

HAINAN AIRLINES CO., LTD.

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

[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 2013**

[English translation for reference only]

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[English translation for reference only]

Report of the Auditors

PwC ZT Shen Zi (2014) No. 10075
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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 2013, 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.

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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 2013, 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 LLP

Shanghai, the People's Republic of China
18 March 2014

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S
BALANCE SHEETS AS AT 31 DECEMBER 2013**

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

ASSETS	Notes	31 December	31 December	31 December	31 December
		2013	2012	2013	2012
		Consolidated	Consolidated	Company	Company
		RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Cash at bank and on hand	5(1)	20,664,828	22,312,403	16,438,440	17,433,182
Notes receivable		25,000	-	25,000	-
Accounts receivable	5(2), 15(1)	578,203	541,651	115,052	326,636
Advances to suppliers	5(5)	349,799	326,543	334,454	348,636
Interest receivable	5(4)	345,541	230,288	153,480	90,937
Dividends receivable		6,730	1,865	6,730	1,865
Other receivables	5(3), 15(2)	468,460	203,561	759,661	1,087,544
Inventories	5(6)	61,687	70,514	52,649	60,924
Other current assets	5(7)	1,944,836	2,000,000	862,565	1,000,000
Total current assets		24,445,084	25,686,825	18,748,031	20,349,724
Non-current assets					
Available-for-sale financial assets	5(8)	1,044,420	1,061,446	1,044,420	1,061,446
Long-term equity investments	5(9), 15(3)	13,663,620	9,077,138	16,564,420	12,019,732
Investment properties	5(10)	6,830,375	7,256,342	2,487,999	2,452,974
Fixed assets	5(11)	40,991,779	34,377,690	33,928,417	27,731,799
Construction in progress	5(12)	11,519,223	12,001,162	10,928,168	11,543,185
Intangible assets	5(13)	158,865	164,204	65,222	66,691
Goodwill	5(14)	328,865	328,865	-	-
Long-term prepaid expenses	5(15)	526,708	483,595	506,835	457,364
Other non-current assets	5(16)	3,772,972	2,281,877	3,363,147	1,945,181
Total non-current assets		78,836,827	67,032,319	68,888,628	57,278,372
TOTAL ASSETS		103,281,911	92,719,144	87,636,659	77,628,096

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED AND COMPANY'S
BALANCE SHEETS AS AT 31 DECEMBER 2013 (CONTINUED)**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 December	31 December	31 December	31 December
		2013	2012	2013	2012
		Consolidated	Consolidated	Company	Company
		RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities					
Short-term borrowings	5(19)	20,415,335	15,792,336	15,450,010	11,706,561
Notes payable	5(20)	3,513,404	5,464,473	2,813,404	3,554,473
Accounts payable	5(21)	5,016,892	4,924,949	9,960,901	7,537,384
Advances from customers	5(22)	1,490,736	918,462	183,993	22,060
Employee benefits payable	5(23)	276,095	198,248	146,536	110,600
Taxes payable	5(24)	709,943	552,670	360,500	226,351
Interest payable	5(25)	364,232	346,211	283,130	299,467
Dividend payable	5(35)	59,381	68,521	59,381	68,521
Other payables	5(26)	603,026	877,345	346,235	332,938
Current portion of non-current liabilities	5(27)	7,342,925	6,184,770	4,560,229	5,085,484
Total current liabilities		39,791,969	35,327,985	34,164,319	28,943,839
Non-current liabilities					
Long-term borrowings	5(28)	25,749,667	23,169,711	21,958,150	18,452,711
Debentures payable	5(29)	7,944,060	6,430,063	4,951,977	4,939,440
Long-term payables	5(30)	1,219,012	1,195,060	1,219,012	1,195,060
Deferred tax liabilities	5(17)	2,312,925	2,054,148	1,489,203	1,225,396
Other non-current liabilities	5(31)	740,444	632,948	506,151	408,937
Total non-current liabilities		37,966,108	33,481,930	30,124,493	26,221,544
Total liabilities		77,758,077	68,809,915	64,288,812	55,165,383
Shareholders' equity					
Share capital	5(32)	12,182,182	6,091,091	12,182,182	6,091,091
Capital surplus	5(33)	5,703,391	11,739,753	5,984,506	12,020,868
Surplus reserve	5(34)	798,200	657,397	798,200	657,397
Undistributed profits	5(35)	6,725,325	5,309,332	4,382,959	3,693,357
Total equity attributable to equity shareholders of the Company		25,409,098	23,797,573	23,347,847	22,462,713
Minority interests	5(36)	114,736	111,656	-	-
Total shareholders' equity		25,523,834	23,909,229	23,347,847	22,462,713
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		103,281,911	92,719,144	87,636,659	77,628,096

