

HAINAN AIRLINES CO., LTD.

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2011**

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

HAINAN AIRLINES CO., LTD.

**FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2011**

[English translation for reference only]

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[English translation for reference only]

Report of the Auditors

PwC ZT Shen Zi (2012) No. 10056
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To the shareholders of Hainan Airlines Co., Ltd.:

We have audited the accompanying financial statements of Hainan Airlines Co., Ltd. (hereinafter "Hainan Airlines"), which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of Hainan Airlines is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Hainan Airlines as of 31 December 2011, 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
30 March 2012

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S
BALANCE SHEETS AS AT 31 DECEMBER 2011**

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

ASSETS	Notes	31 December	31 December	31 December	31 December
		2011	2010	2011	2010
		Consolidated	Consolidated	Company	Company
		RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Cash at bank and on hand	5(1)	19,060,578	16,679,729	12,975,573	10,326,757
Notes receivable	5(2)	3,117,336	-	3,117,336	-
Accounts receivable	5(3), 15(1)	598,332	557,616	711,977	388,749
Advances to suppliers	5(6)	452,540	427,562	386,739	377,243
Interest receivable	5(5)	190,147	39,357	68,048	48
Dividends receivable		6,016	-	6,016	-
Other receivables	5(4), 15(2)	1,535,984	2,892,573	1,402,439	2,601,051
Inventories	5(7)	126,256	47,628	122,031	43,607
Total current assets		25,087,189	20,644,465	18,790,159	13,737,455
Non-current assets					
Available-for-sale financial assets	5(8)	899,684	579,690	899,559	579,565
Long-term equity investments	5(9), 15(3)	5,145,199	2,113,058	11,375,327	11,157,085
Investment properties	5(10)	6,839,112	9,873,489	2,334,579	2,145,069
Fixed assets	5(11)	31,229,556	29,984,965	25,887,414	24,172,043
Construction in progress	5(12)	8,839,069	5,521,500	7,071,468	4,613,398
Intangible assets	5(13)	194,177	199,911	92,816	94,727
Goodwill	5(14)	328,865	328,865	-	-
Long-term prepaid expenses	5(15)	358,553	303,821	331,144	274,398
Other non-current assets	5(16)	2,375,248	2,003,031	2,026,215	1,630,434
Total non-current assets		56,209,463	50,908,330	50,018,522	44,666,719
TOTAL ASSETS		81,296,652	71,552,795	68,808,681	58,404,174

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S
BALANCE SHEETS AS AT 31 DECEMBER 2011 (CONTINUED)**

(All amounts in RMB Thousand Yuan unless otherwise stated)

[English Translation for Reference Only]

LIABILITIES AND OWNERS' EQUITY	Notes	31 December	31 December	31 December	31 December
		2011	2010	2011	2010
		Consolidated	Consolidated	Company	Company
		RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities					
Short-term borrowings	5(19)	17,533,295	17,704,048	12,718,250	11,849,417
Financial liabilities held for trading		150	176	150	176
Notes payable	5(20)	5,059,860	3,216,726	3,066,621	2,881,178
Accounts payable	5(21)	3,764,821	3,147,549	8,943,296	6,387,988
Advances from customers	5(22)	1,124,595	823,093	22,060	22,060
Employee benefits payable	5(23)	240,297	153,778	131,538	94,364
Taxes payable	5(24)	576,743	841,691	112,616	547,770
Interest payable	5(25)	324,449	106,317	291,330	90,053
Dividend payable		24,617	19,078	24,617	19,078
Other payables	5(26)	771,008	1,061,094	179,867	510,721
Current portion of non-current liabilities	5(27)	4,603,564	4,420,703	3,760,545	3,278,448
Total current liabilities		34,023,399	31,494,253	29,250,890	25,681,253
Non-current liabilities					
Long-term borrowings	5(28)	23,463,293	23,223,093	17,931,380	18,131,389
Debentures payable	5(29)	5,918,309	-	4,927,151	-
Long-term payables	5(30)	1,412,548	1,685,270	1,397,460	1,611,123
Deferred tax liabilities	5(17)	1,429,928	1,354,102	821,932	107,483
Other non-current liabilities	5(31)	478,006	356,728	304,548	201,289
Total non-current liabilities		32,702,084	26,619,193	25,382,471	20,051,284
Total liabilities		66,725,483	58,113,446	54,633,361	45,732,537
Owners' equity					
Share capital	5(32)	4,125,491	4,125,491	4,125,491	4,125,491
Capital surplus	5(33)	5,817,180	6,231,028	6,097,975	6,228,846
Surplus reserve	5(34)	568,001	383,918	568,001	383,918
Undistributed profits	5(35)	3,966,000	1,725,046	3,383,853	1,933,382
Total equity attributable to equity shareholders of the Company		14,476,672	12,465,483	14,175,320	12,671,637
Minority interests	5(36)	94,497	973,866	-	-
Total owners' equity		14,571,169	13,439,349	14,175,320	12,671,637
TOTAL LIABILITIES AND OWNER'S EQUITY		81,296,652	71,552,795	68,808,681	58,404,174

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

Legal representative:
Chen Ming

Person in charge of accounting
function: Xu Zhoujin

Person in charge of accounting
department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

	Notes	2011 Consolidated RMB'000	2010 Consolidated RMB'000	2011 Company RMB'000	2010 Company RMB'000
Revenue	5(37), 15(4)	26,273,246	21,706,147	18,160,988	14,761,631
Less: Operating cost	5(37), 15(4)	(19,497,987)	(15,492,922)	(13,525,784)	(10,342,630)
Business taxes and surcharges	5(38)	(802,878)	(627,576)	(532,624)	(403,195)
Selling and distribution expenses	5(39)	(1,260,252)	(1,091,760)	(885,397)	(758,399)
General and administrative expenses	5(40)	(575,585)	(483,736)	(412,101)	(320,805)
Financial expenses – net	5(41)	(2,003,902)	(1,588,286)	(1,573,533)	(1,125,206)
Assets impairment losses	5(42)	(8,206)	-	-	-
Add: Gain on changes in fair value	5(43)	869,871	354,823	189,536	95,819
Investment income	5(44), 15(5)	197,884	25,685	433,020	23,956
Including: share of results of associates		89,493	(6,469)	39,754	(944)
Operating profit		3,192,191	2,802,375	1,854,105	1,931,171
Add: Non-operating income	5(45)	580,720	896,871	490,058	819,770
Less: Non-operating expenses	5(46)	(76,855)	(47,952)	(29,381)	(1,368)
Including: losses on disposal of non-current assets		(70,065)	(43,330)	(28,851)	713
Total profit		3,696,056	3,651,294	2,314,782	2,749,573
Less: Income tax expenses	5(47)	(861,848)	(430,396)	(473,953)	(311,875)
Net profit		2,834,208	3,220,898	1,840,829	2,437,698
- Attributable to equity shareholders of the Company		2,631,312	3,013,912	1,840,829	2,437,698
- Minority interests		202,896	206,986	-	-
Earnings per share (EPS)					
Basic earnings per share (RMB Yuan)	5(48)	0.64	0.74		
Diluted earnings per share (RMB Yuan)	5(48)	0.64	0.74		
Other comprehensive income	5(49)	(130,871)	(54,746)	(130,871)	(54,746)
Total comprehensive income		2,703,337	3,166,152	1,709,958	2,382,952
- Attributable to equity shareholders of the Company		2,500,441	2,959,166		
- Minority interests		202,896	206,986		

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

Legal representative:
Chen Ming

Person in charge of accounting
function: Xu Zhoujin

Person in charge of accounting
department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S CASHFLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Notes	2011	2010	2011	2010
		Consolidated RMB'000	Consolidated RMB'000	Company RMB'000	Company RMB'000
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		27,799,258	24,111,595	19,292,000	14,735,425
Cash received relating to other operating activities	5(50)(a)	1,890,338	2,112,258	569,145	2,381,940
Sub-total of cash inflows		<u>29,689,596</u>	<u>26,223,853</u>	<u>19,861,145</u>	<u>17,117,365</u>
Cash paid for goods and services		(15,063,957)	(14,320,651)	(8,461,817)	(5,353,832)
Cash paid to and on behalf of employees		(1,455,715)	(1,129,248)	(539,169)	(767,572)
Payments of taxes and surcharges		(2,549,650)	(745,685)	(1,049,080)	(450,025)
Cash paid relating to other operating activities	5(50)(b)	(4,631,907)	(3,552,026)	(4,046,860)	(2,658,466)
Sub-total of cash outflows		<u>(23,701,229)</u>	<u>(19,747,610)</u>	<u>(14,096,926)</u>	<u>(9,229,895)</u>
Net cash flows from operating activities	5(51)(a)	<u>5,988,367</u>	<u>6,476,243</u>	<u>5,764,219</u>	<u>7,887,470</u>
2. Cash flows from investing activities					
Cash received from disposal of investments		13,236	2,843	3,236	-
Cash received from returns on investments		12,359	32,103	9,014	24,900
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,109,182	508,980	3,504,160	504,717
Cash received relating to other investing activities	5(50)(c)	2,835,367	1,047,923	295,130	7,540
Sub-total of cash inflows		<u>6,970,144</u>	<u>1,591,849</u>	<u>3,811,540</u>	<u>537,157</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(7,951,498)	(4,665,275)	(6,855,361)	(3,467,039)
Cash paid to acquire investments		(6,363,627)	(1,500,000)	(4,278,290)	(1,500,000)
Net cash paid to acquire subsidiaries and other business units		-	(2,636,805)	(508,417)	(5,171,745)
Cash paid relating to other investing activities	5(50)(d)	(2,086,397)	(2,148,553)	(200,000)	(105,096)
Sub-total of cash outflows		<u>(16,401,522)</u>	<u>(10,950,633)</u>	<u>(11,842,068)</u>	<u>(10,243,880)</u>
Net cash flows from investing activities		<u>(9,431,378)</u>	<u>(9,358,784)</u>	<u>(8,030,528)</u>	<u>(9,706,723)</u>
3. Cash flows from financing activities					
Cash proceeds from capital contributions		-	3,115,517	-	2,985,517
Cash received from borrowings		37,039,413	24,317,850	29,372,615	17,868,048
Cash received relating to other financing activities	5(50)(e)	4,272,000	3,127,952	2,621,010	-
Sub-total of cash inflows		<u>41,311,413</u>	<u>30,561,319</u>	<u>31,993,625</u>	<u>20,853,565</u>
Cash repayments of borrowings		(30,050,201)	(21,112,321)	(22,586,715)	(15,655,496)
Cash payments for interest expenses and distribution of dividends		(2,655,058)	(2,134,971)	(2,069,170)	(1,767,755)
Cash payments relating to other financing activities	5(50)(f)	(3,252,741)	(2,067,020)	(3,058,291)	(383,963)
Sub-total of cash outflows		<u>(35,958,000)</u>	<u>(25,314,312)</u>	<u>(27,714,176)</u>	<u>(17,807,214)</u>
Net cash flows from financing activities		<u>5,353,413</u>	<u>5,247,007</u>	<u>4,279,449</u>	<u>3,046,351</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>(25,825)</u>	<u>919</u>	<u>(14,850)</u>	<u>(20,321)</u>
5. Net increase in cash and cash equivalents	5(51)(a)	<u>1,884,577</u>	<u>2,365,385</u>	<u>1,998,290</u>	<u>1,206,777</u>
Add: Cash and cash equivalents at beginning of year	5(51)(a)	<u>12,713,740</u>	<u>10,348,355</u>	<u>8,917,586</u>	<u>7,710,809</u>
6. Cash and cash equivalent at end of year	5(51)(b)	<u>14,598,317</u>	<u>12,713,740</u>	<u>10,915,876</u>	<u>8,917,586</u>

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

Legal representative:
Chen Ming

Person in charge of accounting
function: Xu Zhoujin

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 2011**

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Notes	Attributable to equity shareholders of the Company					Minority interests RMB'000	Total owners' equity RMB'000
		Share capital RMB'000	Capital surplus RMB'000	Surplus reserves RMB'000	Undistributed profits/ (accumulated losses) RMB'000			
Balance at 31 December 2009		<u>3,530,253</u>	<u>3,923,522</u>	<u>169,098</u>	<u>(1,074,046)</u>	<u>636,853</u>	<u>7,185,680</u>	
Movements for the year ended 31 December 2010								
- Net profit		-	-	-	3,013,912	206,986	3,220,898	
- Other comprehensive income	5(49)	-	(54,746)	-	-	-	(54,746)	
- Capital contribution by shareholders	5(32)	595,238	2,390,279	-	-	130,000	3,115,517	
- Appropriation to surplus reserves		-	-	214,820	(214,820)	-	-	
- Others		-	(28,027)	-	-	27	(28,000)	
Balance at 31 December 2010		<u>4,125,491</u>	<u>6,231,028</u>	<u>383,918</u>	<u>1,725,046</u>	<u>973,866</u>	<u>13,439,349</u>	
Movements for the year ended 31 December 2011								
- Net profit		-	-	-	2,631,312	202,896	2,834,208	
- Other comprehensive income	5(49)	-	(130,871)	-	-	-	(130,871)	
- Acquisition of minority interests in subsidiaries	5(33)	-	(282,977)	-	-	(1,079,013)	(1,361,990)	
- Profit distribution								
- Appropriation to surplus reserves	5(34)	-	-	184,083	(184,083)	-	-	
- Profit distribution to shareholders	5(35)	-	-	-	(206,275)	-	(206,275)	
- Others		-	-	-	-	(3,252)	(3,252)	
Balance at 31 December 2011		<u>4,125,491</u>	<u>5,817,180</u>	<u>568,001</u>	<u>3,966,000</u>	<u>94,497</u>	<u>14,571,169</u>	

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

Legal representative:
Chen Ming

Person in charge of accounting
function: Xu Zhoujin

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 2011**

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Notes	Share capital RMB'000	Capital surplus RMB'000	Surplus reserves RMB'000	Undistributed profits/ (accumulated losses) RMB'000	Total owners' equity RMB'000
Balance at 31 December 2009		<u>3,530,253</u>	<u>3,893,313</u>	<u>169,098</u>	<u>(289,496)</u>	<u>7,303,168</u>
Movements for the year ended 31 December 2010						
- Net profit		-	-	-	2,437,698	2,437,698
- Other comprehensive income	5(49)	-	(54,746)	-	-	(54,746)
- Capital contribution by shareholders	5(32)	595,238	2,390,279	-	-	2,985,517
- Appropriation to surplus reserves		-	-	214,820	(214,820)	-
Balance at 31 December 2010		<u>4,125,491</u>	<u>6,228,846</u>	<u>383,918</u>	<u>1,933,382</u>	<u>12,671,637</u>
Movements for the year ended 31 December 2011						
- Net profit		-	-	-	1,840,829	1,840,829
- Other comprehensive income	5(49)	-	(130,871)	-	-	(130,871)
- Profit distribution						
- Appropriation of surplus reserves	5(34)	-	-	184,083	(184,083)	-
- Profit distribution to shareholders	5(35)	-	-	-	(206,275)	(206,275)
Balance at 31 December 2011		<u>4,125,491</u>	<u>6,097,975</u>	<u>568,001</u>	<u>3,383,853</u>	<u>14,175,320</u>

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

Legal representative:
Chen Ming

Person in charge of accounting
function: Xu Zhoujin

Person in charge of accounting
department: Xu Zhoujin

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

1 GENERAL INFORMATION OF THE COMPANY

Hainan Airlines Co., Ltd. (the "Company") was a joint stock limited company established on 18 October 1993 by Hainan Provincial Airlines, China Everbright International Trust and Investment Co. Ltd, Hainan Branch of Bank of Communications etc. The Company's registered address is Haikou, Hainan Province, the People's Republic of China (the PRC"). The Company's registered capital was RMB250 million when it was initially established.

In March 1994, a bonus dividend was approved by a resolution passed at the general meeting of shareholders whereby 50 million shares were issued, and thereafter the Company's total share capital was increased to RMB300 million.

On 2 November 1995, the Company issued 100 million shares to American Aviation LTD. After the share issuance, the Company's total share capital was increased to RMB400 million.

On 26 June 1997, the Company issued 71 million B Shares (i.e. domestic listed ordinary shares issued to foreign investors for subscription in US dollars). Upon completion of the share issuance, the Company's total share capital was increased to RMB471 million.

On 11 October 1999, the Company completed a public offering of 205 million A Shares (i.e. domestic listed ordinary shares issued to PRC domestic investors for subscription in RMB). After the above public offering, the Company's total share capital was increased to RMB676 million.

On 18 May 2000, the Company distributed a bonus dividend of 0.8 share for every ten shares to all shareholders with total of 54 million shares being issued. After the bonus shares were distributed, the Company's total share capital was increased to RMB730 million.

On 29 June 2006, the Company completed a private placement with 2,800 million shares issued, of which 1,650 million shares were issued to Grand China Air. Together with previously owned 53 million shares, Grand China Air held 1,703 million shares of the Company after the issuance. After the above share issuance, the Company's share capital was increased to RMB3,530 million. In December 2006, Hainan Airlines Group Co., Ltd. ("HNA Group") and Hainan Qixing, shareholders of the Company, increased their capital investments in Grand China Air with 8,917,118 and 4,369,582 shares of the Company they held respectively. Thereafter, Grand China Air and its subsidiary, American Aviation LTD, held 1,716 million shares and 108 million shares of the Company respectively, which represent total 51.86% of the share capital of the Company, and Grand China Air became the parent company of the Company.

On 29 September 2006, the Company implemented the share reform scheme and the original non-circulating shareholders paid 3.3 shares for each 10 shares to exchange for the circulating right. The original non-circulating shares of the Company were granted with the circulating status subject to lock-up periods ranging from 1 to 3 years. As at 31 December 2011, all above non-circulating shares became tradable in Shanghai Stock Exchange.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts in RMB Thousand Yuan unless otherwise stated)
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1 GENERAL INFORMATION OF THE COMPANY (CONTINUED)

On 12 February 2010, approved by China Securities Regulatory Commission (“CSRC”), the Company completed a share offering, in which each of Hainan Development Holding and HNA Group were offered approximately 298 million A shares of the Company with lock-up period of 36 months (Note 5(32)). After the completion of the above share issuance, the Company’s share capital was increased to RMB4,125 million, among which Grand China Air, the parent company, owned RMB1,716 million shares or 41.60% of the share capital.

The Company and its subsidiaries (collectively referred to as the “Group” hereinafter) are principally engaged in the civil aviation business, and the approved scope of business includes the provision of domestic and international passenger and cargo air transportation, and other air transportation related services.

The financial statements were approved for issuance by the Company’s Board of Directors (the “Board”) on 30 March 2012 (the “Issuance Date of these financial statements”).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Basis of preparation

(i) Basis of preparation

These financial statements were prepared in accordance with i) the Basic Standard and 38 specific standards of the “Accounting Standards for Business Enterprises” promulgated by Ministry of Finance (“MoF”) on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereinafter referred to as “the Accounting Standards for Business Enterprises”), and ii) “Preparation Convention for Information Disclosures by Companies Offering Securities to the Public, No.15 - General Provisions on Financial Reporting” (2010 Revised) (《公开发行证券的公司信息披露编报规则第15号—财务报告的一般规定》(2010修订)) issued by CSRC.

(ii) Going concern basis

As at 31 December 2011, the current liabilities of the Group exceed its current assets by approximately RMB8,936 million. In preparing these financial statements, the Board has thoroughly assessed the going concern ability of the Group in association with the Group’s current financial situation.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English Translation for Reference Only]

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Basis of preparation (Continued)

(iii) Going concern basis (Continued)

The Company's Board has already taken positive actions in dealing with the net working capital deficit mentioned above, and has been continuously seeking new financing channels and has obtained sufficient banking facilities to improve the Group's liquidity position. In light of the available banking facilities, the Group's raising fund history and the established good cooperation relationship with banks and financial institutions, the Board believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. 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 2011 are in compliance with the Accounting Standards for Business Enterprises, and present truly and completely the financial position as at 31 December 2011 and the operating results, cash flows and other information of the Group and the Company for the year then ended.

(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 involving enterprise under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period when they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Business combination (Continued)

(b) Business combinations involving enterprises not under common control

The business combination cost incurred to an acquirer and identifiable assets obtained from business combination are measured at fair values at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period when they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(c) Purchase of minority interests of a subsidiary

After acquisition of minority interests of a subsidiary, the assets and liabilities of the subsidiary are stated in the consolidated financial statements at amounts calculated from the acquisition date (or the consolidation date) on an on-going basis. The difference between the additional long-term equity investments acquired by the Company and the share of net book value of the subsidiary calculated from the date of acquisition (or the consolidation date) is adjusted to capital surplus (share premium) of the consolidated financial statements, then undistributed profits if no sufficient capital surplus (share premium) to offset.

(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, comes under common control of the ultimate controlling party. The portion of the net profits realised 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 of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Preparation of consolidated financial statements (Continued)

All significant inter-company balances, transactions and unrealised gain on transactions between the group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the parent are treated as minority interests and minority interest income respectively and presented separately in the consolidated financial statements within equity and net profits respectively.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

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

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

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the owners' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

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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, which classification of financial assets depends on the Group's intention and ability to hold the 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 on the balance sheet if management intends to dispose of them within 12 months from the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Recognition and measurement

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

Financial assets 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 receivables and held-to-maturity investments are measured at amortised costs using the actual interest method.

A gain or loss arising from a change in fair value of financial assets at fair value through profit or loss are recognised 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 disposal of these assets are recognised in profit or loss for the current period.

A gain or loss arising from a change in fair value of available-for-sale financial assets is recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into 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 recognised as investment income, which is recognised in profit or loss for the period.

(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, an impairment loss is provided for.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (Continued)

(b) Financial assets (Continued)

(iii) Impairment of financial assets

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for 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 recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If there is objective evidence that an impairment loss on available-for-sale financial assets incurred, the cumulative losses arising from the decline in fair value that had been recognised directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, 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 recognised in profit or loss, the previously recognised impairment loss is reversed into 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 recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

(iv) Derecognition of financial assets

Where a financial asset satisfies any of the following conditions, 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 and although the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, it has not retained the control of 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 the consideration and the accumulated fair value changes directly recorded into the owner's equity shall be recognised in profit or loss for the current period.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments(Continued)

(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 debentures etc.

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

Borrowings and debentures are initially recognised at fair value, netting of transaction costs incurred, and subsequently measured at amortised 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 derecognised when the present obligations are fully or partially relieved, and the differences between the carrying amount of the derecognised financial liabilities and consideration paid are recognised 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, market data is used as much as possible and data that is particularly related to the Group is rarely used.

(10) Receivables

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (Continued)

- (a) Receivables that are individually significant are subject to separate assessment for impairment

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 an individual amount is significant: whether the balance is more than RMB10 million.

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

- (b) Provisions for bad debts for accounts receivable by group

Receivables that are not individually significant together with those receivables that have been individually assessed 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, taking into consideration of the current conditions, on the basis of historical loss experience for the groups of receivables with the similar credit risk characteristics.

Groups for the purpose of bad debt provision assessment are determined as follows:

Group 1	Amounts due from related parties
Group 2	Aircraft leasing deposits and maintenance funds receivable
Group 3	Other receivables excluding receivable within Group 1 and Group 2

Provision method for each group:

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

For Group 3, the provision percentages of receivables with aging analysis method is as follows:

	Provision % of accounts receivable	Provision % 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%
Over 6 years	100%	100%

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (Continued)

- (c) Amounts that are not individually significant but provisions for bad debts are assessed individually:

Criteria of recognizing provisions for bad debts for accounts receivable 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 making bad debt provision: according to the excess of the carrying amount of the receivable over the present value of estimated future cash flows.

- (d) If the Group transfers the accounts receivable to the financial institutions without right of recourse, then the difference between the transaction amount and the carrying amount of the transferred accounts receivable (plus any relevant taxes) is recorded in the profit or loss for the current period.

