor	Leave the post	Private reasons
Gao Jian	Supervisor	Recruitment	Working requirement
Zhang Shanghui	Secretary of BoD	Leave the post	Personnel change
Lv Guangwei	Secretary of BoD	Recruitment	Working requirement
Chen Ming	Vice President	Recruitment	Working requirement
Yang Jianhong	Vice President	Leave the post	Personnel change
Liu Dan	CFO	Leave the post	Personnel change
Xie Shufeng	CFO	Recruitment	Working requirement

(V) Staff

Staff number	9,894
Retired employees that the Company needs to bear relevant cost	9
Distribution of occupation	
Occupation	Number of Staff
Pilots	1,185
Flight Attendants	1,978
Maintenance Workers	2,348
Flight Operations	173
Other	4,210
Educational background	
Educational Background	Number (people)
Master's Degree or above	136
Bachelor's Degree	3,775
Colleague Diploma	3,913
Other	2,070

(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. Currently, the administrative structure of the Company is well-established. There is no difference from the requirements of relevant documents of CSRC.

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. HNA can disclose the details and share changes of large shareholders or the actual controller of the Company in time in accordance with the relevant regulations.
8. **On August 21, 2009, Hainan Bureau of CSRC issues Decision on Ordering Hainan Airlines Company Limited to Adopt Rectifying Measures (hereinafter referred to as "Decision").** After receiving the Decision, the Company carefully makes a self-check on the problems revealed in the Decision and submits the self-check report and rectifying measures to the BoD of the Company for review. HNA also discloses these to the public on October 10, 2009.

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 of SSE and improve the level of corporate governance.

(II) Performance of the Directors

1. Present of the board meeting

Name of the independent director	Independent director (Yes/No)	Times of meeting that the directors shall present in 2009	Times of present in person	Times of present in the way of communication	Commission	Absence	Absence for continuously two times (Yes/No)
Li Xiaoming	No	13	13	13	0	0	No
Wang Yingming	No	13	13	13	0	0	No
Yang Jinglin	No	13	13	13	0	0	No
Mou Weigang	No	13	13	13	0	0	No
Chen Rijin	Yes	13	13	13	0	0	No
Wu Banghai	Yes	8	8	8	0	0	No
Lin Shiluan	Yes	5	5	5	0	0	No

Times of Board Meetings held in 2009	13
In which: Times of on-site meetings	0
Times of meetings held in the way of communication	13
Times of meeting held on-site and in the way of communication	0

2. Dissidence of independent directors against any proposal on the board meeting

In 2009, the independent directors raised no dissidence against any proposal on the board meeting or other events of the Company.

3. Establishment, main contents of relevant working systems of independent directors and performance of independent directors,

The Company establishes the relatively perfect working system for independent directors including Rules for the Board of Directors, Working System for Independent Directors and Annual Report Working System for Independent Directors, which regulate the qualification and conditions, principles of executing authority, rights as well as the responsibilities and obligations in preparing annual report and disclosing information of the independent directors.

The Company strictly implements the above-mentioned systems. The independent directors play important roles in the Company. The independent directors of the Company execute the authority carefully, learn about the production and business operation information in time, concern the development of the Company and actively participate the BoD meeting in the reporting period to give professional comments on proposals on the board meeting from professional perspective in order to make objective and just judgment. This plays an active role in the scientific decision-making of BoD and the healthy development of the Company and maintains the legal rights and interests of investors of the Company.

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

	Independent and complete (Yes/No)	Description
Operation	Yes	The main business of HNA is air passenger and cargo transportation. The production and operation of the Company are fully independent from the main shareholders of the Company. The Company possesses its own production, supply and marketing system. The Company is independent from the controlling shareholder or other related parties to conduct production and operation. The business of the Company is independent from the controlling shareholder or other related parties.
Staff	Yes	The Company has established the complete corporate governance structure according to The Company Law. The Chairman, president, vice presidents and finance staffs do not hold any positions in the shareholders' companies or related companies. The Company establishes independent administrative governance institutions (including labor, personnel and compensation governance institutions). The Company has established a complete systematic management system. The Company is independent from the main shareholders in terms of staff.
Assets	Yes	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.
Organization	Yes	The Company has independent Human Resource Department, Planning & Finance Department, Marketing & Sales Department, Flight Department, Maintenance & Engineering Department and Operation Support Department. The organization and operation facilities of the Company are completely separated and independent from that of the controlling shareholder.
Finance	Yes	The Company has an independent financial department, independent accountants, independent accounting & managing system and separate bank accounts. HNA opens an independent bank account in the bank 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

Overall Scheme of Internal Control Construction	The Company prepared sound and effective internal control system according to laws and rules and regulatory documents such as Company Law, Securities Law and Rules on the Listing of Stocks. While establishing and implementing the internal control system, the Company mainly considers five basic elements of internal environment, risk assessment, controlling activities, information and communication and internal supervision. The goal of internal control of the Company is to reasonably ensure that the operation and management comply with the law and regulations, asset safety, financial report and relevant information are true and complete in order to increase the operation efficiency and effect and promote the Company to achieve development strategy.
Working Plan of Establishing and Improving Internal Control System and Implementation	The Company formulates the working plan of establishing and improving internal control. The effective implementation of internal control system is ensured through continuously improving internal control environment, establishing and improving business flow and various regulations and rules and establishing effective assessment and incentive program. Currently, the Company has formulated the sound internal control system in terms of corporate governance, operation and management, financing and accounting and safety management.
Setting of Internal Control Inspection and Supervision Department	The Company supervises and checks the formulation and implementation of management internal control system by establishing BoD auditing committee; at the same time, the Company establishes compliance department to conduct daily supervision and check to the internal control system of the Company and these matters are submitted to the management and BoD.
Internal Supervision and Internal Control Self-assessment Work	The Company supervises and checks the formulation and implementation of internal control system via compliance department, BoD auditing committee and BoS. At the same time, the BoD provides internal control self-assessment report on the basis of hearing the working reports of the management, compliance department and internal control suggestions of accounting firms.
Arrangement of BoD on relevant Works relating to Internal Control	The BoD reviews the self-assessment report on internal control annually and provides improvement suggestions. Also, BoD regularly or irregularly reviews and supervises the improvement of internal control and whether the internal control system is effectively implemented.
Improvement of Internal Control System Relating to Financial Accounting	The Company has formulated effective financial internal control systems including accounting policy of the Company, financial budget management system, accounting methods, accounting post responsibility and work specialization, receivables management systems. In 2009, the Company formulated Related Transaction System of Hainan Airlines Company Limited, Fund Payment Approval Regulation of Hainan Airlines Company Limited, Regulations on Settlement between Hainan Airlines Company Limited and Related Parties and Supplementary Provisions of Accounting of Hainan Airlines Company Limited, further improving the internal control system relating to financial accounting.
Defects and Rectifying of Internal Control	The Company conducts self-assessment on internal control in 2009. The assessment shows there is no material defects in designing or implementing internal control from January 1, 2009 to the end of the year.

(V) Performance Evaluation and Incentive Program to Senior Management

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

The performance evaluation system of the senior managers consists of the annual evaluation scheme, assessment by the chairman, reward program and bonus incentive program.

(VI) The Company discloses the Self-assessment Report on Internal Control or Performance Report on Fulfilling the Social Responsibility

Website: www.sse.com.cn

1. Disclosure of Self-assessment Report on Internal Control (Yes/No): Yes
Website: www.sse.com.cn
2. Disclosure of Comments of Auditors on Internal Control Report of the Company (Yes/No): Yes
Website: www.sse.com.cn

(VII) Establishment of Responsibility System for Material Errors in Annual Report Information Disclosure

The Company establishes a set of complete information disclosure management system including responsibility system for material errors in annual report information disclosure. The Company establishes significant event information report system and reasonability system. According to the regulations, if the directors, supervisors and senior executives, functional departments of the Company and subsidiaries do not report the significant events, causing delay of information disclosure, material errors or omissions and losses of the Company or investors, the Company will punish the relevant responsible persons; the Company will punish the personnel who disclose the information without obtaining approval according to the punishment regulation on persons who disclose the secrets of the Company; at the same time, the relevant responsible persons shall bear legal responsibilities if applicable.

In the reporting period, there is no material accounting errors amendment, material omissions supplement and performance report modification.

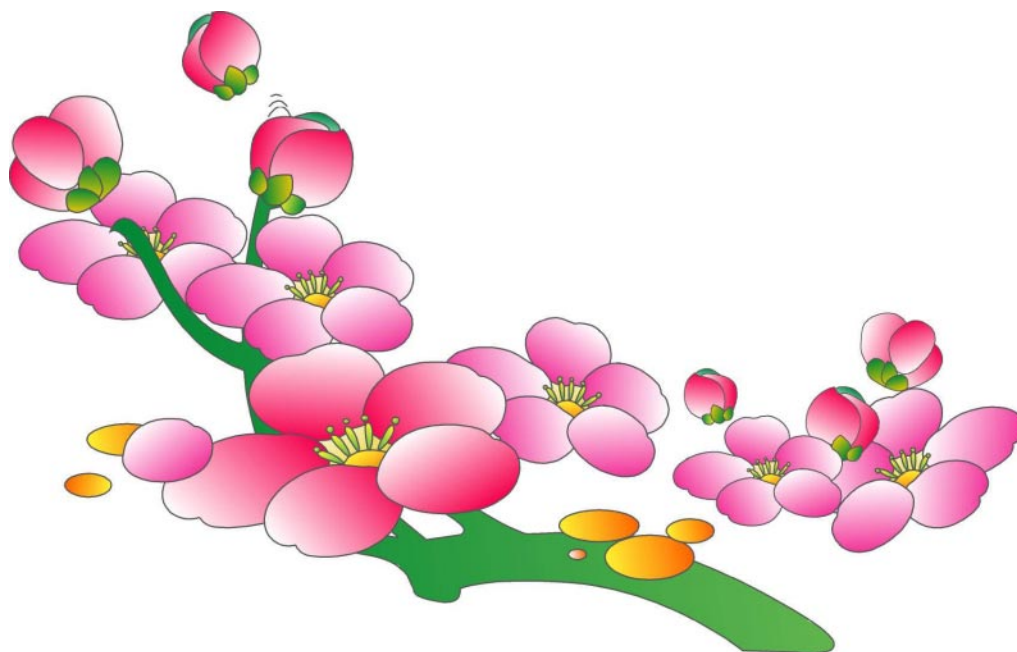


(I) Annual General Meeting of Shareholders

Meeting	Date of Meeting	Newspapers for Information Disclosure	Date of Disclosure
Annual General Meeting of Shareholders 2008	June 5, 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 6, 2009

(II) Temporary General Meeting of Shareholders

Meeting	Date of Meeting	Newspapers for Information Disclosure	Date of Disclosure
The first temporary general meeting of shareholders of 2009	February 4, 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	February 5, 2009
The second temporary general meeting of shareholders of 2009	June 11, 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 12, 2009
The third temporary general meeting of shareholders of 2009	September 18, 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	September 19, 2009
The fourth temporary general meeting of shareholders of 2009	November 6, 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	November 7, 2009
The fifth temporary general meeting of shareholders of 2009	December 30, 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 31, 2009



(I) Discussion and analysis of the managements

Facing complicated domestic and overseas situations and fierce market competition in 2009, the BoD and management of HNA took various measures and enhanced the management structure adjustment to establish and improve various systems and corporate governance level of the Company. At the same time, the Company expanded the flight scale, promoted the base building and improved the global flight distribution; also, HNA enhanced SMS safety system building to ensure continuous flying safety; meanwhile, HNA enhances the brand building of the Company. HNA was awarded as China's First Skytrax Four-star airline. The works of BoD in 2009 are as follows:

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

(1) General information

In 2009, the income of the principal business of the Company is RMB 13.811 billion Yuan, increasing by 12.89%, in which the passenger income is RMB 12.848 billion Yuan and takes up 93.03%, the cargo income is RMB 482 million Yuan and takes up 3.49%, and the chartered flight income is RMB 436 million Yuan and takes up 3.16%. The mileage accumulation income is RMB 44 million Yuan and takes up 0.32%. The net profit of the company in 2009 is RMB 335 million Yuan.

In 2009, the passenger transportation of the Company is 17.4309 person-times, increasing by 21.22%; the cargo transportation is 0.236 million tons, increasing by 26.54%; the total turnover of transportation is 29.9462 billion ton*kilometers, increasing by 30.02%.

In 2009, the Company introduced 26 aircrafts, including 1 B737-300, 22 B737-800, 1 A330 and 2 A340; 12 aircrafts were out of commission; there are totally 14 new aircrafts. As of December 31, 2009, HNA operated 91 aircrafts in total. HNA can provide 5.5791 million seats for a whole year. Specifics of the aircrafts are as follows

Mode	B737-300	B737-400	B737-800	B767-300	A319	A330-200	A340-600	Total
Number	5	9	62	3	4	5	3	91

(2) Status of the principal business

1) Status of principal business classified by industry

Monetary unit: RMB 1,000 Yuan

Classified according to industry or product	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 (Percentage)
Passenger Transportation	12,848,380	11,529,463	10.59	15.25	6.94	6.96
Cargo Transportation	482,322	432,914	10.61	21.29	11.75	7.63
Chartered Flights	435,971	390,560	10.99	-34.32	-39.29	7.36
Mileage	44,139	-	-	408.15	-	-

2) Status of principal business classified by company

Monetary unit: RMB 1,000 Yuan

Region	Income of Principal Business	Increase/Decrease of the Income from Principal Business Compare with Previous Year (%)
HNA (headquarters)	9,094,631	14.88
Xinhua Airlines	2,843,678	4.12
Chang'an Airlines	1,413,084	15.62
Shanxi Airlines	459,419	25.29

3) Key operation indexes

Index	2009	2008	Increase/Decrease (%)
ASK	3,600,305.01	2,791,479	28.97
Total Turnover of Transportation (In 10,000 ton*kilometers)	299,461.83	230,314.23	30.02
Total Turnover of Passenger Transportation (In 10,000 ton*kilometers)	249,559.38	194,304.07	28.44
Total Turnover of Cargo & Mail Transportation (In 10,000 ton*kilometers)	49,902.45	35,733.40	39.65
Total Flying Kilometers (In 10,000 kilometers)	21,124.73	16,827.14	25.54
Total Flying Hours (In hour)	330,089	264,264	24.91
Flying Flights (In flight)	143,847	118,854	21.03
Flight Using Rate per Day (In hour)	10.2	10.1	0.99
Volume of Passenger Transportation (In 10,000 person*times)	1743.09	1,438	21.22
Volume of Cargo & Mail Transportation (In 10,000 tons)	23.6	18.65	26.54
Average Seating Rate (%)	78.02	78.5	-0.48
Average Loading Rate (%)	67.14	70.9	-3.76

(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	7.77%	It is mainly due to the increase of cash reserve arising from the expansion of the Company's scale, purchase of fixed assets and increase of liquid funds demand.
Investment real estate	8.99%	It is mainly due to the acquisition of subsidiaries such as Beijing Kehang and Shengyuan and the value of investment real estate is measured according to fair value.
Construction in progress	-9.58%	It is mainly due to the newly purchased aircrafts are transferred into fixed assets and the balance of prepaid payment for purchasing aircrafts in construction in progress before accounting.
Other non-current assets	-7.94%	It is mainly due to the Company takes back the equity investment prepaid to Bohai International Trust and Yanjing Hotel.
Short-term borrowings	8.61%	Due to the increase of liquid fund demand, the financing activities are increased. Therefore, the balance of borrowings rises.

(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 (%)	Causes for the Change
Business Taxes and Surcharges	495,620	384,266	28.98	Growth of operating revenue.
Sale Cost	747,612	587,175	27.32	Growth of agent fees, commission charge and computer ordering fee.
Financing Fee	1,312,615	648,227	102.49	Growth of Interest-bearing debts and interest expenses.
Asset Devalue Loss	-15,483	615,590	-97.48	The Company calculated the impairment of Dornier aircrafts last year.
Profit and Loss from Fair Value Changes	584,791	8,074	7142.89	Changes of fair value due to the Company changes the measurement of investment real estate from cost method to fair value method.
ROE	8,892	32,102	-72.30	The Company transferred the long-term equity and obtained gains last year.
Non-operating revenue	584,039	160,337	264.26	The Company obtained the refund of civil aviation infrastructure construction fund.

(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 2.836 billion Yuan and the net profit is RMB 30.35 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 1.413 billion Yuan and the net profit is RMB 4.51 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 approved air passenger and cargo transportation. In the report period, the principal business income is RMB 459 million Yuan and the net profit is RMB 2.28 million Yuan. The Company holds 93.21% equity interests.

2. Prospect of the future development

(1) Development of aviation industry

1) Advantages:

Firstly, it is expected that the air transportation demand will be increased strongly. In 2010, the global economy will be gradually recovered. The demand of global civil aviation market will be increased strongly. IATA forecasts the demand of global passenger transportation and cargo transportation will increase by 5.6% and 12.0% respectively in 2010. It is forecasted that the demand of China civil aviation market will maintain the growth of over 10% in 2010.

Secondly, construction of Hainan as an International Tourism Destination. At the beginning of 2010, with the Opinions on Propelling Construction of Hainan as an International Tourism Destination released by the State Council, the construction of Hainan as an international tourism destination becomes a national strategy. With the development of construction of Hainan as an international tourism destination, the tourism market of Hainan experiences the unprecedented development. The air transportation industry of Hainan will also face the unprecedented opportunities.

Thirdly, possible RMB appreciation. With the stable economic growth in China and rapidly growth of export, 2010 will witness slight RMB appreciation. This will help air transportation enterprises to reduce procurement cost and financial cost as well as improve the financial situation of the enterprises.

2) Disadvantages:

Firstly, it is unlikely for the reduction of price of aviation oil. In 2009, the domestic aviation oil price decreased from 5,450 yuan/ton in January to 3,690 yuan/ton in March and then increased to 5,620 yuan/ton in November. In 2010, due to the loose currency policy and inflation expectation in the world and the influence of demand increase because of global economic recovery, it is unlikely for the reduction of the crude oil price and aviation oil price.

Secondly, risk of interest rate rise. Currently, both the Libor interest rate and benchmark interest rate of RMB deposits and loans are in the lower level in comparison to other historical records. With the stable global economic growth and approaching of inflation, the risk of interest rate rise will increasingly high in 2010.

Thirdly, rapid construction of high-speed railways. In 2009, Chinese government announced adjustment act of Mid-Long term Development Plan for China Railway. China will make a huge investment to construct high-speed railways. With the operation of Chengdu-Chongqing Railway and Wuhan-Guangzhou High-speed Railway, Chengdu-Chongqing Flight and Changsha-Guangzhou Flight are cancelled. The competition between high-speed railways and civil aviation will be increasingly fierce.

(2) Objective of the Company

In 2010, the Company will implement the work arrangement of CAAC and attach much importance to safety. At the same time, the Company will continuously improve the corporate structure and actively adopt various measures on broadening sources of income and reducing expenditure, optimize and improve the flight, strengthen the construction of brand and promote internationalization process to achieve the goal of world-class aviation brand and aviation enterprise.

Target index in 2010:

Index	Data	Increase (%)
Turnover transportation volume (In 100 million ton*kilometers)	32.58	8.78
Turnover transportation volume (In 10,000person-times)	1935	11.00
Cargo volume (In 10, 000 tons)	25.53	8.17
Flying hours (In 10,000 hours)	37.81	14.56
Flight number (In 10,000 flights)	15.90	10.50
Safety	Accident and incident rate per 10 thousand hours: ≤ 0.1. Accident is 0	
Punctuality	Rank the first three in the industry.	

Business plan of 2010

Revenue (in 100 million yuan)	PlanExpense Plan (in 100 million yuan)	Operating Profit Objective in 2010 (in 100 million yuan)	Strategies and Measures for Achieving Objectives
180	172	8	According to the strategy of construction of Hainan as an international tourism destination, the Company will broaden the marketing channels and increase the operating revenue; increase the operation and service quality of four-star airlines and enhance the operation and management of the Company; implement the plan of broadening revenue and reducing expenditure.

(3) Demand of capital and its utility

It's estimated that the capital of RMB 28 billion Yuan will be needed to achieve the operation target of 2010 which will be collected through bank loans, short-term financial certificates etc. To insure the increase in transportation ability would be the major use of the capital.

(II) Investment of the Company

1. Use of the collected capital

Monetary 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	1.95	54.22	1.78	Acquire minority stockholder's interest; pay back bank loans; introduction of aircrafts; supplement the liquid funds of the Company

2. Introduction to non-collected capital

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

(III) Discussion Results of BoD on Reasons for and Influence of Changes in Accounting Policy, Accounting Estimates, Material Accounting Errors and Supplement of Material Omissions and Punishment Measures on Relevant Responsible Persons

1. Changes in accounting policy of Investment real estate

Before 2009, the Group adopts cost model for subsequent measurement to all investment real estates. The management thinks the main investment real estates of the Group are located in large and middle cities such as Beijing, Haikou and Sanya. The market price information and relevant data of above-mentioned cities are easily obtained; at the same time, due to the change of economic environment, the fair value model can reasonably reflect the value of investment real estates of the Company and provide more reliable accounting data than cost model; therefore, from 2009 on, the Group adopts fair value model rather than cost model to make subsequent measurement to investment real estate and this matter is processed as change of accounting policy according to Accounting Standards for Enterprises No. 3- Investment Real Estate, and the figures in the reporting period are retroactively adjusted and restated.

In 2009, the Group processed the matters as change of accounting policy and the figures in the reporting period are retroactively adjusted and restated. The influence of change of accounting policy on the financial statements on January 1, 2008, 2008 and 2009 are as follows. It has less influence on net loss per share in 2008.

Consolidated	Shareholders'		Shareholders'
	Equity on January	2008 Net Profit	
	1, 2008		31, 2008
Amount in 2008	8,330,524	(1,588,405)	6,666,743
Influence of the accounting policy change	(8,021)	9,994	1,973
Amount after the retroactive adjustment	8,322,503	(1,578,411)	6,668,716

The Company	Shareholders'		Shareholders'
	Equity on January	2008 Net Profit	
	1, 2008		31, 2008
Amount in 2008	8,036,657	(925,143)	7,111,514
Influence of the accounting policy change	(8,021)	9,994	1,973
Amount after the retroactive adjustment	8,028,636	(915,149)	7,113,487

Items in Balance Sheet and Income Statement in 2008 influenced by Accounting Policy Change:

	Consolidated			The Company		
	Before Change	Increase/ Decrease)	After Change	Before Change	Increase/ Decrease)	After Change
	December 31, 2008	(Decrease)	December 31, 2008	December 31, 2008	(Decrease)	December 31, 2008
Investment real estate	172,302	4,473	176,775	172,302	4,473	176,775
Deferred income tax liabilities	-	2,499	2,499	-	2,499	2,499
Total loss	(1,410,689)	1,973	(1,408,716)	(438,723)	1,973	(436,750)
Operating cost	12,516,141	(4,419)	12,511,722	8,268,540	(4,419)	8,264,121
Profits and losses on the changes in fair value	-	8,074	8,074	-	8,074	8,074
Income tax expense	52,195	2,499	54,694	28,389	2,499	30,888
Net Loss	(1,588,405)	9,994	(1,578,411)	(925,143)	9,994	(915,149)

Items in Balance Sheet and Income Statement in 2009 influenced by Accounting Policy Change:

	Consolidated			The Company		
	Before Change	Increase/ Decrease)	After Change	Before Change	Increase/ Decrease)	After Change
	December 31, 2009	(Decrease)	December 31, 2009	December 31, 2009	(Decrease)	December 31, 2009
Investment real estate	4,860,917	680,818	5,541,735	1,751,441	326,316	2,077,757
Deferred income tax liabilities	359,031	161,887	520,918	12,737	85,239	97,976
Capital reserves	3,892,354	31,168	3,923,522	3,889,097	4,216	3,893,313
Total loss	(1,524,587)	450,541	(1,074,046)	(526,357)	236,861	(289,496)
Minority shareholder's interest	599,631	37,222	636,853	-	-	-
Operating cost	13,275,217	(19,023)	13,256,194	8,845,926	(15,643)	8,830,283
Profits and losses on the changes in fair value	(7,016)	591,807	584,791	(7,016)	300,581	293,565
Income tax expense	(13,421)	143,010	129,589	(15,427)	81,335	65,908
Net profit attributable to shareholders of the	(113,897)	448,567	334,670	(87,636)	234,889	147,253
Minority interest income	2,037	19,253	21,290	-	-	-

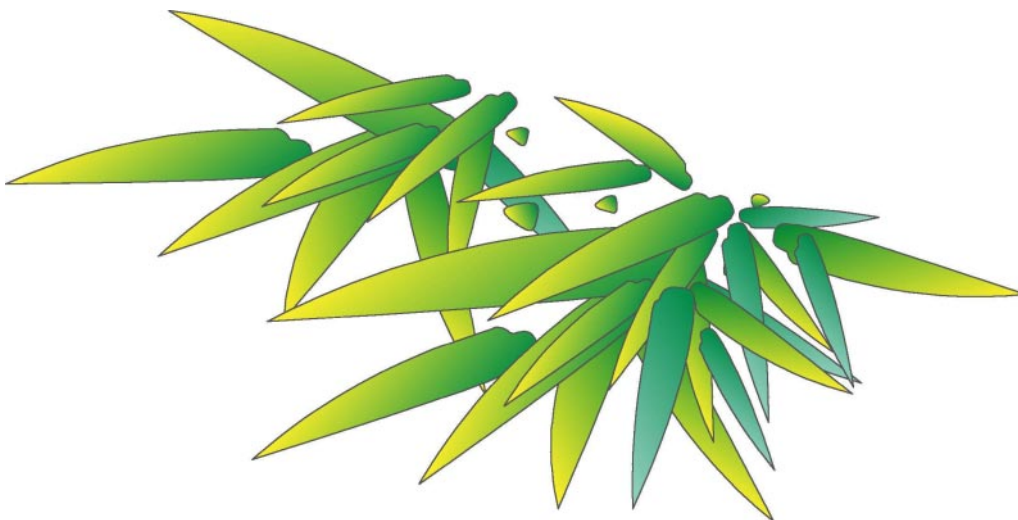


(IV) Routine Work of Board of Directors

1. Meetings of Board of Directors and Resolution

Meeting	Date of Meeting	Resolution	Newspapers for Information Disclosure	Date of Disclosure
The 26th Session of the 5th Board Meeting of the Company	January 14, 2009	The Report on Signing Credit Mutual Guarantee Framework Agreement with HNA Group Co., Ltd and Submitting Related Mutual Guarantee Amount 2009 to General Meeting of Shareholders for Approval and Report on Transferring Equity in Yangtze River International Leasing Co., Ltd. were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	January 15, 2009
The 27th Session of the 5th Board Meeting of the Company	February 4, 2009	The Report on Adjusting Members of Auditing and Risk Commission of BoD was approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	February 5, 2009
The 28th Session of the 5th Board Meeting of the Company	April 29, 2009	The Work Summary 2008 and Work Plan 2009, Working Report of Board of Directors 2008, Profit Distribution Program 2008, Report on Distribution Program of Remuneration of Directors, Supervisors and Senior Executives, Report on Employing Accounting Firm and Payment, Report on Signing Daily Production Related Transactions Agreement, Report on Submitting Mutual Guarantee Amount between Hainan Airlines and Controlling Subsidiaries to General Meeting of Shareholders for Approval, Report on Introducing Aircrafts in 2009, Report on Modifying Articles of Association, Independent Director's Work Report for 2008, Report on BoD Election, Report on Appointing Vice President, Secretary of BoD and Representative of Securities Affairs of the Company, Report on Accounting Policy Change and Report on Calculating Large Assets Impairment Provision in 2008 were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009
The 29th Session of the 5th Board Meeting of the Company	April 29, 2009	Q1 Report 2009 of Hainan Airlines Company Limited was approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009
The 30th Session of the 5th Board Meeting of the Company	May 25, 2009	The Proposal of Complying with Conditions of Non-public Offered A Share of Hainan Airlines, Proposal of Issuing Non-public A Share Program of Hainan Airlines, Proposal on Signing 'Share Subscription Agreement' with Hainan Development Holding Co., Ltd, Proposal on Signing 'Share Subscription Agreement' with HNA Group Co., Ltd, Proposal of Issuing Non-public A Share Preplan of Hainan Airlines, Proposal of Modifying Relevant Clauses of Articles of Association of Hainan Airlines, Proposal of Using the Raised Funds Last Time, Proposal of Feasibility Report on Using Funds Raised from Non-public Offered A Shares, Proposal of Formulating Fund-raising Management Rule of Hainan Airlines Company Limited, Proposal of Requesting Non-related Shareholders of Temporary General Meeting of Shareholders to Approve Hainan Development Holding Co., Ltd Exempt from Providing Share Acquisition Agreement, Proposal of Requests General Meeting of Shareholders to Authorize BoD to Transact Non-public Offering A Share on the behalf of General Meeting of Shareholders and Proposal of Requesting Holding the Second Temporary General Meeting of Shareholders in 2009 were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 26, 2009

Meeting	Date of Meeting	Resolution	Newspapers for Information Disclosure	Date of Disclosure
The 1st Session of the 6th Board Meeting of the Company	June 5, 2009	The Report on Electing Chairman, Deputy Chairman of BoD, Report on Electing Members of Special Committee of BoD and Investor Relationship Management Plan of Hainan Airlines 2009 were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 6, 2009
The 2nd Session of the 6th Board Meeting of the Company	July 20, 2009	The Report on Transferring Some Real Estates of Hainan Airlines and Report on Appointing Vice President and CFO of Hainan Airlines were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	July 21, 2009
The 3rd Session of the 6th Board Meeting of the Company	August 28, 2009	The Semi-annual Report 2009 and Highlights, Report of Nominating Candidates of Independent Directors of Hainan Airlines and Report on Appointing CFO of Hainan Airlines were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	August 29, 2009
The 4th Session of the 6th Board Meeting of the Company	October 9, 2009	The Report on Terminating Equity in Bohai International Trust Co., Ltd and Report on Signing 'Supplementary Agreement of Equity Transfer of Beijing Yanjing Hotel Co., Ltd' with HNA Hotel Holding Group Co., Ltd were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 10, 2009
Temporary Board Meeting of the Company	October 9, 2009	The Reply on Hainan Securities Regulatory Bureau No. 1 Administrative Regulation Measures Determination and Rectifying Report and Reply on Hainan Securities Regulatory Bureau No. 2 Administrative Regulation Measures Determination and Rectifying Report were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 10, 2009
The 5th Session of the 6th Board Meeting of the Company	October 21, 2009	The Report on Providing Guarantee for Beijing Kehang Investment Co., Ltd., the Controlling Subsidiaries was approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 22, 2009
The 6th Session of the 6th Board Meeting of the Company	October 30, 2009	The Q3 2009 Report of Hainan Airlines Company Limited and Report on Reviewing Transfer of City Center Real Estate were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 31, 2009
The 7th Session of the 6th Board Meeting of the Company	December 14, 2009	The Report on Transferring Six Old Aircrafts, Report on Measuring Investment Real Estate with Fair Value Model and Report on Electing Members of Special Committee of BoD were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 15, 2009



2. Implementation of resolutions of the General Meeting of Shareholders

The Company totally held six times of general meetings of shareholders, i.e. Annual General Meeting of Shareholders 2008 and the first to the fifth Temporary General Meetings of Shareholders 2009 in the reporting period. The BoD strictly complies with the articles of association and relevant laws and regulations and implements the resolutions of the general meetings of shareholders.

