

HAINAN AIRLINES CO., LTD.

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2012**

[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 2012**

[English translation for reference only]

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[English translation for reference only]

Report of the Auditors

PwC ZT Shen Zi (2013) No. 10071
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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 2012, 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.

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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. 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 2012, and their financial performance and cash flows for the year then ended in accordance with the requirement of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China
14 March 2013

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S BALANCE SHEETS AS AT 31 DECEMBER 2012

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

		31 December 2012	31 December 2011	31 December 2012	31 December 2011
ASSETS	Notes	Consolidated RMB'000	Consolidated RMB'000	Company RMB'000	Company RMB'000
Current assets					
Cash at bank and on hand	5(1)	22,312,403	19,060,578	17,433,182	12,975,573
Notes receivable	5(2)	-	3,117,336	-	3,117,336
Accounts receivable	5(3), 15(1)	541,651	598,332	326,636	711,977
Advances to suppliers	5(6)	326,543	452,540	348,636	386,739
Interest receivable	5(5)	230,288	190,147	90,937	68,048
Dividends receivable		1,865	6,016	1,865	6,016
Other receivables	5(4), 15(2)	203,561	1,535,984	1,087,544	1,402,439
Inventories	5(7)	70,514	126,256	60,924	122,031
Other current assets	5(8)	2,000,000	-	1,000,000	-
Total current assets		25,686,825	25,087,189	20,349,724	18,790,159
Non-current assets					
Available-for-sale financial assets	5(9)	1,061,446	899,684	1,061,446	899,559
Long-term equity investments	5(10), 15(3)	9,077,138	5,145,199	12,019,732	11,375,327
Investment properties	5(11)	7,256,342	6,839,112	2,452,974	2,334,579
Fixed assets	5(12)	34,377,690	31,229,556	27,731,799	25,887,414
Construction in progress	5(13)	12,001,162	8,839,069	11,543,185	7,071,468
Intangible assets	5(14)	164,204	194,177	66,691	92,816
Goodwill	5(15)	328,865	328,865	-	-
Long-term prepaid expenses	5(16)	483,595	358,553	457,364	331,144
Other non-current assets	5(17)	2,281,877	2,375,248	1,945,181	2,026,215
Total non-current assets		67,032,319	56,209,463	57,278,372	50,018,522
TOTAL ASSETS		92,719,144	81,296,652	77,628,096	68,808,681

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S BALANCE SHEETS AS AT 31 DECEMBER 2012 (CONTINUED)

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

		31 December 2012	31 December 2011	31 December 2012	31 December 2011
LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Consolidated RMB'000	Consolidated RMB'000	Company RMB'000	Company RMB'000
Current liabilities					
Short-term borrowings	5(20)	15,792,336	17,533,295	11,706,561	12,718,250
Financial liabilities held for trading		-	150	-	150
Notes payable	5(21)	5,464,473	5,059,860	3,554,473	3,066,621
Accounts payable	5(22)	4,924,949	3,764,821	7,537,384	8,943,296
Advances from customers	5(23)	918,462	1,124,595	22,060	22,060
Employee benefits payable	5(24)	198,248	240,297	110,600	131,538
Taxes payable	5(25)	552,670	576,743	226,351	112,616
Interest payable	5(26)	346,211	324,449	299,467	291,330
Dividend payable		68,521	24,617	68,521	24,617
Other payables	5(27)	877,345	771,008	332,938	179,867
Current portion of non-current liabilities	5(28)	6,184,770	4,603,564	5,085,484	3,760,545
Total current liabilities		35,327,985	34,023,399	28,943,839	29,250,890
Non-current liabilities					
Long-term borrowings	5(29)	23,169,711	23,463,293	18,452,711	17,931,380
Debentures payable	5(30)	6,430,063	5,918,309	4,939,440	4,927,151
Long-term payables	5(31)	1,195,060	1,412,548	1,195,060	1,397,460
Deferred tax liabilities	5(18)	2,054,148	1,429,928	1,225,396	821,932
Other non-current liabilities	5(32)	632,948	478,006	408,937	304,548
Total non-current liabilities		33,481,930	32,702,084	26,221,544	25,382,471
Total liabilities		68,809,915	66,725,483	55,165,383	54,633,361
Shareholders' equity					
Share capital	5(33)	6,091,091	4,125,491	6,091,091	4,125,491
Capital surplus	5(34)	11,739,753	5,817,180	12,020,868	6,097,975
Surplus reserve	5(35)	657,397	568,001	657,397	568,001
Undistributed profits	5(36)	5,309,332	3,966,000	3,693,357	3,383,853
Total equity attributable to equity shareholders of the Company		23,797,573	14,476,672	22,462,713	14,175,320
Minority interests	5(37)	111,656	94,497	-	-
Total Shareholders' equity		23,909,229	14,571,169	22,462,713	14,175,320
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		92,719,144	81,296,652	77,628,096	68,808,681

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 2012

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

		2012	2011	2012	2011
	Notes	Consolidated	Consolidated	Company	Company
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	5(38), 15(4)	28,867,585	26,273,246	20,013,287	18,160,988
Less: Operating cost	5(38), 15(4)	(21,557,641)	(19,497,987)	(14,933,594)	(13,525,784)
Business taxes and surcharges	5(39)	(875,181)	(802,878)	(607,748)	(532,624)
Selling and distribution expenses	5(40)	(1,846,854)	(1,260,252)	(1,253,483)	(885,397)
General and administrative expenses	5(41)	(598,504)	(575,585)	(434,827)	(412,101)
Financial expenses – net	5(42)	(2,603,623)	(2,003,902)	(2,149,095)	(1,573,533)
Assets impairment losses	5(43)	(86,484)	(8,206)	(86,104)	-
Add: Gain on changes in fair value	5(44)	504,363	869,871	118,396	189,536
Investment income	5(45), 15(5)	188,241	197,884	96,148	433,020
Including: share of results of associates		212,413	89,493	125,785	39,754
Operating profit		1,991,902	3,192,191	762,980	1,854,105
Add: Non-operating income	5(46)	674,449	580,720	618,502	490,058
Less: Non-operating expenses	5(47)	(12,637)	(76,855)	(7,284)	(29,381)
Including: losses on disposal of non-current assets		(1,722)	(70,065)	(1,081)	(28,851)
Total profit		2,653,714	3,696,056	1,374,198	2,314,782
Less: Income tax expenses	5(48)	(708,768)	(861,848)	(480,239)	(473,953)
Net profit		1,944,946	2,834,208	893,959	1,840,829
- Attributable to equity shareholders of the Company		1,927,787	2,631,312	893,959	1,840,829
- Minority interests		17,159	202,896	-	-
Earnings per share (EPS)					
Basic earnings per share (RMB Yuan)	5(49)	0.40	0.64		
Diluted earnings per share (RMB Yuan)	5(49)	0.40	0.64		
Other comprehensive income	5(50)	101,501	(130,871)	101,501	(130,871)
Total comprehensive income		2,046,447	2,703,337	995,460	1,709,958
- Attributable to equity shareholders of the Company		2,029,288	2,500,441		
- Minority interests		17,159	202,896		

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 CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

Items	Notes	2012 Consolidated RMB'000	2011 Consolidated RMB'000	2012 Company RMB'000	2011 Company RMB'000
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		30,180,082	27,799,258	20,527,144	19,292,000
Cash received relating to other operating activities	5(51)(a)	3,060,066	1,890,338	2,643,047	569,145
Sub-total of cash inflows		<u>33,240,148</u>	<u>29,689,596</u>	<u>23,170,191</u>	<u>19,861,145</u>
Cash paid for goods and services		(14,135,493)	(15,063,957)	(12,897,088)	(8,461,817)
Cash paid to and on behalf of employees		(1,852,373)	(1,455,715)	(1,141,635)	(539,169)
Payments of taxes and surcharges		(2,899,732)	(2,549,650)	(1,141,329)	(1,049,080)
Cash paid relating to other operating activities	5(51)(b)	(4,156,639)	(4,631,907)	(3,538,716)	(4,046,860)
Sub-total of cash outflows		<u>(23,044,237)</u>	<u>(23,701,229)</u>	<u>(18,718,768)</u>	<u>(14,096,926)</u>
Net cash flows from operating activities	5(52)(a)	<u>10,195,911</u>	<u>5,988,367</u>	<u>4,451,423</u>	<u>5,764,219</u>
2. Cash flows from investing activities					
Cash received from disposal of investments		4,490,842	13,236	4,408,586	3,236
Cash received from returns on investments		17,799	12,359	14,630	9,014
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		546,675	4,109,182	514,064	3,504,160
Cash received relating to other investing activities	5(51)(c)	2,354,482	2,835,367	561,664	295,130
Sub-total of cash inflows		<u>7,409,798</u>	<u>6,970,144</u>	<u>5,498,944</u>	<u>3,811,540</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(8,261,080)	(7,951,498)	(7,050,408)	(6,855,361)
Cash paid to acquire investments		(5,502,131)	(6,363,627)	(2,540,760)	(4,278,290)
Net cash paid to acquire subsidiaries and other business units		-	-	-	(508,417)
Cash paid relating to other investing activities	5(51)(d)	(1,525,000)	(2,086,397)	-	(200,000)
Sub-total of cash outflows		<u>(15,288,211)</u>	<u>(16,401,522)</u>	<u>(9,591,168)</u>	<u>(11,842,068)</u>
Net cash flows from investing activities		<u>(7,878,413)</u>	<u>(9,431,378)</u>	<u>(4,092,224)</u>	<u>(8,030,528)</u>
3. Cash flows from financing activities					
Cash proceeds from capital contributions	5(33)(a)	7,786,992	-	7,786,992	-
Cash received from borrowings		25,864,823	31,129,042	21,265,302	24,452,615
Cash received from issuance of bonds		494,979	5,910,371	-	4,920,000
Cash received relating to other financing activities	5(51)(e)	2,753,000	4,272,000	2,753,000	2,621,010
Sub-total of cash inflows		<u>36,899,794</u>	<u>41,311,413</u>	<u>31,805,294</u>	<u>31,993,625</u>
Cash repayments of borrowings		(26,459,697)	(30,050,201)	(20,607,194)	(22,586,715)
Cash payments for interest expenses and distribution of dividends		(3,651,174)	(2,655,058)	(3,061,595)	(2,069,170)
Cash payments relating to other financing activities	5(51)(f)	(5,070,275)	(3,252,741)	(3,304,603)	(3,058,291)
Sub-total of cash outflows		<u>(35,181,146)</u>	<u>(35,958,000)</u>	<u>(26,973,392)</u>	<u>(27,714,176)</u>
Net cash flows from financing activities		<u>1,718,648</u>	<u>5,353,413</u>	<u>4,831,902</u>	<u>4,279,449</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>(475)</u>	<u>(25,825)</u>	<u>(444)</u>	<u>(14,850)</u>
5. Net increase in cash and cash equivalents	5(52)(a)	<u>4,035,671</u>	<u>1,884,577</u>	<u>5,190,657</u>	<u>1,998,290</u>
Add: Cash and cash equivalents at beginning of year	5(52)(a)	<u>14,598,317</u>	<u>12,713,740</u>	<u>10,915,876</u>	<u>8,917,586</u>
6. Cash and cash equivalent at end of year	5(52)(b)	<u>18,633,988</u>	<u>14,598,317</u>	<u>16,106,533</u>	<u>10,915,876</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 SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(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	Total shareholders' equity
		Share capital	Capital surplus	Surplus reserves	Undistributed profits		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 31 December 2010		4,125,491	6,231,028	383,918	1,725,046	973,866	13,439,349
Movements for the year ended 31 December 2011							
- Net profit		-	-	-	2,631,312	202,896	2,834,208
- Other comprehensive income	5(50)	-	(130,871)	-	-	-	(130,871)
- Acquisition of minority interests in subsidiaries		-	(282,977)	-	-	(1,079,013)	(1,361,990)
- Profit distribution							
- Appropriation to surplus reserves	5(35)	-	-	184,083	(184,083)	-	-
- Profit distribution to shareholders	5(36)	-	-	-	(206,275)	-	(206,275)
- Others		-	-	-	-	(3,252)	(3,252)
Balance at 31 December 2011		4,125,491	5,817,180	568,001	3,966,000	94,497	14,571,169
Movements for the year ended 31 December 2012							
- Capital contribution by shareholders	5(33)(a)	1,965,600	5,821,392	-	-	-	7,786,992
- Net profit		-	-	-	1,927,787	17,159	1,944,946
- Other comprehensive income	5(50)	-	101,501	-	-	-	101,501
- Profit distribution							
- Appropriation to surplus reserves	5(35)	-	-	89,396	(89,396)	-	-
- Profit distribution to shareholders	5(36)	-	-	-	(495,059)	-	(495,059)
- Others		-	(320)	-	-	-	(320)
Balance at 31 December 2012		6,091,091	11,739,753	657,397	5,309,332	111,656	23,909,229

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 SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(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 RMB'000	Total shareholders' equity RMB'000
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(50)	-	(130,871)	-	-	(130,871)
- Profit distribution						
- Appropriation of surplus reserves	5(35)	-	-	184,083	(184,083)	-
- Profit distribution to shareholders	5(36)	-	-	-	(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>
Movements for the year ended 31 December 2012						
- Capital contribution by shareholders	5(33)(a)	1,965,600	5,821,392	-	-	7,786,992
- Net profit		-	-	-	893,959	893,959
- Other comprehensive income	5(50)	-	101,501	-	-	101,501
- Profit distribution						
- Appropriation of surplus reserves	5(35)	-	-	89,396	(89,396)	-
- Profit distribution to shareholders	5(36)	-	-	-	(495,059)	(495,059)
Balance at 31 December 2012		<u>6,091,091</u>	<u>12,020,868</u>	<u>657,397</u>	<u>3,693,357</u>	<u>22,462,713</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 2012

(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 non-public offerings 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.

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. 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.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

1 GENERAL INFORMATION OF THE COMPANY (CONTINUED)

On 3 May 2012, as approved by CSRC, the Company completed a non-public share offerings of 1,9656 million A shares with lock-up period of 12 months (Note 5(33)). After the completion of the above share issuance, the Company's share capital was increased to RMB6,091 million, RMB1,716 million of which is held by Grand China Air, whose shareholding of the Company was diluted to 28.18%, but remained as the single largest shareholder of the Company.

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 including 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 on 14 March 2013.

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 2012, the current liabilities of the Group exceed its current assets by approximately RMB9,641 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.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

The financial statements of the Company for the year ended 31 December 2012 are in compliance with the Accounting Standards for Business Enterprises, and present truly and completely the financial position as at 31 December 2012 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.

(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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(8) Foreign currency translation (CONTINUED)

(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.

(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)

(9) 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)

(a) Financial assets (Continued)

(iii) Impairment of financial assets (Continued)

The objective evidence that a equity instrument is impaired includes significant or non-temporary decline in fair value of equity instrument investment. The Group assesses the impairment of available-for-sale equity instrument item by item on balance sheet date. If the decline in fair value of equity instrument exceeds more than 50% (including 50%) of it's initial investment cost or the decline in fair value of equity instrument persists for more than one year (including one year), it is concluded as impaired. If the decline in fair value of equity instrument exceeds more than 20% (including 20%) but less than 50% of it's initial investment cost, the Group will consider other factors such as price fluctuation rate ect., to assess whether an impairment loss on equity instruments incurred.

When 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.

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.

(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, debentures and finance lease payables 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 current 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	Based on historical loss ratio
Group 2	Based on historical loss ratio
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) Basis of determining net realisable value of inventories and the method to make provision for obsolete stock

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 a 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	12 years	5%	7.9%
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 revenue 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 offered 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 grants 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. Different estimation may affect the depreciation amount and the profit and loss for the period.

(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 "Corporate Income Tax Law of the People's Republic of China" 《中华人民共和国企业所得税法》, 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 for years from 2008 to 2012. The applicable corporate income tax rates for 2012 are 25% (2011: 24%).

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3 TAXATION (CONTINUED)

(1) Corporate income tax (Continued)

Pursuant to the “Notes on relevant procedures for changing the implementation of West Development Strategy” 《关于深入实施西部大开发战略有关企业所得税问题的公告》 (2012 No.12) issued by the State Administration of Taxation, enterprises located in western region and engaged in the industrial activities as listed in the “Catalog of Encouraged Industries in West Regime” 《西部地区鼓励类产业目录》, main operation revenue accounts for over 70% of its total revenue, will be entitled to a reduced income tax rate of 15% from January 2011 to 31 December 2020 upon approval from tax authorities. As approved by Shanxi province Development and Reform Committee and Tax Bureau (2012 No.007), the applicable corporate income tax rate for the Company's subsidiary, Chang'an Airlines, is 15% starting from 2012.

For the subsidiaries established in other regions, the applicable corporate income tax rates for 2012 are 25%.

(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%. Effective from 1 September 2012, the domestic traffic revenues of Xinhua Airlines, a subsidiary of the Company, are subject to value added tax (Note 3(4)). The applicable tax rate of commission income and certain other revenues is 5%.

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 “Notice of alignment of the institution of city maintenance and construction tax and education surcharges of foreign and domestic enterprises and individuals - Guofa 2010 No.35” issued by the State Council on 18 October 2010 (“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.

The Company was qualified VAT general taxpayer from September 2012. Import and export of commodities and materials transfers are subject to value added tax of 17%.

Pursuant to the “Notice of Issuing the Pilot Plan for Levying Value Added Tax in Lieu of Business Tax” Caishui 【2011】 No. 110 (“《关于印发《营业税改征增值税试点方案》的通知》(财税【2011】110号)”) and the “Notice of Nominating 8 Pilot Cities Including Beijing for Levying Value Added Tax in Lieu of Business Tax on Transportation Industry and Partial Modern Service Industry” Caishui 【2012】 No. 71 (“《关于在北京等8省市开展交通运输业和部分现代服务业营业税改征增值税试点的通知》(财税【2012】71号)”) jointly issued by Ministry of Finance and the State Administration of Taxation, effective from 1 September 2012, the domestic traffic revenues of Xinhua Airlines, a subsidiary of the Company, are subject to value added tax. The applicable output tax rate of domestic traffic revenues is 11%, and the VAT input arising from purchases of fuel, inflight catering and fixed assets can be used to deduct VAT output.