(11) Inventories

- (a) Classification

Inventories include consumables, cabin supplies and low valuable consumables, etc., and are measured at the lower of cost and net realisable value.

- (b) Valuation method of delivered inventories

Consumables are first accounted using standard cost and the difference between standard cost and actual cost is considered as 'Cost Variance', and the standard cost is adjusted to actual cost at each month end.

Cabin supplies are determined using the weighted average method.

- (c) Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.
- (d) The Group adopts the perpetual inventory system.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

Subsidiaries are the investees over which the Company is able to exercise control, i.e. having the power to govern their financial and operating policies so as to obtain benefits from their operating activities; associates are the investees that 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 in investees (i) over which the Group does not have control, joint control or significant influence; (ii) prices of which are not quoted in an active market; and (iii) fair value of which cannot be reliably measured, the cost method is used.

(a) Recognition of initial investment cost

Long-term equity investments acquired through business combination: long-term equity investments acquired through business combinations under common control are initially measured at the Group's equity share of the investee's net equity as at incorporation date; long-term equity investments acquired through business combination under non-common control are measured at the combination cost.

Long-term equity investments acquired other than business combination: long-term equity investments acquired by cash are initially measured at the amount of actually paid; long-term equity investments acquired by the issuance of equity shares are initially measured at the fair value of equity shares issued.

(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 recognised in profit or loss for the cash dividends or profit distribution declared by the investees.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Long-term equity investments (Continued)

(b) Subsequent measurement and recognition of gain or loss (Continued)

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

When using the equity method of accounting, the Group recognises 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 recognising the investment losses and the provision. Under the circumstance that the Group's proportion of shareholding in an investee remains unchanged, the Group shall record directly in capital surplus its share of the changes in the investee's owner's equity other than those arising from net 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 recognised. The loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not 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.

Significant influence usually translates into participation in the financial and operating policies without necessarily having full control or joint control over an investee.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Long-term equity investments (Continued)

(d) Impairment of long-term equity investments

For the long-term equity investment in 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 the fair value of which cannot be reliably measured, the impairment loss is recognised 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 recognised, 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 leasing 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 are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

After initial recognition, investment property is subsequently measured using fair value mode and no depreciation or amortization is provided for investment property. The carrying amount of investment property is adjusted to fair value at balance sheet date and any difference between the fair value of the property at that date and its original carrying amount is recognised in the profit or loss.

If an investment property becomes owner-occupied property, it is reclassified as fixed assets or intangible assets at the date of transfer. The fair value of the investment property at the date of transfer becomes its carrying amount for subsequent accounting purposes. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. If an item of owner-occupied property becomes an property held for operating lease, it is reclassified as investment property from fixed assets or intangible assets from the date of transfer and will be carried at fair value at the date of transfer. If the fair value at the date of transfer is less than the previous carrying amount, the difference is recognised in the profit or loss; if the fair value at the date of transfer is higher than the previous carrying amount, the difference is included directly in owners' equity. On subsequent disposal of an investment property, the amount that was previously included in owners' equity as the result of reclassification is transferred to profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Investment properties (Continued)

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is 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 is recognised in profit or loss for the current period.

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, aircrafts and engines, rotables, motor vehicles and other equipment.

The fixed assets are recognised when it is probable that economic benefits associated with the fixed assets will flow to the Group and their 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 associated economic benefits will flow to the Group and its cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised 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 initial costs less 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 net book values over their remaining useful lives.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(14) Fixed assets (Continued)

(b) Method of fixed assets depreciation (Continued)

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

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	40 years	5%	2.375%
Aircraft and engines' core components	20 years	5%	4.75%
Aircraft and engines' replacement components	5 – 7 years	0%	14.29% to 20%
Rotables	10 – 15 years	5%	6.33% to 9.5%
Motor vehicles	10 years	5%	9.5%
Machinery and equipment	8 – 14 years	5%	6.78% to 11.875%

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

(c) When the recoverable amount of the fixed assets is less than its book value, the book value 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 initial book value of the leased assets. Differences between book value of leased assets and minimum lease payments are recorded as unrecognised finance charge.

The fixed assets acquired under finance leases adopt same depreciation policy with self-owned fixed assets. Fixed asset under lease is depreciated within its expected life if it is reasonably certain that the Group will be able to obtain the ownership of the leased asset upon the expiry of the lease term; otherwise, the leased asset is depreciated within lease term or expected life of the asset, whichever is shorter.

(e) Disposal of fixed assets

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises 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 is 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 for its intended use commence to be capitalised 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 capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation 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.

For specific borrowings funded for constructing of any qualifying assets that satisfy the requirements of capitalization, the capitalized borrowing costs are the amount of interest expenses incurred less interest income generated from unused loans or investment income/loss earned from temporary investment.

For general borrowings used to acquire or construct any qualifying assets that satisfy the capitalization requirements, the capitalised amount of borrowing costs is determined based on the excess of accumulated capital expenditure over the weighted average of capital expenditure funded by specific borrowings multiplied by the weighted average of actual interest rate of the general borrowings. The actual interest rate is used to discount the future cash flows during anticipated period or applicable shorter time to the originally recognised amount of the borrowings.

(17) Intangible assets

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

Land use rights are amortised on the straight-line basis over the period of the land use rights of 40 to 70 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Intangible assets (Continued)

Review of estimated useful life and amortization method for land use rights is performed at each year-end, with adjustment made as appropriate.

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 include costs on pilot recruiting and training and other expenditures that have been made but should be recognised as expenses over more than one year in the current and subsequent periods. Long term prepaid expenses are amortised on a straight line basis over the beneficial periods and stated at net amount after deducting accumulated amortization from the actual expenses.

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a 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 at least every year, irrespective of whether there is any indication that the assets may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Employee benefits

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

Except for the compensation paid to the employee due to termination of the employment relationship, employee benefits are recognised 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

Cash dividend is recognised as a liability in the period in which it is approved by shareholders meeting.

(22) Provisions

Provisions for onerous contracts etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(23) Revenue recognition (Continued)

(a) Rendering of services

(i) Traffic revenue

Passenger and cargo revenue are recognised as traffic revenues when the transportation services are provided. The proceeds from sold but unused tickets for services pending to render is recognised as liabilities and to be recorded as advances from customers – sales in advance of carriage (“SIAC”).

(ii) Commission income

Commission income is arisen from sales of tickets, acting as the agent of other airline companies, and is recognised when the tickets are sold.

(iii) Other revenue

Other revenues include cancelled ticket processing fee etc. These revenues are recognised at the time when the corresponding services are provided.

(b) Frequent flyer program

The Group operates a frequent flyer program, under a name of “Fortune Wind Club”, which provides travel awards to program members based on accumulated mileages. According to the rewarding policy of the program, program members are eligible to redeem the mileages for gifts or free air tickets. The Group accounts for the frequent flyer mileages using deferred revenue method, under which revenue received in relation to mileage earning flight is allocated, based on the fair value, between the flight and mileages earned by the program member. The value attributed to the award mileages is deferred as a liability – deferred revenue until the mileages are redeemed or expired upon which the relevant deferred revenues are recognised as revenue.

(c) Transfer of asset use rights

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

Aircraft lease income and other rental income under operating leases are recognised on a straight-line basis over the lease periods.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Government grants

Government grants represent monetary or non monetary assets freely offer by government, including tax refund and flight routes subsidy.

Government grants are recognised when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grant in monetary asset are recognised at the amount of receipt or to be received. Government grant in non-monetary asset are recognised 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 recognised as deferred revenue and credited to the income statement over the expected useful lives of the related assets. The government grants which are measured at nominal amount are directly recorded into profit or loss in the period when they are recognised.

Government grants related to income, that used to compensate future related expenses or losses, are recognised as deferred revenue and credited to income over the years in which related expenses or losses are recognised. Government grantees to compensate expenses or losses that already incurred are recognised as income directly.

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). 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 realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, and deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Deferred tax assets and deferred tax liabilities (Continued)

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of 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 and associates 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 utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and deferred tax liabilities which meet the following conditions at the same time can be stated at 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. An operating lease is a lease other than a finance lease.

(a) Assets leased in under operating lease (the Group is a lessee)

Lease payments under an operating lease are charged to the profit and loss on a straight-line basis over the period of the lease.

(b) Assets leased out under operating lease (the Group is a lessor)

Lease rental income arising from operating lease is recognised using the straight-line method over the lease term. Direct costs relating to a lease transaction, if significant, are first capitalized then amortised in the profit and loss over the lease term along with the recognition of the related lease income. If the direct costs for the lease are small, the amounts should be directly expensed off. Contingent rentals are recognised in the period which it actually incurs.

(c) Assets acquired under finance lease (the Group is a lessee)

The leased asset is recognised at 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 unrecognised finance charge and is amortised 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 unrecognised finance charge.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Leases (Continued)

(d) Sales and leaseback

For sales and leaseback transaction resulting in finance lease, the difference between the sales proceed and the carrying amount of the asset is deferred and amortised over the depreciation period of the leased assets, as the adjustment to the depreciation charges.

For sales and leaseback transaction resulting in an operating lease, the difference between the sales proceeds and the carrying amount of the asset is recognised immediately in the income statement, if there is conclusive evidence that the transaction is entered at fair value. If the transaction is not entered at the fair value and the selling price is below the fair value, the loss is recognised in the income statement; however, if the loss will be compensated by future lease rental below the market price, the loss is deferred and amortised over the leasing period. If the selling price is higher than the fair value, the difference between fair value and the selling prices is deferred and amortised over the lease period.

(27) Routine maintenance and overhaul costs

Routine 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 which meet the definition of fixed assets are capitalized as a component of fixed assets and depreciated over the overhaul 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 costs of the overhauls and checks for the return conditions are based on the actual usages (i.e. flying hours/cycles) over the estimated periods between overhauls. 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 organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is 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 its 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 one single operating segment.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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. 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) Taxation

The Group operates businesses in various regions and pays various taxes. There are many transactions and events for which the ultimate tax determination is uncertain during the Group's ordinary course of business. Significant judgment is required from the Group in determining the provision for taxes in accordance with applicable tax rules and other relevant policies. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the initially recognised amount of tax payable and relevant profit and loss.

Moreover, recognition of deferred income tax assets for tax losses depends, to a large extent, upon management's judgment as to the ability to generate sufficient future taxable profit to offset the tax losses and deductible temporary differences. Calculation of future taxable profits involves a lot of judgments and estimations, together with the consideration of the tax planning strategies and overall economic environment. Different judgments and estimates will affect the recognition and measurement of deferred income tax assets.

(b) Fixed assets depreciation

Depreciation of components related to overhauls of aircraft and engine is calculated based on estimated overhaul costs and overhaul interval. Such estimates are conducted in accordance with the Group's historical experience with similar aircraft and engine models. Depreciation of other fixed assets is calculated based on estimated useful life. The estimated useful life, the estimated net residual value of the fixed assets and the depreciation method applied to the assets are reviewed, and adjusted at each year-end.

(c) Provision for checks and overhauls for return conditions for aircraft and engines under operating leases

Provision for checks and overhauls to be conducted to fulfil the return conditions for aircraft and engines under operating leases is made based on the estimated costs of checks and overhaul to be required at the end of the leases. Such estimates need to take into account anticipated flying hours, flying cycles, overhaul interval and overhaul costs to be incurred at the end of the lease. These judgments or estimates are based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Different judgments or estimates would affect the estimated provision for the costs of return condition checks and overhauls.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Critical accounting estimates and judgments (Continued)

(d) Fair value of frequent flyer mileage points

The fair value of frequent flyer mileage points is estimated based on redemption rates and the fair value of redeemable items. The redemption rate is estimated based on historical experience and projections for the future. The fair value of the redeemable item is estimated with reference to the contracted prices and the average ticket prices throughout the year. Should different redemption rates and the fair value of redeemable items are applied, the fair value of frequent flyer mileage points will change significantly.

(e) Fair value of investment property

The fair value of an investment property is determined by either the income capitalisation approach or direct comparison approach. The income capitalisation approach is a method of valuation under which the fair value of an investment property is determined by analysing the net rental income derived from the existing and prospective tenancies. The direct comparison approach is to estimate the market value of an investment property by making reference to comparable properties and sales transactions as available in the relevant market. The variance in future rental income and selected property prices may have significant impact on the Group's assessment of the fair value of the investment property.

(f) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(23) to the financial statements. Unused tickets are recognised in traffic revenues when management believes that the uplift obligation ceases. Management evaluates the balance of SIAC periodically and records any adjustments, which can be material, in the period the evaluation is completed. These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognising revenue for any unused air tickets and the related sales price, which affect the timing and amount of revenue recognition.

3 TAXATION

(1) Corporate income tax

In accordance with Guofa (2007) No.39 (国务院国发(2007)39号文) issued by the State Council, the applicable corporate income tax rates of the Company and Golden Deer, a subsidiary incorporated in Special Economic Zone of Hainan Province, gradually increased to 25% within years from 2008 to 2012. The applicable corporate income tax rates of the Company and Golden Deer are 24% for 2011. For the subsidiaries established in other regions, the applicable corporate income tax rates for 2011 are 25%.

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3 TAXATION (CONTINUED)

(2) Business tax

Traffic revenues, commission income and certain 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 certain other revenues is 5%.

According to “Notice on the airline fuel surcharge exempt from Business Tax issued by Ministry of Finance and State Administration of Taxation” Caishui 【2008】 No. 178 (“ 《财政部、国家税务总局关于航空公司燃油附加费免征营业税的通知》 (财税【2008】178号)”), the fuel surcharge income of airline company is exempted from business tax from 1 January 2008 to 31 December 2010.

Pursuant to the “Notice of exemption of business tax on the provision of international transportation services” Caishui 【2010】 No. 8 (“ 《财政部、国家税务总局关于国际运输劳务免征营业税的通知》 (财税【2010】8号)”) jointly issued by MoF and the State Administration of Taxation on 23 April 2010, effective from 1 January 2010, the Group’s revenues from the provision of international transportation services are exempt from business tax.

(3) City maintenance and construction tax and education surcharges

In accordance with Guofa [2010] No.35 issued by the State Council on 18 October 2010 –“Notice of alignment of the institution of city maintenance and construction tax and education surcharges of foreign and domestic enterprises and individuals”(“国发【2010】35号《关于统一内外资企业和个人城市维护建设税和教育费附加制度的通知》”), the Company is subject to city maintenance and construction tax and education surcharges which is calculated based on the payments of the business tax and VAT starting from 1 December 2010. The applicable city maintenance and construction tax and education surcharges rates of the Group are 7% and 5% respectively.

(4) 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%.

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3 TAXATION (CONTINUED)

(4) Value added tax (“VAT”) (Continued)

According to “The Notice issued by the Ministry of Finance regarding tax issues in 2011 on imported aircraft and engine maintenance equipment used by domestic airline companies on international routes, Hong Kong and Macao routes” CaiGuaiShui 【2011】 No. 1 (“《财政部关于2011年度对营运国际航线、港澳航线和支线航线的国内航空公司进口维修用航空器材税收问题的通知》财关税【2011】1号”), issued by MoF on 26 January 2011, by approval of the State Council, the imported aircraft and engine maintenance equipment (including parts and components sent to overseas for maintenance) used by domestic airline companies on international routes, Hong Kong and Macao routes are exempt from import tariffs and VAT on imports or enjoy a lower tax rate in 2011.

In addition, the Group's import and export business and material allocation are subject to VAT. The Company and certain subsidiaries of the Company are small-scale VAT taxpayer and the applicable VAT rate is 3%.

(5) Custom duty

According to “The Notice on the Tariff Classification of Aircrafts and Related Parts and questions on the tax rates applicable to leased aircrafts after adjustment of import duty rate” Shushui 【1998】 No. 472 (“署税【1998】472号文《关于飞机及其零部件税则归类 and 进口税率调整后租赁飞机适用税率问题的通知》”) issued by State Customs Department on 12 August 1998, the aircraft leased and airframe imported after 1 October 1997 are subject to custom duty at a rate of 1%. The aircraft equipments, cabin equipments and spare parts are subject to custom duties according to rates specified by “The Notice on the adjustment of import and export duty rates of several categories of goods” Shuiweihui 【1999】 No. 1 (“《关于调整若干商品进出口关税税率的通知》税委会【1999】1号.”).

(6) Domestic infrastructure levies

According to the “Notice of Domestic Infrastructure Levies Collection Rules Minhang Guicaifa 【2004】 No. 94” (“民航规财发【2004】94号关于印发《民航基础设施建设基金征收细则》的通知”), the Group is required to pay domestic infrastructure levies in accordance with Caizong 【2004】 No. 38 (“财综【2004】38号”) 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.

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3 TAXATION (CONTINUED)

(7) Civil aviation airport construction fee

According to “Notice on the Changes In Collection Method of Civil Aviation Airport Construction Fee ” (Minhangguicaifa 【2004】 No. 109) (“民航规财发【2004】109号《关于改变民航机场管理建设费征收方式的通知》”), “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 (“财综【2004】51号《财政部、民航总局关于改革民航机场管理建设费征收管理方式等有关问题的通知》”) and “The Regulations on Related Accounting Treatment on the Civil Aviation Airport Construction Fee after Reform of Collection Management Method” Caikuai 【2004】 No. 8 (“财会【2004】8号财政部关于印发《民航机场管理建设费征收管理方式改革后有关会计处理规定》”) 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 RMB 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.

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries obtained through establishment or investment in 2011

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Hainan Airlines (Hongkong)	Direct control	Hong Kong	Investment	HKD70,200,000	As the agent of Hainan Airlines in Hong Kong and Macao, such as import and export, equipment lease, information technology services, high technology development, consulting, investment and capital operations, etc.	Limited liability company	Wang Yingming	636400456
Hunan Golden-Deer	Direct control	Hunan	Investment	RMB450,000,000	Investment and management of airline transportations and relevant projects, and of airport; investment in energy and communication industries; capital operating planning and management, investment management; corporate marketing planning and management.	Limited liability company	Xu Zhoujin	57860988-3

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(1) Subsidiaries (Continued)

(a) Subsidiaries obtained through establishment or investment in 2011 (Continued)

	Accumulated capital contributed as at 31 December 2011	Balances of other items forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests as at 31 December 2011	Amount offsetting minority interests (profit and loss) included in minority interest (balance sheet)
	RMB'000						
HNA Hongkong	58,417	-	100%	100%	Yes	-	-
Hunan Golden-Deer	450,000	-	100%	100%	Yes	-	-
	<u>508,417</u>	<u>-</u>				<u>-</u>	<u>-</u>

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(1) Subsidiaries (Continued)

(b) Subsidiaries acquired under non-common control as at 31 December 2011

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Xinhua Airlines	Direct control	Beijing	Transportation	RMB2,258,570,000	Domestic and international, passenger and cargo air transportation	Limited liability company	Yang Jinglin	10001095-1
Chang'an Airlines	Direct control	Xi'an	Transportation	RMB1,754,390,000	Domestic and international, passenger and cargo air transportation	Limited liability company	Wang Jinsheng	71974795-7
Beijing Kehang	Direct control	Beijing	Real estate development	RMB150,000,000	Catering, accommodation, project investment management, real estate development, property management, hotel management, etc	Limited liability company	Liu Xin	75131148-3
Shanxi Airlines	Direct control & indirect control	Taiyuan	Transportation	RMB658,400,000	Domestic and international, passenger and cargo air transportation	Limited liability company	Wang Xiaodong	73190009-6
Brussels EDIP	Direct control	Brussels	Hotel operation	EUR7,716,000	Hotel management, finance, real estate development	Limited liability company	Zhang Jingsong	BE0435779032
Brussels DATA	Direct control	Brussels	Hotel operation	EUR248,000	Hotel management, tour service	Limited liability company	Zhang Jingsong	BE0860905979
Brussels SODE	Direct control	Brussels	Hotel operation	EUR2,163,000	Hotel management, tour service, finance, real estate development, agency	Limited liability company	Zhang Jingsong	BE0407675657

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(1) Subsidiaries (Continued)

(b) Subsidiaries acquired under non-common control as at 31 December 2011 (Continued)

	Accumulated capital contributed as at 31 December 2011	Balances of other items in substance forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests	Amount offsetting minority interests (profit & loss) included in minority interests (balance sheet)
	RMB'000					RMB'000	
Xinhua Airlines	3,746,107	-	100%	100%	Yes	-	-
Chang'an Airlines	1,799,408	-	100%	100%	Yes	-	-
Beijing Kehang	1,728,341	-	95%	95%	Yes	88,515	-
Shanxi Airlines	761,880	-	100%	100%	Yes	-	-
Brussels EDIP	62,996	-	100%	100%	Yes	-	-
Brussels DATA	61,764	-	100%	100%	Yes	-	-
Brussels SODE	59,918	-	100%	100%	Yes	-	-
	<u>8,220,414</u>	<u>-</u>				<u>88,515</u>	<u>-</u>

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Entities newly included in consolidation scope in the current year

	Net assets 31 December 2011 RMB'000	Net loss 2011 RMB'000
HNA Hongkong (Note 4(1)(a))	33,171	(25,246)
Hunan Golden-Deer (Note 4(1)(a))	450,000	-
	<u>483,171</u>	<u>(25,246)</u>

(3) Entities no longer included in consolidation scope in the current year

For the year ended 31 December 2011, the Company disposed and lost controls of the following subsidiaries since the respective disposal dates, so these subsidiaries are no longer included in consolidation scope:

	Disposal date	Acquirer	Net asset as at disposal date RMB'000	Net profit from 1 January 2011 to disposal date RMB'000
Qionghai Nanjue	12 December 2011	HNA Real Estate Holding	155,875	58,487
Hainan Guoshan	12 December 2011	Grand China Air	693,080	63,900
Hainan Guoxu	12 December 2011	Grand China Air	1,181,574	87,405
Hainan Hangpeng	12 December 2011	Grand China Air	824,256	82,757
				<u>292,549</u>

(a) Considerations and cash flow arisen from the disposals are outlined as below:

	Qionghai Nanjue RMB'000	Hainan Guoshan RMB'000	Hainan Guoxu RMB'000	Hainan Hangpeng RMB'000	Total RMB'000
Disposal price	155,875	693,080	1,209,574	824,256	2,882,785
- Cash and cash equivalents received from disposal	-	-	-	-	-
- Consideration recorded in notes receivable	-	693,080	-	824,256	1,517,336
- Consideration recorded in other receivables	155,875	-	1,209,574	-	1,365,449

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Entities no longer included in consolidation scope in the current year (Continued)

(b) Net assets of the disposed subsidiaries are outlined as below:

	Qionghai Nanjue		Hainan Guoshan		Hainan Guoxu		Hainan Hangpeng	
	Disposal date	31 December 2010	Disposal date	31 December 2010	Disposal date	31 December 2010	Disposal date	31 December 2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	325	14,371	2,001	2,001	2,025	2,001	2,001	2,001
Non-current assets	220,669	83,167	910,195	824,995	1,559,492	1,432,567	1,082,103	971,762
Current liabilities	(45,614)	(151)	(1)	(1)	(7,815)	(1)	(1)	(1)
Non-current liabilities	(19,505)	-	(219,115)	(197,815)	(372,128)	(340,397)	(259,847)	(232,262)
Net asset	<u>155,875</u>	<u>97,387</u>	<u>693,080</u>	<u>629,180</u>	<u>1,181,574</u>	<u>1,094,170</u>	<u>824,256</u>	<u>741,500</u>

(c) Gains or losses on disposals of subsidiaries are outlined as below:

	Qionghai Nanjue	Hainan Guoshan	Hainan Guoxu	Hainan Hangpeng	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Considerations	155,875	693,080	1,209,574	824,256	2,882,785
Less: Net assets at disposal date	<u>(155,875)</u>	<u>(693,080)</u>	<u>(1,181,574)</u>	<u>(824,256)</u>	<u>(2,854,785)</u>
Gains on disposals	<u>-</u>	<u>-</u>	<u>28,000</u>	<u>-</u>	<u>28,000</u>

(d) Revenue, expenses and profit from 1 January 2011 to disposal date are outlined as below:

	Qionghai Nanjue	Hainan Guoshan	Hainan Guoxu	Hainan Hangpeng	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	-	-	-	-	-
Less: Cost and expenses	(27)	-	(7,789)	-	(7,816)
Add: Net gain on changes in fair value	<u>78,019</u>	<u>85,200</u>	<u>126,925</u>	<u>110,342</u>	<u>400,486</u>
Total profit	<u>77,992</u>	<u>85,200</u>	<u>119,136</u>	<u>110,342</u>	<u>392,670</u>
Less: Income tax expenses	<u>(19,505)</u>	<u>(21,300)</u>	<u>(31,731)</u>	<u>(27,585)</u>	<u>(100,121)</u>
Net profit	<u>58,487</u>	<u>63,900</u>	<u>87,405</u>	<u>82,757</u>	<u>292,549</u>

HAINAN AIRLINES CO., LTD.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2011			31 December 2010		
	Original currency (‘000)	Exchange rate	Amount in RMB RMB‘000	Original currency (‘000)	Exchange rate	Amount in RMB RMB‘000
Cash on hand						
RMB	–	–	579	–	–	807
USD	50	6.3009	314	2,265	6.6227	15,000
Others			1,067			340
Subtotal			1,960			16,147
Cash at banks and financial institutions (a)						
RMB	–	–	14,133,939	–	–	12,604,443
USD	56,243	6.3009	354,379	8,137	6.6227	53,892
Others			108,039			39,258
Subtotal			14,596,357			12,697,593
Other cash balances (a)&(b)						
RMB	–	–	4,462,261	–	–	3,848,096
USD	–	–	-	17,728	6.6227	117,410
Others			-			483
Subtotal			4,462,261			3,965,989
Total			19,060,578			16,679,729

(a) As at 31 December 2011, the cash at bank and on hand included deposits of RMB4,449,149 thousand (31 December 2010: RMB4,814,360 thousand) placed in HNA Finance, a related party of the Group (Note 7(6)), among which, RMB2,862,752 thousand (31 December 2010: RMB2,714,503 thousand) was recorded in cash at banks and financial institutions, and RMB1,586,397 thousand (31 December 2010: RMB2,099,857 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2011 RMB‘000	31 December 2010 RMB‘000
Term deposits (Note)	1,750,000	2,148,556
Security deposits for notes payable	1,390,599	1,336,994
Other restricted deposits	1,321,662	363,029
Offshore deposits	-	117,410
	<u>4,462,261</u>	<u>3,965,989</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(1) Cash at bank and on hand (Continued)****(b) Other cash balances comprise: (Continued)**

Note: As at 31 December 2011, term deposit of RMB1,250,000 thousand (31 December 2010: RMB2,148,556 thousand) was pledged for short-term borrowings of RMB490,000 thousand and long-term borrowings of RMB579,750 thousand (Note 5(19)&(28)).