(1) Guarantee situation

On Feb. 4, 2009, the Company held the first temporary general meeting of shareholders in 2009 and approved Report on Signing Credit Mutual Guarantee Framework Agreement with HNA Group Co., Ltd and Submitting Related Mutual Guarantee Amount 2009 to General Meeting of Shareholders for Approval. In the reporting period, HNA Group and its associated enterprises provide actual occurred mutual guarantee accounted for RMB 14.053 billion yuan for the Company and its subsidiaries. The Company and its subsidiaries provide actual occurred mutual guarantee accounted for RMB 1.42 billion yuan for HNA Group and its associated enterprises. This is within the amount approved by the general meeting of shareholders.

On June 5, 2009, the annual general meeting of shareholders 2008 approved Report on Submitting Mutual Guarantee Amount between Hainan Airlines and Controlling Subsidiaries to General Meeting of Shareholders for Approval. On November 6, 2009, the fourth temporary general meeting of shareholder in 2009 approved Report on Providing Guarantee for Beijing Kehang Investment Co., Ltd., the Controlling Subsidiaries. In the reporting period, the Company provided RMB 1.912 billion, 417 million, 516 million and 1 billion of guarantees for China Xinhua Airlines Co., Ltd, Chang'an Airlines Co., Ltd, Shanxi Airlines Co., Ltd and Beijing Kehang Investment Co., Ltd respectively. The total guarantee amount is RMB 3.845 billion. This is within the amount approved by the general meeting of shareholders.

(2) Non-public offer situation

On June 11, 2009, the 2nd temporary general meeting of shareholders 2009 approved the non-public offer program of Hainan Airlines. The Company planned to issue totally 595, 238, 094 A shares to Hainan Development Holding Co., Ltd and HNA Group and had obtained the approval of the Issuance Examination Committee of CSRC on January 5, 2010. The above-mentioned shares have completed the registration procedure at China Securities Registration and Liquidation Company, Shanghai Branch on Feb. 23, 2010. After non-public offer, the total share numbers of the Company increased to 4,125,490,895 shares.

3. Establishment and Improvement of Relevant Working Systems, Main Contents and Summary Report of the Audit Committee under Board of Directors

(1) Establishment and of the Audit Committee under Board of Directors Improvement of Relevant Working Systems, Main Contents

According to the relevant regulations of the Company Law, Code of Corporate Governance for Listed Companies and the Articles of Association of the Company, the Audit and Risk Commission is set under BoD and the Implementation Rules of Audit and Risk Commission and Auditing Flow of Audit Committee to Annual Financial Report are formulated. The personnel, authority, working procedures and discussion rules of the Audit Committee and the auditing flow of Auditing Committee to annual financial report are regulated in details.

(2) Summary Report of the Audit Committee under Board of Directors

The Audit Committee hears the report of management to annual operation in 2009 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 to the BoD. 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 2009, 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 2010.

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 2009. After review, the Remuneration Committee thinks that the remuneration distribution schemes are in accordance with the existing performance appraisal and appraisal systems. The Remuneration Committee agrees to submit them to Board of Directors and Annual Shareholder's Meeting for discussion.

(V) The Company gains profits in the reporting period but does not provide preplans for cash profit distribution

In 2009, the net profit attributed to the shareholders of the Company accounted for RMB 335 million Yuan. The accumulated non-distributed profits are RMB -1.074 billion Yuan. The profit distributions will not be carried out and the capital reserve will not be transferred into share capital.



(I) Works of Board of Supervisors

Meeting of BoS	Topic
April 29, 2009, The 12th Session of the 5th Board of Supervisors Meeting	Working Report of Board of Supervisors 2008, Report on BoS Election, Annual Report 2008 and Highlights of Hainan Airlines Company Limited
April 29, 2009, The 13th Session of the 5th Board of Supervisors Meeting	Q1 2009 Report of Hainan Airlines Company Limited
June 5, 2009, The 1st Session of the 6th Board of Supervisors Meeting	Report on Electing Chairman of BoS
August 28, 2009, The 2nd Session of the 6th Board of Supervisors Meeting	Semi-annual Report 2009 and Highlights
October 30, 2009, The 3rd Session of the 6th Board of Supervisors Meeting	Q3 2009 Report of Hainan Airlines Company Limited

(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 BoS of the Company thinks the financial report of 2009 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

The storage and use of the raised funds are in accordance with the relevant regulations of Listing Regulation of SSE and Regulations on Fund Raising of Listing Companies. At the same time, the Company truly, accurately and completely discloses the purpose and use of raised funds in a timely manner.

(V) Independent Opinion of Board of Supervisors on Purchasing and Selling Assets

In the opinion of BoS, 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.

(I) Significant Lawsuit or Arbitration

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

(II) Bankruptcy and Mergers

In the report period, no bankruptcy and mergers occurred.

(III) Shareholding in other listed companies and equity in other shareholding financial enterprises

Monetary unit: RMB 1,000 Yuan

Securities Code	Stock abbreviation	Initial investment amount	Percentage of shareholdings (%)
0696	China Travelsky	29,860	1.68
600999	China Merchants Securities	595,450	0.9926

(IV) Asset Transaction

1. Assets Selling

Monetary unit: RMB 1,000 Yuan

Transaction partner	Sold assets	Date of selling	Price of selling	Net profit contribution from the beginning of the year to the selling date	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 involved 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
Tianjin Airlines	Transportation equipments	January 31, 2009	1,984			Yes		Yes	Yes		Other
HNA Group	Plant and buildings	June 30, 2009	153,871			Yes		Yes	Yes		Other
Xin Guo Hotel	Plant and buildings	June 30, 2009	69,515			Yes		Yes	Yes		Other
Tianjin Bohai Leasing Co. Ltd.	15.8% share of Yangtze River Leasing	January 14, 2008	87,327		3,215	Yes		Yes	Yes	0.96	Other



(V) Major Connected Transaction

1. Connected Transaction Related to Daily Operation

Monetary unit: RMB 1,000 Yuan

Related party	Relation-ship	Type of related transaction	Content of related transaction	Pricing principle of related transaction	Transaction Amount	Proportion in the same type transaction amount (%)	Liquidation method of related transactions
Hainan Meiya Industrial Co., Ltd	Other	Purchase of merchandises	Payment for aviation fuel	Government guiding price	335,150.00	8	Banking transfer
Hainan Pacific Oil Industrial Co., Ltd	Other	Purchase of merchandises	Payment for aviation fuel	Government guiding price	134,963.00	3	Banking transfer
Xinhua Catering	Other	Purchase of merchandises	Procurement of air catering food	Negotiated price	72,665.00	25	Banking transfer
Hainan Airline Catering	Other	Purchase of merchandises	Procurement of air catering food	Negotiated price	39,560.00	14	Banking transfer
HNA Drinking Co., Ltd	Other	Purchase of merchandises	Procurement of air catering food	Negotiated price	15,089.00	5	Banking transfer
Haikou Meilan Airport Co., Ltd	Other	Receiving labor service	Payment for the set-off and landing fee, leasing fees and franchising	Government guiding price	97,060.00	7	Banking transfer
Haikou Meilan Airport Co., Ltd	Other	Receiving labor service	Payment for the set-off and landing fee, leasing fees and franchising	Government guiding price	29,638.00	2	Banking transfer
Sanya Phoenix International Airport Co., Ltd	Other	Receiving labor service	Payment for the set-off and landing fee, leasing fees and franchising	Government guiding price	42,582.00	3	Banking transfer
Gansu Airport Group Co., Ltd.	Other	Receiving labor service	Payment for the set-off and landing fee, leasing fees and franchising	Government guiding price	21,476.00	2	Banking transfer
Hainan Haihang Import & Export Company Limited	Other	Receiving labor service	Agent fees of import and export	The procurement cost is priced according to the ratio (0.3% to 3%)	28,562.00	100	Banking transfer
Beijing Huoli Huanxiang Commercial Co., Ltd	Other	Providing labor service	Advertising revenue	Negotiated price	26,207.00	100	Banking transfer
Golden Deer Jet Co., Ltd	Other	Providing labor service	Income from aircraft leasing /transfer of pilot	Government guiding price	46,700.00	2	Banking transfer
Grand China Air	Parent Company	Providing labor service	Income from aircraft leasing, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	436,340.00	17	Banking transfer

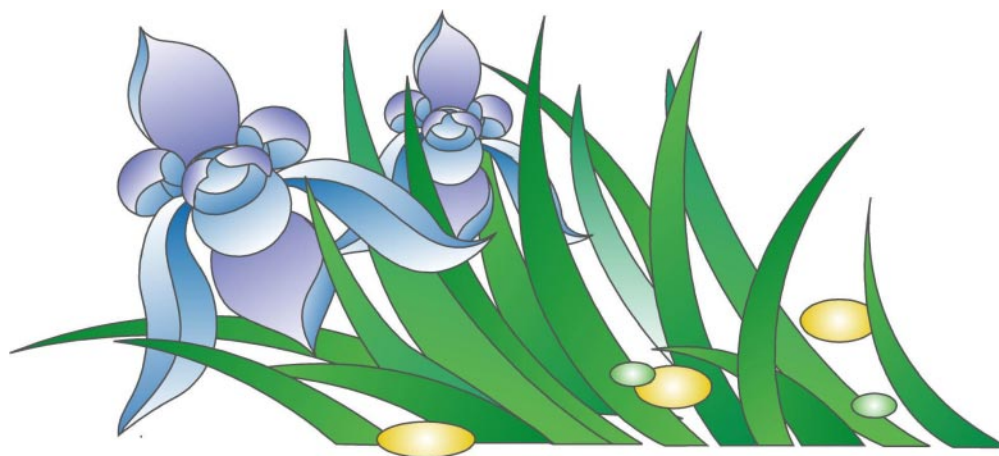
Monetary unit: RMB 1,000 Yuan

Related party	Relation-ship	Type of related transaction	Content of related transaction	Pricing principle of related transaction	Transaction Amount	Proportion in the same type transaction amount (%)	Liquidation method of related transactions
Tianjin Airlines	Other	Providing labor service	Income from aircraft leasing, transfer of pilot, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	1,281,621.00	48	Banking transfer
Deer Air	Sister Company	Providing labor service	Income from aircraft leasing, transfer of pilot, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	424,124.00	16	Banking transfer
Yunnan Xiangpeng	Wholly-owned subsidiary of the parent company	Providing labor service	Income from aircraft leasing, transfer of pilot, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	296,231.00	11	Banking transfer
Western Airlines	Other	Providing labor service	Income from aircraft leasing, transfer of pilot, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	129,979.00	5	Banking transfer
Yangtze River Express Aviation Co., Ltd	Other	Providing labor service	Income from transfer and leasing of pilot, maintenance service, reimbursed expenses	Negotiated price	27,023.00	1	Banking transfer
Sanya Aviation & Tourism College	Other	Providing labor service	Rental fees revenue	Negotiated price	7,489.00	0.02	Banking transfer
Qionghai HNA Training Center Hotel Co., Ltd	Other	Providing labor service	Rental fees revenue	Negotiated price	5,200.00	0.01	Banking transfer
Haihang Travel Holding	Other	Providing labor service	Rental fees revenue	Negotiated price	4,101.00	0.01	Banking transfer
HNA Hotel Holding	Other	Providing labor service	Rental fees revenue	Negotiated price	34,188.00	0.08	Banking transfer
HNA Group	Parent Company	Providing labor service	Rental fees revenue	Negotiated price	4,442.00	0.01	Banking transfer
HNA Group Finance Co., Ltd	Other	Providing labor service	Rental fees revenue, interest revenue	Negotiated price	53,369.00	54	Banking transfer
Total	/				3,593,759.00	/	

2. Connected Transaction Related to Assets Acquisition and Sale

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	Estimated value of transferred assets	Transferring price	Reasons for big difference between transferring price and book value or estimated value	Liquidation method of related transactions	Profits from transferred assets
Xinhua Catering	Sister company	Sale of assets except merchandises	Transfer of some transportation equipments	Negotiated price			8.00		Banking transfer	
Tianjin Airlines	Sister company	Sale of assets except merchandises	Transfer of some transportation equipments	Negotiated price			1,984.00		Banking transfer	
HNA Group	Other	Sale of assets except merchandises	Transfer of real estate of Sanya Aviationx Sanya Aviation & Tourism College	Negotiated price			153,871.00		Banking transfer	
Xin Guo Hotel	Sister company	Sale of assets except merchandises	Transfer of some real estates and lands	Negotiated price			69,515.00		Banking transfer	



3. Accounts Receivable and Payable with Related Parties

Monetary unit: RMB 10,000 Yuan

Related Party	Relationship	Capital Provided to the Related Party		Capital Provided to the Listing Company by the Related Party	
		Amount Occurred	Balance	Amount Occurred	Balance
Hainan Haihang Import & Export Company Limited	Associated company	-1,064.00	13,446.00	-1,411.00	
Changjiang Leasing Co., Ltd.	Shareholder of share participation	-		-2,686.00	3,345.00
Shenzhen Finance Leasing Company Limited	Other	-		-	-
Hainan Provincial Aviation Import & Export Trade Company	Other	-639.00		-	-
Haikou Hi-tech Risk Investment Company Limited	Other	-500.00		-	-
Hainan Meilan International Airport Company Limited	Other	-		4,546.00	14,016.00
Hainan Meiya Industrial Company Limited	Other	-		-7,938.00	3,471.00
Hong Kong Airlines Company Limited	Other	-		-1,442.50	3.50
Golden Deer VIP Flight Company Limited	Other	-		-1,788.60	5,167.40
Hong Kong Air Express Company Limited	Other	-		3,640.00	6,474.00
Tianjin Airlines Co., Ltd (Grand China Air Express Company Limited)	Other	-		-19,314.70	2,977.30
Yangtze River International Leasing Company Limited	Other	-		-36,380.70	1,900.30
Grand China Air Co., Ltd.	Parent Company	-		3,925.00	8,725.00
Yangtze River Air Express Company Limited	Other	-		-816.00	-
Yunnan Xiangpeng Airlines Company Limited	Other	-		-36.30	3,338.70
HNA Group Finance Co., Ltd	Other	-8,690.00	917.00	-	-
Haihang Hotel Company Limited	Other	-		-32.00	550.00
Yangtze River Property Group Company Limited	Other	-22.00		-	-
Beijing Xinhua Airport Air Catering Company Limited	Other	211.00	211.00	-1,269.20	99.80
Yangtze River Investment Holding Company Limited	Other	-1,094.00		-1,127.00	3,873.00
West Airlines Company Limited	Other	-2,966.00		-5,217.30	370.70
Northwest HNA Property Group Company Limited	Other	-		3.50	1,541.50
Haihang Henghe Property Management Co., Ltd	Other	249.00	249.00	-	-
Haihang Safe Car-rental Company	Other	248.00	248.00	-	-
HNA Systems Co., Ltd	Other	207.00	207.00	-	-
HNA Group (Hong Kong) Co., Ltd	Other	-		4,055.00	4,055.00
Hainan Pacific Oil Co., Ltd	Other	-		2,288.00	2,288.00
Haikou Meilan International Airport Co., Ltd.	Shareholder of share participation	-		2,270.30	2,270.30
Gansu Airport Group Co., Ltd.	Other	-		1,923.20	1,923.20
HNA Real Estate Holding (Group) Co., Ltd	Other	-		13,500.00	13,500.00
HNA Hotel Holding Group Co., Ltd.	Other	-		329.10	329.10
Other	Other	-1,017.70	1,020.30	3,132.20	9,775.20
Total	-15,077.70	16,298.30	-39,847.00	89,994.00	
Sum of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies (yuan)				-150,777,000.00	
Balance of the Company's funds provided for its holding shareholder and shareholder's subsidiary companies (yuan)				162,980,000	
Reasons				Due to the daily operation	

Occupation and Liquidation of Fund in the Report Period

Monetary unit: RMB 10,000 Yuan

Balance of occupying funds of listing companies for controlling shareholder and other related parties			Total amount amount of occupied funds during report period and paid back funds at the end of the report period	Paying back situation in the report period			
At the beginning of reporting	Amount occurred	At the end of reporting period		Amount of paid back in report period	Method of paying back	Amount of paying back	Date of paying back (month)
1,138.5	-1,138.5	0		1,138.5	Cash	1,138.5	12

(VI) Major Contracts and Performance

1. Trusteeship, contract-in and leasing which brings profits accounting for 10% (including 10%) of the total profits of the Company

(1) Trusteeship Situation

The Company had no trusteeship matter in 2009.

(2) Contract-in Situation

The Company has no contract-in matter in 2009.



(3) Leasing Situation

Monetary unit: RMB 1,000 Yuan

Lessor	Lessee	Assets Leasing	Amount	Starting Date of Leasing	Expiration Date of Leasing	Leasing Profits	Basis of Determining Leasing Profits	Influence of Leasing Profits on the Company	Related transaction or not	Relationship
The Company	Tianjin Airlines	Aircraft leasing	5,638,189	April 1, 2007	May 27, 2010	618,339	Negotiated price	46%	Yes	Other
The Company	Yunnan Xiangpeng	Aircraft leasing	177,000	Feb. 22, 2006	June 30, 2012	185,285	Negotiated price	14%	Yes	wholly-owned subsidiary of the parent company
The Company	Grand China Air	Aircraft leasing	573,768	Nov. 30, 2007	Automatically extended	123,023	Negotiated price	9%	Yes	Other
The Company	Western Airlines	Aircraft leasing	122,000	June 14, 2007	Automatically extended	91,862	Negotiated price	7%	Yes	Other
The Company	Golden Deer Jet Co., Ltd	Aircraft leasing	354,854	Dec. 18, 2008	Dec. 31, 2009	43,800	Negotiated price	3%	Yes	Other
The Company	Deer Air	Aircraft leasing	5,854,601	April 6, 2009	Automatically extended	293,256	Negotiated price	21%	Yes	Other
The Company	Sanya Aviation & Tourism College	Real estate leasing	126,453	Jan. 1, 2009	June 30, 2009	7,489	Negotiated price	0.02%	Yes	Other
The Company	Qionghai HNA Training Center Hotel Co., Ltd	Real estate leasing	50,322	Jan. 1, 2009	Dec. 31, 2009	5,200	Negotiated price	0.01%	Yes	Other
The Company	Haihang Travel Holding	Real estate leasing	692,554	April 16, 2009	Dec. 31, 2009	4,101	Negotiated price	0.01%	Yes	Other
Beijing Kehang	Haihang Hotel Holding, HNA Group, HNA Group Finance Co., Ltd	Real estate leasing	2,951,837	April 30, 2009	Dec. 31, 2009	43,293	Negotiated price	0.1%	Yes	Other
Total						1,415,648				

2. Guarantee Situation

Monetary Unit: 1,000 RMB

Outside Guarantee of the Company (Guarantee for the Controlled Subsidiaries Not Included)													
Guarantor	Relationship between Guarantor and Listing Company	Guarantee	Guaranteed Amount	Guarantee Date (signature date)	Starting Date of Guarantee Term	Expiration Date of Guarantee Term	Guarantee Type	Whether the guarantee has been performed	Whether the guarantee is expired	Amount of expired guarantee	Is there any counter-guarantee?	Connected Party (Yes or No)	Relationship
Hainan Airlines	Company Headquarters	Tianjin Airlines	100,000		February 13, 2009	February 12, 2009		Yes	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	Yangtze River Express Company Limited	100,000		December 4, 2009	December 3, 2009		Yes	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	Hainan Meilan Airport Company Limited	40,000		March 5, 2009	March 4, 2009		Yes	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	HNA Group	819,384		December 31, 2009	December 30, 2009		Yes	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	Haihang Travel Holding	360,000		July 12, 2009	July 11, 2009		Yes	No		Yes	Yes	Other
Total Guarantee in the Report Period (excluding the guarantee provided for subsidiaries)												1,419,384	
Balance of Guarantee at the End of Report Period (excluding the guarantee provided for subsidiaries)												1,419,384	
Guarantee of the Company for the Controlled Subsidiaries													
Total Guarantee to the subsidiaries in the Report Period												3,844,959	
Total Balance of Guarantee to the subsidiaries at the End of Report Period (B)												3,844,959	
Total Guarantee of the Company (Including Guarantee for the Controlled Subsidiaries)													
Total Amount of Guarantee (A+B)												5,264,343	
Percentage of the Total Guarantee to the Net Assets of the Company (%)												73.26	

3. Entrusted Financing

There was no entrusted financing in 2009.

4. Other important contract

There was no other important contract in 2009.

(VIII) Execution of Commitment

1. 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.	Completed
Other commitments to middle-small shareholders of the Company	In December 2008, the Company accepts 65% equity of Beijing Kehang held by Yangtze River Real Estate Group Co., Ltd and 30% equity of Beijing Kehang held by HNA Hotel Holding Group Co., Ltd in the price of 1.72834792 billion yuan. In April 2009, HNA Group Co., Ltd, the controlling shareholder of HNA Hotel Holding Group Co., Ltd and Yangtze River Real Estate Group Co., Ltd, the assignors, promised that if the net profits of Beijing Kehang in 2009 cannot reach to the forecasted 81.69 million yuan, HNA Group will complement the balance of net profits in cash according to percentage of equity.	According to the commitment, HNA Group will complement the balance in 2010.

(IX) Appointment and Disappointment of Certified Public Accountants

Whether to change Certified Public Accountants	No Existing Certified Public Accountant
Name of domestic Certified Public Accountant	PricewaterhouseCoopers Co., Ltd
Remuneration	3.8 million yuan
Auditing time restriction	3 years

(X) The Punishment and Rectifying of Listed Company, Its Directors, Supervisors, Senior Management, Shareholders and Actual Controller

In 2009, the Company and its directors, supervisors, senior executives, shareholders and actual controller were not checked, punished, criticized by CSRC and publicly condemned by stock exchanges.

(XI) Instructions of Other Significant Events

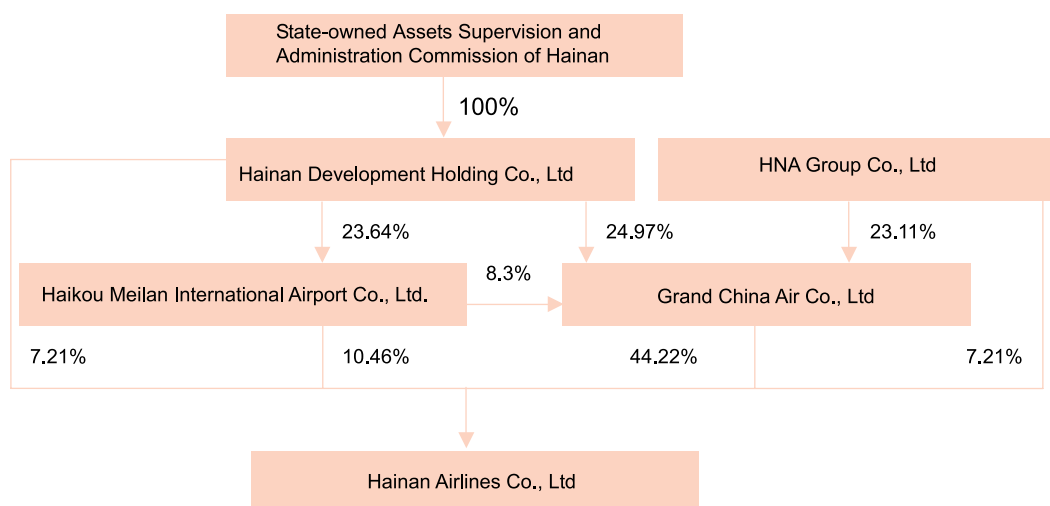
1. Investment Expansion of Grand China Air Co., Ltd., the Controller Shareholder of the Company

Grand China Air, the controlling shareholder of the Company, has obtained the new business license after increasing its share capital on January 8, 2010. The registered capital of Grand China Air Co., Ltd. increases from RMB 3,689,795,600 Yuan to RMB 6,008,323,967 Yuan. Hainan Development Holding Co., Ltd is still the biggest shareholder of Grand China Air Co., Ltd with 24.97% of the stake. The Company has disclosed the above-mentioned matter on January 13, 2010.

2. Completion of Non-public Offer of A Share

The Company totally issues 595,238,094 A shares to Hainan Development Holding Co., Ltd and HNA Group Co., Ltd. On January 5, 2010, A Share offer is approved by China Securities Regulatory Commission. On February 23, 2010, the Company has completed related registration at China Securities Depository and Clearing Corporation Limited (Shanghai Branch). The Company has disclosed the above-mentioned matters on January 6, 2010 and February 25, 2010 respectively.

3. After completing above-mentioned matters, the equity proportion of Hainan Development Holding Co., Ltd and HNA Group Co., Ltd. in the Company are as follows:



Currently, there are 7 directors in Board of Directors of Hainan Airlines, including Li Xiaoming, Wang Yingming, Yang Jinglin, Mou Weigang, Chen Rijin (independent director), Wu Banghai (independent director) and Lin Shiluan (independent director). Except three independent directors, other directors are assigned by Grand China Air. There are 5 supervisors in Board of Supervisors of Hainan Airlines, including Zhang Cong, Chen Ping, Li Rui, Gao Jian and Xu Xiaojie. Zhang Cong is assigned by Haikou Meilan International Airport Co., Ltd, Gao Jian is assigned by HNA Group, Chen Ping and Li Rui are representatives of employees. Xu Xiaojie is assigned by Hainan State-owned Assets Supervision and Administration Commission.

Currently, there are 9 directors in Board of Directors of Grand China Air. These directors are assigned by different shareholders. Hainan Development Holding Co., Ltd designates 4 directors, HNA Group designates 2 directors, Yangtze River Investment Holding Co., Ltd designates 2 directors and Star step designates 1 director.

According to shareholding proportion and designation of directors and supervisors, after completing above-mentioned matters, the controlling shareholder and actual controller of the Company remain unchanged. Hainan Development Holding Co., Ltd is still the actual controller of the Company.

(II) Index of Information Disclosure

Matter	Name and Edition of Newspapers	Date	Website and Retrieve Path
Resolution Announcement of Hainan Airlines on the 5th Session of the 5th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	January 15, 2009	http://www.sse.com.cn
Related Transaction Announcement of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	January 15, 2009	http://www.sse.com.cn
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	January 15, 2009	http://www.sse.com.cn
Pre-announcement of Losses in 2008 of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	January 23, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 1st Temporary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	February 5, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 27th Session of the 5th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	February 5, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Listing the Floating Shares With Trading Limited Conditions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	March 18, 2009	http://www.sse.com.cn
Project Progress Announcement of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 9, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 28th Session of the 5th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009	http://www.sse.com.cn
Daily Related Transaction Announcement 2009 of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009	http://www.sse.com.cn
Mutual Guarantee Announcement between Hainan Airlines and Controlling Subsidiaries	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on the 12th Session of the 5th Board of Supervisors	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009	http://www.sse.com.cn
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 30, 2009	http://www.sse.com.cn
Supplementary Notice of Hainan Airlines on Annual General Meeting of Shareholders 2008	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 14, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Significant Event (Delist)	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 19, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Modifying Annual Report	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 23, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 30th Session of the 5th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 26, 2009	http://www.sse.com.cn
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 26, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on Annual General Meeting of Shareholders 2008	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 6, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 1st Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 6, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 1st Session of the 6th Board of Supervisors	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 6, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 2nd temporary General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 12, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Significant Event	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	June 23, 2009	http://www.sse.com.cn

Matter	Name and Edition of Newspapers	Date	Website and Retrieve Path
Announcement of Hainan Airlines on Shareholding Reduction	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	July 11, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 2nd Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	July 21, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	July 21, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 3rd Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	August 31, 2009	http://www.sse.com.cn
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	August 31, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 3rd Temporary General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	September 19, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Listing the Floating Shares With Trading Limited Conditions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	September 24, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 4th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 10, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 10, 2009	http://www.sse.com.cn
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 10, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on Temporary Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 10, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Providing Guarantee for Beijing Kehang Investment Co., Ltd, the Controlling Subsidiary	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 22, 2009	http://www.sse.com.cn
Supplementary Notice of Hainan Airlines on the 4th Temporary General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 22, 2009	http://www.sse.com.cn
Supplementary Notice of Hainan Airlines on the 4th Temporary General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 29, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 6th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 31, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Confirming Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	October 31, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 4th Temporary General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	November 7, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 7th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 15, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 15, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Accounting Policy Change	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 15, 2009	http://www.sse.com.cn
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 15, 2009	http://www.sse.com.cn
Announcement of Hainan Airlines on Non-public Offer A Share Application has been Approved by Department of Public Offering Supervision of CSRC	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 29, 2009	http://www.sse.com.cn
Resolution Announcement of Hainan Airlines on the 5th Temporary General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 31, 2009	http://www.sse.com.cn

Report of Auditors

PwC ZT Shen Zi (2010) No.10048

TO THE SHAREHOLD OF HAINAN AIRLINES COMPANY LIMITED:

We have audited the accompanying financial statements of Hainan Airlines Company Limited ("the Company") which comprise the consolidated and the company balance sheets as at 31 December 2009, 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 Company as of 31 December 2009, 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

April 15, 2010

Certified Public Accountant: Cao Huaguang

Certified Public Accountant: Lu Xulei

Hainan Airlines Company Limited

CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2009

(All amounts in RMB Thousand Yuan unless otherwise stated)

Assets	Notes	31 December 2009 Consolidated	31 December 2008 Consolidated Restated	31 December 2009 The Company	31 December 2008 The Company Restated
Current assets					
Cash at bank and on hand	V(1)	12,765,534	6,652,245	9,296,236	2,940,585
Accounts receivable	V(4), XVI(1)	317,608	440,829	507,064	464,660
Advances to suppliers	V(6)	662,726	272,043	637,708	236,590
Interest receivable	V(2)	12,479	96,069	748	2,755
Dividends receivable	V(3)	-	2,271	-	2,271
Other receivables	V(5), XVI(2)	108,590	150,568	30,870	525,493
inventories	V(7)	256,652	255,336	254,088	251,787
Total current assets		14,123,589	7,869,361	10,726,714	4,424,141
Non-current assets					
Financial assets available for sale	V(8)	647,048	-	647,048	-
Long-term equity investments	V(9), XVI(3)	622,317	719,937	4,418,422	2,741,075
Investment real estates	V(10)	5,541,735	176,775	2,077,757	176,775
Fixed assets	V(11)	29,120,201	23,706,223	22,957,822	17,911,519
Construction in progress	V(12)	6,856,305	10,217,872	5,422,545	9,068,384
Intangible assets	V(13)	210,899	237,132	102,570	125,129
Goodwill	V(14)	328,865	-	-	-
Long-term deferred expenses	V(15)	222,561	188,912	192,818	137,147
Other non-current assets	V(16)	1,669,905	5,197,488	1,258,586	4,848,261
Total non-current assets		45,219,836	40,444,339	37,077,568	35,008,290
Total assets		59,343,425	48,313,700	47,804,282	39,432,431

Hainan Airlines Company Limited

CONSOLIDATED AND THE COMPANY BALANCE SHEETS AS AT 31 DECEMBER 2009 (CONTINUED)

(All amounts in RMB Thousand Yuan unless otherwise stated)