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.”).

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3 TAXATION (CONTINUED)

(6) Domestic infrastructure levies, Civil aviation airport construction fee and aviation Development Fund

Prior to 1 April 2012, 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.

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.

In addition, according to “Notice for the Collection, Use and Management of the Civil Aviation Development Fund” (Caizong 【2012】 No. 17) (“财综【2012】17号《民航发展基金征收使用管理暂行办法》”) issued by MoF, effective from 1 April 2012, the former regulations related to Civil Aviation Airport Construction Fee and Civil Aviation Infrastructure Construction Fund as described above are annulled. The Civil Aviation Airport Construction Fee and Civil Aviation Infrastructure Construction Fund as defined in the former regulations are merged as Civil Aviation Development Fund under the new rule. Airline companies are required to pay the Civil Aviation Development Fund according to types of routes, maximum flight weight, flying distance and the relevant collection standards, payments of such fund are charged to operating costs. The passengers are required to pay Civil Aviation Development Fund and the relevant rates are 50 Yuan per passenger for domestic route; 90 Yuan per passenger (including 20 Yuan of tourism development fund) for international and regional routes. Airline companies or ticket sales agencies collect the Civil Aviation Development Fund from passengers when air tickets are sold, and the amount of the fund is showed separately from the air fare.

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries obtained through establishment or investment as at 31 December 2012

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Hainan Hang Xiang	Direct control	Haikou	Investment	RMB10,000,000	Project planning and management service of industrial and civil construction project; hotel, tourism investment management and consulting; construction machinery and equipment leasing; sales of machineries, electronic equipments, building and ornamental materials	Limited liability company	Li Fanghui	708876980
Hainan Airlines (Hongkong)	Direct control	Hong Kong	Investment	HKD70,200,000	Acting 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
Golden-Deer Sales	Direct control	Haikou	Transportation	RMB8,000,000	Agency of flight ticket sales, air freight and airplane charter business.	Limited liability company	Du Xiaoping	28402951-7

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(1) Subsidiaries (Continued)

(a) Subsidiaries obtained through establishment or investment as at 31 December 2012 (Continued)

	Accumulated capital contribution as at 31 December 2012	Balances of other items forming the net investment in subsidiaries	% shareholding	% voting right	Consolidated or not	Minority interests as at 31 December 2012	Amount offsetting minority interests (profit and loss) included in minority interest (balance sheet)
	RMB'000						
Hainan Hang Xiang	10,000	-	100%	100%	Yes	-	-
Hainan Airlines (Hongkong)	58,417	-	100%	100%	Yes	-	-
Golden-Deer Sales	7,600	-	95%	95%	Yes	5,982	-
	<u>76,017</u>	<u>-</u>				<u>5,982</u>	<u>-</u>

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(1) Subsidiaries (Continued)

(b) Subsidiaries obtained through establishment or investment as at 31 December 2012

	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	Deng Yao	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 Jinsong	BE0435779032
Brussels DATA	Direct control	Brussels	Hotel operation	EUR248,000	Hotel management, tour service	Limited liability company	Zhang Jinsong	BE0860905979
Brussels SODE	Direct control	Brussels	Hotel operation	EUR2,163,000	Hotel management, tour service, finance, real estate development, agency	Limited liability company	Zhang Jinsong	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 2012 (Continued)

	Accumulated capital contribution as at 31 December 2012	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	105,674	-
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>105,674</u>	<u>-</u>

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(2) Entities newly included in consolidation scope current year**

	Incorporation Date	Net assets as at 31 December 2012 RMB'000	Net loss in 2012 RMB'000
Hainan Hang Xiang (Note 4 (1)(a))	23 October 2012	<u>8,089</u>	<u>(1,911)</u>

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

In December 2012, HNA Aviation Holding Company increased its investment in Hunan Golden-Deer, which previously was a wholly owned subsidiary of the Company. After the capital increase, the Company's percentage of shares in Hunan Golden-Deer was diluted to 47.73%. Thereafter, the investment in Hunan Golden-Deer was transferred from subsidiary to associate and measured by using equity method of accounting.

	Disposal date	Net asset as at disposal date RMB'000	Net loss from 1 January 2012 to disposal date RMB'000
Hunan Golden-Deer (Note 5 (10)(a)(ii))	24 December 2012	<u>449,757</u>	<u>(243)</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2012			31 December 2011		
	Original	Exchange	Amount in RMB	Original	Exchange	Amount in RMB
	currency	rate		currency	rate	
	('000)		RMB'000	('000)		RMB'000
Cash on hand						
RMB			1,901			579
USD	35	6.2855	220	50	6.3009	314
Others			288			1,067
Subtotal			2,409			1,960
Cash at banks and financial institutions (a)						
RMB			18,365,549			14,133,939
USD	30,730	6.2855	193,153	56,243	6.3009	354,379
Others			72,877			108,039
Subtotal			18,631,579			14,596,357
Other cash balances (b)						
RMB			3,678,415			4,462,261
Total			22,312,403			19,060,578

- (a) As at 31 December 2012, the cash at bank and on hand included deposits of RMB4,699,439 thousand (31 December 2011: RMB4,449,149 thousand) placed in HNA Finance, a related party of the Group (Note 7(6)), among which, RMB3,213,042 thousand (31 December 2011: RMB2,862,752 thousand) was recorded in cash at banks and financial institutions, and RMB1,486,397 thousand (31 December 2011: RMB1,586,397 thousand) was recorded in other cash balances.

- (b) Other cash balances comprise:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Term deposits (Note)	1,525,000	1,750,000
Security deposits for notes payable	1,566,038	1,390,599
Other restricted deposits	587,377	1,321,662
	<u>3,678,415</u>	<u>4,462,261</u>

Note: As at 31 December 2012, term deposit of RMB1,165,000 thousand (31 December 2011: RMB1,250,000 thousand) was pledged for short-term borrowings of RMB361,500 thousand and long-term borrowings of RMB599,250 thousand (Note 5(20)&(29)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(1) Cash at bank and on hand (Continued)**

- (c) 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 between the Company and the banks, upon maturities, the impawned 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 2012 RMB'000	31 December 2011 RMB'000
Other cash balances – restricted cash deposits	-	381,352
Short-term borrowings	-	(381,352)

(2) Notes receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Trade acceptance notes	-	3,117,336

As at 31 December 2011, the balance of notes receivable represented the trade acceptance notes issued by Grand China Air, the major shareholder of the Company, for acquiring the subsidiaries (i.e. Hainan Guoshan and Hainan Hangpeng) and an associate (i.e. Haidao Construction) of the Company. The balance was settled in 2012.

(3) Accounts receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Accounts receivable	570,454	626,755
Less: Provisions for bad debts	(28,803)	(28,423)
	<u>541,651</u>	<u>598,332</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Accounts receivable (Continued)

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	534,431	598,332
1 to 2 years	7,600	-
2 to 3 years	-	-
3 to 4 years	-	-
4 to 5 years	-	-
5 to 6 years	-	-
Over 6 years	28,423	28,423
	<u>570,454</u>	<u>626,755</u>

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

	31 December 2012				31 December 2011			
	Amount RMB'000	% of total balance	Amount RMB'000	% of total provision for bad debts	Amount RMB'000	% of total balance	Amount RMB'000	% of total provision for bad debts
Provisions for bad debts by group								
- Group by aging analysis method	477,160	83%	(1,506)	0%	380,138	61%	(1,126)	0%
- Group by related parties	65,997	12%	-	-	219,320	35%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	27,297	5%	(27,297)	100%	27,297	4%	(27,297)	100%
	<u>570,454</u>	<u>100%</u>	<u>(28,803)</u>	<u>5%</u>	<u>626,755</u>	<u>100%</u>	<u>(28,423)</u>	<u>5%</u>

(c) At 31 December 2012, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2011: Nil).

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

	31 December 2012				31 December 2011			
	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	468,434	98%	-	-	379,012	100%	-	-
1 to 2 years	7,600	2%	(380)	5%	-	-	-	-
2 to 3 years	-	-	-	-	-	-	-	-
3 to 4 years	-	-	-	-	-	-	-	-
4 to 5 years	-	-	-	-	-	-	-	-
5 to 6 years	-	-	-	-	-	-	-	-
Over 6 years	1,126	0%	(1,126)	100%	1,126	0%	(1,126)	100%
	<u>477,160</u>	<u>100%</u>	<u>(1,506)</u>	<u>0.3%</u>	<u>380,138</u>	<u>100%</u>	<u>(1,126)</u>	<u>0.3%</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Accounts receivable (Continued)

- (e) As at 31 December 2012, accounts receivable that were not individually significant but with specific provisions for bad debts are analysed as follows:

	Gross amount	Provisions for bad debts	% of provisions for bad debts
Customer A	8,184	(8,184)	100%
Customer B	4,478	(4,478)	100%
Customer C	2,791	(2,791)	100%
Customer D	1,693	(1,693)	100%
Others	10,151	(10,151)	100%
	<u>27,297</u>	<u>(27,297)</u>	100%

As at 31 December 2012, 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.

- (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.
- (g) As at 31 December 2012, accounts receivable did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2011: Nil).
- (h) As at 31 December 2012, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total accounts receivable balance
Customer 1	Third party	101,120	Within 1 year	18%
Customer 2	Third party	48,684	Within 1 year	9%
Yisheng Holding	Under HNA Group's control	34,597	Within 1 year	6%
Customer 3	Third party	31,326	Within 1 year	5%
Customer 4	Third party	25,990	Within 1 year	5%
		<u>241,717</u>		<u>43%</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 2012			31 December 2011		
		Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Yisheng Holding	Under HNA Group's control	34,597	6%	-	45,274	7%	-
Xinsheng Info Tech	Under HNA Group's control	19,087	3%	-	102,896	17%	-
HNA Cargo	Under HNA Group's control	4,333	1%	-	19,903	3%	-
Tianjin Airlines	Under HNA Group's control	-	-	-	42,479	7%	-
Others		7,980	1%	-	8,768	1%	-
		<u>65,997</u>	<u>11%</u>	<u>-</u>	<u>219,320</u>	<u>35%</u>	<u>-</u>

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

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
Foreign currency						
USD	4,535	6.2855	28,506	2,568	6.3009	16,181
Others			<u>10,450</u>			<u>13,973</u>
			<u>38,956</u>			<u>30,154</u>

(4) Other receivables

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Amounts due from related parties (Note)	19,503	1,363,426
Others	<u>239,322</u>	<u>227,822</u>
	258,825	1,591,248
Less: Provision for bad debts	<u>(55,264)</u>	<u>(55,264)</u>
	<u>203,561</u>	<u>1,535,984</u>

Note: As at 31 December 2011, among the balance of amounts due from related parties, RMB1,209,574 thousand and RMB155,875 thousand were due from Grand China Air and HNA Real Estate Holding respectively, which represented the unsettled considerations for the equity shares disposed. The balance was settled in 2012.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables (Continued)

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	176,345	1,528,422
1 to 2 years	20,681	9,222
2 to 3 years	9,160	1,465
3 to 4 years	1,276	1,505
4 to 5 years	1,446	870
5 to 6 years	701	2,080
Over 6 years	49,216	47,684
	<u>258,825</u>	<u>1,591,248</u>

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

	31 December 2012				31 December 2011			
	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	5%	(11,799)	100%	11,799	1%	(11,799)	100%
Provision for bad debts by group								
- Group by aging analysis method (d)	79,278	31%	(14,382)	18%	115,945	7%	(14,382)	12%
- Aircraft leasing security deposits and maintenance funds receivable	119,162	45%	-	-	70,995	4%	-	-
- Group by related parties (i)	19,503	8%	-	-	1,363,426	86%	-	-
Amounts that are not individually significant but with specific provision for bad debts (e)	29,083	11%	(29,083)	100%	29,083	2%	(29,083)	100%
	<u>258,825</u>	<u>100%</u>	<u>(55,264)</u>	<u>21%</u>	<u>1,591,248</u>	<u>100%</u>	<u>(55,264)</u>	<u>3%</u>

(c) As at 31 December 2012, other receivables that were individually significant and with specific provisions for bad debts are analysed below:

	Book balance RMB'000	Provision for bad debts RMB'000	% of provision for bad debts
Other receivable A	<u>11,799</u>	<u>(11,799)</u>	100%

As at 31 December 2012, 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)

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

	31 December 2012				31 December 2011			
	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	53,093	67%	-	-	89,724	77%	-	-
1 to 2 years	2,933	4%	(75)	3%	7,640	7%	(229)	3%
2 to 3 years	7,597	10%	(324)	4%	2,656	2%	(186)	7%
3 to 4 years	1,144	1%	(283)	25%	1,220	1%	(312)	26%
4 to 5 years	1,207	1%	(553)	46%	1,089	1%	(481)	44%
5 to 6 years	634	1%	(477)	75%	1,755	2%	(1,313)	75%
Over 6 years	12,670	16%	(12,670)	100%	11,861	10%	(11,861)	100%
	79,278	100%	(14,382)	18%	115,945	100%	(14,382)	12%

(e) As at 31 December 2012, 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%
	29,083	(29,083)	

As at 31 December 2012, 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.

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

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Grand China Air	-	1,135,375

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Other receivables (Continued)

(h) As at 31 December 2012, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount RMB'000	Aging	% of total balance
Other Receivable 2	Third party	47,228	Within 1 year	18%
Other Receivable 3	Third party	24,498	Within 1 year	9%
Other Receivable 4	Third party	24,000	Within 1 year	9%
Other Receivable 5	Third party	13,681	Within 1 year	5%
Other Receivable 6	Third party	11,799	Within 1 year	5%
		<u>121,206</u>		<u>46%</u>

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

	Relationship with the Group	31 December 2012		31 December 2011	
		Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
HNA Real Estate Holding	Under HNA Group's control	169	-	156,069	10%
Grand China Air	Shareholder holding over 5% voting shares	-	-	1,135,375	71%
Yangtze River Express	Under HNA Group's control	-	-	44,802	3%
Others		19,334	8%	27,180	2%
		<u>19,503</u>	<u>8%</u>	<u>1,363,426</u>	<u>86%</u>

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

	31 December 2012			31 December 2011		
	Original currency (‘000)	Exchange rate	RMB equivalent RMB'000	Original currency (‘000)	Exchange rate	RMB equivalent RMB'000
USD	14,758	6.2855	92,762	12,276	6.3009	77,350
Others			<u>2,207</u>			<u>4,110</u>
			<u>94,969</u>			<u>81,460</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Interest receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
HNA Finance (Note 7(6))	169,806	121,444
Others	60,482	68,703
	<u>230,288</u>	<u>190,147</u>

(6) Advances to suppliers

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

	31 December 2012		31 December 2011	
	Amount RMB'000	% total balance	Amount RMB'000	% total balance
Aging				
Within 1 year	267,167	82%	413,969	91%
1 to 2 years	50,544	15%	22,186	5%
2 to 3 years	6,255	2%	7,824	2%
Over 3 years	2,577	1%	8,561	2%
	<u>326,543</u>	<u>100%</u>	<u>452,540</u>	<u>100%</u>

As at 31 December 2012, advances to suppliers with aging over 1 year amounted to RMB59,376 thousand (31 December 2011: RMB38,571 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 2012, the top 5 largest advances to suppliers with are analysed below:

	Relationship with the Group	Amount RMB'000	% to the total balance	Time of payment	Reasons for unsettlement
Company 1	Third party	54,585	17%	2012	Prepayment for flight equipment, goods not yet delivered
Company 2	Third party	40,240	12%	2012	Prepaid fuel cost, goods not yet delivered
Company 3	Third party	22,471	7%	2012	Prepaid fuel cost, goods not yet delivered
Company 4	Third party	21,806	7%	2012	Prepaid fuel cost, goods not yet delivered
Company 5	Third party	18,706	6%	2012	Prepaid custom duty and VAT, not yet cleared
		<u>157,808</u>	<u>49%</u>		

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Advances to suppliers (Continued)

(c) As at 31 December 2012, 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 2011: Nil).

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

Foreign currency	31 December 2012			31 December 2011		
	Original currency (‘000)	Exchange rate	RMB equivalent RMB’000	Original currency (‘000)	Exchange rate	RMB equivalent RMB’000
USD	40,899	6.2855	257,073	40,912	6.3009	257,782
EUR	540	8.3176	4,494	622	8.1625	5,077
Others			342			1,931
			<u>261,909</u>			<u>264,790</u>

(7) Inventories

	31 December 2012			31 December 2011		
	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
Cabin supplies	42,415	-	42,415	42,482	(83)	42,399
Consumables	-	-	-	58,714	-	58,714
Others	28,099	-	28,099	25,143	-	25,143
	<u>70,514</u>	<u>-</u>	<u>70,514</u>	<u>126,339</u>	<u>(83)</u>	<u>126,256</u>

(8) Other current assets

	31 December 2012 RMB’000	31 December 2011 RMB’000
Available-for-sale financial assets with maturity within 1 year (a)	<u>2,000,000</u>	<u>-</u>

(a) In December 2012, the Group purchased short-term financial products from a third party commercial bank at an aggregate amount of RMB 2 billion. These financial products are not capital guaranteed and with a maximum annual yield of 5.5%. The investment of the financing products are limited to financial instruments identified by supervision department of the financial market, including but not limited to cash, bank deposits by agreement, bond repurchase, government loans, financial bond, central bank bill, SCP, short-term commercial paper, corporate bond, MTN, ABS and financial instrument with fixed income and low risk.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Available-for-sale financial assets

	31 December 2012 RMB'000	31 December 2011 RMB'000
Yanshan Funds (a)	500,000	500,000
Available-for-sale equity instruments (b)	361,446	399,684
Guokaijingcheng investment fund (c)	200,000	-
	<u>1,061,446</u>	<u>899,684</u>

- (a) The Company and a third party (the "Partner") set up a limited partnership enterprise with a period of 10 years. The Company contributed capital of RMB500 million and taken limited liabilities. The Partner 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 2012, the Group held 34,260,268 shares of China Merchants Securities (31 December 2011: 38,704,245 shares) which was presented in fair value. The fair value of these shares as at 31 December 2012 were determined based on the closing price of the trading shares quoted on Shanghai Stock Exchange at 31 December 2012. In 2012, China Merchants Securities passed a profit appropriation resolution of RMB1.5 Yuan cash dividend for each 10 shares. The cash dividend of RMB4,636 thousand was received in 2012 and recorded as investment income (Note 5(45)). During the year 2012, the Company sold 7,796,291 shares of China Merchants Securities and incurred a loss of RMB 40,116 thousand. which has been recorded in investment loss for the current year (Note 5(45)).