The Company borrowed in USD borrowings pledged with RMB payments through domestic banks to pay aircraft rentals and prepayments which are denominated in USD. Pursuant to the arrangements and the agreements signed by the Company with the banks, upon maturities, the pledged RMB deposits and USD borrowings would be settled on net basis at pre-agreed exchange rates. According to the Accounting Standards for Business Enterprises, the Company presents the financial assets and financial liabilities under the above agreements with net balance in the balance sheet. The corresponding balances of such financial assets and financial liabilities before offset are as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Other cash balances – restricted cash deposits	381,352	-
Short-term borrowings	<u>(381,352)</u>	<u>-</u>

(2) Notes receivable

	31 December 2011 RMB'000	31 December 2010 RMB'000
Trade acceptance notes	<u>3,117,336</u>	<u>-</u>

As at 31 December 2011, the balance of notes receivable represented the trade acceptance notes issued by Grand China Air, the parent company of the Company, for acquiring the subsidiaries (i.e. Hainan Guoshan & Hainan Guoxu)(Note 4(3)(a)) and an associate (i.e. Haidao Construction) of the Company. The balance was settled in February 2012, and details are set out as follows:

Issuing Entity	Issuing date	Maturity date	Amount RMB'000
Grand China Air	27 December 2011	10 February 2012	693,080
Grand China Air	25 December 2011	5 February 2012	824,256
Grand China Air	30 December 2011	15 February 2012	800,000
Grand China Air	30 December 2011	15 February 2012	800,000
			<u>3,117,336</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Accounts receivable

	31 December 2011 RMB'000	31 December 2010 RMB'000
Accounts receivable	626,755	595,237
Less: Provisions for bad debts	<u>(28,423)</u>	<u>(37,621)</u>
	<u>598,332</u>	<u>557,616</u>

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

	31 December 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	598,332	553,382
1 to 2 years	-	1,229
2 to 3 years	-	5,442
3 to 4 years	-	2,550
4 to 5 years	-	86
5 to 6 years	-	1,079
Over 6 years	<u>28,423</u>	<u>31,469</u>
	<u>626,755</u>	<u>595,237</u>

(b) Accounts receivable are analysed by categories as follows:

	31 December 2011				31 December 2010			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Provisions for bad debts by group								
- Group by aging analysis method	380,138	61%	(1,126)	0%	389,068	65%	(6,369)	2%
- Group by related parties	219,320	35%	-	-	174,917	30%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	<u>27,297</u>	<u>4%</u>	<u>(27,297)</u>	<u>100%</u>	<u>31,252</u>	<u>5%</u>	<u>(31,252)</u>	<u>100%</u>
	<u>626,755</u>	<u>100%</u>	<u>(28,423)</u>	<u>5%</u>	<u>595,237</u>	<u>100%</u>	<u>(37,621)</u>	<u>6%</u>

(c) At 31 December 2011, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2010: Nil).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Accounts receivable (Continued)

(d) Provisions for bad debts for accounts receivable grouped using aging analysis method are as follows:

	31 December 2011				31 December 2010			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Within 1 year	379,012	100%	-	-	377,070	97%	-	-
1 to 2 years	-	-	-	-	1,229	-	(63)	5%
2 to 3 years	-	-	-	-	2,738	1%	(273)	10%
3 to 4 years	-	-	-	-	1,495	1%	(449)	30%
4 to 5 years	-	-	-	-	1,386	-	(808)	58%
5 to 6 years	-	-	-	-	1,176	-	(802)	68%
Over 6 years	1,126	0%	(1,126)	100%	3,974	1%	(3,974)	100%
	<u>380,138</u>	<u>100%</u>	<u>(1,126)</u>	<u>-</u>	<u>389,068</u>	<u>100%</u>	<u>(6,369)</u>	<u>2%</u>

(e) As at 31 December 2011, accounts receivable that were not individually significant but with specific provisions for bad debts are analysed as follows:

	Gross amount RMB'000	Provisions for bad debts RMB'000	% of provisions for bad debts
Debtor 1	8,184	(8,184)	100%
Debtor 2	4,478	(4,478)	100%
Debtor 3	2,791	(2,791)	100%
Debtor 4	1,693	(1,693)	100%
Others	<u>10,151</u>	<u>(10,151)</u>	<u>100%</u>
	<u>27,297</u>	<u>(27,297)</u>	<u>100%</u>

As at 31 December 2011, as these accounts receivables had been long outstanding and the Group was unable to get contact with the debtors, the management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Accounts receivable (Continued)

- (f) No receivables for which full or large portion bad debt provisions were made in prior years have been recovered or reversed during the current year.

Accounts receivable written off during the current year are analysed as follows:

	Nature of accounts receivable	Amount written off RMB'000	Reason for write-off	Whether arising from related party transaction
Debtor 5	Chartered flights	4,412	Unable to get contact with the debtors	No
Debtor 6	Ticket fair	2,704	Unable to get contact with the debtors	No
Debtor 7	Ticket fair	1,054	Unable to get contact with the debtors	No
Others		6,657	Unable to get contact with the debtors	No
		<u>14,827</u>		

- (g) As at 31 December 2011, accounts receivable did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2010: Nil).

- (h) As at 31 December 2011, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Group	Amount RMB'000	Aging	% of total accounts receivable balance
Debtor 1	Third party	109,841	Within 1 year	18%
Xinsheng Info Tech	Under HNA Group's control	102,896	Within 1 year	16%
Debtor 2	Third party	48,684	Within 1 year	8%
Yisheng Holding	Under HNA Group's control	45,274	Within 1 year	7%
Tianjin Airlines	Under HNA Group's control	42,479	Within 1 year	7%
		<u>349,174</u>		<u>56%</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Accounts receivable (Continued)

(i) Accounts receivable from related parties are analysed below:

	Relationship with the Group	31 December 2011			31 December 2010		
		Amount	% of total	Provision for	Amount	% of total	Provision for
		RMB'000	balance	bad debts	RMB'000	balance	bad debts
Xinsheng Info Tech	Under HNA Group's control	102,896	17%	-	-	-	-
Yisheng Holding	Under HNA Group's control	45,274	7%	-	95,804	16%	-
Tianjin Airlines	Under HNA Group's control	42,479	7%	-	20,133	3%	-
Grand China Baixiang logistics	Under HNA Group's control	19,903	3%	-	-	-	-
Others		8,768	1%	-	58,980	10%	-
		<u>219,320</u>	<u>35%</u>	<u>-</u>	<u>174,917</u>	<u>29%</u>	<u>-</u>

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

	31 December 2011			31 December 2010		
	Original currency ('000)	Exchange rate	RMB equivalent RMB'000	Original currency ('000)	Exchange rate	RMB equivalent RMB'000
Foreign currency						
USD	2,568	6.3009	16,181	3,320	6.6227	21,990
Others			<u>13,973</u>			<u>16,021</u>
			<u>30,154</u>			<u>38,011</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables

	31 December 2011 RMB'000	31 December 2010 RMB'000
Amounts due from related parties (Note)	1,363,426	2,798,181
Others	227,822	190,743
	<u>1,591,248</u>	<u>2,988,924</u>
Less: Provision for bad debts	(55,264)	(96,351)
	<u>1,535,984</u>	<u>2,892,573</u>

Note: As at 31 December 2011, among the balance of amounts due from related parties, RMB1,209,574 thousand and RMB155,875 thousand are due from Grand China Air and HNA Real Estate Holding respectively (Note 4(3)(a)), which represent the unsettled considerations for the equity shares disposed. These balances were settled by the end of February 2011.

As at 31 December 2010, amounts due from related parties mainly included RMB1,256,228 receivables from Grand China Technology for the assets transferred and RMB1,496,904 receivables from HNA Airlines Holdings for the aircraft disposed by the Group. These receivables were fully collected in 2011.

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

	31 December 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	1,528,422	2,849,731
1 to 2 years	9,222	39,425
2 to 3 years	1,465	1,761
3 to 4 years	1,505	1,353
4 to 5 years	870	2,130
5 to 6 years	2,080	1,790
Over 6 years	47,684	92,734
	<u>1,591,248</u>	<u>2,988,924</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables (Continued)

(b) Other receivables are analysed by category as follows:

	31 December 2011				31 December 2010			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	balance	RMB'000	balance	RMB'000	balance	RMB'000	balance
Amounts that are individually significant and with specific provision for bad debts (c)	11,799	1%	(11,799)	100%	29,242	1%	(29,242)	100%
Provision for bad debts by group								
- Group by aging analysis method (d)	115,945	7%	(14,382)	12%	72,221	2%	(22,758)	32%
- Aircraft leasing security deposits and maintenance funds receivable	70,995	4%	-	-	44,929	2%	-	-
- Group by related parties (i)	1,363,426	86%	-	-	2,798,181	94%	-	-
Amounts that are not individually significant but with specific provision for bad debts	29,083	2%	(29,083)	100%	44,351	1%	(44,351)	100%
	1,591,248	100%	(55,264)	3%	2,988,924	100%	(96,351)	3%

(c) As at 31 December 2011, other receivables that were individually significant and with specific provisions for bad debts made are analysed below:

	Book balance	Provision for bad debts	% of provision for bad debts
	RMB'000	RMB'000	
Other receivable 1	11,799	(11,799)	100%

As at 31 December 2011, as these account receivables have been long outstanding and the Group was unable to get contact with the debtors, management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables (Continued)

(d) Provision for bad debts for other receivables grouped using aging analysis method are as follows:

	31 December 2011				31 December 2010			
	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
	RMB'000		RMB'000		RMB'000		RMB'000	
Within 1 year	89,724	77%	-	-	35,279	49%	-	-
1 to 2 years	7,640	7%	(229)	3%	10,767	15%	(412)	4%
2 to 3 years	2,656	2%	(186)	7%	1,761	2%	(165)	9%
3 to 4 years	1,220	1%	(312)	26%	1,353	2%	(492)	36%
4 to 5 years	1,089	1%	(481)	44%	2,130	3%	(1,147)	54%
5 to 6 years	1,755	2%	(1,313)	75%	1,790	2%	(1,401)	78%
Over 6 years	11,861	10%	(11,861)	100%	19,141	27%	(19,141)	100%
	<u>115,945</u>	<u>100%</u>	<u>(14,382)</u>	<u>12%</u>	<u>72,221</u>	<u>100%</u>	<u>(22,758)</u>	<u>32%</u>

(e) As at 31 December 2011, debtors that were not individually significant but with specific provision for bad debts are analysed below:

	Book balance	Provision for bad debts	% of provision for bad debts
	RMB'000	RMB'000	
Debtor 1	6,354	(6,354)	100%
Debtor 2	5,457	(5,457)	100%
Debtor 3	5,280	(5,280)	100%
Debtor 4	3,185	(3,185)	100%
Debtor 5	2,500	(2,500)	100%
Others	6,307	(6,307)	100%
	<u>29,083</u>	<u>(29,083)</u>	

As at 31 December 2011, as these other receivables have been long outstanding and the Group was unable to get contact with the debtors, management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables (Continued)

- (f) No other receivables for which full or substantial large portion bad debts for provision were made in prior years have been recovered or reversed during the year.

Other receivables written off in current year are analysed as follows:

	Nature of other receivables	Amount written off RMB'000	Reason for write-off	Whether arising from the related party transaction
Other receivable 1	Prepayment for flight equipment	17,443	Unable to get in contact with the debtors	No
Other receivable 2	Debtors	9,639	Unable to get in contact with the debtors	No
Others	Debtors	16,582	Unable to get in contact with the debtors	No
		43,664		

- (g) Other receivables due from the entities that hold over 5% (5% inclusive) voting shares of the Company are analysed as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Grand China Air	1,135,375	-

- (h) As at 31 December 2011, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount RMB'000	Aging	% of total balance
Grand China Air	Parent company	1,135,375	Within 1 year	72%
HNA Real Estate Holding	Under HNA Group's control	156,069	Within 1 year	10%
Yangtze River Express	Under HNA Group's control	44,802	Within 1 year	3%
Other Receivable 3	Third party	37,852	Within 1 year	2%
Other Receivable 4	Third party	19,577	Within 1 year	1%
		1,393,675		88%

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables (Continued)

(i) Other receivables due from related parties are analysed below:

	Relationship with the Group	31 December 2011		31 December 2010	
		Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Grand China Air	Parent company	1,135,375	71%	-	-
HNA Real Estate Holding	Under HNA Group's control	156,069	10%	193	-
Yangtze River Express	Under HNA Group's control	44,802	3%	33	-
HNA Airlines Holdings	Under HNA Group's control	-	-	1,496,904	50%
Grand China Technology	Under HNA Group's control	-	-	1,256,228	43%
Others		27,180	2%	44,823	1%
		<u>1,363,426</u>	<u>86%</u>	<u>2,798,181</u>	<u>94%</u>

(j) Other receivables include the following balances denominated in foreign currencies:

	31 December 2011			31 December 2010		
	Original currency ('000)	Exchange rate	RMB equivalent RMB'000	Original currency ('000)	Exchange rate	RMB equivalent RMB'000
USD	12,276	6.3009	77,350	8,256	6.6227	54,678
Others			4,110			1,213
			<u>81,460</u>			<u>55,891</u>

(5) Interest receivable

	31 December 2011 RMB'000	31 December 2010 RMB'000
HNA Finance (Note 7(6))	121,444	31,088
Others	68,703	8,269
	<u>190,147</u>	<u>39,357</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Advances to suppliers

(a) The aging of the advances to suppliers is analysed as follows:

Aging	31 December 2011		31 December 2010	
	Amount RMB'000	% total balance	Amount RMB'000	% total balance
Within 1 year	413,969	91%	398,691	93%
1 to 2 years	22,186	5%	14,453	4%
2 to 3 years	7,824	2%	5,926	1%
Over 3 years	8,561	2%	8,492	2%
	<u>452,540</u>	<u>100%</u>	<u>427,562</u>	<u>100%</u>

As at 31 December 2011, advances to suppliers with aging more than 1 year amounted to RMB38,571 thousand (31 December 2010: RMB28,871 thousand), which mainly represented the prepayment for maintenance expenses. As the related services have not yet been rendered by the suppliers, such amounts have not been cleared.

(b) As at 31 December 2011, the top 5 advances to suppliers with the largest balances are analysed below:

	Relationship with the Group	Amount RMB'000	% to the total balance	Time of payment	Reasons for unsettlement
Company 1	Third party	67,509	16%	2011	Prepaid custom duty and VAT, the service not yet provided
Company 2	Third party	35,769	8%	2011	Prepaid fuel cost, goods not yet delivered
Company 3	Third party	19,410	4%	2011	Prepayment for flight equipment, goods not yet delivered
Company 4	Third party	18,409	4%	2011	To be amortised
Company 5	Third party	15,430	3%	2011	To be amortised
		<u>156,527</u>	<u>35%</u>		

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Advances to suppliers (Continued)

- (c) As at 31 December 2011, no advanced payments to entities which hold over 5% (5% inclusive) of voting shares of the Company were included in the advances to suppliers (31 December 2010: Nil).

The advances to the related parties are analysed as follows:

	Relationship with the Group	31 December 2011		31 December 2010	
		Amount RMB'000	% to the total balance	Amount RMB'000	% to the total balance
HNA Import & Export	Associate	-	-	133,127	31%
Others		2,681	1%	3,731	1%
		<u>2,681</u>	<u>1%</u>	<u>136,858</u>	<u>32%</u>

- (d) The advances to suppliers include the following balances denominated in foreign currencies:

Foreign currency	31 December 2011			31 December 2010		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	40,912	6.3009	257,782	62,891	6.6227	416,510
EUR	622	8.1625	5,077	766	8.8065	6,746
Others			1,931			915
			<u>264,790</u>			<u>424,171</u>

(7) Inventories

	31 December 2011			31 December 2010		
	Gross amount RMB'000	Provision for declines in value of inventories RMB'000	Net book value RMB'000	Gross amount RMB'000	Provision for declines in value of inventories RMB'000	Net book value RMB'000
Consumables	58,714	-	58,714	-	-	-
Cabin supplies	42,482	(83)	42,399	32,402	(83)	32,319
Others	25,143	-	25,143	15,309	-	15,309
	<u>126,339</u>	<u>(83)</u>	<u>126,256</u>	<u>47,711</u>	<u>(83)</u>	<u>47,628</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Available-for-sale financial assets

	31 December 2011 RMB'000	31 December 2010 RMB'000
Yanshan Funds (a)	500,000	-
Available-for-sale equity instruments (b)	<u>399,684</u>	<u>579,690</u>
	<u>899,684</u>	<u>579,690</u>

(a) The Company and another party set up a limited partnership enterprise with a period of 10 years. The Company contributed capital of RMB500 million and taken limited liabilities. Another party contributed capital of RMB3 million and owned management and control rights to the partnership enterprise. As the Company has no control, jointly control or significant influences to the partnership enterprise, the investment in the partnership enterprise was classified as available-for-sale financial assets.

(b) As at 31 December 2010, available-for-sale financial assets represented 29,772,496 shares of China Merchants Securities with lock-up period of three years (from 18 June 2009 to 17 June 2012). In 2011, China Merchants Securities passed a profit appropriation proposal to appropriate RMB3 Yuan cash dividend for each 10 shares and also increase share capital of 3 shares for each 10 shares using capital surplus, all of the newly issued shares are subject to lock-up period ending 17 June 2012. The cash dividend of RMB8,932 thousand was received in 2011 and recorded as investment income (Note 5(44)). After the above transfer of capital surplus to share capital, the Company held 38,704,245 shares of China Merchants Securities in total which are stated at fair value. The fair value of these shares as at 31 December 2011 was determined based on the closing price of the trading shares quoted on Shanghai Stock Exchange at year end with adjustment to the related trading restrictions on the shares.

(9) Long-term equity investments

	31 December 2011 RMB'000	31 December 2010 RMB'000
Associates - without quoted prices (a)	3,142,678	1,535,014
Other long-term equity investments (b)	<u>2,009,295</u>	<u>584,818</u>
	5,151,973	2,119,832
Less: Provision for impairment of long-term equity investments	<u>(6,774)</u>	<u>(6,774)</u>
	<u>5,145,199</u>	<u>2,113,058</u>

The long-term equity investments held by the Group do not have any significant liquidity limitations.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(a) Associates

Accounting method	Original investment cost	31 December 2010	Current year movements					31 December 2011	% shareholding	% voting rights	Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in the current year
			Transferred from other investments	reduction of investment cost	Share of results of associate	Cash dividends declared							
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000						
Grand China Technology(i)	Equity method	1,000,000	-	-	1,000,000	-	-	1,000,000	48.08%	48.08%	N/A	-	-
Lucky Air(ii)	Equity method	842,000	-	-	842,000	-	-	842,000	40%	40%	N/A	-	-
HNA Finance(iii)	Equity method	865,578	-	101,561	705,600	58,417	-	865,578	23.7%	23.7%	N/A	-	-
Xi'an Chanba(iv)	Equity method	400,000	-	-	400,000	101	-	400,101	40%	40%	N/A	-	-
Haidao Construction(v)	Equity method	1,500,000	1,500,000	-	(1,535,903)	35,903	-	-	-	-	N/A	-	-
HNA Import & Export	Equity method	3,000	12,054	-	-	2,212	(6,016)	8,250	30%	30%	N/A	-	-
Others		30,132	22,960	-	10,929	(7,140)	-	26,749					
		<u>1,535,014</u>	<u>101,561</u>	<u>1,422,626</u>	<u>89,493</u>	<u>(6,016)</u>	<u>3,142,678</u>						

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(a) Associates (Continued)

- (i) In December 2011, the Company injected cash of RMB1,000,000 thousand to a related party, Grand China Technology. After the capital injection, total registered capital of Grand China Technology was increased to RMB2.08 billion, and the Company and HNA Airlines Holdings own 48.08% and 51.92% of its interests respectively.
- (ii) In December 2011, the Company acquired 6.18% shares of Lucky Air from the parent company, Grand China Air, at a price of RMB130,000 thousand and also acquired 33.82% shares of Lucky Air from its related party, Lucky Air Investment, at a price of RMB712,000 thousand. After the acquisitions, the Company holds 40% equity interests of Lucky Air in total.
- (iii) The Company originally held 3.7% equity interests of HNA Finance. In 2011, the Group acquired 20% equity interests of HNA Finance from its related party, HNA Group, at a price of RMB705,600. After the acquisition, the Company holds 23.70% equity interests of HNA Finance in total.
- (iv) In June 2011, the Company, Xi'an Chanba Ecological Areas Administrative Committee, HNA Group Northwest Headquarter and HNA Industrial jointly set up Xi'an Chanba. The Company contributed the capital of RMB400,000 thousand and owned 40% equity interests of Xi'an Chanba.
- (v) In December 2011, the Company disposed its 33% equity interests in Haidao Construction to its parent company, Grand China Air, for a consideration of RMB1,600,000 thousand, the investment income of RMB64,097 thousand arising from the disposal was credited to current year's investment income (Note 5(44)(a)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(b) Other long-term equity investments

	Accounting method	Original investment cost RMB'000	31 December 2010 RMB'000	Current year movement RMB'000	31 December 2011 RMB'000	% Shareholding	% voting right	Explanation for difference between % shareholding and % voting right	Provision for impairment RMB'000	Provision for impairment made in current year RMB'000	Cash dividends declared in current year RMB'000
Hong Kong Airlines(i)	Cost method	842,000	-	842,000	842,000	19.02%	19.02%	N/A	-	-	-
Tianjin Airlines(ii)	Cost method	19,000	19,000	694,000	713,000	17.59%	17.59%	N/A	-	-	-
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	N/A	-	-	-
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	N/A	-	-	-
Xin Guo Hotel	Cost method	40,000	31,952	-	31,952	13.33%	13.33%	N/A	-	-	-
TravelSky Tech	Cost method	29,860	29,860	-	29,860	1.68%	1.68%	N/A	-	-	2,625
Yangtze River Express	Cost method	10,000	10,000	-	10,000	2%	2%	N/A	-	-	-
HNA Finance (Note 5(9)(a)(iii))	Cost method	101,561	101,561	(101,561)	-	-	-	N/A	-	-	-
Northwest HNA Property	Cost method	10,000	10,000	(10,000)	-	-	-	N/A	-	-	-
Others	Cost method	12,613	19,519	38	19,557	1.12%	1.12%	N/A	(6,774)	-	802
			<u>584,818</u>	<u>1,424,477</u>	<u>2,009,295</u>				<u>(6,774)</u>	<u>-</u>	<u>3,427</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(b) Other long-term equity investments (Continued)

(i) In December 2011, the Company injected capital of RMB842,000 thousand in cash to Hong Kong Airlines, and acquired its 19.02% equity interests. After the capital increase, Hong Kong Airlines Holding holds 39.15%, HNA Hongkong Investment holds 27.70%, Hong Kong Airlines Consultancy holds 11.86%, and Grand China Air holds 2.27% shares of Hong Kong Airlines.