Liabilities and Shareholder's equity	Notes	31 December 2009 Consolidated	31 December 2008 Consolidated Restated	31 December 2009 The Company	31 December 2008 The Company Restated
Current liabilities					
Short-term borrowings	V(19)	16,165,526	9,020,315	11,356,882	5,928,815
Trading financial liabilities	V(20)	7,016	-	7,016	-
Notes payable	V(21)	1,180,116	1,780,902	1,114,276	1,331,335
Accounts payable	V(22)	3,380,667	4,278,765	5,567,443	5,235,559
Advances from customers	V(23)	718,095	860,915	22,060	22,060
Employee benefits payable	V(24)	215,349	139,034	131,808	71,918
Taxes payable	V(25)	262,284	207,589	202,437	193,534
Interest payable		99,097	85,003	91,186	71,136
Dividends payable	V(26)	19,078	19,078	19,078	19,078
Other payables	V(27)	1,477,068	2,286,641	475,077	1,581,099
Due within one year of non-current liabilities	V(28)	3,908,759	2,556,457	3,145,628	1,985,500
Total non-current liabilities		27,433,055	21,234,699	22,132,891	16,440,034
Non-current liabilities					
Long-term borrowings	V(29)	22,385,449	18,250,709	16,820,955	14,220,013
Deferred revenue	V(30)	266,814	225,682	121,485	96,241
Long-term payables	V(31)	1,501,581	1,880,832	1,297,878	1,529,595
Special accounts payable		20,000	20,000	-	-
Deferred income tax liabilities	V(17)	520,918	2,499	97,976	2,499
Other non-current liabilities	V(32)	29,928	30,563	29,929	30,562
Total non-current liabilities		24,724,690	20,410,285	18,368,223	15,878,910
Total liabilities		52,157,745	41,644,984	40,501,114	32,318,944
Shareholders' equity					
Paid-in capital	V(33)	3,530,253	3,530,253	3,530,253	3,530,253
Capital surplus	V(34)	3,923,522	3,854,143	3,893,313	3,850,886
Surplus reserve	V(35)	169,098	169,098	169,098	169,098
Accumulated losses	V(36)	(1,074,046)	(1,408,716)	(289,496)	(436,750)
Total equity attributable to shareholders of the parent Company		6,548,827	6,144,778	7,303,168	7,113,487
Minority interest	V(37)	636,853	523,938	-	-
Total shareholders' equity		7,185,680	6,668,716	7,303,168	7,113,487
Total liabilities and shareholder's equity		59,343,425	48,313,700	47,804,282	39,432,431

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

Company Principal: Li Xiaoming

Principal in charge of Accounting: Xie Shufeng

Principal of the Account Department: Xie Shufeng

Hainan Airlines Company Limited

**CONSOLIDATED AND COMPANY INCOME STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2009**

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	2009December 2008	2008	2009	2008
		Consolidated	Consolidated Restated	The Company	The Company Restated
I. Operating revenue	V(38), XVI(4)	15,548,363	13,551,661	10,283,734	8,773,070
Less: operating cost	V(38), XVI(4)	(13,256,194)	(12,511,722)	(8,830,283)	(8,264,121)
Tax and levies on operations	V(39)	(495,620)	(384,266)	(315,314)	(233,214)
Selling expenses		(747,612)	(587,175)	(472,339)	(380,306)
Administrative expenses		(411,028)	(515,903)	(253,229)	(236,809)
Finance expenses-net	V(40)	(1,312,615)	(648,227)	(921,613)	(298,474)
Asset impairment losses	V(41)	15,483	(615,590)	15,492	(367,663)
Add: gains and losses on the changes in fair value	V(42)	584,791	8,074	293,565	8,074
Investment income	V(43), XVI(5)	8,892	32,102	2,575	8,131
Including: Share of profit of associates and joint ventures		(1,183)	3,346	358	3,309
II. Operating gains/ (losses)		(65,540)	(1,671,046)	(197,412)	(991,312)
Add: Non-operating income	V(44)	584,039	160,337	440,611	115,324
Less: Non-operating expenses	V(45)	(32,950)	(13,008)	(30,038)	(8,273)
Including: Losses on disposal of non-current assets		(30,361)	(11,750)	(29,753)	(7,794)
III. Total gains/(losses)		485,549	(1,523,717)	213,161	(884,261)
Less: Income tax expenses	V(46)	(129,589)	(54,694)	(65,908)	(30,888)
IV. Net gains/(losses)		355,960	(1,578,411)	147,253	(915,149)
Net gains/(losses) attributable to shareholders of the parent company		334,670	(1,414,354)	147,253	(915,149)
Minority interest		21,290	(164,057)	-	-
V. Earnings/(losses) per share					
Basic earnings/(losses) per share	V(47)	0.09	(0.40)	-	-
Diluted earnings/(losses) per share	V(47)	0.09	(0.40)	-	-
VI. Other comprehensive incomes/(losses)	V(48)	87,348	-	42,427	-
VII. Total Comprehensive Incomes /(losses)		443,308	(1,578,411)	189,680	(915,149)
Total comprehensive incomes/(losses) attributable to shareholders of the parent company		404,050	(1,414,354)	189,680	(915,149)
Total comprehensive incomes/(losses) attributable to minority shareholders		39,258	(164,057)	-	-

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

Company Principal: Li Xiaoming

Principal in charge of Accounting: Xie Shufeng

Principal of the Account Department: Xie Shufeng

Hainan Airlines Company Limited

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	2009	2008	2009	2008
		consolidated	consolidated	The Company	The Company
I. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		15,347,151	13,763,337	10,289,543	8,765,183
Cash received relating to other operating activities	V(49)(a)	1,580,185	1,044,378	899,287	833,467
Sub-total of cash inflows from operating activities		16,927,336	14,807,715	11,188,830	9,598,650
Cash paid for goods and services		(11,689,768)	(7,756,415)	(6,827,233)	(4,811,785)
Cash paid to and on behalf of employees		(1,351,206)	(1,149,279)	(691,276)	(572,267)
Payments of taxes and levies		(540,721)	(469,405)	(358,371)	(239,715)
Cash paid relating to other operating activities	V(49)(b)	(1,397,176)	(1,736,856)	(920,112)	(1,088,600)
Sub-total of cash outflows from operating activities		(14,978,871)	(11,111,955)	(8,796,992)	(6,712,367)
Net cash flows from operating activities		1,948,465	3,695,760	2,391,838	2,886,283
II. Cash flows from investing activities					
Cash received from disposal of investments	V(16)(a)	1,541,159	48,073	1,492,848	500
Cash received from returns on investments		15,471	7,221	10,840	4,824
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		357,893	721,513	306,196	522,447
Net cash received from merge of subsidiary	IV(3)(b)	83,350	-	-	-
Net cash received from disposal of subsidiary		-	68,630	-	4,330
Cash received relating to other investing activities	V(49)(c)	302,257	217,526	165,233	161,881
Sub-total of cash inflows		2,300,130	1,062,963	1,975,117	693,982
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(6,341,815)	(8,508,552)	(5,208,569)	(6,911,110)
Cash paid to acquire investments		(650)	(10,000)	(650)	-
Net cash paid to acquire minority interest		-	(34,971)	-	(23,971)
Cash paid relating to other investing activities	V(49)(d)	(991,524)	(2,346,909)	(106,220)	(2,346,909)
Sub-total of cash outflows		(7,333,989)	(10,900,432)	(5,315,439)	(9,281,990)
Net cash flows from investing activities		(5,033,859)	(9,837,469)	(3,340,322)	(8,588,008)
III. Cash flows from financing activities					
Cash received from borrowings		28,131,857	19,131,453	20,547,965	13,451,447
Sub-total of cash inflows		28,131,857	19,131,453	20,547,965	13,451,447
Cash repayments of borrowings		(16,880,923)	(11,949,457)	(11,395,801)	(7,771,157)
Cash repayments of finance lease		(592,511)	(591,663)	(291,006)	(363,293)
Cash payments for interest expenses and distribution of dividends or profits		(1,996,007)	(1,859,282)	(1,470,168)	(1,331,637)
Cash paid relating to other financing activities	V(49)(e)	(1,231,022)	-	(1,231,022)	-
Sub-total of cash outflows		(20,700,463)	(14,400,402)	(14,387,997)	(9,466,087)
Net cash flows from financing activities		7,431,394	4,731,051	6,159,968	3,985,360
IV. Effect of foreign exchange rate changes on cash and cash equivalents					
		(581)	(27,208)	(863)	(23,867)
V. Net increase/(decrease) in cash and cash equivalents					
Add: Cash and cash equivalents at beginning of year	V(50)(c)	6,002,936	7,440,802	2,500,188	4,240,420
VI. Cash and cash equivalent at end of year					
	V(50)(c)	10,348,355	6,002,936	7,710,809	2,500,188

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

Company Principal: Li Xiaoming

Principal in charge of Accounting: Xie Shufeng

Principal of the Account Department: Xie Shufeng

Hainan Airlines Company Limited

**CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2009**

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	Attributable to shareholders of the parent Company					Total owners' equity
		Paid-in capital	Capital surplus	Surplus reserves	Undistributed profits	Minority interest	
Balance on 31 December 2007		3,530,253	3,854,143	169,098	13,659	763,371	8,330,524
Changes in accounting policies	II(30)	-	-	-	(8,021)	-	(8,021)
Balance on 1 January 2008		3,530,253	3,854,143	169,098	5,638	763,371	8,322,503
Movement for the year ended 31 December 2008							
Net loss		-	-	-	(1,414,354)	(164,057)	(1,578,411)
Acquisition of minority interests		-	-	-	-	(28,979)	(28,979)
Sale of subsidiary		-	-	-	-	(46,397)	(46,397)
Balance on 31 December 2008		3,530,253	3,854,143	169,098	(1,408,716)	523,938	6,668,716
Balance on 1 January 2009		3,530,253	3,854,143	169,098	(1,408,716)	523,938	6,668,716
Movement for the year ended 31 December 2009							
Net profit		-	-	-	334,670	21,290	355,960
Other comprehensive income		-	69,379	-	-	17,969	87,348
Acquisition of subsidiary	IV(3)	-	-	-	-	73,656	73,656
Balance on 31 December 2009		3,530,253	3,923,522	169,098	(1,074,046)	636,853	7,185,680

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

Company Principal: Li Xiaoming

Principal in charge of Accounting: Xie Shufeng

Principal of the Account Department: Xie Shufeng

Hainan Airlines Company Limited

**COMPANY STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009**

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	Paid-in capital	Capital surplus	Surplus reserves	Undistributed profits	Total owners' equity
Balance on 31 December 2007		3,530,253	3,850,886	169,098	486,420	8,036,657
Changes in accounting policies	II(30)	-	-	-	(8,021)	(8,021)
Balance on 1 January 2008		3,530,253	3,850,886	169,098	478,399	8,028,636
Movement for the year ended 31 December 2008						
Net loss		-	-	-	(915,149)	(915,149)
Balance on 31 December 2008		3,530,253	3,850,886	169,098	(436,750)	7,113,487
Balance on 1 January 2009		3,530,253	3,850,886	169,098	(436,750)	7,113,487
Movement for the year ended 31 December 2009						
Net profit		-	-	-	147,254	147,254
Other comprehensive income		-	42,427	-	-	42,427
Balance on 31 December 2009		3,530,253	3,893,313	169,098	(289,496)	7,303,168

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

Company Principal: Li Xiaoming

Principal in charge of Accounting: Xie Shufeng

Principal of the Account Department: Xie Shufeng

I 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 Hainan Provincial Airlines. The promoters of the Company comprised 24 legal enterprises, including the Hainan Provincial Airlines, China Everbright International Trust and Investment Co. Ltd, Hainan Branch, Bank of Communications, Hainan Aviation Import & Export Co., Ltd., 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 (former "Xinhua Aviation Holding Co., Ltd") is the parent company of the Company. State-owned Assets Supervision and Administration Commission of Hainan Provincial Government is the final parent company of the Company. The registered share capital was 250,100,000 yuan when the Company is found.

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 yuan.

On November 2, 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 yuan 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 yuan was recognized as share capital and the remaining amount of 70,177,850 yuan 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 June 26, 1997, the Company issued 71 million B Shares at a premium price of USD 0.47 per share with a par value of 1.00 Yuan each. Among the total raised fund USD 33,370,000 (equivalent to RMB 276,690,000), 71,000,000 Yuan was recognized as share capital and the remaining amount of 186,822,000 Yuan 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 October 11, 1999, the Company issued 205 million Ordinary Shares (A Shares) at an issue price of 4.6 Yuan per share with a par value of 1.00 yuan each to the public. Among the total raised fund 943,000,000 yuan, 205,000,000 yuan was recognized as share capital and the remaining amount of 708,745,226 yuan 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 May 18, 2000, the Company distributed stock dividend at 0.8 shares per ten shares (on the basis of total number of shares 676,160,001) and cash dividend 1.00 yuan (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 directional issue proceeding at 2 Yuan RMB per share on June 29, 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 Yuan RMB after this directionally increasing issue and shares transfer. Therefore, Grand China Air became the biggest shareholders with 46.74% 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 on June 29, 2006.

In December 2006, Grand China Air, the shareholder of the Company, 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 equity change had been terminated on December 14, 2006. Proceeds from capital injection, the Grand China Air held 48.62% shares of the Company.

On September 29, 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 legal person 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 (September 27, 2006). After the allocation and reformation of shares, the Grand China Air held 48.24% shares of the Company. Since September 29, 2006, all legal person shares of the Company could be traded in the market after the lock up period, including 2,850,825,773 restricted shares, 679,427,028 free flow shares. On October 8, 2007, 727,786,257 shares out of 2,850,825,773 shares have converted into free flow shares and can be traded in the market. After this conversion, the total restricted shares are 2,123,039,516 and total free flow shares are 1,407,213,285 (including 1,222,490,084 A shares and 184,723,201 B shares). On March 23, 2009 and September 29, 2009, 341,196,702 restricted shares and 1,781,507,214 restricted shares are converted into free flow shares respectively. After the conversion, the restricted shares are 335,600 and the free flow shares are 3,529,917,201 (including 3,345,194,000 A shares and 184,723,201 B shares).

After completion of share restructuring scheme on September 29, 2006, the restricted shares of the Company could be traded in the market. According to the lock up period from 1 year to 3 years, as of December 31, 2009, totally 2,122,703,916 restricted shares held by non-state-owned legal persons can be traded in the market.

On January 5, 2010, the Company's non-public offering no more than 595,238,094 shares is approved by China Securities Regulatory Commission. The Company completed the directional issue proceeding at 5.04 Yuan per share on February 12, 2009, and raised 2,985,517,557 Yuan in all. Among these, issues 297,619,047 shares to Hainan Development Holding; 297,619,047 shares to HNA Group. Meanwhile, the Company's capital stocks increased to 4,125,490,895 Yuan after this directionally increasing issue. The Company has completed related registration on February 12, 2009. After this, the Grand China Air holds 42% equity of the Company, Hainan Development Holding holds 7% equity of the Company and HNA Group Co., Ltd holds 7% equity of the Company (Note IX).

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 15 April 2010.

II Summary of significant accounting policies and accounting estimates

(1) 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 collectively referred to as "the Accounting Standard for Business Enterprises") and the regulations of China Securities Regulatory Commission, Compilation Rules for Information Disclosures by Companies That Offer Securities to the Public No.15 - General Provisions for Financial Reports (Revised in 2010) .

Up to December 31, 2009, the current liabilities of the Group exceed about RMB13.3 billion Yuan 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 14.5 billion Yuan. Besides, the Group obtains new loans of about 6.1 billion Yuan 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.

In consideration of above existing credit line, the records of financing of the Company and the better cooperation relationship with banks and financial institutions, the Management of the Company believes that the Group can continuously obtain enough financing channels to ensure operation and pay back matured debts.

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

(2) Statement of compliance with the Accounting Standards for Business Enterprises.

The Company's financial statements for the year ended December 31, 2009 truly and completely present the financial position of the Group and the Company as of 31 December 2009 and of their financial performance and their cash flows for the year then ended in compliance with the Accounting Standards for Business Enterprises.

(3) Accounting period

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

(4) Recording currency

The recording currency is Renminbi (RMB)

(5) Business combination

(a) Business combinations under the same control

The combination consideration paid by and net assets obtained by the acquirer shall be measured according to the carrying amount. As for the difference between the carrying amount of the net assets obtained by the acquirer and the carrying amount of the consideration paid by it, the capital reserve (share premium) shall be adjusted. If the capital reserve (share premium) is not sufficient to be offset, the retained earnings shall be adjusted.

The direct cost for the business combination shall be recorded into the gains and losses at the current period.

(b) Business combinations not under the same control

The business combination cost incurred to the acquirer and identifiable assets obtained from business combination shall be measured in light of their fair values on the acquisition date. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as goodwill; The acquirer shall record the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree if the combination costs are less than the fair value of the identifiable net assets it obtains from the acquiree into the gains and losses of the current period.

All relevant direct costs incurred to the acquirer for the business combination shall be recorded into the cost of business combination.

(6) Preparation of consolidated financial statements

The scope of consolidated financial statements includes the Company and all 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. Subsidiaries under the same control obtained from business combination are consolidated from the date on which it and the Company are controlled by the controller and its net profits before consolidation date are presented separately in the consolidated income statement.

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 the same control, its financial statements are adjusted based on the fair value of identifiable net assets on the acquisition date.

Significant Inter-company balances, transactions and unrealized gain on transactions between group companies are eliminated. The subsidiary's equity and portion of a subsidiary's equity that is not attributable to the parent are treated as minority stockholder's interest and minority interest income respectively and presented separately in the consolidated financial statements under the terms of shareholder's interest and net profit.

(7) Cash and cash equivalents

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

(8) Foreign currency translation

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

On the date of balance sheet, monetary items denominated in foreign currency are translated into RMB using the spot exchange rate on the date of balance sheet. Exchange differences arising from these translations are recognised in gain 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 capitalized during the capitalization period. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated on the date of balance sheet using the spot exchange rate on 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.

(9) Financial instrument

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, 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. Financial assets held by the Group in 2009 include receivables and available-for-sale financial assets.

Financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the current period
The financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the current period include financial assets held for trading in short term and derivatives which are not used as effective hedging instrument. The financial assets are presented separately as the held for trading financial assets in the balance sheet.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets include the available-for-sale non-derivative financial assets designated at initial recognition and financial assets which are not classified as other types. Within 12 months from the date of balance sheet, the sold available-for-sale financial assets are presented as other current assets in the balance sheet.

(ii) Recognition and measurement

Financial assets are recognized at fair value in the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the current period, related transaction costs are recognised in gain 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.

The subsequent measurement of the available-for-sale financial assets is made according to fair value. However, the equity instrument investment which is no quoted price in the active market and whose fair value cannot be reliably measured, the cost method is used. The receivables should be measured by actual exchange rates to amortize costs.

The gains and losses arising from the change in the fair value of available-for-sale financial assets shall be included directly in the owner's equity with the exception of impairment losses and the gap arising from foreign exchange conversion of monetary financial assets in any foreign currency, and when the said financial asset is stopped from recognition, it shall be recorded into the gains and losses of the current period.

(iii) Impairment of financial assets

The Group assesses the carrying amount of financial asset on the date of balance sheet date with the exception of the financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the current period. If there is objective evidence that the financial asset is impaired, the Group shall determine the amount of any impairment provision.

If an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of loss is measured according to 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 has been 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 gain or loss of the current period.

If the fair value of available-for-sale financial assets significantly reduces or reduces non-temporarily, the accumulated losses due to reduction of fair value which are directly recorded into the shareholder's equity are transferred out and recorded into impairment loss. For the available-for-sale equity instrument investment whose impairment loss has been recognized, if its fair value raises after the report period and it is objectively related to the matters occurred after impairment loss, the initially recognized impairment loss shall be transferred out and directly recorded into the shareholder's equity.

(iv) Termination of financial assets recognition

Where a financial asset satisfies any of the following requirements, the recognition of it shall be terminated: (1) Where the contractual rights for collecting the cash flow of the said financial asset are terminated; or (2) Where the said financial asset has been transferred and the Group has transferred nearly all risks and rewards of ownership of the financial assets to the transferee; or (3) Where the said financial asset has been transferred, although the Group neither transfer nor remain nearly all risks and rewards of ownership of the financial asset, the Group has given up the control to the said financial asset.

When the recognition of the financial assets is terminated, the difference between the book value of the financial assets and the sum of consideration and change of fair value which is directly recorded into the owner's equity shall be recorded into gain or loss for the current period.

(b) Financial liability

Financial liabilities shall be classified into the following two categories when they are initially recognized: the financial liabilities which are measured at their fair values and of which the variation is included in the current gains and losses, and other financial liabilities. The financial liabilities of the Group are mainly other financial liabilities including payables and borrowings and etc.

The payables include account payables and other payables which are initially measured on the basis of fair value and shall be measured on the basis of the post-amortization costs by adopting the actual interest rate method. The payables whose payment term is less than 1 year (including 1 year) shall be presented as current liabilities and other payables shall be presented as non-current liabilities.

The borrowings are initially measured according to the amount of its fair value after deducting transaction expenses and shall be measured on the basis of the post-amortization costs by adopting the actual interest rate method. The borrowings whose term is less than 1 year (including 1 year) shall be presented as short-term borrowings; the borrowings whose term is more than 1 year but matured within 1 year (including 1 year) from the date of balance sheet on shall be presented as non-current liabilities matured within 1 year. Other borrowings are presented as long-term borrowings.

When the existing obligations of the financial liabilities are wholly or partly released, the recognition of financial liabilities or part whose obligation has been released is terminated. The difference between the book value for part whose recognition is terminated and paid consideration is recorded into gain or loss for the current period.

(c) 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.

(10) Receivables

Receivables comprise account receivables and other receivables. Account receivables 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.

(a) Recognition standard and establishment method of provision for bad debt for receivables that are individually significant:

- Standard of recognizing provision for bad debts for receivables that are individually significant

Receivables that are individually significant are subject to individual impairment assessment, if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debt of the receivable is established.

Method of establishing provision for bad debts for receivables that is individually significant

It is established according to the difference between the carrying amount of the receivables and the present value of estimated future cash flows.

(b) Basis of determining and method of measuring provision for bad debts for account receivables from related parties

Standard of recognizing provision for bad debts for account receivables from related parties

Account receivables from related parties are subject to individual impairment assessment, if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debts of the receivable is established.

Method of establishing provision for bad debts for account receivables from related parties

It is established according to the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

(c) Basis of determining and method of measuring provision for bad debts for account receivables from related parties that are not individually significant together but the risk is high after combination on the basis of similar credit risk characteristics:

Receivables from related parties that are not individually significant together with those receivables from related parties that have been individually evaluated for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The provision for bad debts 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.

Basis of establishing credit risk: according to the age of account receivables.

The age analysis method is adopted. The proportion is as follows:

	Measurement proportion of account receivables	Measurement proportion of other receivables
Within 1 year	0%	0%
1 to 2 years	5%	5%
2 to 3 years	10%	10%
3 to 4 years	30%	30%
4 to 5 years	50%	50%
5 to 6 years	80%	80%
More than 6 years	100%	100%

If the Group transfers the account receivables to the financial institutions without right of recourse, then the difference between trading accounts after deducting the book value of account receivables which have been written off and relevant taxes shall be recorded into gain or loss for the current period.

(11) Inventories

(a) Classification

Inventory comprises mainly aviation consumables, aviation on-board supplies and low value consumables, and they are presented at the lower of cost and net realizable value.

(b) Valuation method of delivered inventories

The aviation consumables are presented at planned cost and the difference between planned cost and actual cost is considered as 'Materials Cost Variance' at the end of the month. And, the planned cost is adjusted to actual cost.

Cost of aviation on-board supplies is determined using the weighted average method.

(c) The Group adopts the perpetual inventory system.

(d) Amortization method of low value consumables

The low value consumables are amortized in straight-line method, and the uniform is amortized in fifty-fifty method.

(12) Long-term equity investments

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

Subsidiaries are all entities over which the Group is able to control. Associates are all entities over which the Group has significant influence on their financial and operating policies.

The Company accounts for investments in subsidiaries using the cost method in its individual financial statements, and makes the appropriate adjustments using equity method when preparing the consolidated financial statements. Investments in associates are initially measured using the equity method. For the long-term equity investments 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, the cost method is used.

(a) Recognition of initial investment cost

Under the cost method of accounting, long-term equity investments are measured at the initial investment cost. For the long-term equity investments which are measured using the equity method, when 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 initial investment cost is used as the long-term equity investment cost. When 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 gain or loss for the current period and the cost of the long-term equity investment is increased accordingly.

(b) Subsequent measurement and recognition of gain or loss

Under the cost method of accounting, long-term equity investments are measured at the initial investment cost. Investment income is recognized when the investees declare cash dividends or profit distribution.

When using the equity method of accounting, the Group recognizes the investment income based on its share of net gain or loss of the investee. The Group discontinues recognizing 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 recognizing the investment losses and the provision. Under the circumstance that the Group's proportion of shareholding in an investee remains unchanged, the Group shall record directly in capital surplus its share of the changes in the investee's owner's equity other than those arising from net gain or loss. The carrying amount of the investment is reduced by Group's share of the profit or cash dividends declared by an investee. The gains or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment income or losses are recognized. The Loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognized in full amount, and the relevant unrealized gain or loss is not allowed to be eliminated.

(c) Basis of determining to have control or significant influence over the investee

The term "control" refers to the power to determine the financial and operating policies of an investee and obtain benefits from its operating activities of the enterprise. When ascertaining whether or not it is able to control investee, an investor shall take into consideration the investee's current convertible corporate bonds and current executable warrants held by the investor and other parties, as well as other potential factors concerning the voting rights.

The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an investee, but not to control or do joint control together with other parties over the formulation of these policies.

(d) Impairment of long-term equity investments

For the long-term equity investment of the subsidiary and associated enterprises, when its recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount (Note II (19)). For the impairment of other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the impairment loss is recognized according to the difference between its carrying amount and present value determined by the discounted cash flow according to the market profitability of similar financial assets at that time. Once an impairment loss is recognized, it is not allowed to be reversed, even if the value of such asset is recovered in the subsequent periods.

(13) 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 gain or loss in the period which it is incurred.

The Group makes subsequent measurement on investment real estate using fair value model and does not depreciate or amortize the investment real estate. The book value is adjusted according to the fair value of investment real estate on the date of balance sheet. The difference between fair value and initial book value is recorded into gain or loss for the current period.

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. Where an investment real estate measured through the fair value pattern is converted into self-use real estate, the fair value on the very date of conversion shall be the book value of the self-use real estate. The difference between the fair value and the original book value shall be included in the current gains and losses. If the self-use real estates are used to earn rent, the fixed assets or intangible assets should be recognized as the investment real estates from the change date. The investment real estate shall value under the fair value on the very date of the conversion. If the fair value on the very date of the conversion is less than the original book value, the difference shall be included in the current gains and losses. If the fair value on the very date of the conversion is more than the original book value, the difference shall be included in the owner's equity.

When the investment real estates are disposed or perpetually out of commission, and no economic benefits are gained from the disposal, the assets are no longer recognized as the investment real estates. When an enterprise sells, transfers or discards any investment real estate, or when any investment real estate of an enterprise is damaged or destroyed, the enterprise shall deduct the book value of the investment real estate as well as the relevant taxes from the disposal income, and include the amount in the current gains and losses.

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise plants and buildings, aircrafts and engines, high-price rotatable spares, motor vehicles, and machinery and equipment.

The fixed assets are measured when it is probable that economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the 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 derecognized. All other subsequent expenditures are recognized in gain or loss in the period in which it is incurred.

(b) Method of fixed assets depreciation

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

The estimated useful lives, the estimated residual values 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%
High-price aviation rotatables	10 - 15 years	5%	6.33% to 9.5%
Motor vehicles	10 years	5%	9.5%
Machinery and equipment	8 - 14 years	5%	6.78% to 11.875%

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

(c) When the recoverable amount of the fixed assets is less than its carrying amount, the carrying amount is reduced to the recoverable amount (Note II (19)).

(d) Basis of recognition and method of valuation of fixed assets acquired under finance leases

The lease which actually transfers all risks and rewards relating to the ownership of the assets refers to finance lease. The lower of the fair value of leased assets and present value of lowest leasing expenses is used as the entry value of the leased assets.

The fixed assets acquired under finance leases adopt same depreciation policy with self-owned fixed assets. The leased fixed assets are depreciated within its expected life if the ownership of the leased assets can be reasonably recognized when the leasing term matures; otherwise, the leased fixed assets are depreciated within leasing term or expected life of the assets, whichever is the shorter.

(e) Disposal of fixed assets

The carrying amount of a fixed asset is derecognized 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 gain or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. The actual cost comprises construction costs, installation costs, borrowings which are in accordance with capitalization conditions and other costs necessarily incurred to bring construction to get ready for its intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, the carrying amount can be reduced to the recoverable amount (Note II (19)).

(16) 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 gain 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.

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.

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 weighted average interest rate of the common borrowings, to calculate the exact value of capitalized interest of the common borrowings. The actual interest rate is that used to discount the cash flow in the future to the originally recognized amount of the borrowings within anticipated period or applicable shorter time.

(17) 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 to 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.

If the recoverable amount of intangible asset is less than its carrying amount, the carrying amount can be reduced to the recoverable amount (Note II (19)).

(18) Long term deferred 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.

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with limited operating life, and investment real estates under long-term equity investment of subsidiaries and associated company 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. During impairment assessment, the book value of the goodwill is amortized to assets group and portfolio which are expected to benefit from the synergy effect of the enterprise combination. The impairment assessment shows that the impairment loss is recognized if the recoverable amount of the asset group and portfolio containing amortized goodwill is less than its carrying amount. The amount of impairment loss firstly offsets the carrying amount of the goodwill amortized to the asset group and portfolio and then offsets the carrying amount of other assets according to the proportion of carrying amount of other assets except goodwill in asset group or portfolio.

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.

(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.

If the Group cancels the labor relationship with any employee prior to the expiration of the relevant labor contract or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, and the following conditions are met concurrently, the enterprise shall recognize the expected liabilities incurred due to the compensation for the cancellation of the labor relationship with the employee, and shall simultaneously record them into the gain or loss for the current period: Where the Group has formulated a formal plan on the cancellation of labor relationship or has brought forward a proposal on voluntary layoff and will execute it soon; and the enterprise is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal.

Except the compensation paid to the employee due to dissolve the labor relationship, 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) Profit distribution

The cash dividend is recognized as a liability in the period in which it is approved by the general meeting of shareholders.

(22) Anticipation liabilities

Matters that have occurred due to product quality assurance and loss contract 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.

(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 in net value after deducting commercial discount, sales discount and sales refund.

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 revenues

Other revenues 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 actual interest method.

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

(24) Government grants

Government grants are monetary or nonmonetary assets acquired without consideration by the Group from the government, including tax refund and financial subsidy.

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. If the government grant is monetary asset, it shall be measured in the light of the received or receivable amount. If the government grant is non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount.

Government grants relating to assets are recognized as deferred income and are distributed within the life of related assets. This is recorded into the gain and loss for the current period. The government grants which are measured at nominal amount are directly recorded into the gain and loss for the current period.

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 gain 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 gain and loss.

(25) 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 liabilities are recognized for temporary differences arising from investments in subsidiaries and associated enterprises, 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 are recognized for the deductible temporary differences arising from investments in subsidiaries and associated enterprises when the temporary difference may be reversed in the foreseeable future and it is likely to be used for obtaining taxable income which is used for offsetting deductible temporary differences.

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:

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

(26) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Other leases belong to operating leases.

(a) Operating lease

Operating lease expenses are recognized into the gain or loss in the current period with the straight-line method over the lease term

(b) Assets leased out under operating lease (Lessor)

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 gain 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 (lessee)

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.

(27) Daily maintenance and overhaul costs

Daily maintenance and overhaul costs should be recognized 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 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 workload method during the lease term. Other overhaul costs should be recognized into the current income statement when they occur.

(28) Held for sale and Discontinuing operations

Non-current asset (excluding financial asset and deferred income tax asset) or component that meet all the following conditions will be recognized as held for sale: (I) the Group has already made resolutions on how to dispose the non-current asset or component; (II) the Group have signed an irrevocable transfer agreement with the Transferee; (III) this transfer will be completed within one year.

Non-current asset classified as held for sale is presented as other current asset with book value or fair value less costs to sell, whichever is lower. An excess of the original book value over the fair value less the costs to sell is as accounted for as an asset impairment loss.

Discontinuing operations refer to components that have been disposed or classified as held for sale, and can be recognized individually in the Group when doing business and preparing financial reports.