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

Legal representative:
Xin Di

Person in charge of accounting
function: Du Liang

Person in charge of accounting
department: Huang Erwei

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Notes	2013 Consolidated RMB'000	2012 Consolidated RMB'000	2013 Company RMB'000	2012 Company RMB'000
Revenue	5(37), 15(4)	30,231,362	28,867,585	22,187,454	20,013,287
Less: Operating cost	5(37), 15(4)	(23,501,158)	(21,557,641)	(17,309,003)	(14,933,594)
Business taxes and surcharges	5(38)	(522,196)	(875,181)	(415,895)	(607,748)
Selling and distribution expenses	5(39)	(1,942,175)	(1,846,854)	(1,384,394)	(1,253,483)
General and administrative expenses	5(40)	(609,224)	(598,504)	(375,803)	(434,827)
Financial expenses – net	5(41)	(1,878,094)	(2,603,623)	(1,487,697)	(2,149,095)
Assets impairment losses	5(42)	(55,200)	(86,484)	(55,145)	(86,104)
Add: (Loss)/gain on changes in fair value	5(43)	(64,363)	504,363	35,025	118,396
Investment income	5(44), 15(5)	606,265	188,241	239,835	96,148
Including: share of results of associates		474,503	212,413	178,123	125,785
Operating profit		2,265,217	1,991,902	1,434,377	762,980
Add: Non-operating income	5(45)	410,861	674,449	390,726	618,502
Less: Non-operating expenses		(3,423)	(12,637)	(1,986)	(7,284)
Including: losses on disposal of non-current assets		(2,093)	(1,722)	(814)	(1,081)
Total profit		2,672,655	2,653,714	1,823,117	1,374,198
Less: Income tax expenses	5(46)	(564,523)	(708,768)	(415,092)	(480,239)
Net profit		2,108,132	1,944,946	1,408,025	893,959
- Attributable to equity shareholders of the Company		2,105,052	1,927,787	1,408,025	893,959
- Minority interests		3,080	17,159	-	-
Earnings per share (EPS)					
Basic earnings per share (RMB Yuan)	5(47)	0.173	0.177		
Diluted earnings per share (RMB Yuan)	5(47)	0.173	0.177		
Other comprehensive income	5(48)	54,729	101,501	54,729	101,501
Total comprehensive income		2,162,861	2,046,447	1,462,754	995,460
- Attributable to equity shareholders of the Company		2,159,781	2,029,288		
- Minority interests		3,080	17,159		

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

Legal representative:
Xin Di

Person in charge of accounting
function: Du Liang

Person in charge of accounting
department: Huang Erwei

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

Items	Notes	2013	2012	2013	2012
		Consolidated RMB'000	Consolidated RMB'000	Company RMB'000	Company RMB'000
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		32,742,344	30,180,082	23,230,776	20,527,144
Cash received relating to other operating activities	5(49)(a)	<u>2,576,830</u>	<u>3,060,066</u>	<u>2,099,154</u>	<u>2,643,047</u>
Sub-total of cash inflows		<u>35,319,174</u>	<u>33,240,148</u>	<u>25,329,930</u>	<u>23,170,191</u>
Cash paid for goods and services		(19,611,038)	(14,135,493)	(12,363,231)	(12,897,088)
Cash paid to and on behalf of employees		(1,721,890)	(1,852,373)	(1,083,435)	(1,141,635)
Payments of taxes and surcharges		(3,027,708)	(2,899,732)	(1,077,537)	(1,141,329)
Cash paid relating to other operating activities	5(49)(b)	<u>(3,123,375)</u>	<u>(4,156,639)</u>	<u>(1,759,174)</u>	<u>(3,538,716)</u>
Sub-total of cash outflows		<u>(27,484,011)</u>	<u>(23,044,237)</u>	<u>(16,283,377)</u>	<u>(18,718,768)</u>
Net cash flows from operating activities	5(50)(a)	<u>7,835,163</u>	<u>10,195,911</u>	<u>9,046,553</u>	<u>4,451,423</u>
2. Cash flows from investing activities					
Cash received from disposal of investments		2,095,000	4,490,842	1,090,000	4,408,586
Cash received from returns on investments		215,668	17,799	62,549	14,630
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,571,421	546,675	886,321	514,064
Cash received relating to other investing activities	5(49)(c)	<u>1,971,472</u>	<u>2,354,482</u>	<u>594,642</u>	<u>561,664</u>
Sub-total of cash inflows		<u>5,853,561</u>	<u>7,409,798</u>	<u>2,633,512</u>	<u>5,498,944</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(9,011,796)	(8,261,080)	(8,692,259)	(7,050,408)
Cash paid to acquire investments		(7,621,837)	(5,502,131)	(5,190,340)	(2,540,760)
Net cash paid to acquire subsidiaries and other business units		-	-	(673,217)	-
Cash paid relating to other investing activities	5(49)(d)	<u>(2,897,357)</u>	<u>(1,525,000)</u>	<u>(497,000)</u>	<u>-</u>
Sub-total of cash outflows		<u>(19,530,990)</u>	<u>(15,288,211)</u>	<u>(15,052,816)</u>	<u>(9,591,168)</u>
Net cash flows from investing activities		<u>(13,677,429)</u>	<u>(7,878,413)</u>	<u>(12,419,304)</u>	<u>(4,092,224)</u>
3. Cash flows from financing activities					
Cash proceeds from capital contributions	5(32)(a)	-	7,786,992	-	7,786,992
Cash received from borrowings		40,180,074	25,864,823	32,146,962	21,265,302
Cash received from issuance of bonds		2,961,280	494,979	-	-
Cash received relating to other financing activities	5(49)(e)	<u>2,150,000</u>	<u>2,753,000</u>	<u>2,050,000</u>	<u>2,753,000</u>
Sub-total of cash inflows		<u>45,291,354</u>	<u>36,899,794</u>	<u>34,196,962</u>	<u>31,805,294</u>
Cash repayments of borrowings		(32,039,779)	(26,459,697)	(24,748,628)	(20,607,194)
Cash payments for interest expenses and distribution of dividends		(4,361,653)	(3,651,174)	(3,387,145)	(3,061,595)
Cash payments relating to other financing activities	5(49)(f)	<u>(4,979,559)</u>	<u>(5,070,275)</u>	<u>(3,616,651)</u>	<u>(3,304,603)</u>
Sub-total of cash outflows		<u>(41,380,991)</u>	<u>(35,181,146)</u>	<u>(31,752,424)</u>	<u>(26,973,392)</u>
Net cash flows from financing activities		<u>3,910,363</u>	<u>1,718,648</u>	<u>2,444,538</u>	<u>4,831,902</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents					
		<u>(6,396)</u>	<u>(475)</u>	<u>(6,265)</u>	<u>(444)</u>
5. Net (decrease)/increase in cash and cash equivalents					
Add: Cash and cash equivalents at beginning of year	5(50)(a)	<u>18,633,988</u>	<u>14,598,317</u>	<u>16,106,533</u>	<u>10,915,876</u>
6. Cash and cash equivalent at end of year					
	5(50)(b)	<u>16,695,689</u>	<u>18,633,988</u>	<u>15,172,055</u>	<u>16,106,533</u>