(ii) The Company originally held 0.83% equity interests in Tianjin Airlines. In November 2011, the Company acquired 21.74% equity interests in Tianjin Airlines from its related party, Tianhang Holding, at the price of RMB694,000 thousand. After the acquisition, the Company held 22.57% equity interests of Tianjin Airlines in total. In December 2011, another shareholder, Tianjin Airlines, increased its capital to Tianjin Airlines, and the Company's equity interests in Tianjin Airlines was diluted to 17.59% after the capital increase.

(c) Investments in associates

Major financial information of the associates held by the Company in 2011 is outlined as below:

	% equity interest	% of voting right	31 December 2011			2011	
			Total assets RMB'000	Total liabilities RMB'000	Net Assets RMB'000	Revenue RMB'000	Net profit RMB'000
Grand China Technology	48%	48%	2,214,237	106,689	2,107,548	759,334	19,942
Lucky Air	40%	40%	4,959,412	3,284,519	1,674,893	2,947,303	111,866
HNA Finance	24%	24%	19,845,388	16,376,446	3,468,942	501,194	242,584
Xi'an Chanba	40%	40%	1,000,336	84	1,000,252	-	252

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Investment properties

	Fair value as at 1 January 2011 RMB'000	Current year additions		Current year reductions	Fair value as at 31 December 2011 RMB'000
		Current year new additions RMB'000	Changes in fair value RMB'000	RMB'000	
Cost	8,925,625	53,313	-	(3,510,855)	5,468,083
Buildings	5,130,195	53,313	-	-	5,183,508
Land use rights	3,795,430	-	-	(3,510,855)	284,575
Changes in fair value	947,864	-	869,845	(446,680)	1,371,029
Buildings	753,926	-	485,625	-	1,239,551
Land use rights	193,938	-	384,220	(446,680)	131,478
Net book value	9,873,489	53,313	869,845	(3,957,535)	6,839,112
Buildings	5,884,121	53,313	485,625	-	6,423,059
Land use rights	3,989,368	-	384,220	(3,957,535)	416,053

For the investment properties located with active trading market, the fair values are valued using income projection or open market value model.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Investment properties (Continued)

As at 31 December 2011, the net book value of the investment properties was RMB6,839,112 thousand (31 December 2010: RMB9,873,489 thousand). The latest valuation of the investment properties with valuation date of 31 December 2011 was conducted by an independent appraisal company, Hubei Wanxin Assets Appraisal Co., Ltd., using open market value approach.

In 2011, the total changes in the fair value of the investment properties of the Group amounted to RMB869,845 thousand (2010: RMB347,983 thousand), and was fully recognised as “gain on changes in fair value” in profit or loss for the year.

Current year reductions mainly represent the investment properties with net book value of RMB3,773,905 thousand previously held by the subsidiaries, which were disposed during the year (Note 4(3)).

As at 31 December 2011, investment properties with book value of RMB3,217,121 thousand (31 December 2010: RMB3,673,751 thousand) were pledged for long-term borrowings (Note 5(28)(a)(i)).

As at 31 December 2011, the title certificates of certain buildings and land use rights with carrying amount of RMB2,410,321 thousand (31 December 2010: RMB4,242,619 thousand) were under the process of application. The Company’s management believes that the lack of certificates of the buildings and land use rights has no material impact on the Group’s operations.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Cost	38,659,967	4,666,985	(1,703,303)	41,623,649
Buildings	1,607,416	111,993	(27,159)	1,692,250
Aircraft and engines	34,097,829	4,336,210	(1,647,292)	36,786,747
Rotables	2,242,534	142,455	(155)	2,384,834
Motor vehicles	201,333	20,261	(7,126)	214,468
Machinery and equipment	510,855	56,066	(21,571)	545,350
Accumulated depreciation	(8,658,621)	(2,173,908)	454,814	(10,377,715)
Buildings	(328,693)	(53,559)	1,544	(380,708)
Aircraft and engines	(6,584,075)	(1,902,917)	430,574	(8,056,418)
Rotables	(1,273,980)	(161,317)	72	(1,435,225)
Motor vehicles	(149,521)	(7,437)	5,142	(151,816)
Machinery and equipment	(322,352)	(48,678)	17,482	(353,548)
Book value before impairment	30,001,346	—	—	31,245,934
Buildings	1,278,723	—	—	1,311,542
Aircraft and engines	27,513,754	—	—	28,730,329
Rotables	968,554	—	—	949,609
Motor vehicles	51,812	—	—	62,652
Machinery and equipment	188,503	—	—	191,802
Provision for impairment loss	(16,381)	-	3	(16,378)
Buildings	-	-	-	-
Aircraft and engines	-	-	-	-
Rotables	(16,381)	-	3	(16,378)
Motor vehicles	-	-	-	-
Machinery and equipment	-	-	-	-
Net book value	29,984,965	—	—	31,229,556
Buildings	1,278,723	—	—	1,311,542
Aircraft and engines	27,513,754	—	—	28,730,329
Rotables	952,173	—	—	933,231
Motor vehicles	51,812	—	—	62,652
Machinery and equipment	188,503	—	—	191,802

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets (Continued)

As at 31 December 2011, fixed assets with net book value of RMB20,279,400 thousand (31 December 2010: RMB13,401,749 thousand) and original cost of RMB24,852,368 thousand (31 December 2010: RMB15,942,689 thousand) were pledged for short-term borrowings of RMB125,000 thousand and long-term borrowings of RMB17,954,085 thousand (Note 5(19)&(28)).

For the year ended 31 December 2011, total amount of depreciation charges for fixed assets amounted to RMB2,173,908 thousand (2010: RMB2,432,899 thousand), which were charged to operating costs, selling and distribution expense, general and administrative expense at RMB2,111,485 thousand, RMB4,740 thousand and RMB57,683 thousand respectively (2010: RMB2,367,379 thousand, RMB4,549 thousand and RMB60,971 thousand respectively).

For the year ended 31 December 2011, constructions in progress with original cost of RMB3,284,746 thousand (2010: RMB4,873,327 thousand) were transferred to fixed assets.

In 2011, certain aircraft and engines with net book value of RMB165,406 thousand were sold to Yangtze River Express, a related party of the Group, for a consideration of RMB156,282 thousand and the disposal loss of RMB9,124 thousand was charged to current year's non-operating expenses.

(a) Fixed assets under financial leases

	Cost RMB'000	Accumulated depreciation RMB'000	Book value RMB'000
31 December 2011			
Aircraft and engines	8,033,324	(2,497,923)	5,535,401
Rotables	50,000	(8,125)	41,875
	<u>8,083,324</u>	<u>(2,506,048)</u>	<u>5,577,276</u>
31 December 2010			
Aircraft and engines	8,128,604	(2,251,820)	5,876,784
Rotables	50,000	(3,958)	46,042
	<u>8,178,604</u>	<u>(2,255,778)</u>	<u>5,922,826</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets (Continued)

(b) Fixed assets without property certificates

As at 31 December 2011, property certificates of certain buildings with net book value of RMB53,308 thousand and original cost of RMB65,881 thousand (31 December 2010: net book value of RMB11,440 thousand and original cost of RMB23,431 thousand) have not been obtained by the Group. The management believes that there is no legal obstacle in substance to obtain these certificates and the lack of certificates of the buildings will have no material impact on the Group's operations.

(12) Construction in progress

	31 December 2011			31 December 2010		
	Book value before impairment RMB'000	Provision for impairment RMB'000	Net book value RMB'000	Book value before impairment RMB'000	Provision for impairment RMB'000	Net book value RMB'000
Advanced payments for aircraft acquisitions	7,673,230	-	7,673,230	4,751,513	-	4,751,513
Beijing base expansion project	1,077,882	-	1,077,882	668,458	-	668,458
Others	90,264	(2,307)	87,957	103,836	(2,307)	101,529
	<u>8,841,376</u>	<u>(2,307)</u>	<u>8,839,069</u>	<u>5,523,807</u>	<u>(2,307)</u>	<u>5,521,500</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Construction in progress (Continued)

(a) Movements of major construction in progress

Name of project	Budget RMB'000	31		Transfer to fixed assets during current year RMB'000	Other transfer during current year (Note) RMB'000	31		Construction progress	Accumulated borrowing costs capitalised RMB'000	Capitalized amount during the year		Annual interest rate for capitalisation	Source of fund
		December 2010 RMB'000	Current year additions RMB'000			December 2011 RMB'000	% completion of construction project			Interests RMB'000	Exchange gain or loss of special borrowings RMB'000		
Advanced payments for aircraft acquisitions	93,107,202	4,751,513	6,243,968	(3,170,052)	(152,199)	7,673,230	8%	9%	538,732	264,078	(194,268)	4.71%	Bank loans
Beijing base expansion project	2,076,655	668,458	459,956	(50,532)	-	1,077,882	52%	52%	159,814	23,598	-	6.32%	Bank loans and self generated fund
Others		103,836	50,590	(64,162)	-	90,264			-	-	-		
		<u>5,523,807</u>	<u>6,754,514</u>	<u>(3,284,746)</u>	<u>(152,199)</u>	<u>8,841,376</u>			<u>698,546</u>	<u>287,676</u>	<u>(194,268)</u>		

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Construction in progress (Continued)

(b) The progress of the major constructions in progress as at 31 December 2011 is as follows:

	Construction progress	Remarks
Beijing base expansion project	52%	The construction progress is estimated based on the budgeted project costs.

(13) Intangible assets

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Original cost	256,941	45	-	256,986
Land use rights	256,411	-	-	256,411
Software	530	45	-	575
Accumulated amortisation	(57,030)	(5,779)	-	(62,809)
Land use rights	(57,030)	(5,586)	-	(62,616)
Software	-	(193)	-	(193)
Net book value	199,911	—	—	194,177
Land use rights	199,381	—	—	193,795
Software	530	—	—	382

For the year ended 31 December 2011, total amortisations of the intangible assets amounted to RMB5,779 thousand (2010: RMB5,863 thousand).

As at 31 December 2011, the land use rights with net book value of RMB35,531 thousand and original cost of RMB45,000 thousand (31 December 2010: net book value of RMB92,392 thousand and original cost of RMB121,100 thousand) were pledged for long-term borrowings of RMB2,323,062 thousand (Note 5(28)(a)(ii)).

(14) Goodwill

As at 31 December 2011, the book value of goodwill is generated from the acquisition of Beijing Kehang. The goodwill is attributable to strengthening the competitiveness of the Group, aligning synergy through integration with the Company's other resources. For the purpose of impairment testing, the goodwill is allocated to the group of airline operation segment and other business segment. Based on the impairment testing result, the Group did not identify any impairment indicators.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(15) Long-term prepaid expenses

	31 December 2010 RMB'000	Current year additions RMB'000	Amortisation for the year RMB'000	Other reductions RMB'000	31 December 2011 RMB'000
Pilots training fees	285,466	114,405	(61,335)	-	338,536
Others	18,355	12,249	(4,059)	(6,528)	20,017
	<u>303,821</u>	<u>126,654</u>	<u>(65,394)</u>	<u>(6,528)</u>	<u>358,553</u>

(16) Other non-current assets

	31 December 2011 RMB'000	31 December 2010 RMB'000
Maintenance reserve fund for aircraft and engines	1,149,746	788,089
Security deposits for leased aircraft and engines	901,482	794,394
Deferred losses on sales and lease back transactions	304,020	400,548
Others	20,000	20,000
	<u>2,375,248</u>	<u>2,003,031</u>

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2011		31 December 2010	
	Deferred tax assets RMB'000	Deductible temporary differences and tax losses RMB'000	Deferred tax assets RMB'000	Deductible temporary differences and tax losses RMB'000
Accrued aircraft and engines overhaul and maintenance cost	188,721	754,886	-	-
Tax losses	83,807	335,229	-	-
Changed in fair value of available-for-sale financial assets	49,135	196,540	-	-
	<u>321,663</u>	<u>1,286,655</u>	<u>-</u>	<u>-</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Deferred tax assets and deferred tax liabilities (Continued)

(b) Deferred tax liabilities before offsetting

	31 December 2011		31 December 2010	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets depreciation	1,019,559	4,078,235	-	-
Business combinations under non-common control	346,294	1,385,175	1,116,767	4,614,499
Differences between book value and tax base of investment properties	385,738	1,542,956	237,335	951,837
	<u>1,751,591</u>	<u>7,006,366</u>	<u>1,354,102</u>	<u>5,566,336</u>

(c) Unrecognised deductible temporary differences and tax losses of the Group are analysed as follows:

	31 December 2011	31 December 2010
	RMB'000	RMB'000
Deductible temporary differences	-	164,637
Tax losses	91,819	37,290
	<u>91,819</u>	<u>201,927</u>

For certain subsidiaries, there are uncertainties as to whether these subsidiaries could generate sufficient future taxable profits to utilise the tax losses in the future, hence the Group did not recognise the related deferred tax assets for these tax losses.

(d) The unrecognised tax losses will be expired in the following years:

	31 December 2011	31 December 2010
	RMB'000	RMB'000
2015	27,356	37,290
2016	64,463	-
	<u>91,819</u>	<u>37,290</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Deferred tax assets and deferred tax liabilities (Continued)

(e) Offset between deferred tax assets and deferred tax liabilities:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Deferred tax assets	321,663	-
Deferred tax liabilities	<u>321,663</u>	<u>-</u>

Net balance after offsetting deferred tax assets with deferred tax liabilities is as follows:

	31 December 2011		31 December 2010	
	Net deferred tax assets or liabilities RMB'000	Net deductible or taxable temporary differences RMB'000	Net deferred tax assets or liabilities RMB'000	Net deductible or taxable temporary differences RMB'000
Deferred tax liabilities	<u>1,429,928</u>	<u>5,719,711</u>	<u>1,354,102</u>	<u>5,566,336</u>

(18) Provisions for asset impairment

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Provisions for bad debts	133,972	8,206	(58,491)	83,687
Including: Provisions for bad debts of accounts receivable	37,621	5,629	(14,827)	28,423
Provisions for bad debts of other receivables	96,351	2,577	(43,664)	55,264
Provision for declines in value of inventories	83	-	-	83
Provisions for impairment of long-term equity investment	6,774	-	-	6,774
Provisions for impairment of fixed assets	16,381	-	(3)	16,378
Provisions for impairment of construction in progress	2,307	-	-	2,307
	<u>159,517</u>	<u>8,206</u>	<u>(58,494)</u>	<u>109,229</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings

	Currency	31 December 2011 RMB'000	31 December 2010 RMB'000
Pledged (a)	RMB	330,000	650,000
Impawn (b)		6,943,250	4,268,198
	RMB	6,313,160	4,247,378
	USD	630,090	20,820
Guaranteed (c)		7,895,045	10,620,604
	RMB	7,580,000	10,162,164
	USD	315,045	458,440
Borrowings with guarantee and pledge/impawn (d)	RMB	2,245,000	2,127,000
Unsecured		2,231,000	38,246
	RMB	2,231,000	-
	USD	-	37,749
	EUR	-	497
Total		<u>17,533,295</u>	<u>17,704,048</u>

- (a) As at 31 December 2011, the pledged borrowings of RMB330,000 thousand (31 December 2010: RMB500,000 thousand) are secured by investment properties of related parties.

As at 31 December 2010, the pledged borrowings of RMB150,000 thousand were pledged by buildings owned by a third party which was matured and repaid in 2011.

- (b) As at 31 December 2011, impawn borrowings comprise:
- (i) Borrowing of RMB490,000 thousand (31 December 2010: RMB1,275,000 thousand) is impawned by the term deposit of RMB580,000 thousand (31 December 2010: 1,448,556 thousand) (Note 5(1)).
 - (ii) Borrowing of RMB2,160,090 thousand (including RMB2,118,622 thousand and USD100,000 thousand) (31 December 2010: RMB 2,972,378 thousand) is impawned by certain equity interests held by related parties of the Group.
 - (iii) Borrowing of RMB2,072,160 thousand (31 December 2010: Nil) represents the letter of credit, which is impawned by pledged deposit of RMB867,800 thousand.
 - (iv) Borrowing of RMB110,000 thousand (31 December 2010: Nil) is impawned by certain equity interests in HNA Finance held by the Group.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings

- (c) As at 31 December 2011, guaranteed borrowings comprise:
- (i) Borrowing of RMB2,950,000 thousand (31 December 2010: RMB3,682,135 thousand) is guaranteed by the Group.
 - (ii) Borrowing of RMB4,330,000 thousand (31 December 2010: RMB6,938,469 thousand) is guaranteed by related parties of the Group (Note 7(5)(c)).
 - (iii) Borrowing of USD50,000 thousand, equivalent to RMB315,045 thousand, is guaranteed by the Company.
 - (iv) Borrowing of RMB300,000 thousand (31 December 2010: Nil) is guaranteed by the Group and related parties of the Group (Note 7(5)(c)).
- (d) As at 31 December 2011, borrowings with guarantee and pledge/impawn comprise:
- (i) Borrowing of RMB1,550,000 thousand (31 December 2010: Nil) is impawned by certain equity interests held by a related party of the Group and guaranteed by a related party of the Group (Note 7(5)(c)).
 - (ii) Borrowing of RMB250,000 thousand (31 December 2010: Nil) is impawned by certain equity interests held by a related party of the Group and guaranteed by a related party of the Group (Note 7(5)(c)).
 - (iii) Borrowing of RMB200,000 thousand (31 December 2010: Nil) is impawned by RMB100,000 thousand security deposit of the Group and guaranteed by the Company.
 - (iv) Borrowing of RMB125,000 thousand (31 December 2010: Nil) is pledged by fixed assets of the Group with net book value of RMB84,871 thousand (original cost of RMB108,389 thousand) and guaranteed by the Company.
 - (v) Borrowing of RMB120,000 thousand (31 December 2010: RMB152,000 thousand) is impawned by certain equity interests held by the Company and guaranteed by the Company.
- (e) As at 31 December 2011, the annual weighted average interest for the short-term borrowings of the Group is 6.59% per annum (31 December 2010: 5.42%).
- (f) As at 31 December 2011, there are no short-term borrowings which are matured but not repaid by the Group.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(20) Notes payable**

	31 December 2011 RMB'000	31 December 2010 RMB'000
Bank acceptance notes	4,506,488	2,270,774
Commercial acceptance notes	553,372	945,952
	<u>5,059,860</u>	<u>3,216,726</u>

As at 31 December 2011 and 31 December 2010, all notes payable will be matured within one year.

(21) Accounts payable

	31 December 2011 RMB'000	31 December 2010 RMB'000
Aircraft and engines maintenance fees payable	1,530,151	1,101,163
Fuel cost payable	710,098	382,842
Taking-off and landing fees payable	523,107	676,650
Ticket reservation fees payable	211,113	162,095
Flight equipment payable	118,856	187,789
In-flight catering payable	83,250	88,152
Others	588,246	548,858
	<u>3,764,821</u>	<u>3,147,549</u>

(a) Creditors which hold over 5% (5% inclusive) voting shares of the Company are as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Haikou Meilan	31,905	12,094
Grand China Air	-	28,319
	<u>31,905</u>	<u>40,413</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(21) Accounts payable (Continued)

(b) Accounts payable to related parties:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Haikou Meilan	31,905	12,094
HNA Airlines Holdings	27,207	-
Meilan Airport	25,374	97,906
HNA Airport Holdings	10,829	10,955
HNA Group (Hong Kong)	10,005	4,853
Grand China Air	-	28,319
Others	34,400	35,430
	<u>139,720</u>	<u>189,557</u>

(c) As at 31 December 2011, the accounts payable with aging over 1 year amounted to RMB405,245 thousand (31 December 2010: RMB682,862 thousand), mainly comprising payable of fuel costs, take-off and landing fees, in-flight catering fees and maintenance fees. Due to the long-term business relationship with these suppliers, such payable amounts have not been finally settled yet.

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

	31 December 2011			31 December 2010		
	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000
USD	244,627	6.3009	1,541,372	169,398	6.6227	1,121,872
Others			81,317			15,105
			<u>1,622,689</u>			<u>1,136,977</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(22) Advances from customers

	31 December 2011 RMB'000	31 December 2010 RMB'000
Sales in advance of carriage	1,026,370	800,425
Other advances received	98,225	22,668
	<u>1,124,595</u>	<u>823,093</u>

- (a) As at 31 December 2011, advances from customers did not include any balances from companies which hold over 5% (5% inclusive) of the voting shares in the Company (31 December 2010: Nil).
- (b) As at 31 December 2011, advances from customers aging over 1 year amounted to RMB103,831 thousand, which mainly represented sales in advances of carriage. As the related services have not been rendered, the related balances have not recognised as revenue.
- (c) As at 31 December 2011, there is no significant balance dominated in foreign currency included in advances from customers.