(29) Segment Information

Before January 1, 2009, the Company do not need to prepare segment information. Under the provisions regarding segment information improvement made by enterprises from Interpretation No.1 to the Accounting Standards for Enterprises issued by Ministry of Finance on June 11, 2009, the Group will recognize operating segment on the basis of internal organization structure, management requirement and internal reporting system. The operating segment will be used as a basis to determine reporting segment and disclose segment information.

Operating segment refers to the component that meet all the following conditions: (1) the component can produce income and incur expense in daily activities; (2) the management of the Group can assess the operating results of the component on a regular basis, so that they can decide to allocate resources to it and evaluate its performance; (3) the Group can obtain the accounting information about the financial status, operating results and cash flow of the component. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be consolidated as one operating segment.

As the Group mainly provide aircraft transportation of travellers and goods, some of the properties under its possession can be used for leasing. However, since the Group doesn't allocate resources to them, there is no need to provide segment reports. The changes of accounting policies for segment information have no effect on the report for this year.

(30) Change of significant accounting policies

Content and reason of the change of significant accounting policies	Approval procedures	Affected report project name	Affected amounts
<p>(a) The subsequent measurement for Investment real estate has been changed from cost mode to fair value mode</p> <p>Before 2009, the Group adopts cost model for subsequent measurement to all investment real estates. The management thinks the main investment real estates of the Group are located in large and middle cities such as Beijing, Haikou and Sanya. The market price information and relevant data of above-mentioned cities are easily obtained; at the same time, due to the change of economic environment, the fair value model can reasonably reflect the value of investment real estates of the Company and provide more reliable accounting data than cost model; therefore, from 2009 on, the Group adopts fair value model rather than cost model to make subsequent measurement to investment real estate and this matter is processed as change of accounting policy according to Accounting Standards for Enterprises No. 3- Investment Real Estate, and the figures in the reporting period are retroactively adjusted and restated.</p>	<p>This change has been reviewed and approved in the 7th session of sixth board meeting held on Dec. 14th, 2009</p>	See Note 1	See Note 1

Note 1: In 2009, the Group processed the matters as change of accounting policy and the figures in the reporting period are retroactively adjusted and restated. It has less influence on net loss per share in 2008. The influence of change of accounting policy on the financial statements on January 1, 2008, 2008 and 2009 are as follows.

Consolidated	Shareholders'		Shareholders'
	Equity on January 1, 2008	2008 Net Profit	
Amount in 2008	8,330,524	(1,588,405)	6,666,743
Influence of the accounting policy change	(8,021)	9,994	1,973
Amount after the retroactive adjustment	8,322,503	(1,578,411)	6,668,716

The Company	Shareholders'		Shareholders'
	Equity on January 1, 2008	2008 Net Profit	
Amount in 2008	8,036,657	(925,143)	7,111,514
Influence of the accounting policy change	(8,021)	9,994	1,973
Amount after the retroactive adjustment	8,028,636	(915,149)	7,113,487

Items in Balance Sheet and Income Statement in 2008 influenced by Accounting Policy Change:

	Consolidated			The Company		
	Before Change		After Change	Before Change		After Change
	December 31	Increase/ (Decrease)	December 31	December 31	Increase/ (Decrease)	December 31
	2008		2008	2008		2008
Investment real estate	172,302	4,473	176,775	172,302	4,473	176,775
Deferred income tax liabilities	-	2,499	2,499	-	2,499	2,499
Total loss	(1,410,689)	1,973	(1,408,716)	(438,723)	1,973	(436,750)
Operating cost	12,516,141	(4,419)	12,511,722	8,268,540	(4,419)	8,264,121
Gains and losses on the changes in fair value	-	8,074	8,074	-	8,074	8,074
Income tax expense	52,195	2,499	54,694	28,389	2,499	30,888
Net Loss	(1,588,405)	9,994	(1,578,411)	(925,143)	9,994	(915,149)

Items in Balance Sheet and Income Statement in 2009 influenced by Accounting Policy Change:

	Consolidated			The Company		
	Before Change		After Change	Before Change		After Change
	December 31	Increase/ (Decrease)	December 31	December 31	Increase/ (Decrease)	December 31
	2009		2009	2009		2009
Investment real estate	4,860,917	680,818	5,541,735	1,751,441	326,316	2,077,757
Deferred income tax liabilities	359,031	161,887	520,918	12,737	85,239	97,976
Capital reserves	3,892,354	31,168	3,923,522	3,889,097	4,216	3,893,313
Total loss	(1,524,587)	450,541	(1,074,046)	(526,357)	236,861	(289,496)
Minority shareholder's interest	599,631	37,222	636,853	-	-	-
Operating cost	13,275,217	(19,023)	13,256,194	8,845,926	(15,643)	8,830,283
Gains and losses on the changes in fair value	(7,016)	591,807	584,791	(7,016)	300,581	293,565
Income tax expense	(13,421)	143,010	129,589	(15,427)	81,335	65,908
Net profit attributable to shareholders of the parent company	(113,897)	448,567	334,670	(87,636)	234,889	147,253
Minority interest income	2,037	19,253	21,290	-	-	-

(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 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 accounting estimates (Note V (14)).

If the management revised the gross profit margin used in the calculation of future cash flow for assets group and portfolio, and the revised gross profit margin is lower than the gross profit margin that is currently in use, then the Group needs to increase the provision amount for the goodwill.

If the management revised the pre-tax discount rate that is applied to discounted cash flow, and the revised pre-tax discount rate is higher than the discount rate that is currently in use, then the Group needs to increase the provision amount for the goodwill.

If the actual gross profit margin or the pre-tax discount rate is higher or lower than the management's estimation, the Group cannot reverse to the goodwill impairment loss that has already been accrued.

(b) 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, and if the management revised these judgements and assumptions, the provision amounts for impairment of fixed assets may change.

If the management revised the pre-tax discount rate that is applied to discounted cash flow, and the revised pre-tax discount rate is higher than the discount rate that is currently in use, then the Group needs to increase the depreciation reserves for the fixed assets. If the actual gross profit margin or the pre-tax discount rate is higher or lower than the management's estimation, the Group cannot reverse to the impairment loss of fixed assets that has already been accrued.

(c) Income tax

Whether to recognize deferred income tax assets generated by the deductible loss and deductible temporary difference 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. The Group will not recognize the deferred income tax assets generated by deductible loss in 2009, see Note V (17) for more information.

(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. If the Management modifies the estimates according to historical experience, its may affect the amount of depreciation impact current gain 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. The modification of management for 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.

(g) Fair value of investment real estate

The fair value of investment real estate is calculated on the basis of revenue method or market price method. Revenue method is a method that determines the fair value of investment real estate by analyzing the net rent revenue within and beyond lease period, while market price method is to calculate the value with reference to the price of real estate around with similar type. Any changes of anticipated rent in the future and selected real estate price may have a great effect on the calculation of the fair value of investment real estate.

III Taxation

(1) Examples of primary taxes and tax rates applicable to the Group are as follows:

Taxation	Tax rate/Levying rate	Taxation basis
Enterprise income tax	20% and 25%	Taxable income
Value added tax	4% and 17%	Amount paid for rent aboard
Business tax	3% and 5%	Taxable turnover
Tax for maintaining and building cities	7%	Value-added tax and business tax paid
Educational Surcharges	3%	Value-added tax and business tax paid

(2) Tax preference and approval document

(a) 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. After the implementation of the new income tax law, the enterprise income tax rate of the Company and Golden-Deer, the subsidiary which is established in the Special Economic Zone of Hainan Province gradually transits to 25% in 5 years from 2008 to 2012. In current year, applicable enterprise income tax rate is 20%. The applicable enterprise income tax rate of the subsidiaries which are established in other regions gradually transits from 233% to 25% since January 1, 2008.

(b) Business tax

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, from January 1, 2008 to December 31, 2010, it's approved for domestic airlines to collect the fuel surcharge exempt from business tax.

(c) Tax for maintaining and building cities and educational surcharges

Under the provision of "a foreign-funded stock limited company that has enjoyed the treatment given to enterprises with foreign investment, after increasing its registered capital and stocks or transferring its stocks to foreign investors, may still enjoy the treatment given to enterprises with foreign investment according to relevant provisions" in "Notice concerning the Relevant Issues on Strengthening the Approval, Registration, Foreign Exchange Control and Taxation Administration of Foreign-funded Enterprises" (No. 575 [2002] Issued by the Department of Treaty and Law), the Company can still enjoy the treatment given to foreign-founded enterprises, and temporarily exempt from tax for maintaining and building cities and educational surcharges.

(d) Value added tax

According to "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 in 2005" (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 Macau routes for maintenance, are exempted from import tariffs and value-added tax on imports.

IV. Consolidation and Consolidated Financial Statements

(1) Subsidiaries

(a) Subsidiaries incorporated by means of mergers of enterprises under non-identical control:

	Type of subsidiaries	Place of registration	Business property	Registered capital	Scope of business	Enterprise type	Legal representative	Organization code
Golden-Deer Sales	Directly controlled	Haikou	Transportation	RMB8,000,000	Ticket sales agency, air freight agency and chartered flight agency services	Limited liability company	Du Xiaoping	28402951-7
Xinhua Airlines	Directly controlled	Beijing	Transportation	RMB 1,830,000,000	Air passenger and freight transportation from Tianjin and Beijing as the airport of departure to domestic and foreign cities	Limited liability company	Liu Jiayu	10001095-1
Chang'an Airlines	Directly controlled	Xi'an	Transportation	RMB 754,390,000	Air passenger and freight transportation in Shanxi Province and among its neighboring provinces, etc	Limited liability company	Shi Zhongliang	71974795-7
Shanxi Airlines	Directly controlled & indirectly controlled	Taiyuan	Transportation	RMB 658,400,000	Air passenger and freight transportation in Shanxi Province and among its neighboring provinces, etc	Limited liability company	Zhang Qikao	73190009-6
Chang'an Star	Indirectly controlled	Xi'an	Hospitality	RMB 25,000,000	Accommodation, catering; general merchandise, apparel, goods retailing	Wholly-owned limited liability company	Wu Runnian	74864667-X
Xi'an Real Estate	Indirectly controlled	Xi'an	Real estate development	RMB 30,000,000	Planning and management of industrial and civil construction projects; design and construction of interior decoration and garden landscaping; real estate development, sales and information consultation	Wholly-owned limited liability company	Shi Yongli	77593451-1
Beijing Kehang	Directly controlled	Beijing	Real estate development	RMB 150,000,000	Catering, accommodation, project investment management, real estate development, property management, hotel management, etc	Limited liability company	Wang Qiao	75131148-3

V Consolidation and Consolidated Financial Statements

(1) Subsidiaries

(a) Subsidiaries incorporated by means of mergers of enterprises under non-identical control:

	Paid-in capital as at December 31	Balances of other items substantially constituting the net investment in subsidiaries	Shareholding ratio of rights (%)	Percentage of voting (%)	Consolidate statements or not	Minority interest	AMT in minority interest, used for writing off minority interest income	Balance of the equity interest in the parent company written off by the loss borne by the minority shareholders in this financial year over the amount of the minority shareholders for the equity interest in the subsidiary in such financial year
Golden-Deer Sales	7,600	-	95%	95%	Yes	5,982	-	-
Xinhua Airlines	1,166,106	-	60%	60%	Yes	510,381	-	-
Chang'an Airlines	644,418	-	87.35%	87.35%	Yes	38,255	-	-
Shanxi Airlines	761,880	-	100%	100%	Yes	-	-	-
Beijing Kehang	1,728,341	-	95%	95%	Yes	82,235	-	-
Chang'an Star	25,000	-	100%	100%	Yes	-	-	-
Xi'an Real Estate	30,000	-	100%	100%	Yes	-	-	-
	4,363,345	-				636,853	-	-

(2) Subject newly incorporated into merger scope this year

Subject newly incorporated into the merger scope this year

	December 31, 2009 Net assets	Net profit for this period
Beijing Kehang	1,644,699	171,566

Beijing Kehang is a subsidiary acquired by means of the merger of enterprises under the non-identical control; its net profits for this period means the net profits of the company from the acquisition date to December 31, 2009 (Note 4(3)).

(3) Merger of enterprises under the non-identical control (continued)

	Goodwill AMT	Calculation method of goodwill
Beijing Kehang	328,865	The difference got by the recognizable net assets fair value acquired from the seller on the acquisition subtracted from the merger cost is recognized as goodwill. The specific calculation is shown below:

In December 2008, the Company prepaid the equity acquisition money 1,728,341,000 (Note 5 (16)) in accordance with the acquisition agreement to respectively acquire 65% and 30% interests of Yangtze River Real Estate and HNA Hotel Holding in Beijing Kehang. The acquisition date for this transaction is April 30, 2009, namely the date when the Company actually controls Beijing Kehang.

(a) The merger cost and goodwill are recognized below:

Merger cost -	
Cash paid	1,728,341
Total merger cost	1,728,341
Less: Recognizable net assets fair value acquired	(1,399,476)
Goodwill	328,865

(b) As at the acquisition date, the assets, liabilities and acquisition-related cash flow of Beijing Kehang are recognized below:

	Acquisition date Fair value	Acquisition date Book value	December 31, 2008 Book value
Cash and cash equivalents	83,350	83,350	2,575
Accounts receivable	461,930	461,930	259,083
Inventories	35	35	35
Other current assets	27,797	27,797	141,245
Fixed assets and construction in progress	2,686,744	1,301,568	989,072
Less: Borrowings	(1,090,250)	(1,090,250)	(648,250)
Accounts payable	(349,208)	(349,208)	(304,627)
Employee remuneration payable	(947)	(947)	(1,024)
Deferred tax liabilities	(346,294)	-	-
Other liabilities	(25)	(25)	(532)
Net assets	1,473,132	434,250	437,577
Less: Minority interest	(73,656)	(21,713)	(21,879)
Net assets acquired	1,399,476	412,537	415,698
Consideration paid in cash in 2008	1,728,341		
Less: Cash and cash equivalents received from the acquired subsidiaries	(83,350)		
Net cash paid by subsidiaries	1,644,991		

The Group adopts valuation techniques to determine the fair value of the assets or liabilities of Beijing Kehang as at the acquisition date. The evaluation method of main assets and its key assumptions are listed below:

The evaluation method of fixed assets adopts the future earning method and the key assumptions used are shown below:

Future earnings of stores and office buildings

Discount rate	8%
Growth rate	The average growth rate is 1% in the first 5 years and the growth rate enters a stable period from the 6th year.

Future earnings of hotels

Discount rate	7%
Growth rate	The average growth rate is 32% in the first 5 years and the growth rate enters a stable period from the 6th year.

(c) The income, net profits and cash flow of Beijing Kehang from the acquisition date to December 31, 2009 are recognized below:

Operating income	6,579
Net profit	171,566
Cash flow from operating activities	53,190
Net cash flow	(75,736)

VI. Notes to consolidated financial statements

(1) Cash and cash equivalents

	December 31, 2009			December 31, 2008		
	AMT in foreign currency	Exchange rate	AMT IN RMB	AMT in foreign currency	Exchange rate	AMT IN RMB
Cash in hand –						
RMB	709	1.0000	709	578	1.0000	578
USD	9,918	6.8282	67,722	25	6.8346	171
HKD	8	0.8805	7	8	0.8819	7
EUR	4	9.7971	39	5	9.6590	48
KRW	-	0.0057	-	945	0.0053	5
Others			2,930			50
			71,407			859
Cash at banks and financial institutions –						
RMB	8,979,685	1.0000	8,979,685	5,310,829	1.0000	5,310,829
USD	186,324	6.8282	1,272,258	98,470	6.8346	673,003
HKD	393	0.8805	346	393	0.8819	347
JPY	2,511	0.0738	185	8,004	0.0757	606
EUR	1,958	9.7971	19,183	1,094	9.6590	10,567
KRW	265,605	0.0057	1,514	550,461	0.0053	2,917
Others			3,776			3,808
			10,276,947			6,002,077
Other cash and cash equivalents –						
RMB	2,416,857	1.0000	2,416,857	648,990	1.0000	648,990
EUR	33	9.7971	323	33	9.6590	319
			2,417,180			649,309
			12,765,534			6,652,245

(a) As at 31 December 2009, the cash and cash equivalents included 3,937,470 thousand Yuan (31 December 2008: 4,247,497 thousand Yuan) of deposit that was deposited at the HNA Group Finance Co. Ltd., an associated company of the Group (Note 7 (6)).

(b) As at 31 December 2009 the amount of 844,918 thousand Yuan (31 December 2008: 160,000 thousand Yuan) of fixed deposit was pledged by the Group to acquire short-term borrowing of 563,000 thousand Yuan (Note 5 (19)) and long-term borrowing of 180,000 thousand Yuan (Note 5 (29)) (31 December 2008: Short-term borrowing of 163,448 thousand Yuan). Such deposit is recognized as other cash and cash equivalents restricted among the cash and cash equivalents.

As at 31 December 2009, the Group took 209,720 thousand Yuan (31 December 2008: 465,643 thousand Yuan) of saving as the security deposit of the notes payable of 445,840 thousand Yuan (31 December 2008: 972,043 thousand Yuan). Such deposit is recognized as other cash and cash equivalents restricted among the cash and cash equivalents.

As at 31 December 2009, the Group took 53,400 thousand Yuan of saving as the security deposit of a Short-term borrowing of 178,000 thousand Yuan (31 December 2008: 18,448,000 Yuan) (Note 5 (19a)) by the Group. Such deposit is recognized as other cash and cash equivalents restricted among the cash and cash equivalents.

As at 31 December 2009, the Group had no fixed deposit (31 December 2008: 19,842 thousand Yuan) as the borrowing security deposit.

As at 31 December 2009, 1,231,022 thousand Yuan (December 31, 2008: nil) among other cash and cash equivalents of the Group is taken as the security deposit received for the forward foreign exchange loan contract signed by the Bank of China, Hainan Branch in respect of 164,489,286USD (1,123,166 thousand Yuan) (Note 5 (19 (a))).

As at 31 December 2009, other contract security deposit of 4,817 thousand Yuan (31 December 2008: 3,824 thousand Yuan) and other restricted fixed deposit of 73,303 thousand Yuan (31 December 2008: nil) are included in other cash and cash equivalents of the Group. Such deposit is recognized as other cash and cash equivalents restricted among the cash and cash equivalents.

(2) Interests receivable

	December 31, 2008	Increase by	Decrease by	December 31, 2009
HNA Group Finance Co. Ltd.	96,069	48,706	(135,604)	9,171
Other banks	-	41,609	(38,301)	3,308
	96,069	90,315	(173,905)	12,479

(3) Dividends receivable

	December 31, 2008	Increase by	Decrease by	December 31, 2009	Reason for dividends unrecovered	Impairment incurred or not
Dividends receivable within one-year aging	2,271	-	(2,271)	-	-	No

(4) Accounts receivable

	December 31, 2009	December 31, 2008
Accounts receivable	355,301	481,273
Less: provision for bad debts	(37,693)	(40,444)
	317,608	440,829

(a) The aging of accounts receivable is analyzed below:

	December 31, 2009	December 31, 2008
Within 1 year	302,153	431,547
1-2 years	11,399	6,692
2-3 years	4,781	6,997
3-4 years	3,217	3,368
4-5 years	1,905	1,653
5-6 years	1,182	3,438
More than 6 years	30,664	27,578
	355,301	481,273

(b) Accounts receivable are analyzed below by category:

	December 31, 2009				December 31, 2008			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	AMT	Percent age	AMT	With	AMT	Percentage	AMT	With
	in total		drawal		in total		drawal	
	amount		ratio		amount		ratio	
Single amounts significant	296,488	83%	10,517	4%	247,909	52%	-	-
Single amounts are not significant, but the portfolio risk is significant after grouped by credit risk feature	30,829	9%	26,222	85%	34,500	7%	27,084	79%
Other amounts insignificant	27,984	8%	954	3%	198,864	41%	13,360	7%
	355,301	100%	37,693	11%	481,273	100%	40,444	8%

(c) As at December 31, 2009, the provisions for bad debts of the accounts receivable with single amounts significant, or with single amounts insignificant but the separate impairment test made are withdrawn below:

	Book balance	Provision for bad debts	Withdrawal ratio	Reason
Customer A	8,184	8,184	100%	Long aging, not recovered
Customer B	4,478	4,478	100%	Long aging, not recovered
Customer C	2,791	2,791	100%	Long aging, not recovered
Customer D	2,704	2,704	100%	Long aging, not recovered
Others	13,095	13,095	100%	Long aging, not recovered
	31,252	31,252		

- (d) The accounts receivable with single amounts insignificant, but with the portfolio risk significant after grouped by credit risk feature, are analyzed below:

	December 31, 2009				December 31, 2008			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	AMT	Percentage	AMT	With	AMT	Percentage	AMT	With
	in total		drawal		in total		drawal	
amount		ratio		amount		ratio		
Within 1 year	-	-	-	-	-	-	-	-
1-2 years	-	-	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-	-	-
3-4 years	3,217	1%	1,025	32%	1,832	0.4%	-	-
4-5 years	2,523	1%	1,004	40%	2,653	0.6%	-	-
5-6 years	1,182	0.3%	724	61%	3,438	0.7%	507	15%
More than 6 years	23,907	7%	23,469	98%	26,577	5.5%	26,577	100%
	30,829	9.3%	26,222	85%	34,500	7.2%	27,084	79%

- (e) In FY2009, the provisions for bad debts for accounts receivable were not written off.
- (f) As at December 31, 2009, no arrears in accounts receivable for the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2008: nil).
- (g) As at December 31, 2009, the accounts receivable with balance ranking the first five places are analyzed as follows:

	Relationship with the Group	AMT	Period	Percentage in total accounts receivable
Customer E	Third party	122,149	1 year	34%
Customer F	Third party	64,971	1 year	18%
Customer G	Third party	19,306	1 year	5%
Customer H	Third party	15,635	1 year	4%
Customer I	Third party	11,723	1 year	3%
		233,784		64%

- (h) Accounts receivable from related parties are analyzed below:

	Relationship with the Group	December 31, 2009			December 31, 2008		
		AMT	Percentage	Provision	AMT	Percentage	Provision
		in total other		for bad	in total other		for
receivables (%)		debts	receivables (%)		bad debts		
HNA Group	Shareholder materially affecting the parent company of the Company	-	-	-	169	-	-
Jinpeng Sales	Under HNA Group control	-	-	-	13	-	-
		-	-	-	182	-	-

(i) Accounts receivable include the following balances in foreign currency:

Foreign currency	December 31, 2009			December 31, 2008		
	AMT	Exchange	RMB	AMT in	Exchange	RMB
	in thousand in foreign currency	rate	converted into	foreign currency in thousand	rate	converted into
USD	4	6.8282	27	110	6.8346	752
EUR	454	9.7971	4,448	70	9.6590	676
Forint	-		-	189,282	0.0357	6,757
			4,475			8,185

(5) Other receivables

	December 31, 2009	December 31, 2008
Aircraft leasing security deposit and maintenance reserve receivable	102,632	133,491
Deposits receivable on aviation supplies	89,576	92,312
Others	12,754	39,079
	204,962	264,882
Less: provision for bad debts	(96,372)	(114,314)
	108,590	150,568

(a) The aging of other receivables is analyzed below:

	December 31, 2009	December 31, 2008
Within 1 year	68,062	96,079
1-2 years	34,152	53,310
2-3 years	1,885	15,063
3-4 years	2,280	5,271
4-5 years	4,568	1,050
5-6 years	860	1,357
More than 6 years	93,155	92,752
	204,962	264,882

(b) Other receivables are analyzed below by category:

	December 31, 2009				December 31, 2008			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	AMT	Percentage in total amount	Provision for bad debts	Withdrawal ratio	AMT	Percentage in total amount	Provision for bad debts	Withdrawal ratio
Single amounts significant	142,885	70%	65,706	46%	114,158	43%	29,242	26%
Single amounts are not significant, but the portfolio risk is significant after grouped by credit risk feature	35,220	17%	29,871	85%	80,765	31%	64,902	80%
Other amounts insignificant	26,857	13%	795	3%	69,959	26%	20,170	29%
	204,962	100%	96,372	47%	264,882	100%	114,314	43%

- (c) As at December 31, 2009, the provisions for bad debts of other receivables with single amounts significant, or with single amounts insignificant but the separate impairment test made are withdrawn below:

	Book balance	Provision for bad debts	Withdrawal ratio	Reason
Company A	18,882	18,882	100%	(i)
Company B	11,799	11,799	100%	(i)
Company C	9,251	9,251	100%	(ii)
Company D	6,503	6,503	100%	(i)
Company E	5,280	5,280	100%	(i)
Others	33,225	33,225	100%	(i)
	84,940	84,940		

- (i) As at December 31, 2009, the aging of such other receivables had exceeded 6 years, so the management predicted that such receivables were difficult to recover and the full provisions for bad debts were withdrawn from 2001 to 2006.
- (ii) As at December 31, 2009, as this company has been cancelled, this amount is unrecoverable, so the provision for bad debts is made in full amount for FY2004.
- (d) Other receivables with single amounts insignificant, but with the portfolio risk significant after grouped by credit risk feature, are analyzed below:

	December 31, 2009				December 31, 2008			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	AMT	Percent age	Provision	With	AMT	Percentage	Provision	With
	in total		for bad	drawal	in total		for bad	drawal
amount		debts	ratio	amount		debts	ratio	
Within 1 year	-	-	-	-	-	-	-	-
1-2 years	-	-	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-	-	-
3-4 years	841	0.4%	100	12%	5,271	2%	-	-
4-5 years	4,568	2%	1,857	41%	1,050	0.4%	-	-
5-6 years	748	0.4%	748	100%	1,357	0.5%	-	-
More than 6 years	29,063	14%	27,166	93%	73,087	28%	64,902	89%
	35,220	17%	29,871	85%	80,765	31%	64,902	80%

"Other receivables with single amounts insignificant, but with the portfolio risk significant after grouped" refer to the accounts receivable with age above 3 years. Our management believes that other receivables, due to long age, have very high risks to recover, so, according to historical experience, the other receivables of single amount will have the provision for bad debts with the specific identification method after evaluation.

- (e) Other receivables actually written off in this financial year are analyzed as follows:

	Property of accounts receivable	AMT written off		Produced due to related transaction
Company F	Insurance indemnities	5,210	Settled with difference unrecoverable	No

(f) As at December 31, 2009, no arrears in other receivables for the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2008: nil).

(g) As at December 31, 2009, other receivables whose balances rank top 5 are analysed below:

	Relationship with the Group	AMT	Period	Percentage in total other receivables
Company G	Third party	28,824	Within 1 year	14%
Company A	Third party	18,882	Within 6 year	9%
Company B	Third party	11,799	Within 6 year	6%
Company H	Third party	9,900	Within 1 year	5%
Company C	Third party	9,251	Within 6 year	5%
		78,656		38%

(h) Other receivables from related parties are analysed below:

Relationship with the Group		December 31, 2009		December 31, 2008	
		AMT	Percentage in total other receivables (%)	AMT	Percentage in total other receivables (%)
HNA Property Management	Under HNA Group control	2,492	1%	-	-
HNA Safe	Under HNA Group control	2,482	1%	-	-
Xinhua Aviation Catering	Under HNA Group control	2,108	1%	-	-
HNA Systems Co., Ltd.	Under HNA Group control	2,070	1%	-	-
Western Airlines	Under the same parent Company's control	-	-	29,662	11%
Yangtze Investment	Under HNA Group control	-	-	10,944	4%
HNA Import & Export	Associated company	-	-	6,385	2%
Haikou High- Tech	Under HNA Group control	-	-	5,000	2%
Others	Under HNA Group control	10,138	5%	20,379	8%
		19,290	9%	72,370	27%

No provisions for bad debts for the above receivables are withdrawn.

(i) Other receivables include the following balances in foreign currency:

	December 31, 2009			December 31, 2008		
	AMT in in thousand foreign currency	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
USD	20,131	6.8282	137,458	18,926	6.8346	129,352

(6) Prepayments

(a) The ages of the prepayments are analyzed as follows:

Aging	December 31, 2009		December 31, 2008	
	AMT	Percentage in total amount	AMT	Percentage in total amount
Within 1 year	638,061	96%	231,768	85%
1-2 years	12,030	2%	30,430	11%
2-3 years	7,003	1%	8,642	4%
More than 3 years	5,632	1%	1,203	-
	662,726	100%	272,043	100%

(b) As at December 31, 2009, the prepayments whose balances rank top 5 are analyzed below:

	Relationship with the Group	AMT	Percentage to the total prepayments	Time of payment	Reason for unsettlement
Supplier A	Third party	282,477	43%	2009	The prepayments for aviation supplies and engine maintenance whose contract is being performed.
HNA Import & Export	Associated company	134,458	20%	2009	The prepayments for aviation supplies whose contract is being performed.
Supplier C	Third party	17,874	3%	2009	The prepayments for aviation supplies whose contract is being performed.
Supplier D	Third party	7,069	1%	2009	The prepayments for aviation oil whose contract is being performed.
Supplier E	Third party	6,480	1%	2009	The prepayments for engine maintenance whose contract is being performed.
		448,358	68%		

(c) As at December 31, 2009, no money prepaid to the shareholder holding over 5% (5% included) voting shares in the Company is included in the prepayments (31 December 2008: nil).

(d) The prepayments to the related parties are analysed as follows:

	Relationship with the Group	December 31, 2009		December 31, 2008	
		AMT	Percentage to the total prepayments (%)	AMT	Percentage to the total prepayments (%)
HNA Import & Export	Associated company	137,563	20%	145,100	53%
Others		65	-	216	0.1%
		134,523	20%	145,316	53%

(e) The prepayments include the following balances in foreign currencies:

Foreign currency	December 31, 2009			December 31, 2008		
	AMT in foreign currency in thousand	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
USD	56,844	6.8282	388,142	9,683	6.8346	66,179
EUR	609	10.2518	6,243	171	9.6590	1,652
HKD	25	0.8805	22	24	0.8819	21
			394,408			67,852

(7) Inventories

(a) The inventories are classified below:

	December 31, 2009			December 31, 2008		
	Book balance	Inventory depreciation reserves	Book value	Book balance	Inventory depreciation reserves	Book value
Consumable aviation supplies	236,205	(5,115)	231,090	239,455	(5,115)	234,340
Onboard supplies	12,858	(83)	12,775	8,106	(83)	8,023
Low-valued consumables	6,303	-	6,303	5,643	-	5,643
Others	6,484	-	6,484	7,330	-	7,330
	261,850	(5,198)	256,652	260,534	(5,198)	255,336

In the inventory balance as at December 31, there are no capitalized borrowing expenses and inventories used for guarantee purpose.

(b) The inventory depreciation reserves have no changes in this financial year.

(8) Financial assets available for sale

	December 31, 2009	December 31, 2008
Equity instruments available for sale	647,048	-

As at December 31, 2009, financial assets available for sale are the 29,772,496 three-year' term restricted shares held by the Company in China Merchants Securities. And the fair value of such shares as at December 31, 2009 is confirmed according to the closing price and the restriction factors of such class of shares as at such date of Shanghai Stock Exchange. The excess over its acquisition cost will be recognized as the capital reserves of this financial year (Note 5 (34)).

(9) Long-term equity investment

	December 31, 2009	December 31, 2008
Associated company(a)	76,225	86,518
Other long-term equity investments (b)	552,866	640,193
	629,091	726,711
Less: Provision for impairment of long-term equity investments (c)	(6,774)	(6,774)
	622,317	719,937

The Group does not have major limitations to the encashment of long-term equity investments.