In 2012, since the share price of China Merchants Securities have been constantly lower than the average purchase price of the Company for over a year, the Company has performed an impairment assessment. In consideration of the price fluctuation rate and subsequent share price fluctuation ect., a loss of RMB 86,104 thousand caused by the decline in fair value in 2012 was transferred out from the capital reserve and charged to impairment loss of the income statement (Note 5(43)).

- (c) In 2012, the Company and other parties jointly set up Guokaijingcheng investment fund and the Company contributed RMB200 million to the fund. The registered capital of the fund is RMB 6,840 million with an operation period of 10 years. Each investor enjoyed the voting rights based on their respective ownership percentages. Since the Company only has 3% ownership in the fund, the Company has no control, common control or significantly impact on the fund. Therefore, this investment was recognised as available-for-sale financial assets.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Long-term equity investments

	31 December 2012 RMB'000	31 December 2011 RMB'000
Associates - without quoted prices (a)	6,565,997	3,142,678
Other long-term equity investments (b)	<u>2,517,915</u>	<u>2,009,295</u>
	9,083,912	5,151,973
Less: Provision for impairment of long-term equity investments	<u>(6,774)</u>	<u>(6,774)</u>
	<u>9,077,138</u>	<u>5,145,199</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)

(10) Long-term equity investments (Continued)

(a) Associates

Current year movements											Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in the current year
Accounting method	Original investment cost	31 December 2011	Transferred from other investments	Addition or reduction of investment cost	Share of results of associate	Cash dividends declared	31 December 2012	% share- holding	% voting rights				
Bohai Trust(i)	Equity method	2,760,906	-	-	2,760,906	-	-	2,760,906	39.78%	39.78%	N/A	-	-
HNA Technology	Equity method	1,000,000	1,000,000	-	-	12,209	-	1,012,209	48.08%	48.08%	N/A	-	-
Lucky Air	Equity method	842,000	842,000	-	-	111,005	-	953,005	40.00%	40.00%	N/A	-	-
HNA Finance	Equity method	865,578	865,578	-	-	70,890	-	936,468	23.70%	23.70%	N/A	-	-
Hunan Golden- Deer(ii)	Equity method	450,000	-	450,000	-	-	-	450,000	47.37%	47.37%	N/A	-	-
Xi'an Chanba Other	Equity method	400,000	400,101 34,999	- -	- -	7,838 10,471	-	407,939 45,470	40.00%	40.00%	N/A	-	-
		<u>3,142,678</u>		<u>450,000</u>	<u>2,760,906</u>	<u>212,413</u>	<u>-</u>	<u>6,565,997</u>					

(i) In December 2012, the Group purchased 39.78% shares of Bohai Trust from the related parties namely, Haikou Meilan, HNA Hotel Holding, Yangtze Real Estate, Yanjing Hotel, HNA Technology at a total consideration of RMB2,761 million. Bohai Trust is mainly engaged in trust services and more details about its operation are set out in Note 7(3).

(ii) In December 2012, HNA Aviation Holding Company increased investment in Hunan Golden-Deer, which was a wholly subsidiary of the Company. After the capital increase, the Company's ownership percentage in Hunan Golden-Deer has been diluted to 47.73%. Thereafter, Hunan Golden-Deer has been classified as an associate of the Company and is accounted for by equity method of accounting.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Long-term equity investments (Continued)

(b) Other long-term equity investments

		Original						Explanation for		Provision for	
	Accounting	investment	31 December	Current year	31 December	% Share-	% voting	difference between %	Provision for	impairment	Cash dividends
	method	cost	2011	movement	2012	holding	right	shareholding and %	impairment	made in	declared in
		RMB'000	RMB'000	RMB'000	RMB'000			voting right	RMB'000	RMB'000	RMB'000
Hong Kong Airlines	Cost method	842,000	842,000	-	842,000	15.81%	15.81%	N/A	-	-	-
Tianjin Airlines	Cost method	19,000	713,000	-	713,000	17.59%	17.59%	N/A	-	-	-
Capital Airlines Holding (i)	Cost method	508,620	-	508,620	508,620	19.60%	19.60%	N/A	-	-	-
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%	N/A	-	-	966
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19.00%	19.00%	N/A	-	-	-
Xin Guo Hotel	Cost method	40,000	31,952	-	31,952	13.33%	13.33%	N/A	-	-	-
Civil Aviation Information											
Network of China	Cost method	29,860	29,860	-	29,860	1.68%	1.68%	N/A	-	-	6,986
Yangtze River Express	Cost method	10,000	10,000	-	10,000	2.00%	2.00%	N/A	-	-	-
Others	Cost method	19,557	19,557	-	19,557				(6,774)	-	1,060
			2,009,295	508,620	2,517,915				(6,774)	-	9,012

(i) In December 2012, the Company purchased 19.60% shareholdings of Capital Airlines from related party HNA Tourism, a related party of the Company, at a consideration of RMB508,620 thousand.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Long-term equity investments (Continued)

(b) Investments in associates

Major financial information of the associates held by the Company in 2012 is outlined as below:

	% equity interest	% of voting right	31 December 2012			2012	
			Total assets	Total liabilities	Net Assets	Total assets	Total liabilities
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bohai Trust	39.78%	39.78%	2,833,099	94,925	2,738,174	702,653	412,026
HNA technology	48.08%	48.08%	2,406,909	256,600	2,150,309	1,065,428	25,392
Lucky Air	40.00%	40.00%	7,122,967	5,170,561	1,952,406	3,303,043	277,513
HNA Finance	23.70%	23.70%	21,047,292	17,279,237	3,768,055	605,639	299,114
Hunan Golden Deer	47.37%	47.37%	450,007	250	449,757	-	(243)
Xi'an Chanba	40.00%	40.00%	1,026,361	6,531	1,019,830	26,125	19,593

(11) Investment properties

Items	Fair value as at 1 January 2012 RMB'000	Current year additions		Current year reductions		Fair value as at 31 December 2012 RMB'000
		Current year new additions RMB'000	Changes in fair value RMB'000			
				RMB'000		
Cost	5,468,083	9,966	-	(97,099)		5,380,950
Buildings	5,183,508	9,966	-	(97,099)		5,096,375
Land use rights	284,575	-	-	-		284,575
Changes in fair value	1,371,029	-	504,363	-		1,875,392
Buildings	1,239,551	-	504,363	-		1,743,914
Land use rights	131,478	-	-	-		131,478
Net book value	6,839,112	9,966	504,363	(97,099)		7,256,342
Buildings	6,423,059	9,966	504,363	(97,099)		6,840,289
Land use rights	416,053	-	-	-		416,053

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Investment properties (Continued)

As at 31 December 2012, the net book value of the investment properties was RMB7,256,342 thousand (31 December 2011: RMB6,839,112 thousand). The valuation of the investment properties with valuation date of 30 November 2012 was conducted by an independent appraiser and the market values of the investment properties were determined by the Company's management with reference to the valuation results.

In 2012, the total changes in the fair value of the investment properties of the Group amounted to RMB504,363 thousand (2011: RMB869,845 thousand), and was fully recognised in profit or loss for the year.

As at 31 December 2012, investment properties with book value of RMB4,229,656 thousand (31 December 2011: RMB3,217,121 thousand) were pledged for long-term borrowings (Note 5(29)(a)(i) and Note5(29)(d)(ii)).

As at 31 December 2012, the title certificates of certain buildings and land use rights with carrying amount of RMB2,442,344 thousand (31 December 2011: RMB2,410,321 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)

(12) Fixed assets

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Cost	41,623,649	5,991,349	(1,333,882)	46,281,116
Buildings	1,692,250	1,919,888	(136,273)	3,475,865
Aircraft and engines	36,786,747	3,867,068	(1,132,017)	39,521,798
Rotables	2,384,834	142,914	(1,388)	2,526,360
Motor vehicles	214,468	23,706	(16,243)	221,931
Machinery and equipment	545,350	37,773	(47,961)	535,162
Accumulated depreciation	(10,377,715)	(2,330,061)	820,728	(11,887,048)
Buildings	(380,708)	(41,536)	45,842	(376,402)
Aircraft and engines	(8,056,418)	(2,068,982)	733,681	(9,391,719)
Rotables	(1,435,225)	(159,876)	682	(1,594,419)
Motor vehicles	(151,816)	(13,469)	8,597	(156,688)
Machinery and equipment	(353,548)	(46,198)	31,926	(367,820)
Book value before impairment	31,245,934	—	—	34,394,068
Buildings	1,311,542	—	—	3,099,463
Aircraft and engines	28,730,329	—	—	30,130,079
Rotables	949,609	—	—	931,941
Motor vehicles	62,652	—	—	65,243
Machinery and equipment	191,802	—	—	167,342
Provision for impairment loss	(16,378)	-	-	(16,378)
Buildings	-	-	-	-
Aircraft and engines	-	-	-	-
Rotables	(16,378)	-	-	(16,378)
Motor vehicles	-	-	-	-
Machinery and equipment	-	-	-	-
Net book value	31,229,556	—	—	34,377,690
Buildings	1,311,542	—	—	3,099,463
Aircraft and engines	28,730,329	—	—	30,130,079
Rotables	933,231	—	—	915,563
Motor vehicles	62,652	—	—	65,243
Machinery and equipment	191,802	—	—	167,342

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Fixed assets (Continued)

As at 31 December 2012, fixed assets with net book value of RMB21,546,792 thousand (31 December 2011: RMB20,279,400 thousand) and original cost of RMB27,022,311 thousand (31 December 2011: RMB24,852,368 thousand) were pledged for short-term borrowings of RMB625,000 thousand and long-term borrowings of RMB18,406,043 thousand (Note 5(20)&(29)).

For the year ended 31 December 2012, total amount of depreciation charges for fixed assets amounted to RMB2,330,061 thousand (2011: RMB2,173,908 thousand), which were charged to operating costs, selling and distribution expense, general and administrative expense at RMB2,288,391 thousand, RMB5,148 thousand and RMB36,522 thousand respectively (2011: RMB2,111,485 thousand, RMB4,740 thousand and RMB57,683 thousand respectively).

For the year ended 31 December 2012, constructions in progress with original cost of RMB4,373,498 thousand (2011: RMB3,284,746 thousand) were transferred to fixed assets.

(a) Fixed assets under financial leases

	Cost RMB'000	Accumulated depreciation RMB'000	Book value RMB'000
31 December 2012			
Aircraft and engines	8,468,737	(2,932,672)	5,536,065
Rotables	50,000	(12,292)	37,708
	<u>8,518,737</u>	<u>(2,944,964)</u>	<u>5,573,773</u>
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>

(b) Fixed assets without property certificates

As at 31 December 2012, property certificates of certain buildings with net book value of RMB1,004,349 thousand and original cost of RMB1,006,043 thousand (31 December 2011: net book value of RMB53,308 thousand and original cost of RMB65,881 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.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Construction in progress

	31 December 2012			31 December 2011		
	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	11,525,757	-	11,525,757	7,673,230	-	7,673,230
Beijing base expansion project	455,351	-	455,351	1,077,882	-	1,077,882
Others	22,361	(2,307)	20,054	90,264	(2,307)	87,957
	<u>12,003,469</u>	<u>(2,307)</u>	<u>12,001,162</u>	<u>8,841,376</u>	<u>(2,307)</u>	<u>8,839,069</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Construction in progress (Continued)

(a) Movements of major construction in progress

Name of project	Budget	31 December	Current year	Transfer to fixed assets during current year	Other transfer during current year	31 December	% completion of construction project	Construction progress	Accumulated borrowing costs capitalised	Capitalized amount during the year			Annual interest rate for capitalisation	Source of fund
										Interests	Exchange gain or loss of special borrowings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000	RMB'000	RMB'000			RMB'000
Advanced payments for aircraft acquisitions	86,275,791	7,673,230	7,196,669	(3,344,142)	-	11,525,757	12%	12%	877,275	400,114	(17,464)		4.84%	Bank loans
Beijing base expansion project	477,095	1,077,882	285,196	(897,761)	(9,966)	455,351	73%	73%	106,629	59,186	-		5.70%	Bank loans and self generated fund
Others		90,264	76,032	(131,595)	(12,340)	22,361			-	-	-			
		<u>8,841,376</u>	<u>7,557,897</u>	<u>(4,373,498)</u>	<u>(22,306)</u>	<u>12,003,469</u>			<u>983,904</u>	<u>459,300</u>	<u>(17,464)</u>			

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Construction in progress (Continued)

- (b) The progress of the major constructions in progress as at 31 December 2012 is as follows:

	Construction progress	Remarks
Beijing base expansion project	73%	The construction progress is estimated based on the budgeted project costs.

(14) Intangible assets

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Original cost	256,986	39	(29,352)	227,673
Land use rights	256,411	-	(29,336)	227,075
Software	575	39	(16)	598
Accumulated amortisation	(62,809)	(5,783)	5,123	(63,469)
Land use rights	(62,616)	(5,634)	5,122	(63,128)
Software	(193)	(149)	1	(341)
Net book value	194,177	—	—	164,204
Land use rights	193,795	—	—	163,947
Software	382	—	—	257

For the year ended 31 December 2012, total amortisations of the intangible assets amounted to RMB5,783 thousand (2011: RMB5,779 thousand).

As at 31 December 2012, the land use rights with net book value of RMB31,170 thousand and original cost of RMB40,421 thousand (31 December 2011: net book value of RMB35,531 thousand and original cost of RMB45,000 thousand) were pledged for long-term borrowings of RMB2,111,407 thousand (Note 5(29)(a)(ii)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(15) Goodwill

As at 31 December 2012, 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.

(16) Long-term prepaid expenses

	31 December 2011 RMB'000	Current year additions RMB'000	Amortisation for the year RMB'000	Other reductions RMB'000	31 December 2012 RMB'000
Deferred pilot recruitment costs	338,536	210,811	(88,267)	-	461,080
Others	20,017	14,581	(12,083)	-	22,515
	<u>358,553</u>	<u>225,392</u>	<u>(100,350)</u>	<u>-</u>	<u>483,595</u>

(17) Other non-current assets

	31 December 2012 RMB'000	31 December 2011 RMB'000
Maintenance reserve fund for aircraft and engines	1,290,691	1,149,746
Security deposits for leased aircraft and engines	739,285	901,482
Deferred losses on sales and lease back transactions	231,901	304,020
Others	20,000	20,000
	<u>2,281,877</u>	<u>2,375,248</u>

(18) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2012		31 December 2011	
	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	260,771	1,043,085	188,721	754,886
Changed in fair value of available-for-sale financial assets	36,828	147,310	49,135	196,540
Tax losses	5,834	38,891	83,807	335,229
	<u>303,433</u>	<u>1,229,286</u>	<u>321,663</u>	<u>1,286,655</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Deferred tax liabilities before offsetting

	31 December 2012		31 December 2011	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets depreciation	1,481,458	6,135,074	1,019,559	4,078,235
Business combinations under non-common control	346,294	1,385,175	346,294	1,385,175
Differences between book value and tax base of investment properties	529,829	2,119,295	385,738	1,542,956
	<u>2,357,581</u>	<u>9,639,544</u>	<u>1,751,591</u>	<u>7,006,366</u>

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

	31 December 2012	31 December 2011
	RMB'000	RMB'000
Deductible temporary differences	-	-
Tax losses	1,911	91,819
	<u>1,911</u>	<u>91,819</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 2012	31 December 2011
	RMB'000	RMB'000
2015	-	27,356
2016	-	64,463
2017	1,911	-
	<u>1,911</u>	<u>91,819</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Deferred tax assets	303,433	321,663
Deferred tax liabilities	<u>303,433</u>	<u>321,663</u>

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

	31 December 2012		31 December 2011	
	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>2,054,148</u>	<u>8,410,258</u>	<u>1,429,928</u>	<u>5,719,711</u>

(19) Provisions for asset impairment

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Provisions for available-for-sale financial assets impairment (Note 5 (9)(b))	-	86,104	-	86,104
Provisions for bad debts	83,687	380	-	84,067
Including: Accounts receivable	28,423	380	-	28,803
Other receivables	55,264	-	-	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	16,378	-	-	16,378
Provisions for impairment of construction in progress	2,307	-	-	2,307
	<u>109,229</u>	<u>86,484</u>	<u>(83)</u>	<u>195,630</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Short-term borrowings

	Currency	31 December 2012 RMB'000	31 December 2011 RMB'000
Pledged (a)	RMB	500,000	330,000
Impawn (b)		4,965,890	6,943,250
	RMB	3,834,500	6,313,160
	USD	1,131,390	630,090
Guaranteed (c)		6,474,275	7,895,045
	RMB	6,160,000	7,580,000
	USD	314,275	315,045
Borrowings with guarantee and pledge/impawn (d)	RMB	3,615,500	2,245,000
Unsecured	RMB	236,671	120,000
Total		15,792,336	17,533,295

- (a) As at 31 December 2012, the pledged borrowings of RMB500,000 thousand (31 December 2011: Nil) are secured by aircraft of the Company with a net book value of RMB310,505 thousand (original cost of RMB356,602 thousand) (Note 5(12)).