(23) Employee benefits payable

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Wages and salaries, bonuses, allowances and subsidies	73,379	1,145,183	(1,045,192)	173,370
Social security contributions	10,577	232,300	(235,061)	7,816
Including: Medical insurance	5,750	122,394	(126,192)	1,952
Basic pensions	2,898	96,987	(95,504)	4,381
Unemployment insurance	524	6,137	(5,993)	668
Work injury insurance	812	2,146	(2,810)	148
Maternity insurance	622	920	(1,478)	64
Annuity	(29)	3,716	(3,084)	603
Housing funds	28,699	128,711	(126,222)	31,188
Labor union funds and employee education funds	41,123	36,040	(49,240)	27,923
	<u>153,778</u>	<u>1,542,234</u>	<u>(1,455,715)</u>	<u>240,297</u>

As at 31 December 2011, the employee benefits payable does not include any overdue amounts and the payable balance is expected to be paid in 2012.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(24) Taxes payable

	31 December 2011 RMB'000	31 December 2010 RMB'000
Airport construction fee payable	185,300	98,167
Business tax payable	113,467	140,629
Enterprise income tax payable	86,619	345,618
Domestic infrastructure levies payable	67,274	96,800
Others	124,083	160,477
	<u>576,743</u>	<u>841,691</u>

(25) Interest payable

	31 December 2011 RMB'000	31 December 2010 RMB'000
Interests on debentures (Note 5(29)(b))	178,589	-
Interests on borrowings	145,860	106,317
	<u>324,449</u>	<u>106,317</u>

(26) Other payables

	31 December 2011 RMB'000	31 December 2010 RMB'000
Construction project payable	193,279	288,935
Security deposits and funds	160,484	100,594
Amounts due to related parties (b)	70,723	178,880
Aircraft acquisition	52,847	62,159
Pilot training fees	47,216	51,160
Others	246,459	379,366
	<u>771,008</u>	<u>1,061,094</u>

(a) Other payables include the following amounts payable to entities which hold over 5% (5% inclusive) voting shares of the Company:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Changjiang Leasing	<u>790</u>	<u>20,183</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other payables (Continued)

(b) Other payables to related parties:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Capital Airlines	18,014	-
Yangtze River Leasing	14,146	14,268
Others	38,563	164,612
	<u>70,723</u>	<u>178,880</u>

(c) As at 31 December 2011, other payables aging over one year amounted to RMB149,979 thousand (31 December 2010: RMB315,177 thousand) and mainly comprised blank ticket deposits placed by ticket sales agents and other payables. As the Group has long-term relationships with these agents, such payable amounts have not yet been settled.

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

	31 December 2011			31 December 2010		
	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000
USD	11,618	6.3009	<u>73,204</u>	10,048	6.6227	<u>66,545</u>

(27) Non-current liabilities within one year

	31 December 2011 RMB'000	31 December 2010 RMB'000
Long-term borrowings within one year (a)	4,181,995	3,948,303
Long-term payables within one year (b)	421,569	472,400
	<u>4,603,564</u>	<u>4,420,703</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Non-current liabilities within one year (Continued)

(a) Long-term borrowings within one year

	Currency	31 December 2011 RMB'000	31 December 2010 RMB'000
Pledged (Note 5(28)(a))		2,330,609	1,305,564
	RMB	774,754	553,278
	USD	1,555,361	752,286
	EUR	494	-
Impawn (Note 5(28)(b))	RMB	513,900	515,000
Guaranteed (Note 5(28)(c))		418,410	914,379
	RMB	418,410	848,152
	USD	-	66,227
Guaranteed and pledged/ impawn (Note 5(28)(d))		899,076	984,374
	RMB	813,384	690,061
	USD	85,692	294,313
Unsecured		20,000	228,986
	RMB	20,000	79,821
	USD	-	142,830
	EUR	-	6,335
		<u>4,181,995</u>	<u>3,948,303</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Non-current liability within one year (Continued)

(a) Long-term borrowings within one year (Continued)

The top 5 lenders with the largest balances of the long-term borrowings within one year are as follows:

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2011		
				Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	26/03/2008	31/01/2012	1 month LIBOR plus 1.07%	USD	50,456	317,915
BANK B	29/06/2010	22/06/2012	Benchmark rate plus 10%	RMB	-	300,000
BANK C	18/05/2010	18/05/2012	5.40%	RMB	-	270,000
BANK D	11/05/2010	10/05/2012	Benchmark rate	RMB	-	249,400
BANK E	24/08/2009	23/08/2012	4.86%	RMB	-	200,000
						<u>1,337,315</u>

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2010		
				Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK 1	30/03/2005	28/10/2011	Benchmark rate plus 5%	RMB	-	416,500
BANK 2	18/12/2009	18/12/2011	Benchmark rate plus 10%	RMB	-	400,000
BANK 3	31/05/2009	31/05/2011	Benchmark rate	RMB	-	300,000
BANK 4	30/07/2009	29/07/2011	Benchmark rate plus 5%	RMB	-	270,000
BANK 5	28/09/2007	28/08/2011	6 months LIBOR	USD	29,820	197,489
						<u>1,583,989</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Long-term payables within one year

The top 5 creditors with the largest balances of the long-term payables within one year are as follows:

	Lease term	Initial amount RMB'000	Interest rate (%)	Accrued interest in current year RMB'000	31 December 2011			Borrowing conditions
					Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000	
Lessor of finance lease 1	5 years	121,246	Floating interest rate	9,859	RMB	-	111,387	Aircraft finance lease
Lessor of finance lease 2	12 years	109,185	Floating interest rate	1,754	USD	17,050	107,431	Aircraft finance lease
Lessor of finance lease 3	5 years	120,377	Benchmark rate	24,128	RMB	-	96,249	Aircraft finance lease
Lessor of finance lease 4	5 years	45,093	Benchmark rate	2,660	RMB	-	42,433	Aircraft, engine, flight equipment finance leases
Lessor of finance lease 5	10 years	30,207	Floating interest rate	10,207	RMB	-	20,000	
							377,500	

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings

	31 December 2011			31 December 2010		
	Balance after			Balance after		
	Total amount	Less: long-term borrowings due within 1 year	deducting the amount due within 1 year	Total amount	Less: long-term borrowings due within 1 year	deducting the amount due within 1 year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged (a)	19,478,055	(2,330,609)	17,147,446	14,631,239	(1,305,564)	13,325,675
RMB	5,999,617	(774,754)	5,224,863	4,156,103	(553,278)	3,602,825
USD	13,384,319	(1,555,361)	11,828,958	10,475,136	(752,286)	9,722,850
EUR	94,119	(494)	93,625	-	-	-
Impawn (b)	1,804,587	(513,900)	1,290,687	1,999,000	(515,000)	1,484,000
RMB	1,593,750	(513,900)	1,079,850	1,999,000	(515,000)	1,484,000
USD	210,837	-	210,837	-	-	-
Guaranteed (c)	2,229,549	(418,410)	1,811,139	2,260,899	(914,379)	1,346,520
RMB	712,308	(418,410)	293,898	2,194,672	(848,152)	1,346,520
USD	1,451,941	-	1,451,941	66,227	(66,227)	-
EUR	65,300	-	65,300	-	-	-
Guaranteed and pledged/ impawn (d)	3,145,476	(899,076)	2,246,400	7,310,115	(984,374)	6,325,741
RMB	2,669,991	(813,384)	1,856,607	4,973,120	(690,061)	4,283,059
USD	475,485	(85,692)	389,793	2,336,995	(294,313)	2,042,682
Unsecured	987,621	(20,000)	967,621	970,143	(228,986)	741,157
RMB	901,227	(20,000)	881,227	718,191	(79,821)	638,370
USD	86,394	-	86,394	142,830	(142,830)	-
EUR	-	-	-	109,122	(6,335)	102,787
Total	27,645,288	(4,181,995)	23,463,293	27,171,396	(3,948,303)	23,223,093

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

(a) As at 31 December 2011, pledged borrowings comprise:

(i) The pledged borrowings of RMB16,834,442 thousand (including: RMB4,845,117 thousand, USD1,887,858 thousand and EUR11,531 thousand) (31 December 2010: RMB12,846,179 thousand) are pledged by the following fixed assets and investment properties individually or collectively :

	31 December 2011		31 December 2010	
	Cost	Net book value	Cost	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets - buildings	325,064	229,026	82,703	71,856
Fixed assets – aircraft	19,838,755	16,956,549	11,584,202	10,114,243
Subtotal (Note 5(11))	<u>20,163,819</u>	<u>17,185,575</u>	<u>11,666,905</u>	<u>10,186,099</u>
Investment properties (Note 5(10))		<u>3,217,121</u>		<u>2,957,737</u>
Total		<u>20,402,696</u>		<u>13,143,836</u>

(ii) The pledged borrowings of RMB 2,326,062 thousand (including: RMB1,154,500 thousand and USD185,936 thousand) (31 December 2010: Nil) are pledged by aircrafts owned by the Group's related parties and the intangible assets of the Company with net book value of RMB35,531 thousand and original cost of RMB45,000 thousand (31 December 2010: net book value of RMB92,392 thousand and original cost of RMB121,100 thousand) (Note 5(13)).

(iii) The pledged borrowings of USD50,397 (RMB317,551 thousand equivalent) (31 December 2010: RMB1,513,060 thousand) are pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed.

(b) As at 31 December 2011, impawn borrowings comprise:

(i) The impawn borrowings of RMB579,750 thousand (31 December 2010: RMB180,000 thousand) are impawned by term deposits of RMB670,000 thousand of the Group (Note 5(1)).

(ii) The impawn borrowings of RMB1,224,837 thousand (Including: RMB1,014,000 thousand and USD33,461 thousand) (31 December 2010: RMB1,819,000 thousand) are impawned by certain equity interests held by related parties of the Group (Note 5(5)(c)).

(c) As at 31 December 2011, guaranteed borrowings of RMB2,229,549 thousand (Including: RMB712,309 thousand and USD230,434 thousand and EUR8,000 thousand) (31 December 2010: RMB2,260,899 thousand) are guaranteed by related parties of the Company and of the Group (Note 7(5)(c)), among which, RMB83,546 thousand is guaranteed by the Company and RMB2,146,003 thousand is guaranteed by the related parties of the Group.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

- (d) As at 31 December 2011, borrowings with guarantee and pledge/impawn comprise:
- (i) Borrowings of RMB850,590 thousand (31 December 2010: RMB1,718,706 thousand) are pledged by aircrafts of the Group with net book value of RMB2,268,552 thousand and original cost of RMB3,260,545 thousand (31 December 2010: net book value of RMB1,677,092 thousand and original cost of RMB2,071,900 thousand) (Note 5(11)), and also guaranteed by related parties of the Group.
 - (ii) Borrowings of RMB1,000,000 thousand (31 December 2010: RMB1,000,000 thousand) are pledged by the Group's investment properties with fair value of RMB3,217,121 thousand (31 December 2010: RMB2,957,737 thousand) (Note 5(10)), and also guaranteed by the Company.
 - (iii) Borrowings of USD42,701 thousand (RMB269,053 thousand equivalent) (31 December 2010: RMB2,897,149 thousand) are pledged by aircrafts of the Group with net book value of RMB740,402 thousand and original cost of RMB1,319,615 thousand (31 December 2010: net book value of RMB829,146 thousand and original cost of RMB1,319,615 thousand), and are impawned by certain equity interests held by related parties of the Group.
 - (iv) Borrowings of RMB249,400 thousand (31 December 2010: RMB271,320 thousand) are impawned by certain equity interests held by related parties, and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (v) Borrowings of RMB300,000 thousand (31 December 2010: RMB271,320 thousand) are impawned by certain equity interests held by the Company, and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (vi) Borrowings of RMB270,000 thousand (31 December 2010: Nil) are pledged by buildings of related parties of the Group, and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (vii) Borrowings of USD32,762 thousand (RMB206,432 thousand equivalent) (31 December 2010: Nil) are impawned by equity interests held by the Company and related parties of the Group, and also guaranteed by the related parties of the Group (Note 7(5)(c)).

As at 31 December 2010, borrowings of RMB741,440 thousand were pledged by purchase rights of certain aircrafts of the Group and also guaranteed by related parties of the Group; borrowings of RMB416,500 thousand were impawned by term deposits of RMB500,000 thousand of the Group (Note 5(1)) and also guaranteed by related parties of the Group (Note 7(5)(c)), which were repaid in 2011.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

(e) The top 5 lenders of the Group with the largest long-term borrowings balances (portion within 1 year exchange) are as follows:

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2011		
				Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	28/08/2003	07/07/2018	LIBOR plus 1.45%	USD	186,150	1,172,913
BANK B	30/06/2003	30/06/2018	Benchmark rate	RMB	—	1,154,500
BANK C	19/11/2009	18/11/2021	Benchmark rate plus 5%	RMB	—	1,000,000
BANK D	30/11/2010	29/11/2013	5.6%	RMB	—	700,000
BANK E	30/11/2010	29/05/2013	5.6%	RMB	—	549,000
						4,576,413

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2010		
				Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK 1	28/12/2007	27/12/2022	LIBOR	USD	308,000	2,039,792
BANK 2	30/10/2008	29/10/2023	LIBOR	USD	288,000	1,907,338
BANK 3	28/09/2007	28/08/2021	LIBOR	USD	268,360	1,777,268
BANK 4	28/08/2003	07/07/2018	LIBOR	USD	186,150	1,232,816
BANK 5	30/06/2003	30/06/2018	Benchmark rate	RMB	—	1,154,500
						8,111,714

(f) The long-term borrowings (portion within 1 year exclusive) are repayable as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
1 to 2 years	5,612,833	4,426,302
2 to 5 years	8,127,951	9,395,452
Over 5 years	9,722,509	9,401,339
	23,463,293	23,223,093

As at 31 December 2011, the weighted average interest rate of long-term borrowings is 4.3% per annum (31 December 2010: 4.4% per annum).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Debentures Payable

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Corporate bonds	-	4,927,151	-	4,927,151
RMB bonds	-	991,158	-	991,158
	<u>-</u>	<u>5,918,309</u>	<u>-</u>	<u>5,918,309</u>

(a) The related information of bonds is outlined as follows:

	Face value RMB'000	Issuing date	Term	Issuing amount RMB'000
Corporate bonds (i)	5,000,000	24/05/2011	5/10 years	4,920,000
RMB bonds (ii)	1,000,000	27/09/2011	3 years	990,371

(i) On 24 May 2011, as approved by CSRC [2001] No. 721 (中国证券监督管理委员会证监许可【2011】721号文), the Company issued five-year and ten-year corporate bonds with total principle amount of RMB5 billion. The bonds bear interest at rate of 5.6% (five-year bond) and 6.2% (ten-year bond) per annum and payable annually.

(ii) In September 2011, HNA Hongkong, a wholly-owned subsidiary of the Company, issued three year RMB corporate bonds of RMB1 billion with final maturity in 2014 and bearing interest at 6% per annum. The bonds are listed in Singapore and with an unconditional and irrevocable guarantee provided by the Company for a period of four years.

(b) Interest payable of bonds is analysed as follows:

	31 December 2010 RMB'000	Interest accrued in current year RMB'000	Interest paid in current year RMB'000	31 December 2011 RMB'000
Corporate bonds	-	162,922	-	162,922
RMB bonds	-	15,667	-	15,667
	<u>-</u>	<u>178,589</u>	<u>-</u>	<u>178,589</u>

(30) Long-term payables

	31 December 2011 RMB'000	31 December 2010 RMB'000
Finance lease obligations	1,834,117	2,157,670
Less: portion within 1 year (Note 5(27))	<u>(421,569)</u>	<u>(472,400)</u>
	<u>1,412,548</u>	<u>1,685,270</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Long-term payables (Continued)

(a) Breakdown of finance lease obligations by lessor:

	31 December 2011			31 December 2010		
	Currency	Amount in foreign currency (‘000)	RMB equivalent RMB’000	Currency	Amount in foreign currency (‘000)	RMB equivalent RMB’000
Lessor No. 1	RMB	—	422,119	RMB	—	540,997
Changjiang Leasing	USD	65,947	415,523	USD	65,766	435,548
Lessor No. 2	USD	34,793	219,226	USD	50,522	334,591
Lessor No. 3	RMB	—	203,302	RMB	—	210,121
Lessor No. 4	RMB	—	200,000	—	—	-
Lessor No. 5	RMB	—	191,343	RMB	—	296,913
Yangtze River Leasing	USD	16,793	105,808	USD	19,600	129,805
Others			76,796			209,695
			<u>1,834,117</u>			<u>2,157,670</u>

Finance lease obligations are the amounts paid to leasing companies for finance leased aircraft and engines by the Group. The finance lease period is ranged from 3 to 12 years. Finance lease obligations represent the balance of minimum lease payments of finance leased fixed assets less unrecognised finance charges (Note 10).

	2011 RMB’000	2010 RMB’000
Beginning balance of the year	2,157,670	2,028,933
Add: current year additions	200,000	588,686
Less: current year payment	(523,553)	(459,949)
Ending balance of the year	<u>1,834,117</u>	<u>2,157,670</u>
Less: finance lease obligations within one year	(421,569)	(472,400)
	<u>1,412,548</u>	<u>1,685,270</u>
	31 December 2011 RMB’000	31 December 2010 RMB’000
Minimum lease payments	2,209,051	2,502,053
Less: unrecognised finance charge	(374,934)	(344,383)
Net balance of lease obligations	<u>1,834,117</u>	<u>2,157,670</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Long-term payables (Continued)

(b) The Group's top 5 lessors with the largest finance lease obligation balances are as follows:

	Term	Principle amount RMB'000	Interest rate (%)	Accrued interest RMB'000	Ending balance RMB'000	Borrowing conditions
Lessor No.1	5 years	477,510	Benchmark rate	55,391	422,119	Finance lease
Changjiang Leasing	13 years	582,707	Floating interest rate	167,184	415,523	Finance lease
Lessor No.2	12 years	221,741	Floating interest rate	2,515	219,226	Finance lease
Lessor No.3	5 or 10 years	222,707	Benchmark rate	19,405	203,302	Finance lease
Lessor No.4	10 years	302,075	Floating interest rate	102,075	200,000	Finance lease
		<u>1,806,740</u>		<u>346,570</u>	<u>1,460,170</u>	

(c) The long-term payables (portion within 1 year exclusive) are repayable according to the following payable schedules:

	31 December 2011 RMB'000	31 December 2010 RMB'000
1 to 2 years	531,274	424,209
2 to 5 years	349,108	788,426
Over 5 years	532,166	472,635
	<u>1,412,548</u>	<u>1,685,270</u>

(31) Other non-current liabilities

	31 December 2011 RMB'000	31 December 2010 RMB'000
Deferred revenue – Unredeemed mileages under frequent flyer programme (a)	437,219	280,850
Deferred revenue – Unrealised gain on sales and leaseback transaction (b)	26,317	54,416
Customs duties and VAT relating to finance lease	14,470	21,462
	<u>478,006</u>	<u>356,728</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Other non-current liabilities (Continued)

(a) Unredeemed mileages under frequent flyer programme

	2011 RMB'000	2010 RMB'000
As at 1 January	280,850	193,830
Current year additions	337,271	132,178
Current year redemption/(expiration)	<u>(180,902)</u>	<u>(45,158)</u>
As at 31 December	<u>437,219</u>	<u>280,850</u>

(b) The balances mainly represent the differences between the selling price and net book value of certain sales-and-leased-back aircrafts. The differences arisen from sales and finance leased back transactions are amortised through the useful lives of the assets.

(32) Share capital

	31 December 2010 RMB'000	Current year movement RMB'000	31 December 2011 RMB'000
Shares with trading restrictions -			
Shares held by domestic non-state-owned legal persons	297,956	-	297,956
Shares held by domestic state-owned legal persons	<u>297,619</u>	<u>-</u>	<u>297,619</u>
	<u>595,575</u>	<u>-</u>	<u>595,575</u>
Shares without trading restrictions -			
A shares	3,345,193	-	3,345,193
B shares	<u>184,723</u>	<u>-</u>	<u>184,723</u>
	<u>3,529,916</u>	<u>-</u>	<u>3,529,916</u>
	<u>4,125,491</u>	<u>-</u>	<u>4,125,491</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Paid-in capital (Continued)

	31 December 2009 RMB'000	Current year movement Note(a) RMB'000	31 December 2010 RMB'000
Shares with trading restrictions -			
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
	<u>337</u>	<u>595,238</u>	<u>595,575</u>
Shares without trading restrictions -			
A shares	3,345,193	-	3,345,193
B shares	184,723	-	184,723
	<u>3,529,916</u>	<u>-</u>	<u>3,529,916</u>
	<u>3,530,253</u>	<u>595,238</u>	<u>4,125,491</u>

- (a) On 5 January 2010, the Company obtained the approval from CSRC for the Company's non-public share issuance for no more than 595,238,094 shares. On 12 February 2010, the Company completed the share offering in which each of Hainan Development Holding and HNA Group were offered 297,619,047 A shares of the Company. The offering price was set at RMB5.04 per share and the total proceed raised in this share issuance amounted to RMB2,985,517,557 after deducting the related share issuing costs of RMB14,482,443. The shares issued in this offering are restricted for trading with a lock-up period from 26 February 2010 to 25 February 2013. After the completion of the above share issuance, the Company's share capital was increased to RMB4,125 million. The registration procedures for the changes in shareholdings after the share issuance were completed on 12 February 2010. After the share issue, the Company's shareholdings held by Grand China Air, Hainan Development Holdings and HNA Group were changed to 41.60%, 7.21% and 7.21% respectively. Grand China Air remains as the parent company of the Company.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Capital surplus

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Share premium (a)	6,213,429	-	(282,977)	5,930,452
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(49))	(16,535)	-	(130,871)	(147,406)
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Long-term investments accounted for by equity method	1,850	-	-	1,850
- Others	1,116	-	-	1,116
	<u>6,231,028</u>	<u>-</u>	<u>(413,848)</u>	<u>5,817,180</u>
	31 December 2009 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2010 RMB'000
Capital premium (Note 5(32))	3,823,150	2,390,279	-	6,213,429
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(49))	38,211	-	(54,746)	(16,535)
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Long-term investments accounted for by equity method	1,850	-	-	1,850
- Others	29,143	17,573	(45,600)	1,116
	<u>3,923,522</u>	<u>2,407,852</u>	<u>(100,346)</u>	<u>6,231,028</u>

- (a) As at 31 December 2011, the Company acquired 32.41% equity interests of Xinhua Airlines and 12.68% equity interests of Chang'an Airlines from minority interests at a price of RMB1,080,000 thousand and RMB281,990 thousand respectively (Note 15(3)(a)). The differences of RMB282,977 between the acquisition considerations and the proportion of the net book value of identifiable net assets of the subsidiaries at acquisition date was recorded as capital surplus – capital premium.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(34) Surplus reserve**

	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Statutory surplus reserve	<u>383,918</u>	<u>184,083</u>	<u>-</u>	<u>568,001</u>
	31 December 2009 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2010 RMB'000
Statutory surplus reserve	<u>169,098</u>	<u>214,820</u>	<u>-</u>	<u>383,918</u>

In accordance with Company Law of the People's Republic of China and the Company's Articles of the Association, the Company shall appropriate 10% of net profit to statutory surplus reserve, and the Company can cease appropriation when accumulated statutory surplus reserve up to more than 50% of registered capital. Statutory surplus reserve can be used to make up for the losses or increase share capital after appropriate approval. According to the Board resolution on 15 March 2012, the Company appropriated 10% of net profit, amounted to RMB184,083 thousand (2010: RMB214,820 thousand), to statutory surplus reserve for the year ended 31 December 2011.

(35) Undistributed profits

	2011 RMB'000	2010 RMB'000
Undistributed profits/(accumulated losses) as at January 1	1,725,046	(1,074,046)
Add: Net profits attributable to the equity shareholders of the Company	2,631,312	3,013,912
Less: Appropriation to surplus reserves	(184,083)	(214,820)
Dividends to ordinary shares	<u>(206,275)</u>	<u>-</u>
Undistributed profits as at December 31	<u>3,966,000</u>	<u>1,725,046</u>

As at 31 December 2011, undistributed profits included surplus reserve of RMB124,751 thousand attributable to the Company's subsidiaries (31 December 2010: RMB119,663 thousand).

According to the shareholders meeting resolution passed on 14 March 2011, a cash dividend of RMB0.05 yuan per share to all shareholders was proposed. Based on a total of 4,125,490,895 outstanding shares in issue, the total cash dividends proposed amount to RMB206,275 thousand. As at 31 December 2011, RMB24,617 thousand has not been paid yet.