(a) Associated companies

	Accounting method	Initial investment cost	December 31, 2008	Increase/Decrease by									
				increase/decrease in investment	Net income adjusted on equity method	Cash dividends declared	Other changes in equity	December 31, 2009	Share-holding ratio	Percentage of voting rights	Explanation for the inconsistency of shareholding ratio with voting proportion	Provision for impairment	Provision for impairment of this financial year
HNA Import & Export	Equity method	3,000	9,340	-	3,038	(6,340)	-	6,038	30%	30%	-	-	-
Xin Guo Hotel	Equity method	15,000	40,621	-	(2,970)	-	-	37,651	40%	40%	-	-	-
Hainan Hansha Training	Equity method	3,862	3,403	-	289	-	-	3,692	50%	25%	-	-	-
Xin Da International	Equity method	3,312	2,770	(2,770)	-	-	-	-	49%	49%	-	-	-
Beijing Vision	Equity method	3,000	2,870	-	(80)	-	-	2,790	30%	30%	-	-	-
Yanjing Hotel	Equity method	11,270	27,514	-	(1,460)	-	-	26,054	35%	35%	-	-	-
		39,444	86,518	(2,770)	(1,183)	(6,340)	-	76,225					

(b) Other long-term equity investment

	Accounting method	Initial investment cost	December 31, 2008	Increase/Decrease by	December 31, 2009	Share-holding ratio	Percentage of voting rights	Explanation for the inconsistency of shareholding ratio with voting proportion	Provision for impairment	Provision for impairment of this financial year
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	-	-	-
HNA Finance	Cost method	101,561	101,561	-	101,561	8.30%	8.30%	-	-	-
Yangtze River Leasing	Cost method	87,327	87,327	(87,327)	-	-	-	-	-	-
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	-	-	-
TravelSky Tech	Cost method	29,860	29,860	-	29,860	1.68%	1.68%	-	-	-
Tianjin Airlines	Cost method	19,000	19,000	-	19,000	1.46%	1.46%	-	-	-
Yangtze River Express	Cost method	10,000	10,000	-	10,000	2%	2%	-	-	-
Meilan Airport	Cost method	6,906	6,906	-	6,906	1.12%	1.12%	-	-	-
Northwest HNA Real Estate	Cost method	10,000	10,000	-	10,000	8.33%	8.33%	-	-	-
Other investment	Cost method	12,613	12,613	-	12,613	-	-		(6,774)	-
			640,193	(87,327)	552,866				(6,774)	-

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

	December 31, 2008	Increase by	Decrease by	December 31, 2009
Provision for other long-term equity investment				
Others	6,774	-	-	6,774

The Group did not discovered any further impairment indication after evaluating the financial condition of the investee this year; therefore, no additional provision for impairment (FY2008: nil) was withdrawn this year.

(10) Investment Real Estate

Items	Fair value as at January 1	Increase by		Decrease by		Fair value as at December 31
		From constructions in progress or self-used real estates	Change in fair value	Disposal		
Cost	168,701	4,854,670	65,516	(147,033)		4,941,854
Houses and buildings	147,033	4,735,167	65,516	(147,033)		4,800,683
Land use rights	21,668	119,503	-	-		141,171
Change in fair value	8,074	-	597,743	(5,936)		599,881
Houses and buildings	5,936	-	553,687	(5,936)		553,687
Land use rights	2,138	-	44,056	-		46,194
Investment real estate book value	176,775	4,854,670	663,259	(152,969)		5,541,735
Houses and buildings	152,969	4,735,167	619,203	(152,969)		5,354,370
Land use rights	23,806	119,503	44,056	-		187,365

The locations of the investment real estates of the Group have active real estate exchange markets and external appraisers obtain the market prices of the real estates of the same or similar type and other related information in the real estate exchange market; thus the reasonable estimation at fair value can be made with respect to the investment real estates.

As at December 31, 2009, the net book value of such properties is RMB5,541,735,000 (RMB176,775,000 as at December 31, 2008). The latest evaluation takes December 31, 2009 as the reference date and is made by the independent and appointed appraising company Hubei Wanxin Assets Appraisal Co., Ltd according to the open market value.

For FY2009, the accumulative change of the fair value of the Investment real estates is RMB663,259,000 (RMB8,074,000 for FY2008), and the change in fair value recognized into the profits or losses is RMB597,743,000 (FY2008: RMB8,074,000), into capital reserves is RMB 41,558,000 (FY2008: nil), into minority interest is RMB23,958,000 (FY2008: nil).

As at December 31, 2009, the investment real estates with the book value of RMB 4,701,147,000 (December 31, 2008: nil) were used as security for short-term borrowing and long-term borrowing. For details, see Note 5 (19) and Note 5 (29).

As at December 31, 2009, the houses and land use rights with book value about RMB1,825,944,000 (nil as at December 31, 2008) have not completed the transaction of the property certificate until now due to the review and approval of the property application are pending and it is predicted to complete the transaction in FY2010.

In FY2009, the Group sells Sanya Aviation & Tourism College, the investment real estate held by it, to HNA Group with the accumulative change in fair value, i.e. RMB5, 936,000 fully recognized in the profits or losses on the change in fair value of the financial year.

(11) Fixed assets

	December 31, 2008	Increase by	Decrease by	December 31, 2009
Total original price	31,191,011	8,385,897	(1,487,214)	38,089,694
Houses and buildings	1,401,266	645,833	(841,945)	1,205,154
Aircrafts and engines	26,620,810	7,353,450	(543,576)	33,430,684
High-price rotatable spares	2,595,438	238,767	(65,298)	2,768,907
Transport means	201,493	16,431	(33,536)	184,388
Equipment and apparatus	372,004	131,416	(2,859)	500,561
Total accumulated depreciation	6,987,673	1,791,281	(306,576)	8,472,378
Houses and buildings	253,731	30,650	(139,983)	144,398
Aircrafts and engines	5,057,991	1,495,469	(127,423)	6,426,037
High-price rotatable spares	1,340,100	211,650	(7,961)	1,543,789
Transport means	113,924	16,039	(28,985)	100,978
Equipment and apparatus	221,927	37,473	(2,224)	257,176
Total net book value	24,203,338	6,594,616	(1,180,638)	29,617,316
Houses and buildings	1,147,536	615,183	(701,962)	1,060,757
Aircrafts and engines	21,562,819	5,857,981	(416,153)	27,004,647
High-price rotatable spares	1,255,337	27,117	(57,337)	1,225,117
Transport means	87,569	392	(4,551)	83,410
Equipment and apparatus	150,077	93,943	(635)	243,385
Total provision for impairment	497,115	-	-	497,115
Houses and buildings	-	-	-	-
Aircrafts and engines	480,737	-	-	480,737
High-price rotatable spares	16,378	-	-	16,378
Transport means	-	-	-	-
Equipment and apparatus	-	-	-	-
Total book value	23,706,223	6,594,616	(1,180,638)	29,120,201
Houses and buildings	1,147,536	615,183	(701,962)	1,060,757
Aircrafts and engines	21,082,082	5,857,981	(416,153)	26,523,910
High-price rotatable spares	1,238,959	27,117	(57,337)	1,208,739
Transport means	87,569	392	(4,551)	83,410
Equipment and apparatus	150,077	93,943	(635)	243,385

For FY2009, the depreciation amount for fixed assets is RMB1, 791,281,000 (FY2008: RMB1, 496,715,000). The original price of the constructions in progress converted into fixed assets is RMB7, 674,302,000 (FY2008: 6,413,539,000).

As at December 31, 2009, the fixed assets with the net value of 18,951,972,000 yuan (December 31, 2008: 21,976,990,000 yuan) and original value of 24,928,828,000 yuan (December 31, 2008: 13,775,464,000 yuan) are used as the mortgage of short-term borrowings and long-term borrowings. See Note V (19) and Note V (29).

The depreciation expenses which are recorded into operating cost, operating expense and administrative expense in 2009 are 1,729,177,000 yuan, 13,272,000 yuan and 48,832,000 yuan (in 2008: 1,430,756,000 yuan, 5,277,000 yuan and 46,209,000 yuan) respectively.

In FY2009, the fixed assets sold by the Group to the associated companies are RMB202,885,000 (FY2008: 6,001,000). For details, see Note 7 (5) (f).

(a) Fixed assets under financial leases

	Original price	Accumulated depreciation	Book value
December 31, 2009:			
Aircrafts and engines	7,649,812	(2,042,909)	5,606,903
High-price rotatable spares	50,000	-	50,000
	7,699,812	(2,042,909)	5,656,903
December 31, 2008:			
Aircrafts and engines	7,831,368	(1,549,840)	6,281,528
High-price rotatable spares	2,197,780	(901,582)	1,296,198
	10,029,148	(2,451,422)	7,577,726

(b) Fixed assets with property certificate uncompleted:

As at December 31, 2009, the houses and land use rights with the book value of RMB 10,079,000 and original price about RMB20,989,000 (Book value 130,493,000 and original price RMB165,433,000 as at December 31, 2008) have not completed the transaction of the property certificate until now due to the review and approval of the property application are pending and it is predicted to complete the transaction in FY2010.

After seeking legal opinions of other parties, our management believes the above property ownership certificates transaction has no material legal obstacles and does not materially and adversely affect the operation of the Group.

(12) Construction in progress

	December 31, 2009			December 31, 2008		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Prepayment for aircrafts	5,395,240	-	5,395,240	7,533,826	-	7,533,826
Guorui City Project (*)	-	-	-	1,336,798	-	1,336,798
Basement in Beijing	951,333	-	951,333	718,987	-	718,987
International Airport (Phase I)						
Grand China Mansion(*)	-	-	-	612,160	-	612,160
Aircraft modification	440,522	-	440,522	-	-	-
Others	71,517	(2,307)	69,210	18,408	(2,307)	16,101
	6,858,612	(2,307)	6,856,305	10,220,179	(2,307)	10,217,872

(a) Major change of construction projects in progress

Project name	Budget	December 31, 2008	Fixed assets transferred in of FY2009	Increase by	Fixed assets transferred in of FY2009 (Note 5 (11))	Investment real estates transferred in of FY2009	December 31, 2009	Proportion of construction investment to budget %	Construction progress	Borrowing expense capitalization Accumulative AMT	Where: capitalization AMT of the borrowing expense of FY2009	Annual borrowing expense capitalization rate	Fund source
Prepayment for aircrafts	17,267,145	7,533,826	-	4,888,585	(7,027,171)	-	5,395,240	26%	26%	635,568	271,839	6.81%	Bank loan
Basement in Beijing International Airport (Phase I)	1,542,000	718,987	-	232,346	-	-	951,333	62%	62%	150,637	44,056	6.12%	Bank loan
Aircraft modification	583,664	-	408,030	32,491	-	-	440,521	75%	30%	-	-	-	Self-owned fund
Beijing Guorui Project (*)	1,646,333	1,336,798	-	303,067	-	(1,639,865)	-	-	-	-	61,700	6%	Bank loan
Grand China Mansion(*)	635,619	612,160	-	23,459	(635,619)	-	-	-	-	449,384	5,549	7.82%	Bank loan
Beijing Kehang 大厦(*)	2,692,665	-	-	2,692,665	-	(2,692,665)	-	-	-	214,111	214,111	11.8%	Bank loan
Others	-	18,408	-	64,622	(11,512)	-	71,518	-	-	-	-	-	Self-owned fund
		10,220,179	408,030	8,237,235	(7,674,302)	(4,332,530)	6,858,612			1,449,700	597,255		

* Such constructions are the investment real estate projects by the Group and have been completed in FY2009 and carried forward to the investment real estates (Note 5 (10)).

(b) Provision for impairment of construction in progress

	December 31, 2008	Increase by	Decrease by	December 31, 2009	Reasons for calculation
Building project of Tianjin Base, etc	2,307	-	-	2,307	Project discontinuation

(c) The progress of the major constructions in progress as at December 31, 2009 is as follows:

	Construction progress	RMKS
Basement in Beijing International Airport (Phase I)	62%	The construction progress is estimated on the basis of the budget.
Aircraft modification	30%	The construction progress is estimated on the basis of the actual performance of the modified construction.

As at December 31, 2009, there are no constructions in progress (as at December 31, 2008: RMB612, 160,000) used as the mortgage for the long-term borrowings.

(d) The aircraft prepayments of the Group are paid to the aircraft supplier in accordance with the payment schedule agreed in the contract; such aircrafts are constructed based on the schedule agreed in the contract and delivered successively to the Company within the agreed period.

(13) Intangible assets

	December 31, 2008	Increase by	Decrease by	December 31, 2009
Total original price				
Land use rights	293,394	-	(22,493)	270,901
Total accumulated amortization				
Land use rights	(56,262)	(6,150)	2,410	(60,002)
Total provision for impairment				
Land use rights	-	-	-	-
Total net book value				
Land use rights	237,132	(6,150)	(20,083)	210,899

In FY2009, the Group has transferred RMB22, 493,000 land use rights to its associated company, Xin Guo Hotel (Note 7 (5) (f)).

In FY2009, the amortized amount of the intangible assets is RMB6, 150,000 (FY2008: RMB6, 791,000).

As at December 31, 2009, the land use rights with the net value of RMB95, 924,000 (December 31, 2008: RMB201, 794,000) (original value: RMB121, 110,000 (December 31, 2008: RMB237, 030,000)) were used as mortgage for short-term borrowing and long-term borrowing. For details, see Note 5 (19) and Note 5 (29).

As at December 31, 2009, there had been no land use right certificates unissued (December 31, 2008: RMB19, 485,000 (original value: RMB22, 494,000)).

(14) Goodwill

The goodwill from acquisition of the equity interest in the following subsidiaries:

	December 31, 2008	Increase by (Note 4)	December 31, 2009
Xinhua Airlines	68,109	-	68,109
Chang'an Airlines	35,127	-	35,127
Shanxi Airlines	104,647	-	104,647
Chang'an Star	363	-	363
Xi'an Real Estate	15	-	15
Beijing Kehang	-	328,865	328,865
	208,261	328,865	537,126
Less: Provision for impairment	(208,261)	-	(208,261)
	-	328,865	328,865

The goodwill increased in FY2009 is incurred by the acquisition of 95% shares in Beijing Kehang (Note 4). As at December 31, 2009, the asset group of Beijing Kehang Building such goodwill belongs to has undergone an impairment test with the future discounted cash flow method. According to the test result, no impairment traces are found.

The recoverable amount of the assets group of Beijing Kehang is calculated based on the 5-year prediction prepared by the management and with the future cash flow converted into the present value. The cash flow beyond such 5 years is calculated with the below estimated growth rates. The hypotheses applied in the future discounted cash flow method mainly include:

	Investment real estates in Beijing
Gross margin	84%-95%
Growth rate	-
Discount rate	7%-8%

Our management has confirmed the budget gross margin and growth rate according to historical experience and market development predict and takes the before-tax margin that can reflect the specific risks of the related asset group is the discount rate. The above hypotheses are used to analyze the recoverable amount of such asset group.

Provided that the budget growth rate for the calculation of the future cash flow is lower than 10% of the growth rate adopted currently by the management, the goodwill of the Group does not be impaired.

(15) Long-term prepaid expenses

	December 31, 2008	Increase by	Amortized in FY2009	December 31, 2009
Pilots training fees	171,315	135,422	(99,175)	207,562
Rentals of Tianzhu Base	13,365	-	(1,093)	12,272
Improvement to fixed assets held under operating leases	4,167	-	(1,440)	2,727
Others	65	2,977	(3,042)	-
	188,912	138,399	(104,750)	222,561

(16) Other non-current assets

	December 31, 2009	December 31, 2008
Prepayments for the investment in shares (a)	-	3,771,638
After-sale leaseback deferred losses	365,319	432,804
Aircraft and engine lease securities	774,710	623,260
Aircraft and engine maintenance reserves	509,876	369,786
Others	20,000	-
	1,669,905	5,197,488

(a) Prepayments for the investment in shares

- (1) In August 2007, according to the agreement, our company prepaid RMB829,280,000 for the investment in the 39.14% shares in Bohai Trust (the former Hebei International Trust Investment Co., Ltd) to the associated company-HNA Hotel Holding, in December 2008, also according to the agreement, prepaid RMB545,792,000 for the investment in 30% shares in Beijing Kehang and RMB618,567,000 for the investment in 45% shares in Yanjing Hotel to HNA Hotel Holding.

In November 2009, as the equity variation was not approved, the Company reached a supplementary agreement with HNA Hotel Holding through negotiation; under such agreement, the transaction that the Company purchased the equities in Bohai International Trust and Yanjing Hotel from HNA Hotel Holding was terminated. According to this agreement, HNA Hotel Holding must refund all prepayments by the Company after the execution of such agreement and respectively RMB84, 711,000 and RMB43, 641,000 compensations. Such prepayments and compensations have been recovered as at December 31, 2009 (Note 7 (5) (i)).

In April 2009, the change and transfer procedures with respect to 30% equities from the acquisition of Beijing Kehang by the Company were completed and Beijing Kehang became a subsidiary of the Company in the financial year.

- (2) In December 2008, the Company prepaid the investment amount of RMB1, 182,549,000 to its associated company - Yangtze River Real Estate for the acquisition of 65% equities in Beijing Kehang in accordance with the agreement. In April 2009, the change and transfer procedures with respect to 65% equities of Beijing Kehang acquired by the Company were completed and Beijing Kehang became a subsidiary of the Company.
- (3) In December 2007, the Group prepaid the investment amount of RMB 595,450,000 to its associated company - HNA Group for the acquisition of the equities of 29,772,496 shares of China Merchants Securities in accordance with the agreement. In June 2009, the transfer procedures with respect to the equities of China Merchants Securities acquired by the Company were completed. Such equities acquired by the Company were carried over against the financial assets available for sale for calculation (Note 5 (8)).

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

The deductible temporary differences of deferred tax assets and the deductible losses undetermined by the Group are analyzed below:

	December 31, 2009	December 31, 2008
Deductible temporary differences	645,459	666,152
Deductible losses	1,147,105	1,184,194
	1,792,564	1,850,346

As the Company and its subsidiaries cannot obtain sufficient future taxable profits used to write off deductible losses and deductible temporary differences in the future period, the Group has not recognized the related deferred tax assets for deductible losses and deductible temporary differences.

The deductible losses not recognizing deferred tax assets will be due in the following years:

	December 31, 2009	December 31, 2008
FY 2009	-	10,383
FY 2010	-	-
FY 2011	-	-
FY 2012	-	5,520
FY 2013	1,025,464	1,168,291
FY 2014	121,641	-
	1,147,105	1,184,194

(b) Deferred tax liabilities

	December 31, 2009		December 31, 2008	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
Change in fair value of financial assets available for sale recognized in capital reserves	12,737	50,948	-	-
Difference between investment real estate book value and taxable base	161,887	650,047	2,499	12,493
Merger of enterprises not under the same control	346,294	1,385,176	-	-
	520,918	2,086,171	2,499	12,493

(18) Provision for assets impairment

	December 31, 2008	Increase by	Decrease by		December 31, 2009
			Recovery	Write-off	
Provision for bad debts	154,758	9	(15,492)	(5,210)	134,065
Including: Provision for bad debts of accounts receivable	40,444	-	(2,751)	-	37,693
Provision for bad debts of other receivables	114,314	9	(12,741)	(5,210)	96,372
Inventory depreciation	5,198	-	-	-	5,198
Provision for impairment of long-term equity investment	6,774	-	-	-	6,774
Provision for impairment of fixed assets	497,115	-	-	-	497,115
Provision for impairment of construction in progress	2,307	-	-	-	2,307
Provision for impairment of intangible assets	-	-	-	-	-
Provision for impairment of goodwill	208,261	-	-	-	208,261
	874,413	9	(15,492)	(5,210)	853,720

(19) Short-term borrowings

(a) Category of short-term borrowings

	Currency	December 31, 2009	December 31, 2008
Mortgaged loan (i)	RMB	175,000	305,500
	USD	-	-
Pledged loan (ii)	RMB	2,770,000	1,221,448
	USD	2,488,806	-
Guaranteed loan (iii)	RMB	7,066,000	5,263,000
	USD	274,882	-
Guaranteed and mortgaged or pledged loan (iv)	RMB	3,093,830	1,010,000
	USD	136,564	-
Credit loan	RMB	121,524	500,000
	USD	38,920	720,367
		16,165,526	9,020,315

(i) As at December 31, 2009, with respect of the borrowing of RMB 125,000,000 (as at December 31, 2008: RMB255,500,000), the houses and buildings with the book value of RMB 108,613,000 (original value: RMB128,963,000)(as at December 31, 2008: book value of RMB151,681,000 (original value: RMN185,363,000)) (Note 5 (11)) were used as its mortgage; with respect of the borrowing of RMB50,000,000 (as at December 31, 2008: RMB50,000,000), the intangible assets held by related parties of the Group were used as its mortgage.

(ii) As at December 31, 2009, with respect of the borrowing of RMB563,000,000 (as at December 31, 2008: RMB163,448,000), the fixed deposit of RMB644,918,000 (as at December 31, 2008: RMB179,842,000) (Note 5 (1)) was used as its pledge; with respect of the borrowing of RMB178,000,000, the security deposit of RMB53,400,000 was used as its pledge; with respect of the borrowing of RMB3,394,640,000 (as at December 31, 2008: RMB1,058,000,000), certain equities held by related parties of the Group was used as its pledge.

As at December 31, 2009, with respect of the borrowing of USD164,489,286 (equivalent to RMB1,123,166,000) under the forward foreign exchange contract signed between the Company and the Bank of China, Hainan Branch, the security deposit of RMB1,231,022,000 deposited by the Company in such bank was used as its pledge.

(iii) As at December 31, 2009, the borrowing of RMB1,876,000,000 (as at December 31, 2008: RMB1,013,000,000) by the subsidiary of the Company was guaranteed by the Company; the borrowing of RMB5,464,882,000 (as at December 31, 2008: RMB4,170,000,000) was guaranteed by related parties of the Group.

(iv) As at December 31, 2009, with respect of the borrowing of RMB581,830,000 (as at December 31, 2008: RMB210,000,000), the investment real estates with the book value of RMB2,955,376,000 (Note 5 (10)) were used as its mortgage, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB176,564,000 (December 31, 2008: RMB450,000,000), 1 engine to be purchased by the Company and certain equities of related parties' in the Company were used as its pledge, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB1,872,000,000 (as at December 31, 2008: RMB210,000,000), certain equities held by related parties of the Group were used as its pledge, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB600,000,000 (as at December 31, 2008: RMB140,000,000) by the subsidiary of the Company, certain equities held by related parties of the Group and intangible assets were used as its pledge, and meantime the Group guaranteed such borrowing.

As at December 31, 2009, the weighted annual average interest of the short-term borrowing is 5.22 % (as at December 31, 2008: 6.45%).

(20) Trading financial liabilities

	December 31, 2009	December 31, 2008
Others	7,016	-

(21) Notes payable

	December 31, 2009	December 31, 2008
Trade acceptance draft (Note 7 (6))	734,276	971,335
Bank acceptance draft	445,840	809,567
	1,180,116	1,780,902

All the above notes payable will mature within the coming year.

(22) Accounts payable

	December 31, 2009	December 31, 2008
Payable aircrafts and engine maintenance fees	996,366	709,732
Payable landing fees	834,852	764,153
Payable aviation oil fees	488,695	1,393,028
Payables for aviation supplies	94,649	165,884
Payable PC-based seat reservation fees	155,708	106,539
Payable food fees	77,262	179,722
Payables for common supplies	30,625	49,135
Payable crew fees	24,733	16,078
Rentals for chartered aircrafts	21,452	40,354
Payable airport rentals	11,965	41,646
Payable ticket fees	8,280	143,436
Others	636,080	669,058
	3,380,667	4,278,765

(a) The accounts payable of the shareholder companies holding above 5% (inclusive) voting shares of the Company are listed in the following table:

	December 31, 2009	December 31, 2008
Grand China Airlines	87,246	-
Changjiang Leasing	32,662	-
Haikou Meilan	-	3,071
	119,908	3,071

(b) Accounts payable to related parties:

	December 31, 2009	December 31, 2008
Meilan Airport	140,159	94,698
Grand China Airlines	87,246	-
Hong Kong Express	64,743	28,342
HNA Group (Hong Kong)	40,547	-
Yangtze River Investment	38,728	50,000
Hainan Meiya	34,708	114,087
Changjiang Leasing	32,662	-
Tianjin Airlines	29,773	122,669
Hainan Pacific Oil	22,880	-
Haikou Meilan	22,703	-
Gansu Airport	19,232	-
Yunnan Xiangpeng	18,142	-
Northwest HNA Real Estate	15,415	-
West Airlines	3,707	55,883
Deer Air	2,720	17,635
Xinhua Air Catering	998	13,692
Hong Kong Airlines	35	14,460
HNA Import & Export	-	14,105
Yangtze River Leasing	-	382,808
Others	64,800	60,189
	639,198	968,568

(c) As at December 31, 2009, the accounts payable whose aging is more than 1 year are RMB 385,581,000 (as at December 31, 2008: RMB330,711,000), mainly including the accounts for payable aviation oil fees, landing fees, food fees, maintenance fees, etc. Due to the long-term business relationship with the suppliers, such accounts payable have not been settled finally yet.

(d) The accounts payable include the following accounts in foreign currencies:

	December 31, 2009			December 31, 2008		
	AMT in foreign currency in thousand	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
EUR	110	9.7971	1,078	-	-	-
USD	208,580	6.8282	1,424,226	161,975	6.8346	1,107,034
			1,425,304			1,107,034

(23) Prepayments from customers

	December 31, 2009	December 31, 2008
Presold tickets	696,035	833,713
Other prepayments from customers	22,060	27,202
	718,095	860,915

(a) As at December 31, 2009, the prepayments from customers does not include the accounts payable by the shareholder companies holding above 5% (inclusive) of the voting shares in the Company (as at December 31, 2008: nil).

(b) As at December 31, 2009, the prepayments from customers whose aging is more than 1 year are RMB 22,060,000 (as at December 31, 2008: RMB22,060,000), mainly including prepaid ticket fees, etc. As the services have not been rendered yet, such accounts payable have not been settled finally yet.

(c) The prepayments from customers include the following accounts in foreign currencies::

	December 31, 2009			December 31, 2008		
	AMT in foreign currency in thousand	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
EUR	1,350	9.7971	13,224	1,021	9.6590	9,862
USD	6,520	6.8282	44,523	1,378	6.8346	9,418
KRW	61,056	0.0057	350	1,248,128	0.0053	6,615
Forint	-	-	-	156,917	0.0357	5,602
JPY	9,908	0.0738	731	15,406	0.0757	1,166
			58,828			32,663

(24) Employee remunerations payable

	December 31, 2008	Increase by	Decrease by	December 31, 2009
Wages and salaries, bonuses, allowances and subsidies	55,284	919,160	(836,486)	137,958
Social insurance premium	26,552	120,617	(145,591)	1,578
Including: Medical insurance	9,358	30,758	(36,556)	3,560
Basic pension insurance	13,860	78,955	(95,989)	(3,174)
Unemployment insurance	1,434	7,137	(8,544)	27
Work-related insurance	1,140	2,427	(2,943)	624
Maternity insurance	760	1,340	(1,559)	541
Housing funds	24,682	40,276	(43,268)	21,690
Labor union expenditure and employee education expenditure	32,516	42,842	(21,235)	54,123
	139,034	1,122,895	(1,046,580)	215,349

As at December 31, 2009, the employee remunerations payable do not include the payable accounts in arrears. The housing funds, labour union expenditures and employee education expenditures shall be used and paid according to the related regulations and other balances will be issued and used completed in FY2010.

(25) Taxes payable

	December 31, 2009	December 31, 2008
Business tax payable	121,875	61,439
Custom duty and VAT payable	99,695	110,657
Deed tax payable	34,827	-
Individual income tax payable	12,800	26,641
City maintenance and construction tax payable	3,213	1,232
Enterprise income tax payable	(2,232)	13,346
Housing property tax payable	(15,612)	(11,091)
Others	7,718	5,365
	262,284	207,589

(26) Dividends payable

Dividends payable have not been paid, the reason for which is that the shareholders have not requested the payment from the company after the declaration of such dividends.

(27) Other payables

	December 31, 2009	December 31, 2008
Payable accounts collected or paid by related parties	322,336	321,895
Payables for constructions (building purchase payments)	272,656	795,485
Civil aviation construction funds (a)	214,328	95,706
Airport construction fees(b)	142,381	211,647
Payable pilot training fees	118,007	97,516
Payable security deposits and funds	113,680	79,814
Payables for aircraft purchase	106,652	292,636
Payables for aircraft engine maintenance	44,990	42,206
Premiums payable	30,487	31,987
Payables for underwriting	16,390	128,073
Others	95,161	189,676
	1,477,068	2,286,641

(a) The civil aviation construction funds refer to the balance recognized according to the Circular of the Ministry of Finance of the PRC Regarding the Printing and Issue of the Provisional Regulations on the Collection and Use of Civil Aviation Infrastructure Construction (Cai Zong (2004)38) and not having not paid yet. Such funds are calculated according to air line type, max. all up weight (MAUW) of aircrafts, flight mileage and the provided collection criteria and recognized in costs.

(b) Airport construction fees refer to the civil aviation airport management and construction fees collected upon the purchase of tickets of the customers according to Circular Regarding the Change of the Collection Mode of the Civil Aviation Airport Management and Construction Fees (Min Hang Cai Fa [2004]109), Circular of the MOF and CAAC Regarding the Related Problems such as the Reform of the Collection and Management Mode of the Civil Aviation Airport Management and Construction Fees (Cai Zong [2004]51) and the Circular of the MOF Regarding the Printing and Issue of the Regulations Governing the Related accounting Treatment Problems after the Reform of the Collection and Management Mode of the Civil Aviation Airport Management and Construction Fees (Cai Kuai [2004]8), RMB50/person for domestic air lines and RMB90/person for international air lines. Such airport construction fees are independently listed out of the ticket price and collected by the airlines.

(c) Other payables to shareholders holding over 5% (5% included) voting shares:

	December 31, 2009	December 31, 2008
Changjiang Leasing	790	60,309
Haikou Meilan	243	-
Grand China Airlines	-	48,008
	1,033	108,317

(d) Other payables to related parties:

	December 31, 2009	December 31, 2008
HNA Real Estate Holding	135,000	-
Deer Air	48,954	51,931
Yangtze River Leasing	19,003	
Yunnan Xiangpeng	15,245	33,747
HNA Hotel Group	5,500	5,817
HNA Hotel Holding	3,291	-
Changjiang Leasing	790	60,310
Grand China Airlines	-	48,005
Northwest HNA Property	-	15,380
Yangtze River Express	-	8,160
Tianjin Airlines	-	100,255
Others	32,952	6,238
	260,735	329,843

(e) As at December 31, 2009, the other payables whose aging is more than 1 year are RMB555,617,000 (as at December 31, 2008: 236,867,000), mainly including payable ticket deposits and other payables. As the Company has a long-term agency relation with the agents, such accounts have not been settled yet.

(f) Other payables include the following balances in foreign currency:

	December 31, 2009			December 31, 2008		
	AMT in foreign currency in thousand	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
USD	2,639	6.8282	18,020	2,766	6.8346	18,905

(28) Non-current liabilities due within 1 year

	December 31, 2009	December 31, 2008
Long-term borrowing (a) due within 1 year	3,381,407	1,962,174
Long-term payables(b)(Note 5 (31)) within 1 year	527,352	594,283
	3,908,759	2,556,457

(a) Long-term borrowing due within 1 year

	Currency	December 31, 2009	December 31, 2008
Mortgaged loan (i)	RMB	564,369	408,234
	USD	609,704	164,642
Pledged loan (ii)	RMB	795,000	300,000
	USD	-	-
Guaranteed loan (iii)	RMB	143,000	420,002
	USD	296,549	68,344
Guaranteed and mortgaged or pledged loan (iv)	RMB	364,635	207,260
	USD	449,147	223,901
Credit loan	RMB	-	-
	USD	159,003	169,791
		3,381,407	1,962,174

(i) As at December 31, 2009, with respect of the borrowing of RMB 887,028,000 (as at December 31, 2008:463,176,000), the houses and buildings with the net value of RMB70,279,000 (original value: RMB78,218,000) (Note 5 (11)), the aircrafts and engines with the net value of RMB10,203,466,000 (original value: RMB11,637,619,000) (Note 5 (11)) and the intangible assets with the net value of RMB95,923,000 (original value: RMB121,110,000) (Note 5 (13)) were used as its mortgage separately or in combination; with respect of the borrowing of RMB287,044,000, the withdrawal interest in 4 B787 aircrafts, 5 B737-800 aircrafts to be purchased by the Company but for which related mortgage procedures had not transacted, were commonly used as its mortgage.