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

Legal representative:
Xin Di

Person in charge of accounting
function: Du Liang

Person in charge of accounting
department: Huang Erwei

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

(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		
Balance at 31 December 2011		<u>4,125,491</u>	<u>5,817,180</u>	<u>568,001</u>	<u>3,966,000</u>	<u>94,497</u>	<u>14,571,169</u>
Movements for the year ended 31 December 2012							
- Net profit		-	-	-	1,927,787	17,159	1,944,946
- Other comprehensive income	5(48)	-	101,501	-	-	-	101,501
- Capital contribution by shareholders	5(32)(c)	1,965,600	5,821,392	-	-	-	7,786,992
- Profit distribution							
- Appropriation to surplus reserves	5(34)	-	-	89,396	(89,396)	-	-
- Profit distribution to shareholders	5(35)	-	-	-	(495,059)	-	(495,059)
- Others		-	(320)	-	-	-	(320)
Balance at 31 December 2012		<u>6,091,091</u>	<u>11,739,753</u>	<u>657,397</u>	<u>5,309,332</u>	<u>111,656</u>	<u>23,909,229</u>
Movements for the year ended 31 December 2013							
- Net profit		-	-	-	2,105,052	3,080	2,108,132
- Other comprehensive income	5(48)	-	54,729	-	-	-	54,729
- Investment income recognised during measurement change from the cost method to equity method upon increase of investment	5(9)(a)	-	-	-	60,853	-	60,853
- Increase of share capital from capital surplus	5(32)(b)	6,091,091	(6,091,091)	-	-	-	-
- Profit distribution							
- Appropriation to surplus reserves	5(34)	-	-	140,803	(140,803)	-	-
- Profit distribution to shareholders	5(35)	-	-	-	(609,109)	-	(609,109)
Balance at 31 December 2013		<u>12,182,182</u>	<u>5,703,391</u>	<u>798,200</u>	<u>6,725,325</u>	<u>114,736</u>	<u>25,523,834</u>

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

Legal representative:
Xin Di

Person in charge of accounting
function: Du Liang

Person in charge of accounting
department: Huang Erwei

HAINAN AIRLINES CO., LTD.

**COMPANY'S STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

(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 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						
- Net profit		-	-	-	893,959	893,959
- Other comprehensive income	5(48)	-	101,501	-	-	101,501
- Capital contribution by shareholders	5(32)(c)	1,965,600	5,821,392	-	-	7,786,992
- Profit distribution						
- Appropriation of surplus reserves	5(34)	-	-	89,396	(89,396)	-
- Profit distribution to shareholders	5(35)	-	-	-	(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>
Movements for the year ended 31 December 2013						
- Net profit		-	-	-	1,408,025	1,408,025
- Other comprehensive income	5(48)	-	54,729	-	-	54,729
- Investment income recognised during measurement change from the cost method to equity method upon increase of investment	15(3)(b)	-	-	-	31,489	31,489
- Increase of share capital from capital surplus	5(32)(b)	6,091,091	(6,091,091)	-	-	-
- Profit distribution						
- Appropriation of surplus reserves	5(34)	-	-	140,803	(140,803)	-
- Profit distribution to shareholders	5(35)	-	-	-	(609,109)	(609,109)
Balance at 31 December 2013		<u>12,182,182</u>	<u>5,984,506</u>	<u>798,200</u>	<u>4,382,959</u>	<u>23,347,847</u>

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

Legal representative:
Xin Di

Person in charge of accounting
function: Du Liang

Person in charge of accounting
department: Huang Erwei

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(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 2013

(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 1,965.6 million A shares with lock-up period of 12 months (Note 5(32)). After the completion of the above share issuance, the Company's share capital was increased to RMB6,091 million, among which RMB1,716 million is held by Grand China Air, whose direct shareholding percentage in the Company was diluted to 28.18%, but remained as the single largest shareholder of the Company.

As at 18 June 2013, the Company increased its shares by 10 shares for each 10 ordinary shares through conversion from its capital surplus, and 6,091,091 thousand shares was issued in total. After the conversion, the Company's total shares was increased to RMB12,182 million.

The financial statements were approved for issuance by the Company's Board of Directors on 18 March 2014.

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.

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 2013, the current liabilities of the Group exceed its current assets by approximately RMB1.5 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 2013 are in compliance with the Accounting Standards for Business Enterprises, and present truly and completely the financial position as at 31 December 2013 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, net profits and losses and comprehensive income for current period not attributable to the Company are treated as minority interests, minority interest income and total comprehensive income attributable to minority shareholders respectively and presented separately in the consolidated financial statements within equity, net profit and total comprehensive income 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.

The objective evidence that the financial asset is impaired represents events actually occurred after initial recognition of financial assets, having impact on expected future cash flow of financial assets and the Group is able to reliably measure such impact.

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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. The Group calculates the initial investment cost of available-for-sale equity instruments by using weighted average method.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(iv) Derecognition of financial assets (Continued)

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.

(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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

- (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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (Continued)

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

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

	Provision <u>% of accounts receivable</u>	Provision <u>% of other receivables</u>
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%

(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 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

Cabin supplies are determined using the weighted average method.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Inventories (Continued)

- (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.