According to the Board's resolution passed on 30 March 2012, a cash dividend of RMB1.2 yuan per every 10 shares (tax inclusive) to all shareholders was proposed. Based on a total of 4,125,490,895 outstanding shares in issue, the total cash dividends proposed amounted to RMB412,549 thousand. The above proposal is still subject to the approval of annual shareholders meeting (Note 9).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(36) Minority interests**

Minority interests attributable to minority holders of subsidiaries are outlined as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Beijing Kehang	88,515	79,865
Xinhua Airlines (Note)	-	678,209
Chang'an Airlines (Note)	-	206,813
Others	5,982	8,979
	<u>94,497</u>	<u>973,866</u>

Note: After the Company's acquisition of minority interests in Xinhua Airlines and Chang'an Airlines in 2011, Xinhua Airlines and Chang'an Airlines became the wholly-owned subsidiaries of the Company (Note 5(33) & Note 15(3)(a)).

(37) Revenue and operating costs

	2011 RMB'000	2010 RMB'000
Revenue from main operations (a)	24,280,510	19,615,266
Revenue from other operations (b)	1,992,736	2,090,881
	<u>26,273,246</u>	<u>21,706,147</u>
Operating costs of main operations	(18,508,261)	(14,876,370)
Operating costs of other operations (b)	(989,726)	(616,552)
	<u>(19,497,987)</u>	<u>(15,492,922)</u>

(a) Revenue from main operations

Revenue from main operations by categories is analysed as follows:

	2011 RMB'000	2010 RMB'000
Passenger	23,275,882	18,750,032
Cargo and mail	922,910	826,273
Others	81,718	38,961
	<u>24,280,510</u>	<u>19,615,266</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) Revenue and operating costs (Continued)

(b) Revenue and operating costs of other operations

	2011		2010	
	Revenue of other operations RMB'000	Operating costs of other operations RMB'000	Revenue of other operations RMB'000	Operating costs of other operations RMB'000
Aircraft leasing income (Note 7(5)(b))	1,221,751	(763,112)	1,612,648	(563,068)
Property rental income	348,657	(89,381)	205,760	(36,094)
Processing fee for cancelled tickets	146,837	-	101,383	-
Gain on disposal of investment properties	92,066	(75,800)	-	-
Commission income	36,632	-	33,249	-
Others	146,793	(61,433)	137,841	(17,390)
	<u>1,992,736</u>	<u>(989,726)</u>	<u>2,090,881</u>	<u>(616,552)</u>

The costs of aircraft leasing did not include interest charge of RMB340,063 thousand (2010: RMB538,382 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

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

For the year ended 31 December 2011, total revenue of the top 5 customers of the Group amounted to RMB6,670,439 thousand (2010: RMB7,002,295 thousand), accounting for 25% of the total revenues of the Group (2010: 32%).

(38) Business tax and surcharges

	2011 RMB'000	2010 RMB'000
Business tax	716,723	605,306
City maintenance and construction tax	47,177	12,720
Education surcharges	32,859	6,331
Others	6,119	3,219
	<u>802,878</u>	<u>627,576</u>

The taxation bases of business tax and surcharges are set out in Note 3.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(39) Selling and distribution expenses**

	2011 RMB'000	2010 RMB'000
Commissions tickets sales	766,819	648,423
Tickets reservation fee	155,490	147,513
Wages, bonuses and welfares	120,004	89,880
Sales branches expenses	76,609	58,421
Rentals	53,278	51,262
Others	88,052	96,261
	<u>1,260,252</u>	<u>1,091,760</u>

(40) General and administrative expenses

	2011 RMB'000	2010 RMB'000
Wages, bonuses and welfares	142,520	109,584
Depreciation	57,683	60,971
Insurances	36,887	48,968
Rents	45,418	10,282
Various types of taxes	55,599	36,789
Others	237,478	217,142
	<u>575,585</u>	<u>483,736</u>

(41) Finance expenses – net

	2011 RMB'000	2010 RMB'000
Interest expenses	3,091,318	2,229,310
Less: Interest capitalised	(287,676)	(200,750)
Less: Interest income	(363,042)	(156,580)
Net exchange gains	(637,883)	(370,595)
Others	201,185	86,901
	<u>2,003,902</u>	<u>1,588,286</u>

Interest income includes interests received from related parties (Note 7(5)(a)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(42) Impairment losses

	2011 RMB'000	2010 RMB'000
Provision for bad debts	<u>8,206</u>	<u>-</u>

(43) Gains on changes in fair value

	2011 RMB'000	2010 RMB'000
Investment properties (Note 5(10))	869,845	347,983
Other financial assets held for trading	26	6,840
	<u>869,871</u>	<u>354,823</u>

(44) Investment income

	2011 RMB'000	2010 RMB'000
Gain on disposal of long-term equity investments (a)	96,032	52
Share of results of investees accounted for under equity method (Note 5(9)(a))	89,493	(6,469)
Dividend income from available-for-sale financial assets (Note 5(8)(b))	8,932	14,886
Dividend income from investees accounted for under cost method (Note 5(9)(b))	3,427	17,211
Others	-	5
	<u>197,884</u>	<u>25,685</u>

The Group has no significant limitation on returns on investments.

(a) Gain on disposal of long-term equity investments

	2011 RMB'000
Haidao Construction (Note 5(9)(a)(v))	64,097
Others	31,935
	<u>96,032</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(45) Non-operating income

	2011	2010	Amount recorded in extraordinary items of 2011
	RMB'000	RMB'000	RMB'000
Subsidy income	333,162	207,731	333,162
Including: Flight route subsidies (a)	94,474	16,638	94,474
Tax refund	66,930	63,519	66,930
Other financial subsidies	171,758	127,574	171,758
Gain on disposal of non current assets	34,737	510,098	34,737
Profit compensation received from HNA Group with respect to Beijing Kehang (b)	109,917	62,258	109,917
Others	102,904	116,784	102,904
	<u>580,720</u>	<u>896,871</u>	<u>580,720</u>

(a) Among flight route subsidies, RMB82,020 thousand represents the subsidies from MOF with respect to special long-distance international routes.

(b) Upon the acquisition of Beijing Kehang by the Company, HNA Group undertook to compensate the Company the difference if the net profit of Beijing Kehang could not reach the expected levels (as agreed) between 2009 and 2011. In 2011, the Company received the profits compensation of Beijing Kehang from HNA Group amounted to RMB109,917 thousand (2010: RMB62,258 thousand).

(46) Non-operating expenses

	2011	2010	Amount recorded in extraordinary items of 2011
	RMB'000	RMB'000	RMB'000
Loss on disposal of fixed assets	70,065	43,330	70,065
Others	6,790	4,622	6,790
	<u>76,855</u>	<u>47,952</u>	<u>76,855</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(47) Income tax expenses

	2011 RMB'000	2010 RMB'000
Current income tax	122,764	354,948
Deferred income tax	739,084	75,448
	<u>861,848</u>	<u>430,396</u>

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:

	2011 RMB'000	2010 RMB'000
Total profit	<u>3,696,056</u>	<u>3,651,294</u>
Income tax expenses calculated at the applicable tax rate of 24% (2010: 22%)	887,053	803,285
Effect of different tax rates of subsidiaries	16,067	26,920
Income not subject to tax	(30,762)	(5,703)
Expenses not deductible for tax purposes	10,039	2,874
Recognition of previously unrecognised deductible temporary differences and tax losses	(40,980)	
Utilisation of previously unrecognised deductible temporary differences	-	(120,183)
Utilisation of previously unrecognised tax losses	-	(285,534)
Unrecognised deductible tax losses	16,116	-
Other differences	4,315	8,737
Income tax expenses	<u>861,848</u>	<u>430,396</u>

(48) Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of outstanding ordinary shares of the Company.

	2011 RMB'000	2010 RMB'000
Profits attributable to the ordinary shareholders of the Company	2,631,312	3,013,912
Weighted average number of outstanding ordinary shares in issue	<u>4,125,491</u>	<u>4,056,998</u>
Basic earnings per share (RMB Yuan per share)	<u>0.64</u>	<u>0.74</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(48) Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share are calculated based on profit attributable to the ordinary shareholders of the Company, adjusted by potential diluted ordinary shares, divided by the weighted average number of ordinary shares of the Company. For the year ended 31 December 2011, there are no diluted ordinary shares (2010: Nil), therefore diluted earnings per share is equal to basic earnings per share.

(49) Other comprehensive income

	2011 RMB'000	2010 RMB'000
Loss arising from available-for-sale financial assets	(180,006)	(67,484)
Less: Income tax relating to available-for-sale financial assets	49,135	12,738
	<u>(130,871)</u>	<u>(54,746)</u>

(50) Notes to consolidated cash flow statements

(a) Cash received relating to other operating activities:

	2011 RMB'000	2010 RMB'000
Refunds of security deposits for notes payable	1,336,994	1,498,958
Receipts of subsidy income (Note 5(45))	333,162	207,731
Receipts of net profit compensation of Beijing Kehang (Note 5(45)(b))	109,917	62,258
Others	110,265	343,311
	<u>1,890,338</u>	<u>2,112,258</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) Notes to consolidated cash flow statements (Continued)

(b) Cash paid relating to other operating activities:

	2011 RMB'000	2010 RMB'000
Payments of notes payable, borrowings and other security deposits	2,369,984	1,796,423
Payments of ticket sales commission	766,819	648,423
Payments of lease security deposits and maintenance reserve funds	412,827	310,246
Payments of ticket reservation fees	155,490	147,513
Payments of bank charges	135,165	51,697
Payments of sales branches expenses	76,609	58,421
Payments of advertising and entertainment expenses	55,473	27,683
Others	659,540	511,620
	<u>4,631,907</u>	<u>3,552,026</u>

(c) Cash received relating to other investing activities

	2011 RMB'000	2010 RMB'000
Receipts of term deposits upon maturity	2,623,115	918,221
Interests on deposits	212,252	129,702
	<u>2,835,367</u>	<u>1,047,923</u>

(d) Cash paid relating to other investing activities

	2011 RMB'000	2010 RMB'000
Term deposits	<u>2,086,397</u>	<u>2,148,553</u>

(e) Cash received relating to other financing activities

	2011 RMB'000	2010 RMB'000
Cash received from discounted notes payable	<u>4,272,000</u>	<u>3,127,952</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(50) Notes to consolidated cash flow statements (Continued)**

(f) Cash paid relating to other financing activities

	2011 RMB'000	2010 RMB'000
Payments of discounted notes payable	2,129,952	1,358,000
Interest on discounting notes	599,236	174,020
Payments of finance leases	523,553	513,990
Others	-	21,010
	<u>3,252,741</u>	<u>2,067,020</u>

(51) Supplementary information for consolidated cash flow statement

(a) Supplementary information for consolidated cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2011 RMB'000	2010 RMB'000
Net profit	2,834,208	3,220,898
Add: Adjust by provision for asset impairment (Note 5(42))	8,206	(5,208)
Depreciation of fixed assets (Note 5(11))	2,173,908	2,432,899
Amortisation of intangible assets (Note 5(13))	5,779	5,863
Amortisation of long-term prepaid expenses (Note 5(15))	65,394	61,623
Amortisation of deferred loss on sales and leaseback transaction	66,711	71,787
Losses/(gains) on disposals of fixed assets	35,328	(471,348)
Gains on changes in fair value (Note 5(43))	(869,871)	(354,823)
Finance expenses	1,868,737	1,588,286
Investment income (Note 5(44))	(197,884)	(25,685)
Increase in deferred tax liabilities (Note 5(17))	999,624	75,448
Increase in deferred revenue	150,367	68,452
Decrease/(increase) in inventories	(78,628)	214,998
Increase in operating receivables	(1,531,086)	(1,080,598)
Increase in operating payables	457,574	673,651
Net cash flows from operating activities	<u>5,988,367</u>	<u>6,476,243</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(51) Supplementary information for consolidated cash flow statement (Continued)

(a) Supplementary information for consolidated cash flow statement (Continued)

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

	2011 RMB'000	2010 RMB'000
Fixed assets acquired under finance leases	<u>-</u>	<u>642,727</u>

Movement in cash and cash equivalents:

	2011 RMB'000	2010 RMB'000
Cash and cash equivalents at end of year	14,598,317	12,713,740
Less: Cash and cash equivalents at beginning of year	<u>(12,713,740)</u>	<u>(10,348,355)</u>
Net increase in cash and cash equivalents	<u>1,884,577</u>	<u>2,365,385</u>

(b) Cash and cash equivalents

	31 December 2011 RMB'000	31 December 2010 RMB'000
Cash on hand	1,960	16,147
Bank deposits available for drawing at any time	<u>14,596,357</u>	<u>12,697,593</u>
Cash and cash equivalents at end of year	<u>14,598,317</u>	<u>12,713,740</u>

6 SEGMENT INFORMATION

The management of the Group reviews the Group's internal reports periodically in order to assess the performances and allocate resources, based on which the segments are determined.

The management of the Group evaluates the operating performances of the Group by service categories, and the performances of below segments are evaluated:

- (i) Airline operation segment, which comprises passenger and cargo transportation services;
- (ii) Other segments, which comprise the segments that are individually insignificant, such as hotel services, and are combined as other segments.

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6 SEGMENT INFORMATION (CONTINUED)

(a) The revenue, total profit, assets and liabilities of reporting segments for the years ended 31 December 2011 and 2010 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Revenue generated from external transactions	26,035,447	21,605,593	237,799	100,554	-	-	-	-	26,273,246	21,706,147
Interest income	362,133	156,076	909	504	-	-	-	-	363,042	156,580
Interest expenses	2,974,891	1,946,840	116,427	282,470	-	-	-	-	3,091,318	2,229,310
Assets impairment losses	2,577	-	5,629	-	-	-	-	-	8,206	-
Depreciations and amortisations	2,202,097	2,265,044	42,984	235,341	-	-	-	-	2,245,081	2,500,385
Gain on changes in fair value	210,001	306,268	659,870	48,555	-	-	-	-	869,871	354,823
Total profit	3,173,375	3,621,632	617,353	3,977	(292,556)	-	197,884	25,685	3,696,056	3,651,294
Income tax expenses	670,506	426,277	191,342	4,119	-	-	-	-	861,848	430,396
Net profit	2,502,748	3,195,355	426,132	(142)	(292,556)	-	197,884	25,685	2,834,208	3,220,898
Total assets	72,370,453	65,528,189	5,643,545	7,061,882	(3,091,094)	(4,058,889)	6,373,748	3,021,613	81,296,652	71,552,795
Total liabilities	64,503,561	55,310,534	2,928,026	2,802,912	(706,104)	-	-	-	66,725,483	58,113,446

Note: Unallocated items include in total profits mainly represent the investment income, and unallocated items include in total assets mainly include long-term equity investments, goodwill and available-for-sale financial assets.

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6 SEGMENT INFORMATION (CONTINUED)

(b) Revenue by region of the Group is analysed as follows:

	2011 RMB'000	2010 RMB'000
Domestic	22,631,487	18,762,105
International and regional	3,641,759	2,944,042
	<u>26,273,246</u>	<u>21,706,147</u>

The revenue of the Group mainly comes from aircraft assets which are all registered in PRC. Since the aircrafts of the Group could be allocated to different routes freely, there is no reasonable allocation base to distribute assets and liabilities among regions, as a result, the assets, liabilities and capital expenditures are not disclosed by geographical segment.

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company

	Enterprise type	Place of registration	Legal representative	Nature of business	Organisation code
Grand China Air	Foreign- investment enterprise	Haikou	Chen Feng	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 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Grand China Air	6,008,324	-	-	6,008,324

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company (Continued)

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

	31 December 2011		31 December 2010	
	% equity interests held	% voting rights	% equity interests held	% voting rights
Grand China Air	44.22%	44.22%	44.22%	44.22%

(2) Subsidiaries

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

(3) Associates

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% equity interests held	% voting right held by the Company	Organisation code
Grand China Technology	Limited company	Haikou	Wang Yingming	Maintenance, protection and retreat of aircrafts, engines and other accessories; crew services and duty services insurance, maintenance and technology services provision; fleet technology management and other project services; checking services; personnel training; technology consultancy; maintenance development; assets managements, etc.	2,080,000	48%	48%	69890098-2
Lucky Air	Limited company	Kunming	Wang Yangang	Domestic passenger and cargo air transportation, cargo import and export; insurance by-business agency (operating with permission), etc.	1,492,282	40%	40%	76044470-4

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Associates (Continued)

	Enterprise	Place of	Legal		Registered	%	% voting	
	type	registration	representative	Nature of business	capital	equity	right held	Organisation
						interests	by the	code
						held	Company	
HNA Finance	Limited company	Beijing	Zhang Shanghai	Financial and financing consultancy , credit authentication and relevant consultancy and agency services to member companies; assistance to member companies on receipt and payment of trading receivables and payables; warranty provision to member companies; entrusted loan and entrusted investments handling among member companies; notes acceptance and discount to member companies; internal accounts transfer and settlement of member companies and relevant program design of accounts settlement and clearing; absorption of member companies' deposits; borrowings and financing rental provision to member companies; inter-bank borrowings; issuance of finance company bonds after approved; corporate bonds underwritten of member companies; negotiable securities investment, etc.	2,700,000	23.7%	23.7%	102054341
Xi'an Chanba	Limited company	Xi'an	Huang Wen	Borrowings warranty, notes acceptance warranty, trade financing warranty, project financing warranty, letter of credit warranty and other financing warranties allowed by laws and regulatory.	1,000,000	40%	40%	57842871-6

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Other related parties

Abbreviation (Full names are set out in Note 16)	Relationship with the Company	Organisation code
Xinhua Air Catering	Under HNA Group's control	708866504
Air Catering Holding	Under HNA Groups control	62001238-7
Xinjiang Catering	Under HNA Group's control	781752984
Sanya Catering	Associate of HNA Group	74259875-0
Meilan Airport	Under the same control of the parent company of the Company	72127172-4
Sanya Phoenix Airport	Under HNA Group's control	20136089-7
Haikou Meilan	A shareholder with over 5% voting rights of the Company	70886657-1
Gansu Airport	Under HNA Group's control	924594371
Beijing Business Culture	Under HNA Group's control	691699673
Xinhua Culture	Under HNA Group's control	55141614-1
Vigorous Vision	Under HNA Group's control	764222308
HNA Import & Export	Under HNA Group's control	71385918-1
Yisheng Holding	Under HNA Group's control	693161850
Tianjin Airlines	Under HNA Group's control	79496844-2
Capital Airlines	Under HNA Group's control	70887277-9
West Airlines	Under HNA Group's control	79804682-4
HNA Aviation Sales	Under HNA Group's control	70887276-0
Grand China Baixiang logistics	Under HNA Group's control	55736841-9
Yangtze River Express	Under HNA Group's control	741185823
HNA Tourism	Under HNA Group's control	735810119
HNA Industrial	Under HNA Group's control	79872285-3
HNA Hotel Group	Under HNA Group's control	70886444-5
HNA Group	A shareholder with significant influence on the parent company of the Company	708866504
New City Construction	Under HNA Group's control	735830080
Yangtze River Leasing	Under HNA Group's control	621904344
HNA Airport Holdings	Under HNA Group's control	75436025-6
HNA Airlines Holdings	Under HNA Group's control	68117653-7
HNA Hotel Holding	Under HNA Group's control	76597075-4
Yangtze River Real Estate	Under HNA Group's control	713859173
Beijing HNA Dingsheng	Under HNA Group's control	78174712-4
Beijing HNA Real Estate	Under HNA Group's control	789953019
Beijing Tianchen	Under HNA Group's control	101717916
Beijing Hengshi	Associate of HNA Group	746721509
HNA Property Holdings	Under HNA Group's control	79872661-9
Hong Kong Airlines	Under HNA Group's control	31717266
HNA Safe	Under HNA Group's control	74779967-4
Xinsheng Info Tech	Under HNA Group's control	671060987

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Other related parties (Continued)

Abbreviation (Full name set out in Note 16)	Relationship with the Company	Organisation code
HNA Real Estate Holding	Under HNA Group's control	676067133
Changjiang Leasing	Under HNA Group's control	72123031-6
HNA Group (Hong Kong)	Under HNA Group's control	36669070

(5) Related party transactions

(a) Sales and purchases of goods, provision and receipt of services

Nature of transaction	Pricing policy	Related party	2011		2010	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	102,234	25%	88,840	21%
		Air Catering Holding	38,823	10%	38,081	9%
		Xinjiang Catering	22,682	6%	-	-
		Sanya Catering	11,551	3%	-	-
			175,290	44%	126,921	30%
Take-off and landing	Government directed price	Meilan Airport	97,544	7%	93,598	4%
		Haikou Meilan	40,774	3%	31,199	1%
		Sanya Phoenix Airport	37,206	3%	43,500	2%
		Gansu Airport	747	0.06%	25,522	1%
		176,271	13.06%	193,819	8%	
Advertising services	Mutually agreed price	Beijing Business Culture	30,000	63%	-	-
		Xinhua Culture	17,473	37%	-	-
		Vigorous Vision	-	-	25,000	67%
		47,473	100%	25,000	67%	
Import & export agency fee	0.3%~3% of purchase prices	HNA Import & Export	18,002	100%	22,379	100%

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(a) Sales and purchases of goods, provision and receipt of services (Continued)

Nature of transaction	Pricing policy	Related party	2011		2010	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	112,428	15%	64,829	10%
	Mutually agreed price	Yisheng Holding	35,825	5%	41,887	6.5%
	Mutually agreed price	Xinsheng Info Tech	10,237	1%	-	-
			158,490	21%	106,716	16.5%
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	12,506	34%	9,160	28%
		Tianjin Airlines	6,887	19%	8,227	25%
		Capital Airlines	2,459	7%	600	2%
		Lucky Air	1,798	5%	189	1%
		West Airlines	519	1%	382	1%
			24,169	66%	18,558	57%
Cargo agency fees paid to related parties	Mutually agreed price	Grand China Baixiang logistics	60,028	8%	-	-
Sales of New Gold Deer cards	Mutually agreed price	Yisheng Holding	28,935	0.2%	12,265	0.1%
Receipt of aircraft maintenance services	Mutually agreed price	Grand China Technology	567,165	100%	-	-
Interest income	Market price	HNA Finance	121,444	33%	77,140	49%

The above related transactions are arising from the operations of the Group and the related parties. The above transactions have been approved by the shareholder's meetings and the pricing policies and nature of the transactions have been properly approved and authorised by the Board.