(ii) As at December 31, 2009, with respect of the borrowing of RMB795,000,000 (as at December 31, 2008: RMB300,000,000), certain equities held by related parties of the Group were used as its pledge.

(iii) As at December 31, 2009, the borrowing of RMB439,549,000 (as at December 31, 2008: RMB178,346,000) was guaranteed by related parties of the Company; there was no borrowing guaranteed by any third party (as at December 31, 2008: RMB310,000,000).

(iv) As at December 31, 2009, with respect of the borrowing of RMB573,607,000 (as at December 31, 2008: RMB431,167,000), the aircrafts with the net value of RMB8,569,614,000 (original value: RMB10,132,129,000) (Note 5 (11)) were used as its mortgage, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB127,311,000 (as at December 31, 2008: nil), the investment real estates of RMB1,745,771,000 (Note 5 (10)) were used as its mortgage, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB112,864,000, certain equities held by related parties were commonly used as its pledge, and meantime related parties of the Group guaranteed such borrowing.

As at December 31, 2009, such borrowings shall be paid within one year and the related interests thereof shall be paid in a monthly or quarterly basis.

The long-term borrowings due within 1 year whose amount ranking Top 5 are listed in the following table:

	Starting date	Ending date	Currency	Interest rate (%)	December 31, 2009		December 31, 2008	
					AMT in foreign currency	AMT IN RMB	AMT in foreign currency	AMT IN RMB
Bank A	29/04/2009	28/10/2010	RMB	Benchmark interest rate	-	470,000	-	-
Bank B	27/06/2007	27/06/2010	USD	Benchmark interest rate+Floating interest rate	43,430	296,548	-	-
Bank C	31/03/2009	31/12/2022	USD	Benchmark interest rate+Floating interest rate	32,500	221,917	-	-
Bank D	28/09/2007	28/08/2021	USD	Floating interest rate	29,818	203,605	-	-
Bank E	27/12/2007	23/12/2010	RMB	Benchmark interest rate	-	200,000		200,000
						1,392,070		200,000

(b) Long-term payables due within 1 year

The long-term payables due within 1 year whose amount ranking Top 5 are listed in the following table:

	Term	Starting AMT	Interest rate (%)	Accrued interest within 1 year	AMT paid within 1 year	Borrowing conditions
South China Leasing	3 years	55,315	Benchmark interest rate	10,646	117,441	High-price rotatable spares financial leasing
Sino-America Aviation	12 years	204,126	Floating interest rate	1,781	107,614	Aircraft financial leasing
Bank of Communications Leasing	5 years	602,625	Benchmark interest rate	23,539	106,986	Aircraft financial leasing
Far East Leasing	5 years	167,401	Benchmark interest rate	8,129	77,632	Aircraft financial leasing
Anji Leasing	3 years	202,936	Benchmark interest rate	2,257	46,065	Aircraft engine financial leasing
				46,352	455,738	

(29) Long-term borrowing

	Currency	December 31, 2009	December 31, 2008
Mortgaged loan (i)	RMB	3,530,216	3,784,720
	USD	7,128,206	4,870,222
Pledged loan (ii)	RMB	680,000	425,000
	USD	-	344,847
Guaranteed loan (iii)	RMB	1,210,000	1,017,998
	USD	68,282	-
Guaranteed and mortgaged or pledged loan (iv)	RMB	5,342,967	3,298,011
	USD	4,249,611	4,195,898
Credit loan	RMB	37,418	3,968
	USD	138,749	310,045
		22,385,449	18,250,709

- (i) As at December 31, 2009, with respect of the borrowing of RMB8,583,448,000 (as at December 31, 2008: RMB4,703,092,000), the houses and buildings with the net value of RMB70,279,000 (original value: RMB78,219,000) (Note 5 (11)), the aircrafts and engines with the net value of RMB10,203,466,000 (original value: RMB11,637,679,000) (Note 5 (11)) and the intangible assets of the Group with the net value of RMB95,923,000 (original value: RMB121,110,000) (Note 5 (13)) were used as its mortgage separately or in combination; with respect of the borrowing of RMB2,074,974,000, the withdrawal interest in 4 B787 aircrafts, 5 B737-800 aircrafts to be purchased by the Company but for which related mortgage procedures had not been transacted, were commonly used as its mortgage.
- (ii) As at December 31, 2009, with respect of the borrowing of RMB180,000,000 (as at December 31, 2008: nil), the fixed deposits of RMB200,000,000 were used as its pledge; with respect of the borrowing of RMB500,000,000 (as at December 31, 2008: RMB425,000,000), certain equities held by related parties of the Group were used as its pledge.
- (iii) As at December 31, 2009, the borrowing of RMB1,278,282,000 (as at December 31, 2008: RMB1,018,000,000) was guaranteed by related parties of the Company.
- (iv) As at December 31, 2009, with respect of the borrowing of RMB4,192,256,000 (as at December 31, 2008: RMB7,183,438,000), the aircrafts with the net value of RMB8,569,614,000 (original value: RMB10,132,129,000) (Note 5 (11)) were used as its mortgage, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB270,000,000 (December 31, 2008: nil), the fixed deposits of related parties of the Company were used as its pledge (Note 5 (1)), and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB1,911,455,000 (as at December 31, 2008: nil), the investment real estates with the book value of RMB1,745,771 (Note 5 (10)) were used as its mortgage, and meantime related parties of the Group guaranteed such borrowing; with respect of the borrowing of RMB3,218,867,000, certain equities held by related parties of the Group were used as its pledge, and meantime the Group guaranteed such borrowing.

As at December 31, 2009, such borrowings shall be paid within 2~10 years and the related interests thereof shall be paid in a monthly or quarterly basis.

- (a) The long-term borrowings due within 1 year whose amount ranking Top 5 are listed in the following table:

	Starting date	Ending date	Currency	Interest rate (%)	December 31, 2009		December 31, 2008	
					AMT in foreign currency	AMT IN RMB	AMT in foreign currency	AMT IN RMB
Bank A	30/10/2008	29/10/2023	USD	Benchmark interest rate+Floating interest rate	312,000	2,130,398	-	-
Bank B	28/09/2007	28/08/2021	USD	Floating interest rate	298,182	2,036,045	252,880	1,726,715
Bank C	28/12/2007	27/12/2022	USD	Benchmark interest rate+Floating interest rate	231,050	1,577,656	-	-
Bank D	05/09/2006	30/06/2021	USD	Floating interest rate	219,685	1,500,056	10,600	72,379
Bank E	05/03/2008	30/06/2021	RMB	Floating interest rate		1,452,836		1,616,836
						8,696,991		3,415,930

- (b) The expiry date of the long-term borrowings is analyzed as follows:

	December 31, 2009	December 31, 2008
1-2 years	3,878,408	2,405,970
2-5 years	7,693,925	6,860,823
More than 5 years	10,813,116	8,983,916
	22,385,449	18,250,709

As at December 31, 2009, the weighted annual average interest rate of the long-term borrowings is 4.5 % (As at December 31, 2008: 6.12%).

(30) Deferred revenue

	December 31, 2009	December 31, 2008
Unrealized sale-leaseback proceeds (a)	72,984	73,162
Regular passenger integral rewards (b)	193,830	152,520
	266,814	225,682

(a) Unrealized sale-leaseback proceeds

Mainly refer to the balance between the sales price of the aircrafts on the sale-leaseback of the Group and their book value. The assets leased back after sale in financing lease mode will be amortized according to the depreciation period of such assets.

	FY 2009	FY 2008
As at January 1	73,162	-
Increase by	19,226	83,530
Amortized in this financial year	(19,404)	(10,368)
As at December 31	72,984	73,162

(b) Regular passenger integral rewards

	FY 2009	FY 2008
As at January 1	152,520	108,448
Increase by	113,063	69,356
Amortized in this financial year	(71,753)	(25,284)
As at December 31	193,830	152,520

(31) Long-term payables

	December 31, 2009	December 31, 2008
Present value of min. lease payment for the fixed assets under financing lease	2,028,933	2,475,115
Less: Long-term payables due within one year (Note 5 (28))	(527,352)	(594,283)
	1,501,581	1,880,832

(a) The long-term payables whose amount ranking Top 5 are listed in the following table:

	Term	Starting AMT	Interest rate (%)	Accrued interest	Ending balance	Borrowing conditions
Sino-America Aviation	12 years	204,126	Floating interest rate	30,396	455,114	Aircraft financial leasing
Changjiang Leasing	13 years	449,031	Floating interest rate	166,428	449,031	Aircraft financial leasing
Bank of Communications Leasing	5 years	602,625	Benchmark interest rate	84,884	405,079	Aircraft financial leasing
South China Leasing	3 years	55,315	Benchmark interest rate	5,276	221,480	High-price rotatable spares financial leasing
Far East Leasing	5 years	183,067	Benchmark interest rate	33,067	175,673	Aircraft financial leasing
		1,494,164		320,051	1,706,377	

(b) Breakdown of payable accounts under financing lease

	December 31, 2009		December 31, 2008	
	AMT in foreign currency	AMT IN RMB	AMT in foreign currency	AMT IN RMB
Sino-America Aviation	USD66,652in thousand	455,114	USD82,104in thousand	561,146
Changjiang Leasing	-	449,031	-	446,811
Bank of Communications Leasing	-	405,079	-	491,635
South China Leasing	-	221,480	-	352,970
Far East Leasing	-	175,673	-	248,537
Shenzhen Leasing	-	161,875	-	155,857
Xinjiang Leasing	-	46,394	-	-
Anji Leasing	-	46,065	-	93,617
CDB Leasing	-	45,993	-	-
Raytheon	USD2,897in thousand	19,784	USD3,681in thousand	25,160
Others	-	2,445	-	99,382
		2,028,933		2,475,115

There are no independent third parties providing guarantees for the financing lease of the Company.

The payable accounts under financing lease are the balance of the min. lease payment for the fixed assets under financing lease of the Group deducted from with the unrecognized financing expenses (Note 10).

(c) The long-term payables are analyzed as follows according to due date:

	December 31, 2009	December 31, 2008
1-2 years	375,789	444,327
2-5 years	714,328	989,694
More than 5 years	411,464	446,811
	1,501,581	1,880,832

(32) Other non-current liabilities

	December 31, 2009	December 31, 2008
Payable import tariffs and VATs for aircrafts and engines under financing lease	29,928	30,563

(33) Share capital

	December 31, 2008	Increase/Decrease by-Others (Note 1)	December 31, 2009
Shares with sales restriction conditions -			
Shares held by domestic non-state-owned legal persons	2,123,040	(2,122,703)	337
Shares without sales restriction conditions -			
RMB ordinary shares	1,222,490	2,122,703	3,345,193
Foreign shares listed offshore	184,723	-	184,723
	1,407,213	2,122,703	3,529,916
	3,530,253	-	3,530,253

(34) Capital reserves

	December 31, 2007 & 2008	Increase by	December 31, 2009
Share premium	3,823,150	-	3,823,150
Other capital reserves-			
Financial assets available for sale Change in fair value(Note 5 (8))	-	38,211	38,211
Investment real estates converted from self-used real estates (Note 5 (10))	-	41,558	31,168
Long-term equity investments settled with equity method	1,850	-	1,850
Original system capital reserve transfer-in	29,143	-	29,143
	3,854,143	69,379	3,923,522

Original system capital reserve transfer-in refers to the price differences of related transactions and aviation supplies under donation.

(35) Surplus reserves

	December 31, 2007, 2008 & 2009
Legal surplus reserve	169,098

In accordance with Article 167 of the Company Law, when distributing the after-tax profits in that financial year, the Company should withdraw 10% of the total profits and recognize such amount as the legal reserves of the Company. The Company suffered accumulated losses in the financial year, so no surplus reserves were withdrawn.

(36) Accumulated loss

	FY2009	FY2008
Accumulated loss as at January 1(Before restatement)	(1,410,689)	13,659
Accounting policy changes (Note 2 (30))	1,973	(8,021)
Accumulated losses as at January 1(restated)	(1,408,716)	5,638
More: Net profits/(losses) ascribed to the shareholders of the parent company	334,670	(1,414,354)
Accumulated losses as at December 31	(1,074,046)	(1,408,716)

As at December 31, 2009, the accumulated losses excluded the surplus reserves ascribed to the subsidiaries of the parent company (as at December 31, 2008: nil).

(37) Minority interest

Minority interests ascribed to the minority shareholders of various subsidiaries are recognized below:

	December 31, 2009	December 31, 2008
Xinhua Airlines	510,381	480,272
Chang'an Airlines	38,255	37,684
Golden-Deer Sales	5,982	5,982
Beijing Kehang	82,235	-
	636,853	523,938

(38) Operating incomes and operating costs

	FY2009	FY2008
Main business income (a)	13,810,812	12,235,326
Other business income(b)	1,737,551	1,316,335
	15,548,363	13,551,661
	FY2009	FY2008
Main business cost	12,353,951	11,798,196
Other business cost	902,243	713,526
	13,256,194	12,511,722

(a) Main business incomes and main business costs

	FY2009		FY2008	
	Main business income	Main business cost	Main business income	Main business cost
Passenger income	12,848,380	11,529,463	11,147,894	10,743,035
Freight and excess luggage income*	482,322	432,914	397,663	385,822
Charter flight income	435,971	390,560	663,474	639,199
Mileage accumulated points sales incomes	44,139	-	11,076	-
Food incomes	-	1,014	15,219	30,140
	13,810,812	12,353,951	12,235,326	11,798,196

*In FY2009, in accordance with the agreement signed between the Company and the third party -Hainan Free Flight, the Group provided domestic freight services for Hainan Free Flight and charged for such services at the price of RMB297,058,000 (FY2008: RMB268,653,000).

(b) Other business incomes and other business costs

	FY2009		FY2008	
	Other business income	Other business cost	Other business income	Other business cost
Aircraft leasing business income (Note 7 (5)(b))	1,355,565	746,782	1,062,430	673,966
Gain on disposal of investment real estate	122,164	120,517	-	-
Income from ticket cancellation charges	77,028	-	61,753	-
Service income related to land freight	27,717	16,293	36,110	19,786
Commission income	28,176	-	13,928	-
Pilot leasing income	6,407	-	-	-
Others	120,494	18,651	142,114	19,774
	1,737,551	902,243	1,316,335	713,526

The aircraft leasing business costs do not include RMB450,310,000 (FY2008: RMB466,715,000) interests of the borrowing incurred in respect of self purchased and financially leased aircrafts for such leasing after put into use; such interests are included in the finance expenses.

(c) Operating incomes of the Top 5 customers of the Group

For FY2009, the total operating incomes of the Top 5 customers of the Group are RMB7,358,932,000 (FY2008: 7,449,942,000), accounting for

47% of the total operating incomes of the Group (FY2008: 55%), with details as follows:

	Operating income	Percentage to the total operating incomes of the Group (%)
Customer A	5,964,994	38%
Tianjin Airlines	618,339	4%
Hainan Baixiang	297,058	2%
Deer Air	293,256	2%
Yunnan Xiangpeng	185,285	1%
	7,358,932	47%

(39) Operating tax and additions

	FY2009	FY2008
Business taxes	479,360	370,325
Urban maintenance and construction taxes	10,594	9,083
Extra charges for education	5,318	4,515
Others	348	343
	495,620	384,266

(40) Finance expenses - net

	FY2009	FY2008
Interest expenses	1,454,310	1,356,434
Less: Deposit interest incomes	(90,315)	(240,477)
Fund application fees	(128,352)	-
Exchange proceeds-net	(7,808)	(524,585)
Others	84,780	56,855
	1,312,615	648,227

For the details about the interest collected from the related parties including the interest incomes, see Note 7 (5) (j).

(41) Assets impairment losses

	FY2009	FY2008
Provision for bad debts	(15,483)	9,476
Provision for goodwill impairment	-	125,384
Fixed assets impairment	-	480,730
	(15,483)	615,590

(42) Profit or loss on the change in fair value

	FY2009	FY2008
Investment real estate(Note 5 (10))	597,743	8,074
Forward foreign exchange contracts (a)	(7,016)	-
Disposal of investment real estate (b)	(5,936)	-
	584,791	8,074

(a) Forward foreign exchange contracts

In order to cope with the risks on the change of the exchange rate against USD, in FY2009, the Company and the Bank of China signed forward exchange settlement and sales agreements with the total amount of USD164, 489,000 related to the loan contract. As at December 31, 2009, the fair value of such product and its change were recorded in the current income; the floating losses of RMB7, 016,000 were also recorded in the profit statement and the trading financial liabilities.

(b) Disposal of investment real estate

As in FY2009, the Group sells Sanya Aviation & Tourism College owned by it to HNA Group (Note 5 (10)), the accumulative change in fair value RMB5, 936,000 will be carried forward into the profits or losses on the change in fair value of FY2009.

(43) Investment revenue

	FY2009	FY2008
Net profits/losses of the invested companies to be shared/borne with the equity method (a)	(1,183)	3,346
Dividends declared to be issued by the invested companies with the cost method(b)	5,369	7,221
Transfer proceeds of long-term equity investments	3,215	21,535
Others	1,491	-
	8,892	32,102

(a) Long-term equity investment revenues calculated with the equity method

The invested companies whose investment revenues take up above 5% of the Group or the Top 5 invested companies with the highest percentage to the total profits of the Group are listed below:

	FY2009	FY2008	Reason for the increase/decrease for the previous financial year
HNA Import & Export	3,038	1,708	Confirmed investment gains and losses
Xin Guo Hotel	(2,970)	156	Confirmed investment gains and losses
Hainan Hansha Training	289	1,443	Confirmed investment gains and losses
Yanjing Hotel	(1,460)	-	Confirmed investment gains and losses
Beijing Vision	(80)	14	Confirmed investment gains and losses
Xinda International	-	25	Confirmed investment gains and losses
	(1,183)	3,346	

(b) Long-term equity investment revenues calculated with the cost method

The invested companies whose investment revenues take up above 5% of the Group or the Top 5 invested companies with the highest percentage to the total profits of the Group are listed below:

	FY2009	FY2008	Reason for the increase/decrease for the previous financial year
Meilan Airport	698	1,951	Bonus for this financial year
Hainan Civil Aviation Cares	42	-	Bonus for this financial year
TravelSky Tech	297	5,046	Bonus for this financial year
Shenhua Finance	4,108	-	Bonus for this financial year
Shenzhen Civil Aviation Cares	224	224	Bonus for this financial year
	5,369	7,221	

(44) Non-operating income

	FY2009	FY2008
Government grant (a)	492,851	138,974
Gain on disposal of fixed assets	68	4,843
Others	91,120	16,520
	584,039	160,337

(a) Breakdown of government subsidies

	FY2009	FY2008	Note
Civil aviation infrastructure funds	348,883	-	(i)
Refunds of taxes	27,271	26,944	Refunds of taxes from the financial department and other departments
Other government subsidies	116,697	112,030	Received interests subsidized by the fiscal department and other subsidies
	492,851	138,974	

- (i) In accordance with Notice on the Implementation of the Reimbursement Policy about Civil Aviation Infrastructure Construction Funds by MOF and CAAC Cai Jian [2009] 4 promulgated by MOF and CAAC in January 2009 and as approved by the State Council, the civil aviation infrastructure construction funds paid by domestic air transport companies from July 1, 2008 to June 30, 2009 adopts the reimbursement policy. The refunds of such civil aviation infrastructure construction funds the Group received in the financial year amounted to RMB348, 883,000.

(45) Non-operating expenditure

	FY2009	FY2008
Losses on disposal of fixed assets	30,361	11,750
Others	2,589	1,258
	32,950	13,008

(46) Income tax expenses

	FY2009	FY2008
Income taxes of the financial year calculated according to the tax law and other related regulations.	2,006	294
Effect of final settlements of the previous years	(15,427)	-
Deferred taxes	143,010	54,400
	129,589	54,694

The income taxes calculated at the applicable tax rate adopted by the total profits and losses in the consolidated income statement are adjusted to be income tax expenses:

	FY2009	FY2008
Total profit/(loss)	485,549	(1,523,717)
Income tax expenses calculated at applicable tax rate	97,110	(255,280)
Effect of different tax rates of subsidiaries	13,619	(37,377)
Non-taxable incomes	(1,425)	(2,072)
Non-deductible costs, expenses and losses	3,883	5,020
Deductible losses from the use of the deferred tax assets unrecognized of the previous financial year	(4,370)	-
Deductible losses of the deferred tax assets unrecognized of this financial year	24,328	166,556
Deferred tax assets recognized in the previous financial years carried forward into this financial year	-	51,901
Deductible temporary differences of the deferred tax assets unrecognized of this financial year	(4,397)	125,946
Effect of the tax rate difference of the deferred tax liabilities recognized in this financial year	16,268	-
Effect of the final settlements of the previous years	(15,427)	-
Income tax expenses	129,589	54,694

(47) Earnings per share/losses per share

Basic earnings per share/loss per share are calculated with the consolidate net profits/(net losses) ascribed to ordinary shareholders of the parent company divided by the weighted average of outstanding ordinary shares of the parent company.

	FY2009	FY2008
Net Consolidated net profits/(losses) ascribed to the ordinary shareholders of the parent company	334,670	(1,414,354)
Weighted average of outstanding ordinary shares	3,530,253	3,530,253
Basic earnings per share/loss per share(RMB)	0.09	(0.40)

As at December 31, 2009, the Company had no dilutive potential ordinary shares outstanding (as at December 31, 2008: nil), so the diluted earnings per share/loss per share are the same as basic earnings per share/loss per share.

(48) Other consolidated gain

	FY2009	FY2008
Gain on Financial assets available for sale (Note 5 (34))	38,211	-
Change in fair value from the conversion of self-used real estates to investment real estates	49,137	-
	87,348	-

(49) Notes to the cash flow statement

(a) Other cash received related to operating activities:

	FY2009	FY2008
Recovered instrument deposits	649,309	490,054
Refunds of civil aviation infrastructure funds	348,883	-
Amortizations recovered from related parties	312,244	244,812
Other government subsidies	143,968	138,974
Other non-operating income	87,153	16,520
Recovered lease security deposits and maintenance reserves	16,560	144,695
Others	22,068	9,323
	1,580,185	1,044,378

(b) Other cashes paid related to operating activities:

	FY2009	FY2008
Agency commission	347,327	208,364
Lease security deposits and maintenance reserves	324,206	112,471
Instrument and borrowing security deposits and other security deposits	194,633	649,309
PC-based seat reservation fees	154,298	141,137
Leased property expenses	61,357	41,493
External station expenses	48,540	54,173
Consultation and communication networking expenses	46,964	28,531
Office and activity expenses	33,301	41,923
Advertising and promotion expenses	13,724	37,588
Airport construction fees	4,438	176,761
Others	168,388	245,106
	1,397,176	1,736,856

(c) Other cashes received related to operating activities

	FY2009	FY2008
Received fund use fees of the recovered investment accounts (Note 5 (16))	128,352	-
Deposit interests	173,905	217,526
	302,257	217,526

(d) Other cashes paid related to operating activities

	FY2009	FY2008
Fixed deposits	991,524	-
Prepayments for equity investment	-	2,346,909
	991,524	2,346,909

(e) Other cashes paid related to financing activities

	FY2009	FY2008
Unitex security deposits (Note 5 (1))	1,231,022	-

(50) Supplementary data for the cash flow statement

(a) Supplementary data for the cash flow statement

Net profits are adjusted to be the cash flow from operating activities

	FY2009	FY2008
Net profit/(net loss)	355,960	(1,578,411)
More: Provision for assets impairment	(15,483)	615,590
Depreciation of fixed assets (Note 5 (11))	1,790,036	1,496,715
Amortization of intangible assets (Note 5 (13))	6,150	6,791
Amortization of long-term prepaid expenses	104,750	113,307
Other non-current assets-amortization of loss on sale-leaseback	87,964	57,954
Losses on disposal of fixed assets, intangible assets and other long-term assets	28,646	6,907
Gains or losses on change in fair value	(584,791)	(8,074)
Finance expenses	1,177,906	591,372
Investment revenues	(8,892)	(32,102)
Increase in deferred tax liabilities (Note 5 (46))	143,010	2,499
Decrease in deferred tax assets	-	51,901
Increase of mileage accumulated points in deferred revenue s	41,310	44,072
Amortization of sale-leaseback revenues in deferred revenues	(19,404)	(10,368)
Increase/(increase) of inventories	(1,281)	4,547
Decrease in operating receivables	427,893	37,363
Decease/(increase) in operating payables	(1,585,309)	2,295,697
Net cash flow from operating activities	1,948,465	3,695,760

Major investments and financing activities not involving cash receipts and disbursements

	FY2009	FY2008
Fixed assets under financing lease	145,255	746,910

Net change of cash and cash equivalents

	FY2009	FY2008
Cashes as at December 31	10,348,355	6,002,936
Less: Cash balance as at January 1	(6,002,936)	(7,440,802)
More: Balance of cash equivalents as at December 31	-	-
Less: Balance of cash equivalents as at January 1	-	-
Net increase/(decrease) of cashes and cash equivalents	4,345,419	(1,437,866)

(b) Cashes and cash equivalents

	December 31, 2009	December 31, 2008
Cash	10,348,355	6,002,936
Including: Cash in hand	71,409	859
Bank deposits usable for payment at any time	10,276,946	6,002,077
Cash equivalents	-	-
Balance of cashes and cash equivalents as at December 31	10,348,355	6,002,936

VII. Segment Information

The Group mainly provides passenger transport business and some investment real estate businesses; however, the management does not separately present and assess its operation results and cash flows in daily report based on the business segment. The balance sheet and income related to the investment real estate business are shown below:

	FY2009	FY2008
Investment real estate	5,541,735	176,775
Operating income	29,763	2,768
Profit or loss on the change in fair value	597,743	8,074
Income tax expenses	143,010	2,499
Net profit	484,496	8,343

VIII. Related Party Relationship and Transactions

(1) About the parent company

(a) About the parent company

	Enterprise type	Registered place	Legal representative	Business nature	Organization code
Grand China Airlines	Foreign-funded	Haikou	Chen Feng	Traffic & transportation	76037451-5

The Company is finally controlled by the State-owned Assets Supervision and Administration Commission of Hainan Province.

(b) The registered capital and its change of the parent company

	December 31, 2008	Increase by	Decrease by	December 31, 2009
Grand China Airlines	3,689,795,600	2,318,528,367	-	6,008,323,967

(c) The shareholding ratio and percentage of voting rights held by the parent company in the Company

	December 31, 2008		December 31, 2009	
	Shareholding ratio	Percentage of voting rights	Shareholding ratio	Percentage of voting rights
Grand China Airlines	51.68%	51.68%	51.68%	51.68%

(2) Subsidiaries

For the details about the subsidiaries, see Note 4.

(3) Associated companies

See Note 5 (9) for the basic information of associated companies and related information.

(4) Other related parties

Related parties	Relationship	Organization code
HNA Group	Shareholder materially affecting the parent company of the Company	708866504
Haikou Meilan	Shareholder holding over 5% voting rights of the Company	70886657-1
Changjiang Leasing	Shareholder holding over 5% voting rights of the Company	72123031-6
Yanjing Hotel	Associated company	801379428
HNA Import & Export	Associated company	71385918-1
Yangtze River Real Estate	Under HNA Group control	713859173
Yangtze River Leasing	Under HNA Group control	621904344
Tianjin Airlines	Company materially affecting HNA Group	79496844-2
Hainan Meiya	Subsidiary of affiliated company	293732896
Yunnan Xiangpeng	Under the same control of the parent company of the Company	76044470-4
Hong Kong Airlines	Parent Company's associated company	31717266
Hong Kong Express	Parent Company's associated company	19325407
West Airlines	Associated company of the shareholder of the company	79804682-4
Hainan Pacific Oil	Associated company of the shareholder of the company	284086685
HNA Finance	Under HNA Group control	102054341
HNA Hotel Group	Under HNA Group control	70886444-5
HNA Industrial	Under HNA Group control	79872285-3
Hainan Air Catering	Under HNA Group control	62001238-7
Hainan Jiahui	Under HNA Group control	75437077X
Meilan Airport	Under HNA Group control	72127172-4
Haikou High-tech	Under HNA Group control	721278520
Deer Air	Under HNA Group control	70887277-9
Sanya Phoenix Airport	Under HNA Group control	20136089-7
Yangtze River Express	Under HNA Group control	741185823
Yangtze River Investment	Under HNA Group control	75522011-6
Northwest HNA Property	Under HNA Group control	764222308
Vigorous Vision	Under HNA Group control	764222308
Hainan Yuhong	Under HNA Group control	735810119
Air Catering Holding	Under HNA Group control	676087572
HNA Tourism	Under HNA Group control	71385125-1
Henghe Property Management	Under HNA Group control	76597075-4
Hainan Tonghui	Under HNA Group control	71385125-1
HNA Hotel Holding	Under HNA Group control	74779967-4
Xinhua Air Catering	Under HNA Group control	708866504
Deer Jet	Under HNA Group control	70887277-9
HNA Safe	Under HNA Group control	70886657-1
Qionghai Training	Under HNA Group control	721279267
Hainan Hansha Training	Associated company	793148602
HNA Property Management	Under HNA Group control	713864490
HNA Group (Hong Kong)	Under HNA Group control	36669070
Gansu Airport	Under HNA Group control	924594371
Xin Guo Hotel	Associated company	735560056
Sanya Aviation & Tourism College	Under HNA Group control	767493509

(5) Related party transactions

(a) Commodity purchase and sale and provision and reception of labor service

Related party	Type	Description	Pricing mode and decision procedure of related transactions	FY2009		FY2008	
				AMT	Percentage to the AMT of the same transactions	AMT	Percentage to the AMT of the same transactions
Hainan Meiya	Product purchase	Aviation oil purchase	Government guidance price	335,150	8%	542,341	10%
Hainan Pacific Oil	Product purchase	Aviation oil purchase	Government guidance price	134,963	3%	96,034	2%
Xinhua Air Catering	Product purchase	Inflight meal purchase	Mutually agreed price	72,665	25%	50,211	18%
Hainan Air Catering	Product purchase	Inflight meal purchase	Mutually agreed price	39,560	14%	44,966	16%
HNA Beverage Co., Ltd	Product purchase	Inflight meal purchase	Mutually agreed price	15,089	5%	-	-
Meilan Airport	Labor service reception	Landing fees, premises rental and franchises	Government guidance price	97,060	7%	95,795	8%
Haikou Meilan	Labor service reception	Landing fees, premises rental and franchises	Government guidance price	29,638	2%	34,935	3%
Sanya Phoenix Airport	Labor service reception	Landing fees, premises rental and franchises	Government guidance price	42,582	3%	19,953	2%
Gansu Airport	Labor service reception	Landing fees, premises rental and franchises	Government guidance price	21,476	2%	-	-
HNA Import & Export	Labor service reception	Import & export agency	Purchase cost priced at the rate (of 0.3%~3%)	28,562	100%	37,541	100%
Vigorous Vision	Labor service provision	Advertising income	Mutually agreed price	26,207	100%	25,000	100%
Yangtze River Leasing	Labor service reception	Lease fee payment	Mutually agreed price	-	-	54,077	5%
Changjiang Leasing	Labor service reception	Lease fee payment	Mutually agreed price	-	-	96,098	9%
Grand China Airlines	Labor service provision	Receivables and commissions from the agency for the ticket sales of related parties	Mutually agreed price	276,652	2%	237,669	2%
Tianjin Airlines	Labor service provision	Receivables and commissions from the agency for the ticket sales of related parties	Mutually agreed price	431,636	3.1%	128,613	0.62%

Related party	Type	Description	Pricing mode and decision procedure of related transactions	FY2009		FY2008	
				AMT	Percentage to the AMT of the same transactions	AMT	Percentage to the AMT of the same transactions
Yunnan Xiangpeng	Labor service provision	Receivables and commissions from the agency for the ticket sales of related parties	Mutually agreed price	14,022	0.1%	20,644	0.1%
Deer Air	Labor service provision	Receivables and commissions from the agency for the ticket sales of related parties	Mutually agreed price	5,169	0.1%	12,051	0.06%
West Airlines	Labor service provision	Receivables and commissions from the agency for the ticket sales of related parties	Mutually agreed price	9,426	0.1%	237,669	2%
Hong Kong Express	Labor service provision	Receivables and commissions from the agency for the ticket sales of related parties	Mutually agreed price	-	-	2,511	0.1%

The above related transactions mean the related transactions on daily production between HNA Group and related parties. The above transactions have been approved in the general meeting of HNA Group and the corresponding transaction prices are approved based on the transaction amounts and their natures with the proper authorization by the board of directors of the Company.