As at 31 December 2011, the pledged borrowings of RMB330,000 thousand are secured by investment properties of related parties which has been settled in 2012.

- (b) As at 31 December 2012, impawn borrowings comprise:

- (i) Borrowings of RMB361,500 thousand (31 December 2011: RMB490,000 thousand) is impawned by the term deposit of RMB415,000 thousand (31 December 2011: RMB580,000 thousand) (Note 5(1)).
- (ii) Borrowings of RMB2,152,390 thousand (including RMB1,021,000 thousand and USD180,000 thousand) (31 December 2011: RMB2,160,090 thousand) is impawned by certain equity interests held by related parties of the Group (Note7 (5)(c)).
- (iii) Borrowings of RMB1,952,000 thousand (31 December 2011: Nil) represents the letter of credit, which is impawned by certain equity interests held by related parties (Note7 (5)(c)) and 3rd parties of the Group.
- (iv) Borrowings of RMB500,000 thousand (31 December 2011: Nil) represents the letter of credit, which is impawned by certain equity interests held by related parties (Note7 (5)(c)) and third parties of the Group.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Short-term borrowings (Continued)

- (b) As at 31 December 2012, impawn borrowings comprise: (Continued)

As at 31 December 2011, borrowings of RMB2,072,160 thousand represents the letter of credit impawned by deposit of RMB867,800 thousand, borrowings of RMB110,000 thousand impawned by certain equity interests in HNA Finance held by the Group, and borrowings of RMB2,111,000 thousand impawned by certain equity interests held by third parties were matured and repaid in 2012.

- (c) As at 31 December 2012, guaranteed borrowings comprise:

- (i) Borrowings of RMB3,195,000 thousand (31 December 2011: RMB4,330,000 thousand) is guaranteed by related parties of the Group (Note 7(5)(c)).
- (ii) Borrowings of RMB3,279,275 thousand (including RMB 2,965,000 thousand and USD50,000 thousand) (31 December 2011: USD50,000 thousand, equivalent to RMB315,045 thousand), is guaranteed by the Company.

As at 31 December 2011, borrowings of RMB300,000 thousand guaranteed by the Group and related parties of the Group and borrowings of RMB2,950,000 thousand guaranteed by the Group were matured and repaid in 2012.

- (d) As at 31 December 2012, borrowings with guarantee and pledge/impawn comprise:

- (i) Borrowings of RMB2,330,000 thousand (31 December 2011: RMB1,550,000 thousand) 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) Borrowings of RMB560,500 thousand (31 December 2011: Nil) represents the letter of credit, which is impawned by deposit of RMB168,150 thousand and secured by related parties of the Group (Note7 (5)(c)).
- (iii) Borrowings of RMB300,000 thousand (31 December 2011: Nil) are impawned by certain equity interests held by related parties of the Group (Note7 (5)(c)) and guaranteed by the Company.
- (iv) Borrowing of RMB125,000 thousand (31 December 2011: RMB125,000 thousand) is pledged by fixed assets of the Group (Note 5(12)) with net book value of RMB94,422 thousand and original cost of RMB118,587 thousand (31 December 2011: Net book value of RMB84,871 thousand and original cost of RMB108,380 thousand) and is guaranteed by the Company.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Short-term borrowings (Continued)

(d) As at 31 December 2012, borrowings with guarantee and pledge/impawn comprise: (Continued)

(v) Borrowings of RMB150,000 thousand (31 December 2011: Nil), are impawned by certain equity interests held by the Company (Note7 (5)(c)) and guaranteed by related parties of the Group.

(vi) Borrowings of RMB150,000 thousand (31 December 2011: Nil), are impawned by certain equity interests held by third parties and guaranteed by related parties of the Group (Note7 (5)(c)).

As at 31 December 2011, borrowings of RMB250,000 thousand impawned by certain equity interests held by related parties of the Group and guaranteed by related parties of the Group; borrowings of RMB200,000 thousand impawned by RMB100,000 thousand security deposit of the Group and guaranteed by the Company, and borrowings of RMB120,000 thousand impawned by certain equity interests held by the Company and guaranteed by the Company were matured and repaid in 2012.

(e) As at 31 December 2012, the annual weighted average interest for the short-term borrowings of the Group is 6.89% per annum (31 December 2011: 6.59%).

(f) As at 31 December 2012, 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) Short-term borrowings (Continued)

(21) Notes payable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Bank acceptance notes	4,782,981	4,506,488
Commercial acceptance notes	681,492	553,372
	<u>5,464,473</u>	<u>5,059,860</u>

As at 31 December 2012 and 31 December 2011, all notes payable will be matured within one year.

(22) Accounts payable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Aircraft and engines maintenance fees payable	1,864,348	1,530,151
Fuel cost payable	1,225,628	710,098
Taking-off and landing fees payable	631,558	523,107
Ticket reservation fees payable	284,060	211,113
In-flight catering payable	181,686	83,250
Flight equipment payable	118,739	118,856
Others	618,930	588,246
	<u>4,924,949</u>	<u>3,764,821</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(22) Accounts payable (Continued)

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Grand China Air	25,112	-
Haikou Meilan	2,147	31,905
	<u>27,259</u>	<u>31,905</u>

- (b) Accounts payable to related parties:

	31 December 2012 RMB'000	31 December 2011 RMB'000
HNA Technology	54,231	-
Lucky Air	38,079	-
Grand China Air	25,112	-
HNA Aviation Sales	18,888	-
Western Airlines	16,194	1,670
Haikou Meilan	2,147	31,905
HNA Airlines Holding	-	27,207
Meilan Airport	-	25,374
HNA Airport Holding	-	10,829
HNA Group (Hong Kong)	-	10,005
Others	97,169	32,730
	<u>251,820</u>	<u>139,720</u>

- (c) As at 31 December 2012, the accounts payable with aging over 1 year amounted to RMB417,595 thousand (31 December 2011: RMB405,245 thousand), mainly comprised of 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 2012			31 December 2011		
	Amount in foreign currency (('000)	Exchange rate	RMB equivalent RMB'000	Amount in foreign currency (('000)	Exchange rate	RMB equivalent RMB'000
USD	389,196	6.2855	2,446,291	244,627	6.3009	1,541,372
Others			<u>338,653</u>			<u>81,317</u>
			<u>2,784,944</u>			<u>1,622,689</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(23) Advances from customers

	31 December 2012 RMB'000	31 December 2011 RMB'000
Sales in advance of carriage	862,207	1,026,370
Other advances received	56,255	98,225
	<u>918,462</u>	<u>1,124,595</u>

- (a) As at 31 December 2012, 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 2011: Nil).
- (b) As at 31 December 2012, advances from customers aging over 1 year amounted to RMB108,116 thousand, which mainly represented sales in advances of carriage. As the related services have not been rendered, the related balances have not yet recognised as the revenue.
- (c) As at 31 December 2012, there is no significant balance dominated in foreign currency included in advances from customers.

(24) Employee benefits payable

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Wages and salaries, bonuses, allowances and subsidies	173,370	1,379,463	(1,409,152)	143,681
Social security contributions	7,816	260,036	(259,946)	7,906
Including: Medical insurance	1,952	64,895	(65,145)	1,702
Basic pensions	4,381	162,238	(161,743)	4,876
Unemployment insurance	668	16,224	(16,489)	403
Work injury insurance	148	8,112	(8,111)	149
Maternity insurance	64	4,867	(4,867)	64
Annuity	603	3,700	(3,591)	712
Housing funds	31,188	131,171	(134,151)	28,208
Labor union funds and employee education funds	27,923	39,654	(49,124)	18,453
	<u>240,297</u>	<u>1,810,324</u>	<u>(1,852,373)</u>	<u>198,248</u>

As at 31 December 2012, the employee benefits payable does not include any overdue amounts and the payable balance is expected to be paid in 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Taxes payable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Aviation development fund payable	292,327	252,574
Corporate income tax payable	140,068	86,619
Business tax payable	42,911	113,467
Others	77,364	124,083
	<u>552,670</u>	<u>576,743</u>

(26) Interest payable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Interests on debentures (Note 5(30)(b))	188,873	178,589
Interests on borrowings	157,338	145,860
	<u>346,211</u>	<u>324,449</u>

(27) Other payables

	31 December 2012 RMB'000	31 December 2011 RMB'000
Amounts due to related parties (b)	298,921	70,723
Security deposits and funds	234,283	160,484
Aircraft acquisition	47,100	52,847
Pilot training fees	33,545	47,216
Construction project payable	6,940	193,279
Others	256,556	246,459
	<u>877,345</u>	<u>771,008</u>

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
HNA Group	<u>180,456</u>	<u>8,612</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Other payables (Continued)

(b) Other payables to related parties:

	31 December 2012 RMB'000	31 December 2011 RMB'000
HNA Group	180,456	8,612
Capital Airlines	33,044	18,014
Changjiang Leasing	20,967	790
HNA Aviation Holding	20,477	-
HNA Group (Hong Kong)	12,453	-
Yangtze River Leasing	-	14,146
Others	31,524	29,161
	<u>298,921</u>	<u>70,723</u>

(c) As at 31 December 2012, other payables aging over one year amounted to RMB216,816 thousand (31 December 2011: RMB149,979 thousand) and mainly comprised 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 2012			31 December 2011		
	Amount in foreign currency (‘000)	Exchange rate	RMB equivalent RMB'000	Amount in foreign currency (‘000)	Exchange rate	RMB equivalent RMB'000
USD	8,701	6.2855	54,689	11,618	6.3009	73,204
EUR	2,273	8.3176	18,905	-	-	-
			<u>73,594</u>			<u>73,204</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Non-current liabilities within one year

		31 December 2012 RMB'000	31 December 2011 RMB'000
Long-term borrowings within one year (a)		5,587,758	4,181,995
Long-term payables within one year (b)		597,012	421,569
		<u>6,184,770</u>	<u>4,603,564</u>
(a) Long-term borrowings within one year			
	Currency	31 December 2012 RMB'000	31 December 2011 RMB'000
Pledged (Note 5(29)(a))		2,975,479	2,330,609
	RMB	1,712,339	774,754
	USD	1,254,471	1,555,361
	EUR	8,669	494
Impawn (Note 5(29)(b))	RMB	1,129,250	513,900
Guaranteed (Note 5(29)(c))		636,678	418,410
	RMB	149,130	418,410
	USD	487,548	-
Guaranteed and pledged/ impawn (Note 5(29)(d))		656,715	899,076
	RMB	383,798	813,384
	USD	272,917	85,692
Unsecured		189,636	20,000
	RMB	152,112	20,000
	USD	37,524	-
		<u>5,587,758</u>	<u>4,181,995</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) 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:

				31 December 2012		
	Loan commencement date	Loan maturity date	Interest rate (%)	Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	30/11/2010	29/11/2013	Benchmark rate	RMB	—	700,000
BANK B	24/02/2011	23/08/2013	Benchmark rate	RMB	—	545,000
BANK C	30/11/2010	29/05/2013	Benchmark rate	RMB	—	249,000
BANK D	25/11/2011	25/11/2013	Benchmark rate plus 15%	RMB	—	230,000
BANK E	18/04/2011	18/04/2013	6 month LIBOR plus 4%	USD	33,500	210,564
						<u>1,934,564</u>

				31 December 2011		
	Loan commencement date	Loan maturity date	Interest rate (%)	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>

(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:

					31 December 2012			Borrowing conditions
	Lease term	Initial amount RMB'000	Interest rate (%)	Accrued interest in current year RMB'000	Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000	
Lessor of finance lease 1	10 years	177,196	Floating interest rate	3,560	RMB	-	173,636	Aircraft finance lease
Lessor of finance lease 2	5 years	120,377	Fixed interest rate	13,199	RMB	-	107,178	Aircraft finance lease
Lessor of finance lease 3	12 years	100,095	Floating interest rate	1,023	USD	15,762	99,072	Aircraft finance lease
Lessor of finance lease 4	5 years	79,806	Benchmark rate	275	RMB	-	79,531	Aircraft finance lease
Lessor of finance lease 5	5 years	56,416	Floating interest rate	13,896	RMB	-	42,520	Aircraft finance lease
							<u>501,937</u>	

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Long-term borrowings

		31 December 2012			31 December 2011		
		Total amount	Less: long-term borrowings due within 1 year	Balance after deducting the amount due within 1 year	Total amount	Less: long-term borrowings due within 1 year	Balance after deducting the amount due within 1 year
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged (a)		18,750,133	(2,975,479)	15,774,654	19,478,055	(2,330,609)	17,147,446
	RMB	5,032,387	(1,712,339)	3,320,048	5,999,617	(774,754)	5,224,863
	USD	13,631,893	(1,254,471)	12,377,422	13,384,319	(1,555,361)	11,828,958
	EUR	85,853	(8,669)	77,184	94,119	(494)	93,625
Impawn (b)		1,799,250	(1,129,250)	670,000	1,804,587	(513,900)	1,290,687
	RMB	1,799,250	(1,129,250)	670,000	1,593,750	(513,900)	1,079,850
	USD	-	-	-	210,837	-	210,837
Guaranteed (c)		2,023,327	(636,678)	1,386,649	2,229,549	(418,410)	1,811,139
	RMB	677,376	(149,130)	528,246	712,308	(418,410)	293,898
	USD	1,345,951	(487,548)	858,403	1,451,941	-	1,451,941
	EUR	-	-	-	65,300	-	65,300
Guaranteed and pledged/ impawn (d)		5,853,799	(656,715)	5,197,084	3,145,476	(899,076)	2,246,400
	RMB	3,870,786	(383,798)	3,486,988	2,669,991	(813,384)	1,856,607
	USD	1,983,013	(272,917)	1,710,096	475,485	(85,692)	389,793
Unsecured		330,960	(189,636)	141,324	987,621	(20,000)	967,621
	RMB	285,445	(152,112)	133,333	901,227	(20,000)	881,227
	USD	45,515	(37,524)	7,991	86,394	-	86,394
Total		28,757,469	(5,587,758)	23,169,711	27,645,288	(4,181,995)	23,463,293

(a) As at 31 December 2012, pledged borrowings comprise:

- (i) The pledged borrowings of RMB13,521,806 thousand (including: RMB2,663,887 thousand, USD1,713,796 thousand and EUR10,516 thousand) (31 December 2011: RMB16,834,442 thousand) are pledged by the following fixed assets and investment properties individually or collectively :

		31 December 2012		31 December 2011	
		Cost	Net book value	Cost	Net book value
		RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets - buildings		512,384	398,180	325,064	229,026
Fixed assets – aircraft		18,955,890	15,938,709	19,838,755	16,956,549
Subtotal (Note 5(12))		19,468,274	16,336,889	20,163,819	17,185,575
Investment properties (Note 5(11))			763,156		3,217,121
Total			17,100,045		20,402,696

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Long-term borrowings (Continued)

- (a) As at 31 December 2012, pledged borrowings comprise: (Continued)
- (ii) The pledged borrowings of RMB2,111,407 thousand (including: RMB1,054,500 thousand and USD168,150 thousand) (31 December 2011: RMB 2,326,062 thousand) are pledged by aircrafts owned by the Group's related parties and the intangible assets of the Company with net book value of RMB31,170 thousand and original cost of RMB40,421 thousand (31 December 2011: net book value of RMB35,531 thousand and original cost of RMB45,000 thousand) (Note 5(14)), and the fixed assets of the Company with net book value of RMB342,814 thousand and original cost of RMB465,563 thousand (31 December 2011: Nil) (Note 5(12)).
- (iii) The pledged borrowings of RMB3,116,920 (including RMB1,314,000 thousand and USD286,838 thousand) (31 December 2011: RMB317,551 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 2012, impawn borrowings comprise:
- (i) The impawn borrowings of RMB599,250 thousand (31 December 2011: RMB579,750 thousand) are impawned by term deposits of RMB750,000 thousand of the Group (Note 5(1)).
- (ii) The impawn borrowings of RMB500,000 thousand (31 December 2011: RMB524,837 thousand) are impawned by certain equity interests held by related parties of the Group and third parties (Note 7(5)(c)).
- (iii) The impawn borrowings of RMB700,000 thousand (31 December 2011: RMB700,000 thousand) are impawned by certain equity interests held by related parties of the Group (Note 7(5)(c)).
- (c) As at 31 December 2012, guaranteed borrowings of RMB2,023,327 thousand (Including: RMB677,376 thousand and USD214,136 thousand) (31 December 2011: RMB2,229,549 thousand) are guaranteed by related parties of the Company and of the Group (Note 7(5)(c)), among which, RMB654,079 thousand is guaranteed by the Company, RMB1,158,684 is guaranteed by related parties of the Group and RMB210,564 thousand is guaranteed by third parties.
- (d) As at 31 December 2012, borrowings with guarantee and pledge/impawn comprise:
- (i) Borrowings of RMB2,759,870 thousand (including RMB1,260,526 thousand, USD238,540 thousand) (31 December 2011: RMB850,590 thousand) are pledged by aircrafts of the Group with net book value of RMB3,806,561 thousand and original cost of RMB5,293,670 thousand (31 December 2011: net book value of RMB2,268,552 thousand and original cost of RMB3,260,545 thousand) (Note 5(12)), and also guaranteed by related parties of the Group (Note 7(5)(c)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Long-term borrowings (Continued)

