



# 2010

**Annual Report**

Hainan Airlines Co., Ltd.

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## Important Notice

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The board of directors (“BoD”), board of supervisors (“BoS”), directors, supervisors and senior executives of the Hainan Airlines Company Limited ( “the Company”) hereby guarantee to the best of their knowledge that there is no significant omission, fictitious description or serious misleading of information and they will take both individual and joint responsibilities for the truthfulness, accuracy and completeness of the content.

The entire board of directors participated the meeting.

Pricewaterhousecoopers Zhongtian issued the standard unqualified Auditors’ Report

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Company Principal	Wang Yingming
Principal in charge of accounting	Wang Hao
Principal of Account Department	Xu Zhoujin

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Mr. Wang Yingming, charger of the Company, Mr. Wang Hao, the principal in charge of accounting, and Mr. Xu Zhoujin, the principal of the account department, hereby declare: we guarantee the authenticity and completeness of the financial report in this report.

Is the non-operating fund occupied by controlling shareholder and its related parties?

No.

Does the Company provide guarantee for other parties against the regulated decision-making procedures?

No.

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## 1. 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	Wang Yingming

## 2. Contact Person and Contact Method

	Secretary of BoD	Representative of Stock Affairs
Name	Lv Guangwei	Wang Fei
Address	New HNA Plaza,7 Guoxing Road, Haikou	New HNA Plaza,7 Guoxing Road, Haikou
Tel	0898-66739961	0898-66739961
Fax	0898-66739960	0898-66739960
Email	gw_lv@hnair.com	wangfei@hnair.com

## 3. General Information

Registered Address	168 Airport West Road, Haikou, Hainan Province
Office Address	New HNA Plaza,7 Guoxing Road, Haikou, Hainan Province
Post code	570203
Website	<a href="http://www.hnair.com">http://www.hnair.com</a>
Email	webmaster@hnair.com

## 4. Information Disclosure and Preparation Place

Designated Newspapers for Information Disclosure	China Securities News, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po
The website appointed by China Securities Regulatory Commission to release the annual report	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Annual Report Available at	Office of Secretary of BOD of the Company

## 5. 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	

## 6. Other Related Information

First Registration Date of the Company	October 18, 1989
First Registration Place of the Company	Haikou
First Alternation	Business License Number
	Tax Registration Number
Domestic Accounting Firm Engaged by the Company	PricewaterhouseCoopers Zhongtian CPAs Co.,Ltd
Office address	11/F, PWC center, 202 Hubin Road, Shanghai, PRC

### 1. Key Fiscal Data in the Report Period

Monetary Unit: RMB 1,000 Yuan

Item	Amount
Operating profit	2,802,375
Total Profit	3,651,294
Net profit attributable to shareholders of listed company	3,013,912
Net profit after non-recurring gains and losses attributable to shareholders of listed company	2,137,864
Net cash flow from operating activities	6,476,243

### 2. Non-recurring gains and losses

Monetary Unit: RMB 1,000 Yuan

Items	Amount
Gains/losses on the disposal of non-current assets	471,348
Government subsidies accounted into current gains and losses ( except for subsidies closely related to enterprise businesses and subject to national standard quota or quantity )	207,731
Investment income from gains and losses incurred on changes of fair value of tradable financial assets&liabilities, and disposal of tradable financial assets&liabilities, and available for sale financial assets, except for effective hedging operations related to normal operation businesses	21,726
Gains and losses from changes of the fair value for investment real estate measured through the fair value pattern	347,983
Other non-operating revenues and expenses in addition to above-mentioned items	169,840
Impact on the amount of income tax	-276,135
Impact on the amount of minority stockholder's interest(after tax)	-66,445
Total	876,048

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

Monetary Unit: RMB 1,000 Yuan

	2010	2009	Increase /Decrease (%)	2008
Income from principal business	21,706,147	15,548,363	39.60	13,551,661
Total profit	3,651,294	485,549	651.99	-1,523,717
Net profit attributable to the shareholders of the listed company	3,013,912	334,670	800.56	-1,414,354
Net profit after deducting non-recurring gains and losses attributable to shareholders of the listed company	2,137,864	-750,269	Inapplicable	-1,554,936
Net cash flow from operating activities	6,476,243	1,948,465	232.38	3,695,760
	End of 2010	End of 2009	Increase/ Decrease (%)	End of 2008
Total assets	71,552,795	59,343,425	20.57	48,313,700
Owners equity or shareholders' equity	12,465,483	6,548,827	90.35	6,144,778

Key fiscal data	2010	2009	Increase/Decrease (%)	2008
Basic earnings per share (Yuan)	0.74	0.09	722.22	-0.40
Diluted earnings per share (Yuan)	0.74	0.09	722.22	-0.40
Basic earnings per share after non-recurring gains and losses (Yuan/share)	0.53	-0.21	Inapplicable	-0.44
Weighted average ROE (%)	32	5	27	-46.03
Weighted average ROE after non-recurring profits and losses(%)	22	-12	Inapplicable	-50.61
Net cash flow from operating activities per share (Yuan)	1.57	0.55	184.45	1.05
	End of 2010	End of 2009	Increase/Decrease (%)	End of 2008
Net assets per share belongs to the shareholders of the listed enterprise (Yuan per share)	3.02	1.86	62.37	1.74

## 4. Items accounted in fair value Measurement

Monetary Unit: In RMB 1,000 Yuan

Project	Balance at the beginning of report period	Balance at the end of report period	Change in Current report Period	Effect on current period Profit
Available for sale financial assets	647,048	579,690	-67,358	0
Investment properties	5,541,735	9,873,489	4,331,754	347,983
Tradable financial liabilities	7,016	177	-6,839	6,839
Total	6,195,799	10,453,356	4,257,557	354,822



### III.Changes in Share Capital and Particulars about Shareholders



#### 1. Changes in Share Capital

##### 1.1 Changes in share

Unit: Share

	Before Change		Increase/Decrease(+,-)					After Changes	
	Quantity	Percentage (%)	New Share Issue	Stock Split	Stock From Contributed Capital Surplus	Others	Subtotal	Quantity	Percentage (%)
I. Shares with trading restriction	335,600	0.01	595,238,094				595,238,094	595,573,694	14.44
1.State-owned share									
2.State-owned legal person share			297,619,047				297,619,047	297,619,047	7.21
3.Other domestic share	335,600	0.01	297,619,047				297,619,047	297,954,647	7.22
Incl.: Domestic non-state owned legal person share	335,600	0.01	297,619,047				297,619,047	297,954,647	7.22
Domestic natural-person share									
4. Foreign Share									
Incl.: Foreign legal person share									
Foreign natural-person share									
II. Shares without trading restriction	3,529,917,201	99.99						3,529,917,201	85.56
1. A Share	3,345,194,000	94.76						3,345,194,000	81.09
2. B Share	184,723,201	5.23						184,723,201	4.48
3. Shares listed overseas									
4. Others									
III. Total Shares	3,530,252,801	100					595,238,094	4,125,490,895	100

##### Approval of Share Changes

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 share to Hainan Development Holding Co.,Ltd and HNA Group Co.,Ltd.

##### Transfer of Share Changes

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.

##### 1.2 Changes in share with trading restriction

Unit: Share

Name of Shareholder	Restricted shares at the beginning of the year	Number of shares with selling restrictions expired in 2010	Number of additional shares with selling restrictions in 2010	Restricted shares at the end of the year	Reasons for Selling Restriction	Expiry data of selling restrictions
Hainan Provincial Development Holding Co., Ltd	0	0	297,619,047	297,619,047	Directional add-issuance	Feb. 25 of 2013
HNA Group Company Limited	0	0	297,619,047	297,619,047	Directional add-issuance	Feb. 25 of 2013

## 2. Issuance and Listing of Securities

### 2.1 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						
A Share	23 February, 2010	5.04	595,238,094	25 February, 2013		

### 2.2 Changes of Total Share and Share Structure

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

### 2.3 Employee Shares in the Company

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

## 3. Introduction to the Controlling Shareholder and the Actual Controller

### 3.1 Number of Shareholders and Particulars about Shares Held

Unit:Share

Total number of shareholders at the end of report period	193,252
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Shareholding Status of Top Ten Shareholders

Name of shareholder	Nature of Shareholders	Shareholding Percentage (%)	Amount of Shares Held	Amount of Shares with Trading Restriction	Amount of Pledged or Frozen Shares
Grand China Air Co., Ltd.	Others	41.60	1,716,394,743		1,606,244,066 (Pledged)
Haikou Meilan International Airport Co., Ltd.	Others	10.46	431,424,451		N/A
Hainan Provincial Development Holding Company Limited	Others	7.21	297,619,047	297,619,047	N/A
HNA Group Company Limited	Others	7.21	297,619,047	297,619,047	297,619,047 (Pledged)
Changjiang Leasing Co., Ltd.	Others	6.27	258,835,549		92,062,909 (Pledged)
American Aviation LDC	Others	2.62	108,043,201		N/A
Huaxia Growth Security Investment Fund	Others	0.92	37,928,924		N/A
National Social Insurance 106 Portfolio	Others	0.85	34,957,905		N/A
Shanghai Pudong Development Bank-Guangfa Small-size Growth Stock Security Investment Fund	Others	0.50	20,533,721		N/A
ICBC Jiashi New Power Stock Security Investment Fund	Others	0.34	13,941,907		N/A

Shareholding Status of Top Ten Shareholders of Tradable Shares

Name of shareholder	Amount of Shares held without Trading Restriction	Type 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.	258,835,549	A Share
American Aviation LTD	108,043,201	B Share
Huaxia Growth Security Investment Fund	37,928,924	A Share
National Social Insurance 106 Portfolio	34,957,905	A Share
Shanghai Pudong Development Bank-Guangfa Small-size Growth Stock Security Investment Fund	20,533,721	A Share
ICBC-Jiashi New Power Stock Security Investment Fund	13,941,907	A Share
ICBC-Guangfa Jufeng Stock Security Investment Fund	13,007,610	A Share
Bank of China-Jiashi Steady Open Security Investment Fund	11,520,000	A Share
Note to relationship or "action in concert" among the top ten shareholders	Among the top ten shareholders, there's connected relationship among the Grand China Air Co., Ltd., Haikou Meilan International Airport Co., Ltd and HNA Group Co., Ltd. However, there's no action in concert among them as described by the Administrative Rules on Information Disclosure about Changing of Shareholding Status.  The actual controller of the American Aviation LTD is the Grand China Air Co., Ltd. Changjiang Leasing Co., Ltd is the indirect subsidiary of the HNA Group Co., Ltd.	

Shareholding Status of Top Ten Shareholders of share with Trading Restriction

Unit: share

Name of shareholder	Amount of Shares	Listing Status of share		Trading Restriction Condition
	Held with Trading Restriction	with Trading Restriction	Time of Listing	
Hainan Provincial Development Holding Company Limited	297,619,047		25 February, 2013	Not negotiable in 36 months from the day of directional issue in 2010
HNA Group Company Limited	297,619,047		25 February, 2013	Not negotiable in 36 months from the day of directional issue in 2010

## 3.2 Introduction to the Controlling Shareholder and Actual Controller

### 3.2.1 Introduction to the Controlling Shareholder and Actual Controller

Grand China Air Company Limited is the controlling shareholder of the Company. It was established by the document of the CAAC (Min Hang Zheng Fa Han [2004] No. 5) on July 12 of 2004. On January 8 of 2010, the registered capital increases from RMB 3,689,795,600 Yuan to RMB 6,008,323,967 Yuan. As of December 31 of 2010, it holds 44.22% equity right of the Company, which includes 2.62% B share held by the American Aviation LDC.

Hainan Provincial Development Holding Company Limited is the actual controller of the Company. It was established on January 26 of 2005. Its registered capital is of RMB 980,255,000 Yuan. It is a sole proprietorship enterprise under the Hainan Provincial State-owned Assets Management Committee. As of December 31 of 2010, it holds 24.97% equity of the Grand China Air Company Limited.



## 3.2.2 Information of the controlling shareholder

○ Legal Person

Monetary unit: RMB Yuan

Company Name	Legal Representative	Registered Capital	Date of Establishment	Principal Businesses
Grand China Air Co., Ltd	Chen Feng	6,008,323,967	July 12 of 2004	Air transportation, aviation maintenance and service, air caterings and appliances, aviation related services, investment and management of airport, service and management of airport, hotel and management (projects need administrative approval shall be operated with license)

## 3.2.3 Introduction to the Actual Controller

○ Legal Person

Monetary unit: RMB Yuan

Company Name	Legal Representative	Registered Capital	Date of Establishment	Principal Businesses
Hainan Provincial Development Holding Co., Ltd	Liu Mingui	980,255,000	January 26 of 2005	Marine oil & gas development and utilization, marine aquatic products processing, project development of automobile, tourism, glass, pulp and paper, pharmacy and other industries, project development of highways, ports, water conservancy, urban water supply, gas, electricity, environment protection, finance of projects with minority stake or controlling stake, asset or share management of investment projects, due diligence, counseling, planning and feasibility studies on construction projects and guarantee of construction projects

## 3.2.4 Changes of the Controlling Shareholder and the Actual Controller

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

Chart of the Property Right and Controlling Relationship between the Actual Controller and the Company



## 3.3 Other Legal Person Shareholder 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 service to air transportation, air tickets sales agent, aviation ground transportation service agent, automobile transportation and real estate.	2,028,913,102



## 1. Particulars about Directors, Supervisors and Senior Executives

Name	Position	Sex	Age	Service Term	Shares Held at the Beginning of the Year (In share)	Shares Held at the End of the Year (In share)	Cause of Changes	Unit:Share	
								Annual	Whether Salary
								Remuneration	Withdrawn from
								after tax (RMB 10,000 Yuan)	the Shareholder Unit or Other Related Party
Wang Yingming	Chairman	male	48	2009-6-5 ~ 2012-6-4				34.18	No
Yang Jinglin	Vice Chairman	male	55	2009-6-5 ~ 2012-6-4				32.58	No
Chen Ming	Director	male	46	2010-1-28 ~ 2012-6-4				28.54	No
Gu Gang	Director	male	34	2010-5-7 ~ 2012-6-4				0	Yes
Chen Rijin	Independent Director	male	65	2009-6-5 ~ 2012-6-4				8	No
Wu Banghai	Independent Director	male	69	2009-6-5 ~ 2012-6-4				8	No
Lin Shiluan	Independent Director	male	63	2009-9-18 ~ 2012-9-17				8	No
Zhang Cong	Supervisor	male	52	2009-6-5 ~ 2012-6-4				0	Yes
Li Rui	Supervisor	male	34	2009-6-5 ~ 2012-6-4				2.5	No
Chen Ping	Supervisor	male	36	2009-6-5 ~ 2012-6-4				2.5	No
Gao Jian	Supervisor	male	30	2009-6-5 ~ 2012-6-4				0	Yes
Xu Huashan	Supervisor	female	39	2010-5-7 ~ 2012-6-4				0	Yes
Chen Ming	President	male	46	2011-1-11 ~ 2014-1-10				28.54	No
Mu Weigang	Vice President	male	49	2011-3-15 ~ 2014-3-14				51.06	No
Yu Wenying	Vice President	male	45	2009-7-21 ~ 2012-7-20				32.34	No
Wang Hao	CFO	male	34	2011-1-11 ~ 2014-1-10				0	Yes
Lv Guangwei	Secretary of Board of Supervisors	male	40	2009-4-29 ~ 2012-4-28				11.9	No

Wang Yingming: Male, chairman 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 and vice chairman and 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.

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

Gu Gang: Male, Han nationality, was born in April, 1977 in Zhen'an, Shanxi Province. He is a communist party member. Graduated from Accounting School of Northeastern University of Finance & Economics, majored in CPA specialism. He was previously CFO of Sanya Ruida Estate Co.,Ltd, Hunan Jinguo industries Co.,Ltd, Beijing Yintai Estate Co.,Ltd and currently director of Hainan Highway Co.,Ltd, vice president and member of the Party committee of Hainan Provincial Development Holding Co., Ltd

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 Guilingyang 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 Independent Director of Hainan Airlines and the Chairman of Financial and Economic Committee of Standing Committee of Hainan People's Congress.

Zhang Cong: Male, was born 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 Project Department 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.

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.

Gao Jian: Male, was born in 1981. Gao is a graduate from China Civil Aviation University, communist party member. He is currently the Director of Human Resource Department of Jinhai Heavy Industries Co.,Ltd and was the Deputy Director of the Office of HNA Group.

Xu Huashan: Female, Han nationality, was born in September, 1972 in Meixian,Guangdong Province. She was graduated from School of Management of Zhongshan University, majored in Accounting & Auditing. She was formerly the vice minister, minister and general manager of Financial Department and general manager of Assets Management Department of Hainan Provincial Development Holding Co., Ltd, vice general manager, Chief Accountant of Water conservancy and hydropower Co., Ltd. of Hainan Province. She is currently the general manager of Financial Department and Capital Marketing Department of Hainan Provincial Development Holding Co., Ltd.

Mou Weigang: Male, 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.

Yu Wenying: 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.

Wang Hao: Male, was born in May, 1977 in Zhenjiang, Jiangsu Province. He was graduated from Nanjing University and majored in International Business English. He joined Hainan Airlines in 1999 and was formerly the Financing Manager of Financing and Planning Department of HNA Group, the director of the Cash Flow Center, vice general manager, general manager and currently the CFO of the Company.

Lv Guangwei: Male, was born in May 1971. Lv is currently the Secretary of the Board of Directors. He was a graduate of Management from Qiqihar University and previously Securities Representative of Hainan Airlines.

## 2. 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)
Yang Jinglin	Grand China Air Co., Ltd	Director			No
Gu Gang	Hainan Provincial Development Holding Co., Ltd	Vice President			Yes
Xu Huashan	Hainan Provincial Development Holding Co., Ltd	General manager of Financial Department and Capital Marketing Department			Yes

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

Name	Company	Position	Starting Date of Service Term	Expiry Date of Service Term	Remuneration (Yes/No)
Wang Yingming	HNA Holding Co., Ltd	Chairman			No
Wang Yingming	Grand China Air Technic Co., Ltd	Chairman			No
Yang Jinglin	China Xinhua Airlines Co., Ltd	Chairman and President			No
Gu Gang	Hainan Highway Co., Ltd	Director			No
Chen Rijin	Haikou Agriculture & Industry & Trade Luoniushan Co., Ltd	Independent director			Yes
Chen Rijin	Hainan Dadonghai Tourism Centre(Holdings) Co., Ltd	Independent director			Yes
Chen Rijin	Hubei Guangji Pharmaceutical Co., Ltd	Independent director			Yes
Lin Shiluan	Financial and Economic Committee of Standing Committee of Hainan People's Congress	Director			Yes
Zhang Cong	Jilin Province Tourism Group Co., Ltd	Executive Chairman and President			Yes
Gao Jian	Jinhai Heavy Industries Co., Ltd	Director of Human Resource Department			Yes

## 3. Reward 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, Supervisors are decided according to the current and relevant administrative procedures. The rewards of senior executives are determined according to their performance.

## 4. Personal Changes of Directors, Supervisors and Senior Executives

Name	Position	Change	Reason
Xie Shufeng	CFO	Resigned	Personal Change
Li Tie	CFO	Appointed	Working requirement
Mou Weigang	Director	Resigned	Personal change
Gu Gang	Director	Appointed	Working requirement
Xu Xiaojie	Supervisor	Resigned	Working requirement
Xu Huashan	Supervisor	Appointed	Working requirement

## 5. Staff

Staff number	7,959
Retired employees that the Company needs to bear the relevant cost	48

### Distribution of occupation

Occupation	Number of Staff
Pilots	1,262
Flight Attendants	2,174
Maintenance	26
Flight Operations	184
Other	4,313

### Education background

Education background	Number(people)
Master's Degree or above	184
Bachelor's Degree	3,401
Colleague Diploma	2,949
Other	1,425



### 1. Current Structure

In the report period, 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.

- 1.1. Shareholders and Shareholders' Meeting: HNA ensures that all shareholders, especially the retail investor, enjoy the same status and rights equally. The Company's website has been established to keep efficient communications with shareholders and make them were 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 strictly following the procedures of BOD and BOS as stipulated by Listing Regulation of SSE.
- 1.2. 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, BOS and the management organization of the Company are independent.
- 1.3. Directors and the Board of Directors:  
There are 7 directors in the Board of Directors of HNA, including 3 independent 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.
- 1.4. Supervisors and the Board of Supervisors:  
There are 5 members in the Board of Supervisors, including 2 Staff 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.
- 1.5. 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.
- 1.6. 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.
- 1.7. Information Disclosure and Transparency:  
The secretary office is appointed to be in charge of the information disclosure. HNA ensures to release the accurate and complete information which will possibly cause important influences to the Company operation or the share price in time in accordance with Company Law, Rule for stock Listing of SSE and Articles of Association of HNA so that all the shareholders enjoy the equal opportunity to get the information.



## 1.8 Management of investors' relationship

The Secretary of the BoD is the person in charge of the investors' relationship. The Secretary Office of BoD is the functional department of investors' relationship. The BoD annually works out the plan of investors relationship management, establishes and maintains the effective communication with the investors through telephone, fax, email and on-the-spot visit.. The BoD strengthens the cooperation with media, improves the ability of public crisis solving and promotes the management level of investors' relationship.

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.

## 2. Performance of the Directors

### 2.1. Present of the board meeting

Name of the independent director	Independent director (Yes/No)	Times of meeting that the directors shall present in 2010	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	11	11	9	0	0	No
Wang Yingming	No	11	11	9	0	0	No
Yang Jinglin	No	11	11	9	0	0	No
Mou Weigang	No	2	2	2	0	0	No
Gu Gang	No	9	9	7	0	0	No
Chen Rijin	Yes	11	11	9	0	0	No
Wu Banghai	Yes	11	11	9	0	0	No
Lin shiluan	Yes	11	10	9	1	0	No
Times of Board Meetings held in 2010							11
In which: Times of no-site meetings							0
Times of meeting held in the way of communication							9
Times of meeting held on-site and in the way of communication							2

### 2.2 Dissidence of independent directors against any proposal on the board meeting

In 2010, the independent directors raised no dissidence against any proposal on the board meeting or other events of the Company.

### 2.3 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.



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

	Independent and complete (Yes/No)	Description	Influence	Improvement measure
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. 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 transactions are completed 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.		

## 4. 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 consider 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 2010, 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 2010. The assessment shows there is no material defects in designing or implementing internal control from January 1, 2010 to the end of the year.

## 5. 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.

## 6. The Company discloses the Self-assessment Report on Internal Control or Performance Report on Fulfilling the Social Responsibility

Self-assessment Report on Internal Control for 2010 from the BoD:  
 Website: [www.sse.com.cn](http://www.sse.com.cn)

6.1 Disclosure of Self-assessment Report on Internal Control (Yes/No): Yes

Website: [www.sse.com.cn](http://www.sse.com.cn)

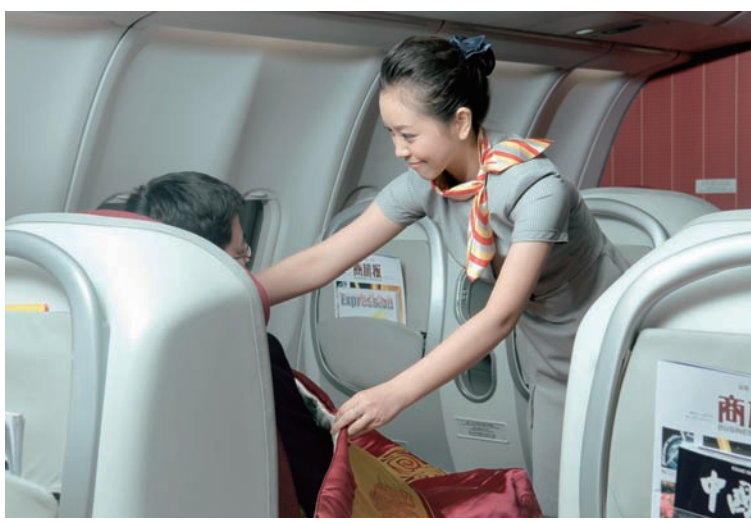
6.2 Disclosure of Comments of Auditors on Internal Control Report of the Company (Yes/No): Yes

Website: [www.sse.com.cn](http://www.sse.com.cn)

### 7. 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 or performance report modification.



### 1. Annual General Meeting of Shareholders

Meeting	Date of Meeting	Newspaper for Information Disclosure	Date of Disclosure
Annual General Meeting of Shareholders 2009	May 7, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	May 8, 2010

### 2. Temporary General Meeting of Shareholders

Meeting	Date of Meeting	Newspaper for Information Disclosure	Date of Disclosure
The first temporary general meeting of shareholders of 2010	April 27, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	April 28, 2010
The second temporary general meeting of shareholders of 2010	September 15, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	September 16, 2010
The third temporary general meeting of shareholders of 2010	November 8, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	November 9, 2010
The fourth temporary general meeting of shareholders of 2010	November 15, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	November 16, 2010
The fifth temporary general meeting of shareholders of 2010	December 21, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 22, 2010
The sixth temporary general meeting of shareholders of 2010	December 27, 2010	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	December 28, 2010



## 1. Discussion and analysis of the managements

In 2010, the board of directors and management level of the Company positively took various effective measures to enhance the adjustment of management structure. It established and integrated enterprise management system, built international human resource management system to introduce and reserve international professionals, created a harmonizing working environment, strived to become best employer. In the respect of major business, it kept enlarge the fleet scale, propelled the aviation base and center construction, and improved the hour resource quality and flight value comprehensively. It also opened dozen international air routes to keep building its global air route network. It further perfectionized the SMS safety system construction and established SEMS aviation security management system

which ensured the steady safe status of the Company. It enhances the work of building the Company image to a level of the international famous brand, and reached important progress. It also joint the work of build the Hainan Island to an International Tourist Destination. Following is the report of the board of directors on the 2010 work:



### 1.1 Review of the business performance during the reporting period

#### 1.1.1 The overall business performance during the reporting period

In 2010, the income of the principal business of the Company accounted for RMB 19,615 million Yuan, increasing by 42.03%, in which the passenger income accounted for RMB 18,355 million Yuan and taking 93.57% of the income principal business, the cargo and overweight luggage income for RMB 826 million Yuan and taking 4.21%, and the chartered flight income for RMB 395 million Yuan and taking 2.02%, the income from flying miles accounted for RMB 39 million Yuan and taking 0.20%. The total net profit belongs to shareholders of the listed enterprise accounted for RMB 3,014 million Yuan.

In 2010, the total passenger volume is 18,630,100 person-times, increased by 6.88%, the cargo and mailing transportation volume is 282,500 tons, increased by 19.72%, and the total transportation volume is 3,526,830,000 ton\*kilometers, increased by 17.77%.

In 2010, the Company introduced 12 aircrafts, including 9 Boeing 737-800, 3 Airbus 330. 6 Aircrafts retired in 2010. Therefore, the net increase of total aircraft quantity is 6. As the end of 2010, the Company operates a fleet of 97 aircraft and could provide 6,171,300 seats. The detail of the fleet is as following:

Aircraft Type	B737-300	B737-400	B737-800	A330-300	A330-200	A340-600	B767-300	Total
Aircraft Quantity	3	9	71	1	7	3	3	97

## 1.1.2 Analysis on the principal business and its operations status

### 1.1.2.1 Status of the principal business classified by the industry or product

Monetary Unit: RMB 1,000 Yuan

Principal Business	Income from Principal Business	Cost on Principal Business	Profit Percentage (%)	Increase/Decrease of the Income from Principal Business(%)	Increase/Decrease of the Cost on Principal Business(%)
Passenger Traffic	18,354,693	13,700,275	25.36	42.86	18.83
Cargo and Excess Baggage	826,273	615,439	25.52	71.31	42.16
Income from Aircraft Charter	395,339	294,463	25.52	-9.32	-24.60
Sales of Flying Miles	38,961	-	-	-11.73	

### 1.1.2.2 Status of principal business classified by enterprise

Monetary Unit: RMB 1,000 Yuan

Region	Income of Principal Business	Increase/Decrease of the Income from Principal Business Compare with Previous Year (%)
Haikou	13,340,675	46.69
Beijing	3,932,939	38.30
Xi' an	1,770,455	25.29
TaiYuan	571,197	24.33

### 1.1.2.3 Brief operating indexes

Index	2010	2009	Increasing Percentage (%)
ASK (Available Seat Kilometers)	3,934,676	3,600,305	9.29
Total Turnover of Transportation (In 10,000 ton*kilometers)	352,683	299,462	17.77
Total Turnover of Passenger Transportation (In 10,000 ton*kilometers)	285,774.03	249,559.38	14.51
Total Turnover of Cargo & Mail Transportation (In 10,000 ton*kilometers)	66,909	49,902	34.08
Total Flying Kilometers (In 10,000 kilometers)	22,437	21,125	6.21
Total Flying Hours (In hour)	348,814	330,089	5.67
Flying Flights (In flight)	144,403	143,847	0.39
Flight Using Rate per Day (In hour)	10.19	10.20	-0.10
Volume of Passenger Transportation (In 10,000 person*times)	1,863	1,743	6.88
Volume of Cargo & Mail Transportation (In 10,000 tons)	28.25	23.60	19.72
Average Seating Rate (%)	81.74	78.02	3.72
Average Loading Rate (%)	71.21	67.14	4.07

### 1.1.3 Significant 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 Change
Fixed assets	-7.16%	The Company transferred of 29 D328 jets and aircraft maintenance equipment
Investment property	4.37%	The Company bought the 4 piece of lands from the Haihang Aviation Holding Company. The fair value of the investment property increases in the report period.
Construction in progress	-3.74%	In the report period, the related balance of advances for aircraft buying, which was originally accounted into construction in progress, was transferred into fixed assets since the purchased aircraft arrived. The cargo aircraft refitted from passenger aircraft was transferred into fixed assets as well.
Other accounts receivable	3.86%	The Company transferred the maintenance-related assets at the year end, which had not been settled.



## 1.1.4 Significant changes in the financial data comparing with that of the previous year

Monetary Unit: RMB 1,000 Yuan

Item	2010	2009	Increase/ Decrease (%)	Causes for Change
Operation income	21,706,147	15,548,363	39.60	The demand of aviation market is strong. Increased passenger transportation volume caused the increase in operation income.
Operation tax and surtax	627,576	495,620	26.62	Increased income in operation caused the increase in tax and expenses
Sales expenses	1,091,760	747,612	46.03	Increase in income and passenger transportation volume caused the increase in marketing expenses.
Profit and loss on fair value change crease	354,823	584,791	-39.32	In the report period, the government supervision measures on property market were enhanced. The in-fair value of the investment properties slow down comparing with that of previous year.
Investment income	25,685	8,892	188.86	Receipt of the dividend from China Hangxin and Merchants Securities in the report period
Non-operation income	896,871	584,039	53.56	Income from fixed assets transfer
Non-operation expenses	47,952	32,950	45.53	Losses on disposal of fixed assets

## 1.1.5 Operation results and performances of the major holding subsidiaries

### 1.1.5.1 China Xinhua Airlines Group Co., Ltd:

The registered capital of the China Xinhua Airlines Group Co., Ltd is of RMB 2.259 billion Yuan. Its business scope is approved air passenger and cargo transportation. In the report period, the income from principal business is of RMB 3,933 million Yuan and net profit RMB 419,569,400 Yuan. The Company holds 67.59% equity interest of it.

### 1.1.5.2 Chang'an Airlines Company Limited:

The registered capital of the Chang'an Airlines Co., Ltd. is of RMB 1,754 million Yuan. Its business scope is air passenger and cargo transportation from Shan'xi Province to certain domestic cities. In the report period, the income from principal business is of RMB 1.77 billion Yuan and net profit RMB 308,607,200 Yuan The Company holds 87.32% equity interests of it.

### 1.1.5.3 Shanxi Airlines Company Limited:

The registered capital of the Shanxi Airlines Co., Ltd. is of RMB 658 million Yuan. Its business scope is approved air passenger and cargo transportation. In the report period, the income from principal business accounted for RMB 571 million Yuan and net profit RMB 55,164,600 Yuan.. The Company holds 100% equity interest of it.

### 1.1.5.4 Beijing Kehang Investment Company Limited

The registered capital of the Beijing Kehang Investment Company Limited is of RMB 150 million Yuan, including 95% equity of the Company. Its business scope includes, project investment and management; real estate development; sales of self-developed properties; property management; hotel management; information consultation; commodity import & export and technology; import & export. Its branches mainly deal with accommodation; commodities; conference services; commercial services, public parking services preparation and sales of western and Chinese foods. In the report period, the income from principal business accounted for RMB 137 million Yuan and net profit RMB 602,500 Yuan..