(b) Leasing

Lessor	Lessee	Leased assets	AMT involved	Starting date	Ending date	Leasing income	Leasing income basis	Leasing income
The Group	Tianjin Airlines(i)	Aircraft leasing	5,638,189	2007.4.1	2010.5.27	618,339	Mutually agreed price	46%
The Group	Yunnan Xiangpeng(ii)	Aircraft leasing	177,000	2006.2.22	2012.6.30	185,285	Mutually agreed price	14%
The Group	Grand China Airlines(iii)	Aircraft leasing	573,768	2007.11.30	Automatically extended	123,023	Mutually agreed price	9%
The Group	West Airlines(iv)	Aircraft leasing	122,000	2007.6.14	Automatically extended	91,862	Mutually agreed price	7%
The Group	Deer Jet(v)	Aircraft leasing	354,854	2008.12.18	2009.12.31	43,800	Mutually agreed price	3%
The Group	Deer Air(vi)	Aircraft leasing	5,854,601	2009.4.6	Automatically extended	293,256	Mutually agreed price	22%
The Company	Sanya Aviation & Tourism College	Real estate leasing	126,453	2009.1.1	2009.6.30	7,489	Mutually agreed price	0.02%
The Company	Qionghai Training	Real estate leasing	50,322	2009.1.1	2009.12.31	5,200	Mutually agreed price	0.01%
The Company	HNA Tourism	Real estate leasing	692,554	2009.4.16	2009.12.31	4,101	Mutually agreed price	0.01%
Beijing Kehang	HNA Hotel Holding	Real estate leasing	-	2009.4.30	2009.12.31	34,188	Mutually agreed price	0.08%
Beijing Kehang	HNA Group	Real estate leasing	2,951,837	2009.4.30	2009.12.31	4,442	Mutually agreed price	0.01%
Beijing Kehang	HNA Finance	Real estate leasing	-	2009.4.30	2009.12.31	4,663	Mutually agreed price	0.01%
						1,415,648		

HNA Group, HNA Hotel Holding, etc undertake they will renew leasing the above real estates when the lease agreements of such real estates mature.

(c) The guarantees provided by related party for the Group

Guarantor	Guarantee	AMT	Starting date	Ending date	Guarantee performed?
Short-term borrowing					
HNA Group	Hainan Airlines	2,500,000	04/08/2008	31/03/2009	Yes
HNA Group	Hainan Airlines	2,500,000	25/03/2009	24/03/2010	No
HNA Group	Xinhua Airlines	1,000,000	10/06/2009	10/09/2009	Yes
HNA Group	Hainan Airlines	500,000	31/03/2009	31/03/2010	No
HNA Group	Hainan Airlines	500,000	30/11/2009	30/11/2010	No
HNA Group	Xinhua Airlines	500,000	13/06/2008	12/06/2009	Yes
Sanya Phoenix Airport	Hainan Airlines	450,000	27/03/2009	26/03/2010	No
HNA Group	Hainan Airlines	350,000	27/07/2009	27/07/2010	No
HNA Group	Beijing Kehang	318,170	02/03/2009	15/12/2009	Yes
HNA Group & Hainan Jiaoguan Holding	Hainan Airlines	300,000	28/08/2009	27/08/2010	No
HNA Group and Meilan Airport	Hainan Airlines	230,000	25/12/2008	25/12/2009	Yes
HNA Group	Shanxi Airlines	200,000	23/01/2009	22/01/2010	No
Meilan Airport	Xinhua Airlines	200,000	30/11/2009	24/11/2010	No
HNA Group	Hainan Airlines	170,000	30/11/2009	14/12/2010	No
HNA Group	Xinhua Airlines	150,000	28/11/2008	27/11/2009	Yes
HNA Group	Xinhua Airlines	150,000	23/10/2009	22/10/2010	No
HNA Group	Xinhua Airlines	150,000	30/11/2009	29/11/2010	No
HNA Group Finance	Xinhua Airlines	150,000	30/09/2009	28/09/2010	No
HNA Finance					
HNA Group	Hainan Airlines	138,318	29/11/2009	18/08/2010	No
HNA Group	Xinhua Airlines	110,000	24/12/2008	23/12/2009	Yes
HNA Group	Hainan Airlines	100,000	19/09/2008	10/08/2009	Yes
HNA Group	Hainan Airlines	100,000	11/08/2009	11/08/2010	No
HNA Group	Hainan Airlines	100,000	24/11/2008	21/05/2009	Yes
HNA Group	Hainan Airlines	100,000	26/05/2009	25/11/2009	Yes
HNA Group	Hainan Airlines	100,000	26/11/2009	26/05/2010	No
HNA Group	Shanxi Airlines	100,000	30/12/2008	29/12/2009	Yes
Grand China Airlines	Hainan Airlines	100,000	03/07/2009	03/07/2010	No
Grand China Airlines	Hainan Airlines	100,000	09/03/2009	09/03/2010	No
HNA Group and Meilan Airport	Hainan Airlines	90,000	27/11/2008	16/09/2009	Yes
HNA Group and Meilan Airport	Hainan Airlines	80,000	19/11/2008	19/11/2009	Yes
HNA Group	Hainan Airlines	70,000	02/03/2009	02/03/2010	No
HNA Group	Xinhua Airlines	70,000	26/11/2008	25/11/2009	Yes
HNA Group	Xinhua Airlines	70,000	10/11/2009	09/11/2010	No
HNA Group	Xinhua Airlines	70,000	04/11/2009	03/11/2010	No
HNA Group	Hainan Airlines	68,282	29/09/2009	18/08/2010	No
HNA Group	Hainan Airlines	68,282	29/10/2009	18/08/2010	No

(c) The guarantees provided by related party for the Group (continued)

Guarantor	Guarantee	AMT	Starting date	Ending date	Guarantee performed?
Short-term borrowing(continued)					
HNA Group	Hainan Airlines	50,000	25/08/2009	25/08/2010	No
HNA Commercial Holdings	Beijing Kehang	50,000	30/09/2009	30/09/2010	No
Grand China Airlines	Hainan Airlines	40,000	18/07/2008	18/07/2009	Yes
Grand China Airlines	Hainan Airlines	40,000	20/07/2009	20/07/2010	Yes
HNA Real Estate Holding	Beijing Kehang	38,000	30/07/2008	30/01/2009	No
HNA Real Estate Holding	Beijing Kehang	35,000	28/08/2008	28/08/2008	Yes
HNA Group	Beijing Kehang	35,000	11/09/2009	10/09/2010	No
HNA Group	Beijing Kehang	15,000	15/01/2009	14/01/2010	No
		12,256,052			
Long-term borrowing					
HNA Group	Chang'an Airlines	2,239,649	28/09/2007	28/08/2021	No
HNA Group and Meilan Airport	Shanxi Airlines	250,000	19/10/2004	17/10/2016	No
HNA Group and Meilan Airport	Chang'an Airlines	170,000	26/09/2005	28/10/2016	No
HNA Group	Hainan Airlines	597,188	03/08/2009	02/08/2017	No
HNA Group	Hainan Airlines	360,000	07/08/2009	02/08/2012	No
HNA Group	Hainan Airlines	325,000	31/03/2004	31/03/2014	No
HNA Group	Hainan Airlines	311,715	11/04/2007	10/04/2022	No
HNA Group	Hainan Airlines	300,000	31/05/2009	31/05/2011	No
HNA Group	Beijing Kehang	300,000	23/04/2008	22/10/2009	Yes
HNA Group & HNA Finance	Hainan Airlines	270,000	30/07/2009	29/07/2011	No
HNA Group	Hainan Airlines	210,000	22/09/2008	20/09/2023	No
HNA Group	Hainan Airlines	200,238	27/06/2007	27/06/2010	No
HNA Group	Xinhua Airlines	199,375	09/03/2009	09/03/2017	No
HNA Group	Hainan Airlines	191,190	02/08/2002	02/08/2035	No
HNA Group	Hainan Airlines	187,366	12/12/2002	06/12/2012	No
HNA Group	Beijing Kehang	150,000	31/03/2006	30/03/2011	No
HNA Group	Chang'an Airlines	114,563	03/02/2009	28/08/2021	No
HNA Group & Sanya Phoenix Airport	Hainan Airlines	11,000	30/09/2009	30/09/2012	No
HNA Group	Hainan Airlines	96,310	24/06/2008	27/06/2010	No
HNA Group	Hainan Airlines	90,588	11/04/2007	10/04/2022	No
Haikou Meilan	Hainan Airlines	68,282	28/06/2007	28/06/2009	Yes
Grand China Airlines	Hainan Airlines	68,282	03/07/2009	02/07/2011	No
HNA Group	Hainan Airlines	54,626	02/08/2002	02/08/2035	No
HNA Group	Beijing Kehang	33,000	24/07/2008	23/01/2010	No
		6,798,372			
		19,054,424			

(d) The guarantees provided by the Group for related parties

Guarantor	Guarantee	AMT	Starting date	Ending date	Guarantee performed?
Short-term borrowing					
Hainan Airlines	Yunnan Xiangpeng	50,000	31/03/2009	30/06/2009	Yes
Hainan Airlines	Tianjin Airlines	100,000	13/02/2009	12/02/2010	No
Hainan Airlines	Yangtze River Express	100,000	04/12/2009	03/12/2010	No
Hainan Airlines	Meilan Airport	40,000	05/03/2009	04/03/2010	No
		290,000			
Long-term borrowing					
Hainan Airlines	HNA Group	819,384	31/12/2009	30/12/2014	No
Hainan Airlines	HNA Tourism	360,000	12/07/2009	11/07/2011	No
		1,179,384			
		1,469,384			

(e) Loans at call

Company	Incoming AMT	Incoming date	Repaid AMT	Repayment date	Outgoing AMT	Outgoing date	Received AMT	Reception date
Amount as at January 1	197,227	FY 2008						
Tianjin Airlines	200,000	05/02/2009	54,835	04/01/2009	-	-	-	-
Tianjin Airlines	100,000	30/04/2009	300,000	09/02/2009	-	-	-	-
Tianjin Airlines	50,000	30/09/2009	-	-	-	-	-	-
Subtotal	547,227		354,835		-	-	-	-
Hong Kong Express	29,000	24/12/2009	-	-	-	-	-	-
Subtotal	29,000		-		-	-	-	-
HNA Group	323,682	30/06/2009	185,010	30/08/2009	-	-	-	-
HNA Group	92,028	24/12/2009	58,885	09/12/2009	-	-	-	-
HNA Group	-	-	16,135	30/06/2009	-	-	-	-
Subtotal	415,710		260,030		-	-	-	-
Amount as at January 1	60,310	FY 2008						
Changjiang Leasing	229,000	04/01/2009	16,000	08/01/2009	-	-	-	-
Changjiang Leasing	26,569	13/01/2009	123,550	08/01/2009	-	-	-	-
Changjiang Leasing	79,870	20/01/2009	25,680	08/01/2009	-	-	-	-
Changjiang Leasing	176,000	05/02/2009	50,000	08/01/2009	-	-	-	-
Changjiang Leasing	59,857	16/02/2009	15,300	12/01/2009	-	-	-	-
Changjiang Leasing	17,100	19/03/2009	32,370	19/01/2009	-	-	-	-
Changjiang Leasing	193,837	15/04/2009	15,300	20/01/2009	-	-	-	-
Changjiang Leasing	116,940	15/04/2009	654	01/02/2009	-	-	-	-
Changjiang Leasing	61,200	15/06/2009	15,300	02/02/2009	-	-	-	-
Changjiang Leasing	76,777	31/07/2009	79,810	05/02/2009	-	-	-	-
Changjiang Leasing	20,000	07/08/2009	20,000	05/02/2009	-	-	-	-
Changjiang Leasing	-	-	15,780	05/02/2009	-	-	-	-
Changjiang Leasing	-	-	21,350	05/02/2009	-	-	-	-
Changjiang Leasing	-	-	57,700	05/02/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	05/02/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	18/02/2009	-	-	-	-

Company	Incoming AMT	Incoming date	Repaid AMT	Repayment date	Outgoing AMT	Outgoing date	Received AMT	Reception date
Changjiang Leasing	-	-	15,300	20/02/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	20/02/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	02/03/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	06/03/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	17/03/2009	-	-	-	-
Changjiang Leasing	-	-	23,490	19/03/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	23/03/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	30/03/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	07/04/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	13/04/2009	-	-	-	-
Changjiang Leasing	-	-	31,950	16/04/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	17/04/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	24/04/2009	-	-	-	-
Changjiang Leasing	-	-	100,000	30/04/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	05/05/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	11/05/2009	-	-	-	-
Changjiang Leasing	-	-	40,659	27/05/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	15/06/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	15/06/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	15/06/2009	-	-	-	-
Changjiang Leasing	-	-	15,300	15/06/2009	-	-	-	-
Changjiang Leasing	-	-	28,445	19/06/2009	-	-	-	-
Changjiang Leasing	-	-	37,723	18/09/2009	-	-	-	-
Changjiang Leasing	-	-	42,886	18/12/2009	-	-	-	-
Subtotal	1,117,460		1,084,647		-	-	-	-
HNA Import & Export	57,800	27/02/2009	57,800	27/02/2009	-	-	-	-
HNA Import & Export	150,000	01/03/2009	210,000	05/03/2009	-	-	-	-
HNA Import & Export	210,000	02/03/2009	40,000	24/04/2009	-	-	-	-
HNA Import & Export	40,000	24/04/2009	40,000	12/06/2009	-	-	-	-
HNA Import & Export	40,000	12/06/2009	150,000	04/09/2009	-	-	-	-
HNA Import & Export	150,000	04/09/2009	-	-	-	-	-	-
Subtotal	647,800		497,800		-	-	-	-
Yangtze River Real Estate	30,000	04/06/2009	30,000	27/05/2009	-	-	-	-
Yangtze River Real Estate	20,000	16/06/2009	20,000	09/06/2009	-	-	-	-
Yangtze River Real Estate	17,000	18/09/2009	-	-	-	-	-	-
Yangtze River Real Estate	71,851	29/12/2009	-	-	-	-	-	-
Subtotal	138,851		50,000		-	-	-	-
Amount as at January 1	607,107	FY 2008						
Yangtze River Leasing	38,930	17/02/2009	122,088	05/01/2009	-	-	-	-
Yangtze River Leasing	250,220	30/03/2009	200,500	05/01/2009	-	-	-	-
Yangtze River Leasing	250,220	07/04/2009	15,129	05/01/2009	-	-	-	-
Yangtze River Leasing	-	-	10,043	22/01/2009	-	-	-	-
Yangtze River Leasing	-	-	28,858	01/02/2008	-	-	-	-
Yangtze River Leasing	-	-	20,000	01/02/2009	-	-	-	-
Yangtze River Leasing	-	-	22,202	10/02/2009	-	-	-	-
Yangtze River Leasing	-	-	38,930	17/02/2009	-	-	-	-
Yangtze River Leasing	-	-	13,284	20/02/2009	-	-	-	-
Yangtze River Leasing	-	-	9,479	25/02/2009	-	-	-	-
Yangtze River Leasing	-	-	29,216	19/03/2009	-	-	-	-
Yangtze River Leasing	-	-	150,000	20/03/2009	-	-	-	-

Company	Incoming AMT	Incoming date	Repaid AMT	Repayment date	Outgoing AMT	Outgoing date	Received AMT	Reception date
Yangtze River Leasing	-	-	10,026	24/04/2009	-	-	-	-
Yangtze River Leasing	-	-	32,273	19/06/2009	-	-	-	-
Yangtze River Leasing	-	-	10,323	24/06/2009	-	-	-	-
Yangtze River Leasing	-	-	25,000	01/07/2009	-	-	-	-
Yangtze River Leasing	-	-	1,449	01/07/2009	-	-	-	-
Yangtze River Leasing	-	-	10,910	13/07/2009	-	-	-	-
Yangtze River Leasing	-	-	24,700	13/07/2009	-	-	-	-
Yangtze River Leasing	-	-	45,670	18/09/2009	-	-	-	-
Yangtze River Leasing	-	-	16,385	18/09/2009	-	-	-	-
Yangtze River Leasing	-	-	50,000	30/09/2009	-	-	-	-
Yangtze River Leasing	-	-	135,000	01/11/2009	-	-	-	-
Yangtze River Leasing	-	-	10,248	30/11/2009	-	-	-	-
Yangtze River Leasing	-	-	28,864	01/12/2009	-	-	-	-
Subtotal	1,146,477		1,060,577		-		-	
HNA Hotel Group	1,000	14/12/2009	-	-	-	-	-	-
HNA Hotel Group	4,500	24/12/2009	-	-	-	-	-	-
Subtotal	5,500		-		-		-	
HNA Hotel Holding	32,000	27/08/2009	30,000	28/08/2009	-	-	-	-
Subtotal	32,000		30,000		-		-	
HNA Real Estate Holding	20,000	30/06/2009	20,000	01/07/2009	-	-	-	-
HNA Real Estate Holding	367,500	22/10/2009	60,000	20/11/2009	-	-	-	-
HNA Real Estate Holding	135,000	01/11/2009	38,000	20/11/2009	-	-	-	-
HNA Real Estate Holding	33,000	24/11/2009	171,790	20/11/2009	-	-	-	-
HNA Real Estate Holding	1,000	20/11/2009	24,800	20/11/2009	-	-	-	-
HNA Real Estate Holding	130,000	29/12/2009	117,150	20/11/2009	-	-	-	-
HNA Real Estate Holding	50,000	23/12/2009	33,000	20/11/2009	-	-	-	-
HNA Real Estate Holding	2,000	10/12/2009	250,350	20/11/2009	-	-	-	-
HNA Real Estate Holding	20,000	11/12/2009	17,000	24/12/2009	-	-	-	-
HNA Real Estate Holding	11,500	17/12/2009	-	-	-	-	-	-
Subtotal	770,000		732,090		-		-	
Beijing Tianchen	29,063	28/08/3009	29,000	15/09/2009	-	-	-	-
Beijing Tianchen	10,000	15/10/2009	-	-	-	-	-	-
Beijing Tianchen	29,209	24/12/2009	-	-	-	-	-	-
Subtotal	68,272		29,000		-		-	
Other companies	23,110		-		2,440		-	
Subtotal	23,110		-		2,440		-	
	4,941,407		4,098,979		2,440		-	

The above amounts repaid include the monies of RMB2, 760,009,000 repaid by the Group in the financial year on behalf of HNA Group and some subsidiaries under its control.

(f) Assets transfer

Related party	Description	Type	Pricing principle	FY2009		FY2008	
				AMT	Percentage to the AMT of the same transactions	AMT	Percentage to the AMT of the same transactions
Xinhua Air Catering	Transfer of vehicles	Operation	Mutually agreed price	8	-	2,404	7%
HNA Safe	Transfer of vehicles	Operation	Mutually agreed price	-	-	2,180	7%
Tianjin Airlines (i)	Transfer of vehicles	Operation	Mutually agreed price	1,984	1%	1,417	4%
HNA Group(ii)	Transfer of houses and buildings	Operation	Mutually agreed price	153,871	62%	-	-
Xin Guo Hotel(iii)	Transfer of houses and buildings and land	Operation	Mutually agreed price	69,515	28%	-	-
				225,378		6,001	

(i) In this financial year, the Company transferred some transport equipment to Tianjin Airlines at a consideration of RMB1, 984,000.

(ii) In this financial year, the Group transferred the real estates including Sanya Aviation & Tourism College to Xin Guo Hotel

(iii) In this financial year, the Group transferred some real estates and pieces of lands to Xin Guo Hotel.

(g) Equity transfer

Related party	Description	Type	Pricing principle	FY2009		FY2008	
				AMT	Percentage to the AMT of the same transactions	AMT	Percentage to the AMT of the same transactions
HNA Group (1)	Transfer of equity	Operation	Mutually agreed price	3,312	4%	4,330	4%
Grand China Airlines	Transfer of equity	Operation	Mutually agreed price	-	-	48,073	39%
Hainan Air Catering	Transfer of equity	Operation	Mutually agreed price	-	-	70,601	58%
Bohai Leasing(i)	Transfer of equity	Operation	Mutually agreed price	90,000	96%	-	-
				93,312		123,004	

(i) In this financial year, the Group prospectively transferred 49% equities of Xin Da International to HNA Group and 15.8% equities of Yangtze River Leasing to Bohai Leasing. The transfer prices are RMB 3,312,000 Yuan and RMB 90,000,000 Yuan, which have been fully recovered in the same year.

(h) Remuneration of key managers

	FY2009	FY2008
Remuneration of key managers	1,465	1,230

(i) Recovered prepayments for investment

	FY2009	FY2008
HNA Hotel Holding		
Prepayments for equity (Note 5 (16))	1,447,847	-
Fund application fees (Note 5 (16))	128,352	-
	1,576,199	-

(j) Others related party transactions

Related party	Description	FY2009		FY2008	
		AMT	Percentage to the AMT of the same transactions	AMT	Percentage to the AMT of the same transactions
Tianjin Airlines	Pilot transfer income	28,650	36%	1,600	11%
Yunnan Xiangpeng	Pilot transfer income	24,700	31%	-	-
Deer Air	Pilot transfer income	7,000	9%	-	-
Yangtze River Express	Pilot transfer income	4,200	5%	-	-
Deer Jet	Pilot transfer income	2,900	4%	-	-
Yunnan Xiangpeng	Pilot leasing income	2,535	39.6%	-	-
West Airlines	Pilot leasing income	922	14.4%	-	-
Yangtze River Express	Pilot leasing income	2,306	36%	-	-
Tianjin Airlines	Maintenance and guarantee services (i)	146,227	8.4%	106,161	6%
	Reimbursed expenses (ii)	56,769	3.3%	48,742	3%
Yunnan Xiangpeng	Maintenance and guarantee services (i)	65,132	3.7%	27,959	2%
	Reimbursed expenses (ii)	4,557	0.3%	1,470	0.1%
Deer Air	Maintenance and guarantee services (i)	77,367	4.5%	6,451	0%
	Reimbursed expenses (ii)	41,332	2.4%	33,178	2%
Grand China Airlines	Maintenance and guarantee services (i)	30,933	1.8%	12,597	1%
	Reimbursed expenses (ii)	5,732	-	-	-
West Airlines	Maintenance and guarantee services (i)	26,646	1.5%	15,275	1%
	Reimbursed expenses (ii)	1,123	0.1%	67	0%
Yangtze River Express	Maintenance and guarantee services (i)	19,244	1.1%	13,209	1%
	Reimbursed expenses (ii)	1,273	0.1%	842	0.0%
HNA Finance	Interest income	48,706	22%	198,365	82%
Beijing HNA Real Estate	Interest expense amortization	11,359	1%	-	-
HNA Hotel Group	Fund application fees (Note 5 (16)(a))	128,352	100%	-	-
Bohai Trust	Borrowing	300,000	1.24%	-	-
Bohai Trust	Borrowing interest expense	21,750	1%	-	-

(i) The above expenses are mainly the maintenance expenses, etc paid or collected by the Group on behalf of related parties with respect to the provision of the maintenance and guarantee services for aviation supplies and high-price rotatable spares.

(ii) The above expenses are the salaries, hourly fees, civil aviation funds, etc paid or collected by the Group on behalf of related parties.

(6) Balances of accounts receivable from and payable to related parties

		December 31, 2009	December 31, 2008
Cashes and cash equivalents	HNA Finance	3,937,470	4,247,497
Interests receivable	HNA Finance	9,171	96,069
Accounts receivable	HNA Group	-	169
	Others	-	13
		-	182
Other receivables	HNA Property Management	2,492	-
	HNA Safe	2,482	-
	Xinhua Air Catering	2,108	-
	HNA System Co., Ltd.	2,070	-
	West Airlines	-	29,662
	Yangtze River Investment	-	10,944
	HNA Import & Export	-	6,385
	Others	10,138	25,379
		19,290	72,370
Prepayments	HNA Import & Export	134,458	145,100
	Others	65	216
		134,523	145,316
Notes payable	HNA Import & Export	180,000	782,000
Accounts payable	Meilan Airport	140,159	94,698
	Grand China Airlines	87,246	-
	Hong Kong Express	64,743	28,342
	HNA Group (Hong Kong)	40,547	-
	Yangtze River Investment	38,728	50,000
	Hainan Meiya	34,708	114,087
	Changjiang Leasing	32,662	-
	Tianjin Airlines	29,773	122,669
	Hainan Pacific Oil	22,880	-
	Haikou Meilan	22,703	-
	Gansu Airport	19,232	-
	Yunnan Xiangpeng	18,142	-
	Northwest HNA Real Estate	15,415	-
	West Airlines	3,707	55,883
	Deer Air	2,720	17,635
	Xinhua Air Catering	998	13,692
	Hong Kong Airlines	35	14,460
	HNA Import & Export	-	14,105
	Yangtze River Leasing	-	382,808
	Others	64,800	60,189
		639,198	968,568
Other payables	HNA Real Estate Holding	135,000	-
	Deer Air	48,954	51,931
	Yangtze River Leasing	19,003	-
	Yunnan Xiangpeng	15,245	33,747
	HNA Hotel Group	5,500	5,817
	HNA Hotel Holding	3,291	-
	Changjiang Leasing	790	60,310
	Grand China Airlines	-	48,005
	Northwest HNA Property	-	15,380
	Yangtze River Express	-	8,160
	Tianjin Airlines	-	100,255
	Others	32,952	6,238
			260,735
Min. lease payments	Changjiang Leasing	449,031	446,811
Credit loans	HNA Finance	38,921	36,907

IX. Commitments

(1) Capital commitments

Below are the capital expenditure commitments with contract signed but unnecessary recognized in the balance sheet as at the balance sheet date:

	December 31, 2009	December 31, 2008
Aircraft purchase	24,090,483	25,635,933
Houses, buildings & machinery and equipment	383,265	998,916
	24,473,748	26,634,849

(2) Operating lease commitments

According to the irrevocable operating lease contract signed, the min. payable rentals in the future by the Group are summarized in the following table:

	December 31, 2009	December 31, 2008
Within 1 year	1,599,083	1,017,365
1-2 years	1,488,907	990,704
2-3 years	1,373,970	902,791
More than 3 years	4,031,115	3,629,233
	8,493,075	6,540,093

(3) Performance of the commitments of the previous financial years

The capital expenditure commitments and operating lease commitments of the Group as at December 31, 2008 were performed as promised.

X. Matters after the Balance Sheet Date

- (1) For the details about the agreed additional matters of the Company in February 2010, see Note 1.
- (2) In accordance with the resolution in the board meeting held on January 7, 2010, the board of directors agreed that HNA Group could jointly and severally guarantee the general credit limit of RMB 300 million applied to a domestic bank for the Company.
- (3) In accordance with the resolution in the board meeting held on January 29, 2010, the board of directors agreed that the Company could jointly and severally guarantee the loan equivalent to USD 120 million applied to a state-owned bank for HNA Group in order to replace the guarantee for the loan of USD 120 million for the interests under 68 aircrafts leasing business of Australian's ALLCO Finance Group acquired by such Group.
- (4) In accordance with the resolution in the board meeting held by Chang'an Airlines on March 17, 2010, the Company and Grand China Airlines will respectively increase the capital of RMB873, 000,000 and RMB127, 000,000 to Chang'an Airlines in currency mode. In accordance with the resolution in the board meeting held on April 15, 2010, the Company has passed the above capital increase proposals.

- (5) In accordance with the resolution in the board meeting held on April 15, 2010, the Company intends to enter into a credit mutual guarantee framework agreement with HNA Group for FY2010. According to such agreement, in FY2010, HNA Group and its associated companies will provide RMB14 billion credit loan guarantee for the Company and its subsidiaries. The Company and its subsidiaries will provide RMB4.2 billion guarantee for HNA Group and its associated companies. And at any time, the actual guarantee amount shall not exceed 30% of the guarantee amount HNA Group and its associated companies provide for the Company and its subsidiaries.

XI. Leasing

The Group leases fixed assets by means of financing lease (Note 5 11(b) and the payable rentals in the future are summarized in the following table:

	December 31, 2009	December 31, 2008
Within 1 year	571,696	684,174
1-2 years	415,121	504,252
2-3 years	342,487	372,995
More than 3 years	1,005,657	1,352,101
	2,334,961	2,913,522

As at December 31, 2009, the balance of the unrecognized financing expenses is RMB306,028,000 (as at December 31, 2008: RMB438,407,000) (Note 5 30(b)).

XII. Enterprise Merger

See Note 4(3).

XIII. Contingencies

Except the guarantees disclosed in Note 7 (5)(d) provided by the Group for its related parties, as at the date of the issue of the Financial Report, the Group has no other contingencies required to be disclosed.

XIV. Assets and Liabilities at Fair Value

	December 31, 2008	Profit or loss on the change of fair value of this financial year	Change in accumulative fair value recognized in equities	Fair value equity decrease	December 31, 2009
Financial assets available for sale (Note5 (8))	-	-	38,211	-	647,048
Investment real estate (Note 5(10))	176,775	597,743	49,137	(5,936)	5,541,735
Trading financial liabilities (Note 5 (20))	-	7,016	-	-	7,016
	176,775	604,759	87,348	(5,936)	6,195,799

XV. Financial Assets and Liabilities in Foreign Currency

	December 31, 2009	December 31, 2008
Accounts payable	1,425,304	1,107,034
Short-term borrowing	2,939,172	720,367
Long-term borrowing	13,099,251	10,347,690
	17,463,727	12,175,091

XVI. 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 event, war or natural disaster is 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, freight 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 5 (19) and Notes 5 (29) have made the disclosure. Our management believes that rise or drop of the interest rates will have a significant impact on performance of the Group.

(3) Exchange Rate Change 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 revenues 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, 2009, the Group's net current liabilities are about 13.3 billion Yuan. In the reporting year, the Group's net cash inflow from operating activities is approximately 1.9 billion, net cash outflow for investment activities and financing activities is approximately 2.4 billion Yuan, and cash equivalents are reduced by about 4.3 billion.

The cash flow risk assessment by the Company's management refers to Note 2 (1).