- (d) As at 31 December 2012, borrowings with guarantee and pledge/impawn comprise: (Continued)
- (ii) Borrowings of RMB1,240,000 thousand (31 December 2011: RMB1,000,000 thousand) are pledged by the Group's investment properties with fair value of RMB3,466,500 thousand (31 December 2011: RMB3,217,121 thousand) (Note 5(11)), and also guaranteed by the Company and related parties of the Group (Note 7(5)(c)), among which, RMB300,000 thousand is guaranteed by the related parties of the Group.
 - (iii) Borrowings of USD30,750 thousand (RMB193,279 thousand equivalent) (31 December 2011: RMB269,053 thousand) are pledged by aircrafts of the Group with net book value of RMB655,601 thousand and original cost of RMB1,319,615 thousand (31 December 2011: net book value of RMB740,402 thousand and original cost of RMB1,319,615 thousand) (Note 5(12)), and are impawned by certain equity interests held by related parties of the Group (Note 7(5)(c)).
 - (iv) Borrowings of RMB1,214,542 thousand (31 December 2011: Nil) are pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed, and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (v) Borrowings of RMB250,000 thousand (31 December 2011: Nil) are pledged by fixed assets of related parties of the Group, and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (vi) Borrowings of USD31,200 thousand (RMB196,108 thousand equivalent) (31 December 2011: RMB206,432 thousand) 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 2011, borrowings of RMB249,400 thousand pledged by certain equity interests held by related parties of the Group and also guaranteed by the Group; borrowings of RMB300,000 thousand impawned by certain equity interests held by the Company and also guaranteed by related parties of the Group, and borrowings of RMB270,000 thousand pledged by buildings of related parties of the Group and also guaranteed by related parties of the Group, which were all matured and repaid in 2012.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Long-term borrowings (Continued)

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

	Loan commencement date	Loan maturity date	Interest rate (%)	Currency	31 December 2012	
					Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	28/12/2007	27/12/2022	3 month LIBOR plus 1.3%	USD	259,000	1,627,945
BANK B	31/10/2008	29/10/2023	3 month LIBOR plus 4%	USD	246,000	1,546,233
BANK C	31/10/2012	31/10/2027	3 month LIBOR plus 5.7%	USD	138,510	870,605
BANK D	28/08/2003	07/07/2018	LIBOR plus 1.45%	USD	136,150	855,771
BANK E	30/06/2003	30/06/2018	Benchmark rate	RMB	—	854,500
						<u>5,755,054</u>

	Loan commencement date	Loan maturity date	Interest rate (%)	Currency	31 December 2011	
					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
						<u>4,576,413</u>

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
1 to 2 years	4,239,331	5,612,833
2 to 5 years	9,398,720	8,127,951
Over 5 years	<u>9,531,660</u>	<u>9,722,509</u>
	<u>23,169,711</u>	<u>23,463,293</u>

As at 31 December 2012, the weighted average interest rate of long-term borrowings is 4.65% per annum (31 December 2011: 4.3% per annum).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Debentures Payable

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Corporate bonds	4,927,151	12,289	-	4,939,440
RMB bonds	991,158	504,486	(5,021)	1,490,623
	<u>5,918,309</u>	<u>516,775</u>	<u>(5,021)</u>	<u>6,430,063</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
RMB bonds (iii)	500,000	20/01/2012	3 years	494,979

- (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 three years.
- (iii) In January 2012, HNA Hongkong, a wholly-owned subsidiary of the Company, issued three year RMB corporate bonds of RMB0.5 billion with final maturity in 2015 and bearing interest at 5.25% per annum. The bonds are with an unconditional and irrevocable guarantee provided by the Company for a period of three years.

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

	31 December 2011 RMB'000	Interest accrued in current year RMB'000	Interest paid in current year RMB'000	31 December 2012 RMB'000
Corporate bonds	162,922	288,640	(288,640)	162,922
RMB bonds	15,667	83,625	(73,341)	25,951
	<u>178,589</u>	<u>372,265</u>	<u>(361,981)</u>	<u>188,873</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Long-term payables

	31 December 2012 RMB'000	31 December 2011 RMB'000
Finance lease obligations	1,792,072	1,834,117
Less: portion within 1 year (Note 5(28))	(597,012)	(421,569)
	<u>1,195,060</u>	<u>1,412,548</u>

(a) Breakdown of finance lease obligations by lessor:

	31 December 2012			31 December 2011		
	Currency	Amount in foreign currency (‘000)	RMB equivalent RMB'000	Currency	Amount in foreign currency (‘000)	RMB equivalent RMB'000
Changjiang Leasing	USD	65,178	409,678	USD	65,947	415,523
Lessor No. 1	RMB	—	324,533	RMB	—	422,119
Lessor No. 2	RMB	—	249,531	RMB	—	191,343
Lessor No. 3	RMB	—	223,873	RMB	—	-
Lessor No. 4	RMB	—	194,655	RMB	—	203,302
Lessor No. 5	RMB	—	186,212	RMB	—	200,000
Lessor No. 6	USD	15,762	99,072	USD	34,793	219,226
Yangtze River Leasing	USD	14,217	89,360	USD	16,793	105,808
Others			15,158			76,796
			<u>1,792,072</u>			<u>1,834,117</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).

	2012 RMB'000	2011 RMB'000
Beginning balance of the year	1,834,117	2,157,670
Add: current year additions	393,873	200,000
Less: current year payment	(435,918)	(523,553)
Ending balance of the year	1,792,072	1,834,117
Less: finance lease obligations within one year	(597,012)	(421,569)
	<u>1,195,060</u>	<u>1,412,548</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Long-term payables (Continued)

(a) Breakdown of finance lease obligations by lessor: (Continued)

	31 December 2012 RMB'000	31 December 2011 RMB'000
Minimum lease payments	2,139,167	2,209,051
Less: unrecognised finance charge	<u>(347,095)</u>	<u>(374,934)</u>
Net balance of lease obligations	<u>1,792,072</u>	<u>1,834,117</u>

(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
Changjiang Leasing	13 years	569,971	Floating interest rate	160,293	409,678	Finance lease
Lessor No.1	5 years	352,976	Fixed interest rate	28,443	324,533	Finance lease
Lessor No.2	5 years	283,120	Floating interest rate	33,589	249,531	Finance lease
Lessor No.3	5 years	260,977	Floating interest rate	37,104	223,873	Finance lease
Lessor No.4	5 or 10 years	<u>198,810</u>	Floating interest rate	<u>4,155</u>	<u>194,655</u>	Finance lease
		<u>1,665,854</u>		<u>263,584</u>	<u>1,402,270</u>	

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
1 to 2 years	231,885	531,274
2 to 5 years	473,921	349,108
Over 5 years	<u>489,254</u>	<u>532,166</u>
	<u>1,195,060</u>	<u>1,412,548</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Other non-current liabilities

	31 December 2012 RMB'000	31 December 2011 RMB'000
Deferred revenue – Unredeemed mileages under frequent flyer programme (a)	603,169	437,219
Deferred revenue – Unrealised gain on sales and leaseback transaction (b)	22,420	26,317
Customs duties and VAT relating to finance lease	7,359	14,470
	<u>632,948</u>	<u>478,006</u>

(a) Unredeemed mileages under frequent flyer programme

	2012 RMB'000	2011 RMB'000
As at 1 January	437,219	280,850
Current year additions	287,306	337,271
Current year redemption/(expiration)	<u>(121,356)</u>	<u>(180,902)</u>
As at 31 December	<u>603,169</u>	<u>437,219</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 over the useful lives of the relevant assets.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Share capital

	31 December 2011 RMB'000	Current year movement (a) RMB'000	31 December 2012 RMB'000
Shares with trading restrictions -			
Shares held by domestic non-state-owned legal persons	297,956	1,965,600	2,263,556
Shares held by domestic state-owned legal persons	297,619	-	297,619
	<u>595,575</u>	<u>1,965,600</u>	<u>2,561,175</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>4,125,491</u>	<u>1,965,600</u>	<u>6,091,091</u>
	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	297,619	-	297,619
	<u>595,575</u>	<u>-</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>4,125,491</u>	<u>-</u>	<u>4,125,491</u>

- (a) The Company obtained the approval from CSRC 《关于核准海南航空股份有限公司非公开发行股票的批复》 (【2012】 No. 612) for the Company's non-public share issuance for no more than 1,965,600 thousand shares. In August 2012, the Company completed the share offering. The offering price was set at RMB4.07 per share and the total proceeds raised from this share issuance amounted to RMB7,786,992 thousand after deducting the related share issuing costs of RMB213,000 thousand. The capital surplus (share premium) increased by RMB5,821,392 thousand, which was the difference between the total proceeds and the share capital. The shares issued in this offering are restricted for trading with a lock-up period of 12 months, from 13 August 2012 to 12 August 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(34) Capital surplus

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Share premium (Note 5(33))	5,930,452	5,821,392	-	11,751,844
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(50))	(147,406)	101,501	-	(45,905)
- 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	-	(320)	796
	<u>5,817,180</u>	<u>5,922,893</u>	<u>(320)</u>	<u>11,739,753</u>
	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Share premium	6,213,429	-	(282,977)	5,930,452
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(50))	(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>

HAINAN AIRLINES CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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[English Translation for Reference Only]**5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(35) Surplus reserve**

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Statutory surplus reserve	568,001	89,396	-	657,397
	31 December 2010 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2011 RMB'000
Statutory surplus reserve	383,918	184,083	-	568,001

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. The Company appropriated 10% of net profit, amounted to RMB89,396 thousand (2011: RMB184,083 thousand), to statutory surplus reserve for the year ended 31 December 2012.

(36) Undistributed profits

	2012 RMB'000	2011 RMB'000
Undistributed profits as at January 1	3,966,000	1,725,046
Add: Net profits attributable to the equity shareholders of the Company	1,927,787	2,631,312
Less: Appropriation to surplus reserves	(89,396)	(184,083)
Dividends to ordinary shares	(495,059)	(206,275)
Undistributed profits as at December 31	5,309,332	3,966,000

As at 31 December 2012, undistributed profits included surplus reserve of RMB161,346 thousand attributable to the Company's subsidiaries (31 December 2011: RMB124,751 thousand).

According to the shareholders meeting resolution passed on 26 April 2012, a cash dividend of RMB1.2 yuan per 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 amount to RMB495,059 thousand. As at 31 December 2012, RMB68,521 thousand has not been paid yet.

According to the Board's resolution passed on 14 March 2013, a cash dividend of RMB1 yuan per every 10 shares (tax inclusive), and 10 extra shares per 10 shares to all shareholders were proposed. Based on a total of 6,091,091,085 outstanding shares in issue, the total cash dividends proposed amounted to RMB609,109 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)**(37) Minority interests**

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Beijing Kehang	105,674	88,515
Others	5,982	5,982
	<u>111,656</u>	<u>94,497</u>

(38) Revenue and operating costs

	2012 RMB'000	2011 RMB'000
Revenue from main operations (a)	26,870,275	24,280,510
Revenue from other operations (b)	1,997,310	1,992,736
	<u>28,867,585</u>	<u>26,273,246</u>
Operating costs of main operations	(20,671,305)	(18,508,261)
Operating costs of other operations (b)	(886,336)	(989,726)
	<u>(21,557,641)</u>	<u>(19,497,987)</u>

(a) Revenue from main operations

Revenue from main operations by categories is analysed as follows:

	2012 RMB'000	2011 RMB'000
Passenger	25,794,029	23,275,882
Cargo and Mail	934,105	922,910
Others	142,141	81,718
	<u>26,870,275</u>	<u>24,280,510</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(38) Revenue and operating costs (Continued)

(b) Revenue and operating costs of other operations

	2012		2011	
	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))	1,192,902	(757,056)	1,221,751	(763,112)
Property rental income	397,135	(68,776)	348,657	(89,381)
Processing fee for cancelled tickets	186,669	-	146,837	-
Commission income	39,802	-	36,632	-
Gain on disposal of investment properties	-	-	92,066	(75,800)
Others	180,802	(60,504)	146,793	(61,433)
	<u>1,997,310</u>	<u>(886,336)</u>	<u>1,992,736</u>	<u>(989,726)</u>

The costs of aircraft leasing did not include interest charge of RMB327,273 thousand (2011: RMB340,063 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 2012, total revenue of the top 5 customers of the Group amounted to RMB6,840,314 thousand (2011: RMB6,670,439 thousand), accounting for 24% of the total revenues of the Group (2011: 25%).

(39) Business tax and surcharges

	2012 RMB'000	2011 RMB'000
Business tax	777,399	716,723
City maintenance and construction tax	54,421	47,177
Education surcharges	40,768	32,859
Others	<u>2,593</u>	<u>6,119</u>
	<u>875,181</u>	<u>802,878</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)**(40) Selling and distribution expenses**

	2012 RMB'000	2011 RMB'000
Commissions tickets sales	1,388,371	766,819
Tickets reservation fee	172,080	155,490
Wages, bonuses and welfares	120,842	120,004
Sales branches expenses	68,979	76,609
Rentals	40,530	53,278
Others	56,052	88,052
	<u>1,846,854</u>	<u>1,260,252</u>

(41) General and administrative expenses

	2012 RMB'000	2011 RMB'000
Wages, bonuses and welfares	128,379	142,520
Various types of taxes	90,535	55,599
Insurances	41,108	36,887
Rents	37,811	45,418
Depreciation	36,522	57,683
Others	264,149	237,478
	<u>598,504</u>	<u>575,585</u>

(42) Finance expenses – net

	2012 RMB'000	2011 RMB'000
Interest expenses	3,645,329	3,091,318
Less: Interest capitalised	(459,300)	(287,676)
Less: Interest income	(644,623)	(363,042)
Net exchange gains	(60,904)	(637,883)
Others	123,121	201,185
	<u>2,603,623</u>	<u>2,003,902</u>

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

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	2012 RMB'000	2011 RMB'000
Provision for available-for-sale financial assets (Note 5 (9)(b))	86,104	-
Provision for bad debts	380	8,206
	<u>86,484</u>	<u>8,206</u>

(44) Gains on changes in fair value

	2012 RMB'000	2011 RMB'000
Investment properties (Note 5(11))	504,363	869,845
Other financial assets held for trading	-	26
	<u>504,363</u>	<u>869,871</u>

(45) Investment income

	2012 RMB'000	2011 RMB'000
Share of results of investees accounted for under equity method (Note 5(10)(a))	212,413	89,493
Dividend income from investees accounted for under cost method (Note 5(10)(b))	9,012	3,427
Dividend income from available-for-sale financial assets (Note 5(9)(b))	4,636	8,932
Gain on disposal of long-term equity investments	2,296	96,032
Loss on disposal of available-for-sale financial assets (Note 5(9)(b))	(40,116)	-
	<u>188,241</u>	<u>197,884</u>

The Group has no significant limitation on returns on investments.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(46) Non-operating income

	2012	2011	Amount recorded in extraordinary items of 2012
	RMB'000	RMB'000	RMB'000
Subsidy income	460,154	333,162	460,154
Including: Flight route subsidies (a)	185,302	94,474	185,302
Tax refund	125,376	66,930	125,376
Other financial subsidies	149,476	171,758	149,476
Gain on disposal of non current assets	78,092	34,737	78,092
Profit compensation received from HNA Group with respect to Beijing Kehang (b)	117,875	109,917	117,875
Others	18,328	102,904	18,328
	<u>674,449</u>	<u>580,720</u>	<u>674,449</u>

(a) Among flight route subsidies, RMB123,820 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 2012, the Company received the profits compensation of Beijing Kehang from HNA Group amounted to RMB117,875 thousand (2011: RMB109,917 thousand)(Note 7(5)(j)).

(47) Non-operating expenses

	2012	2011	Amount recorded in extraordinary items of 2012
	RMB'000	RMB'000	RMB'000
Loss on disposal of fixed assets	1,722	70,065	1,722
Others	10,915	6,790	10,915
	<u>12,637</u>	<u>76,855</u>	<u>12,637</u>

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[English Translation for Reference Only]**5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(48) Income tax expenses**

	2012 RMB'000	2011 RMB'000
Current income tax	73,194	122,764
Deferred income tax	635,574	739,084
	<u>708,768</u>	<u>861,848</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:

	2012 RMB'000	2011 RMB'000
Total profit	<u>2,653,714</u>	<u>3,696,056</u>
Income tax expenses calculated at the applicable tax rate of 25% (2011: 24%)	663,428	887,053
Effect of different tax rates of subsidiaries	(48,884)	16,067
Income not subject to tax	(63,832)	(30,762)
Expenses not deductible for tax purposes	15,555	10,039
Recognition of previously unrecognised deductible temporary differences and tax losses	-	(40,980)
Unrecognised deductible tax losses	478	16,116
Reversal of deferred tax assets reviously recognised for tax losses	85,227	-
Adjustment of income not subject to tax in accordance of tax clearance	66,354	-
Other differences	(9,558)	4,315
Income tax expenses	<u>708,768</u>	<u>861,848</u>

(49) 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.

	2012 RMB'000	2011 RMB'000
Profits attributable to the ordinary shareholders of the Company	1,927,787	2,631,312
Weighted average number of outstanding ordinary shares in issue	4,780,691	4,125,491
Basic earnings per share (RMB Yuan per share)	<u>0.40</u>	<u>0.64</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(49) 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 2012, there are no diluted ordinary shares (2011: Nil), therefore diluted earnings per share is equal to basic earnings per share.