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(b) Leasing

The Group as a lessor:

Lessor	Leased assets	Lessee	Lease commencement date	Lease expiry date	Leasing term policy	Leasing income in 2011
						RMB'000
The Group	Aircraft	Capital Airlines	18/12/2010	Automatic roll-over annually	Mutually agreed price	421,989
		Tianjin Airlines	25/05/2008	Automatic roll-over annually	Mutually agreed price	282,838
		Lucky Air	01/01/2007	Automatic roll-over annually	Mutually agreed price	252,017
		Grand China Air	30/11/2007	Automatic roll-over annually	Mutually agreed price	117,849
		West Airlines	09/08/2010	Automatic roll-over annually	Mutually agreed price	117,014
		Yangtze River Express	16/04/2010	Automatic roll-over annually	Mutually agreed price	30,044
		<u>1,221,751</u>				
The Company	Properties	Yisheng Holding	01/12/2009	30/11/2014	Mutually agreed price	8,730
		HNA Tourism	16/10/2008	15/10/2012	Mutually agreed price	7,143
		HNA Property Holdings	01/01/2009	13/09/2011	Mutually agreed price	6,270
Beijing Kehang	Properties	HNA Hotel Group	30/04/2009	31/03/2012	Mutually agreed price	86,757
		HNA Finance	01/10/2008	31/12/2013	Mutually agreed price	8,356
		HNA Group	01/10/2008	31/12/2013	Mutually agreed price	8,278
						<u>125,534</u>

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(b) Leasing (Continued)

The Group as lessee:

Lessor	Lessee	Leased assets	Lease commencement date	Lease expiry date	Leasing term policy	Lease rentals in 2011 RMB'000
Hong Kong Airlines	The Company	Aircraft	01/10/2010	Automatic roll-over annually	Mutually agreed price	235,697
New City Construction	The Company	Office buildings	26/01/2011	26/09/2016	Mutually agreed price	31,596
Yangtze River Leasing	The Company	Aircraft engines	15/07/2010	12/11/2017	Mutually agreed price	16,954
Meilan Airport	The Company	Airport terminal	26/02/2009	31/12/ 2011	Mutually agreed price	6,189
						290,436

(c) Guarantees and pledges provided by related parties to the Group

Guarantor	Guarantee	Guaranteed and pledged amount RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2011
(i) Short-term borrowings					
HNA Group	The Company	4,330,000	25/02/2011	21/12/2012	No
Grand China Air	The Company	1,995,000	13/01/2011	23/11/2012	No
HNA Group and Grand China Air	The Company	750,000	13/05/2011	25/11/2012	No
HNA Group and Haikou Meilan	The Company	630,090	29/04/2011	29/04/2012	No
HNA Group	Xinhua Airlines	370,000	25/03/2010	17/11/2012	No
Hainan Guoshan	The Company	330,000	04/11/2011	12/03/2012	No
HNA Group and HNA Finance	Xinhua Airlines	300,000	29/07/2011	26/07/2012	No
HNA Finance	Xinhua Airlines	100,000	28/09/2011	28/09/2012	No
Grand China Air	Chang' an Airlines	100,000	27/12/2011	27/12/2012	No
HNA Industrial	Beijing Kehang	15,000	01/04/2011	01/03/2012	No
HNA Group	The Company	7,509,223	08/03/2010	28/12/2011	Yes
Grand China Air	The Company	4,110,000	15/01/2010	14/12/2011	Yes
HNA Group and Grand China Air	The Company	1,130,000	10/05/2010	25/11/2011	Yes
HNA Airport Holdings	The Company	400,000	26/03/2010	25/03/2011	Yes

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(c) Guarantees provided by related parties to the Group (Continued)

Guarantor	Guarantee	Guaranteed and pledged amount RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2011
(i) Short-term borrowings (Continued)					
HNA Group and Capital Airlines	The Company	330,000	27/09/2010	26/09/2011	Yes
HNA Finance	Xinhua Airlines	160,000	12/03/2010	17/11/2011	Yes
HNA Industrial	Beijing Kehang	65,000	30/09/2010	28/09/2011	Yes
Meilan Airport	Xinhua Airlines	40,000	18/06/2010	18/06/2011	Yes
(ii) Long-term borrowings					
HNA Airlines Holdings	The Company	2,326,062	18/09/2000	18/09/2012	No
HNA Group	The Company	2,168,308	02/08/2002	02/08/2035	No
HNA Group	Xinhua Airlines	768,164	09/03/2009	22/03/2022	No
Grand China Air	The Company	711,080	18/05/2010	25/11/2013	No
HNA Group and HaikouMeilan	The Company	700,000	30/11/2010	29/11/2013	No
HNA Group and HaikouMeilan	Shanxi Airlines	540,000	17/06/2005	17/10/2016	No
HNA Group and HNA Finance	The Company	300,000	29/07/2011	26/07/2012	No
HNA Airport Holdings	The Company	269,363	19/12/2003	20/12/2015	No
HNA Group and Grand China Air	The Company	249,400	11/05/2010	10/05/2012	No
HNA Group and Sanya Phoenix Airport	The Company	110,000	30/09/2009	30/09/2012	No
HNA Group	The Company	211,185	11/04/2007	December 2011	Yes
HNA Airport Holdings	The Company	208,564	19/12/2003	December 2011	Yes
HNA Group	Beijing Kehang	50,000	31/03/2006	30/03/2011	Yes
HNA Group and HNA Airport Holdings	The Company	13,077	02/08/2002	September 2011	Yes
HNA Group and Grand China Air	The Company	600	11/05/2010	December 2011	Yes

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**(5) Related party transactions (Continued)****(d) Guarantees provided by the Group to related parties**

Guarantor	Guarantee	Guaranteed amount RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2011
(i) Short-term borrowings					
The Company	Yangtze River Express	<u>100,000</u>	17/03/2011	16/03/2012	No
(ii) Long-term borrowings					
The Company	HNA Group	756,108	31/12/2009	30/12/2014	No
The Company	Yangtze River Leasing	526,755	01/02/2007	31/12/2018	No
The Company	HNA Tourism	330,000	10/11/2011	08/11/2014	No
The Company	HNA Hotel Group	111,700	21/12/2010	21/06/2012	No
The Company	Yangtze River Leasing	<u>33,000</u>	01/02/2007	31/12/2018	No

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(e) Borrowing and lending funds

Entity	Borrowing amount RMB'000	Borrowing date	Repayment amount RMB'000	Repayment date
HNA Group	554	opening balance	-	
HNA Group	50,000	31/03/2011	40,466	30/06/2011
HNA Group	650,000	13/07/2011	450,000	14/07/2011
HNA Group	50,000	30/09/2011	200,000	18/07/2011
HNA Group	-		50,000	31/12/2011
	<u>750,554</u>		<u>740,466</u>	
HNA Property Holdings	33,562	opening balance	-	
HNA Property Holdings	10,000	24/03/2011	10,000	10/03/2011
HNA Property Holdings	1,100	25/03/2011	10,000	16/03/2011
HNA Property Holdings	2,000	08/06/2011	19,000	18/03/2011
HNA Property Holdings	5,000	07/06/2011	2,000	23/03/2011
HNA Property Holdings	3,000	11/07/2011	2,600	31/03/2011
HNA Property Holdings	3,000	26/07/2011	900	07/09/2011
HNA Property Holdings	1,000	04/07/2011	17,000	24/05/2011
HNA Property Holdings	1,000	08/07/2011	2,600	20/05/2011
HNA Property Holdings	500	24/08/2011	10,000	29/06/2011
HNA Property Holdings	5,000	16/11/2011	9,000	30/06/2011
HNA Property Holdings	18,100	28/12/2011	-	
	<u>83,262</u>		<u>83,100</u>	
HNA Airlines Holdings	80,000	21/09/2011	40,000	30/09/2011
HNA Airlines Holdings	50,000	28/10/2011	50,000	28/10/2011
HNA Airlines Holdings	-		200	01/11/2011
HNA Airlines Holdings	-		75	29/11/2011
HNA Airlines Holdings	-		601	16/12/2011
HNA Airlines Holdings	-		600	26/12/2011
	<u>130,000</u>		<u>91,476</u>	
HNA Import & Export	<u>40,000</u>	14/10/2011	<u>40,000</u>	15/12/2011
HNA Hotel Holding	<u>149</u>	opening balance	<u>149</u>	30/09/2011
Yangtze River Real Estate	48,000	opening balance	43,378	28/12/2011
Yangtze River Real Estate	-		3,777	31/12/2011
	<u>48,000</u>	opening balance	<u>47,155</u>	
Beijing HNA Dingsheng	<u>8,500</u>	opening balance	<u>8,500</u>	31/12/2011
Beijing HNA Real Estate	<u>9,411</u>	opening balance	<u>3,660</u>	31/03/2011

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(e) Borrowing and lending funds (Continued)

Entity	Borrowing amount RMB'000	Borrowing date	Repayment amount RMB'000	Repayment date
Beijing Tianchen	12,880	opening balance	6,000	28/04/2011
Beijing Hengshi	6,700	opening balance	4,000	31/07/2011
Beijing Hengshi	-		1,500	24/08/2011
Beijing Hengshi	-		1,200	31/12/2011
	6,700		6,700	

(f) Asset transfers

Related party	Nature of transaction	Pricing policy	2011		2010	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Yangtze River Express	Transfer of aircraft	Valuation amount	156,282	100%	-	-
Tianjin Airlines	Transfer of aircraft acquisition right	Mutually agreed price	92,066	100%	-	-
HNA Airlines Holdings	Transfer of office equipment	Mutually agreed price	1,419	89%	-	-
HNA Airlines Holdings	Transfer of aircraft	Valuation amount	-	-	1,493,312	84%
Grand China Technology	Transfer of flight spare parts and land etc	Valuation amount	-	-	1,272,047	100%
Hong Kong Airlines	Transfer of aircraft	Valuation amount	-	-	290,965	16%
HNA Aviation Sales	Transfer of office equipment	Mutually agreed price	-	-	8,020	100%
HNA Safe	Transfer of vehicles	Mutually agreed price	-	-	1,417	100%
			249,767		3,065,761	

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(g) Capital injections

Related party	Pricing policy	2011		2010	
		Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Grand China Technology (Note 5(9)(a)(i))	Mutually agreed price	1,000,000	54%	-	-
Hong Kong Airlines (Note 5(9)(b)(i))	Mutually agreed price	842,000	46%	-	-
		<u>1,842,000</u>		<u>-</u>	

(h) Equity transfers

Related party	Nature of transaction	Pricing policy	2011		2010	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Grand China Air (Note 5(9)(a))	Equity interests disposal - Haidao Construction	Mutually agreed price	1,600,000	36%	-	-
Grand China Air (Note 4 (3))	Equity interests disposal - Hainan Guoxu	Mutually agreed price	1,209,574	27%	-	-
Grand China Air (Note 4(3))	Equity interests disposal - Hainan Hangpeng	Mutually agreed price	824,256	18%	-	-
Grand China Air (Note 4(3))	Equity interests disposal - Hainan Guoshan	Mutually agreed price	693,080	15%	-	-
HNA Real Estate Holding(Note 4(3))	Equity interests disposal - Qionghai Nanjue	Mutually agreed price	155,875	3%	-	-
HNA Airlines Holdings(Note 5(9)(a))	Equity interests disposal - Xi'an Real Estate	Mutually agreed price	30,330	1%	-	-
HNA Airlines Holdings(Note 5(9)(a))	Equity interests disposal - Northwest HNA Property	Mutually agreed price	10,136	-	-	-
			<u>4,523,251</u>	<u>100%</u>	<u>-</u>	<u>-</u>

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(h) Equity transfers (continued)

Related party	Nature of transaction	Pricing policy	2011		2010	
			Amount transactions in RMB'000	% of same nature	Amount transactions in RMB'000	% of same nature
Grand China Air (Note 15(3)(a))	Equity interests acquired - Xinhua Air	Mutually agreed price	1,080,000	30%	-	-
Lucky Air Investment (Note 5(9)(a))	Equity interests acquired - Lucky Air	Mutually agreed price	712,000	20%	-	-
HNA Group (Note 5(9)(a))	Equity interests acquired - HNA Finance	Mutually agreed price	705,600	20%	-	-
Tianhang Holdings (Note 5(9)(b))	Equity interests acquired - Tianjin Airlines	Mutually agreed price	694,000	19%	-	-
Grand China Air (Note 15(3)(a))	Equity interests acquired - Chang'an Air	Mutually agreed price	281,990	8%	-	-
Grand China Air (Note 5(9)(a))	Equity interests acquired - Lucky Air	Mutually agreed price	130,000	3%	-	-
HNA Airlines Holdings	Equity interests acquired - Hainan Guoshan, Hainan Guoxu and Hainan Hangpeng	Mutually agreed price	-	0	2,464,850	100%
			3,603,590	100%	2,464,850	100%

(i) Remuneration of key management

	2011 RMB'000	2010 RMB'000
Remuneration of key management	3,611	2,349

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(j) Other related party transactions

Related party	Nature of transaction	2011		2010	
		Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Capital Airlines	Pilot transfer	50	3%	48,700	72%
Yangtze River Express	Pilot transfer	-	-	5,300	8%
Lucky Air	Pilot transfer	-	-	4,200	6%
Tianjin Airlines	Pilot transfer	-	-	3,700	5%
West Airlines	Pilot transfer	-	-	3,300	5%
Lucky Air	Amounts paid on behalf (i)	217,028	15%	136,874	25%
Grand China Technology	Amounts paid on behalf (i)	127,107	9%	-	-
Capital Airlines	Amounts paid on behalf (i)	94,377	6%	122,538	22%
Tianjin Airlines	Amounts paid on behalf (i)	55,421	4%	81,557	15%
West Airlines	Amounts paid on behalf (i)	50,763	3%	75,614	14%
Yangtze River Express	Amounts paid on behalf (i)	43,125	3%	43,586	8%
HNA Group	Profit compensation of Beijing Kehang	109,917	100%	62,258	100%

(i) These are mainly the expenses of salaries, flying hour fees, domestic infrastructure levies and maintenance and protection services paid or collected by the Group on behalf of the related parties.

(6) Receivables from and payables to related parties

		31 December 2011 RMB'000	31 December 2010 RMB'000
Cash at bank and on hand	HNA Finance	4,449,149	4,814,360
Notes receivable	Grand China Air	3,117,336	-
Interest receivable	HNA Finance	121,444	31,088

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties (Continued)

		31 December 2011	31 December 2010
		RMB'000	RMB'000
Accounts receivable	Xinsheng Info Tech	102,896	-
	Yisheng Holding	45,274	95,804
	Tianjin Airlines	42,479	20,133
	Grand China Baixiang logistics	19,903	-
	Others	8,768	58,980
		<u>219,320</u>	<u>174,917</u>
Other receivables	Grand China Air	1,135,375	-
	HNA Real Estate Holding	156,069	193
	Yangtze River Express	44,802	33
	Grand China Technology	-	1,256,228
	HNA Airlines Holdings	-	1,496,904
	Others	27,180	44,823
		<u>1,363,426</u>	<u>2,798,181</u>
Advances to suppliers	HNA Import & Export	-	133,127
	Others	2,681	3,731
		<u>2,681</u>	<u>136,858</u>
Other non-current assets	Changjiang Leasing	339,188	359,365
Notes payable	HNA Import & Export	2,600,000	2,049,952
	Sanya Phoenix Airport	-	50,000
		<u>2,600,000</u>	<u>2,099,952</u>
Interest payable	HNA Finance	<u>3,611</u>	<u>106</u>
Accounts payable	Haikou Meilan	31,905	12,094
	HNA Airlines Holdings	27,207	-
	Meilan Airport	25,374	97,906
	HNA Airport Holdings	10,829	10,955
	HNA Group (Hong Kong)	10,005	4,853
	Grand China Air	-	28,319
	Others	34,400	35,430
		<u>139,720</u>	<u>189,557</u>

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties (Continued)

		31 December 2011	31 December 2010
		RMB'000	RMB'000
Other payables	Capital Airlines	18,014	-
	Yangtze River Leasing	14,146	14,268
	Others	38,563	164,612
		<u>70,723</u>	<u>178,880</u>
Long-term payables	Changjiang Leasing	415,523	435,548
	Yangtze River Leasing	105,808	129,805
		<u>521,331</u>	<u>565,353</u>

(7) Commitments in relation to related parties

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

	31 December 2011	31 December 2010
	RMB'000	RMB'000
Operating lease out		
- Capital Airlines	277,290	321,754
- Lucky Air	255,001	41,411
- Tianjin Airlines	132,135	142,566
- Grand China Air	108,235	111,458
- West Airlines	74,165	176,529
- Yangtze River Express	19,773	19,404
	<u>866,599</u>	<u>813,122</u>

8 COMMITMENTS

(1) Performance of prior year commitments

The capital expenditure commitments and operating lease commitments of the Group as at 31 December 2010 were performed as committed.

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8 COMMITMENTS (CONTINUED)

(2) Capital commitments

As at the balance sheet date, capital expenditures contracted for by the Group but are not yet necessary to be recognised on the consolidated balance sheet are as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Aircraft purchase	85,433,972	28,832,676
Buildings, machineries and equipments	234,214	432,497
	<u>85,668,186</u>	<u>29,265,173</u>

(3) Operating lease commitments

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

	31 December 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	1,827,354	1,627,682
1 to 2 years	1,448,781	1,521,237
2 to 3 years	1,353,301	1,410,609
Over 3 years	4,289,569	5,716,313
	<u>8,919,005</u>	<u>10,275,841</u>

9 POST BALANCE SHEET DATE EVENTS

As approved by the shareholders meeting on 15 February 2012, the Company proposed a private issue of A shares of no more than 1.91 billion at a price of no less than RMB4.19 per share with a total proceed of no more than RMB8 billion. Among the total proceeds from the issuance less issuance cost, RMB6,084 million will be used for repayment of bank borrowings and the remaining proceeds will be used as working capital. On 28 March 2012, the Company's proposed non-public offering was approved by CSRC conditionally.

According to the Board's resolution passed on 30 March 2012, a cash dividend at RMB1.2 yuan per share of every 10 shares (tax inclusive) to all shareholders was proposed. Based on a total of 4,125,490,895 outstanding shares in issue, total cash dividends proposed amounted to RMB495,059 thousand. The above proposal is still subject to the approval of shareholders meeting.

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10 LEASES

The Group leases in certain fixed assets under finance leases (Note 5(30)(a)). The future minimum lease payments of the finance leases are summarised in the following table:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	492,044	549,523
1 to 2 years	568,562	480,793
2 to 3 years	181,726	541,391
Over 3 years	966,719	930,346
	<u>2,209,051</u>	<u>2,502,053</u>

As at 31 December 2011, the unrecognised finance charge amounted to RMB374,934 thousand (31 December 2010: RMB344,383 thousand) (Note 530(a)).

11 CONTINGENCIES

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

12 FINANCIAL INSTRUMENT AND RISK

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

(1) Business risk

To a large extent the Group's airline business is affected by the global political and economic factors. Any unexpected event, war or natural disaster would likely have significant impact on the Group's airlines business. These business risks include risks associated with politics, economy, legal environment, competition in air passenger, air cargo and airline-related services industry.

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(2) Market risk

(a) Foreign exchange risk

Except for the overseas routes that the Group operates, the Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. However the Group is still exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily in USD. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

As at 31 December 2011 and 2010, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2011		
	USD RMB'000	Other currencies RMB'000	Total RMB'000
Financial assets -			
Cash at bank and on hand	354,693	109,106	463,799
Accounts receivable	16,181	13,973	30,154
Other receivables	77,350	4,110	81,460
Other non-current assets	1,377,808	-	1,377,808
	<u>1,826,032</u>	<u>127,189</u>	<u>1,953,221</u>

	31 December 2011		
	USD RMB'000	Other currencies RMB'000	Total RMB'000
Financial liabilities -			
Short-term borrowings	945,135	-	945,135
Accounts payable	1,541,372	81,317	1,622,689
Other payables	73,204	-	73,204
Long-term borrowings	15,608,976	159,419	15,768,395
Long-term payables	745,884	-	745,884
	<u>18,914,571</u>	<u>240,736</u>	<u>19,155,307</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(2) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2010		
	USD	Other	Total
	RMB'000	currencies RMB'000	RMB'000
Financial assets -			
Cash at bank and on hand	186,302	40,081	226,383
Accounts receivable	21,990	16,021	38,011
Other receivables	54,678	1,213	55,891
Other non current assets	816,345	-	816,345
	<u>1,079,315</u>	<u>57,315</u>	<u>1,136,630</u>
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
	<u>15,639,476</u>	<u>124,724</u>	<u>15,764,200</u>

As at 31 December 2011, in respect of the Group's various financial assets and liabilities denominated in USD, if RMB had appreciated/depreciated by 10% against USD, while all other variables had remained unchanged, the Group's net profit for the year would have been increased/decreased by approximately RMB1,708,854 thousand (31 December 2010: RMB1,456,016 thousand).

(b) Interest rate risk

The Group's interest rate risk primarily arises from long-term interest bearing liabilities, such as debentures payable, long-term borrowings and long-term payables. 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 borrowings at fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2011, the Group's long-term interest bearing liabilities mainly included:

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(2) Market risk (Continued)

(b) Interest rate risk (Continued)

	31 December 2011 RMB'000	31 December 2010 RMB'000
Short-term borrowings	17,533,295	17,704,048
Notes payable	4,506,488	2,270,774
Long-term borrowings	23,463,293	23,223,093
Long-term payables	1,834,117	2,157,670
Debentures payable	5,918,309	-
	<u>53,255,502</u>	<u>45,355,585</u>
Including: liabilities at floating rates	35,397,714	29,323,066
liabilities at fixed rates	<u>17,857,788</u>	<u>16,032,519</u>
	<u>53,255,502</u>	<u>45,355,585</u>

The Group's finance department at headquarter monitors the interest rate position of the Group on an on-going basis. Increases in interest rates will increase the cost of new borrowings and the Group's outstanding borrowings at floating rates, and thus could have a material negative effect on the Group's financial position. Management makes appropriate adjustments with reference to the latest market conditions, including entering into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2011 and 2010, the Group had not entered into any interest rate swap agreements.

For the year ended 31 December 2011, if interest rates on the floating rate borrowings had been 25 basis points higher/lower while all other variables had been held constant, the Group's net profit would have decreased/ increased by approximately RMB129,702 thousand (2010: approximately RMB107,443 thousand).

(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 and notes receivable etc.

The Group's bank deposits are mainly placed in state-owned banks and other listed banks of medium or large size. Management does not expect that the Group exposes to any significant credit risks and would suffer any significant losses from non-performance by the banks.

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(3) Credit risk (Continued)

In addition, part of the Group's deposits are placed with HNA Finance, a related company of the Company. To further regulate the related party transactions between HNA Finance and the Group, protect the Group's funds and prevent the funds being occupied by related parties, on 24 July 2010, the Company established and announced to the public a "Policy of Risk Prevention on Hainan Airlines Co., Ltd's Deposit Fund in HNA Group Finance Co., Ltd" (the "Policy") 《海南航空股份有限公司在 HNA Group 财务有限公司存款资金风险防范制度》.

In accordance with the Policy announced by the Group, the Group shall follow the principles of voluntary equality when conducting financial transactions with HNA Finance, such as deposits, loans, financial entrust and settlement arrangements etc., in order to maintain the financial independence of the Group. The Group is prohibited from providing entrusted loans and entrusted financial management to other related parties through HNA Finance, and is prohibited from depositing any fund raised in HNA Finance. The Group's directors shall act faithfully, diligently, prudently with due care when making decision to place the Group's deposits in HNA Finance, and avoid the Group's money being occupied by related parties.

In addition, the Group has policies to limit its credit exposure to accounts receivable, other receivables and notes receivable. The Group assesses the credit qualities of and sets credit limits on its customers by assessing their financial positions, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit histories of customers are regularly monitored by the Group. In respect of customers with poor credit histories, the Group will send payment reminders, or shorten or cancel their credit periods, to ensure that the overall credit risk of the Group is limited to a controllable level.

(4) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by the Group's finance department at headquarter. Based on the cash flow forecast, the Group's finance department monitors the Group's short-term and long-term liquidity requirements on an on-going basis to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs; and in the meantime monitors the compliance of relevant loan agreement terms on a going basis, and maintains sufficient headroom on its undrawn committed borrowing facilities from major financial institutions to meet the short-term and long-term fund requirements.

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(4) Liquidity risk (Continued)

The Group's major cash demand is arising from acquisition and improvement of aircraft, engines, flight spare parts and repayments of the corresponding borrowings or liabilities. The Group meets its working capital needs through operations and short-term and long-term bank borrowings. The Group usually acquires aircraft through finance leases or bank borrowings.

As at 31 December 2011, the Group's current liabilities exceeded current assets by approximately RMB9 billion. For the year ended 31 December 2011, the net cash inflows from operating activities of the Group were approximately RMB6 billion, the net cash outflows from investment activities and financing activities were approximately RMB4.1 billion, and cash and cash equivalents increased by approximately RMB1.9 billion.

The risk assessment of cash flows by the Company's management are set out in Note 2(1).