XVII. Notes to the Parent Company's Main Financial Statements Items

(51) Accounts receivable

	December 31, 2009	December 31, 2008
Accounts receivable	516,374	473,970
Less: Provision for bad debts	(9,310)	(9,310)
	507,064	464,660

(a) The aging of accounts receivable is analyzed below:

	December 31, 2009	December 31, 2008
Within 1 year	507,023	464,619
1-2 years	-	-
2-3 years	-	-
3-4 years	-	-
4-5 years	-	-
5-6 years	-	-
More than 6 years	9,351	9,351
	516,374	473,970

(b) Accounts receivable are analyzed below by category:

	December 31, 2009				December 31, 2008			
	Book balance	Provision for bad debts		Book balance	Provision for bad debts			
	AMT	Percentage	AMT	AMT	Percentage	AMT	With	
	in total		drawal	in total		drawal	ratio	
	amount		ratio	amount		ratio		
Single amounts are not significant, but the portfolio risk is significant after grouped by credit risk feature	9,351	2%	9,310	99%	9,351	2%	9,310	100%
Other amounts insignificant	507,023	98%	-	-	464,619	98%	-	-
	516,374	100%	9,310	2%	473,970	100%	9,310	2%

As at December 31, 2009, no arrears in accounts receivable for the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2008: nil).

The accounts receivable with the aging exceeding 1 year mainly include the tickets and charter flights receivables outstanding. The management withdraws corresponding provision for bad debts after evaluating its recovery risks.

(c) As at December 31, 2009, there are no provisions for bad debts of the accounts receivable with single amounts significant, or with single amounts insignificant but the separate impairment test made.

(d) The accounts receivable with single amounts insignificant, but with the portfolio risk significant after grouped by credit risk feature, are analyzed below:

	December 31, 2009				December 31, 2008			
	Book balance	Provision for bad debts		Book balance	Provision for bad debts			
	AMT	Percentage	AMT	AMT	Percentage	AMT	With	
	in total		drawal	in total		drawal	ratio	
	amount		ratio	amount		ratio		
More than 6 years	9,351	2%	9,310	99%	9,351	2%	9,310	99%

(e) As at December 31, 2009, no arrears in accounts receivable for the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2008: nil).

(f) As at December 31, 2009, accounts receivable with the balance ranking the first five places are analysed below:

	Relationship with the Group	AMT	Period	Percentage in total accounts receivable
Customer A	Third party	8,184	2-3 years	1.7%
Customer B	Third party	137	More than 6 years	0.3%
Customer C	Third party	18	More than 6 years	-
Customer D	Third party	7	More than 6 years	-
Customer E	Third party	5	More than 6 years	-
		8,351		99%

(g) Accounts receivable from related parties are analyzed below:

As at December 31, 2009, the parent company has no accounts receivable from related parties.

(h) Accounts receivable include the following balances in foreign currency:

Foreign currency	December 31, 2009			December 31, 2008		
	AMT in foreign currency in thousand	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
USD	-	-	-	110	6.8346	752
EUR	-	-	-	70	9.6590	676
Forint	-	-	-	189,282	0.0357	6,757
			-			8,185

The shares of this financial year have no the balance of the accounts receivable in foreign currencies.

(52) Other receivables

	December 31, 2009	December 31, 2008
Aircraft leasing security deposit and maintenance reserve receivable	39,647	13,491
Deposits receivable on aviation supplies	18,882	88,016
Others	18,290	482,675
	76,819	584,182
Less: Provision for bad debts	(45,949)	(58,689)
	30,870	525,493

(a) The aging of other receivables is analyzed below:

	December 31, 2009	December 31, 2008
Within 1 year	28,720	479,813
1-2 years	232	42,937
2-3 years	760	2,314
3-4 years	1,664	60
4-5 years	60	747
5-6 years	294	6,316
More than 6 years	45,089	51,995
	76,819	584,182

(b) Other receivables are analyzed below by category:

	December 31, 2009				December 31, 2008			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	AMT	Percentage	Provision	With	AMT	Percentage	Provision	With
	in total		for bad	drawal	in total		for bad	drawal
	amount	debts	ratio		amount	debts	ratio	
Single amounts significant	55,592	72%	33,919	61%	515,694	88%	17,443	3%
Single amounts are not significant, but the portfolio risk is significant after grouped by credit risk feature	13,080	17%	11,941	91%	42,538	7%	40,330	95%
Other amounts insignificant	8,147	11%	116	1%	25,950	5%	916	4%
	76,819	100%	45,976	60%	584,182	100%	58,689	10%

(c) As at December 31, 2009, the provisions for bad debts of other receivables with single amounts significant, or with single amounts insignificant but the separate impairment test made are withdrawn below:

	Book balance	Provision for bad debts	Withdrawal ratio	Reason
Company A	18,882	18,882	100%	(i)
Company B	6,503	6,503	100%	(i)
Company C	2,800	2,800	100%	(i)
Company D	2,073	2,073	100%	(i)
Others	10,401	10,401	100%	(i)
	40,659	40,659	100%	(i)

(i) As at December 31, 2009, the aging of such other receivables had exceeded 6 years, so the management predicted that such receivables are difficult to recover and the full provisions for bad debts were withdrawn.

(d) Other receivables with single amounts insignificant, but with the portfolio risk significant after grouped by credit risk feature, are analyzed below:

	December 31, 2009				December 31, 2008			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	AMT	Percentage	Provision	With	AMT	Percentage	Provision	With
	in total		for bad	drawal	in total		for bad	drawal
	amount	debts	ratio		amount	debts	ratio	
Within 1 year	-	-	-	-	-	-	-	-
1-2 years	-	-	-	-	-	-	-	-
2-3 years	-	-	-	-	-	-	-	-
3-4 years	225	0.3%	78	35%	-	-	-	-
4-5 years	60	0.1%	31	52%	747	0.1%	-	-
5-6 years	181	0.2%	150	83%	16,376	2.8%	15,815	97%
More than 6 years	12,614	16.4%	11,682	93%	25,415	4.4%	24,515	96%
	13,080	17%	11,941	91%	42,538	7.3%	40,330	95%

(e) As at 31 December 2009, no arrears in other receivables for the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2008: nil).

(f) As at December 31, 2009, other receivables with the balance ranking the first five places are analysed below:

	Relationship with the Group	AMT	Period	Percentage in accounts receivable
Company A	Third party	18,882	More than 6 years	25%
Company E	Third party	7,500	Within 1 year	10%
Company F	Third party	6,631	Within 1 year	9%
Company C	Third party	6,503	More than 6 years	8%
Company G	Third party	6,353	Within 1 year	8%
		45,869		60%

(g) Other receivables from related parties are analysed below:

	Relationship with the Group	AMT	Period	Percentage in total other receivables
HNA Property Management	Under HNA Group control	2,492	Within 1 year	3%
HNA Safe	Under HNA Group control	2,082	Within 1 year	3%
HNA Systems Co., Ltd.	Under HNA Group control	1,824	Within 1 year	2%
Hainan Air Catering	Under HNA Group control	1,513	Within 1 year	2%
Deer Jet	Under HNA Group control	1,331	Within 1 year	2%
Other companies		4,798		6%
		14,040		18%

(h) Other receivables include the following balances in foreign currency:

	December 31, 2009			December 31, 2008		
	AMT in foreign currency in thousand	Exchange rate	RMB converted into	AMT in foreign currency in thousand	Exchange rate	RMB converted into
USD	84,055	6.8282	573,944	18,926	6.8346	129,352

(53) Long-term equity investments

	December 31, 2009	December 31, 2008
Subsidiary (a)	3,954,933	2,226,592
Associated company(b)	47,382	53,364
Other Long-term equity investment(c)	421,107	466,119
	4,423,422	2,746,075
Less: Provision for impairment of long-term equity investment (d)	(5,000)	(5,000)
	4,418,422	2,741,075

(a) Subsidiaries

	Accounting method	Initial investment cost	December 31, 2008	Increase/Decrease by	December 31, 2009	Share holding ratio	Percentage of voting rights	Explanation for inconsistency between shareholding ratio and percentage of voting rights	Provision for impairment	Provision for impairment withdrawn this year	Cash dividends declared this year
Xinhua Airlines	Cost method	1,166,107	1,166,107	-	1,166,107	60%	60%	-	-	-	-
Chang'an Airlines	Cost method	644,418	644,418	-	644,418	87.35%	87.35%	-	-	-	-
Shanxi Airlines	Cost method	408,467	408,467	-	408,467	46.29%	46.29%	-	-	-	-
Golden-Deer Sales	Cost method	7,600	7,600	-	7,600	95%	95%	-	-	-	-
Beijing Kehang	Cost method	-	-	1,728,341	1,728,341	95%	95%	-	-	-	-
			2,226,592	1,728,341	3,954,933				-	-	-

(b) Associated company

	Accounting method	Initial investment cost	December 31, 2008	Increase/Decrease by	December 31, 2009	Share holding ratio	Percentage of voting rights	Explanation for inconsistency between shareholding ratio and percentage of voting rights	Provision for impairment	Provision for impairment of this financial year
HNA Import & Export	Equity method	3,000	9,340	(3,302)	6,038	30%	30%	-	-	-
	Equity method	40,000	40,621	(2,970)	37,651	40%	40%	-	-	-
Hainan Hansha Training	Equity method	3,862	3,403	290	3,693	50%	50%	-	-	-
			53,364	(5,982)	47,382				-	-

(c) Other long-term equity investment

	Accounting method	Initial investment cost	December 31, 2008	Increase/Decrease by	December 31, 2009	Share holding ratio	Percentage of voting rights	Explanation for inconsistency between shareholding ratio and percentage of voting rights	Provision for impairment	Provision for impairment	Cash dividends declared this year
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	-	-	-	-
Yangtze River Leasing	Cost method	45,012	45,012	(45,012)	-	-	-	-	-	-	-
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	-	-	-	-
TravelSky Technology Limited.	Cost method	17,000	17,000	-	17,000	0.96%	0.96%	-	-	-	-
Tianjin Airlines	Cost method	19,000	19,000	-	19,000	1.46%	1.46%	-	-	-	-
Yangtze River Express	Cost method	10,000	10,000	-	10,000	2%	2%	-	-	-	-
Meilan Airport	Cost method	6,906	6,906	-	6,906	1.12%	1.12%	-	-	-	-
Other investment	Cost method	5,275	5,275	-	5,275	-	-	-	(5,000)	-	-
			466,119	(45,012)	421,107				(5,000)	-	-

(d) Provision for long-term equity investment impairment

	December 31, 2008	Increase by	Decrease by	December 31, 2009
Provision for other long-term equity investment				
Others	(5,000)	-	-	(5,000)

In 2009, the management did not discovered any further impairment indication after evaluating the financial condition of the investee; therefore, no additional provision for impairment (FY2008: nil) was withdrawn this year.

(54) Operating incomes and operating costs

	FY2009	FY2008
Main business income (a)	9,095,699	7,936,450
Other business income(b)	1,188,035	836,620
	10,283,734	8,773,070

	FY2009	FY2008
Main business cost	8,189,290	7,828,268
Other business cost	640,993	435,854
	8,830,283	8,264,122

(a) Main business incomes and main business costs

	FY2009		FY2008	
	Main business income	Main business cost	Main business income	Main business cost
Passenger income	8,396,550	7,593,586	7,227,383	7,138,828
Freight and excess luggage income	392,950	353,818	287,087	283,570
Charter flight income	268,639	241,886	410,904	405,870
Income from the sale of mileage points	37,560	-	11,076	-
	9,095,699	8,189,290	7,936,450	7,828,268

The total sales income of Top 5 customers of the Company amounts to 4,691,888,000 (FY2008: 4,817,169,000), accounting for 46% of total sales income of the Company (FY 2008: 60%).

(b) Other business incomes and other business costs

	FY2009		FY2008	
	Other business income	Other business cost	Other business income	Other business cost
Aircraft leasing business income	835,496	485,533	614,111	396,295
Gain on disposal of investment real estate	122,164	120,517	-	-
Income from ticket cancellation charges	56,492	-	40,187	-
Service income related to land freight	27,717	16,293	36,110	19,785
Commission income	20,864	-	9,262	-
Pilot leasing income	6,407	-	-	-
Others	118,895	18,650	136,950	19,774
	1,188,035	640,993	836,620	435,854

The aircraft leasing business costs do not include RMB351,385,000 (FY2008: RMB347,143,000) interests of the borrowing incurred in respect of self purchased and financially leased aircrafts for such leasing after put into use; such interest are included in the finance expenses.

(55) Investment revenues

	FY2009	FY2008
Proportion of net profits and losses of the investee enjoyed or shared based on the equity method	358	3,309
Dividends declared by the investee based on the cost method	738	4,822
Revenue in long-term equity investment transfer	(12)	-
Others	1,491	-
	2,575	8,131

(56) Supplementary information on cash flow

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

	FY2009	FY2008
Net profit/ (net loss)	147,253	(915,149)
More: Provision for assets impairment	(12,741)	364,911
Depreciation of fixed assets	1,334,997	1,107,014
Amortization of intangible assets	2,475	6,173
Amortization of long-term prepaid expenses	79,817	77,619
Other non-current assets-amortization of loss on sale-leaseback	67,454	42,330
Loss on disposal of fixed assets, intangible assets and other long-term assets	28,079	7,781
Profit or loss on the change in fair value	(293,565)	(8,074)
Finance expenses	855,011	254,108
Investment revenue	(2,575)	(7,917)
Increase in deferred tax liabilities	81,335	2,499
Decrease in deferred tax assets	-	28,389
Increase in deferred revenue	25,244	27,810
Decrease in inventories	(2,302)	230
Decrease/(increases) in operating receivables	121,057	23,035
Increase/(decrease) in operating payables	(39,701)	1,667,524
Net cash flow from operating activities	2,391,838	2,886,283

(b) Major investment and financing activities not involved in cash payment and receipts.

	FY2009	FY2008
Financial leasing of fixed assets	103,958	465,349

(c) Net change in cash and cash equivalents

	FY2009	FY2008
Cash as at December 31	7,710,809	2,500,188
Less: Cash balance as at January 1	(2,500,188)	(4,240,420)
More: Balance of cash equivalents as at December 31	-	-
Less: Balance of cash equivalents as at January 1	-	-
Net increase in cash and cash equivalents	5,210,621	(1,740,232)

XVIII. Some companies in full name or short name mentioned in the notes to the financial statements are as listed in the following table

Full company name	Company in short form
HNA Group Co., Ltd.	HNA Group
Haikou Meilan International Airport Co., Ltd	Haikou Meilan
Changjiang Leasing Co., Ltd	Changjiang Leasing
Hainan HNA Aviation Import & Export Co., Ltd	HNA Import & Export
Yangtze River Real Estate Group Co., Ltd.	Yangtze River Real Estate
Yangtze River International Leasing Co., Ltd	Yangtze River Leasing
Tianjin Airlines Ltd.	Tianjin Airlines
Hainan Meiya Industry Co., Ltd	Hainan Meiya
Yunnan Xiangpeng Airlines Company Limited	Yunnan Xiangpeng
Hong Kong Airlines Co., Ltd	Hong Kong Airlines
Hong Kong Express Airways Limited	Hong Kong Express
West Airlines Co., Ltd	West Airlines
Hainan Pacific Oil Industry Co., Ltd(Hainan Pacific Oil)	Hainan Pacific Oil
HNA Group Finance Co., Ltd	HNA Finance
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Industrial Holding Co., Ltd	HNA Industrial
Hainan Air Catering Co., Ltd	Hainan Air Catering
Hainan Jiahui Investment Company Limited	Hainan Jiahui
Hainan Meilan International Airport Co., Ltd	Meilan Airport
Haikou High-tech Risk Investment Co., Ltd.	Haikou High-tech
Hainan Aviation Import & Export Trade Co., Ltd	Hainan Import & Export
Deer Air Co., Ltd.	Deer Air
Sanya Phoenix International Airport Co., Ltd.	Sanya Phoenix Airport
Yangtze River Express Airlines Co., Ltd	Yangtze River Express
Yangtze River Investment Holding Company Limited	Yangtze River Investment
Northwest HNA Property Group Company Limited	Northwest HNA Property
Beijing Vigorous Vision Advertisement Co., Ltd	Vigorous Vision
Hainan Yuhong Trade development Company Limited	Hainan Yuhong
HNA Air Catering Holding Co. Ltd.	Air Catering Holding
HNA Tourism Holding (Group) Company Limited.	HNA Tourism
HNA Henghe Property Management Co., Ltd	Henghe Property Management

Full company name	Company in short form
Hainan Tonghui Insurance Agency Co., Ltd	Hainan Tonghui
HNA Hotel Holding Group Co., Ltd.	HNA Hotel Holding
Beijing Xinhua Air Catering Co., Ltd	Xinhua Air Catering
Deer Jet Co., Ltd	Deer Jet
HNA Safe Car Rental Co., Ltd.	HNA Safe
Hainan Xin Guo Hotel Limited	Xin Guo Hotel
Hainan Hansha Technology Training Limited	Hainan Hansha Training
Xinda International Freight Forwarders Co., Ltd.	Xinda International
Beijing Vision Advertising Co., Ltd.	Beijing Vision
Beijing Yanjing Hotel Co., Ltd.	Yanjing Hotel
Northwest HNA Real Estate Co., Ltd	Northwest HNA Real Estate
Grand China Airlines Co., Ltd	Grand China Airlines
HNA Group (Hong Kong) Co., Ltd	HNA Group(Hong Kong)
Full company name	Company in short form
Gansu Airport Group Co., Ltd.	Gansu Airport
HNA Real Estate Holding (Group) Co., Ltd	HNA Real Estate Holding
China Xinhua Airlines Co., Ltd	Xinhua Airlines
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Beijing Kehang Investment Co., Ltd	Beijing Kehang
Xi'an HNA Real Estate Co., Ltd	Xi'an Real Estate
Shaanxi Chang'an Hainan Aviation Star Hotel Co., Ltd.	Chang'an Star
Beijing HNA Real Estate Co., Ltd	Beijing HNA Real Estate
Bohai International Trust Co., Ltd.	Bohai Trust
Hainan Free Flight Aviation Ticket-Booking and Logistics Co., Ltd	Hainan Free Flight
Hainan Civil Aviation Cares Co., Ltd.	Hainan Civil Aviation Cares
TravelSky Technology Limited.	TravelSky Tech
Shenhua Finance Co., Ltd	Shenhua Finance
Shenzhen Civil Aviation Cares Co., Ltd.	Shenzhen Civil Aviation Cares
Hainan Development Holding Co., Ltd	Hainan Development Holding
HNA Jinpeng Aviation Sales Co., Ltd	Jinpeng Sales
China Merchants Securities Co., Ltd	China Merchants Securities
Bank of Communications Financial Leasing Co. Ltd.	Bank of Communications Leasing
South China International Leasing Co., Ltd.	South China Leasing
Far East International Leasing Co., Ltd.	Far East Leasing
Anji Leasing Co., Ltd.	Anji Leasing
CDB Leasing Co., Ltd.	CDB Leasing
Xinjiang Financial Leasing Co. Ltd.	Xinjiang Leasing
International Air Transport Association	IATA
Qionghai HNA Training Center Hotel Co., Ltd	Qionghai Training
HNA Savills Property Management Co., Ltd	HNA Property Management
HNA Commercial Holdings Co., Ltd	HNA Commercial Holdings
Beijing Tianchen Exhibition Engineering Co., Ltd	Beijing Tianchen
Hainan Jiaoguan Holding Co Ltd	Hainan Jiaoguan Holding
Tianjin Bohai Leasing Co., Ltd.	Bohai Leasing

I. Non-recurring Profit and Loss Breakdown

	FY2009	FY2008
Loss on disposal of non-current assets	(30,293)	(6,909)
Government grants included in the profit and loss of the current period	143,968	138,974
Return and reduction/exemption of other incidental taxes and levies	348,883	-
Fund application fees collected from the non-financial enterprises recognized into the profits and losses of this financial year	128,352	-
Transfer-in of provision for accounts receivable impairment with independent impairment test	15,492	-
Revenues of change in fair value incurred by the transaction-based financial assets held	(7,016)	-
Profits and losses incurred by Investment real estate change in fair value undergoing subsequent measurement in the fair value mode	597,743	8,074
Other non-operating income and expenditure in addition to the above items	88,531	15,264
Other profits and losses conforming to the definition of non-recurring profit and loss	6,579	-
	1,292,239	155,403
Effect of income tax	(151,075)	(1,615)
Effect of Minority interest (after tax)	(56,225)	(13,368)
	1,084,939	140,420

Preparation basis of non-recurring profit and loss breakdown

In accordance with Explanatory Notice No. 1 on the Information Disclosure for Companies Publicly Issuing Securities- Non-recurring Profit and Loss [2008]) promulgated by China Securities Regulatory Commission (CSRC), non-recurring profit and loss means the profit and loss caused by the transactions and matters that are not directly related to the normal business of the Company, or although related to the normal business of the Company, due to their special and occasional features, affect the correct judgment of the financial statement user to the operation performance and profitability of the Company.

I. Net assets yield and earnings per share

	Weighted average net assets yield (%)		Basic earnings per share & diluted earnings per share	
	FY 2009	FY 2008	FY 2009	FY 2008
Net profits ascribed to the ordinary shares holders of the company	5%	(21%)	0.09	(0.40)
Net profits ascribed to the ordinary shares holders of the company after deduction of non-recurring profit and loss	(12%)	(23%)	(0.21)	(0.44)

II. Description of the Abnormalities and Reasons of Major Financial Statement Items

Assets	December 31, 2009 consolidated	December 31, 2008 consolidated Restated	Difference	Reason
Current assets				
Cash and cash equivalents	12,765,534	6,652,245	6,113,289	1
Accounts receivable	317,608	440,829	(123,221)	
Prepayments	662,726	272,043	390,683	2
Interests receivable	12,479	96,069	(83,590)	3
Dividends receivable	-	2,271	(2,271)	4
Other receivables	108,590	150,568	(41,978)	
Inventories	256,652	255,336	1,316	
Total current assets	14,123,589	7,869,361	6,254,228	
non-current assets				
Financial assets available for sale	647,048	-	647,048	5
Long-term equity investment	622,317	719,937	(97,620)	
Investment real estate	5,541,735	176,775	5,364,960	6
Fixed assets	29,120,201	23,706,223	5,413,978	7
Construction in progress	6,856,305	10,217,872	(3,361,567)	8
Intangible assets	210,899	237,132	(26,233)	
Goodwill	328,865	-	328,865	9
Long-term prepaid expenses	222,561	188,912	33,649	
Deferred tax assets	-	-	-	
Other non-current assets	1,669,905	5,197,488	(3,527,583)	10
Total non-current assets	45,219,836	40,444,339	4,775,497	
Total assets	59,343,425	48,313,700	11,029,725	
Current liabilities				
Short-term borrowing	16,165,526	9,020,315	7,145,211	11
Trading financial liabilities	7,016	-	7,016	12
Notes payable	1,180,116	1,780,902	(600,786)	
Accounts payable	3,380,667	4,278,765	(898,098)	
Advances from customers	718,095	860,915	(142,820)	
Employee remuneration payable	215,349	139,034	76,315	13
Taxes payable	262,284	207,589	54,695	
Interest payable	99,097	85,003	14,094	
Dividend payable	19,078	19,078	-	
Other payables	1,477,068	2,286,641	(809,573)	14
Non-current liabilities that mature within 1 year	3,908,759	2,556,457	1,352,302	15
Total current liabilities	27,433,055	21,234,699	6,198,356	
Non-current liabilities				
Long-term borrowing	22,385,449	18,250,709	4,134,740	16
Deferred revenue	266,814	225,682	41,132	
Long-term payables	1,501,581	1,880,832	(379,251)	
Special payables	20,000	20,000	-	
Deferred tax liabilities	520,918	2,499	518,419	17
Other non-current liabilities	29,928	30,563	(635)	
Total non-current liabilities	24,724,690	20,410,285	4,314,405	
Total liabilities	52,157,745	41,644,984	10,512,761	
Shareholders' equity				
Share capital	3,530,253	3,530,253	-	
Capital reserve	3,923,522	3,854,143	69,379	
Surplus reserve	169,098	169,098	-	
Accumulated loss	(1,074,046)	(1,408,716)	334,670	
Total equity ascribed to the shareholders of the parent company	6,548,827	6,144,778	404,049	
Minority interest	636,853	523,938	112,915	
Total shareholders' equity	7,185,680	6,668,716	516,964	
Total liabilities and shareholders' equity	59,343,425	48,313,700	11,029,725	

Items	FY2009 consolidated	FY2008 consolidated restated	Difference	Reason
1. Operating income	15,548,363	13,551,661	1,996,702	18
Less: Operating cost	(13,256,194)	(12,511,722)	(744,472)	19
Operating tax and additions	(495,620)	(384,266)	(111,354)	20
Selling expenses	(747,612)	(587,175)	(160,437)	21
Overhead expenses	(411,027)	(515,903)	104,876	22
Finance expenses - net	(1,312,615)	(648,227)	(664,388)	23
Assets impairment loss	15,483	(615,590)	631,073	24
More: Profit or loss on the change in fair value	584,791	8,074	576,717	25
Investment revenue	8,891	32,102	(23,211)	26
Including: Revenue of investment in associated company	(1,182)	3,346	(4,528)	
2. Operating profit/ (loss)	(65,540)	(1,671,046)	1,605,506	
More: Non-operating income	584,039	160,337	423,702	27
Less: Non-operating expenditure	(32,950)	(13,008)	(19,942)	28
Including: Loss on disposal of non-current assets	(30,361)	(11,750)	(18,611)	
3. Total profits/(losses)	485,549	(1,523,717)	2,009,266	
Less: Income tax expenses	(129,589)	(54,694)	(74,895)	29
4. Net profit/(loss)	355,960	(1,578,411)	1,934,371	
Net profit/(loss) ascribed to the shareholders of the parent company	334,670	(1,414,354)	1,749,024	
Minority interest	21,290	(164,057)	185,347	
5. Earnings/(loss) per share				
Basic Earnings/(loss) per share	0.09	(0.40)	-	
Diluted Earnings/(loss) per share	0.09	(0.40)	-	
6. Other consolidated earnings/(losses)	87,348	-	87,348	
7. Total consolidated earnings/(losses)	443,308	(1,578,411)	2,021,719	
Total consolidated earnings/(losses) ascribed to the shareholders of the parent company	404,050	(1,414,354)	1,818,404	
Total consolidated earnings/(losses) ascribed to minority shareholders	39,258	(164,057)	203,315	

Change Analysis

- The cash and cash equivalents of the financial year increase by 92% from those of the previous financial year, the reason for which is that the Group expands its operation scale and the transportation capacity, and thus the cash in hand increases borrowings.

- 2 The prepayments of the financial year increase by 114% from those of the previous financial year, the reason for which is that the Group expands its transportation capacity and thus the payments for the purchased aviation supplies increase.
- 3 The interest receivables of the financial year decrease by 87% from those of the previous financial year, the reason for which is that the Group has received the interests of the deposits of the previous financial year.
- 4 The dividends receivable of the financial year decrease by 100% from those of the previous financial year, the reason for which is that the Group has received the balances of the dividends receivable of the previous financial years.
- 5 The financial assets available for sale of the financial year increase by 100% from those of the previous financial year, the reason for which is that the Group has bought the equity interest in China Merchants Securities and recognized it in fair value.
- 6 The investment real estates of the financial year increase by 3035% from those of the previous financial year, the reason for which is that the Group has increased its investment real estate projects in such financial year.
- 7 The fixed assets of the financial year increase by 23% from those of the previous financial year, the reason for which is that the Group converts the aircrafts having arrived into fixed assets.
- 8 The constructions in progress of the financial year decrease by 33% from those of the previous financial year, the reason for which is that the aircrafts having arrived, the corresponding balance of the prepayments for aircraft purchase calculated in the original constructions in progress and such projects as Beijing Kehang Building, Shengyuan Building, etc having reached the preset usable state are converted into fixed assets..
- 9 The increased goodwill in the financial year is from the purchase of the subsidiary Beijing Kehang in such financial year.
- 10 The other non-current assets of the financial year decrease by 68% from those of the previous financial year, the reason for which is that the Group has recovered the contributions in the equity interest in Bohai Trust and Yanjing Hotel and completed the equity transfer with Beijing Kehang and China Merchants Securities in such financial year.
- 11 The short-term borrowings of the financial year increase by 79% from those of the previous financial year, the reason for which is that the Group has increased its borrowing scale.
- 12 The newly increased trading financial liabilities in the financial year are incurred by the change in the fair value of the financial instruments formed by the forward exchange settlement and sales contract with respect of USD signed between the Group and the Bank of China.
- 13 The employee remuneration payable in the financial year increases by 55% from those in the previous financial year, which is mainly incurred by the withdrawal by the Group of the year-end bonus to be distributed in 2010 from the amount of the current period.
- 14 Other payables in the financial year increase by 35% from those in the previous financial year, which is mainly incurred by the payment made in the current period by the Group with respect of the purchase of Grand China Mansion, Guorui Project, etc.
- 15 The non-current liabilities due within 1 year in the financial year increase by 53% from those in the previous financial year, which is mainly incurred by the increase of long-term borrowings due within 1 year.
- 16 The long-term borrowings in the financial year increase by 23% from those in the previous financial year, which is mainly incurred by the increase of the borrowings with respect of the aircraft program of the Group, etc.

- 17 The newly increased deferred tax liabilities in the financial year are incurred by the determination by the Group of such liabilities with respect to taxable temporary differences arising from the difference between the investment real estate fair value and its tax base.
- 18 The operating income in the financial year increases by 15% from those of the previous financial year, which is mainly incurred by the increase in the passenger traffic volume due to the domestic aviation market recovery.
- 19 The operating cost in the financial year increases by 6% from those of the previous financial year, which is mainly incurred by the increase in the transport capacity of the Group, the aircraft and engine depreciation and the fixed costs including rentals.
- 20 The operating tax and additions in the financial year increase by 29% from those of the previous financial year, which is mainly incurred by the increase in the operating income of the Group.
- 21 The selling expenses in the financial year increase by 27% from those of the previous financial year, which is mainly incurred by the increase in the marketing expenses due to the rise in the operating income and passenger traffic volume of the Group.
- 22 The overhead expenses in the financial year decrease by 20% from those of the previous financial year, which is mainly incurred by a series of revenue-enhancing and expenditure-control measures taken by the Group to enhance the cost control.
- 23 The net finance expenses in the financial year increase by 102% from those of the previous financial year, which is mainly incurred by the decrease in the exchange income and the increase in the interest expenses when the exchange rate of USD against RMB tends stable.
- 24 The assets impairment losses in the financial year decrease by 103% from those of the previous financial year, which is mainly incurred by the reason that the Dornier aircrafts and goodwill impairment was written off by the Group in the previous financial year while no impairment of such assets occurs in the current period.
- 25 The income from the change in fair value in the financial year increases by 7143% from that of the previous financial year, which is mainly incurred by the increase in the investment real estates of the Group as well as the continuous appreciation of such investment real estates in the financial year.
- 26 The investment revenue in the financial year decreases by 72% from that of the previous financial year, which is mainly incurred by no revenue from the equity disposal of the Group in the current period.
- 27 The non-operating income in the financial year increases by 264% from that of the previous financial year, which is mainly incurred by the reception by the Group of the refunds of civil aviation infrastructure funds.
- 28 The income tax expenses in the financial year increase by 137% from those of the previous financial year, which is mainly incurred by the determination of the deferred tax liabilities by the Group in the current period.

- (i) **Accounting Statements with the signatures and seals of the Legal Representative, Chief Financial Officer and the person in charge of the accounting department.**
- (ii) **Original of the Auditor's Report with seal of certified public accountant and signatures of certified public accountants.**
- (iii) **Original of all documents and announcements published in the presses designated by CSRC during year 2009.**

Chairman: Li Xiaoming

Hainan Airlines Company Limited

April 16, 2010