(50) Other comprehensive income

	2012 RMB'000	2011 RMB'000
Gain/(loss) arising from available-for-sale financial assets	135,334	(180,006)
Less: Income tax impact	(33,833)	49,135
	<u>101,501</u>	<u>(130,871)</u>

(51) Notes to consolidated cash flow statements**(a) Cash received relating to other operating activities:**

	2012 RMB'000	2011 RMB'000
Refunds of security deposits for notes payable	2,369,984	1,336,994
Receipts of subsidy income (Note 5(46))	460,154	333,162
Receipts of net profit compensation of Beijing Kehang (Note 5(46)(b))	117,875	109,917
Others	112,053	110,265
	<u>3,060,066</u>	<u>1,890,338</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Cash paid relating to other operating activities:

	2012 RMB'000	2011 RMB'000
Payments of notes payable, borrowings and other security deposits	1,796,013	2,369,984
Payments of ticket sales commission	1,388,371	766,819
Payments of lease security deposits and maintenance reserve funds	-	412,827
Payments of ticket reservation fees	172,080	155,490
Payments of bank charges	123,121	135,165
Payments of sales branches expenses	68,979	76,609
Payments of advertising and entertainment expenses	62,364	55,473
Others	545,711	659,540
	<u>4,156,639</u>	<u>4,631,907</u>

(c) Cash received relating to other investing activities

	2012 RMB'000	2011 RMB'000
Receipts of term deposits upon maturity	1,750,000	2,623,115
Interests on deposits	604,482	212,252
	<u>2,354,482</u>	<u>2,835,367</u>

(d) Cash paid relating to other investing activities

	2012 RMB'000	2011 RMB'000
Term deposits	<u>1,525,000</u>	<u>2,086,397</u>

(e) Cash received relating to other financing activities

	2012 RMB'000	2011 RMB'000
Cash received from discounted notes payable	<u>2,753,000</u>	<u>4,272,000</u>

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[English Translation for Reference Only]**5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(51) Notes to consolidated cash flow statements (Continued)**

(f) Cash paid relating to other financing activities

	2012 RMB'000	2011 RMB'000
Payments of discounted notes payable	4,272,000	2,129,952
Payments of finance leases	435,918	523,553
Interest on discounting notes	362,357	599,236
	<u>5,070,275</u>	<u>3,252,741</u>

(52) 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

	2012 RMB'000	2011 RMB'000
Net profit	1,944,946	2,834,208
Add: Adjust by provision for asset impairment (Note 5(43))	86,484	8,206
Depreciation of fixed assets (Note 5(12))	2,330,061	2,173,908
Amortisation of intangible assets (Note 5(14))	5,783	5,779
Amortisation of long-term prepaid expenses (Note 5(16))	100,350	65,394
Amortisation of deferred loss on sales and leaseback transaction	66,001	66,711
Losses/(gains) on disposals of fixed assets	(76,370)	35,328
Gains on changes in fair value (Note 5(44))	(504,363)	(869,871)
Finance expenses	2,480,502	1,868,737
Investment income (Note 5(45))	(188,241)	(197,884)
Increase in deferred tax liabilities	590,386	999,624
Increase in deferred revenue	162,053	150,367
Decrease/(increase) in inventories	55,742	(78,628)
Increase in operating receivables	479,832	(1,531,086)
Increase in operating payables	2,662,745	457,574
Net cash flows from operating activities	<u>10,195,911</u>	<u>5,988,367</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(52) 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:

	2012 RMB'000	2011 RMB'000
Asset transfer	192,552	-
Fixed assets acquired under finance leases	473,000	-
	<u>665,552</u>	<u>-</u>

Movement in cash and cash equivalents:

	2012 RMB'000	2011 RMB'000
Cash and cash equivalents at end of year	18,633,988	14,598,317
Less: Cash and cash equivalents at beginning of year	<u>(14,598,317)</u>	<u>(12,713,740)</u>
Net increase in cash and cash equivalents	<u>4,035,671</u>	<u>1,884,577</u>

(b) Cash and cash equivalents

	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash on hand	2,409	1,960
Bank deposits available for drawing at any time	<u>18,631,579</u>	<u>14,596,357</u>
Cash and cash equivalents at end of year	<u>18,633,988</u>	<u>14,598,317</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, 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 2012 and 2011 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue generated from external transactions	28,603,582	26,035,447	264,003	237,799	-	-	-	-	28,867,585	26,273,246
Interest income	642,264	362,133	2,359	909	-	-	-	-	644,623	363,042
Interest expenses	3,565,099	2,974,891	80,230	116,427	-	-	-	-	3,645,329	3,091,318
Assets impairment losses	-	2,577	380	5,629	-	-	86,104	-	86,484	8,206
Depreciations and amortisations	2,463,750	2,202,097	38,445	42,984	-	-	-	-	2,502,195	2,245,081
Gain on changes in fair value	141,371	210,001	362,992	659,870	-	-	-	-	504,363	869,871
Total profit	2,122,199	3,173,375	429,378	617,353	-	(292,556)	102,137	197,884	2,653,714	3,696,056
Income tax expenses	605,730	670,506	103,038	191,342	-	-	-	-	708,768	861,848
Net profit	1,516,469	2,502,869	326,340	426,011	-	(292,556)	102,137	197,884	1,944,946	2,834,208
Total assets	78,048,028	72,370,453	4,710,474	5,643,545	(2,506,807)	(3,091,094)	12,467,449	6,373,748	92,719,144	81,296,652
Total liabilities	65,796,404	64,503,561	3,543,275	2,928,026	(529,764)	(706,104)	-	-	68,809,915	66,725,483

Note: Unallocated items include in total profits mainly represent the investment income and impairment on available-for-sale financial assets, 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:

	2012 RMB'000	2011 RMB'000
Domestic	25,257,345	22,631,487
International and regional	3,610,240	3,641,759
	<u>28,867,585</u>	<u>26,273,246</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 2011 RMB'000	Current year additions	Current year reductions	31 December 2012 RMB'000
Grand China Air	6,008,324	-	-	6,008,324

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

	31 December 2012		31 December 2011	
	% equity interests held	% voting rights	% equity interests held	% voting rights
Grand China Air	28.18%	28.18%	44.22%	44.22%

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(2) Subsidiaries

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

(3) Associates

	Enterprise	Place of	Legal		Registered	% equity	% voting	
	type	registration	representative	Nature of business	capital	interests	right held	Organisation
						held	by the	code
					RMB'000		Company	
Bohai Trust	Limited	Shijia	Jin Pin	Assets trust, movable trust, and	2,000,000	39.78%	39.78%	104323736
	company	Zhuang		real estate trust, negotiable				
				securities trust, and other				
				property trust, and as a fund or				
				fund management company				
				sponsors engaged in investment				
				fund business; corporate assets				
				reorganization, merger and				
				acquisition and financing, and				
				company banking, and financial				
				consultant, business, trustee				
				operating state about sector				
				approved securities underwriting				
				business, and handle brokered,				
				and advisory investigation,				
				business, generation custody				
				and custody box business, inter				
				bank business, loan, lease,				
				capital operation, assets				
				guarantees and other business				
				according to regulation and				
				business approval of the China				
				Banking Regulatory Commission.				
Grand	Limited	Haikou	Wang	Maintenance, protection and	2,080,000	48.08%	48.08%	69890098-2
China	company		Yingming	retreat of aircrafts, engines and				
Technology				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.				

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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
					RMB'000	interests	by the	code
						held	Company	
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	40.00%	40.00%	76044470-4
HNA Finance	Limited company	Beijing	Zhang Shanghui	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	23.70%	23.70%	102054341

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Associates (Continued)

		Place of registr ation	Legal represe ntative	Nature of business	Registered Capital RMB'000	% equity interests held	% voting right held by the Company	Organisation code
Hunan Golden- Deer	Limited company	Hunan	Xuzhou Jin	Investment and management of airline transportations, relevant projects, and airport; investment in energy and communication industries; capital operating planning and management, investment management; corporate marketing planning and management.	950,000	47.37%	47.37%	57860988-3
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	40.00%	40.00%	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
HNA Group	A shareholder with significant influence on the parent company of the Company	708866504
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
HNA Cargo	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
New City Construction	Under HNA Group's control	735830080
Yangtze River Leasing	Under HNA Group's control	621904344
HNA Airport Holding	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
HNA Real Estate Holding	Under HNA Group's control	676067133
Changjiang Leasing	A shareholder with over 5% voting rights of the Company	72123031-6
HNA Group (Hong Kong)	Under HNA Group's control	36669070

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions

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

Nature of transaction	Pricing policy	Related party	2012		2011	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transaction in same nature
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	117,751	17%	102,234	25%
		Air Catering Holding	37,955	6%	38,823	10%
		Xinjiang Catering	24,650	4%	22,682	6%
		Sanya Catering	12,032	2%	11,551	3%
			192,388	29%	175,290	44%
Take-off and landing	Government directed price	Meilan Airport	95,914	4%	97,544	7%
		Sanya Phoenix Airport	49,124	2%	37,206	3%
		Haikou Meilan	39,175	2%	40,774	3%
			184,213	8%	175,524	13%
Advertising services	Mutually agreed price	Beijing Business Culture	30,000	50%	30,000	63%
		Xinhua Culture	5,827	10%	17,473	37%
			35,827	60%	47,473	100%
Import & export agency fee	0.3%~3% of purchase prices	HNA Import & Export	27,395	100%	18,002	100%
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	152,344	11%	112,428	15%
	Mutually agreed price	Xinsheng Info Tech	14,675	1%	10,237	1%
	Mutually agreed price	Yisheng Holding	3,747	0.3%	35,825	5%
			170,766	12%	158,490	21%
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	11,991	30%	12,506	34%
		Tianjin Airlines	4,571	11%	6,887	19%
		Capital Airlines	2,747	7%	2,459	7%
		Lucky Air	1,587	4%	1,798	5%
		West Airlines	705	2%	519	1%
			21,601	54%	24,169	66%
Cargo agency fees paid to related parties	Mutually agreed price	HNA Cargo	60,929	4%	60,028	8%
Sales of New Gold Deer cards	Mutually agreed price	Yisheng Holding	37,640	0.15%	28,935	0.2%

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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	2012		2011	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Receipt of aircraft maintenance services	Mutually agreed price	Grand China Technology	610,330	39%	567,165	36%
Interest income	Market price	HNA Finance	138,398	21%	121,444	33%
Charter income	Mutually agreed price	Gansu Airport	61,644	4%	14,604	2%
Frequent flyer mileages income	Mutually agreed price	Tian Jin Airline	44,520	31%	33,990	42%
	Mutually agreed price	Capital Airline	28,322	20%	5,515	7%
	Mutually agreed price	Lucky Air	18,322	13%	11,957	15%
			91,164	64%	51,462	64%

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.

(b) Leasing

(i) The Group as a lessor:

Lessor	Leased assets	Lessee	Lease commencement date	Lease expiry date	Leasing term policy	Lease income in 2012 RMB'000
The Group	Aircraft	Capital Airlines	18/12/2010	Automatic roll-over annually	Mutually agreed price	478,880
		Tianjin Airlines	25/05/2008	Automatic roll-over annually	Mutually agreed price	246,961
		Lucky Air	01/01/2007	Automatic roll-over annually	Mutually agreed price	264,044
		Grand China Air	30/11/2007	Automatic roll-over annually	Mutually agreed price	113,632
		West Airlines	09/08/2010	Automatic roll-over annually	Mutually agreed price	73,800
		Yangtze River Express	16/04/2010	Automatic roll-over annually	Mutually agreed price	15,585
						<u>1,192,902</u>

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(b) Leasing (continued)

(i) The Group as a lessor: (Continued)

Lessor	Leased assets	Lessee	Lease commencement date	Lease expiry date	Leasing term policy	Lease income in 2012 RMB'000
The Company	Properties	HNA Tourism	16/04/2009	Automatic roll-over annually	Mutually agreed price	10,999
Beijing Kehang	Properties	HNA Hotel Group	01/04/2012	31/03/2015	Mutually agreed price	142,941
		HNA Finance	01/10/2008	31/12/2013	Mutually agreed price	9,558
		HNA Group	01/10/2008	31/12/2013	Mutually agreed price	9,084
						<u>172,582</u>

(ii) The Group as lessee:

Lessor	Lessee	Leased assets	Lease commencement date	Lease expiry date	Leasing term policy	Lease rentals in 2012 RMB'000
Hong Kong Airlines	The Company	Aircraft	01/10/2010	Automatic roll-over annually	Mutually agreed price	322,708
New City Construction	The Company	Office buildings	26/01/2011	26/09/2016	Mutually agreed price	27,546
Yangtze River Leasing	The Company	Aircraft engines	15/07/2010	12/11/2017	Mutually agreed price	20,462
Capital Airlines	Chang'an Airlines	Aircraft	01/01/2011	Automatic roll-over annually	Mutually agreed price	16,200
Meilan Airport	The Company	Airport terminal	26/02/2009	Automatic roll-over annually	Mutually agreed price	<u>5,808</u>
						<u>392,724</u>

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(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 2012
(i) Short-term borrowings					
HNA Group	The Company	4,292,500	06/04/2012	21/08/2013	No
HNA Group and Grand China Air	The Company	3,006,000	23/03/2012	06/12/2013	No
Grand China Air	The Company	2,240,000	04/01/2012	24/10/2013	No
HNA Group and Haikou Meilan	The Company	1,131,390	28/06/2012	27/06/2013	No
HNA Group and HNA Finance	The Company	300,000	26/07/2012	25/07/2013	No
HNA Group	Xinhua Airlines	300,000	16/11/2012	15/11/2013	No
HNA Business	Beijing Kehang	20,000	13/02/2012	13/02/2013	No
HNA Group	The Company	6,441,000	28/02/2011	21/12/2012	Yes
Grand China Air	The Company	1,995,000	13/01/2011	23/11/2012	Yes
HNA Group and Grand China Air	The Company	1,700,000	21/06/2012	31/12/2012	Yes
Grand China Air	The Company	1,200,000	05/01/2012	28/12/2012	Yes
HNA Group and Grand China Air	The Company	750,000	13/05/2011	25/11/2012	Yes
HNA Group and Haikou Meilan	The Company	630,090	28/04/2011	27/04/2012	Yes
HNA Group	Xinhua Airlines	370,000	25/03/2011	12/08/2012	Yes
Hainan Guoshan	The Company	330,000	04/11/2011	03/11/2012	Yes
HNA Group and HNA Finance	The Company	300,000	29/07/2011	26/07/2012	Yes
Grand China Air	Chang'An Airlines	100,000	27/12/2011	26/07/2012	Yes
HNA Finance	Xinhua Airlines	100,000	28/09/2011	28/09/2012	Yes
HNA industrial	Beijing Kehang	<u>15,000</u>	01/04/2011	31/03/2012	Yes

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(c) Guarantees and pledges 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 2012
(ii) Long-term borrowings					
HNA Group	The Company	2,703,560	11/04/2007	31/07/2025	No
HNA Airlines Holdings and New City Construction	The Company	2,111,407	30/06/2003	07/07/2018	No
HNA Group	Chang'an Airlines	1,582,662	29/09/2007	19/06/2021	No
HNA Group and Haikou Meilan and Yangtze River Investment	The Company	700,000	30/11/2010	29/11/2013	No
HNA Group and Haikou Meilan	Chang'an Airlines	510,000	19/05/2005	28/10/2016	No
Grand China Air	The Company	500,000	25/11/2011	17/05/2014	No
HNA Group and Haikou Meilan	Shan xi Airlines	430,000	20/12/2005	17/10/2016	No
HNA Group and Grand China Air and Hainan Guoshan	The Company	250,000	24/12/2012	23/12/2015	No
HNA Group and HNA Airport Holding	The Company	196,108	02/08/2002	02/08/2035	No
HNA Airport Holding	The Company	193,279	19/12/2003	20/12/2015	No
HNA Group	Xinhua Airlines	116,874	09/03/2009	09/03/2017	No
HNA Group and HNA Airlines Holdings	The Company	90,000	31/03/2004	31/03/2014	No
HNA Group	The Company	584,000	31/03/2010	26/12/2012	Yes
Grand China Air	The Company	270,000	18/05/2010	18/05/2012	Yes
HNA Group and Grand China Air	The Company	249,400	11/05/2010	10/05/2012	Yes
HNA Airlines Holdings	The Company	136,000	18/09/2000	17/09/2012	Yes
HNA Group and Haikou Meilan	Chang'an Airlines	120,000	31/03/2005	21/12/2012	Yes
HNA Group and Sanya Phoenix Airport	The Company	110,000	30/09/2009	30/09/2012	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 2012
(i) Short-term borrowings					
The Company	Lucky Air	600,000	25/10/2012	25/04/2013	No
The Company	Grand China Air	300,000	16/04/2012	15/04/2013	No
The Company	Grand China Air	300,000	29/09/2012	28/09/2013	No
The Company	Grand China Air	300,000	18/09/2012	18/09/2013	No
The Company	HNA Group	280,000	06/06/2012	06/06/2013	No
The Company	HNA Group	117,200	18/12/2012	18/12/2013	No
The Company	HNA Group	111,700	06/06/2012	06/06/2013	No
The Company	Yangtze River Express	100,000	29/09/2012	28/09/2013	No
The Company	Bohai Leasing	30,000	02/07/2012	02/07/2013	No
The Company	HNA Airlines Holding	250,000	06/02/2012	06/08/2012	Yes
The Company	Yangtze River Express	100,000	17/03/2011	16/03/2012	Yes
The Company	Yangtze River Express	100,000	17/03/2012	16/09/2012	Yes
(ii) Long-term borrowings					
The Company	HNA Group	754,260	31/12/2009	30/12/2014	No
The Company	Yangtze River Leasing	525,468	01/02/2007	31/12/2018	No
The Company	Changjiang Leasing	524,000	02/11/2012	02/05/2015	No
The Company	HNA Tourism	330,000	10/11/2011	08/11/2014	No
The Company	HNA Airlines Holding	301,829	18/09/2012	17/09/2017	No
The Company	Yangtze River Leasing	33,000	01/02/2007	31/12/2018	No
The Company	HNA Hotel Group	111,700	21/12/2010	21/06/2012	Yes