(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.

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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

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.

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 mainly 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 comprise the subsidies in relation the addition of long-term assets that the Group obtained, constructed or through other ways. Other than government grants related to assets, all other subsidies are subsidies related to income.

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 Company's applicable enterprise income tax rate for current year and the prior year is 25%.

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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 besides Chang’an Airlines, the applicable corporate income tax rates for 2013 are 25%.

(2) Business tax

Prior to 1 August 2013, except for Xinhua Airlines, a subsidiary of the Company, domestic traffic revenue of which is subject to value added tax from 1 September 2012, domestic traffic revenues generated by other companies of the Group are subject to business tax and the applicable tax rate is 3%. 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 Ministry of Finance (“MOF”) and the State Administration of Taxation on 23 April 2010, the Group’s revenues from the provision of international transportation services are exempt from business tax.

Effective from 1 August 2013, the traffic revenues of the Company and two of its subsidiaries, Chang’an Airlines and Shanxi Airlines are subject to value added tax as described in details in “Value Added Tax” below.

The Group’s commission income and certain other revenues are subject to business tax and the applicable tax rate is 5%.

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3 TAXATION (CONTINUED)

(3) Value added tax (“VAT”)

The Company and the Company’s subsidiaries, Xinhua Airlines, Chang’an Airlines and Shanxi Airlines, are VAT general taxpayers.

Pursuant to the “Circular on the Pilot Plan for Levying VAT in Place of Business Tax” Caishui [2011] No. 110 (“财政部、国家税务总局关于印发《营业税改征增值税试点方案》的通知》(财税【2011】110号)”) and “Notice on the Pilot Work of Levying Value-Added Tax in Lieu of Business Tax in the Transportation Industry and Some Modern Service Industries in Beijing and Other Seven Provinces and Cities” Caishui [2012] No. 72 (“财政部、国家税务总局《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】72号)”) jointly issued by the MOF and the State Administration of Taxation, the domestic transportation revenue of the Company’s subsidiary, Xinhua Airlines, is subject to value added tax since 1 September 2012 with the VAT output tax rate of 11%.

Pursuant to the “Circular on the Pilot Plan for Levying VAT in Place of Business Tax” Caishui [2011] No. 110 (“财政部、国家税务总局关于印发《营业税改征增值税试点方案》的通知》(财税【2011】110号)”) and “Notice on the Tax Policies for Implementing the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries across the Country” Caishui [2013] No. 37 (“财政部、国家税务总局《关于在全国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税收政策的通知》(财税【2013】37号)”) jointly issued by the MoF and the State Administration of Taxation, effective from 1 August 2013, the domestic transportation revenue of the Company and two of the Company’s subsidiaries, Chang’an Airlines and Shanxi Airlines, is subject to value added tax with VAT output tax rate of 11%.

Pursuant to “Notice of the Ministry of Finance and the State Administration of Taxation on Zero VAT Rate and Tax Exemption Policy Applicable to Taxable Services” Caishui [2011] No. 131 (“财税【2011】131号《关于应税服务适用增值税零税率和免税政策的通知》”) and “Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on Some Tax Policies Including the Scope of Taxable Services for Implementing the Pilot Work of Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries” Caishui [2012] No. 86 (“财税【2012】86号《关于交通运输业和部分现代服务业营业税改征增值税试点应税服务范围等若干税收政策的补充通知》”), the Group’s revenue from transportation services in international and regional areas is subject to zero VAT rate. In addition, the Company’s sales of carbon supplies, maintenance income and aircraft lease rental income are subject to value added tax at VAT output tax rate of 17%. The input VAT paid for purchase of aviation fuel, landing fees, fixed assets (including imported airplane) and aviation materials by the Company and the aforementioned subsidiaries and other VAT input can be used to deduct VAT output. The VAT tax payable represents the balance that the output tax net of deductible input tax.

As stipulated by relevant national laws and regulations, the imported airplanes and aviation materials of the Group are subject to the import VAT with the original approved VAT tax rate of 4%. Pursuant to the “Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Value-Added Tax Polices for Imported Airplanes” Cai Guan Shui [2013] No. 53 (“财政部和国家税务总局《关于调整进口飞机有关增值税政策的通知》(财关税【2013】53号)”), imported airplanes with an empty weight over 25 tons are subject to the import VAT at rate of 5%.

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3 TAXATION (CONTINUED)

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

The Company’s subsidiaries Golden-Deer Sales, Beijing Kehang, Hainan Fushun are small-scale value-added taxpayers and subject to VAT at 3%.

(4) 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.

(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”).

According to “Announcement of Adjusting the Import Tariff Rates of Lignite and Other Commodities” Shu Shui [2013] No. 49 (署税【2013】49号文《关于对褐煤等商品进口关税税率进行调整的公告》) issued by General Administration of Customs of the People’s Republic of China on 29 August 2013, the provisional import tariff rate of 1% for passenger airplanes with an empty weight of 25 tons or more but not more than 45 tons was cancelled and the Most-favored-nation Rate of Duty of 5% was resumed. The Company’s leased aircraft and imported aircraft equipments are subject to the tax rate of 5%.

(6) Aviation Development Fund

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 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. 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.