As at the balance sheet date, undiscounted cash flows of the financial assets and liabilities of the Group by contractual maturity dates are analysed as follows:

	31 December 2011				
	Within 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	After 5 years RMB'000	Total RMB'000
Financial assets -					
Cash at bank and on hand	17,351,502	275,400	273,303	1,160,373	19,060,578
Accounts receivable	598,332	-	-	-	598,332
Other receivables	1,535,984	-	-	-	1,535,984
	<u>19,485,818</u>	<u>275,400</u>	<u>273,303</u>	<u>1,160,373</u>	<u>21,194,894</u>
Financial liabilities -					
Short-term borrowings	18,397,377	-	-	-	18,397,377
Accounts payable	3,764,821	-	-	-	3,764,821
Other payables	771,008	-	-	-	771,008
Long-term borrowings	4,386,017	5,911,381	8,468,774	13,827,134	32,593,306
Long-term payables	492,044	568,562	396,641	751,804	2,209,051
	<u>27,811,267</u>	<u>6,479,943</u>	<u>8,865,415</u>	<u>14,578,938</u>	<u>57,735,563</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(4) Liquidity risk (Continued)

	31 December 2010				
	Within 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	After 5 years RMB'000	Total RMB'000
Financial assets -					
Cash at bank and on hand	16,479,729	200,000	-	-	16,679,729
Accounts receivable	557,616	-	-	-	557,616
Other receivables	2,892,573	-	-	-	2,892,573
	<u>19,929,918</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>20,129,918</u>
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
	<u>27,763,969</u>	<u>5,101,852</u>	<u>10,639,225</u>	<u>10,456,362</u>	<u>53,961,408</u>

(5) Fuel price risk

International fuel prices are mainly affected by supply and demand of the global market, while domestic fuel prices are regulated by the National Development and Reform Commission, CAAC and other government regulatory agencies. As fuel cost is a significant cost component of the Group's operation, thus volatility of fuel prices has 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 comprise receivables, short-term borrowings, payables, long-term borrowings and long-term payables.

Except for financial assets and liabilities listed below, the net book values of the other financial assets and liabilities not measured at fair value approximate to their fair values.

	31 December 2011		31 December 2010	
	Net book value RMB'000	Fair value RMB'000	Net book value RMB'000	Fair value RMB'000
Financial liabilities -				
Long-term borrowings	27,645,287	27,238,523	27,171,396	27,088,051
Long-term payables	1,834,117	1,787,377	2,157,670	2,117,021
	<u>29,479,404</u>	<u>29,025,900</u>	<u>29,329,066</u>	<u>29,205,072</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(6) Fair value (Continued)

(a) Financial instruments not measured at fair value (Continued)

The fair values of long-term borrowings and long-term payables are determined using the contracted future cash flows discounted at prevailing market interest rates for financial instruments with substantially the same terms and characteristics.

(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 asset or liability that are not based on observable market data (that is, unobservable inputs)

As at 31 December 2011, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets -				
Available-for-sale financial assets-	-	399,684	500,000	899,684
Financial liabilities -				
Financial liabilities held for trading	-	150	-	150

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets -				
Available-for-sale financial assets-				
Available-for-sale equity instruments	-	579,690	-	579,690
Financial liabilities -				
Financial liabilities held for trading	-	176	-	176

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(6) Fair value (Continued)

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

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.

13 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2010 RMB'000	Fair value movements in current year RMB'000	Accumulated fair value movements recorded in equity RMB'000	Other movements RMB'000	31 December 2011 RMB'000
Investment properties measured at fair value (Note 5(10))	9,873,489	869,845	-	(3,904,222)	6,839,112
Available-for-sale financial assets (Note 5(8))	579,690	-	(180,006)	500,000	899,684
	<u>10,453,179</u>	<u>869,845</u>	<u>(180,006)</u>	<u>(3,404,222)</u>	<u>7,738,796</u>
Financial liabilities held for trading (Note 5(20))	176	(26)	-	-	150

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	31 December 2011 RMB'000	31 December 2010 RMB'000
Financial assets -		
Cash at bank and on hand	463,799	226,383
Accounts receivable	<u>111,614</u>	<u>93,902</u>
Financial assets subtotal	<u>575,413</u>	<u>320,285</u>
Financial liabilities -		
Borrowings and payables	<u>18,336,219</u>	<u>14,784,793</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2011 RMB'000	31 December 2010 RMB'000
Accounts receivable	721,287	398,059
Less: Provisions for bad debts	<u>(9,310)</u>	<u>(9,310)</u>
	<u>711,977</u>	<u>388,749</u>

(a) The aging of accounts receivable are analysed as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	711,977	388,708
Over 6 years	<u>9,310</u>	<u>9,351</u>
	<u>721,287</u>	<u>398,059</u>

(b) Accounts receivable analysed by category are as follows:

	31 December 2011				31 December 2010			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Provisions for bad debts by group								
- Group by aging analysis method	1,126	0%	(1,126)	100%	1,167	-	(1,126)	96%
- Group by related parties	711,977	99%	-	-	388,708	98%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	8,184	1%	(8,184)	100%	8,184	2%	(8,184)	100%
	<u>721,287</u>	<u>100%</u>	<u>(9,310)</u>	<u>1%</u>	<u>398,059</u>	<u>100%</u>	<u>(9,310)</u>	<u>2%</u>

(c) As at 31 December 2011, accounts receivable did not include any amounts due from entities which hold over 5% (5% included) voting shares of the Company (31 December 2010: Nil).

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(1) Accounts receivable (Continued)

(d) As at 31 December 2011, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Company	Amount RMB'000	Period	% of total balance
Golden-Deer Sales	Under HNA Group's control	624,224	Within 1 year	87%
Yisheng Holding	Under HNA Group's control	45,274	Within 1 year	6%
Tianjin Airlines	Under HNA Group's control	42,479	Over 6 years	6%
Company 1	Third party	8,184	Over 6 years	1%
Company 2	Third party	328	Over 6 years	0%
		<u>720,489</u>		<u>100%</u>

(e) Accounts receivable from related parties are analysed below:

	Relationship with the Company	31 December 2011			31 December 2010		
		Amount RMB'000	% of total balance	Provisions for bad debts RMB'000	Amount RMB'000	% of total balance	Provisions for bad debts RMB'000
Golden-Deer Sales	Subsidiary	624,224	87%	-	314,076	79%	-
Yisheng Holding	Under HNA Group's control	45,274	6%	-	-	-	-
Tianjin Airlines	Under HNA Group's control	42,479	6%	-	20,133	5%	-
Capital Airlines	Under HNA Group's control	-	-	-	54,539	14%	-
		<u>711,977</u>	<u>99%</u>	<u>-</u>	<u>388,708</u>	<u>98%</u>	<u>-</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(2) Other receivables

	31 December 2011 RMB'000	31 December 2010 RMB'000
Amounts due from related parties	1,361,708	2,389,253
Aircraft leasing security deposits and maintenance funds receivable	30,877	9,867
Others	23,583	247,880
	<u>1,416,168</u>	<u>2,647,000</u>
Less: Provisions for bad debts	(13,729)	(45,949)
	<u>1,402,439</u>	<u>2,601,051</u>

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

	31 December 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	1,399,530	2,587,842
1 to 2 years	7,640	13,578
2 to 3 years	235	223
3 to 4 years	206	740
4 to 5 years	697	1,514
5 to 6 years	1442	36
Over 6 years	6,418	43,067
	<u>1,416,168</u>	<u>2,647,000</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(2) Other receivables (Continued)

(b) Other receivables are analysed by category as follows:

	31 December 2011				31 December 2010			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000	balance	RMB'000	balance	RMB'000	balance	RMB'000	balance
Amounts that are individually significant and with specific provision for bad debts	-	-	-	-	17,443	1%	(17,443)	100%
Amounts that are not individually significant but with specific provision for bad debts	7,000	0%	(7,000)	100%	6,729	-	(6,729)	100%
Provision for bad debts by group								
- Group by aging analysis method	22,937	2%	(6,729)	29%	223,708	9%	(21,777)	10%
- Aircraft leasing security deposits and maintenance funds receivable	24,523	2%	-	-	9,867	-	-	0%
- Group by related parties	1,361,708	96%	-	-	2,389,253	90%	-	-
	<u>1,416,168</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>	<u>2,647,000</u>	<u>100%</u>	<u>(45,949)</u>	<u>2%</u>

(c) As at 31 December 2011, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount RMB'000	Aging	% of total balance
Grand China Air	Parent company	1,135,375	Within 1 year	81%
HNA Real Estate Holding	Under HNA Group's control	156,045	Within 1 year	11%
Yangtze River Express	Under HNA Group's control	44,802	Within 1 year	3%
Other Receivable 1	Third party	19,577	Within 1 year	1%
Other Receivable 2	Third party	8,973	Within 1 year	-
		<u>1,364,772</u>		<u>96%</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(2) Other receivables (Continued)

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

	Relationship with the Company	31 December 2011			31 December 2010		
		Amount	% of total	Provisions for	Amount	% of total	Provisions for
		RMB'000	balance	bad debts RMB'000	RMB'000	balance	bad debts RMB'000
Grand China Air	Parent company	1,135,375	80%	-	-	-	-
HNA Real Estate Holding	Under HNA Group's control	156,045	11%	-	-	-	-
Yangtze River Express	Under HNA Group's control	44,802	3%	-	-	-	-
Lucky Air	Under the common control of the parent company of the Company	8,053	1%	-	-	-	-
Grand China Technology	Under HNA Group's control	-	-	-	1,217,033	46%	-
HNA Airlines Holdings	Under HNA Group's control	-	-	-	1,147,093	43%	-
Others		17,433	1%	-	25,127	1%	-
		<u>1,361,708</u>	<u>96%</u>	<u>-</u>	<u>2,389,253</u>	<u>90%</u>	<u>-</u>

(3) Long-term equity investments

	31 December 2011 RMB'000	31 December 2010 RMB'000
Subsidiaries (a)	8,383,018	9,194,540
Associates - without quoted price (b)	1,850,250	1,514,486
Other long-term equity investments (c)	1,147,059	453,059
	<u>11,380,327</u>	<u>11,162,085</u>
Less: Provisions for impairment	(5,000)	(5,000)
	<u>11,375,327</u>	<u>11,157,085</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Accounting	Original	31 December	Current year	31 December	%	% voting	Explanation for difference	Provisions for	Cash dividends	
	method	investment cost	2010	additions/disposals	2011	shareholding	right	between % shareholding	Provisions for	impairment made	declared in current
		RMB'000	RMB'000	RMB'000	RMB'000			and % voting rights	impairment	in current year	year
									RMB'000	RMB'000	RMB'000
Xinhua Airlines(i)	Cost method	1,166,107	2,666,107	1,080,000	3,746,107	100%	100%	N/A	-	-	-
Chang'an Airlines(ii)	Cost method	644,418	1,517,418	281,990	1,799,408	100%	100%	N/A	-	-	-
Beijing Kehang	Cost method	-	1,728,341	-	1,728,341	95%	95%	N/A	-	-	-
Hunan Golden-Deer	Cost method	450,000	-	450,000	450,000	100%	100%	N/A	-	-	-
Shanxi Airlines	Cost method	408,467	408,467	-	408,467	46.29%	46.29%	N/A	-	-	-
Brussels EDIP	Cost method	62,996	62,996	-	62,996	100%	100%	N/A	-	-	-
Brussels DATA	Cost method	61,764	61,764	-	61,764	100%	100%	N/A	-	-	-
Brussels SODE	Cost method	59,918	59,918	-	59,918	100%	100%	N/A	-	-	-
HNA Hongkong	Cost method	58,417	-	58,417	58,417	100%	100%	N/A	-	-	-
Golden-Deer Sales	Cost method	7,600	7,600	-	7,600	95%	95%	N/A	-	-	-
Qionghai Nanjue	Cost method	97,379	97,379	(97,379)	-	-	-	N/A	-	-	-
Hainan Guoshan	Cost method	629,180	629,180	(629,180)	-	-	-	N/A	-	-	-
Hainan Guoxu	Cost method	1,094,170	1,094,170	(1,094,170)	-	-	-	N/A	-	-	-
Hainan Hangpeng	Cost method	741,500	741,500	(741,500)	-	-	-	N/A	-	-	-
Others	Cost method	119,700	119,700	(119,700)	-	-	-	N/A	-	-	-
			<u>9,194,540</u>	<u>(811,522)</u>	<u>8,383,018</u>				<u>-</u>	<u>-</u>	<u>-</u>

(i) On 1 September 2011, the Company entered into an agreement with Grand China Air to acquire 32.41% equity interests in Xinhua Airlines at a price of RMB1,080,000 thousand. After the acquisition, Xinhua Airlines became the wholly owned subsidiary of the Company.

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

(ii) On 14 December 2011, the Company entered into an the agreement with Grand China Air to acquire 12.68% equity interests in Chang'an Airlines at a price of RMB281,990 thousand. After the acquisition, Chang'an Airlines became the wholly owned subsidiary of the Company.

(b) Associates

Accounting method	Original investment cost RMB'000	31 December 2010 RMB'000	Current year increase/decrease					31 December 2011 RMB'000	% equity shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment RMB'000	Provisions for impairment for current year RMB'000
			Capital addition /reduction RMB'000	Share of results of associates RMB'000	Cash dividend declared by associates RMB'000	Other equity movement RMB'000							
Grand China Technology	Equity method	1,000,000	-	1,000,000	-	-	-	1,000,000	48.08%	48.08%	N/A	-	-
Lucky Air	Equity method	842,000	-	842,000	-	-	-	842,000	40.00%	40.00%	N/A	-	-
HNA Import & Export	Equity method	3,000	12,054	-	2,212	(6,016)	-	8,250	30%	30%	N/A	-	-
Hainan Hansha Training	Equity method	3,862	2,432	(4,071)	1,639	-	-	-	-	-	N/A	-	-
Haidao Construction	Equity method	1,500,000	1,500,000	(1,535,903)	35,903	-	-	-	-	-	N/A	-	-
			<u>1,514,486</u>	<u>302,026</u>	<u>39,754</u>	<u>(6,016)</u>	<u>-</u>	<u>1,850,250</u>					

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Long-term equity investments (Continued)

(c) Other long-term equity investments

	Accounting method	Original investment cost RMB'000	31 December 2010 RMB'000	Current year additions RMB'000	31 December 2011 RMB'000	% shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment RMB'000	Provisions for impairment made in current year RMB'000	Cash dividends declared in current year RMB'000
Tianjin Airlines	Cost method	19,000	19,000	694,000	713,000	17.59%	17.59%	N/A	-	-	-
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	N/A	-	-	-
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	N/A	-	-	-
Xin Guo Hotel	Cost method	40,000	31,952	-	31,952	13.33%	13.33%	N/A	-	-	-
TravelSky Tech	Cost method	17,000	17,000	-	17,000	1.13%	1.13%	N/A	-	-	-
Yangtze River Express	Cost method	10,000	10,000	-	10,000	2%	2%	N/A	-	-	-
Meilan Airport	Cost method	6,906	6,906	-	6,906	1.12%	1.12%	N/A	-	-	-
Other investments	Cost method	5,275	5,275	-	5,275				(5,000)	-	83
			<u>453,059</u>	<u>694,000</u>	<u>1,147,059</u>				<u>(5,000)</u>	<u>-</u>	<u>83</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(4) Revenue and operating costs

	2011 RMB'000	2010 RMB'000
Revenue from main operations (a)	17,021,253	13,340,675
Revenue from other operations (b)	1,139,735	1,420,956
	<u>18,160,988</u>	<u>14,761,631</u>
Operating costs of main operations	(12,953,515)	(9,880,596)
Operating costs of other operations (b)	(572,269)	(462,034)
	<u>(13,525,784)</u>	<u>(10,342,630)</u>

(a) Revenue from main operations

Revenue from main operations by business categories is analysed as follows:

	2011 RMB'000	2010 RMB'000
Passenger	16,226,666	12,605,476
Cargo and mail	712,869	693,614
Others	81,718	41,585
	<u>17,021,253</u>	<u>13,340,675</u>

The total revenue of the Company's top 5 customers for the year ended 31 December 2011 amounted to RMB4,540,247 thousand (2010: RMB4,714,861 thousand), accounting for 25% of total revenue of the Company (2010: 32%).

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(4) Revenue and operating costs (Continued)

(b) Revenue and operating costs of other operations (Continued)

	2011		2010	
	Revenue from other operations RMB'000	Operating costs of other operations RMB'000	Revenue from other operations RMB'000	Operating costs of other operations RMB'000
Aircraft leasing income	810,353	(517,779)	1,095,133	(423,540)
Processing fee for cancelled tickets	101,779	-	64,421	-
Building rental income	60,258	-	45,896	-
Aircraft advertising income	32,850	-	37,335	-
Commission fee income	25,365	-	22,184	-
Others	109,130	(54,490)	155,987	(38,494)
	<u>1,139,735</u>	<u>(572,269)</u>	<u>1,420,956</u>	<u>(462,034)</u>

Costs of aircraft leasing did not include interests charge of RMB218,722 thousand (2010: RMB395,514 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(5) Investment income

	2011 RMB'000	2010 RMB'000
Gain on disposal of long-term equity investments (a)	384,251	-
Share of results of investees under equity method	39,754	(944)
Divident income from available-for-sale financial assets	8,932	14,886
Dividends declared by investees under cost method	83	10,014
	<u>433,020</u>	<u>23,956</u>

(a) Gain on disposal of long-term equity investments

	2011 RMB'000
Hainan Guoxu	115,405
Hainan Hangpeng	82,757
Haidao Construction	64,097
Hainan Guoshan	63,900
Qionghai Nanjue	58,487
Others	(395)
	<u>384,251</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(6) Supplementary information for cash flow statement

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

	2011 RMB'000	2010 RMB'000
Net profit	1,840,829	2,437,698
Add: Provisions for asset impairment	-	(5,115)
Depreciation of fixed assets	1,762,869	1,681,149
Amortisation of intangible assets	1,911	2,187
Amortisation of long-term deferred expenses	57,659	55,146
Amortization of deferred loss on sales and leaseback transaction	85,205	59,804
(Losses)/gains on disposals of fixed assets, intangible assets and other long-term assets	25,683	(307,593)
Gains on changes in fair value	(189,536)	(102,659)
Finance expenses	1,497,674	1,125,206
Investment losses	(433,020)	(23,956)
Increase in deferred tax liabilities	763,584	22,245
Increase in deferred revenue	110,251	58,342
(Increase)/decrease in inventories	(78,424)	215,597
Increase in operating receivables	(1,319,679)	(33,358)
Decrease in operating payables	1,639,213	2,702,777
Net cash flows from operating activities	<u>5,764,219</u>	<u>7,887,470</u>

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

	2011 RMB'000	2010 RMB'000
Fixed assets acquired under finance leases	<u>-</u>	<u>642,726</u>

(c) Net increase in cash and cash equivalents

	2011 RMB'000	2010 RMB'000
Cash and cash equivalents at end of year	10,915,876	8,917,586
Less: Cash and cash equivalents at beginning of year	<u>(8,917,586)</u>	<u>(7,710,809)</u>
Net increase in cash and cash equivalents	<u>1,998,290</u>	<u>1,206,777</u>

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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16 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
Beijing HNA Dingsheng Real Estate Co., Ltd.	Beijing HNA Dingsheng
Beijing HNA Real Estate Co., Ltd.	Beijing HNA Real Estate
Beijing Hengshi Real Estate Development Co., Ltd.	Beijing Hengshi
Beijing Kehang Investment Co., Ltd.	Beijing Kehang
Beijing Business Culture Diffusion Co., Ltd.	Beijing Business Culture
Beijing Tianchen Exhibition Engineering Co., Ltd.	Beijing Tianchen
Brussels DATA Hotel	Brussels DATA
Brussels EDIP Hotel	Brussels EDIP
Brussels SODE Hotel	Brussels SODE
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Changjiang Leasing Co., Ltd.	Changjiang Leasing
Grand China Baixiang logistics Co. Ltd.	Grand China Baixiang logistics
Grand China Air Co., Ltd.	Grand China Air
Grand China Air Technology Co., Ltd.	Grand China Technology
Gansu Airport Group Co., Ltd.	Gansu Airport
Hainan International Tourism Island Development Co., Ltd.	Haidao Construction
HNA Group Finance Co., Ltd.	HNA Finance
HNA Real Estate Holding (Group) Co., Ltd.	HNA Real Estate Holding
HNA Airlines Holdings (Group) Co., Ltd.	HNA Airlines Holdings
Hainan HNA Aviation Sales Co., Ltd.	HNA Aviation Sales
Hainan Air Aviation Import & Export Co., Ltd.	HNA Import & Export
Hainan Airport Holding (Group) Co., Ltd.	HNA Airport Holdings
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Hotel Holding Group Co., Ltd.	HNA Hotel Holding
Hainan Air Group Co., Ltd.	HNA Group
HNA Group Northwest Headquarter Co., Ltd.	HNA Group Northwest Headquarter
HNA Group (Hong Kong) Co., Ltd.	HNA Group (Hong Kong)
HNA Tourism Holding (Group) Company Ltd.	HNA Tourism
HNA Safe Car Rental Co., Ltd.	HNA Safe
HNA Group (Hong Kong) Co., Ltd.	HNA Hongkong
HNA Group (Hong Kong) Investment Co., Ltd.	HNA Hongkong Investment
HNA Property Holdings (Group) Co., Ltd.	HNA Property Holdings
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
Hainan Province Development Holding Co., Ltd.	Hainan Development Holding

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16 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Full company name	Abbreviation used in the financial statements
Hainan Guoshan Industrial Co., Ltd.	Hainan Guoshan
Hainan Guoxu Industrial Co., Ltd.	Hainan Guoxu
Hainan Hangpeng Industrial Co., Ltd.	Hainan Hangpeng
Hainan Air Catering Co., Ltd.	Hainan Air Catering
Hainan Hansha Technology Training Ltd.	Hainan Hansha Training
Hainan Qi Xing Industrial Investment Co., Ltd.	Hainan Qi Xing
HNA Air Catering Holding Co., Ltd.	Air Catering Holding
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
Beijing Vigorous Vision Advertisement Co., Ltd.	Vigorous Vision
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Hainan Meilan International Airport Co., Ltd.	Meilan Airport
Qionghai Nanjue Aviation Hainan Investment Co., Ltd.	Qionghai Nanjue
Beijing Capital Airlines Co., Ltd.	Capital Airlines
Shanxi Airlines Co., Ltd.	Shanxi Airlines
Sanya Phoenix International Airport Tianhang Holdings	Sanya Phoenix Airport
Sanya Hansha Air Catering Co., Ltd	Sanya Catering
Tianhang Holdings Co., Ltd.	Tianhang Holdings
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Xi'an Chanba Financing Warranty Co., Ltd	Xi'an Chanba
Xi'an HNA Real Estate Co., Ltd.	Xi'an Real Estate
Northwest HNA Property Co., Ltd.	Northwest HNA Property
West Airlines Co., Ltd.	West Airlines
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines
Hong Kong Airlines Holding Co., Ltd.	Hong Kong Airlines Holding
Hong Kong Airlines Consultancy Services Co., Ltd.	Hong Kong Airlines Consultancy
Haikou New City Construction and Development Co., Ltd.	New City Construction
Hainan Xin Guo Hotel Ltd.	Xin Guo Hotel
China Xinhua Airlines Co., Ltd.	Xinhua Airlines
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Beijing HNA Xinhua Culture Diffusion Co., Ltd.	Xinhua Culture
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Catering
Hainan Xinsheng Information Technology Co., Ltd	Xinsheng Info Tech
Yunnan Xiangpeng Airlines Co., Ltd.	Lucky Air

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**16 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES
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Full company name	Abbreviation used in the financial statements
Yunnan Xiangpeng Investment Co., Ltd.	Lucky Air Investment
Tianjin Yanshan Aircraft Leasing Industry Equity Funds Partnership Firm	Yanshan Funds
HNA Yisheng Holding Co., Ltd.	Yisheng Holding
Yangtze River Express Airlines Co., Ltd.	Yangtze River Express
Yangtze River International Leasing Co., Ltd.	Yangtze River Leasing
HNA Industrial Holding Co., Ltd.	HNA Industrial
TravelSky Technology, Ltd	TravelSky Tech
China Merchants Securities Co., Ltd	Merchants Securities