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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 Airlines Holding	38,524	Opening balance	80,000	15/03/2012
HNA Airlines Holding	1,635	04/01/2012	1,692	19/03/2012
HNA Airlines Holding	10	04/01/2012	62,737	19/03/2012
HNA Airlines Holding	110,000	14/03/2012	30,000	27/03/2012
HNA Airlines Holding	28,241	15/03/2012	80,000	28/03/2012
HNA Airlines Holding	96,728	26/03/2012	6,760	30/03/2012
HNA Airlines Holding	25,000	03/05/2012	60,000	04/06/2012
HNA Airlines Holding	50,000	09/05/2012	20,000	08/06/2012
HNA Airlines Holding	360,000	04/06/2012	8,000	18/06/2012
HNA Airlines Holding	40,000	05/06/2012	19	18/06/2012
HNA Airlines Holding	150,000	15/06/2012	1,000	18/06/2012
HNA Airlines Holding	29,687	27/06/2012	33,750	21/06/2012
HNA Airlines Holding	30,000	24/07/2012	50,000	27/06/2012
HNA Airlines Holding	33,515	31/12/2012	85,000	27/06/2012
HNA Airlines Holding	-		54,000	27/06/2012
HNA Airlines Holding	-		250,000	29/06/2012
HNA Airlines Holding	-		6,000	02/07/2012
HNA Airlines Holding	-		100,000	27/07/2012
HNA Airlines Holding	-		158	07/08/2012
HNA Airlines Holding	-		30,000	31/12/2012
	<u>993,340</u>		<u>959,116</u>	
Yangtze River Leasing	14,146	Opening balance	9,923	17/01/2012
	<u>14,146</u>		<u>9,923</u>	
HNA Group	10,088	Opening balance	62,978	09/02/2012
HNA Group	71,190	08/02/2012	35,000	31/12/2012
HNA Group	13,156	18/07/2012	-	
HNA Group	31,000	12/09/2012	-	
HNA Group	31,426	30/09/2012	-	
HNA Group	149,460	14/12/2012	-	
	<u>306,320</u>		<u>97,978</u>	

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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
HNA Hotel Holding	23,601	Opening balance	50,000	31/12/2012
HNA Hotel Holding	2,636	29/03/2012	-	
HNA Hotel Holding	6,632	31/05/2012	-	
HNA Hotel Holding	5,680	30/06/2012	-	
HNA Hotel Holding	3,253	31/07/2012	-	
HNA Hotel Holding	2,934	31/08/2012	-	
HNA Hotel Holding	3,166	30/09/2012	-	
HNA Hotel Holding	3,556	31/10/2012	-	
HNA Hotel Holding	3,099	30/11/2012	-	
HNA Hotel Holding	2,924	31/12/2012		
	<u>57,481</u>		<u>50,000</u>	
HNA Property Holdings	161	Opening balance	-	
HNA Property Holdings	999	30/06/2012	-	
	<u>1,160</u>		<u>-</u>	

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(f) Asset transfers

Related party	Nature of transaction	Pricing policy	2012		2011	
			Amount	% of transactions in same nature	Amount	% of transactions in same nature
			RMB'000		RMB'000	
New City Contrustion	Accept of fix asset	Valuation amount	(894,161)	47%	-	-
Contrustion of new urban city	Transfer of fixed assets and land	Valuation amount	192,552	100%	-	-
Yangtze River Express	Transfer of aircraft	Valuation amount	-	-	156,282	100%
Xi'an Real Estate	Transfer of land	Valuation amount	-	-	92,066	100%
HNA Airlines Holding	Transfer of office equipment	Mutually agreed price	-	-	1,419	89%
			<u>(701,609)</u>		<u>249,767</u>	

(g) Capital injections

Related party	Nature of transaction	Pricing policy	2012		2011	
			Amount	% of transactions in same nature	Amount	% of transactions in same nature
			RMB'000		RMB'000	
HNA Airline holding (Note 5(10)(a)(ii))	Capital injection – Hunan Golden Deer	Mutually agreed price	500,000	100%	-	-
HNA Technology	Capital injection – HNA Technology	Mutually agreed price	-	-	1,000,000	54%
Hong Kong Airlines	Capital injection – Hong Kong Airlines	Mutually agreed price	-	-	842,000	46%
			<u>500,000</u>		<u>1,842,000</u>	

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(h) Equity transfers

Related party	Nature of transaction	Pricing policy	2012		2011	
			Amount RMB'000	% of transaction s in same nature	Amount RMB'000	% of transaction s in same nature
HNA Songzhuang	Equity interest disposal - Kehang Tianshou	Mutually agreed price	50,000	100%	-	-
Grand China Air	Equity interest disposal - Haidao Construction	Mutually agreed price	-	-	1,600,000	36%
Grand China Air	Equity interest disposal - Hainan Guoxu	Mutually agreed price	-	-	1,209,574	27%
Grand China Air	Equity interest disposal - Hainan Hangpeng	Mutually agreed price	-	-	824,256	18%
Grand China Air	Equity interest disposal - Hainan Guoshan	Mutually agreed price	-	-	693,080	15%
HNA Real Estate Holding	Equity interest disposal - Qionghai Nanjue	Mutually agreed price	-	-	155,875	3%
HNA Airlines Holding	Equity interest disposal - Xi'an Real Estate	Mutually agreed price	-	-	30,330	1%
HNA Airlines Holding	Equity interest disposal - Northwest HNA Property	Mutually agreed price	-	-	10,136	-
			50,000	100%	4,523,251	100%
Haikou Meilan、HNA Hotel Holding、Yangtze River Real Estate、 Yanjing Restaurant、 HNA Information (Note(10)(a)(i))	Equity interest acquisition - Bohai Trust	Mutually agreed price	2,760,906	84%	-	-
HNA Tourism (Note 5(10)(b)(i))	Equity interest acquisition - Capital Airline Holding	Mutually agreed price	508,620	16%	-	-
Grand China Air	Equity interest acquisition - Xinhua Airlines	Mutually agreed price	-	-	1,080,000	30%
Lucky Air Investment	Equity interest acquisition - Lucky Air	Mutually agreed price	-	-	712,000	20%
HNA Group	Equity interest acquisition - HNA Finance	Mutually agreed price	-	-	705,600	20%
Tianhang Holdings	Equity interest acquisition - Tianjin Airlines	Mutually agreed price	-	-	694,000	19%
Grand China Air	Equity interest acquisition - Chang'an Airlines	Mutually agreed price	-	-	281,990	8%
Grand China Air	Equity interest acquisition - Lucky Air	Mutually agreed price	-	-	130,000	3%
Total equity transfer			3,269,526	100%	3,603,590	100%

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(i) Remuneration of key management

	2012 RMB '000	2011 RMB '000
Remuneration of key management	<u>4,143</u>	<u>3,611</u>

(j) Other related party transactions

Related party	Nature of transaction	2012		2011	
		Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Capital Airlines	Pilot transfer	4,050	23%	50	3%
Lucky Air	Pilot transfer	2,100	12%	-	-
Tianjin Airlines	Pilot transfer	4,550	26%	-	-
West Airlines	Pilot transfer	4,500	25%	-	-
Lucky Air	Amounts paid on behalf (i)	216,855	43%	217,028	15%
Capital Airlines	Amounts paid on behalf (i)	122,714	24%	94,377	6%
HNA Technology	Amounts paid on behalf (i)	65,714	13%	127,107	9%
Yangtze River Express	Amounts paid on behalf (i)	33,952	7%	43,125	3%
West Airlines	Amounts paid on behalf (i)	32,186	6%	50,763	3%
Tianjin Airlines	Amounts paid on behalf (i)	13,711	3%	55,421	4%
HNA Group	Profit compensation of Beijing Kehang	<u>117,875</u>	<u>100%</u>	<u>109,917</u>	<u>100%</u>

- (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.

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties

Account	Related party	31 December 2012 RMB '000	31 December 2011 RMB '000
Cash at bank and on hand	HNA Finance	4,699,439	4,449,149
Notes receivable	Grand China Air	-	3,117,336
Interest receivable	HNA Finance	169,806	121,444
Dividends receivables	Haikou Meilan Meilan Airport	966 899	- -
		1,865	-
Accounts receivable	Yisheng Holding	34,597	45,274
	Xinsheng Info Tech	19,087	102,896
	HNA Cargo	4,333	19,903
	Tianjin Airlines	-	42,479
	Others	7,980	8,768
		65,997	219,320
Other receivables	HNA Real Estate Holding	169	156,069
	Grand Chian Air	-	1,135,375
	Yangtze River Express	-	44,802
	Others	19,334	27,180
		19,503	1,363,426
Advances to suppliers	Others	7,602	2,681
Other non-current assets	Changjiang Leasing	359,366	339,188
	Hong Kong Airlines	345,538	-
		704,904	339,188
Notes payable	HNA Import & Export	2,753,000	2,600,000
	Yangtze River Investment	820,000	-
	Sanya Phoenix Airport	54,000	-
		3,627,000	2,600,000

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

Account	Related party	31 December 2012 RMB'000	31 December 2011 RMB'000
Interest payable	HNA Finance	5,450	3,611
Accounts payable	HNA Technology	54,231	-
	Lucky Air	38,079	-
	Grand China Air	25,112	-
	HNA Airline sales	18,888	-
	West Airlines	16,194	1,670
	Hai Kou Mei Lan	2,147	31,905
	HNA Airlines Holdings	-	27,207
	Meilan Airport	-	25,374
	HNA Airport Holding	-	10,829
	HNA Group (Hong Kong)	-	10,005
	Others	97,169	32,730
		251,820	139,720
Other payables	HNA Group	180,456	8,612
	Capital Airlines	33,044	18,014
	Changjiang Leasing	20,967	790
	HNA Airlines Holdings	20,477	-
	HNA Group (Hong Kong)	12,453	-
	Yangtze River Leasing	-	14,146
	Others	31,524	29,161
		298,921	70,723
Long-term payables	Changjiang Leasing	409,678	415,523
	Yangtze River Leasing	89,360	105,808
		499,038	521,331

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(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 2012 RMB'000	31 December 2011 RMB'000
Operating lease out		
	341,667	277,290
- Capital Airlines	115,416	255,001
- Lucky Air	114,872	132,135
- Tianjin Airlines	105,096	108,235
- Grand China Air	33,825	74,165
- West Airlines	12,511	19,773
	<u>723,387</u>	<u>866,599</u>

8 COMMITMENTS

(1) Performance of prior year commitments

The capital expenditure commitments and operating lease commitments of the Group as at 31 December 2011 were performed as committed.

(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 2012 RMB'000	31 December 2011 RMB'000
Aircraft purchases	75,627,309	85,433,972
Buildings, machineries and equipments	147,411	234,214
	<u>75,774,720</u>	<u>85,668,186</u>

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8 COMMITMENTS (Continued)

(3) Operating lease commitments

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	2,115,764	1,827,354
1 to 2 years	1,752,991	1,448,781
2 to 3 years	1,297,613	1,353,301
Over 3 years	5,584,598	4,289,569
	<u>10,750,966</u>	<u>8,919,005</u>

9 POST BALANCE SHEET DATE EVENTS

- (1) In February 2013, HNA Hongkong, the Company's wholly owned subsidiary, issued unsecured debentures amounted USD 500 million, which were listed and traded in Singapore, bearing interest at 3.625% per annum with final maturity in 2020. Bank of China issued irrevocable and unconditional letter of credit for such debentures.
- (2) According to the Board's resolution passed on 14 March 2013, a cash dividend at RMB 1 yuan per every 10 shares (tax inclusive) and 10 extra shares per 10 shares were proposed. Based on a total of 6,091,091,085 outstanding shares in issue, total cash dividends proposed amounted to RMB 609,109 thousand. The above proposal is still subject to the approval of shareholders meeting.

10 LEASES

The Group leases in certain fixed assets under finance leases (Note 5(31)(a)). The future minimum lease payments of the finance leases are summarised in the following table:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	651,987	492,044
1 to 2 years	277,452	568,562
2 to 3 years	258,632	181,726
Over 3 years	951,096	966,719
	<u>2,139,167</u>	<u>2,209,051</u>

As at 31 December 2012, the unrecognised finance charge amounted to RMB 347,095 thousand (31 December 2011: RMB 374,934 thousand) (Note 5(31)(a)).

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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 significant 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: market risk (primarily foreign exchange 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) Market risk

(a) Foreign exchange risk

Except for part of 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 2012 and 2011, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2012		
	USD	Other	Total
	RMB'000	currencies RMB'000	RMB'000
Financial assets -			
Cash at bank and on hand	193,373	73,165	266,538
Accounts receivable	28,506	10,450	38,956
Other receivables	92,762	2,207	94,969
Other non-current assets	1,618,839	-	1,618,839
	<u>1,933,480</u>	<u>85,822</u>	<u>2,019,302</u>
Financial liabilities -			
Short-term borrowings	1,445,665	-	1,445,665
Accounts payable	2,446,291	338,653	2,784,944
Other payables	54,689	18,905	73,594
Long-term borrowings	17,006,372	85,853	17,092,225
Long-term payables	598,110	-	598,110
	<u>21,551,127</u>	<u>443,411</u>	<u>21,994,538</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)**(1) Market risk (Continued)****(a) Foreign exchange risk (Continued)**

	31 December 2011		
	USD	Other	Total
	RMB'000	currencies RMB'000	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>
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>

As at 31 December 2012, 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 RMB1,997,524 thousand (31 December 2011: approximately RMB1,708,854 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 2012, the Group's long-term interest bearing liabilities mainly included:

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[English Translation for Reference Only]**12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)****(1) Market risk (Continued)****(b) Interest rate risk (Continued)**

	31 December 2012 RMB'000	31 December 2011 RMB'000
Short-term borrowings	15,792,336	17,533,295
Notes payable	4,782,981	4,506,488
Long-term borrowings	28,757,469	23,463,293
Long-term payables	1,792,072	1,834,117
Debentures payable	6,430,063	5,918,309
	<u>57,554,921</u>	<u>53,255,502</u>
Including: liabilities at floating rates	34,098,247	35,397,714
liabilities at fixed rates	23,456,674	17,857,788
	<u>57,554,921</u>	<u>53,255,502</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 2012 and 2011, the Group had not entered into any interest rate swap agreements.

For the year ended 31 December 2012, 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 RMB85,246 thousand (2011: approximately RMB129,702 thousand).

(2) 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.

The financing products (Note 5(8)) purchased by the Group are mainly from one city commercial bank, which is regulated by the China Banking Regulatory Commission (the "CBRC") with no significant credit risk.

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(2) 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.

(3) 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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[English Translation for Reference Only]**12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)****(3) 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 2012, the Group's current liabilities exceeded current assets by approximately RMB9.64 billion. For the year ended 31 December 2012, the net cash inflows from operating activities of the Group were approximately RMB10.20 billion, the net cash outflows from investment activities and financing activities were approximately RMB6.16 billion, and cash and cash equivalents increased by approximately RMB4.04 billion.

The risk assessment of cash flows by the Company's management is 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 2012				
	Within 1 year	1 - 2 years	2 - 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets -					
Cash at bank and on hand	20,663,866	459,461	3,303	1,185,773	22,312,403
Accounts receivable	541,651	-	-	-	541,651
Other receivables	203,561	-	-	-	203,561
Other current assets - available-for-sale financial assets due within one year	2,000,000	-	-	-	2,000,000
	<u>23,409,078</u>	<u>459,461</u>	<u>3,303</u>	<u>1,185,773</u>	<u>25,057,615</u>
Financial liabilities -					
Short-term borrowings	16,171,765	-	-	-	16,171,765
Accounts payable	4,924,949	-	-	-	4,924,949
Other payables	877,345	-	-	-	877,345
Long-term borrowings	6,031,839	4,663,523	10,184,689	11,624,419	32,504,470
Long-term payables	651,987	277,452	268,632	951,096	2,149,167
	<u>28,657,885</u>	<u>4,940,975</u>	<u>10,453,321</u>	<u>12,575,515</u>	<u>56,627,696</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(3) Liquidity risk (Continued)

	31 December 2011				
	Within 1 year	1 - 2 years	2 - 5 years	After 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets -					
Cash at bank and on hand	17,351,502	275,400	273,303	1,160,373	19,060,578
Notes receivable	3,117,336	-	-	-	3,117,336
Accounts receivable	598,332	-	-	-	598,332
Other receivables	1,535,984	-	-	-	1,535,984
	<u>22,603,154</u>	<u>275,400</u>	<u>273,303</u>	<u>1,160,373</u>	<u>24,312,230</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>

(4) 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 2012		31 December 2011	
	Net book value	Fair value	Net book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities -				
Long-term borrowings	28,757,469	29,195,307	27,645,287	27,238,523
Long-term payables	<u>1,792,072</u>	<u>1,819,829</u>	<u>1,834,117</u>	<u>1,787,377</u>
	<u>30,549,541</u>	<u>31,015,136</u>	<u>29,479,404</u>	<u>29,025,900</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(4) 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 2012, 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-	-	361,446	2,700,000	3,061,446
Financial liabilities -				
Financial liabilities held for trading	-	-	-	-

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

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(4) 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 2011 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 2012 RMB'000
Investment properties measured at fair value (Note 5(11))	6,839,112	504,363	-	(87,133)	7,256,342
Available-for-sale financial assets (Note 5(9))	899,684	-	19,671	142,091	1,061,446
Other current assets - available-for- sale financial assets due within one year	-	-	-	2,000,000	2,000,000
	<u>7,738,796</u>	<u>504,363</u>	<u>19,671</u>	<u>2,054,958</u>	<u>10,317,788</u>
Financial liabilities held for trading	150	-	-	(150)	-

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	31 December 2012 RMB'000	31 December 2011 RMB'000
Financial assets -		
Cash at bank and on hand	266,538	463,799
Accounts receivable	133,925	111,614
Financial assets subtotal	<u>400,463</u>	<u>575,413</u>
Financial liabilities -		
Borrowings and payables	<u>21,994,538</u>	<u>19,155,307</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2012 RMB'000	31 December 2011 RMB'000
Accounts receivable	335,946	721,287
Less: Provisions for bad debts	(9,310)	(9,310)
	<u>326,636</u>	<u>711,977</u>

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	326,636	711,977
Over 6 years	9,310	9,310
	<u>335,946</u>	<u>721,287</u>

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

	31 December 2012				31 December 2011			
	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	3,065	1%	(1,126)	37%	1,126	0%	(1,126)	100%
- Group by related parties	324,697	97%	-	-	711,977	99%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	8,184	2%	(8,184)	100%	8,184	1%	(8,184)	100%
	<u>335,946</u>	<u>100%</u>	<u>(9,310)</u>	<u>3%</u>	<u>721,287</u>	<u>100%</u>	<u>(9,310)</u>	<u>1%</u>

(c) As at 31 December 2012, accounts receivable did not include any amounts due from entities which hold over 5% (5% included) voting shares of the Company (31 December 2011: Nil).