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries obtained through establishment or investment as at 31 December 2013

	Type of subsidiaries	Place of registration	Nature of business	Registered capital	Scope of business	Enterprise type	Legal representative	Organisation code
Hainan Fu Shun	Direct control	Haikou	Project management	RMB 1,094,161,000	Tourism management, tourism project development, parking management and business, arts and crafts, general merchandise, apparel sales, conference and Exhibition Service (not including travel agency business)	Limited liability company	Wang Dong	56799107-9
HNA 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 2013 (Continued)

	Accumulated capital contribution as at 31 December 2013	Balances of other items forming the net investment in subsidiaries		% shareholding	% voting right	Consolidated or not	Minority interests as at 31 December 2013	Amount offsetting minority interests (profit and loss) included in minority interest (balance sheet)
	RMB'000							
Hainan Fu Shun	1,094,161	-		100%	100%	Yes	-	-
HNA Hongkong	58,417	-		100%	100%	Yes	-	-
Golden-Deer Sales	7,600	-		95%	95%	Yes	5,982	-
	<u>1,160,178</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 2013

	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	Liu Lu	71974795-7
Beijing Kehang	Direct control	Beijing	Holding property	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	EUR3,400,000	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 2013 (Continued)

	Accumulated capital contribution as at 31 December 2013	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	108,754	-
Shanxi Airlines	761,880	-	100%	100%	Yes	-	-
Brussels EDIP	62,996	-	100%	100%	Yes	-	-
Brussels DATA	61,764	-	100%	100%	Yes	-	-
Brussels SODE	543,135	-	100%	100%	Yes	-	-
	8,703,631	-				108,754	-

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Acquisition Date	Net assets as at 31 December 2013 RMB'000	Net loss in 2013 RMB'000
Hainan Fushun	March 2013	<u>1,080,297</u>	<u>(13,864)</u>

In 2013, the Company entered into an asset swap transaction whereby the Company would use HNA Development's office building in exchange of HNA office building owned by HNA Development. The asset swap arrangement was subsequently cancelled and replaced by a share exchange arrangement. Under the share exchange arrangement, the Company established a wholly owned subsidiary, Haidao Hangxiang, by injection of HNA Development office's building plus cash of RMB901,609,000. In 2013, the Company transferred all its investments in Haidao Hangxiang in exchange of the entire shares of Hainan Fushun held by New City Construction. The aforementioned share exchange is assets exchange in substance and does not constitute a business acquisition.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2013			31 December 2012		
	Original	Exchange	Amount in RMB	Original	Exchange	Amount in RMB
	currency	rate		currency	rate	
	('000)		RMB'000	('000)		RMB'000
Cash on hand						
RMB			678			1,901
USD	35	6.0969	216	35	6.2855	220
Others			4			288
Subtotal			<u>898</u>			<u>2,409</u>
Cash at banks and financial institutions (a)						
RMB			16,480,183			18,365,549
USD	33,877	6.0969	206,543	30,730	6.2855	193,153
Others			8,065			72,877
Subtotal			<u>16,694,791</u>			<u>18,631,579</u>
Other cash balances (b)						
RMB			3,969,139			3,678,415
Total			<u>20,664,828</u>			<u>22,312,403</u>

(a) As at 31 December 2013, the cash at bank and on hand included deposits of RMB4,511,052 thousand (31 December 2012: RMB4,699,439 thousand) placed in HNA Finance, a related party of the Group (Note 7(6)), among which, RMB2,242,492 thousand (31 December 2012: RMB3,213,042 thousand) was recorded in cash at banks and financial institutions, and RMB2,268,560 thousand (31 December 2012: RMB1,486,397 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Term deposits (Note)	2,897,357	1,525,000
Security deposits for notes payable	307,064	1,566,038
Other restricted deposits	764,718	587,377
	<u>3,969,139</u>	<u>3,678,415</u>

Note: As at 31 December 2013, the above term deposit was pledged for short-term borrowings of RMB3,870,581 thousand (31 December 2012: RMB361,500 thousand) and long-term borrowings of RMB400,000 thousand (31 December 2012: RMB599,250 thousand) (Note 5(19)&(28)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Accounts receivable	607,006	570,454
Less: Provisions for bad debts	<u>(28,803)</u>	<u>(28,803)</u>
	<u>578,203</u>	<u>541,651</u>

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	570,983	534,431
1 to 2 years	-	7,600
2 to 3 years	7,600	-
3 to 4 years	-	-
4 to 5 years	-	-
5 to 6 years	-	-
Over 6 years	<u>28,423</u>	<u>28,423</u>
	<u>607,006</u>	<u>570,454</u>

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

	31 December 2013				31 December 2012			
	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	550,355	91%	(1,506)	0%	477,160	83%	(1,506)	0%
- Group by related parties	29,354	5%	-	-	65,997	12%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	<u>27,297</u>	<u>4%</u>	<u>(27,297)</u>	<u>100%</u>	<u>27,297</u>	<u>5%</u>	<u>(27,297)</u>	<u>100%</u>
	<u>607,006</u>	<u>100%</u>	<u>(28,803)</u>	<u>5%</u>	<u>570,454</u>	<u>100%</u>	<u>(28,803)</u>	<u>5%</u>

(c) At 31 December 2013, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2012: Nil).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (Continued)

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

	31 December 2013				31 December 2012			
	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	541,629	99%	-	-	468,434	98%	-	-
1 to 2 years	-	-	-	-	7,600	2%	(380)	5%
2 to 3 years	7,600	1%	(380)	5%	-	-	-	-
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>550,355</u>	<u>100%</u>	<u>(1,506)</u>	<u>0.3%</u>	<u>477,160</u>	<u>100%</u>	<u>(1,506)</u>	<u>0.3%</u>

- (e) As at 31 December 2013, 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>	<u>100%</u>

As at 31 December 2013, 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 2013, accounts receivable did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2012: Nil).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (Continued)

(h) As at 31 December 2013, 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	161,189	Within 1 year	27%
Customer 2	Third party	30,578	Within 1 year	5%
Customer 3	Third party	26,484	Within 1 year	4%
Customer 4	Third party	21,605	Within 1 year	4%
Customer 5	Third party	18,342	Within 1 year	3%
		<u>258,198</u>		<u>43%</u>