## 1.2 Prospect of the future development

### 1.2.1 Industry analysis

#### 1.2.1.1 Favorable factors

a. The demand of transportation would keep increasing rapidly. In 2010, the GDP of China increased 10.3%. As the first performing year of the 12th Five Year Plan, the domestic economy would continue a rapid increasing trend in 2011. According to the latest forecast of the IMF, the GDP of China would keep an increase of 9.6% in 2011. Meanwhile, the year of 2011 would be an important year for the economic restructure of China. The income distribution system reform might start. New consuming stimulating policy might be implemented also. The upgrading of consuming structure would keep its developing trend. Under such favorable circumstances, the domestic civil aviation market demand in 2011 would keep an increase rate over 10%. It's expected that the civil passenger transportation volume would reach 300 million person-times in 2011.

b. Construction of Hainan International Tourist Island The construction of Hainan International Tourist Island is becoming the national strategy along with the issuance of the Several Opinion on the Construction and Development of Hainan International Tourist Island of the State Council. In June of 2010, the Development Plan Guideline on Building Hainan Island into an International Destination was approved by the State Development and Reform Commission, which clearly addresses 40 development projects to be operated in Hainan in the near future. In 2010, the important projects of Hainan province started all-over progress. The eastern high speed railroad was completed and opened to traffic. At the beginning of 2011, the departure tax exemption policy started the implementation, which symbolizes that the Hainan Island moved out a key step toward the target of becoming an international shopping center. People of the nation are paying close attention to the policy of departure tax exemption. Currently, the construction of an international tourist destination is experiencing an unprecedented development.

In 2010, the total overnight tourist to Hainan Island accounted for 25,873,400 person\*times, increasing 14.98%, which is 5.78 points higher than that of 2009; total tourist income for RMB 25.763 billion Yuan, increasing 21.68%, 11.58 points higher than that of 2009. The effect of Building Hainan Island into an International Tourist Destination appeared initially.

c. RMB might appreciate for a longer period: In 2010, the central parity of RMB against USD fell to 6.6227 from 6.8281. The appreciation of RMB reached 3% in 2010. Along with the continuous economic growth of China and the further progress of RMB exchange rate reform, the appreciation of RMB against USD is expected to keep a longer term. It's favorable for the aviation transportation enterprises to reduce the buying cost and financial cost, and improve the profit earning status.

d. Airport construction would speed up: In the 11th Five Year Plan period, the total investment amount of national infrastructure investment of civil aviation industry exceeded RMB 1,000 billion Yuan, including newly constructed 33 airports. The total transportation airport number reached 175 by the end of 2010. It's forecasted that the investment of civil aviation of China would exceed RMB 1,500 billion Yuan in the 12th Five Year Plan. By the end of 2015, the transportation airport number would be more than 220.

#### 1.2.1.2 Unfavorable factors

a. The aviation fuel price might continue to shock upstream: In 2010, the whole world are experiencing the inflation, bitter fruit of the popular global loose monetary policy, which becomes a common problem for the world economic entity to face. In 2011, the inflation might become more severe along with the waking of the global economy. Adding the shocking international political status, the price of crude oil and aviation fuels would be a large probability event.

b. Interest rate might keep rising: In order to face the growing inflation, the People's Bank of China had raised the reserve rate for six times from 15.5% to 18.5% during January to December of 2010. It also raised the RMB deposit and lending rates of financial institutes twice in October and December of 2010. By the end of 2010, balance of M2 in the broad measure of money supply was 72,600 billion Yuan, increased 19.7%, lower 8.0 points than that of the previous year. In 2011, the expected increase of M2 in the broad measure of money supply would be 16%.



since the beginning of 2011, the People's Bank of China raised reserve rate twice, each for 0.5%. Relatively, the one-year deposit benchmark interest rate and loan benchmark interest rate raised 3.00% and 6.06% separately. In order to control inflation, it's expected that the People's Bank of China would continue to raise reserve rate and deposit and lending benchmark interest rate in 2011.

c. Construction of high speed railroad would form a preliminary network: In August 1 of 2008, the first international level high speed railroad with independent intellectual property rights, Beijing to Tianjin mutual city high speed railroad, started open. The speed per hour of it reaches 350 kilo/hour, which symbolizes the success of China high speed railroad. Then the Wuguang, Zhengxi, Huning and Huhang high speed railroads started to open closely after that. The running quality created historical record. Currently, the operation kilometers of high speed railroad of china is the longest and largest one in the world. In 2011, the high speed railroad would form a network preliminarily., The operation kilometers would break 13,000 kilometers. The impact on the civil aviation would show more obviously at that time.

## 1.2.2 Development target:

Target indexes in 2011:

Index	Target	Increasing Rate (%)
Total turnover (In 100 million ton*kilometers)	40.10	13.69%
Passenger transportation volume (In 10,000 person*times)	2,000	7.35%
Cargo & mail transportation volume (In 10,000 tons)	32.11	13.66%
Flying hours (In 10,000 hours)	39.12	12.14%
Flying flights (In 10,000 flights)	15.29	5.89%
Safety index	The ten thousand hour rate with trouble symptom discounted with the Company' s responsibility should not exceed 0.1. The accidents should be zero.	
Punctuality index	Top three enterprise of the industry	

2011 Financial Plan:

Monetary Unit: In RMB 100 million Yuan

Income	Expense	Operation Profit Target in New Fiscal Year	Strategy and Action
240	200	40	To pushing the implementation of the internationalization plan of the Company and perfectionize the global strategy of air route distribution; to positively join the construction of Building Hainan Island into an International Tourist Destination; to innovate marketing method and explore operation channels; to further improve the transportation capacity to increase the operation income; to further improve the service quality and operation management; to implement the revenue increasing and expense saving plan

Capital requirement and using plan:

It's estimated that the capital of RMB 28 billion Yuan would be needed to achieve the operation target of 2011 which will be collected through bank loans, short-term financial certificates, etc. To insure the increase in transportation capacity would be the major use of the capital.

## 2. Company's investment

Unit: 10 thousand Yuan

Amount of invested capital in report period	211,306
Amount changes	149,074
Amount in last years	62,232
Rate(%)	239.55

### 2.1 Use of the collected capital

Monetary Unit: RMB 100 million Yuan

Collected Year	Raising Method	Total Amount of Collected Capital	Used Amount of Collected Capital	Accumulated Used Amount of Collected amount	Balance of Collected capital	Uses and Allocation of Collected Capital Balance
2010	non-public-offering	30	30	30	0	

In 2010, through non-public-offering we raised RMB 3 billion Yuan, of which 1.187 billion was used to supplement the flowing capital, and 1.798 billion was used to pay off the loans

### 2.2 Utility of the collected capital

Monetary Unit: In RMB 1,000 Yuan

romised Project	Adjusted Project (Yes or No)	Planned Using Amount	Actual Using Amount	Whether on Schedule (Yes or No)	Schedule of the Project	Estimated Income	Actual Income	Whether According to Estimation	Explanation for not According to the Estimation	Causes for Change and Specifications (to different project)
To repay the bank loan of the ICBC, Yangpu branch of Hainan	No	60,000	60,000	Yes	100%					
To repay the bank loan of the State Development Bank, Hainan Branch	No	68,000	68,000	Yes	100%					
To repay the bank loan of the Pudong Development Bank (Guangzhou Branch), Jincheng sub-branch	No	70,000	70,000	Yes	100%					
To repay the bank loan of the ICBC, Yangpu branch of Hainan	No	450,000	450,000	Yes	100%					
To repay the bank loan of the Imp.& Ex.Bank of China, Shenzhen Branch	No	300,000	300,000	Yes	100%					
To repay the bank loan of the China Minsheng Bank (Head Office)	No	500,000	500,000	Yes	100%					
To repay the bank loan of the State Development Bank, Hainan Branch	Yes	64,000								It had been repaid before the collected capital was collected.
To repay the bank loan of the CBC, Hainan Branch	Yes	125,000								It had been repaid by self-owned capital.
To repay the bank loan of the Bank of China, Hainan Branch	Yes	200,000								It had been repaid by self-owned capital.
To repay the bank loan of the Bank of China, Hainan Branch	Yes	50,000								It had been repaid before the collected capital was collected.
To repay the bank loan of the Bank of China, Hainan Branch	Yes	160,000								It had been repaid before the collected capital was collected
To supplement to the current capital	No	938,518		Yes	100%					
To pay issuance expenses	No	14,482		Yes	100%					
Total	/	3,000,000		/	/		/	/	/	/

## 2.3. Project Adjustment

Monetary Unit: In RMB 1,000 Yuan

Adjusted Projects	Promised Project	Planned Using Amount	Actual Using Amount	Whether on Schedule (Yes or No)	Estimated Income	Actual Income	Schedule of the Project	Whether According to Estimation	Explanation for not According to the Estimation Income or Schedule
To repay the bank loan of the Ping'an Bank, Central Commercial Branch of Shenzhen	To repay the bank loan of the CBC, Hainan Branch	350,000	350,000	Yes			100%		
To supplement to the current capital	To repay the bank loan of the Bank of China, Hainan Branch	249,000	249,000	Yes			100%		
Total	/	599,000	599,000	/		/	/	/	/

On 9 April, 2010, The Report on Change of purpose of capital collected was approved by the 8th Session of the 6th Board Meeting of the Company and the 4th Session of the 6th Board of Supervisors Meeting. The amount of capital concerned is 599,000,000 Yuan. The original purpose of the capital was to repay the 5 loans of CCB Hainan Branch, BOC Hainan Branch and China Development Bank Hainan Branch. After the Change, the purpose of the capital collected is to repay to loan of Ping An Bank Shenzhen Branch 350,000,000 which will be at maturity on 27 July, 2010 and the rest 249,000,000 will add liquidity of the Company. The above mentioned Report was approved by the first temporary general meeting of shareholders of 2010.

## 2.4 Introduction to non-collected capital

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

## 3. 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

The application guide of Enterprise Accounting Principles Statement NO.4 - Rules for subsequent expenses to fixed assets. Subsequent improvement or replacement expenses of fixed assets, which satisfy the recognition requirements for fixed assets in this statement, should be recognizes as the cost of fixed assets, the value of replaced parts should be deducted from the book value of fixed assets; otherwise, such expenses should be recorded in Income Statements. Based on the statements above, in the fiscal year of 2010, aircrafts regarded as fixed assets were classified into aircrafts body, engine body, aircrafts maintenance parts, and engine maintenance parts, as having the different life and methods of usage; depreciation was made correspondingly to these four categories. The expected useful life, expected net salvage value and the depreciation methods of fixed assets are examined and adjusted regularly at the end of each year. In 2010, our company re-estimated the depreciable life for aircrafts and engines, imposing the full depreciation on parts of aircrafts and engines which need periodical replacements during maintenance time (5 to 8 years). Under such change in accounting estimates, the net profits and net assets was reduced by 112,983 thousand RMB in 2010. The application of new method of accounting estimates could reflect the usage of our aircrafts and engines more precisely, and in line with the method implemented in airline industry.

## 4. Routine Work of Board of Directors

### 4.1 Meetings of Board of Directors and Resolution

Meeting	Date of Meeting	Resolution	Newspapers for Information Disclosure	Date of Disclosure
The 8th Session of the 6th Board Meeting of the Company	9 April, 2010	The Report on Change of purpose of capital collected was approved	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 April, 2010
The 9th Session of the 6th Board Meeting of the Company	15 April, 2010	The Work Summary 2009 and Work Plan 2010, Financial Report 2009 and Financial Plan 2010, Working Report of Board of Directors 2009, The annual Report 2009 and Highlights, Profit Distribution Program 2009, 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 Submitting Mutual Guarantee Amount between Hainan Airlines and Related Parties to General Meeting of Shareholders for Approval, Report on Capital Increment of Chang'an Airlines, Report on Introducing Aircrafts in 2010, Report on Replacing Directors, Report on Modifying Articles of Association, Report on Internal Control Self-assessment of BoD in 2009, Independent Director's Work Report for 2009, Additional Regulations of the Capital Settlement Regulations between Hainan Airlines and Related Parties, Investors' Relationship Management Program in 2010 were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010
The 10th Session of the 6th Board Meeting of the Company	28 April, 2010	Q1 Report 2010 of Hainan Airlines Company Limited was approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	29 April, 2010
The 11th Session of the 6th Board Meeting of the Company	25 June, 2010	The Report on replacing the CFO of the Company was approved	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	26 June, 2010
The 12th Session of the 6th Board Meeting of the Company	23 July, 2010	Risk Prevention System of the Funds Stored in HNA Finance Co., Ltd and Disposal Plan of the Funds Stored in HNA Finance Co., Ltd were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	24 July, 2010
The 13th Session of the 6th Board Meeting of the Company	27 August, 2010	The Semi-annual Report 2010 and Summary Report on Counter Guarantee Contract between Hainan Airlines and HNA Finance Co., Ltd, Report on Cooperation Agreement between Hainan Airlines and HNA Ecard holding Co., Ltd and Report on Agreement of Service and Sales between HNA Air Sales Agency Co., Ltd and Hainan Airlines were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28 August, 2010
The 14th Session of the 6th Board Meeting of the Company	10 September, 2010	Special Report on the Storage and Actual Using of Funds Collected was approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 September, 2010
The 15th Session of the 6th Board Meeting of the Company	29 September, 2010	Report on Investment to Yanshan Aero Leasing Industry Foundation was approved	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 September, 2010
The 16th Session of the 6th Board Meeting of the Company	29 October, 2010	Q3 Report 2010 of Hainan Airlines Company Limited, Report on Transferring Air Maintenance Assets of Hainan Airlines and Report on Transferring 29 Do 328 Aircrafts were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 October, 2010
The 17th Session of the 6th Board Meeting of the Company	3 December, 2010	Report on Investment Increment to Hainan Int'l Tourism Island Co., Ltd, Report on Investment Increment to China Xinhua Airlines Co., Ltd, Report on Launching Xi'an Chanba Finance Guarantee Co., Ltd, Report on General Maintenance Agreement between Hainan Airlines and Grand China Air Technic were approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010
The 18th Session of the 6th Board Meeting of the Company	10 December, 2010	Report on assignment of 3 companies such as Hainan Hangpeng Industry Co., Ltd was approved.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 December, 2010

## 4.2 Implementation of resolutions of the General Meeting of Shareholders

During the reporting period, the company has held 7 general meetings of shareholders, namely, the annual general meeting of 2009 and the first to sixth temporary meetings of 2010. The board of directors performed its duties strictly according to the articles of association and relevant laws and regulations, and seriously implemented the decisions issued by the general meeting.

### 4.2.1 Guarantee situation

On April 15th, 2010, the annual general meeting of 2009 of the company reviewed and passed the "Report on Submitting the Mutual Insurance Quota of 2010 of the Company and Concerned Party to the General Party for Approval" and "Report on Submitting the Mutual Insurance Quota of 2010 of the Company and Subsidiary Holding Company to the General Party for Approval".

In the reference period, Hainan Airlines and its affiliated enterprises guarantee a bill of RMB 13.1 billion Yuan for the company and its subordinate enterprises. The company and its subordinate enterprises have a practical guarantee of RMB 1.995 billion Yuan for Hainan Airlines Group and its affiliated enterprises within the sanctified quota of shareholders' meeting.

In the reference period, the Group guarantees for holding companies, namely, China Xinhua Airline Co., Ltd., Chang'an Airline Co., Ltd., Shanxi Airline Co., Ltd., Beijing Kehang Investment Co., Ltd. With the respective bills of RMB 2,707 million Yuan, RMB 1,176 million Yuan, RMB 526 million Yuan and RMB 1,000 million Yuan. The total sum is RMB 5,409 million Yuan which is under the sanctified quota of shareholders' meeting.

### 4.2.2 Non-public offer situation

On June 11, 2009, the 2nd temporary general meeting of shareholders 2009 approved the non-public offering plan of Hainan Airlines. The Company planned to issue totally 595,238,094 A share 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. After non-public offer, the total share numbers of the Company increased to 4,125,490,895 shares.

### 4.2.3 Recent changes of the uses of raised capital

On Apr 27th, 2010, the first temporary shareholders' meeting of 2010 reviewed and approved "Report on The Recent Changes of The Uses of Raised Fund". In 2010, the company has completed the uses of raised fund according to the resolutions of shareholders' meeting.

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

### 4.3.1 Establishment and of the Audit Committee under Board of Directors Improvement of Relevant Working System, 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.

## 4.3.2 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 2010, 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 2011.

## 4.4. 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 2010. 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.

## 4.5. The establishing and improving conditions of management system of external information user.

The company has formulated the "management system of external information user of Hainan Airline Ltd." and tightened up the normative management of persons passing information and external information user in order to prevent information leakage, therefore, to promise the fairness of information disclosure.

## 4.6. The statement of the external controlling responsibility by the board.

The company will strictly adhere to the relevant laws and regulatory requirements of listed company and improve the managing level consistently, ensure the integrity and safety of the capital through establishing the effective inner-controlling system. The company will also guarantee to go with a swing in the day-to-day operations, meanwhile, ensure the reality, preciseness, completion, betimes and fairness of the regular report disclosure and each of the important information. Finally, set up a fine image of the company.

## 4.7 The implement of supervising regulations for insiders

By taking inside examination, does the following behavior exist?

The insiders take advantage of internal information to trade stocks before disclosure of significant information, which has effects on the stock price.

No

## 5. Preplan of Profit allocation or accumulation fund transferring to capital stock

On Mar 14, 2011, on the 21st meeting of the sixth BOD, the members had a discussion and voted for the preplan of profit allocation in 2010. In 2011, we plan to pay all the stockholders 0.5 Yuan RMB of cash dividend (before tax) per 10 shares based on the shares of capital stock in the year end of 2010, 4,125,490,895 shares in total, none of the accumulation fund would be transferred to capital stock.

### 1. Works of Board of Supervisors

Times of meeting	6
Meetings of BoS	Topic
9 April, 2010, The 4th Session of the 6th Board of Supervisors Meeting	The Report on Change of purpose of capital collected
15 April, 2010, The 5th Session of the 6th Board of Supervisors Meeting	Working Report of Board of Supervisors 2009, Report on Supervisors Replacing, Annual Report 2009 and Highlights of Hainan Airlines were approved
28 April, 2010, The 6th Session of the 6th Board of Supervisors Meeting	Q1 2010 Report of Hainan Airlines was approved
27 August, 2010, The 7th Session of the 6th Board of Supervisors Meeting	Semi-annual Report 2010 and Highlights was approved
10 September, 2010, The 8th Session of the 6th Board of Supervisors Meeting	Special Report on the Storage and Actual Using of Funds Collected was approved.
29 October, 2010, The 9th Session of the 6th Board of Supervisors Meeting	Q3 2010 Report of Hainan Airlines was approved

### 2. 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.

### 3. 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.

### 4. 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 discloses the purpose and use of raised funds in a timely manner.

### 5. 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.

### 6. 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.

### 7. Review Situation of Board of Supervisors on Internal Control Self-assessment Work

The BoS carefully reviewed the Internal Control Self-assessment Report and verified it with the Internal Control System of the Company. The BoS thinks the Report is detailed and accurately evaluated the current Internal Control System of the Company.

### 1. Significant Lawsuit or Arbitration

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

### 2. Bankruptcy and Mergers

In the report period, no bankruptcy and mergers occurred.

### 3. Shareholding in other listed companies and equity in other shareholding financial enterprises

Monetary unit: RMB 1,000 Yuan

Stock Code	Stock Abbreviation	Initial Investment	Equity Percentage Holding (%)	Book Value at Period End	Gains/Losses in Report Period	Changes of Owner's Equity in Report Period	Accounting Item	Resource of Share
0696	中国航信	29,860	1.68					
600999	招商证券	595,450	0.9926					

### 4. Asset Transaction

#### 4.1 Assets Buying

Transaction Partner	Assets Bought	Date of Buying	Price of Buying	Net profit contribution from the buying date to the end of the year	Net profit contribution from the beginning of the year to the end of the year (applicable for the amalgamation of the companies under control)	Related transaction or not (if it is, please describe the pricing principle)	Pricing principle of asset buying	Whether the property right of assets has been completely transferred	Whether the creditor's right and liability has been completely diverted	Net profit contributed to the listed company by the assets in the total profit (%)	Relationship
Hainan Air holding Co., Ltd	100% share of Hangpeng Industry Co., Ltd, Guoxu Industry Co., Ltd, Guoshan Industry Co., Ltd	27 December, 2010			2,464,850,000		Evaluation	No			Subcompany Of shareholders



## 4.2 Assets Selling

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
Hainan Air holding Co.,Ltd	Aircrafts	25December, 2010	1,493,312		-15,394	Yes	Evaluation	No	No		Other
Grand China Air Aircrafts Technic Co.,Ltd	Land and material	28 December, 2010	1,272,047		461,033	Yes	Evaluation	No	No	15.30	Other
Hong Kong Airlines	Aircrafts	30 May, 2010	290,965		23,563	Yes	Evaluation	Yes	Yes	0.78	Other
Hainan Air sale Co.,Ltd	Office equipment	17 November,2010	8,020			Yes	Net book value	Yes	Yes		Other
HNA Safe car leasing Co.,Ltd	Car	31 December,2008	1,417			Yes	Negotiated price	Yes	Yes		Other

## 5 Major Connected Transaction

### 5.1 Connected Transaction Related to Daily Operation

Related party	Relationship	Type of related transaction	Content of related transaction	Pricing principle of related transaction	Transaction Price	Transaction Amount	Proportion in the same type transaction amount(%)	Liquidation method of related transactions	Market Price	Reasons for the Difference between Market Price and Transaction Price
HNA Drinking Co.,Ltd	Other	Purchase of merchandises	Procurement of air catering food	Negotiated price		17,803	4.00	Banking transfer		
Hainan Airline Catering	Other	Purchase	Procurement	Negotiated price		38,081	9.00	Banking transfer		
Xinhua Catering	Other	Purchase	Procurement	Negotiated price		88,840	21.00	Banking transfer		
Gansu Airport Group Co.,Ltd	Other	Receiving labor service	Payment for the set-off and landing fee	Government guiding price		25,522	1.00	Banking transfer		
Hainan Haihang Import & Export Co.,Ltd	Transaction Company	Receiving labor service	Agent fees of import and export	The procurement cost is priced according to the ratio(0.3%~3%)		22,379	100.00	Banking transfer		
Haihang Sales Co., Ltd	Other	Receiving labor service	Agent fees of tickets selling	Negotiated price		64,829	10.00	Banking transfer		
Haikou Meilan Airport Co.Ltd	Other	Receiving labor service	Payment for the set-off and landing fee	Government guiding price		31,199	1.00	Banking transfer		
Meilan Co.,Ltd	Other	Receiving labor service	Payment for the set-off and landing fee and leasing fees	Government guiding price		100,227	5.00	Banking transfer		
Sanya Phoenix International Airport Co.,Ltd	Other	Receiving labor service	Payment for the set-off and landing fee	Government guiding price		43,500	2.00	Banking transfer		
Yangtze River Leasing Co.,Ltd	Other	Receiving labor service	Rent of the Aircrafts engine	Negotiated price		13,345	2.00	Banking transfer		
Haihang Financing Co.,Ltd	Other	Receiving labor service	Interests income and payments	Negotiated price		78,914	49.00	Banking transfer		
Tianjin Airlines	Other	Receiving labor service	Leasing, transfer of pilots, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price		718,655	32.86	Banking transfer		

Related party	Relationship	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
West Air	Other	Receiving labor service	Leasing, transfer of pilots, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	227,682	10.41	Banking transfer
Beijing Capital Airlines	Other	Receiving labor service	Leasing, transfer of pilots, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	697,316	31.89	Banking transfer
Yunnan Lucky Air	Wholly-owned subsidiary of the parent company	Receiving labor service	Leasing, transfer of pilots, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	292,883	13.39	Banking transfer
Grand China Air	Parent company	Receiving labor service	Leasing, transfer of pilots, air ticket agent fees, maintenance service, reimbursed expenses	Negotiated price	160,985	7.36	Banking transfer
Yangtze River Express Aviation Co.,Ltd	Other	Receiving labor service	Income from transfer and leasing of pilot, maintenance service, reimbursed expenses	Negotiated price	89,180	4.08	Banking transfer
Beijing Huoli Huanxiang Commercial Co.,Ltd	Other	Receiving labor service	Advertising revenue	Negotiated price	25,000	67.00	Banking transfer
HNA Group	Parent company	Receiving labor service	Rental fees revenue	Negotiated price	6,663	0.39	Banking transfer
HNA Hotel Holding	Other	Receiving labor service	Rental fees revenue	Negotiated price	84,502	4.90	Banking transfer
Haihang Travel Holding	Other	Receiving labor service	Rental fees revenue	Negotiated price	7,627	0.44	Banking transfer
Haihang Property Holding	Other	Receiving labor service	Rental fees revenue	Negotiated price	7,421	0.43	Banking transfer
E-card Holding	Other	Receiving labor service	Agent fees of ticket sales, Gold Deer Card revenue, Rental fees revenue	Negotiated price	59,062	6.50	Banking transfer
Grand China Air Technic Co.,Ltd	Other	Receiving labor service	Fees of maintenance service	Negotiated price	309,396	100.00	Banking transfer
Beijing Haihang Property	Other	Receiving labor service	Share of interest payment	Negotiated price	2,739	0.10	Banking transfer
Total					3,213,750		

## 5.2 Connected Transaction Related to Assets Acquisition and Sale

Monetary Unit: RMB 100 Million 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
Haihang Sales Co., Ltd	Other	Sale of assets except merchandises	Transfer of office equipments	Negotiated price	8,020	8,020	8,020		Banking Transfer	0
Grand China Air Technic Co.,Ltd	Other	Sale of assets except merchandises	Maintenance equipments	Evaluation price	811,014	1,272,047	1,272,047	Appreciation from market evaluation	Banking Transfer	461,033
Hainan Air holding Co.,Ltd	Other	Sale of assets except merchandises	Transfer of aircraft	Evaluation price	1,508,706	1,493,312	1,493,312	Appreciation from market evaluation	Banking Transfer	-15,394
Hong Kong Airlines	Other	Sale of assets except merchandises	Transfer of aircraft	Evaluation price	267,402	290,965	290,965	Appreciation from market evaluation	Banking Transfer	23,563
HNA Safe car leasing Co.,Ltd	Other	Sale of assets except merchandises	Transfer of Automobile	Negotiated price	1,417	1,417	1,417		Banking Transfer	0

## 5.3 Connected Transaction Related to Co-investment

Co-investment partner	Relationship	Invested Company	Principal Businesses of Investee Company	Registered Capital of Invested Company	Assets of Invested Company	Net profit of Invested Company	Important Project of Invested Company
HNA Group, HNA Industry	Other	Hainan International Tourism Island Co., Ltd	Investment and management of Hotel and Golf course, Investment and equity operation of energy, transportation, new technique, new material, Tourism, agricultural development; Investment advice		30		
HNA Group	Other	Xi'an Chanba Finance Guarantee Co., Ltd,	Loan guarantee、guarantee of bill acceptance、guarantee of letter of credit, trade financing guarantee、Project finance guarantee, other finance guarantee; litigation security guarantee、bid guarantee、advance payment guarantee、project contract performance guarantee、final payment guarantee, etc; financing consultation in related to guarantee; investment with own funds; Bond issuance guarantee, .re-guarantee; other related business		10		

## 5.4 Accounts Receivable and Payable with Related Parties

Monetary Unit: RMB 10,000 Yuan

Related Party	Capital Provided to the Related Party		Capital Provided to the Listing Company by the Related Party	
	Amount Incurred	Balance	Amount Incurred	Balance
Hainan Haihang Import & Export Co., Ltd	-133.10	13,312.70		
Changjiang Leasing Co., Ltd			-1,326.90	2,018.30
Hainan Meilan International Airport Co., Ltd			-4,225.30	9,790.60
Hongkong Airlines Co., Ltd			-3.50	
Beijing Capital Airlines Company Limited	5,472.10	5,472.10	-5,167.40	
Tianjin Airlines Co., Ltd	2,013.30	2,013.30	-2,977.30	
			-473.50	1,426.80
Grand China Air Co., Ltd			-5,892.70	2,831.90
Yunnan Xiangpeng Airlines Co., Ltd	880.10	880.10	-3,338.70	
HNA Group Finance Co., Ltd	2,191.70	3,108.80	10.60	10.60
HNA Hotel Holding Group Co., Ltd			164.30	714.30
Yangtze River Property Group Co., Ltd.			4,800.00	4,800.00
Beijing Xinhua Air Catering Company Ltd.	-210.80		761.50	861.30
Western Airlines Co., Ltd	1,269.60	1,269.60	-370.70	
Western HNA Property Group Company Ltd.			-1,541.50	
HNA Henghe Property Management Co., Ltd	-249.20			
HNA Sifu Car Leasing Co., Ltd	-155.20	93.00		
Hainan Haihang Aviation Information System Co., Ltd	-207.00			
HNA Group (Hongkong) Co., Ltd			-3,569.40	485.30
Haikou Meilan International Airport Co., Ltd			-1,060.90	1,209.40
Gansu Airport Group Company Ltd.			-1,923.20	
HNA Property Holding Group Company Limited			-13,500.00	
HNA Hotel Co., Ltd			209.60	538.70
Haihang Yisheng Holding Co., Ltd.	9,580.40	9,580.40		
Haihang Aviation Holding (Group) Company Limited	149,690.40	149,690.40		
Grand China Aviation Technology Co., Ltd.	125,622.80	125,622.80		
Haihang Airport Holding Group Company Ltd.			1,095.50	1,095.50
Hainan Haihang Aviation Sales Company Ltd.			2,881.40	2,881.40
Shaanxi Tanxiang Garden Property Co., Ltd.			1,124.90	1,124.90
Yangtze River Insurance Agency Co., Ltd.			675.30	933.10
Beijing Hengshi Property Development Company Ltd.			680.00	680.00
Beijing Tianchen Exhibition Engineering Company			365.70	365.70
Others	2,040.90	3,061.20	-20,536.80	5,086.50
Total	297,806.00	314,104.40	-53,139.00	36,854.30

Incl. : The capital amount provided to its controlling shareholders and subsidiaries by the Company accounts for RMB 2,978,060,000.00 Yuan in the report period, the balance for RMB 3,141,044,000.00 Yuan.

## 6. Major Contracts and Performance

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

### 6.1.1 Trusteeship Situation

The Company had no trusteeship matter in 2010.

### 6.1.2 Contract-in Situation

The Company has no contract-in matter in 2010.

### 6.1.3 Leasing Situation

Monetary Unit: RMB 1,000 Yuan

Lessor	Lessee	Assets	Amount	Starting	Expiration	Leasing	Basis of	Influence	Related	Relationship
		Leasing		Date of	Date of	Profits	Determining	of Leasing	transaction	
				Leasing	Leasing		Leasing Profits	Profits on the	or not	
								Company		
Total of the Group	Tianjin Airlines	Aircraft leasing		1 April, 2007	Automatically renew	625,171	Negotiated price	36.27%	Yes	Other
Total of the Group	Yunnan Lucky Air	Aircraft leasing		22,February, 2006	30 June, 2012	151,602	Negotiated price	8.79%	Yes	Wholly-owned subsidiary of the parent company
Total of the Group	Grand China Air	Aircraft leasing		November, 2007	Automatically renew	122,526	Negotiated price	7.11%	Yes	parent company
Total of the Group	West Air	Aircraft leasing		June, 2007	Automatically renew	148,386	Negotiated price	8.61%	Yes	Other
Total of the Group	Beijing Capital Airlines	Aircraft leasing		December, 2008	Automatically renew	524,896	Negotiated price	30.45%	Yes	Other
Total of the Group	Yangtze River Express	Aircraft leasing		2010 年 4 月 16 日	Automatically renew	40,067	Negotiated price	2.32%	Yes	Other
The Company	HNA Property Holding	Real estate leasing		1 January, 2009	15 October, 2011	7,421	Negotiated price	0.43%	Yes	Other
The Company	HNA Tourism Holding	Real estate leasing		16 April, 2009	15 October, 2011	7,627	Negotiated price	0.44%	Yes	Other
The Company	E-card Holding	Real estate leasing		1 December, 2009	30 November, 2014	4,910	Negotiated price	0.28%	Yes	Other
Beijing Kehang	HNA Hotel Holding	Real estate leasing		30 April, 2009	31 March, 2012	84,502	Negotiated price	4.90%	Yes	Other
Beijing Kehang	HNA Group	Real estate leasing		30 April, 2009	30 September, 2011	6,663	Negotiated price	0.39%	Yes	parent company
Total						1,723,771				

## 6.2 Guarantee Situation

Monetary Unit: RMB 1,000 Yuan

Outside Guarantee of the Company(Guarantee for the Controlled Subsidiaries Not Included)

Guarantor	Relationship between Guarantor and Listing Company	Guarantee	Guaranteed Amount	Guarantee Date(sign ature 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 Guarantee (Yes or No)	Relationship
Hainan Airlines	Company Headquarters	HNA Tourism	360,000		12 July, 2009	11 July, 2011		No	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	Yangtze River Express	100,000		4 December, 2009	3 December, 2010		No	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	HNA Group	794,790		31 December, 2009	30 December, 2014		No	No		Yes	Yes	Parent Company
Hainan Airlines	Company Headquarters	HNA Group	111,700		6 June, 2010	6 June, 2011		No	No		Yes	Yes	Parent Company
Hainan Airlines	Company Headquarters	Yangtze River Leasing	553,658		1 February, 2010	31 December, 2018		No	No		Yes	Yes	Other
Hainan Airlines	Company Headquarters	Yangtze River Leasing	33,000		1 February, 2007	31 December, 2018		No	No		Yes	Yes	Other
Total Guarantee in the Report Period													1,953,148
Balance of Guarantee at the End of Report Period													1,953,148
Guarantee for Subsidiaries													
Balance of Guarantee for Subsidiaries at the End of Report Period													5,409,302
Balance of Guarantee for Subsidiaries at the End of Report Period													5,409,302
Total Guarantee in the Report Period (Guarantee for the Subsidiaries Included)													
Total Amount of Guarantee													7,362,450
Percentage of the Total Guarantee to the Net Assets of the Company (%)													54.04

## 6.3 Entrusted Financing

There was no entrusted financing in 2010.