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

(1) Accounts receivable (Continued)

(d) As at 31 December 2012, the top 5 largest accounts receivables are analysed as follows:

	Relationship with the Company	Amount RMB'000	Period	% of total balance
Golden-Deer Sales	Subsidiary	196,992	Within 1 year	59%
Yisheng Holding	Under HNA Group's control	34,597	Within 1 year	10%
Brussels	Subsidiary	31,426	Within 1 year	9%
Xinhua Airlines	Subsidiary	22,212	Within 1 year	7%
Xinsheng Info Tech	Under HNA Group's control	19,087	Within 1 year	6%
		<u>304,314</u>		<u>91%</u>

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

		31 December 2012			31 December 2011		
	Relationship with the Company	Amount	% of total balance	Provisions for bad debts	Amount	% of total balance	Provisions for bad debts
		RMB'000		RMB'000	RMB'000		RMB'000
Golden-Deer Sales	Subsidiary	196,992	59%	-	624,224	87%	-
Yisheng Holding	Under HNA Group's control	34,597	10%	-	45,274	6%	-
Brussels	Subsidiary	31,426	9%	-	-	-	-
Xinhua Airlines	Subsidiary	22,212	7%	-	-	-	-
Others		39,470	12%	-	42,479	6%	-
		<u>324,697</u>	<u>97%</u>	<u>-</u>	<u>711,977</u>	<u>99%</u>	<u>-</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)**(2) Other receivables**

	31 December 2012 RMB'000	31 December 2011 RMB'000
Amounts due from related parties	979,145	1,361,708
Aircraft leasing security deposits and maintenance funds receivable	53,149	30,877
Others	68,979	23,583
	<u>1,101,273</u>	<u>1,416,168</u>
Less: Provisions for bad debts	<u>(13,729)</u>	<u>(13,729)</u>
	<u>1,087,544</u>	<u>1,402,439</u>

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

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	1,075,096	1,399,530
1 to 2 years	11,542	7,640
2 to 3 years	6,601	235
3 to 4 years	175	206
4 to 5 years	116	697
5 to 6 years	685	1442
Over 6 years	7,058	6,418
	<u>1,101,273</u>	<u>1,416,168</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 2012				31 December 2011			
	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	
Amounts that are individually significant and with specific provision for bad debts	-	-	-	-	-	-	-	-
Amounts that are not individually significant but with specific provision for bad debts	7,000	1%	(7,000)	100%	7,000	0%	(7,000)	100%
Provision for bad debts by group								
- Group by aging analysis method	68,979	6%	(6,729)	10%	22,937	2%	(6,729)	29%
- Aircraft leasing security deposits and maintenance funds receivable	46,149	4%	-	-	24,523	2%	-	-
- Group by related parties	979,145	89%	-	-	1,361,708	96%	-	-
	<u>1,101,273</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>	<u>1,416,168</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>

(c) As at 31 December 2012, the top 5 largest other receivables are analysed below:

Relationship with the Group		Amount RMB'000	Aging	% of total balance
Xinhua Airlines	Subsidiary	799,916	Within 1 year	73%
Beijing Kehang	Subsidiary	160,280	Within 1 year	15%
Other Receivable 1	Third party	47,228	Within 1 year	4%
Other Receivable 2	Third party	24,498	Within 1 year	2%
Other Receivable 3	Third party	24,000	Within 1 year	2%
		<u>1,055,922</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 2012			31 December 2011		
		Amount RMB'000	% of total balance	Provisions for bad debts RMB'000	Amount RMB'000	% of total balance	Provisions for bad debts RMB'000
Xinhua Airlines	Subsidiary	799,916	72%	-	-	-	-
Beijing Kehang	Subsidiary	160,280	15%	-	-	-	-
HNA Real Estate Holding	Under HNA Group's control	169	-	-	156,045	11%	-
Grand China Air	Parent company	-	-	-	1,135,375	80%	-
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%	-
Others		18,780	2%	-	17,433	1%	-
		<u>979,145</u>	<u>89%</u>	<u>-</u>	<u>1,361,708</u>	<u>96%</u>	<u>-</u>

(3) Long-term equity investments

	31 December 2012 RMB'000	31 December 2011 RMB'000
Subsidiaries (a)	7,943,018	8,383,018
Associates - without quoted price (b)	2,426,035	1,850,250
Other long-term equity investments (c)	<u>1,655,679</u>	<u>1,147,059</u>
	12,024,732	11,380,327
Less: Provisions for impairment	<u>(5,000)</u>	<u>(5,000)</u>
	<u>12,019,732</u>	<u>11,375,327</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	Provisions for	Cash dividends
	method	investment cost	2011	additions/disposals	2012	shareholding	right	between % shareholding	impairment	impairment made	declared in current
		RMB'000	RMB'000	RMB'000	RMB'000			and % voting rights	RMB'000	in current year	year
											RMB'000
Xinhua Airlines	Cost method	3,746,107	3,746,107	-	3,746,107	100.00%	100.00%	-	-	-	-
Chang'an Airlines	Cost method	1,799,408	1,799,408	-	1,799,408	100.00%	100.00%	-	-	-	-
Beijing Kehang	Cost method	1,728,341	1,728,341	-	1,728,341	95.00%	95.00%	-	-	-	-
Shanxi Airlines	Cost method	408,467	408,467	-	408,467	46.29%	46.29%	-	-	-	-
Brussels EDIP	Cost method	62,996	62,996	-	62,996	100.00%	100.00%	-	-	-	-
Brussels DATA	Cost method	61,764	61,764	-	61,764	100.00%	100.00%	-	-	-	-
Brussels SODE	Cost method	59,918	59,918	-	59,918	100.00%	100.00%	-	-	-	-
HNA Hongkong	Cost method	58,417	58,417	-	58,417	100.00%	100.00%	-	-	-	-
Golden-Deer Sales	Cost method	7,600	7,600	-	7,600	95.00%	95.00%	-	-	-	-
Hainan Hangxiang(i)	Cost method	10,000	-	10,000	10,000	100.00%	100.00%	-	-	-	-
Hunan Golden-Deer											
(Note 5(10)(a)(ii))	Cost method	450,000	450,000	(450,000)	-			-	-	-	-
			8,383,018	(440,000)	7,943,018				-	-	-

(i) In October 2012, the Company established Hainan Hangxiang with cash capital of RMB 10,000 thousand.

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

(3) Long-term equity investments (Continued)

(b) Associates

		Current year increase/decrease									Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions for impairment for current year
Accounting method	Original investment cost RMB'000	31 December 2011 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	31 December 2012 RMB'000	% equity shareholding	% voting right				
HNA Technology	Equity method	1,000,000	1,000,000	-	12,209	-	-	1,012,209	48.08%	48.08%	-	-	-
Lucky Air	Equity method	842,000	842,000	-	111,005	-	-	953,005	40%	40%	-	-	-
Hunan Golden- Deer (Note 5(10)(a)(ii))	Equity method	450,000	-	450,000	-	-	-	450,000	47.37%	47.37%	-	-	-
HNA Import & Export	Equity method	3,000	8,250	-	2,571	-	-	10,821	30%	30%	-	-	-
			1,850,250	450,000	125,785	-	-	2,426,035					

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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	Original	31 December	Current year	31 December	%	% voting	Explanation for		Provisions for	Cash dividends
	method	investment cost	2011	additions	2012	shareholding	right	difference	Provisions for	impairment made	declared in
		RMB'000	RMB'000	RMB'000	RMB'000			between %	impairment	in current year	current year
								shareholding and	RMB'000	RMB'000	RMB'000
								% voting rights			
Tianjin Airlines	Cost method	713,000	713,000	-	713,000	17.59%	17.59%		-	-	-
Capital Aviation	Cost method										
Holdings											
(Note 5(10)(b)(i))		508,620	-	508,620	508,620	19.6%	19.6%		-	-	-
Haikou Meilan	Cost method	304,765	304,765	-	304,765	12.08%	12.08%		-	-	966
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%		-	-	-
Xin Guo Hotel	Cost method	40,000	31,952	-	31,952	13.33%	13.33%		-	-	-
TravelSky Tech	Cost method	17,000	17,000	-	17,000	1.13%	1.13%		-	-	3,978
Yangtze River	Cost method										
Express		10,000	10,000	-	10,000	2%	2%		-	-	-
Meilan Airport	Cost method	6,906	6,906	-	6,906	1.12%	1.12%		-	-	899
Other investments	Cost method	5,275	5,275	-	5,275				(5,000)	-	-
			<u>1,147,059</u>	<u>508,620</u>	<u>1,655,679</u>				<u>(5,000)</u>	<u>-</u>	<u>5,843</u>

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

(4) Revenue and operating costs

	2012 RMB'000	2011 RMB'000
Revenue from main operations (a)	18,798,687	17,021,253
Revenue from other operations (b)	1,214,600	1,139,735
	<u>20,013,287</u>	<u>18,160,988</u>
Operating costs of main operations	(14,322,333)	(12,953,515)
Operating costs of other operations (b)	(611,261)	(572,269)
	<u>(14,933,594)</u>	<u>(13,525,784)</u>

(a) Revenue from main operations

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

	2012 RMB'000	2011 RMB'000
Passenger	17,942,293	16,226,666
Cargo and mail	714,253	712,869
Others	142,141	81,718
	<u>18,798,687</u>	<u>17,021,253</u>

The total revenue of the Company's top 5 customers for the year ended 31 December 2012 amounted to RMB5,227,691 thousand (2011: RMB4,540,247 thousand), accounting for 26% of total revenue of the Company (2011: 25%).

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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)

	2012		2011	
	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	846,083	(550,757)	810,353	(517,779)
Processing fee for cancelled tickets	119,770	-	101,779	-
Building rental income	63,259	-	60,258	-
Aircraft advertising income	30,210	-	32,850	-
Commission fee income	24,952	-	25,365	-
Others	130,326	(60,504)	109,130	(54,490)
	<u>1,214,600</u>	<u>(611,261)</u>	<u>1,139,735</u>	<u>(572,269)</u>

Costs of aircraft leasing did not include interests charge of RMB208,679 thousand (2011: RMB218,772 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(5) Investment income

	2012 RMB'000	2011 RMB'000
Share of results of investees under equity method	125,785	39,754
Dividends declared by investees under cost method	5,843	83
Dividend income from available-for-sale financial assets	4,636	8,932
Loss on disposal of available-for-sales financial assets	(40,116)	-
Gain on disposal of long-term equity investments	-	384,251
	<u>96,148</u>	<u>433,020</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

	2012 RMB'000	2011 RMB'000
Net profit	893,959	1,840,829
Add: Provisions for asset impairment	86,104	-
Depreciation of fixed assets	1,919,989	1,762,869
Amortisation of intangible assets	1,911	1,911
Amortisation of long-term deferred expenses	84,591	57,659
Amortization of deferred loss on sales and leaseback transaction	48,123	85,205
(Gains)/losses on disposals of fixed assets, intangible assets and other long-term assets	(76,068)	25,683
Gains on changes in fair value	(118,396)	(189,536)
Finance expenses	2,053,783	1,497,674
Investment losses	(96,148)	(433,020)
Increase in deferred tax liabilities	369,630	763,584
Increase in deferred revenue	111,500	110,251
Decrease/(increase) in inventories	61,107	(78,424)
Increase in operating receivables	(75,396)	(1,319,679)
Increase/(decrease) in operating payables	(813,266)	1,639,213
Net cash flows from operating activities	<u>4,451,423</u>	<u>5,764,219</u>

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

	2012 RMB'000	2011 RMB'000
Assets transfer	192,552	-
Fixed assets acquired under finance leases	<u>473,000</u>	<u>-</u>
	<u>665,552</u>	<u>-</u>

(c) Net increase in cash and cash equivalents

	2012 RMB'000	2011 RMB'000
Cash and cash equivalents at end of year	16,106,533	10,915,876
Less: Cash and cash equivalents at beginning of year	<u>(10,915,876)</u>	<u>(8,917,586)</u>
Net increase in cash and cash equivalents	<u>5,190,657</u>	<u>1,998,290</u>

HAINAN AIRLINES CO., LTD.

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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 Business Culture Diffusion Co., Ltd.	Beijing Business Culture
Beijing Tianshou Sports Development Co., Ltd.	Kehang Tianshou
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Beijing HNA Songzhuang Investment and Development Co., Ltd.	HNA Songzhuang
Beijing HNA Xinhua Culture Diffusion Co., Ltd.	Xinhua Culture
Beijing Yanjing HNA Hotel	Yanjing Hotel
Beijing Kehang Investment Co., Ltd.	Beijing Kehang
Beijing Capital Aviation Holdings Co., Ltd.	Capital Aviation Holdings
Beijing Capital Airlines Co., Ltd.	Capital Airlines
Brussels DATA Hotel	Brussels DATA
Brussels EDIP Hotel	Brussels EDIP
Brussels SODE Hotel	Brussels SODE
Bohai International Trust Co., Ltd.	Bohai Trust
Bohai Leasing Co., Ltd.	Bohai Leasing
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Changjiang Leasing Co., Ltd.	Changjiang Leasing
Grand China Air Co., Ltd.	Grand China Air
Guokai Jingcheng (Beijing) Investment Fund Limited	Guokai Jingcheng Investment Fund
Gansu Airport Group Co., Ltd.	Gansu Airport
Hainan Guoshan Industrial Co., Ltd.	Hainan Guoshan
Hainan Guoxu Industrial Co., Ltd.	Hainan Guoxu
Hainan Xin Guo Hotel Ltd.	Xin Guo Hotel
Hainan Xinsheng Information Technology Co., Ltd.	Xinsheng Info Tech
Hainan Hangxiang Investment and Development Co., Ltd.	Hainan Hangxiang
Hainan HNA Aviation Information Systems Co., Ltd.	HNA Information
Hainan Air Aviation Import & Export Co., Ltd.	HNA Import & Export
Hainan HNA Aviation Sales Co., Ltd.	HNA Aviation Sales
Hainan HNA Beverage Co., Ltd.	HNA Beverage
Hainan Qi Xing Industrial Investment Co., Ltd.	Hainan Qi Xing
Hainan Province Development Holding Co., Ltd.	Hainan Development Holding
Hainan Meilan International Airport Co., Ltd.	Meilan Airport
HNA Group (Hong Kong) Co., Ltd.	HNA Group (Hong Kong)
HNA Air Catering Co., Ltd.	HNA Air Catering
Hainan Hangpeng Industrial Co., Ltd.	Hainan Hangpeng
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Haikou New City Construction and Development Co., Ltd.	New City Construction
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
HNA Business Holdings Co., Ltd.	HNA Business
Hainan International Tourism Island Development Co., Ltd.	Haidao Construction
HNA Property Holdings (Group) Co., Ltd.	HNA Property Holdings
HNA Industrial Holding Co., Ltd.	HNA Industrial

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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
HNA Tourism Holding (Group) Company Ltd.	HNA Tourism
HNA Yisheng Holding Co., Ltd.	Yisheng Holding
HNA Airport Holding (Group) Co., Ltd.	HNA Airport Holding
HNA Cargo Co., Ltd.	HNA Cargo
HNA Real Estate Holding (Group) Co., Ltd.	HNA Real Estate Holding
HNA Technology Limited	HNA Technology
HNA Airlines Holdings (Group) Co., Ltd.	HNA Airlines Holdings
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Hotel Holding Group Co., Ltd.	HNA Hotel Holding
HNA Group (Hong Kong) Co., Ltd.	HNA Hongkong
HNA Group Co., Ltd.	HNA Group
HNA Group Finance Co., Ltd.	HNA Finance
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
Qionghai Nanjue Aviation Hainan Investment Co., Ltd.	Qionghai Nanjue
Sanya Phoenix International Airport Tianhang Holdings	Sanya Phoenix Airport
Sanya Hansha Air Catering Co., Ltd	Sanya Catering
Shanxi Airlines Co., Ltd.	Shanxi Airlines
Tianjin Yanshan Aircraft Leasing Industry Equity Funds Partnership Firm	Yanshan Funds
Tianhang Holdings Co., Ltd.	Tianhang Holdings
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Catering
Northwest HNA Property Co., Ltd.	Northwest HNA Property
Xi'an Chanba Financing Warranty Co., Ltd	Xi'an Chanba
Xi'an HNA Real Estate Co., Ltd.	Xi'an Real Estate
West Airlines Co., Ltd.	West Airlines
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines
Yunnan Xiangpeng Airlines Co., Ltd.	Lucky Air
Yunnan Xiangpeng Investment Co., Ltd.	Lucky Air Investment
Yangtze River Express Airlines Co., Ltd.	Yangtze River Express
Yangtze River International Leasing Co., Ltd.	Yangtze River Leasing
Yangtze River Property Co., Ltd.	Yangtze River Property
Yangtze River Investment Holdings Co., Ltd.	Yangtze River Investment
China Xinhua Airlines Co., Ltd.	Xinhua Airlines
TravelSky Technology, Ltd	TravelSky Tech
China Merchants Securities Co., Ltd	Merchants Securities