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

Relationship with the Group	31 December 2013			31 December 2012		
	Amount	% of total balance	Provision	Amount	% of total balance	Provision
			for bad debts			for bad debts
Yisheng Holding	14,106	2%	-	34,597	6%	-
HNA Cargo	7,686	1%	-	4,333	1%	-
Xinsheng Info Tech	-	-	-	19,087	3%	-
Others	7,562	2%	-	7,980	1%	-
	<u>29,354</u>	<u>5%</u>	<u>-</u>	<u>65,997</u>	<u>11%</u>	<u>-</u>

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

Foreign currency	31 December 2013			31 December 2012		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	('000)		RMB'000	('000)		RMB'000
USD	1,319	6.0969	8,039	4,535	6.2855	28,506
Others			14,912			10,450
			<u>22,951</u>			<u>38,956</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Other receivables

	31 December 2013 RMB'000	31 December 2012 RMB'000
Amounts due from related parties (Note (i))	213,974	19,503
Others	309,805	239,322
	<u>523,779</u>	<u>258,825</u>
Less: Provision for bad debts	(55,319)	(55,264)
	<u>468,460</u>	<u>203,561</u>

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	362,289	176,345
1 to 2 years	82,429	20,681
2 to 3 years	17,853	9,160
3 to 4 years	8,874	1,276
4 to 5 years	1,212	1,446
5 to 6 years	1,205	701
Over 6 years	49,917	49,216
	<u>523,779</u>	<u>258,825</u>

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

	31 December 2013				31 December 2012			
	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
Amounts that are individually significant and with specific provision for bad debts (c)	11,799	2%	(11,799)	100%	11,799	5%	(11,799)	100%
Provision for bad debts by group								
- Group by aging analysis method (d)	33,774	6%	(14,382)	43%	79,278	31%	(14,382)	18%
- Aircraft leasing security deposits and maintenance funds receivable	235,094	45%	-	-	119,162	45%	-	-
- Group by related parties (i)	213,974	41%	-	-	19,503	8%	-	-
Amounts that are not individually significant but with specific provision for bad debts (e)	29,138	6%	(29,138)	100%	29,083	11%	(29,083)	100%
	<u>523,779</u>	<u>100%</u>	<u>(55,319)</u>	<u>11%</u>	<u>258,825</u>	<u>100%</u>	<u>(55,264)</u>	<u>21%</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Other receivables (Continued)

- (c) As at 31 December 2013, 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 2013, 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.

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

	31 December 2013				31 December 2012			
	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	7,715	22%	-	-	53,093	67%	-	-
1 to 2 years	5,074	15%	(173)	3%	2,933	4%	(75)	3%
2 to 3 years	6,054	18%	(352)	6%	7,597	10%	(324)	4%
3 to 4 years	874	3%	(246)	28%	1,144	1%	(283)	25%
4 to 5 years	532	2%	(261)	49%	1,207	1%	(553)	46%
5 to 6 years	746	2%	(571)	77%	634	1%	(477)	75%
Over 6 years	<u>12,779</u>	<u>38%</u>	<u>(12,779)</u>	<u>100%</u>	<u>12,670</u>	<u>16%</u>	<u>(12,670)</u>	<u>100%</u>
	<u>33,774</u>	<u>100%</u>	<u>(14,382)</u>	<u>43%</u>	<u>79,278</u>	<u>100%</u>	<u>(14,382)</u>	<u>18%</u>

- (e) As at 31 December 2013, debtors that were not individually significant but with specific provision for bad debts are analysed below:

	Book balance RMB'000	Provision for bad debts RMB'000	% of provision for bad debts
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	<u>6,362</u>	<u>(6,362)</u>	100%
	<u>29,138</u>	<u>(29,138)</u>	

As at 31 December 2013, 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)

(3) Other receivables (Continued)

- (f) No other receivables for which full or substantial large portion bad debts for provision were made in prior years have been recovered or reversed during the current year.
- (g) As at 31 December 2013, other receivables did not include any amounts due from entities which hold over 5% (5% inclusive) voting shares of the Company (31 December 2012: Nil).
- (h) As at 31 December 2013, 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	173,613	Within 1 year	33%
Tianjin Airlines	Associate of the Group	56,002	Within 1 year	11%
Lucky Air	Associate of the Group	51,184	Within 1 year	10%
Capital Airlines	Under HNA Group's control	50,163	Within 1 year	10%
Other Receivable 3	Third party	47,228	Within 1 year	9%
		<u>378,190</u>		<u>73%</u>

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

	Relationship with the Group	31 December 2013		31 December 2012	
		Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Tianjin Airlines	Associate of the Group	56,002	11%	-	-
Lucky Air	Associate of the Group	51,184	10%	-	-
Capital Airlines	Under HNA Group's control	50,163	10%	-	-
Meilan Airport	Under the same control of the parent company of the Company	13,809	3%	-	-
Others		42,816	7%	19,334	8%
		<u>213,974</u>	<u>41%</u>	<u>19,503</u>	<u>8%</u>

As at 31 December 2013, other receivables due from related parties mainly represent aircraft lease rental and rotables maintenance receivables from Tianjin Airlines, Lucky Air and Capital Airlines, etc.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Other receivables (Continued)

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

	31 December 2013			31 December 2012		
	Original currency (‘000)	Exchange rate	RMB equivalent RMB’000	Original currency (‘000)	Exchange rate	RMB equivalent RMB’000
USD	36,037	6.0969	219,714	14,758	6.2855	92,762
Others			33,387			2,207
			<u>253,101</u>			<u>94,969</u>