## 6.4 Other important contract

There was no other important contract in 2010.

## 7. Execution of Commitment

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

Commitment	Content	Performance
Commitment to middle-small shareholders of the Company	In December of 2008, the Company accepted the 65% and 30% equity right of the Beijing Kehang Company Limited at the price of RMB 1,728,347,920 Yuan, which was held by the Yangtze River Property Group Company Limited and the HNA Hotel Holding Group Company Limited respectively. In April of 2009, the controlling shareholder of the transferors, HNA Group Company Limited promises that it would complement the profit difference in cash if the Beijing Kehang fails to realize the forecasted net profit of RMB 81.69 million Yuan, RMB 94.52 million Yuan and 116.30 million Yuan in 2009, 2010 and 2011 respectively.	The Beijing Kehang Company Limited realized net profit of RMB -35.03 million Yuan in 2009. The difference between the promise by the HNA Group accounted for RMB 116.72 million Yuan. The related difference had been recovered by the Company in the first half of 2010. The net profit of the Beijing Kehang Company Limited in 2010 accounted for RMB 602,500 Yuan. The difference between the promise by the HNA Group accounted for RMB 93.92 million Yuan. The Company plans to take back in the first half of 2011.

## 8. Appointment and Disappointment of Certified Public Accountants

Whether to change Certified Public Accountants	No
Name of domestic Certified Public Accountants	Existing Certified Public Accountants PricewaterhouseCoopers Co.,Ltd
Remuneration	4.6 million Yuan
Auditing time restriction	4 years

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

In 2010, the Company and its Directors, Supervisors, Senior Management, Shareholders and Actual Controller were not checked, punished, criticized by CSRC and publicly condemned by stock exchanges.

## 10. Is the Company on the List of Serious Polluters made by the Environment Protection Department?

No.

## 11. Instructions of Other Significant Events

There are no other significant events in 2010.

## 12. Index of Information Disclosure

Matter	Name and Edition of Newspapers	Date	Website and Retrieve Path
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	6 January, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Capital Increase of controlling shareholder	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	13 January, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Pre-announcement of Gains in 2009 of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	29 January, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Agreement of Account of Funds Collected Supervised by Third Party	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	25 February, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Report of Hainan Airlines on Issue of Non-republic Share	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	25 February, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Report of Hainan Airlines on the Results of Issue of Non-republic Share and Change of Shareholding.	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	25 February, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Short-form Change of Interest	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	25 February, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 8th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	9 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement on Change of purpose of capital collected	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	9 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on the 4th Session of the 6th Board of Supervisors	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	9 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	9 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 9th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Daily Operation Related Transactions A	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Mutual Guarantee Announcement between Hainan Airlines and Controlling Subsidiaries	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Mutual Guarantee Announcement between Hainan Airlines and Related party	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Increasing Capital to Controlling Subsidiary	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on the 5th Session of the 6th Board of Supervisors	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Modifying Annual Report	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	20 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
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	28 April, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on Annual General Meeting of Shareholders 2009	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	8 May, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>



Matter	Name and Edition of Newspapers	Date	Website and Retrieve Path
Announcement of Hainan Airlines on Abnormal Volatility of Share	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	13 May, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 11th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	26 June, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Modifying Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	26 June, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 12th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	24 July, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Pre-announcement of Gains of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	24 July, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 13th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28August, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Counter Guarantee Contract between Hainan Airlines and HNA Finance Co., Ltd	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28August, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Related Transactions A	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28August, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Related Transactions B	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28August, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28August, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Shareholding Reduction	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	1 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 14th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on the 8th Session of the 6th Board of Supervisors	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 2nd Temporary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Renamed Announcement of Controlling Subsidiary of Hainan Airlines	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 15th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Outbound Investment and Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 September, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Canceling Shareholding hypothecation	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 October, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	23 October, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 16th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 October, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Related Transactions A	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 October, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Related Transactions B	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 October, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>

Matter	Name and Edition of Newspapers	Date	Website and Retrieve Path
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	30 October, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 3rd Temporary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	9 November, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 4th Temporary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	16 November, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 17th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Outbound Investment and Related Transactions A	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Outbound Investment and Related Transactions B	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Outbound Investment and Related Transactions C	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	4 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 18th Session of the 6th Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of Hainan Airlines on Related Transactions	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Hainan Airlines on Holding General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	11 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 5th Temporary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	22 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Supplementary Announcement of Hainan Airlines on Assignment of 3 Companies such as Hainan Hangpeng Industry Co., Ltd	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	25 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Resolution Announcement of Hainan Airlines on the 6th Temporary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times and Hong Kong Wen Wei Po	28 December, 2010	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>

## Report of the Auditors

PwC ZT Shen Zi (2011) No. 10029

To the Board of Directors of Hainan Airlines Co., Ltd.:

We have audited the accompanying financial statements of Hainan Airlines Co., Ltd. ("the Company") which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in owners' equity for the year then ended and notes to these financial statements.

### I. Management's Responsibility for the Financial Statements

The 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 Standards on Auditing. 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 financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as of 31 December 2010, 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, the People's Republic of China  
14 March 2011

HAINAN AIRLINES CO., LTD.

## CONSOLIDATED AND COMPANY'S BALANCE SHEETS AS AT 31 DECEMBER 2010

(All amounts in Rmb thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

ASSETS	Notes	31 December 2010 Consolidated	December 2009 Consolidated	31 December 2010 Company	31 December 2009 Company
Current assets					
Cash at bank and on hand	5(1)	16,679,729	12,765,534	10,326,757	9,296,236
Accounts receivable	5(3), 17(1)	557,616	317,608	388,749	507,064
Advances to suppliers	5(5)	427,562	662,726	377,243	637,708
Interest receivable	5(2)	39,357	12,479	48	748
Other receivables	5(4), 17(2)	2,892,573	108,590	2,601,051	30,870
Inventories	5(6)	47,628	256,652	43,607	254,088
Total current assets		20,644,465	14,123,589	13,737,455	10,726,714
Non-current assets					
Available-for-sale financial assets	5(7)	579,690	647,048	579,565	647,048
Long-term equity investments	5(8), 17(3)	2,113,058	622,317	11,157,085	4,418,422
Investment properties	5(9)	9,873,489	5,541,735	2,145,069	2,077,757
Fixed assets	5(10)	29,984,965	29,120,201	24,172,043	22,957,822
Construction in progress	5(11)	5,521,500	6,856,305	4,613,398	5,422,545
Intangible assets	5(12)	199,911	210,899	94,727	102,570
Goodwill	5(13)	328,865	328,865	-	-
Long-term prepaid expenses	5(14)	303,821	222,561	274,398	192,818
Other non-current assets	5(15)	2,003,031	1,669,905	1,630,434	1,258,586
Total non-current assets		50,908,330	45,219,836	44,666,719	37,077,568
TOTAL ASSETS		71,552,795	59,343,425	58,404,174	47,804,282

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S  
BALANCE SHEETS AS AT 31 DECEMBER 2010 (CONTINUED)**

(All amounts in Rmb thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

LIABILITIES AND OWNERS' EQUITY	Notes	31 December 2010 Consolidated	31 December 2009 Consolidated	31 December 2010 Company	31 December 2009 Company
Current liabilities					
Short-term borrowings	5(18)	17,704,048	16,165,526	11,849,417	11,356,882
Financial liabilities held for trading	5(19)	176	7,016	176	7,016
Notes payable	5(20)	3,216,726	1,180,116	2,881,178	1,114,276
Accounts payable	5(21)	3,147,968	3,380,667	6,388,407	5,567,443
Advances from customers	5(22)	823,093	718,095	22,060	22,060
Employee benefits payable	5(23)	153,778	215,349	94,364	131,808
Taxes payable	5(24)	621,523	262,284	509,683	202,437
Interest payable		106,317	99,097	90,053	91,186
Dividends payable	5(25)	19,078	19,078	19,078	19,078
Other payables	5(26)	1,280,843	1,477,068	548,389	475,077
Current portion of non-current liabilities	5(27)	4,420,703	3,908,759	3,278,448	3,145,628
Total current liabilities		31,494,253	27,433,055	25,681,253	22,132,891
Non-current liabilities					
Long-term borrowings	5(28)	23,223,093	22,385,449	18,131,389	16,820,955
Long-term payables	5(29)	1,685,270	1,501,581	1,611,123	1,297,878
Payables for specific projects		-	20,000	-	-
Deferred tax liabilities	5(16)	1,354,102	520,918	107,483	97,976
Other non-current liabilities	5(30)	356,728	296,742	201,289	151,414
Total non-current liabilities		26,619,193	24,724,690	20,051,284	18,368,223
Total liabilities		58,113,446	52,157,745	45,732,537	40,501,114
Owners' equity					
Paid-in capital	5(31)	4,125,491	3,530,253	4,125,491	3,530,253
Capital surplus	5(32)	6,231,028	3,923,522	6,228,846	3,893,313
Surplus reserve	5(33)	383,918	169,098	383,918	169,098
Undistributed profits	5(34)	1,725,046	(1,074,046)	1,933,382	(289,496)
Total equity attributable to the equity holders of the Company		12,465,483	6,548,827	12,671,637	7,303,168
Minority interest	5(35)	973,866	636,853	-	-
Total owners' equity		13,439,349	7,185,680	12,671,637	7,303,168
TOTAL LIABILITIES AND OWNER'S EQUITY		71,552,795	59,343,425	58,404,174	47,804,282

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

Legal representative: Wang Yingming

Person in charge of accounting function: Wang Hao

Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S  
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in Rmb thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

Item	Notes	2010 Consolidated	2009 Consolidated	2010 Company	2009 Company
Revenue	5(36), 17(4)	21,706,147	15,548,363	14,761,631	10,283,734
Less: Cost of sales	5(36), 17(4)	(15,492,922)	(13,256,194)	(10,342,630)	(8,830,283)
Taxes and surcharges	5(37)	(627,576)	(495,620)	(403,195)	(315,314)
Selling and distribution expenses	5(38)	(1,091,760)	(747,612)	(758,399)	(472,339)
General and administrative expenses	5(39)	(483,736)	(411,028)	(320,805)	(253,229)
Financial expenses ■ net	5(40)	(1,588,286)	(1,312,615)	(1,125,206)	(921,613)
Asset impairment losses	5(43)	-	15,483	-	15,492
Add: Profit arising from changes in fair value	5(41)	354,823	584,791	95,819	293,565
Investment income	5(42), 17(5)	25,685	8,892	23,956	2,575
Including: Share of profit of associates and joint ventures		(6,469)	(1,183)	(944)	358
Operating profit/ (losses)		2,802,375	(65,540)	1,931,171	(197,412)
Add: Non-operating income	5(44)	896,871	584,039	819,770	440,611
Less: Non-operating expenses	5(45)	(47,952)	(32,950)	(1,368)	(30,038)
Including: losses on disposal of non-current assets		(43,330)	(30,361)	713	(29,753)
Total profit		3,651,294	485,549	2,749,573	213,161
Less: Income tax expenses	5(46)	(430,396)	(129,589)	(311,875)	(65,908)
Net profit		3,220,898	355,960	2,437,698	147,253
Including: Attributable to share holders of the Company		3,013,912	334,670	2,437,698	147,253
Minority interest		206,986	21,290	-	-
Earnings per share					
Basic earnings/(losses) per share	5(47)	0.74	0.09	N/A	N/A
Diluted earnings/(losses) per share	5(47)	0.74	0.09	N/A	N/A
Other comprehensive incomes/(losses)	5(48)	(54,746)	87,348	(54,746)	42,427
Total comprehensive incomes		3,166,152	443,308	2,382,952	189,680
Attributable to share holders of the Company		2,959,166	404,050	2,382,952	189,680
Minority interest		206,986	39,258	-	-

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

Legal representative: Wang Yingming    Person in charge of accounting function: Wang Hao    Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.

# **CONSOLIDATED AND COMPANY' S CASHFLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

(All amounts in Rmb thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

Items	Notes	2010 Consolidated	2009 Consolidated	2010 Company	2009 Company
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		24,111,595	15,347,151	14,735,425	10,289,543
Refund of taxes and surcharges	5(49)(a)	2,112,258	1,580,185	2,381,940	899,287
Sub-total of cash inflows		26,223,853	16,927,336	17,117,365	11,188,830
Cash paid for goods and services		(14,320,651)	(11,689,768)	(5,353,832)	(6,827,233)
Cash paid to and on behalf of employees		(1,129,248)	(1,351,206)	(767,572)	(691,276)
Payments of taxes and surcharges		(745,685)	(540,721)	(450,025)	(358,371)
Cash paid relating to other operating activities	5(49)(b)	(3,552,026)	(1,397,176)	(2,658,466)	(920,112)
Sub-total of cash outflows		(19,747,610)	(14,978,871)	(9,229,895)	(8,796,992)
Net cash flows from operating activities		6,476,243	1,948,465	7,887,470	2,391,838
Cash flows from investing activities					
Cash received from disposal of investments		2,843	1,541,159	-	1,492,848
Cash received from returns on investments		32,103	15,471	24,900	10,840
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		508,980	357,893	504,717	306,196
Net cash received from merge of subsidiary		-	83,350	-	-
Cash received relating to other investing activities	5(49)(c)	1,047,923	302,257	7,540	165,233
Sub-total of cash inflows		1,591,849	2,300,130	537,157	1,975,117
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(4,665,275)	(6,341,815)	(3,467,039)	(5,208,569)
Cash paid to acquire investments		(1,500,000)	(650)	(1,500,000)	(650)
Cash paid to acquire subsidiaries and other business units		(2,636,805)	-	(5,171,745)	-
Cash paid relating to other investing activities	5(49)(d)	(2,148,553)	(991,524)	(105,096)	(106,220)
Sub-total of cash outflows		(10,950,633)	(7,333,989)	(10,243,880)	(5,315,439)
Net cash flows from investing activities		(9,358,784)	(5,033,859)	(9,706,723)	(3,340,322)
Cash flows from financing activities					
Cash received from capital contributions		3,115,517	-	2,985,517	-
Cash received from borrowings		24,317,850	28,131,857	17,868,048	20,547,965
Cash received relating to other financing activities	5(49)(e)	3,127,952			
Sub-total of cash inflows		30,561,319	28,131,857	20,853,565	20,547,965
Cash repayment of borrowings		(21,112,321)	(16,880,923)	(15,655,496)	(11,395,801)
Cash repayments of finance lease		(513,990)	(592,511)	(310,085)	(291,006)
Cash payments for interest expenses and distribution of dividends		(2,134,971)	(1,996,007)	(1,767,755)	(1,470,168)
Cash payments relating to other financing activities	5(49)(f)	(1,553,030)	(1,231,022)	(73,878)	(1,231,022)
Sub-total of cash outflows		(25,314,312)	(20,700,463)	(17,807,214)	(14,387,997)
Net cash flows from financing activities		5,247,007	7,431,394	3,046,351	6,159,968
Effect of foreign exchange rate changes on cash and cash equivalents		919	(581)	(20,321)	(863)
Net increase in cash and cash equivalents	5(50)(a)	2,365,385	4,345,419	1,206,777	5,210,621
Add: Cash and cash equivalents at beginning of year	5(50)(a)	10,348,355	6,002,936	7,710,809	2,500,188
Cash and cash equivalent at end of year	5(50)(c)	12,713,740	10,348,355	8,917,586	7,710,809

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

Legal representative: Wang Yingming

Person in charge of accounting function: Wang Hao

Person in charge of accounting department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in Rmb thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

Item	Notes	Attributable to equity holders of the Company					Total owners' equity
		Paid-in capital	Capital surplus	Surplus reserves	Undistributed profits	Minority interest	
Balance at 31 December 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		-	-	-	-	73,656	73,656
Balance at 31 December 2009		3,530,253	3,923,522	169,098	(1,074,046)	636,853	7,185,680
Balance at 31 December 2010		3,530,253	3,923,522	169,098	(1,074,046)	636,853	7,185,680
Movement for the year ended 31 December 2010							
Net profit		-	-	-	3,013,912	206,986	3,220,898
Other comprehensive income	5(48)	-	(54,746)	-	-	-	(54,746)
Capital contribution by stockholders	1, 17(3)(a)	595,238	2,390,279	-	-	130,000	3,115,517
Appropriation to surplus reserves		-	-	214,820	(214,820)	-	-
Other		-	(28,027)	-	-	27	(28,000)
Balance at 31 December 2010		4,125,491	6,231,028	383,918	1,725,046	973,866	13,439,349

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

Legal representative: Wang Yingming      Person in charge of accounting function: Wang Hao      Person in charge of accounting department: Xu Zhoujin



HAINAN AIRLINES CO., LTD.

## COMPANY'S STATEMENTS OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in Rmb thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

Item	Notes	Paid-in capital	Capital surplus	Surplus reserves	Undistributed profits	Total owners' equity
Balance at 31 December 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 at 31 December 2009		3,530,253	3,893,313	169,098	(289,496)	7,303,168
Balance at 31 December 2010		3,530,253	3,893,313	169,098	(289,496)	7,303,168
Movement for the year ended 31 December 2010						
Capital contribution by stockholders	1	595,238	2,390,279	-	-	2,985,517
Net profit		-	-	-	2,437,698	2,437,698
Appropriation to surplus reserves		-	-	214,820	(214,820)	-
Other comprehensive income	5(48)	-	(54,746)	-	-	(54,746)
Balance at 31 December 2010		4,125,491	6,228,846	383,918	1,933,382	12,671,637

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

Legal representative: Wang Yingming

Person in charge of accounting function: Wang Hao

Person in charge of accounting department: Xu Zhoujin

## 1 GENERAL INFORMATION OF THE COMPANY

Hainan Airlines Co., Ltd. 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 Paid-in capital was RMB 250,100 thousand 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 increased to RMB 300,120,000.

On 2 November 1995, the Company issued 100,040,001 shares to American Aviation LDC at a price of USD 0.25 per share with a par value of RMB1.00 each. The company was changed into a Sino-foreign joint stock company limited after the issuance of shares. Among the total raised fund USD 25,000,000 (equivalent to RMB 207,905,000), RMB 100,040,001 was recognized as paid-in 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 paid-in capital stated above. Also its name has been changed to Hainan Airlines Co., Ltd. and the registered capital was RMB 400,160,001.

On 26 June 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 paid-in 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 11 October 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 paid-in 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 were listed at Shanghai Stock Exchange in 1997 and 1999 respectively.

In accordance with the profit appropriation resolution for year 1999 approved by the general meeting of shareholders on 18 May 2000, the Company distributed stock dividend at 0.8 shares per ten shares (on the basis of total number of shares 676,160,001) 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 paid-in capital of the Company increased to 730,252,801 Yuan thereafter.

The Company completed the directional issue proceeding at 2 Yuan per share on 29 June 2006, and raised 5,600,000,000 Yuan 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 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 29 June 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 14 December 2006. Proceeds from capital injection, the Grand China Air held 51.68% shares of the Company.

After completion of share restructuring scheme on 29 September 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 31 December 2009, totally 2,122,703,916 restricted shares held by non-state-owned legal persons can be traded in the market.

On 5 January 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 12 February 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. All the equity transfer registration about directional issuing of additional shares was complete by 12 February 2010. After the completion of increasing capital, Dah Sing airline held 41.60% of equity, Hainan Development Holdings held 7.21% of equity, Hainan Airlines Group Co., Ltd. held 7.21% of equity. After the completion of directional issuing of additional shares, the number of shares of restricted circulation was changed to 595,573,694, the number of shares without circulation restriction was changed to 3,529,917,201 shares (of which 3,345,194,000 shares are A shares, 184,723,201 shares are B shares).

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 actual business operations in 2010 are the same as above.

The financial statements were authorized for issue by the Board of Directors on 14 March 2011.

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) Basis of preparations

These financial statements was prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereinafter 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 31 December 2010, the current liabilities of the Group exceed about 10.9 billion yuan over current assets. In preparing the financial statements, the Board has adequate assessment to the going concern ability of the Group in the context of the Group's current working capital deficit.

The Company's management has already taken positive actions in response to the net working capital deficiency, and continually seeks to improve the financing channels of the Group's liquidity position. Up to 31 December 2010, the unused credit line of the Group from the major banks and financial institutions is about 17.1 billion Yuan. Based on past experience, the management believes that the credit period may be extended to later years when necessary.

In light of the Company's aforementioned credit line, the previous financing record and the established cooperation relationship with banks and financial institutions, the Management of the Company believes that the Group can continuously gain access to adequate financing channels to ensure continuing operation and pay back matured debts. Hence, the management of the Company is convinced that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

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

The financial statements of the Company for the year ended 31 December 2010 are in compliance with the Accounting Standard for Business and Enterprises, and truly and completely present the financial position as at 31 December 2010 and the operating results, cash flows and other information for the year then ended of the Group and the Company.

(3) Accounting period

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

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combination

(a) Business combinations 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 recognized in profit or loss for 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 recognized in profit or loss for the current period.

All relevant direct costs related to the business combination shall be recognized in profit or loss for the current period when incurred.

(c) Purchase of minority interest of a subsidiary

In the consolidated financial statements, the subsidiary's assets and liabilities are reflected by continually calculated amount on the date of transaction(or merger) which occurred prior to 7 August 2008. The difference between the additional cost of long-term equity investments due to purchase of minority equity and fair value of net assets which are recognized by investors calculated proportionally according to additional shareholders proportion should be adjust retained earnings after adjusting the balance of Capital reserves(Share premium), Capital reserves (share premium) in the consolidated financial statements, except for the parts considered as goodwill.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

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 comprise cash on hand, call deposits with banks 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 conversion

(a) Foreign currency translation

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

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

(b) Conversion of financial statements of foreign currency

For the assets and liabilities items in balance sheet for foreign business operation, the spot exchange rate on the date of Balance Sheet issuance is used for currency conversion; except for retained earnings, all the other equity items are converted by the spot exchange rate on the date of its occurrence. For revenue and expense items in the income statement of foreign operations, the spot exchange rate on the date of transaction occurred is used for currency conversion. The difference of foreign currency conversion as mentioned above, will be presented as a separate item equity item. For the cash flows of overseas business operations, the spot exchange rate on the date of the occurrence of cash flow is used for currency conversion. The impact of changes on exchange rate on the amount of cash would be shown in the statement of cash flow separately.

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. 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 2010 include receivables and available-for-sale financial assets.

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term, which are presented as financial assets held for trading on the balance sheet.

### Receivables

Receivables, including accounts receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets in the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

(ii) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs occurred at the time of acquisition are recognized in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (9) Financial instruments (continued)

#### (a) Financial assets (continued)

#### (ii) Recognition and measurement (continued)

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured, the cost method is used. The receivables should be measured by actual exchange rates to amortize costs.

A gain or loss arising from a change in the fair value of financial assets at fair value through profit or loss is recognized in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from the disposal of the assets are recognized in profit or loss for the current period.

A gain or loss arising from a change in fair value of an available-for-sale financial asset is recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognized, the cumulative gain or loss previously recognized in equity is recognized in profit or loss for the current period.

Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognized as investment income in profit or loss.

#### (iii) Impairment of financial assets

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

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

In the case of a significant or prolonged decline in the fair value of an available-for-sale financial asset, the cumulative loss arising from the decline in fair value that had been recognized directly in equity is removed from equity and recognized in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed and recognized in profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized in equity directly.

#### (iv) Derecognition of financial assets

Where a financial asset satisfies any of the following requirements, the recognition of it shall be terminated: (1) the contractual rights for collecting the cash flow of the said financial asset are terminated; or (2) the said financial asset has been transferred and the Group has transferred

substantially all risks and rewards of ownership of the financial assets to the transferee; or (3) the said financial asset has been transferred, although the Group neither transfer nor retain substantially all risks and rewards of ownership of the financial asset but has not retain control 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 recognized in profit or loss for the current period.

## (b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities at fair value through profit or loss are mainly derivatives financial liabilities. They are disclosed as financial liabilities held for trading on the balance sheet. Other financial liabilities are payables, borrowings and bonds etc.

Payables include accounts payable and other payables, etc., which are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings are initially recognized at fair value, netting of transaction costs incurred, and subsequently measured at amortized cost using the effective interest method.

Other financial liabilities with repayment date within one year (one year included) are classified as short-term liabilities; other financial liabilities with repayment date over one year but within one year from the balance sheet date (one year included) are classified as current portion of non-current liabilities, other financial liabilities are classified as non-current liabilities.

Financial liabilities or obligation are fully or partially derecognized when the present obligation are fully or partially relieved, and the differences between the carrying amount of the derecognized financial liabilities and consideration paid are recognized in profit or loss for the current period.

## (c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable, willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, use market data as much as possible and avoid use of data that is particularly related to the Group.

## (10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognized at fair value by the Group in accordance with the consideration receivable from the buyer under contract or agreement.

### (a) Receivables that are individually significant are subject to separate impairment assessment.

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

The criteria to determine whether the amount is significant: whether the amount is more than 10 million



Methodology for establishing bad debt provision: according to the difference between the carrying amount of the receivables and the present value of estimated future cash flows.

(b) Provisions for bad debts for account receivables by group

Receivables 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 provisions 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.

Groups are determined as below:

Group1	Amounts due from related parties
Group 2	Aircraft leasing deposit and maintenance reserve receivable
Group 3	Other receivables besides above

Provision method of Provisions for bad debts by group:

Group 1	No Provisions for bad debts
Group 2	No Provisions for bad debts
Group 3	Aging analysis method

In group 3, the measurement proportion of receivables with aging analysis method:

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

(c) Amount that are not individually significant but provisions for bad debts is assessed separately:

Standard of recognizing provisions for bad debts for account receivables individually: if there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for bad debts of the receivable is established.

Methodology for establishing bad debt provision: It is established according to the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

(d) 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 profit 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 long-term equity investments in its subsidiaries, the Group's long-term 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 profit 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

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. Investment income is recognized in profit or loss for the cash dividends or profit distribution declared by the investees.

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 govern the financial and operating policies of an investee so as to obtain benefits from its operating activities of the enterprise. When ascertaining whether or not it is able to control a investee, an investor shall take into consideration the existence and effect of potential voting rights, including that derived from the convertible bonds and warrants that are currently convertible or exercisable, is considered in determining whether the Group has control over the investee. Significant influence usually translates into participation in the financial and operating policies without necessarily having full control or joint control over a investees. 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 2(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 properties

Investment properties, including land use rights that have already been leased out buildings that are held for the purpose of lease and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Group makes subsequent measurement on investment properties using fair value model and does not depreciate or amortize the investment properties. The book value is adjusted according to the fair value of Investment properties on the date of balance sheet. The difference between fair value and initial book value is recognized in profit or loss for the current period.

When an investment property is transferred to an owner-occupied property, it is reclassified as fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment property at its carrying amount at the date of the transfer. The estimated useful life, net residual value of the investment property and the depreciation (amortization) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses are recognized in profit or loss for the current period.

## (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 fixed asset when it is probable that the 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 and all the other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

### (b) Method of fixed assets depreciation

Fixed assets are depreciated using the straight-line method. The fixed assets are depreciated according to the 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 year	5%	2.375%
Aircraft and engines' s core and replacement pieces	5 - 20 year	0% or 5%	4.75% to 20%
High-price aviation rotatables	10 - 15 year	5%	6.33% to 9.5%
Motor vehicles	10 year	5%	9.5%
Machinery and equipment	8 - 14 year	5%	6.78% to 11.875%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at least once a year at each financial year-end. The Group reviews the depreciation period and salvage value of the aircrafts and engines, and counted and drew the depreciation of replacement of the parts of aircraft and engine that required regular replacement in the relative period in this year. The approach mentioned above is a better reflection of the actual usage of aircrafts and engines of the Group, and it is consistent with the approach generally adopted by other peers in the industry.

### (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 2(19)).

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

The lease which actually transfers all risks and rewards relating to the ownership of the assets refers to finance lease. The lower of the fair value of leased assets and present value of lowest leasing expenses is used as the 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. Actual cost comprises advanced payments construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, the carrying amount can be reduced to the recoverable amount (Note 2(19)).

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current period. Capitalization of borrowing costs is suspended during 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 amortized on the straight-line basis over the period of the land use rights of 40 to 70 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 2(19)).

**(18) Long-term prepaid expenses**

Long-term prepaid expenses incorporate the direct costs in relation to modifying and certifying certain operating leased or financial leased aircrafts, costs on pilot recruiting and training, expenses on improvement and enhancement of operating leased fixed assets, and other 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 finite useful lives, long-term prepaid expenses and long-term equity investments in subsidiaries 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 the 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 the asset impairment loss mentioned above is recognized, it is not allowed to be reversed for the value recovered in the subsequent periods.

**(20) Employee benefits**

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

If the Group cancelled the labor relationship with any employee prior to the expiration of the relevant labor contract or brought forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, provided 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 profit 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) Accrued liabilities

Obligations that have incurred due to failing to execute a signed contract/agreement, which would have led to foreseeable economic benefit outflows if such obligations were carried out, shall be recorded as accrued liabilities, provided the amount of actions in point can be reliably measured.

Accrued liabilities take initial measurement according to the best estimate of performing the current obligations, taking into accounts of the relative risks, uncertainties, and the time value of money etc. If the influence of the time value of money is significant, the amount should be best estimated by discounting the future cash outflows. The interests incurred besides of the principles noted as the "time value" shall be recorded as interest expenses.

At the balance date, the book value of accrued liabilities should be reviewed 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 rendering of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognized when the economic benefits associated with the transaction will flow to the Group, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Group's activities as described below:

### (a) Rendering of services

#### (i) Traffic revenues

Passenger and cargo revenue are recognized as traffic revenues when the transportation services are provided. The amounts received yet services pending to render is recognized as liabilities and to be recorded as advances from customers - sales in advance of carriage ("SIAC").

#### (ii) Other revenue

Other revenues include refund fee income, ground services income, commission income, and other air transport related business income; such income should be recognized at the time the corresponding services are provided. Commission income is the commission collected by the Group's agent for booking tickets for other airlines, which should be recorded when the tickets are sold.

### (b) Frequent flyer program

The Group Executive Jinpeng Club Frequent Flyer Reward Flight Plan and its club members can use the reward points accumulated for reward flight. According to the Group's frequent flyer reward point policy, when a visitors' accumulated points reach a certain level, they can exchange for gifts or free tickets. The Group adopts the deferred revenue method to account for such reward points. That is, to deduct the fair value of the reward points from the ticket value and recorded as revenue and the former as deferred revenue. When customers exchange reward points or the points expired, the deferred revenue recognized in correspondence is then recorded as income of the Company.

(23) Revenue recognition (continued)

(c) Transfer of asset use rights

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

Aircraft rental income and other rental income from a operating lease is recognized on a straight-line basis over the period of the lease.

(24) Government grants

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

Grants from the government are recognized 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 related to assets are recognized as deferred revenue and credited to income over the useful lives of the related assets. This is recorded into the profit or loss for the current period. The government grants which are measured at nominal amount are directly recorded into the profit or loss for the current period.

Government grants related 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 profit or 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, 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. When it is probable that the temporary differences arising from investments in subsidiaries will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognized.



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) Assets leased out under operating lease (lessee)

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and charged as an expense for the current period.

### (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 leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognized finance charge.

### (d) Sales and leaseback

For sale and leaseback transactions resulting in a finance lease, differences between sales proceeds and carrying amount of the assets are deferred and amortized over the depreciation period of the leased assets, as the adjustment to the depreciation charges.

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and carrying amount of the assets are recognized immediately in the income statement, if there is a inclusive evidence that the transaction is entered at fair value. If the transaction did not enter at the fair value and the selling price is below the fair value, the loss is recognized in the income statement; however, if the loss will be compensated by future lease rental below market price, the loss is deferred and amortized through the leasing period. If the selling price is higher than the fair value, the differences between fair value and the selling prices are deferred and amortized through the lease period.

## (27) Daily maintenance and overhaul costs

Daily repairs and maintenance costs are charged to the income statement as and when incurred.

For aircraft and engines owned or held under finance leases by the Group, overhaul costs meet the definition of fixed assets are capitalized as a component of property, plant and equipment and depreciated over the maintenance cycles. In respect to aircrafts and engines under operating leases, the Group has obligations to fulfill certain return conditions upon expiration of the leases. Provisions for the estimated cost of these return

condition checks is made on a straight-line basis over the terms of the operating lease. All other overhaul expenses incurred during the operating lease periods are charged to the income statement as and when incurred.

## (28) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and the internal reporting system, and discloses segment information of reportable segments determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics, and satisfy certain conditions, they are aggregated into a single operating segment.

## (29) Critical accounting estimates and judgments

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

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

### (a) Accounting estimates of impairment provision for goodwill

The Group makes 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 Company use accounting estimates to assess the value in use (Note 5 (13)).

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 makes impairment testing for the fixed assets that show signs of impairment at the end of each year, and the recoverable amount of assets group and the 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 judgments and assumptions, and if the management revised these judgments 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

The Group pays income tax in many areas. In the normal business activities, tax treatments of many transactions and events are of uncertainty. When counting and drawing the provisions for income taxes in various regions, the Group is required to make significant judgments. If the final result of these tax items is different from the original recorded amount, such differences will impact on the amount of income tax expense and deferred tax in the period of identifying final result that was mentioned above.

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

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

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

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

Overhaul Provisions 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 properties

The fair value of Investment properties is calculated on the basis of revenue method or market price method. Revenue method is a method that determines the fair value of Investment properties 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 properties.

### 3 TAXATION

(1) The types and rates of taxes applicable to the Group are set out below:

Type	Tax rate/Levy rate	Taxation basis
Enterprise income tax	20% and 25%	Taxable income
Value added tax("VAT")	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 1 January, 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. The applicable enterprise income tax rate of the Company in 2010 is 25%, the applicable enterprise income tax rate of the subsidiaries which are established in other regions in 2010 is 25%.

(b) Business tax

Traffic revenues, commission income and some of other revenues generated by the Group are subject to business tax. The applicable tax rate of traffic revenues is 3%. The applicable tax rate of commission income and partial other revenue is 5%.

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

According to the Notice "The international transport services to be exempted from business tax" (taxation [2010] 8), issued by the Ministry of Finance and the State Administration of Taxation of Taxation, People's Republic of China on 23 April, 2010, since 1 January, 2010 onwards, the international transport services provided by corporate or individuals in the People's Republic of China will be exempted from business tax. International transport services include the service of carriage of passengers or goods to export within borders and the service of carriage of passengers or goods to import outside borders and the service of carriage of passengers or goods outside borders.

(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-funded enterprises, and temporarily exempt from tax for maintaining and building cities and educational surcharges.

(d) Value added tax ("VAT")

According to the related tax regulation, the imported aircraft and aircraft flight equipment of the Group are subject to VAT of 4%.

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.

In addition, the Group's import and export business and materials allocation are subject to value-added tax. Our Company is a general taxpayer for value-added tax, tax rate for output tax is 17%. The VAT paid for purchasing materials can be offset against the output tax. VAT payable amount should be the difference of the current VAT output tax subtracting the amount of input tax deductible. Several subsidiaries of our company are small-scale VAT taxpayers; the VAT rate is 4% or 6%.

(e) Duty

According to the "Notice on tariff classification of aircrafts and aircrafts components and the applied duty rate of leased aircrafts after adjusting the import duty" issued by the General Administration of Customs of PRC on 12 August 1998, the Company adopted a provisional duty rates of 1% for the aircraft leasing and import of whole aircraft after 1 October 1997, the rate of tax collection for airborne equipment, aircraft cabin equipment, parts and components is according to "Notice on adjusting the import and export tariff rates of several products" Tax Authority [199] No. 91.

(3) Others

(a) Domestic infrastructure levies

According to the "Notice of Domestic Infrastructure Levies Collection Rules Minhang Guicaifa [2004] No. 94", the Group is required to pay domestic infrastructure levies in accordance with Caizong [2004] No. 38 issued by Ministry of Finance (hereafter referred to as "MOF"). Domestic infrastructure levies are calculated according to type of the route, maximum flight weight, flying distance etc. and charged to costs as and when incurred.

(b) Civil aviation airport construction fee

According to "Notice on the Changes In Collection Method of Civil Aviation Airport Construction Fee" (Minhangguicaifa [2004] No. 109), "Notice on the Reform of The Collection and Management Method of Civil Aviation Airport Construction Fee issued by MOF and ACCA" Caizong [2004] No. 51 and "The Regulations on Related Accounting Treatment on the Civil Aviation Airport Construction Fee after Reform of Collection Management Method" Caikuai [2004]No. 8 issued by MOF, passengers are required to pay civil aviation airport construction fee when purchasing air tickets. The fee for domestic route is RMB 10 Yuan or 50 Yuan for each person and for international routes is 90 Yuan for each person. Civil aviation airport construction fee is separately shown in the ticket, and is collected by airline companies on behalf of the government.

## 4 CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

## (1) Subsidiaries

### (a) Obtain subsidiaries through establishment or investment

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organization code
Qionghai Baron(i)	Direct control	Haikou	Real estate development	96,945,400 Yuan	Municipal 、 foundation 、 dredging engineering 、 tourism project development 、 agricultural projects 、 real estate development consultation	Limited liability company(Legal entity wholly-owned )	Li Weijun	55279387-0
Yanshan Funds(ii)	Direct control	Tianjin	Investment	503,000,000 Yuan	Investment in unlisted enterprise、 Investment in non-public stock of listed enterprise and relevant consultation service	Limited partnership company	Ma Lei	56267433-0

	u capital as at December 31	Balances of other items substantially constituting the net investment in subsidiaries	% equity interest	% voting right	Consolidate statements or not	Minority interest	AMT in minority interest, used for writing off minority interest income
Qionghai Baron	97,379	-	100%	100%	Yes	-	-
Yanshan Funds	119,700	-	97.55%	100%	Yes	3,000	-
	217,079	-				3,000	-

- (i) Qionghai Baron, one of the wholly-owned subsidiaries of the company, was invested by company using cash of 29,083 thousand Yuan and the land use rights of appropriately 67,862 thousand Yuan on 25 May 2010.
- (ii) The company and Yanshan Investment Management Co., Ltd. established the Limited partnership company - Yanshan Funds on 27 October 2010. Up to 31 December 2010, the company contributed 119,700 thousand Yuan, while Yanshan Investment contributed 3,000 thousand Yuan.

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

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organization code
Golden-Deer Sales	Direct control	Haikou	Transportation	8,000,000Yuan	Ticket sales agency, air freight agency and chartered flight agency services	Limited liability company	Du Xiaoping	28402951-7
Xinhua Airlines	Direct control	Beijing	Transportation	2,258,570,000Yuan	Air passenger and freight transportation from Tianjin and Beijing as the airport of departure to domestic and foreign cities	Limited liability company	Liu Jiaxu	10001095-1
Chang'an Airlines	Direct control	Xi'an	Transportation	1,754,390,000Yuan	Air passenger and freight transportation in Shanxi Province and among its neighboring provinces, etc	Limited liability company	Shi Zhongliang	71974795-7
Shanxi Airlines	Direct control & indirect control	TaiYuan	Transportation	658,400,000Yuan	Air passenger and freight transportation in Shanxi Province and among its neighboring provinces, etc	Limited liability company	Zhang Qingkai	73190009-6
Chang'an Star	Indirect control	Xi'an	Hospitality	25,000,000Yuan	Accommodation, catering; general merchandise, apparel, goods retailing	(Legal entity wholly-owned) Limited liability company	Wu Runnian	74864667-X
Xi'an Real Estate	Indirect control	Xi'an	Real estate development	30,000,000Yuan	Planning and management of industrial and civil construction projects; design and construction of interior decoration and gardenlandscaping; real estate development, sales and information consultation	(Legal entity wholly-owned) Limited liability company	Shi Yongli	77593451-1
Beijing Kehang	Direct control	Beijing	Real estate development	150,000,000Yuan	Catering, accommodation, project investment management, real estate development, property management, hotel management, etc	Limited liability company	Wang Qiao	75131148-3
Brussels DATA	Direct control	Brussels	Hospitality	EUR248,000Yuan	Hotel management, tour service	Limited liability company	Zhang Jinsong	BE 0860905979
Brussels EDIP	Direct control	Brussels	Hospitality	EUR7,715,686Yuan	Hotel management, finance, real estate development	Limited liability company	Zhang Jinsong	BE0435779032
Brussels SODE	Direct control	Brussels	Hospitality	EUR2,162,747Yuan	Hotel management, tour service, finance, real estate development, agent	Limited liability company	Zhang Jinsong	BE 0407675657
Hainan Guoshan	Direct control	Haikou	Real estate development	2,000,000Yuan	Agricultural projects development, lease of property, hardware and alternating current, Construction machinery sales, General cargo storage service, Business information consultation service, investment consultation service	Limited liability company (Legal entity wholly-owned)	Hu Daili	55739942-6
Hainan Guoxu	Direct control	Haikou	Real estate development	2,000,000Yuan	Agricultural projects development, lease of property, hardware and alternating current, Construction machinery sales, General cargo storage service, Business information consultation service, investment consultation service	Limited liability company (Legal entity wholly-owned)	Hu Daili	55739941-8
Hainan Hangpeng	Direct control	Haikou	Real estate development	2,000,000Yuan	Agricultural projects development, lease of property, hardware and alternating current, Construction machinery sales, General cargo storage service, Business information consultation service, investment consultation service	Limited liability company (Legal entity wholly-owned)	Hu Daili	55739943-4

	Paid-in capital as at December 31	Balance of other items substantially constituting the net investment in subsidiaries	% equity interest	% voting right	Consolidate statements or not	Minority interest	Amount in minority interest, used for writing off minority interest income
Golden-Deer Sales	7,600	-	95%	95%	Yes	5,982	-
Xinhua Airlines	2,666,106	-	67.59%	67.59%	Yes	678,209	-
Chang'an Airlines	1,517,418	-	87.32%	87.32%	Yes	206,813	-
Shanxi Airlines	761,880	-	100%	100%	Yes	-	-
Beijing Kehang	1,728,341	-	95%	95%	Yes	79,865	-
Chang'an Star	25,000	-	100%	100%	Yes	-	-
Xi'an Real Estate	30,000	-	100%	100%	Yes	-	-
BrusselsDATA	61,764	-	100%	100%	Yes	-	-
BrusselsEDIP	62,996	-	100%	100%	Yes	-	-
BrusselsSADE	59,918	-	100%	100%	Yes	-	-
Hainan Guoshan	629,180	-	100%	100%	Yes	-	-
Hainan Guoxu	1,094,170	-	100%	100%	Yes	-	-
Hainan Hangpeng	741,500	-	100%	100%	Yes	-	-
	9,385,873	-				970,869	-

## (2) Subject newly incorporated into merger scope this year

Subject newly incorporated into the merger scope this year

	31 December 2010 Net assets	Net profit for this period
Brussels SODE Group (Notes 4(3)(a))	183,780	(897)
Hainan Guoshan (Notes 4(3)(b))	629,180	-
Hainan Guoxu (Notes 4(3)(b))	1,094,170	-
Hainan Hangpeng (Notes 4(3)(b))	741,500	-

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

### (a) Brussels SODE Group

	Goodwill Amount	Calculation method of goodwill
Brussels SODE Group	-	Goodwill is calculated as the difference between the cost of combination and the fair value of the identifiable net assets of the acquiree's at the acquisition date. Illustrated as the following:

Brussels SODE Group including three companies: Brussels SODE, Brussels DATA and Brussels EDIP. Brussels SODE wholly owned Brussels DATA and Brussels EDIP.

In April 2010, the Company prepaid the equity acquisition price as termed in the acquisition agreement amounting to 184,677 thousands yuan to acquire 100% interests of Pacific American Corporation. The acquisition date for this transaction is 27 August 2010, namely the date when the Company has the substantive control over Brussels SODE Group.



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

Merger cost -Cash paid	184,677
Total merger cost	184,677
Less: Recognizable net assets fair value acquired	(184,677)
Goodwill	-

(ii) As at the acquisition date, the assets, liabilities and acquisition-related cash flows of Brussels SODE Group are recognized below:

	Acquisition date Fair value	Acquisition date Book value (Note)	31 December 2009 Book value
Cash at bank and on hand	6,722	6,722	14,010
Accounts receivable	13,190	13,190	13,181
Inventories	859	859	939
Fixed assets	290,908	154,110	173,485
Other current assets	3,617	3,617	1,549
Less:Borrowings	(111,922)	(111,922)	(130,190)
Accounts payable	(11,097)	(11,097)	(10,575)
Employee remuneration payable	(2,230)	(2,230)	(3,318)
Other liabilities	(5,370)	(5,370)	(2,447)
Net assets acquired	184,677	47,879	56,634
Consideration paid in cash in 2010	184,677		
Less: Cash and cash equivalents received from the acquired subsidiaries	(6,722)		
Net cash paid by subsidiaries	177,955		

Note: Except for fixed assets which adopted the market price approach to estimate the fair value at the acquisition date, others assets and liabilities were estimated at fair value, which were identical to book value.

(iii) The income, net profits and cash flow of Brussels SODE Group from the acquisition date to 31 December 2010 are recognized as below:

(a)Revenue	31,552
(b)Net profit	(897)
(c)Cash flow from operating activities	366
(d)Net cash flow	3,084

(b) Hainan Guoshan、Hainan Guoxu and Hainan Hangpeng

	Goodwill Amount	Calculation method of goodwill
Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng	-	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:

The Group acquired three wholly-owned subsidiaries of HNA Airlines Holdings in December 2010. They are Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng. Major assets of Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng including land use rights of four piece of lands with estimated value amounting to 3,229,323 thousands Yuan. These lands, which are aim for development, located in the core area of the center of the new Dayingshan district, Haikou. After considering 770,473 thousand Yuan of deferred tax liabilities, and 6,000 thousand Yuan of cash and bank owned by Hainan Guoshan, Hainan Guox and Hainan Hangpeng, the transaction price is 2,464,850 thousand Yuan which the Group has fully paid off in December 2010.

- (i) The merger cost and goodwill are recognized below:

Merger cost -	
Cash paid	2,464,850
Total merger cost	2,464,850
Less: Recognizable net assets fair value acquired	(2,464,850)
Goodwill	-

- (ii) As at the acquisition date, the assets and acquisition-related cash flow of Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng are recognized below:

	Acquisition dateFair value
Cash at bank and on hand	6,000
Land use rights	3,229,323
Deferred tax liabilities	(770,473)
Net assets acquired	2,464,850
Consideration paid in cash in 2010	2,464,850
Less: Cash and cash equivalents received from the acquired subsidiaries	(6,000)
Net cash paid by subsidiaries	2,458,850

Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng are still under development, and no business operation has been initiated yet. Therefore, to the year ended 31 December 2010, no profit or loss has been recognized.

Up to the financial reporting date, the land use rights held by Hainan Guoshan, Hainan Hangpeng have been transferred to the Group while the other two piece of land held by Hainan Guoxu has not complete the transfer. According to the signed contracts, if the transfer failed to be completed by the end of March 2011, the Group has the right to cancel this acquisition transaction and, HNA Airlines Holdings is held liable for the relevant cost of capital incurred according to the current bank interest rate.

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (1) Cash at bank and on hand

	31 December 2010			31 December 2009		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash on hand -						
RMB	807	1.0000	807	709	1.0000	709
USD	2,265	6.6227	15,000	9,918	6.8282	67,722
HKD	8	0.8509	7	8	0.8805	7
EUR	24	8.8065	214	4	9.7971	39
Others			119			2,930
Sub total			16,147			71,407
Cash at banks and financial institutions - (a)						
RMB	12,604,443	1.0000	12,604,443	8,979,685	1.0000	8,979,685
USD	8,137	6.6227	53,892	186,324	6.8282	1,272,258
HKD	393	0.8509	334	393	0.8805	346
JPY	-	0.0813	-	2,511	0.0738	185
EUR	2,912	8.8065	25,643	1,958	9.7971	19,183
KRW	387,697	0.0059	2,280	265,605	0.0057	1,514
Others			11,001			3,776
Sub total			12,697,593			10,276,947
Other cash balances(b)						
RMB	3,848,096	1.0000	3,848,096	2,416,857	1.0000	2,416,857
USD	17,728	6.6227	117,410	-		-
EUR	55	8.8065	483	33	9.7971	323
Sub total			3,965,989			2,417,180
Total			16,679,729			12,765,534

(a) At 31 December 2010, the cash at bank and on hand included 4,814,360 thousand Yuan (31 December 2009: 3,937,470 thousand Yuan) of deposit that was placed with the HNA Finance Co. Ltd., a associates of the Group (Notes 7(6)). The cash at banks and financial institutions is 2,714,503 thousand Yuan, other cash balances is 2,099,857 thousand Yuan.

(b) As at 31 December 2010, the amount of 2,148,556 thousand Yuan (31 December 2009: 844,918 thousand Yuan) of fixed deposit was pledged by the Group to acquire short-term borrowing of 1,275,000 thousand Yuan (Notes 5(18)) (31 December 2009: Short-term borrowing of 563,000 thousand Yuan) and long-term borrowing of 596,500 thousand Yuan (Notes 5(28)) (31 December 2009: long-term borrowing of 180,000 thousand Yuan). Such deposit is recognized as other restricted cash balances among the cash and cash equivalents.

As at 31 December 2010, the Group placed 1,336,994 thousand Yuan (31 December 2009: 209,720 thousand Yuan) of saving as the security deposit of the notes payable of 2,270,774 thousand Yuan (31 December 2009: 734,276 thousand Yuan) (Notes 5(20)). Such deposit is recognized as other restricted cash balances among the cash and cash equivalents.

As at 31 December 2010, 21,010 thousand Yuan (31 December 2009: 1,231,022 thousand Yuan) among other cash balances of the Group is taken as the security deposit for the forward foreign exchange loan contract signed with the Bank of China, Hainan Branch. The contract amount is USD3,143,760 (31 December 2009: 20,820 thousand Yuan) (Notes 5(18(ii))).

As at 31 December, 2010, other contract security deposit amounting to 342,019 thousand Yuan (31 December 2009: 4,817 thousand Yuan) and other restricted fixed deposit amounting 117,410 thousand Yuan (31 December 2009: 73,303 thousand Yuan) are included in other cash balances of the Group. Such deposit is recognized as other restricted cash balances among the cash and cash equivalents.

As at 31 December 2010, the Group took no deposit (31 December 2009: 53,400 thousand Yuan) as the security deposit for the Short-term borrowing (31 December 2009: 178,000 thousand Yuan).

## (2) Interests receivable

	31 December 2009	Current year additions	Current year reductions	31 December 2010
HNA Finance	9,171	77,140	(55,223)	31,088
Other banks	3,308	79,440	(74,479)	8,269
	12,479	156,580	(129,702)	39,357

## (3) Accounts receivable

	31 December 2010	31 December 2009
Accounts receivable	595,237	355,301
Less: Provisions for bad debts	(37,621)	(37,693)
	557,616	317,608

### (a) The aging of accounts receivable are analyzed below:

	31 December 2010	31 December 2009
Within 1 year	553,382	302,153
1 to 2 years	1,229	11,399
2 to 3 years	5,442	4,781
3 to 4 years	2,550	3,217
4 to 5 years	86	1,905
5 to 6 years	1,079	1,182
Over 6 years	31,469	30,664
	595,237	355,301

### (b) Accounts receivable are analyzed below by category:

	31 December 2010				31 December 2009i			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Provisions for bad debts by group								
-Group by aging analysis method	389,068	65%	6,369	2%	324,049	91%	6,441	2%
-Group by related parties	174,917	30%	-	0%	-	-	-	-
Amount that are not individually significant but provisions for bad debts for account receivables individually	31,252	5%	31,252	100%	31,252	9%	31,252	100%
	595,237	100%	37,621	6%	355,301	100%	37,693	11%

(c) At 31 December 2010, no account receivable of those amounts that are individually significant and make provisions for bad debts.

(d) Provisions for bad debts for account receivables by group, with aging analysis method:

	31 December 2010				31 December 2009i			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Within 1 year	377,070	97%	-	-	304,184	94%	-	-
1-2 years	1,229	-	63	5%	4,257	1%	-	-
2-3 years	2,738	1%	273	10%	5,302	2%	-	-
3-4 years	1,495	1%	449	30%	3,217	1%	1,045	32%
4-5 years	1,386	-	808	58%	1,905	1%	1,004	53%
5-6 years	1,176	-	802	68%	1,182	-	724	61%
More than 6 years	3,974	1%	3,974	100%	4,002	1%	3,668	92%
	389,068	100%	6,369	2%	324,049	100%	6,441	2%

(e) As at 31 December 2010, the amounts of account receivables that are not individually significant but provisions for bad debts are made are analysis as below:

	Book balance	Provisions for bad debts	% of Provisions for bad debts	Reason
Accounts receivable 1	8,184	8,184	100%	(i)
Accounts receivable 2	4,478	4,478	100%	(i)
Accounts receivable 3	2,791	2,791	100%	(i)
Accounts receivable 4	2,704	2,704	100%	(i)
Others	13,095	13,095	100%	(i)
	31,252	31,252		

(i) As at 31 December 2010, since the aging of such accounts receivables were too long and it was unable to get into contact with the debtors, the management predicted that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(f) There is no recovered nor reversed of provision for bad debts for whose provision portion is substantially large in this year.

(g) Account receivables actually written off in this financial year are analyzed as follows:

	Property of accounts receivable	Written off amount	Reason for written off	Produced due to related transaction
Accounts receivable 5	Fare	72	Unable to get contact with the debtors	No

(h) As at 31 December 2010, no amount due from shareholders with over 5% (5% included) voting shares in the Company is recognized (31 December 2009: nil).

(i) As at 31 December 2010, accounts receivables whose balances rank top 5 are analyzed below:

	Relationship with the Group	Amount	Period	% of total AR balance
Accounts receivable 6	Third party	173,523	1 year	29%
Accounts receivable 7	Third party	101,090	1 year	17%
Yisheng Holding	Under HNA Group' s control	95,804	1 year	16%
Captial Airlines	Under HNA Group' s control	54,721	1 year	9%
Accounts receivable 8	Third party	21,569	1 year	4%
		446,707		75%

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

		31 December 2010			31 December 2009		
	Relationship with the Group	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Yisheng Holding	Under HNA Group' s control	95,804	16%	-	-	-	-
Captial Airlines	Under HNA Group' s control	54,721	9%	-	-	-	-
Tianjin Airlines	Under HNA Group' s control	20,133	3%	-	-	-	-
Others		4,259	1%	-	-	-	-
		174,917	29%	-	-	-	-

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

31 December 2010				31 December 2009		
Foreign currency	Original currency	Exchange rate	Amount IN RMB	Original currency	Exchange rate	Amount IN RMB
	In thousand			In thousand		
USD	3,320	6.6227	21,990	4	6.8282	27
EUR	328	8.8065	2,889	454	9.7971	4,448
TWD	18,742	0.2260	4,236	-	-	-
RUB	40,293	0.2156	8,687	-	-	-
JPY	2,567	0.0813	209	-	-	-
			38,011			4,475

(4) Other receivables

	31 December 2010	31 December 2009
Amounts due from related parties (i)	2,798,181	19,290
Aircraft leasing security deposit and maintenance reserve receivable	50,994	79,116
Deposits receivable on aviation supplies	17,443	89,576
Others	122,306	16,980
	2,988,924	204,962
Less: provision for bad debt	(96,351)	(96,372)
	2,892,573	108,590

- (i) Amounts due from related parties mainly including the amount of 1,272,047 thousand Yuan of receivables of assets transferred from Grand China Technology, and the amount of 1,493,312 thousand Yuan of receivables of transferred aircraft from HNA Airlines Holdings. Such receivables have been already fully collected in January 2011.

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

	31 December 2010	31 December 2009
Within 1 year	2,849,731	68,062
1 to 2 years	39,425	34,152
2 to 3 years	1,761	1,885
3 to 4 years	1,353	2,280
4 to 5 years	2,130	4,568
5 to 6 years	1,790	860
Over 6 years	92,734	93,155
	2,988,924	204,962

- (b) Other receivables are analyzed below by category:

	31 December 2010				31 December 2009 <sup>i</sup>			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Amount that are individually significant and provision for bad debts for account receivables individually	29,242	1%	29,242	100%	30,681	15%	30,681	100%
Provision for bad debts by group								
-Group by aging analysis method	72,221	2%	22,758	32%	88,291	43%	12,159	13%
-Aircraft leasing security deposit and maintenance reserve receivable	44,929	2%	-	0%	13,168	6%	-	0%
-Group by related parties(k)	2,798,181	94%	-	-	19,290	10%	-	-
Amount that are not individually significant but provision for bad debts individually	44,351	1%	44,351	100%	53,532	26%	53,532	100%
	2,988,924	100%	96,351	3%	204,962	100%	96,372	47%

- (c) As at 31 December 2010, the amount that are individually significant and provision for bad debts were made are analyzed below:

	Book balance	Provision for bad debts	% of provision for bad debts	Reason
Other receivables 1	17,443	17,443	100%	(i)
Other receivables 2	11,799	11,799	100%	(i)
	29,242	29,242		

- (d) As at 31 December 2010, since the aging of such account receivables is too long and it was unable to get into contact with the debtors, the management predicted that such receivables were difficult to recover and therefore full provisions for bad debts were made.

(e) Provision for bad debts for other receivables by groups, with aging analysis method:

	31 December 2010				31 December 2009i			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Within 1 year	35,279	49%	-	0%	36,745	47%	-	-
1 to 2 years	10,767	15%	412	4%	34,152	35%	933	3%
2 to 3 years	1,761	2%	165	9%	1,885	2%	151	8%
3 to 4 years	1,353	2%	492	36%	2,280	2%	547	24%
4 to 5 years	2,130	3%	1,147	54%	4,568	5%	2,010	44%
5 to 6 years	1,790	2%	1,401	78%	771	1%	628	81%
Over 6 years	19,141	27%	19,141	100%	7,890	8%	7,890	100%
	72,221	100%	22,758	32%	88,291	100%	12,159	14%

(f) As at 31 December 2010, the amount that are not individually significant but provision for bad debts were made are analyzed below:

	Book Balance	Provision for bad debts	% of provision for bad debts	Reason
Other receivables 3	9,639	9,639	100%	(i)
Other receivables 4	5,457	5,457	100%	(i)
Other receivables 5	5,280	5,280	100%	(i)
Other receivables 6	3,185	3,185	100%	(i)
Others	20,790	20,790	100%	(i)
	44,351	44,351		

(g) As at 31 December 2010, since the aging of such account receivables is too long and it was unable to get into contact with the debtors, the management predicted that such receivables were difficult to recover and therefore full provisions for bad debts were made.

There is no recovered or reversed provision of bad debt whose provision portion is substantially large in this year.

Other receivables actually written off in this financial year are analyzed as follows:

	Property of accounts receivable	Written off amount	Reason for written off	Produced due to related transaction
Accounts receivable 7	Come and go money	21	Unable to get contact with the debtors	No

(h) As at 31 December 2010, no amount due from shareholders with over 5% (5% included) voting shares in the Company is recognized (31 December 2009: nil).



(i) At 31 December 2010, other receivables whose balances rank top 5 are analyzed below:

	Relationship with the Group	Amount	Period	% of total balance
HNA Airlines Holdings	Under HNA Group' s Control	1,496,904	Within 1 year	50%
Grand China Technology	Under HNA Group' s Control	1,256,228	Within 1 year	42%
Other Receivables 8	Third party	41,127	More than 6 years	1%
Other Receivables 1	Third party	17,443	More than 6 years	1%
West Airlines	Under HNA Group' s Control	12,696	Within 1 year	-
		2,824,398		94%

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

		31 December 2010		31 December 2009	
	Relationship with the Group	Amount	% of total balance	Amount	% of total balance
HNA Airlines Holdings (Notes 5(44))	Under HNA Group' s Control	1,496,904	50%	-	-
Grand China Technology (Notes 5(44))	Under HNA Group' s Control	1,256,228	42%	-	-
West Airlines	Under HNA Group' s Control	12,696	-	-	-
Yunnan Xiangpeng	Under HNA Group' s Control	8,801	-	-	-
HNA Safe	Under HNA Group' s Control	930	-	2,482	1%
Xinhua Air Catering	Under HNA Group' s Control	-	-	2,108	1%
Information Company	Under HNA Group' s Control	-	-	2,070	1%
HNA Property Management	Under HNA Group' s Control	-	-	2,492	1%
Others		22,622	1%	10,138	5%
		2,798,181	93%	19,290	9%

Amounts due from related parties mainly including the receivables of assets transferred from HNA Airlines Holdings and Grand China Technology (Notes 5(44)(a)). Such receivables have already been fully collected before the reporting date of this financial statement.

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

31 December 2010				31 December 2009		
	Original currency in thousand	Exchange rate	Amount IN RMB		Exchange rate	Amount IN RMB
USD	8,256	6.6227	54,678	20,131	6.8282	137,458
EUR	137	8.8065	1,206	-	-	-
Others			7			-
			55,891			137,458

(5) Advances to suppliers

(a) The ages of the Advances to Suppliers are analyzed as follows:

Aging	31 December 2010		31 December 2009	
	Amount	% in total amount	Amount	% in total amount
Within 1 year	398,691	93%	638,061	96%
1 - 2 years	14,453	4%	12,030	2%
2 - 3 years	5,926	1%	7,003	1%
More than 3 years	8,492	2%	5,632	1%
	427,562	100%	662,726	100%

At 31 December 2010, the amount of advances to suppliers with aging more than 1 year is 28,871 thousand Yuan (31 December 2009: 24,665 thousand Yuan). The advance is for maintenance and the aviation supplies' duty and value added tax. Since the service has not yet been rendered, such amount has not been settled.

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

	Relationship with the Group	Amount	% to the total balance	Time of payment	Reason for unsettlement
HNA Import & Export	Associates	133,127	31%	2010	The advances to suppliers for aviation supplies' duty and value added tax, the service has not provided
Company A	Third party	31,013	7%	2010	The advances to suppliers for aviation oil, which has not yet arrived
Company B	Third party	20,638	5%	2010	The advances to suppliers for aviation supplies, which has not yet arrived
Company C	Third party	16,863	4%	2010	The advances to suppliers for aviation supplies' duty and value added tax, the service has not provided
Company D	Third party	9,993	2%	2010	The advances to suppliers for decoration, the project has not completed yet
		211,634	49%		

(c) As at 31 December 2010, no prepayment to the shareholders with over 5% (5% included) of voting shares in the Company is observed in the advances to suppliers (31 December 2009: nil).

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

	Relationship with the Group	31 December 2010		31 December 2009	
		Amount	% to the total balance	Amount	% to the total balance
HNA Import & Export	Associates	133,127	31%	134,458	20%
Others		3,731	1%	65	-
		136,858	32%	134,523	20%

(e) The Advances to suppliers include the following balances in foreign currencies:

Foreign currency	31 December 2010			31 December 2009		
	Original currency in thousand	Exchange rate	Amount IN RMB	Original currency in thousand	Exchange rate	Amount IN RMB
USD	62,891	6.6227	416,510	56,844	6.8282	388,142
EUR	766	8.8065	6,746	609	10.2518	6,243
HKD	66	0.8509	56	25	0.8805	22
RUB	2,400	0.2156	517	-	-	-
AUD	51	6.7139	342	-	-	-
			424,171			394,407

(6) Inventories

(a) The inventories are classified below:

	31 December 2010			31 December 2009		
	Book balance	Inventory depreciation reserves	Book value	Book balance	Inventory depreciation reserves	Book value
Onboard supplies	32,402	(83)	32,319	12,858	(83)	12,775
Low-valued consumables	7,562	-	7,562	6,303	-	6,303
Consumable aviation supplies	-	-	-	236,205	(5,115)	231,090
Others	7,747	-	7,747	6,484	-	6,484
	47,711	(83)	47,628	261,850	(5,198)	256,652

As at 31 December, there are no capitalized borrowing expenses or inventories used for pledged purpose in the inventory balance. The company wholly transferred consumable aviation supplies to Grand China Technology in 2010 (Notes 5(44)(a)).