(4) Interest receivable

	31 December 2013 RMB’000	31 December 2012 RMB’000
HNA Finance (Note 7(6))	226,716	169,806
Others	118,825	60,482
	<u>345,541</u>	<u>230,288</u>

(5) Advances to suppliers

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

Aging	31 December 2013		31 December 2012	
	Amount RMB’000	% total balance	Amount RMB’000	% total balance
Within 1 year	284,023	81%	267,167	82%
1 to 2 years	22,042	6%	50,544	15%
2 to 3 years	34,902	10%	6,255	2%
Over 3 years	8,832	3%	2,577	1%
	<u>349,799</u>	<u>100%</u>	<u>326,543</u>	<u>100%</u>

As at 31 December 2013, advances to suppliers with aging over 1 year amounted to RMB65,776 thousand (31 December 2012: RMB59,376 thousand). As the related services have not yet been rendered by the suppliers, such amounts have not been cleared.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Advances to suppliers (Continued)

(b) As at 31 December 2013, 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	91,688	26%	2013	Prepaid custom duty and VAT, not yet cleared
Company 2	Third party	53,423	15%	2013	Prepaid take-off and landing and ground services cost, not yet cleared
Company 3	Third party	20,247	6%	2013	Prepaid fuel cost, goods not yet delivered
Company 4	Third party	10,008	3%	2013	Prepaid fuel cost, goods not yet delivered
Company 5	Third party	5,450	2%	2013	Prepaid aircraft restoration cost, not yet cleared
		<u>180,816</u>	<u>52%</u>		

(c) As at 31 December 2013, 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 2012: Nil).

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

Foreign currency	31 December 2013			31 December 2012		
	Original currency ('000)	Exchange rate	RMB equivalent RMB'000	Original currency ('000)	Exchange rate	RMB equivalent RMB'000
USD	9,741	6.0969	59,391	40,899	6.2855	257,073
EUR	42	8.4189	374	540	8.3176	4,494
Others			<u>225</u>			<u>342</u>
			<u>59,990</u>			<u>261,909</u>

(6) Inventories

	31 December 2013			31 December 2012		
	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	33,174	-	33,174	42,415	-	42,415
Others	28,513	-	28,513	28,099	-	28,099
	<u>61,687</u>	<u>-</u>	<u>61,687</u>	<u>70,514</u>	<u>-</u>	<u>70,514</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(7) Other current assets**

	31 December 2013 RMB'000	31 December 2012 RMB'000
Available-for-sale financial assets with maturity within 1 year (a)	1,650,000	2,000,000
VAT input tax to be deduct	294,836	-
	<u>1,944,836</u>	<u>2,000,000</u>

- (a) In December 2013, the Group purchased short-term financial products from a third party commercial bank at an aggregate amount of RMB1.55 billion (2012: RMB2 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. As at 31 December 2013, the short-term financial products as at 31 December 2012 had been mature and collected with investment income of RMB108,703 thousand (Note 5(44)).

In addition, Chang'an Airlines, a subsidiary of the Company, purchased financial products from a third party amounted to RMB100 million which is capital and profit guaranteed and with final maturity in May 2014. This product has been pledged for issue of bank guarantee letter, which have been pledged for short-term borrowings of RMB300,000 thousand (Note 5(19)(d)(vi)).

(8) Available-for-sale financial assets

	31 December 2013 RMB'000	31 December 2012 RMB'000
Available-for-sale equity instrument	520,524	447,550
Others	2,260,000	2,700,000
	<u>2,780,524</u>	<u>3,147,550</u>
Less: provision for impairment	(86,104)	(86,104)
	2,694,420	3,061,446
Less: available-for-sale financial assets included in other current assets (Note 5(7))	(1,650,000)	(2,000,000)
	<u>1,044,420</u>	<u>1,061,446</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(8) Available-for-sale financial assets (Continued)**

The available-for-sale financial assets are analysed below:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Available-for-sale equity instrument (a)		
— Fair value	434,420	361,446
— Cost	508,756	508,756
— Accumulated amount included in other comprehensive income	8,824	(45,905)
— Accumulated provision for impairment	(86,104)	(86,104)
Financial products (Note 5(7)(a))		
— Fair value	1,650,000	2,000,000
— Cost	1,650,000	2,000,000
— Accumulated amount included in other comprehensive income	-	-
— Accumulated provision for impairment	-	-
Yanshan Funds (b)		
— Fair value	410,000	500,000
— Cost	410,000	500,000
— Accumulated amount included in other comprehensive income	-	-
— Accumulated provision for impairment	-	-
Guokaijingcheng investment fund (c)		
— Fair value	200,000	200,000
— Cost	200,000	200,000
— Accumulated amount included in other comprehensive income	-	-
— Accumulated provision for impairment	-	-
Total		
— Fair value	2,694,420	3,061,446
— Cost	2,768,756	3,208,756
— Accumulated amount included in other comprehensive income	8,824	(45,905)
— Accumulated provision for impairment	(86,104)	(86,104)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Available-for-sale financial assets (Continued)

- (a) As at 31 December 2013, the Company held 34,260,268 shares of China Merchants Securities (31 December 2012: 34,260,268 shares) which was presented in fair value. The fair value of these shares as at 31 December 2013 were determined based on the closing price of the trading shares quoted on Shanghai Stock Exchange at 31 December 2013. In 2013, China Merchants Securities passed a profit appropriation resolution of RMB0.142 Yuan cash dividend for each share. The cash dividend of RMB4,865 thousand was received in 2013 and recorded as investment income (Note 5(44)). During the year 2012, the Company sold 7,796,291 shares of China Merchants Securities and incurred a loss of RMB40,116 thousand which has been recorded in investment income for 2012 (Note 5(44)).