(b) The movement of inventory depreciation reserves is below:

	31 December 2009	Current year		Current year reductions		31 December 2010
		additions		Recovery	Write-off	
Inventory depreciation reserves	(5,198)	-	-	-	5,115	(83)
Consumable aviation supplies	(5,115)	-	-	-	5,115	-
Onboard supplies	(83)	-	-	-	-	(83)

The movement of inventory depreciation reserves in 2010 is mainly due to the transfer of consumable aviation supplies of which provision was made in previous year. Corresponding to this transfer to Grand China Technology in 2010 (Notes 7(5)(f)), the respective provision was written off accordingly.

(7) Available-for-sale financial assets

	31 December 2010	31 December 2009
Available-for-sale equity instruments	579,690	647,048

As at 31 December 2010, available-for-sale financial assets are the 29,772,496 three-year term restricted shares of China Merchants Securities held by the Company. The fair value of such shares as at 31 December 2010 is determined based on the spotted closing price of the trading shares on Shanghai Stock Exchange, incorporated with the restricted-for-sale factors of such class of shares.

## (8) Long-term equity investment

	31 December 2010	31 December 2009
Associates (a)		
- With quoted price	-	-
- Without quoted price	1,535,014	76,225
Other long-term equity investments (b)	584,818	552,866
	2,119,832	629,091
Less: Provision for impairment of long-term equity investments (c)	(6,774)	(6,774)
	2,113,058	622,317

The long-term equity investments held by the Group does not have significant liquidate limitations.

## (a) Associates

Accounting method	Original investment cost	31 December 2009	Additional/reduced investment cost	Increase/Current year reductions			31 December 2010	Share-holding ratio	Percentage of voting rights	Explanation for the for inconsistency of shareholding ratio with voting proportion	Provision for impairment	Provision for impairment of this financial year
				Share of profit of associate	Cash dividends declared by associate	Other changes in equity						
HNA Import & Export	Equity method	3,000	6,038	-	6,016	-	12,054	30%	30%	-	-	-
Xin Guo Hotel(i)	Equity method	40,000	37,651	(31,952)	(5,699)	-	-	-	-	-	-	-
Hainan Hansha Training	Equity method	3,862	3,692	-	(1,260)	-	2,432	50%	50%	-	-	-
Beijing Vision	Equity method	3,000	2,790	(2,790)	-	-	-	30%	30%	-	-	-
Yanjing Hotel	Equity method	11,270	26,054	-	(5,526)	-	20,528	35%	35%	-	-	-
Tourism Island Development(ii)	Equity method	1,500,000	-	1,500,000	-	-	1,500,000	33%	33%	-	-	-
		1,561,132	76,225	1,465,258	(6,469)	-	1,535,014					

(i) At 31 October 2010, HNA Hotel Group Xin Guo Hotel increased capital of RMB 20,000 thousand Yuan, after increasing capital, the Share-holding ratio of the company to Xin Guo Hotel changed from 40% to 13.33%. Accordingly, the accounting method changed from equity method to cost method.

(ii) At 28 December 2010, the company invested in Tourism Island Development RMB1,500,000 thousand Yuan, which accounted for 33% of the registered capital of Tourism Island Development.

(b) Other long-term equity investment

	Accounting method	Original investment cost	31 December 2009	Current year additions/ disposals	31 December 2010	% equity interest	% voting right	Explanation for the for inconsistence of shareholding ratio with v oting proportion	Provision for impairment	Provision for impairment of this financial year	The cash dividends declared to distribute in current year
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	-	-	-	2,900
HNA Finance	Cost method	101,561	101,561	-	101,561	3.70%	3.70%	-	-	-	-
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	-	-	-	-
Xin Guo Hotel (Notes V(8)(i))	Cost method	40,000	-	31,952	31,952	13.33%	13.33%	-	-	-	-
TravelSky Tech	Cost method	29,860	29,860	-	29,860	1.68%	1.68%	-	-	-	12,123
Tianjin Airlines	Cost method	19,000	19,000	-	19,000	0.83%	0.83%	-	-	-	-
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	8.83%	8.83%	-	-	-	-
Other investment	Cost method	12,613	12,613	-	12,613	-	-	-	(6,774)	-	2,188
			552,866	31,952	584,818				(6,774)	-	17,211

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

	31 December 2009	Current year additions	Current year disposals	31 December 2010
Provision for other long-term equity investment				
Others	6,774	-	-	6,774

(d) There is no any further impairment indicator identified after evaluating the financial position of the investee this year; therefore, no additional provision for impairment (2009: nil) is considered necessary this year.

(e) Investment to associated companies

	% equity interest	% of voting right	31 December 2010		2010		
			Total asset	Total liability	Net asset	Operating income	Net profit
HNA Import & Export	30%	30%	1,142,402	1,101,917	40,485	62,427	20,052
Hainan Hansha Training	50%	50%	8,408	4,148	4,260	9,801	(2,520)
Yanjing Hotel	35%	35%	519,584	435,547	84,037	130,831	(15,783)
Tourism Island Development	33%	33%	13,503,506	9,978,983	3,524,523	425,195	61,809

(9) Investment properties

Item	Fair value as at 31 January 2010	Current year additions		Changes in fair value	Fair value as at 31 December 2010
		Purchase by	From Construction in progress		
Cost	4,941,854	3,264,206	719,565	-	8,925,625
Buildings	4,800,683	-	329,512	-	5,130,195
Land use rights	141,171	3,264,206	390,053	-	3,795,430
Change in fair value	599,881	-	-	347,983	947,864
Buildings	553,687	-	-	200,239	753,926
Land use rights	46,194	-	-	147,744	193,938
Investment properties book value	5,541,735	3,264,206	719,565	347,983	9,873,489
Buildings	5,354,370	-	329,512	200,239	5,884,121
Land use rights	187,365	3,264,206	390,053	147,744	3,989,368

As to the Investment properties with active market, the fair value is reasonable evaluated by Profitability or Market Price Approach.

As at 31 December 2010, the net book value of such properties is 9,873,489 thousand Yuan (31 December 2009: 5,541,735 thousand Yuan). The latest evaluation takes 31 December 2010 as the reference date and is conducted by a appointed independent appraisal company Hubei Wanxin Assets Appraisal Co., Ltd according to the open market value.

For 2010, acquisitions mainly comprise the purchases of 3 wholly-owned subsidiaries (Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng) from HNA Airlines Holdings by the Group. These 3 companies owned 4 piece of land use rights situated at the DaYingShan New City centre area of Haikou with estimated value amounting to 3,229,323 thousand Yuan (Notes5(3)(b)).

Such constructions under Group are the Investment properties projects by Beijing Base project and HuXian project with total value of 719,565 thousand Yuan have been completed in 2010 and carried forward to the Investment properties.

In 2010, the accumulative change of the fair value of the Investment properties is 347,983 thousand Yuan (2009: 663,259 thousand Yuan), and the change in fair value was recognized through profits or losses (2009: 597,743 thousand Yuan).

As at 31 December 2010, the Investment properties with the book value of 3,673,751 thousand Yuan (31 December 2009: 3,647,929 thousand Yuan) were used as security for short-term borrowing and long-term borrowing. For details, see Note 5 (18) and Note 5 (28).

As at 31 December 2010, the houses and land use rights with book value about 4,242,619 thousand (31 December 2009: 1,825,944 thousand) 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 2011.

## (10) Fixed assets

	31 December 2009		Current year additions	Current year reductions	31 December 2010
Cost	38,089,694		6,487,366	(5,917,093)	38,659,967
Buildings	1,205,154		601,667	(199,406)	1,607,415
Aircrafts and engines	33,430,684		5,486,551	(4,819,406)	34,097,829
Rotables	2,768,907		207,123	(733,495)	2,242,535
Motor vehicles	184,388		103,141	(86,196)	201,333
Machinery and equipment	500,561		88,884	(78,590)	510,855
		Current year additions	Current year depreciation		
Accumulated depreciation	8,472,378	-	2,432,899	(2,246,656)	8,658,621
Buildings	144,398	-	220,808	(36,513)	328,693
Aircrafts and engines	6,426,037	-	1,784,578	(1,626,540)	6,584,075
Rotables	1,543,789	-	225,262	(495,071)	1,273,980
Motor vehicles	100,978	-	94,312	(45,769)	149,521
Machinery and equipment	257,176	-	107,939	(42,763)	322,352
Net book value	29,617,316		4,054,467	(3,670,437)	30,001,346
Buildings	1,060,757		380,859	(162,893)	1,278,723
Aircrafts and engines	27,004,647		3,701,973	(3,192,866)	27,513,754
Rotables	1,225,117		(18,139)	(238,424)	968,554
Motor vehicles	83,410		8,829	(40,427)	51,812
Machinery and equipment	243,385		(19,055)	(35,827)	188,503
Provision for impairment loss	497,115	-	-	(480,734)	16,381
Buildings	-	-	-	-	-
Aircrafts and engines	480,737	-	-	(480,734)	3
Rotables	16,378	-	-	-	16,378
Motor vehicles	-	-	-	-	-
Machinery and equipment	-	-	-	-	-
Book value	29,120,201		4,054,467	(3,189,703)	29,984,965
Buildings	1,060,757		380,859	(162,893)	1,278,723
Aircrafts and engines	26,523,910		3,701,973	(2,712,132)	27,513,751
Rotables	1,208,739		(18,139)	(238,424)	952,176
Motor vehicles	83,410		8,829	(40,427)	51,812
Machinery and equipment	243,385		(19,055)	(35,827)	188,503

As at 31 December 2010, residual value amounting to 13,401,749 thousands Yuan (31 December 2009: 13,413,768 thousand Yuan), of whose original cost is 15,942,689 thousand Yuan (31 December 2009: 16,088,405 thousand Yuan) are pledged for short-term and long-term borrowings. See Notes 5(18), Notes 5(28).

In 2010, the depreciation amount for fixed assets is 2,432,899 thousands Yuan (2009: 1,791,281 thousand Yuan), which are recorded into operating cost, operating expense and administrative expense are 2,329,270 thousand Yuan, 42,658 thousand Yuan and 60,971 thousand Yuan (2009: 1,729,177 thousand Yuan, 13,272 thousand Yuan and 48,832 thousand Yuan, respectively), respectively.

The original cost of the constructions in progress converted into fixed assets is 4,873,327 thousand Yuan (2009: 7,674,302 thousand Yuan).

In 2010, the net value of fixed assets sold by the Group to the associated companies are 2,247,665 thousand Yuan (2009: 202,885 thousand Yuan).

(a) Fixed assets under financial leases

	Cost	Accumulated depreciation	Book value
31 December 2010			
Aircrafts and engines	8,128,604	(2,251,820)	5,876,784
Rotables	50,000	(3,958)	46,042
	8,178,604	(2,255,778)	5,922,826
31 December 2009			
Aircrafts and engines	7,649,812	(2,042,909)	5,606,903
Rotables	50,000	-	50,000
	7,699,812	(2,042,909)	5,656,903

(b) Fixed assets without property certificate:

As at 31 December 2010, the houses and land use rights with net book value amounting to 11,440 thousand Yuan (cost of 23,431 thousand Yuan) (31 December 2009: net book value of 10,079 thousand Yuan and cost of 20,989 thousand Yuan) have not completed the transfer of the property certificate by now due to the pending of review and approval process of the property application. It is predicted to be completed in 2011.

After seeking opinions from legal counsel, the management believes the above property ownership certificates transfer has no material obstacles from a legal aspect, nor neither will it have any material impact on the Group's operation.

(11) Construction in progress

	31 December 2010			31 December 2009		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Prepayment for aircrafts	4,751,513	-	4,751,513	5,395,240	-	5,395,240
Basement in Beijing	668,458	-	668,458	951,333	-	951,333
International airport (Phase I)						
Aircraft modification	-	-	-	440,522	-	440,522
Others	103,836	(2,307)	101,529	71,517	(2,307)	69,210
	5,523,807	(2,307)	5,521,500	6,858,612	(2,307)	6,856,305



(a) Major change of construction projects in progress

Project name	Budget	31 December 2009	Current year additions	Transfer to fixed assets during current year	Transfer to Investment properties (Notes 5(9))	31 December 2010	Proportion of construction investment to budget %	Construction progress	Borrowing expense capitalization amount	Where: capitalization AMT of te borrowing expense of 2010	Annual borrowing expense equalization rate	Fund source
Prepayment for aircrafts	15,795,140	5,395,240	3,603,315	(4,247,042)	-	4,751,513	27%	27%	507,444	153,945	4.4%	Bank loan
Basement in Beijing International Airport	1,814,709	951,333	443,270	(47,931)	(678,214)	668,458	50%	50%	185,281	46,805	6.32%	Bank loan and Self-owned fund
Aircraft modification (*)	655,647	440,522	137,832	(578,354)	-	-	100%	100%	-	-	-	Self-owned fund
Others	-	71,517	73,670	-	(41,351)	103,836	-	-	-	-	-	Self-owned fund
		6,858,612	4,258,087	(4,873,327)	(719,565)	5,523,807			692,725	200,750		

\* Such aircraft modification have been completed in 2010, and recorded in asset (Notes 5(10)).

(b) Provision for impairment of construction in progress

	31 December 2009	Current year additions	Current year reductions	31 December 2010	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 31 December 2009 is as follows:

	Construction progress	RMKS
Basement in Beijing International Airport	50%	The construction progress is estimated on the basis of the budget

As at 31 December 2010, there are no constructions in progress (as at 31 December 2009: nil) used as pledged collaterals for the long-term borrowings.

(d) The aircraft Advances to suppliers 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 contracted schedule and the deliver ability to the Company within the agreed period.

(12) Intangible assets

	31 December 2009	Current year additions	Current year reductions	31 December 2009
Original cost	270,901	530	(14,490)	256,941
Land use rights	270,901	-	(14,490)	256,411
Software	-	530	-	530
Accumulated amortization	60,002	5,863	(8,835)	57,030
Land use rights	60,002	5,863	(8,835)	57,030
Software	-	-	-	-
Net book value	210,899	(5,333)	(5,655)	199,911
Land use rights	210,899	(5,863)	(5,655)	199,381
Software	-	530	-	530

In 2010, the Group has transferred 5,655 thousand Yuan land use rights to its associates, Xin Guo Hotel (Note 7 (5) (f)).

In 2010, the amortized amount of the intangible assets is 5,863 thousand Yuan (2009: 6,150 thousand Yuan).

As at 31 December 2010, the land use rights with net book value of 92,392 thousand Yuan (original value: RMB121,110 thousand Yuan) (31 December 2009: net book value of 95,924 thousand Yuan and cost of 121,110 thousand Yuan) were used as pledged for short-term borrowing and long-term borrowing. For details, see Note 5 (18) and Note 5 (28).

As at 31 December 2010, there is no land without land use right certificates (31 December 2009: Nil).

### (13) Goodwill

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

	31 December 2010 and 31 December 2009		
	Original value	Provisions for impairment	Net value
Beijing Kehang	328,865	-	328,865
Shanxi Airlines	104,647	(104,647)	-
Xinhua Airlines	68,109	(68,109)	-
Chang' an Airlines	35,127	(35,127)	-
Chang' an Star	363	(363)	-
Xi' an Real Estate	15	(15)	-
	537,126	(208,261)	328,865

No goodwill increased in 2010, the balance at 31 December 2010 was the goodwill arising from purchasing Beijing Kehang before, 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 indicators 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 hypothesis applies in the future discounted cash flow method mainly include:

	Investment properties in Beijing
Gross margin	84%-95%
Growth rate	1-3%
Discount rate	10%

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.

(14) Long-term prepaid expenses

	31 December 2009	Current year additions	Amortized in this financial year	Other reductions	31 December 2010	Reason for other reductions
Pilots training fees	207,562	139,894	(58,822)	(3,168)	285,466	-
Rentals of Tianzhu Base	12,272	-	(1,093)	-	11,179	-
Improvement to fixed assets held under operating leases	2,727	5,258	(1,708)	-	6,277	-
Others	-	899	-	-	899	-
	222,561	146,051	(61,623)	(3,168)	303,821	

(15) Other non-current assets

	31 December 2010	31 December 2009
Aircraft and engine lease securities	794,394	774,710
Aircraft and engine maintenance reserves	788,089	509,876
After-sale leaseback deferred losses	400,548	365,319
Others	20,000	20,000
	2,003,031	1,669,905

(16) Deferred tax assets and deferred tax liabilities

(a) Deferred tax liabilities not offset

	31 December 2010		31 December 2009	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
Change in fair value of Available-for-sale financial assets recognized in capital reserves	-	-	12,737	50,948
Difference between Investment properties book value and taxable base	237,335	951,837	161,887	650,047
Merger of enterprises not under the same control	1,116,767	4,614,499	346,294	1,385,176
	1,354,102	5,566,336	520,918	2,086,171

(b) The deductible temporary differences and deductible losses the group haven't identify the deferred income tax assets analyzed as follows:

	31 December 2010	31 December 2009
Deductible temporary differences	164,637	645,460
Deductible losses	37,290	1,147,105
	201,927	1,792,565

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.

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

	31 December 2010	31 December 2009
2011	-	-
2012	-	-
2013	-	1,025,464
2014	-	121,641
2015	37,290	-
	37,290	1,147,105

(d) There is no occurrence of net offset of deferred income tax assets and deferred tax liabilities.

## (17) Provisions for asset impairment

	31 December 2009	Current year additions	Current year reductions Recovery	Write-off	31 December 2010
Provisions for bad debts	134,065	-	-	(93)	133,972
Including: Provisions for bad debts of accounts receivable	37,693	-	-	(72)	37,621
Provisions for bad debts of other receivables	96,372	-	-	(21)	96,351
Inventory depreciation	5,198	-	-	(5,115)	83
Provisions for impairment of long-term equity investment	6,774	-	-	-	6,774
Provisions for impairment of fixed asse	497,115	-	-	(480,734)	16,381
Provisions for impairment of construction in progress	2,307	-	-	-	2,307
Provisions for impairment of goodwill	208,261	-	-	-	208,261
	853,720	-	-	(485,942)	367,778

## (18) Short-term borrowings

	Currency	31 December 2010	31 December 2009
Mortgaged(i)	RMB	650,000	175,000
Pledged(ii)	RMB	4,247,378	2,770,000
	USD	20,820	2,488,806
Guaranteed(iii)	RMB	10,162,164	7,066,000
	USD	458,440	274,882
Guaranteed and mortgaged or Pledged(iv)	RMB	2,127,000	3,093,830
	USD	-	136,564
Unsecured	RMB	-	121,524
	USD	37,749	38,920
	EUR	497	-
		17,704,048	16,165,526

(i) As at 31 December 2010, with respect to the borrowing RMB500,000 thousand Yuan (31 December 2009: 125,000 thousand Yuan), the houses and buildings with the book value of 126,967 thousand Yuan (original value: 129,719 thousand Yuan) (31 December 2009: book value of 108,613 thousand Yuan) (original value: RMB128,963 thousand Yuan) (Notes 5(10)) were used as mortgage; the investment real estate with the fair value of 716,015 thousand Yuan (Notes 5(9)) were also used as mortgage.

The borrowing of 150,000 thousand Yuan was merged of houses and building of the third-party.

- (ii) As at 31 December 2010, with respect to the borrowing of 1,275,000 thousand Yuan (31 December 2009: 563,000 thousand Yuan), the fixed deposit of 1,448,556 thousand Yuan (31 December 2009: 644,918 thousand Yuan) (Notes 5(1)) was used as its pledge.

The mortgage-backed borrowing 2,972,378 thousand Yuan (31 December 2009: 3,394,640 thousand Yuan) is mortgaged by the equities held by the related party of the Group.

As at 31 December 2010, with respect to USD3,143,760 (equivalent to 20,820 thousand Yuan) under the forward foreign exchange contract signed between the Company and the Bank of China, Hainan Branch, the security deposit of 21,010 thousand Yuan (31 December 2009: 1,231,022 thousand Yuan) deposited by the Company in such bank was used as its pledge.

- (iii) As at 31 December 2010, the borrowing of 3,682,135 thousand Yuan (31 December 2009: 1,876,000 thousand Yuan) was guaranteed by the Company.

The borrowing of RMB 6,938,469 thousand Yuan (31 December 2009: 5,464,882 thousand Yuan) was guaranteed by related parties of the Group.

- (iv) As at 31 December 2010, building with net book value RMB 49,252 thousand is mortgaged as collateral for the Group's RMB 100,000 thousand (31 December 2009: RMB 581,830 thousand Yuan) short-term borrowings. Aside of this, certain shares of the Company held by the Group's related party are pledged as collateral aforementioned borrowings as well.

With respect to the borrowing of RMB300,000 thousand Yuan ((31 December 2009: Nil), intangible assets of related parties of the Group were used as its pledge, and meantime related parties of the Group (Note 7(5)(c)) guaranteed such borrowing

With respect to the borrowing of 1,350,000 thousand Yuan (31 December 2009: 1,872,000 thousand Yuan) certain equities held by the Group and its related parties were used as its pledge, and at the meantime related parties of the Group (Note 7(5)(c)) provide guarantee on such borrowing

With respect to the borrowing of 100,000 thousand Yuan (31 December 2009: 600,000 thousand Yuan) certain equities held by related parties of the Group were used as its pledge, and meantime the Company (Note 7(5)(c)) guaranteed such borrowing

With respect to the borrowing of 152,000 thousand Yuan (31 December 2009: Nil) certain equities held by the Company were used as its pledge, and meantime the Group (Note 7(5)(c)) guaranteed such borrowing

With respect to the borrowing of 125,000 thousand Yuan (31 December 2009: Nil) the buildings with net book value of 61,209 thousand Yuan (Original value 71,407 thousand Yuan) (Note 5(10)) held by subsidiaries of the company were used as its pledge, and at the meantime the Company provided guarantee on such borrowings.

As at 31 December 2010, the annual weighted average interest for the short-term borrowing is 5.42% (31 December 2009: 5.22%).

## (19) Financial liabilities held for trading

	31 December 2010	31 December 2009
Unitex	176	7,016

(20) Notes payable

	31 December 2010	31 December 2009
Trade acceptance notes	2,270,774	734,276
Bank acceptance notes	945,952	445,840
	3,216,726	1,180,116

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

(21) Accounts payable

	31 December 2010	31 December 2009
Payable aircrafts and engine maintenance fees	1,101,163	996,366
Payable landing fees	676,650	834,852
Payable aviation oil fees	382,842	488,695
Payables for aviation supplies	187,789	94,649
Payable PC-based seat reservation fees	162,095	155,708
Payable food fees	88,152	77,262
Payables for common supplies	37,683	30,625
Payable crew fees	33,338	24,733
Rentals for chartered aircrafts	5,063	21,452
Payable airport rentals	919	11,965
Payable ticket fees	-	8,280
Others	472,274	636,080
	3,147,968	3,380,667

(a) The accounts payable to shareholders holding over 5% (5% included) voting shares

	31 December 2010	31 December 2009
Haikou Meilan	12,094	22,703
Grand China Airlines	28,319	87,246
Changjiang Leasing	-	32,662
	40,413	142,611

(b) Accounts payable to related parties:

	31 December 2010	31 December 2009
Meilan Airport	97,906	140,159
Grand China Airlines	28,319	87,246
Haikou Meilan	12,094	22,703
HNA Airport Holding	10,955	-
Xinhua Air Catering	8,613	998
HNA Group (Hong Kong)	4,853	40,547
Tianjin Airlines	-	29,773
Capital Airlines	-	2,720
Yunnan Xiangpeng	-	18,142
West Airlines	-	3,707
Changjiang Leasing	-	32,662
Gansu Airport	-	19,232
Northwest HNA Real Estate	-	15,415
Hong Kong Airlines	-	35
Others	26,817	225,859
	189,557	639,198

(c) As at 31 December 2010, the accounts payable whose aging is more than 1 year are RMB 682,862 thousand Yuan (31 December 2009: 385,581 thousand Yuan), 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. About 9,579 thousand Yuan have been paid back up to the approved reporting date of this financial statement.

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

	31 December 2010			31 December 2009		
	Amount in foreign currency in thousand	Exchange rate	RMB converted into	Amount in foreign currency in thousand	Exchange rate	RMB converted into
USD	169,398	6.6227	1,121,872	208,580	6.8282	1,424,226
EUR	1,715	8.8065	15,103	110	9.7971	1,078
HKD			-	39,111	0.8805	34,437
Others			2			-
			1,136,977			1,459,741

## (22) Advances from customers

	31 December 2010	31 December 2009
Presold tickets	800,425	696,035
Other Advances from customers	22,668	22,060
	823,093	718,095

(a) As at 31 December 2010, the advances from customers does not include the accounts payable by the shareholder companies holding above 5% (inclusive) of the voting shares in the Company (31 December 2009: nil).

(b) No Advances from customers due from related parties.

(c) As at 31 December 2010, the advances from customers whose aging is more than 1 year are 22,060 thousand Yuan (31 December 2009: RMB 22,060 thousand Yuan), mainly including presale of ticket etc. As the services have not been rendered yet, such accounts payable have not been settled. Up to The reporting date of this financial statement, such amount has not been recorded as revenue.

(d) The advances from customers include the following accounts in foreign currencies::

	31 December 2010			31 December 2009		
	Amount in foreign currency in thousand	Exchange rate	RMB converted into	Amount in foreign currency in thousand	Exchange rate	RMB converted into
EUR	3,249	8.8065	28,608	1,350	9.7971	13,224
USD	4,223	6.6227	27,970	6,520	6.8282	44,523
KRW	42,448	0.0059	250	61,056	0.0057	350
Forint	203,330	0.0319	6,489	-	-	-
TWD	26,403	0.2260	5,966	-	-	-
Rubles	69,923	0.2156	15,072	-	-	-
CAD	679	6.6043	4,483	-	-	-
SGD	651	5.1191	3,331	-	-	-
JPY	3,920	0.0813	319	9,908	0.0738	731
KZT	63,577	0.0449	2,857			-
AUD	309	6.7139	2,074			-
Others			8,725			-
			106,144			58,828

## (23) Employee benefits payable

	31 December 2009	Current year additions	Current year reductions	31 December 2010
Wages and salaries, bonuses, allowances and subsidies	137,958	799,849	(864,428)	73,379
Social security contributions	1,578	165,540	(156,541)	10,577
Including: Medical insurance	3,560	43,366	(41,176)	5,750
Basic pension s	(3,174)	106,654	(100,582)	2,898
Unemployment insurance	27	8,279	(7,782)	524
Work injury insurance	624	5,680	(5,492)	812
Maternity insurance	541	1,130	(1,049)	622
Annuity	-	431	(460)	(29)
Housing funds	21,690	80,634	(73,625)	28,699
Labor union funds and employee education funds	54,123	21,654	(34,654)	41,123
	215,349	1,067,677	(1,129,248)	153,778

As at 31 December 2010, the employee benefits payable do not have any payable accounts. The housing funds, labour union expenditures and employee education funds shall be used and paid according to the related regulations and other balances will be issued and used completed in 2011.

## (24) Taxes payable

	31 December 2010	31 December 2009
Enterprise income tax payable	345,618	(2,232)
Business tax payable	140,629	121,875
Custom duty and VAT payable	66,894	99,695
Individual income tax payable	27,868	12,800
City maintenance and construction tax payable	3,819	3,213
Deed tax payable	-	34,827
Property tax payable	(1,808)	(15,612)
Others	38,503	7,718
	621,523	262,284

## (25) Dividends payable

Dividends payable are over 1 year. The reason that they are not been paid is that the shareholders have not requested the payment from the company after the declaration of such dividends.



(26) Other payables

	31 December 2010	31 December 2009
Amounts due to related parties	165,777	322,336
Aviation material maintenance fees	49,059	37,028
Civil aviation construction funds	92,873	214,328
Airport construction fees	98,167	142,381
Pilot training expenses	51,160	118,007
Security deposits and funds	100,594	113,680
Purchase of aircraft	62,159	106,652
Aircraft modification fees	76,776	44,990
Premiums payable	4,815	30,487
Rental of counter	4,199	4,199
Constructions	288,935	272,656
Others	286,329	70,324
	1,280,843	1,477,068

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

	31 December 2010	31 December 2009
Changjiang Leasing	20,183	790
Haikou Meilan	-	243
	20,183	1,033

(a) Other payables to related parties:

	31 December 2010	31 December 2009
HNA Aviation Sales	28,814	-
Yangtze River Leasing	14,268	19,003
Changjiang Leasing	20,183	790
Yangtze River Insurance Brokers	9,331	2,578
HNA Hotel Holding	5,387	3,291
HNA Hotel Group	7,143	5,500
Beijing Tianchen	3,657	-
Shaanxi TanxiangYuan	11,249	-
Yangtze River Real Estate	48,000	-
Beijing Hengshi	6,800	-
HNA Real Estate Holding	-	135,000
Capital Airlines	-	48,954
Yunnan Xiangpeng	-	15,245
Others	24,048	30,374
	178,880	260,735

- (b) As at 31 December 2010, the other payables whose aging is more than 1 year are 315,177 thousand Yuan (31 December 2009: 555,617 thousand Yuan), 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. Up to the approved reporting date of this financial statement, the group has repaid 560 thousand Yuan.

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

	31 December 2010			31 December 2009		
	Amount in	Exchange	RMB	Amount in	Exchange	RMB
	foreign currency in thousand	rate	converted into	foreign currency in thousand	rate	converted into
USD	10,048	6.6227	66,545	2,639	6.8282	18,020

(27) Non-current liability within one year

	31 December 2010	31 December 2009
Long-term borrowings within one year (a)	3,948,303	3,381,407
Long-term payables within one year (b) (Note 5 (29))	472,400	527,352
	4,420,703	3,908,759

(a) Long-term borrowings within one year

	Currency	31 December 2010	31 December 2009
Mortgaged(Notes 5(28)(i))	RMB	553,278	564,369
	USD	752,286	609,704
Pledged (Notes 5(28)(ii))	RMB	515,000	795,000
Guaranteed(Notes 5(28)(iii))	RMB	848,152	143,000
	USD	66,227	296,549
Guaranteed and mortgaged or Pledged(Notes 5(28)(iv))	RMB	690,061	294,313
	USD	364,635	449,147
Unsecured	RMB	79,821	-
	USD	142,830	159,003
	EUR	6,335	-
		3,948,303	3,381,407

As at 31 December 2010, such borrowings shall be paid within one year and the related interests thereof shall be paid on monthly or quarterly basis.

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

	Starting date	Ending date	Currency	Interest rate (%)	31 December 2010	
					Amount in foreign currency	Amount in RMB
BANK A	30/03/2005	28/10/2016	RMB	Benchmark interest rates up-floating 5%	-	416,500
BANK B	18/12/2009	18/12/2011	RMB	Benchmark interest rates up-floating 10%	-	400,000
BANK C	31/05/2009	31/05/2011	RMB	Benchmark interest rates	-	300,000
BANK D	30/07/2009	29/07/2011	RMB	Benchmark interest rates up-floating 5%	-	270,000
BANK E	28/09/2007	28/08/2021	USD	LIBOR	29,820	197,489
						1,583,989

					31 December 2009	
	Starting date	Ending date	Currency	Interest rate (%)	Amount in foreign currency	Amount in RMB
BANK F	29/04/2009	28/10/2010	RMB	Benchmark interest rates	-	470,000
BANK G	27/06/2007	27/06/2010	USD	LIBOR	43,430	296,548
BANK H	31/03/2009	31/12/2022	USD	LIBOR	32,500	221,917
BANK I	28/09/2007	28/08/2021	USD	LIBOR	29,818	203,605
BANK J	27/12/2007	23/12/2010	RMB	Benchmark interest rates	-	200,000
						1,392,070

(b) Long-term payables within one year

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

	Term	Starting amount	Interest rate (%)	Accrued interest within 1 year	Amount paid within 1 year	Borrowing conditions
The lessor of lease financing 1	5 years	579,018	Benchmark interest rates	29,957	117,880	Aircraft financial leasing
The lessor of lease financing 2	12 years	1,610,896	Floating interest rate	1,440	107,154	Aircraft financial leasing
The lessor of lease financing 3	5 years	629,315	Floating interest rate	15,672	105,570	Aircraft financial leasing
The lessor of lease financing 4	5 years	595,989	Benchmark interest rates	7,959	88,054	Aircraft、Engine、Aviation supplies financial leasing
The lessor of lease financing 5	3 years	54,069	Benchmark interest rates	1,443	21,062	Engine financial leasing
				56,471	439,720	

(28) Long-term borrowing

		31 December 2010			31 December 2009		
		Total amount	Less long-term borrowings due within 1 year (Notes27)	Balance	Total amount	Less long-term borrowings due within 1 year (Notes27)	Balance
Mortgaged(i)	RMB	4,156,103	(553,278)	3,602,825	4,094,585	(564,369)	3,530,216
	USD	10,475,136	(752,286)	9,722,850	7,737,910	(609,704)	7,128,206
Pledged(ii)	RMB	1,999,000	(515,000)	1,484,000	1,475,000	(795,000)	680,000
Guaranteed(iii)	RMB	2,194,672	(848,152)	1,346,520	1,353,000	(143,000)	1,210,000
	USD	66,227	(66,227)	-	364,831	(296,549)	68,282
Guaranteed and mortgaged or Pledged(iv)	RMB	4,973,120	(690,061)	4,283,059	5,707,602	(364,635)	5,342,967
	USD	2,336,995	(294,313)	2,042,682	4,698,758	(449,147)	4,249,611
Unsecured	RMB	718,191	(79,821)	638,370	37,418	-	37,418
	USD	142,830	(142,830)	-	297,752	(159,003)	138,749
	EUR	109,122	(6,335)	102,787	-	-	-
Total		27,171,396	(3,948,303)	23,223,093	25,766,856	(3,381,407)	22,385,449

- (i) As at 31 December 2010, with respect to the borrowing 12,846,179 thousand Yuan (31 December 2009: 9,470,476 thousand Yuan), buildings with the net book value of 71,856 thousand Yuan (original value: 82,703 thousand Yuan) (Notes 5(10)), aircrafts and engines with the net book value of 10,114,243 thousand Yuan (original value: 11,584,202 thousand Yuan) (Notes 5(10)), intangible assets of the Group with net book value of 92,392 thousand Yuan (original value: 121,110 thousand Yuan) (Notes 5(12)) and investment properties with the fair value of 2,957,737 thousand Yuan (Notes 5(9)) were used as mortgage either separately or in combination.

With respect to the borrowing 272,000 thousand Yuan (31 December 2009: Nil), the aircrafts and engines of the Group were used as its mortgage.

With respect to the borrowing 1,513,060 thousand Yuan (31 December 2009: 2,362,019 thousand Yuan) the interest in 4 B737 aircrafts, 2 B787 aircrafts that are to be purchased by the Company but for which related mortgage procedures have not been completed, were used as its mortgage.

- (ii) As at 31 December 2010, with respect to the borrowing 180,000 thousand Yuan (31 December 2009: 180,000 thousand Yuan), the fixed deposits of 200,000 thousand Yuan (Notes 5(1)) were used as its pledge.

As at 31 December 2010, with respect to the borrowing 1,819,000 thousand Yuan (31 December 2009: 1,295,000 thousand Yuan), certain equities held by related parties of the Group were used as its pledge

- (iii) As at 31 December 2010, with respect to the borrowing 2,260,899 thousand Yuan (31 December 2009: 1,649,549 thousand Yuan) was guaranteed by related parties of the Company (Notes 7(5)(c)).

- (iv) As at 31 December 2010, with respect to the borrowings 1,718,706 thousand Yuan (31 December 2009: 4,765,863 thousand Yuan), aircrafts with the net value of 1,677,092 thousand Yuan (original value: 2,071,900 thousand Yuan) (Notes 5(10)) were used as its pledge. At the meantime the related parties of the Group (Notes 7(5)(c)) guaranteed such borrowing.

With respect to the borrowings 1,000,000 thousand Yuan (31 December 2009: 2,038,766 thousand Yuan), the Investment properties (Notes 5(9)) with fair value of 2,957,737 thousand Yuan were used as its pledge. At the meantime the related parties of the Group (Notes 7(5)(c)) guaranteed such borrowing.

With respect to long-term borrowings of 741,440 thousand, 2 Boeing 787 aircrafts owned by the Group were pledged as collaterals and guaranteed by the Group's related party

With respect to the borrowings 2,897,149 thousand Yuan, the buildings with the net book value of 472,984 thousand Yuan (original value: 611,912 thousand Yuan) (Notes 5(10)) and the aircrafts with the net value of 829,146 thousand Yuan (original value: 1,319,615 thousand Yuan) were used as its pledge. At the meantime certain equities held by related parties of the Group were used as its pledge.

With respect to the borrowing 265,000 thousand Yuan, the aircrafts and engines of related parties of the Group were used as its pledge, and meantime the related parties of the Group (Notes 7(5)(c)) guaranteed such borrowing.

With respect to the borrowing 271,320 thousand Yuan (31 December 2009: 3,331,731 thousand Yuan), certain equities held by related parties of the Group were used as its pledge, and meantime the related parties of the Group (Notes 7(5)(c)) guaranteed such borrowing.

With respect to the borrowing 416,500 thousand Yuan, 500,000 thousand Yuan fixed deposits (Notes 5(1)) of the Group is used as its pledge, and meantime the related parties of the Group (Notes 7(5)(c)) guaranteed such borrowing.

As at 31 December 2010, such borrowings shall be paid within 2~12 years and the related interests thereof shall be paid on a monthly or quarterly basis.

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

	Starting date	Ending date	Currency	Interest rate (%)	31 December 2010	
					Amount in	Amount in RMB
					foreign currency	
BANK A	28/12/2007	27/12/2022	USD	LIBOR	308,000	2,039,792
BANK B	30/10/2008	29/10/2023	USD	LIBOR	288,000	1,907,338
BANK C	28/09/2007	28/08/2021	USD	LIBOR	268,360	1,777,268
BANK D	28/08/2003	07/07/2018	USD	LIBOR	186,150	1,232,816
BANK E	30/06/2003	30/06/2018	RMB	Benchmark interest rates	-	1,154,500
						8,111,714

	Starting date	Ending date	Currency	Interest rate (%)	31 December 2009	
					Amount in	Amount in RMB
					foreign currency	
BANK A	28/12/2007	27/12/2022	USD	LIBOR	231,050	1,577,656
BANK B	30/10/2008	29/10/2023	USD	LIBOR	312,000	2,130,398
BANK C	28/09/2007	28/08/2021	USD	LIBOR	298,182	2,036,045
BANK F	05/09/2006	30/06/2021	USD	LIBOR	219,685	1,500,056
BANK G	05/03/2008	30/06/2021	RMB	Benchmark interest rates	-	1,452,836
						8,696,991

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

	31 December 2010	31 December 2009
1-2 years	4,426,302	3,878,408
2-5 years	9,395,452	7,693,925
More than 5 years	9,401,339	10,813,116
	23,223,093	22,385,449

At 31 December 2010, the weighted average interest rate of long-term borrowings is 4.4% per annum (2009: 4.5%).

(29) Long-term payables

	31 December 2010	31 December 2009
Present value of min. lease payment for the fixed assets under financing lease	2,157,670	2,028,933
Less: finance lease payable within one year (Notes 5(27))	(472,400)	(527,352)
	1,685,270	1,501,581

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

	Term	Starting Amount	Interest rate (%)	Accrued interest	Ending balance	Borrowing conditions
The lessor of lease financing 2	5 years	579,018	Benchmark interest rates	84,348	540,997	Aircraft financial leasing
Changjiang Leasing	13 years	3,805,819	Floating interest rate	167,268	435,548	Aircraft financial leasing
The lessor of lease financing 4	12 years	1,610,896	Floating interest rate	2,773	334,591	Aircraft financial leasing
The lessor of lease financing 3	5 years	629,315	Floating interest rate	26,406	296,913	Aircraft financial leasing
The lessor of lease financing 5	5,10 years	1,036,857	Benchmark interest rates	33,786	210,121	Aircraft , analogue machine financial leasing
		7,661,905		314,581	1,818,170	

(b) Breakdown of Long-term payable under financing lease

	31 December 2010		31 December 2009	
	Amount in foreign currency	Amount in RMB	Amount in foreign currency	Amount in RMB
Changjiang Leasing	USD65,766 thousand Yuan	435,548	USD65,766 thousand Yuan	449,031
The lessor of lease financing 2	-	540,997	-	-
The lessor of lease financing 3	-	296,913	-	405,079
The lessor of lease financing 4	USD 50,522 thousand Yuan	334,591	USD66,652 thousand Yuan	455,114
The lessor of lease financing 5	-	210,121	-	207,868
The lessor of lease financing 6	-	165,942	-	221,480
Yangtze River Leasing	USD 19,600 thousand Yuan	129,805	-	-
The lessor of lease financing 8	-	30,835	-	46,394
The lessor of lease financing 9	USD 1,950 thousand Yuan	12,918	USD2,897 thousand Yuan	19,784
Others	-	-	-	224,183
		2,157,670		2,028,933

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

Payable for finance lease represents the minimum lease payments for the Group' s fixed assets held under finance leases less unrecognized finance charges (Note 11).

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

	31 December 2010	31 December 2009
1-2 years	424,209	375,789
2-5 years	788,426	714,328
More than 5 years	472,635	411,464
	1,685,270	1,501,581

## (30) Other non-current liabilities

	31 December 2010	31 December 2009
Deferred revenue (a)	335,266	266,814
Payable import tariffs and VATs for aircrafts and engines under financing lease	21,462	29,928
	356,728	296,742

### (a) Deferred revenue

	31 December 2010	31 December 2009
Unrealized sale-leaseback proceeds (i)	54,416	72,984
Regular passenger integral rewards (ii)	280,850	193,830
	335,266	266,814

### (i) 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.

	2010	2009
As at January 1	72,984	73,162
Current year additions	11,874	19,226
Amortized in this financial year	(30,442)	(19,404)
As at December 31	54,416	72,984

### (ii) Regular passenger integral rewards

	2010	2009
As at January 1	193,830	152,520
Current year additions	132,178	113,063
Current year reductions	(45,158)	(71,753)
As at December 31	280,850	193,830

## (31) Paid-in capital

	31 December 2009	Increase/Current year reductions-Others (Notes 1)	31 December 2010
Shares with sales restriction conditions -			
Shares held by domestic non-state-owned legal persons	337	297,619	297,956
Shares held by domestic state-owned legal persons	-	297,619	297,619
	337	595,238	595,575
Shares without sales restriction conditions -			
RMB ordinary shares	3,345,193	-	3,345,193
Foreign shares listed offshore	184,723	-	184,723
	3,529,916	-	3,529,916
	3,530,253	595,238	4,125,491

	31 December 2008	Increase/Current year reductions-Others (Notes 1)	31 December 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

## (32) Capital reserves

	31 December 2009	Current year additions	Current year reductions	31 December 2010
Capital premium(Notes 1)	3,823,150	2,390,279	-	6,213,429
Other capital surplus-				
Change in fair value of available-for-sale financial assets (Notes 5(7), Notes 5(48))	38,211	-	(54,746)	(16,535)
Investment properties converted from self-used real estates	31,168	-	-	31,168
Long-term investments settled with equity method	1,850	-	-	1,850
Others	-	17,573	(45,600)	(28,027)
Transfer of capital surplus recognized under the previous accounting system	29,143	-	-	29,143
	3,923,522	2,407,852	(100,346)	6,231,028

	December 31, 2008	Current year additions	Current year reductions	31 December 2009
Capital premium	3,823,150	-	-	3,823,150
Other capital surplus-				
Change in fair value of available-for-sale financial assets	-	38,211	-	38,211
Investment properties converted from self-used real estates	-	31,168	-	31,168
Long-term investments settled with equity method	1,850	-	-	1,850
Transfer of capital surplus recognized under the previous accounting system	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.



## (33) Surplus reserves

	31 December 2009	Current year additions	Current year reductions	31 December 2010
Statutory surplus reserve	169,098	214,820	-	383,918
	December 31, 2008	Current year additions	Current year reductions	31 December 2009
Statutory surplus reserve	169,098	-	-	169,098

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities. Pursuant to a resolution at the Board of Directors, the Company appropriated 10% of net profit, amounting to RMB 214, 820 thousand Yuan for the year 2010, (2009: Nil) to the statutory surplus reserve.

## (34) Undistributed profits/( Accumulated loss)

	2010	2009
Accumulated loss as at January 1	(1,074,046)	(1,408,716)
More: Net profits ascribed to the shareholders of the parent company	3,013,912	334,670
Less: Provided Surplus reserves	(214,820)	-
Undistributed profits/(accumulated losses )as at December 31	1,725,046	(1,074,046)

As at 31 December 2010, undistributed profits included 119,663,097 Yuan that is subsidiaries' surplus reserve which attributable to the Company (31 December 2009: Nil).

According to the Board's resolution on 14 March 2011, the Board proposes to pay cash dividends to all shareholders RMB0.05 Yuan per share. It is base on the calculation of outstanding shares being 4,125,491,000, the proposed cash dividends being 206,274,550 Yuan. The above proposal is still pending for the approval of shareholder meeting (Notes 10 (2)).

## (35) Minority interest

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

	31 December 2010	31 December 2009
Xinhua Airlines	678,209	510,381
Chang' an Airlines	206,813	38,255
Beijing Kehang	79,865	82,235
Golden-Deer Sales	5,982	5,982
Yanshan Funds	2,997	-
	973,866	636,853

(36) Revenue and cost of sales

	2010	2009
Main operations of revenue(a)	19,615,266	13,810,812
Other operations of revenue(b)	2,090,881	1,737,551
	21,706,147	15,548,363

	2010	2009
Main operations of cost of sales	14,876,370	12,353,951
Other operations of cost of sales	616,552	902,243
	15,492,922	13,256,194

(a) Main operations of revenue and Main operations of cost of sales

	2010		2009	
	Main operations of revenue	Main operations of cost of sales	Main operations of revenue	Main operations of cost of sales
Passenger income	18,354,693	13,949,890	12,848,380	11,529,463
Freight and excess luggage income	826,273	626,652	482,322	432,914
Charter flight income	395,339	299,828	435,971	390,560
Mileage accumulated points sales incomes	38,961	-	44,139	-
Food incomes	-	-	-	1,014
	19,615,266	14,876,370	13,810,812	12,353,951

(b) Other operations of revenue and Other operations of cost of sales

	2010		2009	
	Other operations of revenue	Other operations of cost of sales	Other operations of revenue	Other operations of cost of sales
Aircraft leasing business income (Notes 7(5)(b))	1,612,648	563,068	1,355,565	746,782
Housing rental income	205,760	36,094	34,024	10,201
Income from ticket cancellation charges	101,383	-	77,028	-
Commission income	33,249	-	28,176	-
Service income related to land freight	23,220	13,352	27,717	16,293
Pilot rental income	611	-	6,407	-
Gain on disposal of Investment properties	-	-	122,164	120,517
Others	114,010	4,038	86,470	8,450
	2,090,881	616,552	1,737,551	902,243

The aircraft leasing costs excluding the lease interests is 538,382 thousand yuan (2009: 450,310 thousand yuan). Such interests are included in the finance expenses.

(c) Revenues of the Top 5 customers of the Group

In 2010, the total revenues of the Top 5 customers of the Group are 7,002,295 thousand yuan (2009: 7,358,932 thousand yuan), accounting for 32% of the total revenues of the Group (2009: 47%). Details are as follows:

	Revenue	% of the total Revenues of the Group
Customer A	5,786,380	27%
Hainan Baixiang	372,194	1%
Tianjin Airlines	326,292	1%
Capital Airlines	524,896	2%
Grand China Airlines	122,526	1%
	7,132,288	32%

(37) Tax and surcharges

	2010	2009
Business tax	605,306	479,360
City maintenance and construction tax	12,720	10,594
Educational surcharge	6,331	5,318
Others	3,219	348
	627,576	495,620

Tax and surcharge standard please see Notes 3.

(38) Selling and distribution expenses

	2010	2009
Agency commission	648,423	350,686
PC-based seat reservation fees	173,270	156,027
Wages, bonuses, overtime pay	89,880	84,798
External station expenses	58,421	48,947
Rent	51,262	28,707
Others	70,504	78,447
	1,091,760	747,612

(39) General and administrative expenses

	2010	2009
Depreciation	60,971	48,832
Wages, bonuses, overtime pay	49,653	46,415
Insurance	48,968	50,333
Various types of taxes	36,789	23,791
Housing Fund	31,674	31,955
Communications costs	25,923	13,446
Business expense	23,585	21,416
Publicity and advertising	19,794	4,649
Staff welfare	17,153	17,916
Ground transportation expense	15,812	12,608
Property expense	15,109	21,457
Consultation expense	14,264	19,205
Audit inspection charges	12,447	7,189
Union funds	11,104	25,969
Rent	10,282	5,333
Others	90,208	60,514
	483,736	411,028

(40) Finance expenses 净

	2010	2009
Interest expenses	2,229,310	2,051,565
Less: Deposit interest income	(156,580)	(90,315)
Capitalized interest	(200,750)	(597,255)
Getting back of the fund fees of investment	-	(128,352)
Exchange gains or losses	(370,595)	(7,808)
Others	86,901	84,780
	1,588,286	1,312,615

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

(41) Gains on changes in fair value

	2010	2009
Investment properties (Notes 5(9))	347,983	597,743
Forward foreign exchange contracts (a)	6,840	(7,016)
Disposal of Investment properties	-	(5,936)
	354,823	584,791

(a) Forward foreign exchange contracts

In order to cope with the risks on the change of the exchange rate against USD, in 2010, the Company and the Bank of China signed forward exchange settlement and sales agreements with the total amount of USD3,144 thousand Yuan related to the loan contract. As at 31 December 2010, the fair value of such product and its change were recorded in the current income, the floating losses of RMB6,840 thousand Yuan were also recorded in profit or loss and the financial liabilities held for trading.

(42) Investment income

	2010	2009
Dividend income from available-for-sale financial assets	14,886	-
Share of profit of investees under equity method(a)	(6,469)	(1,183)
Cash dividends declared by investees under cost method (b)	17,211	5,369
Income from disposal of long-term equity investments (c)	52	3,215
Others	5	1,491
	25,685	8,892

The Group has no significant limit of importing back the investment income.

(a) Long-term equity Investment income under equity method

The invested companies whose Investment income 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:

	2010	2009	Reason for the increase/decrease for the previous financial year
HNA Import & Export	6,014	3,038	Confirmed investment gains and losses
Hainan Hansha Training	(1,260)	289	Confirmed investment gains and losses
Yanjing Hotel	(5,524)	(1,460)	Confirmed investment gains and losses
Xin Guo Hotel	(5,699)	(2,970)	Confirmed investment gains and losses
Beijing Vision	-	(80)	Confirmed investment gains and losses
	(6,469)	(1,183)	

(b) Long-term equity Investment income under cost method

The invested companies whose Investment income 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:

	2010	2009	Reason for the increase/decrease for the previous financial year
TravelSky Tech	12,123	297	Bonus for this financial year
Haikou Meilan	2,900	698	Bonus for this financial year
Shenhua Finance	1,894	4,108	Bonus for this financial year
Shenzhen Civil Aviation Cares	252	224	Bonus for this financial year
Hainan Civil Aviation Cares	42	42	Bonus for this financial year
	17,211	5,369	

(c) Income from disposal of long-term equity investments

Such revenues was due to the equity disposal of Beijing Vision which Xinhua Airlines hold its equity since it had been withdraw in 2010(Notes 5(8)(a)).

(43) Impairment losses

	2010	2009
Bad debts	-	(15,483)

(44) Non-operating income

	2010	2009	Amount recorded in extraordinary profit and loss of 2010
Asset transfer profit(a)	510,098	-	510,098
Government grant (b)	207,731	492,851	207,731
Pilot transfer income	73,950	80,000	73,950
Compensation income	17,842	5,000	17,842
Payments unable	4,736	3,967	4,736
Gain on disposal of fixed assets	4,580	68	4,580
Others	77,934	2,153	77,934
	896,871	584,039	896,871

- (a) At December of 2010, the group signed "Aircraft Maintenance Equipment Transfer Contracts" with Grand China Technology, the group respectively transfer the fixed assets, consumable aviation supplies, land use rights and related maintenance licensing qualification with the net value of 493,787 thousand Yuan, 311,749 thousand Yuan, 5,655 thousand Yuan to Grand China Technology. The transfer price is 1,272,047 thousand Yuan (Notes 7(5)(f)). The related net transfer profit is 460,856,000. The transfer amount has been fully collected in January 2011.

At December of 2010, the company signed "D328 Aircraft Transfer Contract" with HNA Airlines Holdings. The company transfer 22 D328 aircrafts with the net value of 1,118,897,000 to HNA Airlines Holdings, the transfer price is 1,143,501 thousand Yuan (Notes 7(5)(f)), the net transfer profit is 24,604 thousand Yuan. The transfer amount has been fully collected in January 2011.

At June of 2010, the group signed "Aircraft Transfer Contract" with Hong Kong Airlines, the group transfer 3 Boeing aircrafts with the net value of 267,402 thousand Yuan to Hong Kong Airlines, the transfer price is 290,965 thousand Yuan (Notes 7(5)(f)), the net transfer profit is 23,563 thousand Yuan. The transfer amount has been fully collected before 31 December 2010.

At November of 2010, the group signed "Assets Transfer Contract" with HNA Aviation Sales, the group transfer the fixed assets with the net value of 6,945,000 to HNA Aviation Sales, the transfer price is 8,020 thousand Yuan (Notes 7(5)(f)), the net transfer profit is 1,075 thousand Yuan. The transfer amount has been fully collected in January 2011.

(b) Breakdown of government subsidies

	2010	2009	Description
Civil aviation infrastructure funds	-	348,883	Note
Refunds of taxes	63,519	27,271	Refunds of taxes from the financial department and other departments
Other government subsidies	144,212	116,697	Received interests subsidized by the fiscal department and other subsidies
	207,731	492,851	

Note: 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 1 July 2008 to 30 June 2009 adopts the reimbursement policy. (Amount in 2009 is the civil aviation infrastructure funds received by the Group).

(45) Non-operating expenses

	2010	2009	Amount recorded in extraordinary profit and loss of 2010
Asset transfer loss(a)	39,998	-	39,998
Loss on disposal of fixed assets	3,332	30,361	3,332
Retiree wage	-	593	-
Others	4,622	1,996	4,622
	47,952	32,950	47,952

(a) At December of 2011, two subsidiaries of the company-Xinhua Airlines and Shanxi Airlines signed "D328 Aircraft Transfer Contract" with HNA Airlines Holdings. Xinhua Airlines and Shanxi Airlines transfer 7 D328 aircrafts with the net value of 389,809 thousand Yuan to HNA Airlines Holdings. The transfer price is 349,811 thousand Yuan, the net transfer loss is 39,998 thousand Yuan. The transfer amount has been fully collected in January 2011.

(46) Income tax expenses

	2010	2009
Current income tax	350,969	2,006
Effect of EIT filing in the previous years	3,979	(15,427)
Deferred income tax	75,448	143,010
	430,396	129,589

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2010	2009
Total profit	3,651,294	485,549
Income tax expenses calculated at applicable tax rate	803,285	97,110
Effect of different tax rates of subsidiaries	26,920	13,619
Income not subject to tax	(5,703)	(1,425)
Expenses not deductible for tax purposes	2,874	3,883
Deductible losses from the use of the deferred tax assets unrecognized of the previous financial year	(120,183)	(4,370)
Utilization of previously unrecognized tax losses	(285,534)	-
Tax losses for which no deferred income tax asset was recognized	8,080	24,328
Deductible temporary differences of the deferred tax assets unrecognized of this financial year	23	(4,397)
Effect of the tax rate difference of the deferred tax liabilities recognized in this financial year	(3,345)	16,268
Effect of the final settlements of the previous years	3,979	(15,427)
Income tax expenses	430,396	129,589

## (47) Earnings per share

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

	2010	2009
Net Consolidated net profits ascribed to the ordinary shareholders of the parent company	3,013,912	334,670
Weighted average of outstanding ordinary shares	4,056,998	3,530,253
Basic earnings per share (RMB)	0.74	0.09

As at 31 December 2010, the Company had no potential dilutive ordinary shares outstanding (31 December 2009: Nil). The diluted earnings per share are the same as basic earnings per share.

## (48) Other comprehensive income

	2010	2009
Gain arising from available-for-sale financial assets	(67,484)	50,948
Less: Income tax relating to available-for-sale financial assets	12,738	(12,737)
Subtotal	(54,746)	38,211
Change in fair value from the conversion of self-used real estate to Investment properties	-	65,516
Less: Income tax effects of fair value variance from self-used housing transferred into Investment properties	-	(16,379)
Subtotal	(54,746)	49,137
	(54,746)	87,348



(49) Notes to consolidated cash flow statements

(a) Cash received relating to other operating activities:

	2010	2009
Recovered instrument deposits	1,498,958	649,309
Other Non-operating income	346,024	87,153
Other government subsidies	207,731	143,968
Recovered lease security deposits and maintenance reserves	29,091	16,560
Refunds of civil aviation infrastructure funds	-	348,883
Amortizations recovered from related parties	-	312,244
Others	30,454	22,068
	2,112,258	1,580,185

(b) Cash paid relating to other operating activities:

	2010	2009
Instrument and borrowing security deposits and other security deposits	1,796,423	194,633
Agency commission	648,423	347,327
Lease security deposits and maintenance reserves	310,246	324,206
PC-based seat reservation fees	173,270	154,298
Airport construction fees	78,548	4,438
External station expenses	58,421	48,540
Consultation and communication networking expenses	40,187	46,964
Advertising and promotion expenses	27,680	13,724
Office and activity expenses	27,677	33,301
Expenses for leased properties	25,391	61,357
Others	365,760	168,388
	3,552,026	1,397,176

(c) Cash received relating to other investing activities

	2010	2009
Received fund use fees of the recovered investment accounts	-	128,352
Cash received from other cash at bank and on hand	918,221	-
Deposit interests	129,702	173,905
	1,047,923	302,257

(d) Cash paid relating to other investing activities

	2010	2009
Fixed deposits	2,148,553	991,524

(e) Cash received relating to other financing activities

	2010	2009
Cash received from the discount of bill	3,127,952	-

(f) Cash paid relating to other financing activities

	2010	2009
Cashes paid to the discount of bill	1,358,000	-
Bills discounting interest and borrowing exchange gains and losses	174,020	-
Unitex security deposits (Notes 5(1)(b))	21,010	1,231,022
	1,553,030	1,231,022

(50) Supplementary information for the cash flow statement

(a) Supplementary information for the cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2010	2009
Net profit	3,220,898	355,960
More: Provisions for asset impairment	(5,208)	(15,483)
Depreciation of fixed assets (Notes 5(10))	2,432,899	1,790,036
Amortization of intangible assets (Notes 5(12))	5,863	6,150
Amortization of long-term prepaid expenses	61,623	104,750
Other non-current assets-amortization of loss on sale-leaseback	71,787	87,964
Gains on disposal of fixed assets, intangible assets and other long-term assets	(471,348)	28,646
Gains on change in fair value	(354,823)	(584,791)
Finance expenses	1,588,286	1,177,906
Investment loss	(25,685)	(8,892)
Increase in deferred tax liabilities (Notes 5(16))	75,448	143,010
Increase of mileage accumulated points in deferred revenue s	87,020	41,310
Amortization of sale-leaseback revenues in deferred revenues	18,568	(19,404)
Decrease/(increase) in inventories	214,998	(1,281)
Decrease/(increase) in operating receivables	(1,080,598)	427,893
Decease/(increase) in operating payables	636,515	(1,585,309)
Net cash flows from operating activities	6,476,243	1,948,465

Significant investing and financing activities that do not involve cash receipts and payments

	2010	2009
Fixed assets held under finance leases	642,727	145,255

Net increase in cash and cash equivalents

	2010	2009
Cash at end of year	12,713,740	10,348,355
Less: Cash at beginning of year	(10,348,355)	(6,002,936)
More: Cash equivalents at end of year	-	-
Less: Cash equivalents at beginning of year	-	-
Net increase in cash and cash equivalents	2,365,385	4,345,419

(b) Obtain subsidiaries

See Notes 4(3).

(c) Cashes and cash equivalents

	31 December 2010	31 December 2009
Cash at bank and on hand (Notes 5(1))	12,713,740	10,348,355
Including: Cash on hand	16,147	71,409
Bank deposits usable for payment at any time	12,697,593	10,276,946
Cash equivalents	-	-
Cash and cash equivalents at end of year	12,713,740	10,348,355

## 6 SEGMENT INFORMATION

The Group mainly provides airplane passenger transportation services, namely aviation operations segment. For other structurally separate management services, mainly contain hotel services, are merged into other segments.

The Revenue, Total profit/(losses), assets and liabilities of reporting segments of 2010 and 2009 listed as follows:

	2010				
	Aviation operations segment	Other segments	Offset between segments	Undistributed items(note)	Total
Main operations of revenue	19,615,266	-	-	-	19,615,266
Other operations of revenue	1,990,327	100,554	-	-	2,090,881
Revenue	21,605,593	100,554	-	-	21,706,147
Total profit	3,621,630	3,977	-	25,687	3,651,294
Total assets	75,192,700	7,132,014	(13,464,667)	2,692,748	71,552,795
Total liabilities	59,692,798	2,802,912	(4,382,264)	-	58,113,446
Depreciation and amortization expenses	2,265,044	235,341	-	-	2,500,385
Asset impairment losses	-	-	-	-	-
Capital expenditure	5,414,872	517,558	-	-	5,932,430

	2009				
	Aviation operations segment	Other segments	Offset between segments	Undistributed items(note)	Total
Main operations of revenue	13,804,233	6,579	-	-	13,810,812
Other operations of revenue	1,737,551	-	-	-	1,737,551
Revenue	15,541,784	6,579	-	-	15,548,363
Total profit	248,948	227,709	-	8,892	485,549
Total assets	61,769,164	3,844,909	(7,540,013)	1,269,365	59,343,425
Total liabilities	53,517,688	2,200,211	(3,560,154)	-	52,157,745
Depreciation and amortization expenses	1,897,142	5,039	-	-	1,902,181
Asset impairment losses	15,484	-	-	-	15,484
Capital expenditure	8,965,154	175,711	-	-	9,140,865

Note: Undistributed items mainly contain long-term equity investment, available for sale financial assets and other investment agreements.

## 7 RELATED PARTY RELATIONSHIP AND TRANSACTIONS

### (1) Parent company

#### (a) General information of the parent company

	Enterprise type	Place of registration	Legal representative	Nature of business	Organization code
Grand China Airlines	Foreign-funded	Haikou	Chen Feng	Traffic & transportation	76037451-5

The Company's ultimate controlling party is State-owned Assets Supervision and Administration Commission of Hainan Province

#### (b) Registered capital and changes in registered capital of the parent company:

	31 December 2009	Current year additions	Current year decreases	31 December 2010
Grand China Airlines	6,008,323,967	-	-	6,008,323,967

#### (c) The proportions of equity interests and voting rights in the Company held by the parent company:

	31 December 2010		31 December 2009	
	% interest held	% voting rights	% interest held	% voting rights
Grand China Airlines	44.22%	44.22%	51.68%	51.68%

### (2) Subsidiaries

The general information and other related information of the subsidiaries is set out in Note 4.

## (3) Associates

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% interest held	% voting rights	Organization code
Associates-								
Yanjing Hotel	Limited company	Beijing	Song Xiang	Hotel services	RMB 112,689,009	35%	35%	801379428
HNA Import&Export	Limited company	Haikou	Wang Junshan	Aviation electrolysis and other trading business	RMB 10,000,000	30%	30%	708866504
Hainan Hansha Training	Limited company	Haikou	Guo Jianming	Aircraft maintenance training services	USD 1,000,000	50%	50%	793148602
Haidao Construction	Limited company	Haikou	Li Aiguo	Commercial, management of hotel and golf course, Investing development and equity investment operations of energy, transportation, new technologies and new materials, tourism development, agricultural development, advisory service on investment	RMB 1,500,000,000	33%	33%	56240797-X

## (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	Under HNA Group's control	72123031-6
Tianjin Airlines	Under HNA Group's control	79496844-2
Yangtze River Real Estate	Under HNA Group's control	713859173
Yangtze River Leasing	Under HNA Group's control	621904344
Yunnan Xiangpeng	Under the same control of the parent company of the Company	76044470-4
Hong Kong Airlines	Under HNA Group's control	31717266
West Airlines	Under HNA Group's control	79804682-4
HNA Finance	Under HNA Group's control	102054341
HNA Hotel Group	Under HNA Group's control	70886444-5
HNA Industrial	Under HNA Group's control	79872285-3
Hainan Air Catering	Under HNA Group's control	62001238-7
Meilan Airport	Under the same control of the shareholder of the parent company	72127172-4
Capital airlines	Under HNA Group's control	70887277-9
Sanya Phoenix Airport	Under HNA Group's control	20136089-7
Yangtze River Express	Under HNA Group's control	741185823
Vigorous Vision	Under HNA Group's control	764222308
Air Catering Holding	Under HNA Group's control	62001238-7
HNA Tourism	Under HNA Group's control	735810119
Henghe Property Management	Under HNA Group's control	76597075-4
HNA Hotel Holding	Under HNA Group's control	76597075-4
HNA Safe	Under HNA Group's control	74779967-4

Related parties	Relationship	Organization code
Tianjing Bohai Leasing	Under HNA Group' s control	66882000-9
Xinhua Air Catering	Under HNA Group' s control	708866504
HNA Property Holdings	Under HNA Group' s control	79872661-9
Sanya Aviation & Tourism College	Under HNA Group' s control	767493509
International Business Hotel	Under HNA Group' s control	774259876
Information Company	Under HNA Group' s control	713859165
HNA Drinking	Under HNA Group' s control	747780842
Asia International	Under HNA Group' s control	201372564
Meilan HNA Hotel	Under HNA Group' s control	71386285-8
Beijing Tianchen	Under HNA Group' s control	101717916
Bohai Trust	Under HNA Group' s control	104323736
Kunming Yangtze River Real Estate	Under HNA Group' s control	781692977
Beijing HNA Real Estate	Under HNA Group' s control	789953019
HNA Real Estate Holding	Under HNA Group' s control	676067133
Beijing Hengshi	Under HNA Group' s control	746721509
Yangtze River Insurance Brokers	Under HNA Group' s control	756020300
Grand China Logistics Holding	Under HNA Group' s control	75840251-3
Yisheng Holding	Under HNA Group' s control	693161850
HNA Yi Holding	Under HNA Group' s control	676087572
HNA Commercial Holdings	Under HNA Group' s control	666902510
Beijing Business Culture	Under HNA Group' s control	691699673
HNA Aviation Sales	Under HNA Group' s control	70887276-0
HNA Property Management	Under HNA Group' s control	68199711-6
HNA Group (Hong Kong)	Under HNA Group' s control	36669070
Gansu Airport	Under HNA Group' s control	924594371
Grand China Logistics Ltd	Under HNA Group' s control	133960590
HNA Airlines Holdings	Under HNA Group' s control	68117653-7
Grand China Technology	Under HNA Group' s control	69890098-2
Shaanxi TanxiangYuan	Under HNA Group' s control	66414937-7
Northwest HNA Real Estate	Under HNA Group' s control	22062371-X
Beijing HNA Dingsheng	Under HNA Group' s control	78174712-4
HNA Airport Holdings	Under HNA Group' s control	75436025-6
HNA(Beijing) Aviation Ground Service Co., Ltd	Under HNA Group' s control	69636124-1
Lucky International Travel	Under HNA Group' s control	735090043
Xin Guo Hotel	Under HNA Group' s control	735560056

## (5) Related party transactions

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

Related party	Description	Pricing mode and decision procedure of related transactions	2010		2009	
			Amount	Percentage to the AMT of the same transactions	Amount	Percentage to the AMT of the same transactions
Xinhua Air Catering	Inflight meal purchase	Mutually agreed price	88,840	21%	72,665	25%
Hainan Air Catering	Inflight meal purchase	Mutually agreed price	38,081	9%	39,560	14%
HNA Drinking	Inflight meal purchase	Mutually agreed price	17,803	4%	15,089	5%
Meilan Airport	Landing fees	Government guidance price	93,598	4%	90,452	7%
Sanya Phoenix Airport	Landing fees	Government guidance price	43,500	2%	42,582	3%
Haikou Meilan	Landing fees	Government guidance price	31,199	1%	29,638	2%
Gansu Airport	Landing fees,	Government guidance price	25,522	1%	21,476	2%
Vigorous Vision	Advertising income	Mutually agreed price	25,000	67%	26,207	100%
HNA Import & Export	Import & export agency	Purchase cost priced at the rate (of 0.3%~3%)	22,379	100%	28,562	100%
Yisheng Holding	commissions for the agency for the ticket sales of related parties	Mutually agreed price	41,887	6.5%	-	-
Grand China Airlines	commissions from the agency for the ticket sales of related parties	Mutually agreed price	9,160	28%	7,119	25%
Tianjin Airlines	commissions from the agency for the ticket sales of related parties	Mutually agreed price	8,227	25%	9,166	33%
Capital Airlines	commissions from the agency for the ticket sales of related parties	Mutually agreed price	600	2%	445	0.2%
West Airlines	commissions from the agency for the ticket sales of related parties	Mutually agreed price	382	1%	246	1%
Yunnan Xiangpeng	commissions from the agency for the ticket sales of related parties	Mutually agreed price	189	1%	110	0.4%
HNA Aviation Sales	Seats and regular passenger service charges	Mutually agreed price	64,829	10%	-	-
Grand China Technology	Aircraft inspection, airline maintenance and maintenance of accessories	Mutually agreed price	309,396	100%	-	-
Yisheng Holding	New deer card sales revenue	Mutually agreed price	12,265	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 board 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

The group as the lessor

Lessor	Lessee	Leased assets	Starting date	Ending date	Leasing income basis	Leasing income
The Group	Tianjin Airlines	Aircraft leasing	2007.04.01	Automatically extended each year	Mutually agreed price	625,171
The Group	Yunnan Xiangpeng	Aircraft leasing	2006.02.22	2012.06.30	Mutually agreed price	151,602
The Group	Grand China Airlines	Aircraft leasing	2007.11.30	Automatically extended each year	Mutually agreed price	122,526
The Group	West Airlines	Aircraft leasing	2007.06.14	Automatically extended each year	Mutually agreed price	148,386
The Group	Capital Airlines	Aircraft leasing	2008.12.18	Automatically extended each year	Mutually agreed price	524,896
The Group	Yangtze River Express	Aircraft leasing	2010.04.16	Automatically extended each year	Mutually agreed price	40,067
The Company	HNA Property Holdings	Real estate leasing	2009.01.01	2011.10.15	Mutually agreed price	7,421
The Company	HNA Tourism	Real estate leasing	2009.04.16	2011.10.15	Mutually agreed price	7,627
The Company	Yisheng Holding	Real estate leasing	2009.12.01	2014.11.30	Mutually agreed price	4,910
Beijing Kehan	HNA Hotel Group	Real estate leasing	2009.04.30	2012.03.31	Mutually agreed price	84,502
Beijing Kehan	HNA Group	Real estate leasing	2009.04.30	2011.09.30	Mutually agreed price	6,663
						1,723,771

The HNA Group and the HNA Hotel Group etc committed to renew leasing the above real estate when the lease agreements expired.

The group as the lessee

Lessor	Lessee	Leased assets	Starting date	Ending date	Rental expenditure basis	Rental expenditure
Yangtze River Leasing	The company	Aircraft engines	2010.07.15	2017.11.12	Mutually agreed price	13,345
Meilan Airport	The company	Airport terminal	2009.02.26	2010.12.31	Mutually agreed price	6,629
						19,974



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

Guarantor	Guarantee	Amount	Starting date	Ending date	Guarantee provided
Short-term borrowing					
HNA Group	Hainan Airlines	5,937,305	10/03/2010	28/12/2011	No
Grand China Airlines	Hainan Airlines	2,500,000	15/01/2010	16/09/2011	No
HNA Group	Xinhua Airlines	370,000	25/03/2010	17/11/2011	No
HNA Group and Capital Airlines	Hainan Airlines	330,000	27/09/2010	26/09/2011	No
HNA Finance	Xinhua Airlines	260,000	12/03/2010	17/11/2011	No
HNA Group and Grand China Airlines	Hainan Airlines	230,000	26/10/2010	25/11/2011	No
Grand China Airlines	Chang' an Airlines	100,000	28/12/2010	27/12/2011	No
HNA Commercial Holdings	Beijing Kehang	50,000	30/09/2010	28/09/2011	No
Meilan Airport	Xinhua Airlines	40,000	18/06/2010	18/06/2011	No
		9,817,305			
Long-term borrowing					
HNA Group	Hainan Airlines	2,789,587	02/08/2002	10/04/2022	No
HNA Group	Chang' an Airlines	1,270,648	30/03/2005	28/08/2021	No
HNA Group and Meilan Airport	Hainan Airlines	700,000	30/11/2010	29/11/2013	No
Grand China Airlines	Hainan Airlines	636,227	21/08/2008	18/05/2012	No
HNA Group	Xinhua Airlines	476,464	24/05/2007	23/05/2021	No
HNA Airport Holdings	Hainan Airlines	362,593	19/12/2003	20/12/2015	No
HNA Group and HNA Finance	Hainan Airlines	270,000	30/07/2009	29/07/2011	No
HNA Group and Meilan Airport	Shanxi Airlines	240,000	19/10/2004	17/10/2016	No
HNA Group and Grand China Airlines	Hainan Airlines	160,000	07/08/2009	02/08/2012	No
HNA Group and Sanya Phoenix Airport	Hainan Airlines	110,000	30/09/2009	30/09/2012	No
HNA Group	Beijing Kehang	50,000	31/03/2006	30/03/2011	No
		7,065,519			
		16,882,824			

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

Guarantor	Guarantee	Amount	Starting date	Ending date	Guarantee provided
Short-term borrowings					
Hainan Airlines	HNA Group	111,700	06/06/2010	06/06/2011	No
Long-term borrowings					
Hainan Airlines	HNA Group	794,790	31/12/2009	30/12/2014	No
Hainan Airlines	Yangtze River Leasing	553,658	01/02/2007	31/12/2018	No
Hainan Airlines	HNA Tourism	360,000	12/07/2009	11/07/2011	No
Hainan Airlines	Yangtze River Leasing	33,000	01/02/2007	31/12/2018	No
		1,741,448			
		1,853,148			

(e) Loans at call

Company	Incoming amount	Incomin g date	Repaid amount	Repayment date	Outgoing amount	Outgoing date	Received amount	Reception date
Amount as at January 1	32,662	-	-		-		-	
Changjiang Leasing	10,505	26/04/2010	7,581	26/03/2010	-		-	
Changjiang Leasing	-		14,627	19/08/2010	-		-	
Changjiang Leasing	-		835	15/10/2010	-		-	
	43,167		23,043		-		-	
Amount as at January 1	6,896		-		-		-	
HNA Group	-		6,342	04/02/2010	-		-	
	6,896		6,342		-		-	
Amount as at January 1	19,003		-		-		-	
Yangtze River Leasing	135,000	04/01/2010	10,117	20/01/2010	-		-	
Yangtze River Leasing	20,000	04/01/2010	35,477	19/03/2010	-		-	
Yangtze River Leasing	9,000	04/01/2010	35,370	19/03/2010	-		-	
Yangtze River Leasing	25,000	04/01/2010	10,101	26/04/2010	-		-	
Yangtze River Leasing	-		42,771	18/06/2010	-		-	
Yangtze River Leasing	-		10,007	23/07/2010	-		-	
Yangtze River Leasing	-		40,132	17/09/2010	-		-	
Yangtze River Leasing	-		9,877	28/10/2010	-		-	
	208,003		193,852		-		-	
Shaanxi TanxiangYuan	3,000	21/01/2010	10,000	02/12/2010	-		-	
Shaanxi TanxiangYuan	4,250	20/05/2010	-		-		-	
Shaanxi TanxiangYuan	1,000	27/08/2010	-		-		-	
Shaanxi TanxiangYuan	1,000	15/09/2010	-		-		-	
Shaanxi TanxiangYuan	1,000	26/10/2010	-		-		-	
Shaanxi TanxiangYuan	1,000	02/11/2010	-		-		-	
Shaanxi TanxiangYuan	8,000	30/11/2010	-		-		-	
Shaanxi TanxiangYuan	2,000	30/11/2010	-		-		-	
	21,250		10,000		-		-	
Amount as at January 1	64,033		-		-		-	
Northwest HNA Property	1,500	12/01/2010	500	09/03/2010	-		-	
Northwest HNA Property	13,000	19/01/2010	25,000	31/03/2010	-		-	
Northwest HNA Property	500	13/06/2010	200	20/08/2010	-		-	
Northwest HNA Property	500	28/06/2010	100	18/08/2010	-		-	
Northwest HNA Property	800	13/07/2010	150	11/09/2010	-		-	
Northwest HNA Property	514	09/08/2010	170	17/09/2010	-		-	
Northwest HNA Property	-		300	27/09/2010	-		-	
Northwest HNA Property	-		200	26/10/2010	-		-	
Northwest HNA Property	-		100	26/10/2010	-		-	
Northwest HNA Property	-		50,000	11/11/2010	-		-	
Northwest HNA Property	-		500	28/12/2010	-		-	
	80,847		77,220		-		-	

Company	Incoming amount	Incomin g date	Repaid amount	Repayment date	Outgoing amount	Outgoing date	Received amount	Reception date
Asia International	100,000	12/02/2010	30,000	25/02/2010	-		-	
Asia International	-		70,000	12/06/2010	-		-	
	100,000		100,000		-		-	
Amount as at January 1	2,000		-		-		-	
HNA Hotel Holdings	12,000	19/03/2010	13,851	12/08/2010				
	14,000		13,851					
Yangtze River Real Estate	48,000	30/11/2010	-		-		-	
Beijing HNA Dingsheng	31,500	31/10/2010	23,000	16/11/2010	-		-	
Amount as at January 1	2,511		-		-		-	
Beijing HNA Property	35,000	10/09/2010	100	31/03/2010	-		-	
Beijing HNA Property	-		600	30/04/2010	-		-	
Beijing HNA Property	-		27,400	16/11/2010	-		-	
	37,511		28,100		-		-	
Beijing Tianchen	12,880	10/02/2010	-		-		-	
Beijing Hengshi	7,000	04/01/2010	200	30/04/2010	-		-	
Beijing Hengshi			100	30/04/2010	-		-	
	7,000		300		-		-	
HNA Property Holdings	20,000	12/03/2010	20,000	11/11/2010	-		-	
HNA Property Holdings	15,100	14/01/2010	2,100	28/01/2010	-		-	
HNA Property Holdings	120,000	21/01/2010	1,200	28/01/2010	-		-	
HNA Property Holdings	8,000	03/02/2010	7,750	04/02/2010	-		-	
HNA Property Holdings	38,000	11/02/2010	35,000	11/02/2010	-		-	
HNA Property Holdings	80,000	11/03/2010	50,000	24/02/2010	-		-	
HNA Property Holdings	28,000	11/03/2010	15,000	30/03/2010	-		-	
HNA Property Holdings	2,000	26/03/2010	2,000	26/03/2010	-		-	
HNA Property Holdings	50,000	30/03/2010	3,000	01/03/2010	-		-	
HNA Property Holdings	15,000	31/03/2010	108,000	11/03/2010	-		-	
HNA Property Holdings	18,000	22/06/2010	5,000	08/03/2010	-		-	
HNA Property Holdings	18,000	22/06/2010	15,000	01/04/2010	-		-	
HNA Property Holdings	50,000	13/09/2010	42,000	12/06/2010	-		-	
HNA Property Holdings	17,012	17/09/2010	18,000	22/06/2010	-		-	
HNA Property Holdings	10,000	19/11/2010	3,500	22/06/2010	-		-	
HNA Property Holdings	-		58,000	12/08/2010	-		-	
HNA Property Holdings	-		47,000	26/09/2010	-		-	
HNA Property Holdings	-		3,000	17/09/2010	-		-	
HNA Property Holdings	-		10,000	19/11/2010	-		-	
HNA Property Holdings	-		10,000	19/11/2010	-		-	
	489,112		455,550		-		-	

The above amounts include 1,427,010,000 Yuan which was paid by the Group on behalf of HNA Group and some subsidiaries under HNA Group's control.

(f) Assets transfer

Related party	Description	Type	Pricing principle	2010		2009	
				Amount	Percentage to the AMT of the same transactions	Amount	Percentage to the AMT of the same transactions
HNA Airlines Holdings (note 5 (44)(a))	Transfer of the aircraft	Assets transfer	Assessed value	1,493,312	84%	-	-
Grand China Technology (note 5 (44)(a))	Transfer of aviation material and land etc	Assets transfer	Assessed value	1,272,047	100%	-	-
Hong Kong Airlines (note 5 (44)(a))	Transfer of the aircraft	Assets transfer	Assessed value	290,965	16%	-	-
HNA Aviation Sales (note 5 (44)(a))	Transfer of office equipment	Assets transfer	Mutually agreed price	8,020	100%	-	-
HNA Safe	Transfer of vehicles	Assets transfer	Mutually agreed price	1,417	100%	-	-
Xinhua Air Catering	Transfer of vehicles	Assets transfer	Mutually agreed price	-	-	8	-
Tianjing Airlines	Transfer of vehicles	Assets transfer	Mutually agreed price	-	-	1,984	1%
HNA Group	Transfer of Buildings	Assets transfer	Mutually agreed price	-	-	153,871	62%
Xinguo Hotel	Transfer of Buildings and land	Assets transfer	Mutually agreed price	-	-	69,515	28%
				3,065,761		225,378	

(g) Equity transfer

Related party	Description	Type	Pricing principle	2010		2009	
				Amount	Percentage to the AMT of the same transactions	Amount	Percentage to the AMT of the same transactions
HNA Airlines Holdings(i)	Transferee of equity	Non-operating	Mutually agreed price	2,464,850	100%	0	0
HNA Group	Transfer of equity	Non-operating	Mutually agreed price	-	-	3,312	4%
Tianjing Bohai Leasing operating	Transfer of equity	Non-					
	Mutually agreed price	-	-	90,000	96%		
				2,464,850		93,312	

(i) In 2010, HNA Airlines Holdings transferred 100% shares of three wholly-owned subsidiaries - Hainan Hangpeng, Hainan Guoxu and Hainan Guoshan to the Company, at a consideration of 2,464,850 thousand Yuan (Note 4(3)(b)).

(h) Remuneration of key management

	2010	2009
Remuneration of key management	2,349	1,465

(i) Recovered Advances to suppliers for investment

	2010	2009
Advances to suppliers for equity	-	1,447,847
Fund application fees	-	128,352
	-	1,576,199

(j) Others related party transactions

Related party	Description	2010		2009	
		Amount	Percentage to the AMT of the same transactions	Amount	Percentage to the AMT of the same transactions
Capital Airlines	Pilot transfer	48,700	72%	9,900	13%
Yangtze River Express	Pilot transfer	5,300	8%	4,200	5%
Yunnan Xiangpeng	Pilot transfer	4,200	6%	24,700	31%
Tianjing Airlines	Pilot transfer	3,700	5%	28,650	36%
West Airlines	Pilot transfer	3,300	5%	-	-
Capital Airlines	Pilot leasing	582	95%	-	-
Yunnan Xiangpeng	Pilot leasing	18	3%	2,535	39.6%
Grand China Airlines	Pilot leasing	10	2%	-	-
West Airlines	Pilot leasing	-	-	922	14.4%
Yangtze River Express	Pilot leasing	-	-	2,306	36%
Yunnan Xiangpeng	Maintenance and guarantee services (i)	136,476	27%	65,132	3.7%
	Reimbursed expenses (ii)	398	0.1%	4,557	0.3%
Capital Airlines	Maintenance and guarantee services (i)	105,741	21%	77,367	4.5%
	Reimbursed expenses (ii)	16,797	3%	41,332	2.4%
West Airlines	Maintenance and guarantee services (i)	75,223	15%	26,646	1.5%
	Reimbursed expenses (ii)	391	0.1%	1,123	0.1%
Tianjing Airlines	Maintenance and guarantee services (i)	54,243	11%	146,227	8.4%
	Reimbursed expenses (ii)	27,314	5%	56,769	3.3%
Yangtze River Express	Maintenance and guarantee services (i)	43,586	9%	19,244	1.1%
	Reimbursed expenses (ii)	227	0.04%	1,273	0.1%
Grand China Airlines	Maintenance and guarantee services (i)	28,477	6%	30,933	1.8%
	Reimbursed expenses (ii)	812	0.2%	5,732	-
HNA Finance	Interest income	77,140	49%	48,706	22%
Beijing HNA Property	Interest expense amortization	2,739	0.1%	11,359	1%
HNA Finance	Interest expense	1,774	0.1%	1,794	0.1%
HNA Hotel Group	Fund application fees	-	-	128,352	100%
Bohai Trust	Borrowing	-	-	300,000	1.24%
Bohai Trust	Borrowing interest expense	-	-	21,750	1%

(i) The above expenses are mainly charged aviation supplies and rotables for the Group to provide maintenance and guarantee services to the related parties.

(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) Receivables from and payables to related parties

Accounts receivable from related parties

		31 December 2010		31 December 2009	
		Book balance	Provisions for bad debts	Book balance	Provisions for bad debts
Cash at bank and on hand	HNA Finance	4,814,360	-	3,937,470	-
Interests receivable	HNA Finance	31,088	-	9,171	-
Accounts receivable	Yisheng Holding	95,804	-	-	-
	Capital Airlines	54,721	-	-	-
	Tianjing Airlines	20,133	-	-	-
	Others	4,259	-	-	-
		174,917	-	-	-
Other receivables	HNA Airlines Holdings	1,496,904	-	-	-
	Grand China Technology	1,256,228	-	-	-
	West Airlines	12,696	-	-	-
	Yunnan Xiangpeng	8,801	-	-	-
	HNA Safe	930	-	2,482	-
	HNA Property Management	-	-	2,492	-
	Xinhua Air Catering	-	-	2,108	-
	Information Company	-	-	2,070	-
	Others	22,622	-	10,138	-
		2,798,181	-	19,290	-
Advances to suppliers	HNA Import & Export	133,127	-	134,458	-
	Others	3,731	-	65	-
		136,858	-	134,523	-

## Payable to related parties

		31 December 2010	31 December 2009
Notes payable	HNA Import & Export	2,049,952	180,000
	Sanya Phoenix Airport	50,000	-
		2,099,952	180,000
Interests payable	HNA Finance	106	-
Accounts payable	Meilan Airport	97,906	140,159
	Grand China Airlines	28,319	87,246
	Haikou Meilan	12,094	22,703
	HNA Airport Holding	10,955	-
	Xinhua Air Catering	8,613	998
	HNA Group(Hong Kong)	4,853	40,547
	Tianjing Airlines	-	29,773
	Capital Airlines	-	2,720
	Yunnan Xiangpeng	-	18,142
	West Airlines	-	3,707
	Changjiang Leasing	-	32,662
	Gansu Airport	-	19,232
	Northwest HNA Property	-	15,415
	Hong Kong Airlines	-	35
	Other	26,817	225,859
		189,557	639,198
Other payables	Yangtze River Real Estate	48,000	-
	HNA Aviation Sales	28,814	-
	Changjiang Leasing	20,183	790
	Yangtze River Leasing	14,268	19,003
	Shaanxi TanxiangYuan	11,249	-
	Yangtze River Insurance Brokers	9,331	2,578
	HNA Hotel Group	7,143	5,500
	Beijing Hengshi	6,800	-
	HNA Hotel Holdings	5,387	3,291
	Beijing Tianchen	3,657	-
	HNA Property Holdings	-	135,000
	Capital Airlines	-	48,954
	Yunnan Xiangpeng	-	15,245
	Others	24,048	30,374
		178,880	260,735

## 8 Commitments in relation to related parties

The commitments in relation to related parties contracted for but not yet necessary to be recognised on the balance sheet by the Group at the balance sheet date are as follows:

	31 December 2010	31 December 2009
Leased out under operating leases		
Capital Airlines	321,754	513,780
West Airlines	176,529	36,954
Tianjing Airlines	142,566	209,555
Grand China Airlines	111,458	112,665
Yunnan Xiangpeng	41,411	30,850
Yangtze River Express	19,404	-
	813,122	903,804

## 9 Commitments

### (1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessarily recognized on the balance sheet are as follows:

	31 December 2010	31 December 2009
Aircraft purchase	28,832,676	24,090,483
Buildings, machinery and equipment	432,497	383,265
	29,265,173	24,473,748

### (2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarized as follows:

	31 December 2010	31 December 2009
Within 1 year	1,627,682	1,599,083
1-2 years	1,521,237	1,488,907
2-3 years	1,410,609	1,373,970
More than 3 years	5,716,313	4,031,115
	10,275,841	8,493,075

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

The capital expenditure commitments and operating lease commitments of the Group as at 31 December 2009 were performed as promised.

## 10 Matters after the Balance Sheet Date

- (1) Pursuant to the board minutes of 7 March 2011, the company intends to issue corporate bonds in 2011, total coupon bonds issued no more than 5 billion Yuan. This issuance of corporate bonds will to be a fixed interest rate, and its issue period no more than 5 years.



- (2) Pursuant to the board minutes of 14 March 2011, the board proposes to distribute cash dividends to all shareholders, RMB 0.05 per share, calculated according to the issued shares of 4,125,491,000, to distribute cash dividends RMB 206,274,550, the above proposal is still pending for the approval of shareholder meeting.

## 11 Leases

The Group leases fixed assets by means of financing lease (note5 10(a)). The payable rentals in the future are summarized in the following table:

	31 December 2010	31 December 2009
Within 1 year	549,523	571,696
1-2 years	480,793	415,121
2-3 years	541,391	342,487
More than 3 years	930,346	1,005,657
	2,502,053	2,334,961

As at 31 December 2010, the unrecognized financing charge amounts to 344,383 thousand Yuan (31 December 2009: 306,028 thousand Yuan) (Note 5 29(b)).

## 12 Business combination

See Note 4 (3).

## 13 Contingencies

Except the guarantees disclosed in Note (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.

## 14 Assets and Liabilities at Fair Value

	31 December 2009	Profit or loss on the change of fair value of this financial year	Change in accumulative fair value recognized in equities	31 December 2010
Financial assets-Investment property measured at fair value (Note 5(9))	5,541,735	347,983	31,168	9,873,489
Available-for-sale financial assets (Note 5(7))	647,048	-	16,536	579,690
	61,887,783	347,983	47,704	10,453,179
Financial liabilities held for trading (Note 5(19))	7,016	(6,840)	-	176

**15 Financial Assets and Liabilities in Foreign Currency**

	31 December 2010	31 December 2009
Cash at hand and cash in bank	226,383	1,368,283
Accounts receivable	38,011	4,475
Other receivable	55,891	137,458
	320,285	1,510,216
Accounts payable	1,136,977	1,459,741
Short-term borrowings	517,506	2,939,172
Long-term borrowings	13,130,310	13,099,251
	14,784,793	17,498,164

**16 Financial instruments and the risks**

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

**(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) Market Risk**
**(a) Foreign exchange risk**

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

As at 31 December 2010 and 2009, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized below:

	31 December 2010		
	USD	Other	Total
Foreign financial assets -Cash at bank and on hand	186,302	40,081	226,383
Accounts receivable	21,990	16,021	38,011
Other receivable	54,678	1,213	55,891
Other non-current assets	816,345	-	816,345
	1,079,315	57,315	1,136,630
Foreign financial liabilities -Short-term borrowings	517,009	497	517,506
Accounts payable	1,121,872	15,105	1,136,977
Other payables	66,545	-	66,545
Long-term borrowings	13,021,188	109,122	13,130,310
Long-term payables	912,862	-	912,862
Financial liabilities held for trading	(20,820)	-	(20,820)
	15,618,656	124,724	15,743,380

	31 December 2009		
	USD	Other	Total
Foreign financial assets -Cash at bank and on hand	1,339,980	28,303	1,368,283
Accounts receivable	27	4,448	4,475
Other receivable	137,458	-	137,458
Other non-current assets	558,310	-	558,310
	2,035,775	32,751	2,068,526
Foreign financial liabilities -Short-term borrowings	2,939,172	-	2,939,172
Accounts payable	1,424,226	35,515	1,459,741
Other payables	18,020	-	18,020
Long-term borrowings	13,099,251	-	13,099,251
Long-term payables	923,929	-	923,929
Financial liabilities held for trading	(1,240,335)	-	(1,240,335)
	17,164,263	35,515	17,199,778

As at 31 December 2010, if the currency had weakened/strengthened by 10 % against the USD while all other variables had been held constant, the Group's net profit for the year would have been approximately 1,456,016 thousand Yuan (2009: 1,597,176 thousand Yuan) lower/higher for various financial assets and liabilities denominated in USD.

(b) Interest Rate Risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2010, the the Group's long-term interest bearing borrowings were mainly RMB-denominated with floating rates, amounting to RMB 29,329,066 thousand Yuan (31 December 2009: RMB 27,795,789 thousand Yuan) (Note 5(28)).

Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's finance department at its headquarters continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. The Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2010 and 2009, the Group did not enter into any interest rate swap agreements.

For the year ended 31 December 2010, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables had been held constant, the Group's net profit would have increased/decreased by approximately RMB 173,651 thousand Yuan (2009: approximately RMB 172,225 thousand Yuan).

### (3) Credit Risk

Credit risk is managed on a Group basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

To further regulate related party transaction between HNA Finance and the group, ensure the safety of fund of the group, prevent funds being occupied by related parties, The company formulated and announced to the public "Risk prevention system on Hainan Airlines Company Limited's deposit fund in HNA Group Finance Co., Ltd" on 24 July 2010.

In accordance with the group announcement "Risk prevention system on Hainan Airlines Company Limited's deposit fund in HNA Group Finance Co., Ltd", The Group should follow the principle of equality voluntarily when conducting financial transactions such as deposits, loans, business entrust and settlements, in order to ensure the financial independence of the group. The group can't provide entrust loans and entrust business to other related parties through HNA Finance, and can't deposit raised money in HNA Finance. Group directors shall earnestly perform their duty of loyalty diligently; prudently go with related decisions of listed company deposits in HNA Finance, to prevent the occurrences of funds occupied by related parties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

### (4) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The group's main cash demand is from aircraft, engine and materials purchase or improved and repaying its relevant borrowing or liabilities. The Group meets its needs of working capital through operational business and short-term and long-term bank borrowings. The Group is usually in financing lease and bank loans to purchase a plane.

At 31 December 2010, the net current liabilities of the Group are about RMB 10.9 billion. During this report year, the net cash inflows from operating activities of the group is about RMB 8.1 billion, the net cash outflows from investment activities and financing activities is about RMB 9.4 billion, cash and cash equivalents increase about RMB 3.7 billion.

For the risk assessment of cash flow for the Company by management please refer to Note 2(1).

The financial assets and liabilities of the Group at the balance sheet date are analyzed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2010				Total
	Within 1 year	1-2 years	2-5 years	More than 5 years	
Financial assets -Cash at bank and on hand	16,479,729	200,000	-	-	16,679,729
Accounts receivable	557,616	-	-	-	557,616
Other receivable	2,892,573	-	-	-	2,892,573
Other non-current assets	-	835,489	777,953	389,589	2,003,031
	19,929,918	1,035,489	777,953	389,589	22,132,949
Financial liabilities -Short-term borrowings	18,663,607	-	-	-	18,663,607
Accounts payable	3,147,968	-	-	-	3,147,968
Other payables	1,280,843	-	-	-	1,280,843
Long-term borrowings	4,122,028	4,621,059	9,808,852	9,814,998	28,366,937
Long-term payables	549,523	480,793	830,373	641,364	2,502,053
	27,763,969	5,101,852	10,639,225	10,456,362	53,961,408

	31 December 2009				Total
	Within 1 year	1-2 years	2-5 years	More than 5 years	
Financial assets -Cash at bank and on hand	12,565,534	-	200,000	-	12,765,534
Accounts receivable	317,608	-	-	-	317,608
Other receivable	108,590	-	-	-	108,590
Other non-current assets	-	560,304	724,565	385,036	1,669,905
	12,991,732	560,304	924,565	385,036	14,861,637
Financial liabilities -Short-term borrowings	17,009,366	-	-	-	17,009,366
Accounts payable	3,380,667	-	-	-	3,380,667
Other payables	1,477,068	-	-	-	1,477,068
Long-term borrowings	3,381,407	3,878,408	7,693,925	10,813,116	25,766,856
Long-term payables	571,696	415,121	731,948	616,196	2,334,961
	25,820,204	4,293,529	8,425,873	11,429,312	49,968,918

## (5) 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.

## (6) Fair Value

### (a) Financial instruments not measured at fair Value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables, long-term borrowings and long-term payables.

Except for financial assets and liabilities listed below, the carrying amount of the other financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities -	27,171,396	27,088,051	25,766,856	25,687,820
Long-term borrowings				
Long-term payables	2,157,670	2,117,021	2,028,933	1,990,709
	29,323,066	29,205,072	27,795,789	27,678,529

The fair value of long-term borrowings and long-term payables not quoted in an active market is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms.

### (b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the assets or liabilities that is not base on observable market data (that is, unobservable inputs).

As at 31 December 2010, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets - Available-for-sale financial assets-				
Available for sale equity instruments	-	579,690	-	579,690
Financial liabilities -Financial liabilities held for trading	-	177	-	177

As at 31 December 2009, the financial assets measured at fair value by the above three levels are analyzed below:

	Level 1	Level 2	Level 3	Total
Financial assets - Available-for-sale financial assets-				
Available for sale equity instruments	-	647,048	-	647,048
Financial liabilities -Financial liabilities held for trading	-	7,016	-	7,016

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

Available-for-sale equity instruments is merchants' securities limited sales equity the company holds (Notes 5(7)).

## 17 Notes to the Parent Company's Main Financial Statements Items

### (1) Accounts receivable

	31 December 2010	31 December 2009
Accounts receivable	398,059	516,374
Less: Provisions for bad debts	(9,310)	(9,310)
	388,749	507,064

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

	31 December 2010	31 December 2009
Within 1 year	388,708	507,023
More than 6 years	9,351	9,351
	398,059	516,374

(b) Accounts receivable are analyzed below by category:

	31 December 2010				31 December 2009i			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Provisions for bad debts by group	1,167	1%	1,126	96%	1,167	-	1,126	96%
-Group by aging analysis method								
-Group by related parties	388,708	98%	-	-	507,023	98%	-	-
Amount that are not individually significant but Provisions for bad debts for account receivables individually	8,184	1%	8,184	100%	8,184	2%	8,184	100%
	398,059	100%	9,310	2%	516,374	100%	9,310	2%

As at 31 December 2010, no amounts due from the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2009: nil).

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

(c) As at 31 December 2010, 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) Provisions for bad debts for account receivables by group, with aging analysis method:

	31 December 2010				31 December 2009			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
More than 6 years	1,167	1%	1,126	96%	1,167	1%	1,126	99%
	1,167	100%	1,126	96%	1,167	100%	1,126	99%

(e) On 31 December 2010, the amount that are not individually significant but provisions for bad debts for account receivables individually are analyzed below:

	Book balance	Provisions for bad debts	% of Provisions for bad debts	Reason
Accounts receivable1	8,184	8,184	100%	(i)

(i) As at 31 December 2010, since the aging of such account receivables were so long that unable to get contact with the debtors, so the management predicted that such receivables were difficult to recover and the full provisions for bad debts were made.

(f) There is no occurrence of which the fully provision were made in previous year or the provision proportion is large, but the amounts were fully received or reversed during the financial year, or the possibility of receive or the reversal is very large.

(g) In 2010, no provisions for bad debts for accounts receivable were written off.

(h) As at 31 December 2010, no amounts due from the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2009: Nil).

(i) As at 31 December 2010, the accounts receivable with balance ranking the first five places are analyzed as follows:

	Relationship with the Group	Amount	Period	% of total balance
Capital Airlines	Under HNA Group's Control	54,539	Within 1 year	14%
Tianjin Airlines	Under HNA Group's Control	20,133	Within 1 year	5%
CompanyA	Third party	8,184	More than 6 years	2%
CompanyB	Third party	328	More than 6 years	-
CompanyC	Third party	250	More than 6 years	-
		83,434		21%



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

		31 December 2010			31 December 2009		
	Relationship with the Group	Amount	% of total balance	Provisions for bad debts	Amount	% of total balance	Provisions for bad debts
Capital Airlines	Under HNA Group's Control	54,539	14%	-	-	-	-
Tianjin Airlines	Under HNA Group's Control	20,133	5%	-	-	-	-
		74,672	19%	-	-	-	-

(2) Other receivables

	31 December 2010	31 December 2009
Amounts due from related parties	2,389,253	14,040
Deposits receivable on aviation supplies	17,443	18,882
Aircraft leasing security deposit and maintenance reserve receivable	9,867	21,861
Others	230,437	22,036
	2,647,000	76,819
Less: Provisions for bad debts	(45,949)	(45,949)
	2,601,051	30,870

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

	31 December 2010	31 December 2009
Within 1 year	2,587,842	28,720
1-2 years	13,578	232
2-3 years	223	760
3-4 years	740	1,664
4-5 years	1,514	60
5-6 years	36	294
More than 6 years	43,067	45,089
	2,647,000	76,819

(b) Other receivables are analysed below by category:

	31 December 2010				31 December 2009i			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Amount that are individually significant and Provisions for bad debts for account receivables individually	17,443	1%	17,443	100%	18,882	25%	18,882	100%
Amount that are not individually significant but Provisions for bad debts for account receivables individually	6,729	-	6,729	100%	6,740	9%	6,740	100%
Provisions for bad debts by group	223,708	9%	21,777	10%	32,957	43%	20,327	61%
-Group by aging analysis method								
-Aircraft leasing security deposit and maintenance reserve receivable	9,867	-	-	0%	4,200	-	-	0%
-Group by related parties	2,389,253	90%	-	-	14,040	23%	-	-
	2,647,000	100%	45,949	2%	76,819	100%	45,949	60%

- (c) As at 31 December 2010, other receivables of which amounts that are individually significant and Provisions for bad debts are made is analyzed as follows:

	Book balance	Provisions for bad debts	Withdrawal ration	Reason
Other receivables <sup>1</sup>	17,443	17,443	100%	(i)

- (i) As at 31 December 2010, since the aging of such other receivables were so long that unable to get contact with the debtors, the management predicted that such receivables were difficult to recover and the full provisions for bad debts were made.

- (d) Provisions for bad debts for other receivables by group, with aging analysis method:

	31 December 2010				31 December 2009 <sup>i</sup>			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Within 1 year	187,491	84%	-	-	9,374	28%	-	-
1-2 years	13,578	6%	571	4%	93	-	6	6%
2-3 years	223	-	26	12%	960	3%	122	13%
3-4 years	740	-	251	34%	3,142	10%	897	29%
4-5 years	1,514	1%	775	51%	66	-	35	54%
5-6 years	36	-	28	79%	308	1%	253	82%
More than 6 years	20,126	9%	20,126	100%	19,014	58%	19,014	100%
	223,708	100%	21,777	10%	32,957	100%	20,327	62%

- (e) At 31 December 2010, the amount that are not individually significant but provisions for bad debts for other receivables individually are analyzed below:

	Book balance	Provisions for bad debts	% of Provisions for bad debts	Reason
Other receivables 1	2,073	2,073	100%	(i)
Other receivables 2	2,800	2,800	100%	(i)
Other receivables 3	444	444	100%	(i)
Other receivables 4	354	354	100%	(i)
Other receivables 5	149	149	100%	(i)
Others	909	909	100%	(i)
	6,729	6,729		

- (i) At 31 December 2010, the aging of such other receivables is very long, and there is no way to connect with debtors, so the management predicted that such receivables are difficult to recover and the full provisions for bad debts were made.

- (f) There is no occurrence of which the fully provision were made in previous year or the provision proportion is large, but the amounts were fully received or reversed during the financial year, or the possibility of receive or the reversal is very large.

- (g) There is no practical written-off other receivables this year.

- (h) At 31 December 2010, no amounts due from the shareholder holding over 5% (5% included) voting shares in the Company are recognized below (31 December 2009: Nil)

(i) At 31 December 2010, other receivables with the balance ranking the first five places are analysed below:

	Relationship with the Group	Amount	Period	% of total balance
Grand China Technology	Under HNA Group Control	1,217,033	Within 1 year	46%
HNA Airlines Holdings	Under HNA Group Control	1,147,093	Within 1 year	43%
Company A	Third party	17,443	More than 6 years	-
Yunnan Xiangpeng	Under the same control of the parent company of the Company	8,801	Within 1 year	-
Company B	Third party	4,298	More than 6 years	1%
		2,394,668		90%

(j) Other receivables from related parties are analyzed below:

		31 December 2010			31 December 2009		
	Relationship with the Group	Amount	% of total balance	Provisions for bad debts	Amount	% of total balance	Provisions for bad debts
Grand China Technology	Under HNA Group' s Control	1,217,033	46%	-	-	-	-
HNA Airlines Holdings	Under HNA Group' s Control	1,147,093	43%	-	-	-	-
Yunnan Xiangpeng	Under the same control of the parent company of the Company	8,801	0.3%	-	-	-	-
West Airlines	Under HNA Group' s Control	4,130	0.2%	-	-	-	-
Others		12,196	0.5%	-	14,040	18%	-
		2,389,253	90%	-	14,040	18%	-

	Relationship with the Group	Amount	Period	% of total balance
Grand China Technology	Under HNA Group' s Control	1,217,033	Within 1 year	46%
HNA Airlines Holdings	Under HNA Group' s Control	1,147,093	Within 1 year	43%
Yunnan Xiangpeng	Under the same control of the parent company of the Company	8,801	Within 1 year	0.3%
West Airlines	Under HNA Group' s Control	4,130	Within 1 year	0.2%
Others		12,196		0.5%
		2,389,253		90%

(3) Long-term equity investment

	31 December 2010	31 December 2009
Subsidiaries (a)	9,194,540	3,954,933
Associates (b)		
-With quoted price	-	-
-Without quoted price	1,514,486	47,382
Other long-term equity investments (c)	453,059	421,107
	11,162,085	4,423,422
Less: Provisions for impairment of long-term equity investments (d)	(5,000)	(5,000)
	11,157,085	4,418,422

(a) Subsidiaries

	Accounting method	Original investment cost	31 December 2009	Current year additions/ disposals	31 December 2010	% equity interest	% voting right	Explanation for inconsistency between % interest held and % voting rights	Provisions for impairment	Provisions for impairment of this financial year	Cash dividends declared this year
Xinhua Airlines(i)	Cost method	1,166,107	1,166,107	1,500,000	2,666,107	67.59%	67.59%	-	-	-	-
Chang' an Airlines(ii)	Cost method	644,418	644,418	873,000	1,517,418	87.32%	87.32%	-	-	-	-
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%	-	-	-	-
Qionghai Baron	Cost method	97,379	-	97,379	97,379	100%	100%	-	-	-	-
Brussels DATA	Cost method	61,764	-	61,764	61,764	100%	100%	-	-	-	-
Brussels EDIPRAS	Cost method	62,996	-	62,996	62,996	100%	100%	-	-	-	-
Brussels Sode	Cost method	59,918	-	59,918	59,918	100%	100%	-	-	-	-
Hainan Guoshan	Cost method	629,180	-	629,180	629,180	100%	100%	-	-	-	-
Hainan Guoxu	Cost method	1,094,170	-	1,094,170	1,094,170	100%	100%	-	-	-	-
Hainan Hangpeng	Cost method	741,500	-	741,500	741,500	100%	100%	-	-	-	-
Yanshan Funds	Cost method	119,700	-	119,700	119,700	97.55%	100%	-	-	-	-
			3,954,933	5,239,607	9,194,540				-	-	-

- (i) On 23 Decemeber 2010, the Company injected the capital into Xinhua Airlines at the price of RMB3.5 per share, and the total injection is 150,000,000. After the completion of the injection, the registered capital of Xinhua Airlines increased to 2,258,570,000, and the equity interest held by the Company in Xinhua Airlines changed from 60% to 67.59%. Pursuant to the agreement between another shareholder of Xinhua Airlines - Grand China Airlines and the Company, the amount of RMB 1,071,429,000 which exceed paid-in capital during the capital increase process will belong to the Company.
- (ii) On 8 July 2010, Grand China Airlines and the Company injected the capital of Chang' an Airlines at the same proportion, and the injection is RMB 1,000,000,000. The Company injected the capital of RMB 873,000,000, and Grand China Airlines injected the capital of RMB 127,000,000. After the completion of injection, the registered capital of Chang' an Airlines is RMB 1,754,390,000, the equity interest held by the Company in Chang' an Airlines is 87.32%, the equity interest held by Grand China Airlines in Chang' an Airlines is 12.68%.

(b) Associates

	Accounting method	Original investment cost	31 December 2009	Increase / Current year reductions	Share of profit of associate	Cash dividend declared by associate	Other equity movement	31 December 2010	% equity interest	% voting right	Explanation for inconsistency between % interest held and % voting rights	Provisions for impairment	Provisions for impairment of this financial year
HNA Import & Export	Equity method	3,000	6,038	-	6,016	-	-	12,054	30%	30%	-	-	-
Xin Guo Hotel(i)	Equity method	40,000	37,651	(31,952)	(5,699)	-	-	-	-	-	-	-	-
Hainan Hansha Training	Equity method	3,862	3,693	-	(1,261)	-	-	2,432	50%	50%	-	-	-
Tourism Island Development(ii)	Equity method	1,500,000	-	1,500,000	-	-	-	1,500,000	33%	33%	-	-	-
		1,546,862	47,382	1,468,048	-944	-	-	1,514,486					

(c) Other long-term equity investment

method	Accounting investment cost	Original December 2009	31 Current year reductions	Increase/ December 2010	31 interest	% equity right	% voting inconsistency between% interest held and % voting rights	Explanation for impairment	Provisions for impairment of this financial year	Provisions for dividends declared this year	Cash
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	-	-	-	2,900
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	-	-	-	-
Xin Guo Hotel	Cost method	40,000	-	31,952	31,952	13.33%	13.33%	-	-	-	-
TravelSky Tech	Cost method	17,000	17,000	-	17,000	0.96%	0.96%	-	-	-	7,072
Tianjin Airlines	Cost method	19,000	19,000	-	19,000	0.83%	0.83%	-	-	-	-
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)	-	42
			421,107	31,952	453,059				(5,000)	-	10,014

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

	31 December 2009	Current year additions	Current year disposals	31 December 2010
Provisions for other long-term equity investments				
Others	(5,000)	-	-	(5,000)

In 2010, there is no any further impairment indicator identified after evaluating the financial position of the investee; therefore, no additional provisions for impairment (2009: Nil) is considered necessary this year.

(4) Revenue and cost of sales

	2010	2009
Main operations of revenue(a)	13,340,675	9,095,699
Other operations of revenue(b)	1,420,956	1,188,035
	14,761,631	10,283,734

	2010	2009
Main operations of cost of sales	9,880,596	8,189,290
Other operations of cost of sales	462,034	640,993
	10,342,630	8,830,283

(a) Main operations of revenue and Main operations of cost of sales

	2010		2009	
	Main operations of revenue	Main operations of cost of sales	Main operations of revenue	Main operations of cost of sales
Passenger income	12,336,716	9,167,826	8,396,550	7,593,586
Freight and excess luggage income	693,614	513,716	392,950	353,818
Charter flight income	268,760	199,054	268,639	241,886
Income from the sale of mileage points	41,585	-	37,560	-
	13,340,675	9,880,596	9,095,699	8,189,290

The total sales income of Top 5 customers of the Company amounts to 4,714,861,000 (2009: 4,691,888,000), accounting for 32% of total sales income of the Company (2009: 46%).

(b) Other operations of revenue and Other operations of cost of sales

	2010		2009	
	Other operations of revenue	Other operations of cost of sales	Other operations of revenue	Other operations of cost of sales
Aircraft leasing business income	1,095,133	423,540	835,496	485,533
Gain on disposal of Investment properties	67,862	21,668	122,164	120,517
Income from ticket cancellation charges	64,421	-	56,492	-
Service income related to land freight	23,220	13,352	27,717	16,293
Commission income	22,184	-	20,864	-
Pilot leasing income	611	-	6,407	-
Others	147,525	3,474	118,895	18,650
	1,420,956	462,034	1,188,035	640,993

The aircraft leasing business costs exclude 395,514 thousand yuan (2009: 351,385,000) 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.

(5) Investment income

	2010	2009
Income from available-for-sale financial assets	14,886	-
Share of profit of investees under equity method	(944)	358
Dividends declared by investees under cost method	10,014	738
Income from disposal of long-term equity investments	-	(12)
Others	-	1,491
	23,956	2,575

(a) Long-term equity investment income under cost method

The invested entity whose investment income more than 5% of the company's total profit or the first 5 invested entity which has highest investment income to total profit ratio listed as follows:

	2010	2009	Variance reason
TravelSky Tech	7,072	-	Dividend received this year
Haikou Meilan	2,900	698	Dividend received this year
Hainan Civil Aviation Cares	42	40	Dividend received this year
	10,014	738	

(b) Long-term equity investment income under equity method

The invested entity whose investment income more than 5% of the company's total profit or the first 5 invested entity which has highest investment income to total profit ratio listed as follows:

	2010	2009	Variance reason
HNA Import & Export	6,015	3,039	Investment profits or losses identified by % interest held
Hainan Xin Guo Hotel	(5,699)	(2,970)	Investment profits or losses identified by % interest held
Hainan Hansha Training	(1,260)	289	Investment profits or losses identified by % interest held
	(944)	358	

(6) Supplementary information for the cash flow statement

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

	2010	2009
Net profit	2,437,698	147,253
More: Provisions for asset impairment	(5,115)	(12,741)
Depreciation of fixed assets	1,681,149	1,334,997
Amortization of intangible assets	2,187	2,475
Amortization of long-term prepaid expenses	55,146	79,817
Other non-current assets-amortization of loss on sale-leaseback	59,804	67,454
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	(307,593)	28,079
Gains on changes in fair value	(102,659)	(293,565)
Finance expenses	1,125,206	855,011
Investment incomes	(23,956)	(2,575)
Increase in deferred tax liabilities	22,245	81,335
Increase in deferred revenue	58,342	25,244
Decrease/(increases) in inventories	215,597	(2,302)
Decrease/(increases) in operating receivables	(33,358)	121,057
Increase/(decrease) in operating payables	2,702,777	(39,701)
Net cash flows from operating activities	7,887,470	2,391,838

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

	2010	2009
Fixed assets held under finance leases	642,726	103,958

(c) Net increase in cash and cash equivalents

	2010	2009
Cash as at 31 December	8,917,586	7,710,809
Less: Cash at beginning of year	(7,710,809)	(2,500,188)
More: Cash equivalents at end of year	-	-
Less: Cash equivalents at beginning of year	-	-
Net increase in cash and cash equivalents	1,206,777	5,210,621

18 Some companies in full name or short name mentioned in the notes to the financial statements are as listed in the

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 Airline
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 Meilan International Airport Co., Ltd	Meilan Airport
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



Full company name	Company in short form
Beijing Vigorous Vision Advertisement Co., Ltd	Vigorous Vision
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
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
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 Vision Advertising 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)
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
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

Full company name	Company in short form
Qionghai HNA Training Center Hotel Co., Ltd	Qionghai Training
Beijing HNA Savills Property Management Co., Ltd	HNA Property Management
HNA Property Management	HNA Commercial Holdings
Beijing Tianchen Exhibition Engineering Co., Ltd	Beijing Tianchen
Hainan Jiaoguan Holding Co Ltd	Hainan Jiaoguan Holding
Tianjin Bohai Leasing Co., Ltd.	Tianjing Bohai Leasing
Tianjin Yanshan Aviation Leasing Industry Equity Funds Partnership Firm	Yanshan Funds
Qionghai HNA Baron investment Co., Ltd.	Qionghai Baron
Hainan Hangpeng Industrial Co., Ltd.	Hainan Hangpeng
Hainan Guoxu Industrial Co., Ltd.	Hainan Guoxu
Hainan Guoshan Industrial Co., Ltd.	Hainan Guoshan
Brussels DATA Hotel	Brussels DATA
Brussels EDIP Hotel	Brussels EDIP
Brussels SODE Hotel	Brussels SODE
Shanxi Airlines Co., Ltd	Shanxi Airlines
Hainan Qi Xing Industrial Investment Co., Ltd	Hainan Qi Xing
HNA Yisheng Holding Co., Ltd	Yisheng Holding
Beijing Capital Airlines Co., Ltd	Capital Airlines
HNA Airlines Holdings(Group) Co., Ltd	HNA Airlines Holdings
HNA International Tourism Island Development Co., Ltd	Tourism Island Development
Grand China Airlines Technology Co., Ltd	Grand China Technology
HNA Airport Holding(Group) Co., Ltd	HNA Airport Holding
Hainan HNA Aviation Sales Co., Ltd	HNA Aviation Sales
Yangtze River Insurance Brokers Co., Ltd	Yangtze River Insurance Brokers
Shaanxi TanxiangYuan Garden Real Estate Co., Ltd	Shaanxi TanxiangYuan
Jiangsu Financial Leasing Co., Ltd.	Jiangsu Financial Leasing
South China International Leasing Co., Ltd.	South China International Leasing
CDB Leasing Co., Ltd.	CDB Leasing
Hainan HNA Aviation Information System Co., Ltd.	Information Company
Sanya Aviation & Tourism College	Sanya Aviation & Tourism College
Hainan Free Flight Aviation Ticket-Booking and Logistics Co., Ltd	Hainan Free Flight
Yanshan Investment Management Co., Ltd.	Yanshan Investment
Hainan HNA Drinking Co., Ltd.	HNA Drinking
Asia International Conference Center Co., Ltd.	Asia International
Beijing HNA Dingsheng Real Estate Co., Ltd.	Beijing HNA Dingsheng
Beijing Hengshi Real Estate Development Co., Ltd	Beijing Hengshi
HNA(Beijing) Aviation Ground Service Co., Ltd	HNA(Beijing) Aviation Ground Service Co., Ltd

## 1 Non-recurring profit and loss breakdown

	2010	2009
Gain/(Loss) on disposal of non-current assets	1,248	(30,293)
Government grants included in the profit and loss of the current period	207,731	143,968
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 Provisions for accounts receivable impairment with independent impairment test	-	15,492
Revenues of change in fair value incurred by the transaction-based financial liabilities held	6,840	(7,016)
Investment gains from available for sale financial assets	14,886	-
Net income from transferring assets	470,100	-
Profits and losses incurred by Investment properties change in fair value undergoing subsequent measurement in the fair value mode	347,983	597,743
Other Non-operating income and expenditure in addition to the above items	169,840	88,531
Other profits and losses conforming to the definition of non-recurring profit and loss	-	6,579
	1,218,628	1,292,239
Effect of income tax	(276,135)	(151,075)
Effect of Minority interest (after tax)	(66,445)	(56,225)
	876,048	1,084,939

## 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.

## 2 Net assets yield and earnings per share

	Weighted average net assets yield (%)		Basic earnings per share & diluted earnings per share	
	2010	2009	2010	2009
Net profits ascribed to the ordinary shares holders of the company	32%	5%	0.74	0.09
Net profits ascribed to the ordinary shares holders of the company after deduction of non-recurring profit and loss	22%	(12%)	0.53	(0.21)

## 3 Description of the Abnormalities and Reasons of Major Financial Statement Items

Assets	31 December 2010 Consolidated	31 December 2009 Consolidated	Difference	Difference reason
Current assets				
Cash at bank and on hand	16,679,729	12,765,534	3,914,195	1
Accounts receivable	557,616	317,608	240,008	2
Advances to suppliers	427,562	662,726	(235,164)	3
Interest receivable	39,357	12,479	26,878	4
Dividends receivable	-	-	-	
Other receivables	2,892,573	108,590	2,783,983	5
Inventories	47,628	256,652	(209,024)	6
Total current assets	20,644,465	14,123,589	6,520,876	
Non-current assets				
Available-for-sale financial assets	579,690	647,048	(67,358)	
Long-term equity investment	2,113,058	622,317	1,490,741	7
Investment properties	9,873,489	5,541,735	4,331,754	8
Fixed assets	29,984,965	29,120,201	864,764	9
Construction in progress	5,521,500	6,856,305	(1,334,805)	10
Intangible assets	199,911	210,899	(10,988)	
Goodwill	328,865	328,865	-	
Long-term prepaid expenses	303,821	222,561	81,260	11
Deferred tax assets	-	-	-	
Other non-current assets	2,003,031	1,669,905	333,126	12
Total non-current assets	50,908,330	45,219,836	5,688,494	
Total assets	71,552,795	59,343,425	12,209,370	

Liabilities and shareholder' s equity	31 December 2010	31 December 2009	Difference	Difference
	Consolidated	Consolidated		reason
Current liabilities				
Short-term borrowings	17,704,048	16,165,526	1,538,522	13
Financial liabilities held for trading	176	7,016	(6,840)	14
Notes Payable	3,216,726	1,180,116	2,036,610	15
Accounts payable	3,147,968		3,380,667	
(232,699)	16			
Advances from customers	823,093	718,095	104,998	17
Employee benefit payable	153,778	215,349	(61,571)	18
Taxes payable	621,523	262,284	359,239	19
Interest payable	106,317	99,097	7,220	
Dividends payable	19,078	19,078	-	
Other payables	1,280,843	1,477,068	(196,225)	20
Current portion of non-current liabilities	4,420,703	3,908,759	511,944	21
Total current liabilities	31,494,253	27,433,055	4,061,198	
Non-current liabilities				
Long-term borrowing	23,223,093	22,385,449	837,644	22
Deferred revenue	335,266	266,814	68,452	23
Long-term payables	1,685,270	1,501,581	183,689	24
Payables for specific projects	-	20,000	(20,000)	25
Deferred tax liabilities	1,354,102	520,918	833,184	26
Other non-current liabilities	21,462	29,928	(8,466)	27
Total non-current liabilities	26,619,193	24,724,690	1,894,503	
Total liabilities	58,113,446	52,157,745	5,955,701	
Shareholders' equity				
Paid-in capital	4,125,491	3,530,253	595,238	28
Capital reserves	6,231,028	3,923,522	2,307,506	29
Surplus reserves	383,918	169,098	214,820	
Accumulated loss	1,725,046	(1,074,046)	2,799,092	
Total equity ascribed to the shareholders of the company	12,465,483	6,548,827	5,916,656	
Minority interest	973,866	636,853	337,013	30
Total shareholders' equity	13,439,349	7,185,680	6,253,669	
Total liabilities and shareholders' equity	71,552,795	59,343,425	12,209,370	

Items	2010 Consolidated	2009 Consolidated	Difference	Difference reason
Revenue	21,706,147	15,548,363	6,157,784	31
Less:				
Cost of sales		(15,492,922)	(13,256,194)	(2,236,728)
				32
Taxes and surcharges	(627,576)	(495,620)	(131,956)	33
Selling and distribution expenses	(1,091,760)	(747,612)	(344,148)	34
General and administrative expenses	(483,736)	(411,028)	(72,708)	
Financial expenses - net	(1,588,286)	(1,312,615)	(275,671)	35
Asset impairment losses	-	15,483	(15,483)	36
Add: Profit arising from changes in fair value	354,823	584,791	(229,968)	37
Investment income	25,685	8,892	16,793	38
Including: Share of profit of associates and joint ventures	(6,469)	(1,183)	(5,286)	
Operating profit/ (losses)	2,802,375	(65,540)	2,867,915	
Add: Non-operating income	896,871	584,039	312,832	39
Less: Non-operating expenses	(47,952)	(32,950)	(15,002)	40
Including: losses on disposal of non-current assets	(43,330)	(30,361)	(12,969)	
Total profit	3,651,294	485,549	3,165,745	
Less: Income tax expenses	(430,396)	(129,589)	(300,807)	41
Net profit	3,220,898	355,960	2,864,938	
Including: Attributable to share holders of the parent company	3,013,912	334,670	2,679,242	
Minority interest	206,986	21,290	185,696	
Earnings per share				
Basic earnings	0.74	0.09	0.65	
Diluted earnings	0.74	0.09	0.65	
Other comprehensive incomes/(losses)	(54,746)	87,348	(142,094)	
Total comprehensive incomes	3,166,152	443,308	2,722,844	
Attributable to share holders of the parent company	2,959,166	404,050	2,555,116	
Minority interest	206,986	39,258	167,728	

## Change Analysis

- 1 The cash at bank and on hand of the financial year increase 31% 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 accounts receivable of the financial year increase 76% from those of the previous financial year, the reason for which is that the fares receivable increases with the transportation capacity and transport income of the group increases greatly.

- 3 The prepayment of the financial year reduces 35% from those of the previous financial year, the reason for which is mainly that the current prepayment procurement aviation supplies decrease.
- 4 The interest receivables of the financial year increase 215% from those of the previous financial year, the reason for which is that the increase of deposit rate and cash in bank.
- 5 The other receivables of the financial year increase 2564% from those of the previous financial year, the reason for which is mainly that the group transferred to Grand China Technology maintenance related assets at the end of the financial year and the money not settled till then.
- 6 Inventory of the financial year reduce 81% from those of the previous financial year, the reason for which is mainly that the group has transferred all the consumable aviation supplies to Grand China Technology.
- 7 The long-term equity investment of the financial year increases 240% from those of the previous financial year, the reason for which is mainly that the group invested in HNA International Tourism Island Development Co., Ltd.
- 8 The Investment properties of the financial year increases 78% from those of the previous financial year, the reason for which is mainly that the group purchased 4 lands from HNA Airlines Holdings and the fair value of Investment properties increases during current period.
- 9 The fixed assets of the financial year increases 3% from those of the previous financial year, the reason for which is mainly that the aircrafts the group purchased arrived and turned into fixed assets.
- 10 The construction in progress of the financial year reduces 19% from those of the previous financial year, the reason for which is mainly that the aircrafts arrived in this financial year, and the group converted the balance of prepaid aircraft procurement in construction in progress into fixed assets and the aircraft finished from guest adapted to goods.
- 11 The Long-term prepaid expenses of the financial year increases 37% from those of the previous financial year, the reason for which is mainly that the acquisition cost of pilots and groom cost for cultivating pilots increase.
- 12 The other non-current assets of the financial year increase 20% from those of the previous financial year, the reason for which is mainly that the aircraft and engine lease deposit and maintenance reserves paid in current period increase.
- 13 The short-term borrowing of the financial year increases 10% from those of the previous financial year, the reason for which is mainly that the Group lends more money from the banks to supplement daily operating cash flows.
- 14 The Financial liabilities held for trading of the financial year reduce 97% from those of the previous financial year, the reason for which is mainly the fair value variance of financial instruments formed by current USD forward settlement or sale of exchange.
- 15 The notes payable of the financial year increases 173% from those of the previous financial year, the reason for which is mainly that the payment by bills to pay business increase.
- 16 The accounts payable of the financial year reduces 7% from those of the previous financial year, the main reason is that the group accelerate payments of aviation fuel and landing fee in current year.

- 17 The advances from customers of the financial year increases 15% from those of the previous financial year, the main reason is that the advanced air ticket sales increase in this period.
- 18 The Employee benefits payable of this financial year reduces 29% from those of the previous financial year, the main reason is that the group transferred maintenance related to employees to grand china technology.
- 19 The taxes payable of the financial year Current year increases 137% from those of the previous financial year, the main reason is that profit of this period increase greatly then related corporate income tax increase.
- 20 The other payables of the financial year reduces 13% from those of the previous financial year, the main reason is that the group pay the collection of related party settlement.
- 21 The Current portion of non-current liabilities of the financial year increases 13% from those of the previous financial year, the main reason is that the long-term borrowing which due within one year increase.
- 22 The long-term borrowing of the financial year increases 4% from those of the previous financial year, the main reason is that the group increase borrowings for introducing more transportation capacity.
- 23 The deferred income of the financial year increases 26% from those of the previous financial year, the main reason is that the frequent passengers accumulated points increase.
- 24 The long-term payables for the fiscal year Increases 2% from the previous, the main reason is that the group newly increase assets of aircraft through financial leasing this period.
- 25 The Payables for specific projects of the financial year reduces 100% from those of the previous financial year, the main reason is that the group converted special financial and construction fund into capital reserves.
- 26 The deferred tax liabilities of the financial year increases 160% from those of the previous financial year, the main reason is the impact of identified deferred tax liabilities according to taxable temporary differences with the group measuring Investment properties by fair value.
- 27 The other non-current liabilities of the financial year reduces 28% from those of the previous financial year, the main reason is that the group paid out more financial leasing aircraft and engines tariff and value-added tax.
- 28 The Paid-in capital of the financial year increases 17% from those of the previous financial year, the main reason is that the group received capital increase from the shareholder HNA Group and Hainan Development Holding in the current period.
- 29 The capital reserves of the financial year increases 59% from those of the previous financial year, the main reason is that the group received premium increase from the shareholder HNA Group and Hainan Development Holding.
- 30 The minority interest of the financial year increases 53% from those of the previous financial year, the main reason is that current profit increase greatly and then minority interest increases, and the group received capital increase from minority this financial year.
- 31 Revenue increased by 40% in the reporting period, mainly because the high demand of aviation market and increase of the number of passengers.



- 32 Operating costs increased 17% in the reporting period, mainly because the increase of expense of purchasing fuel, payable for taking off and landing, meals and Onboard supplies in business activities of the Group.
- 33 Business tax increased by 27% in the reporting period, mainly because the large increase of Revenue of the Group in current period.
- 34 Cost of good sale increased by 46% in the reporting period, mainly because the revenue growth, and increase in the number of passenger of the Group.
- 35 Net financial cost increased by 21% in the reporting period, mainly because increase of interest expense of the Group caused by increasing of borrowing and lending interest rates.
- 36 Impairment of assets decreased by 100% in the reporting period, mainly because no asset impairment occurred or reversed of the Group in current period.
- 37 Changes in fair values decreased by 39% in the reporting period, mainly because the government strengthens the regulatory measures for the real estate market in the period and the Group's fair value of investment on real estate decreased comparing with the same period last year.
- 38 Investment income increased by 189% in the reporting period, mainly because the group received dividends from Air Group and China Merchants Securities.
- 39 Non-operating income increased by 54% in the reporting period, mainly because the Group's transfer of fixed assets in this period.
- 40 Non-operating expenses increased by 46% in the reporting period, mainly because the Group's loss on disposal of fixed assets in this period.
- 41 Tax expenses increased by 232% in the reporting period, mainly because the Group's operating profit increased and deferred tax incurred by the change of the fair value of investment on real estate in this 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 2010.**

Chairman: Wang Yingming

Hainan Airlines Company Limited

14 March 2011