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(42)). In 2013, the share price of China Merchants Securities had been increased, and the Company recognised fair value movement income of RMB72,794 thousand based on the closing share price as at 31 December 2013, which had been recorded in capital surplus (Note 5(48)).

- (b) 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. For the year ended 31 December 2013, the Company collected investment cost of RMB90,000 thousand.
- (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)

(9) Long-term equity investments

	31 December 2013 RMB'000	31 December 2012 RMB'000
Associates - without quoted prices (a)	12,279,824	6,565,997
Other long-term equity investments (b)	<u>1,390,570</u>	<u>2,517,915</u>
	13,670,394	9,083,912
Less: Provision for impairment of long-term equity investments	<u>(6,774)</u>	<u>(6,774)</u>
	<u>13,663,620</u>	<u>9,077,138</u>

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(a) Associates

	Accounting method	Original investment cost	31 December 2012	Transferred from other investments	Current Year Movement							% shareholding	% voting rights	Explanation for difference between % shareholding and % voting right	Provision for impairment	Provision for impairment made in the current year
					Capital addition	Share of results of associates	Investment income recognised with transferring from the cost method to equity method	Cash dividends declared	31 December 2013							
Tianjin Airlines(i)	Equity Method	3,486,400	-	713,000	2,773,400	56,322	31,489	-	3,574,211	42.02%	42.02%	N/A	-	-		
Bohai Trust	Equity Method	2,760,906	2,760,906	-	-	202,363	-	-	2,963,269	39.78%	39.78%	N/A	-	-		
Hong Kong Airlines																
Group(ii)	Equity Method	1,780,842	-	842,000	938,842	39,381	29,364	-	1,849,587	27.02%	27.02%	N/A	-	-		
HNA Technology	Equity Method	1,000,000	1,012,209	-	-	77,722	-	-	1,089,931	48.08%	48.08%	N/A	-	-		
Lucky Air	Equity Method	842,000	953,005	-	-	34,705	-	-	987,710	33.78%	33.78%	N/A	-	-		
HNA Finance	Equity Method	865,578	936,468	-	-	62,816	-	(83,069)	916,215	23.70%	23.70%	N/A	-	-		
Hunan Golden-Deer	Equity Method	450,000	450,000	-	-	-	-	-	450,000	47.37%	47.37%	N/A	-	-		
Xi'an Chanba	Equity Method	400,000	407,939	-	-	11,253	-	-	419,192	40.00%	40.00%	N/A	-	-		
Other			45,470	-	-	(10,059)	-	(5,702)	29,709							
			<u>6,565,997</u>	<u>1,555,000</u>	<u>3,712,242</u>	<u>474,503</u>	<u>60,853</u>	<u>(88,771)</u>	<u>12,279,824</u>							

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(a) Associates (Continued)

- (i) In June 2013, the Company increased investment of RMB1,680,000,000 in Tianjin Airlines in cash. After the increase, the Company's share percentage in Tianjin Airlines was increased to 30.70%. In December 2013, the Company acquired 11.32% shares of Tianjin Airlines from HNA Group at a consideration of RMB1,093,400,000. After the acquisition, the Company's share percentage in Tianjin Airlines was increased to 42.02%.
- (ii) In June 2013, the Group increased investment of HK\$776,000,000 in HKAGH in cash. After the capital investment, the Company's share percentage in HKAGH was 23.20%. In addition, the Group purchased 3.82% shares of HKAGH from HNA Group at a consideration of HK\$401,000,000. After the capital increase and share acquisition, the Group's equity interests in HKAGH was increased to 27.02%.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(b) Other long-term equity investments

	Accounting	Original	31 December	Current	Transferred to	31 December	% Share-	% voting	Explanation for	Provision for	Cash dividends	
	method	investment cost	2012	year	associate after	2013	holding	right	difference between %	Provision for	impairment	declared in
				movement	capital injection				shareholding and %	impairment	made in	current year
									voting right	current year	current year	current year
Capital Airlines Holding	Cost method	508,620	508,620	-	-	508,620	19.60%	19.60%	N/A	-	-	-
HKIAL(iii)	Cost method	308,830	-	308,830	-	308,830	9.87%	9.87%	N/A	-	-	-
Haikou Meilan	Cost method	304,765	304,765	-	-	304,765	12.08%	12.08%	N/A	-	-	-
Inflection Energy LLC(iv)	Cost method	123,825	-	123,825	-	123,825	8.11%	8.11%	N/A	-	-	-
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	1.99%	1.99%	N/A	-	-	7,774
Yangtze River Express	Cost method	10,000	10,000	-	-	10,000	2.00%	2.00%	N/A	-	-	-
Hong Kong Airlines Group	Cost method	842,000	842,000	-	(842,000)	-	-	-	N/A	-	-	-
Tianjin Airlines	Cost method	19,000	713,000	-	(713,000)	-	-	-	N/A	-	-	-
Others	Cost method	19,557	19,557	(5,000)	-	14,557				(6,774)	-	-
			<u>2,517,915</u>	<u>427,655</u>	<u>(1,555,000)</u>	<u>1,390,570</u>				<u>(6,774)</u>	<u>-</u>	<u>7,744</u>

(iii) In June 2013, the Group increased investment of HK\$385,000,000 in HNA Group in cash. After the capital investment, the Group's equity percentage in HKIAL was 9.87%.

(iv) In December 2013, the Group increased investment of USD20,250,000 in Inflection Energy LLC. After the capital investment, the Group's equity percentage in Inflection Energy LLC was 8.11%.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(c) Investments in associates

Major financial information of the associates held by the Company in 2013 is outlined as below:

	% equity interest	% of voting right	31 December 2013			Year ended 31 December 2013	
			Total assets	Total liabilities	Net Assets	Revenue	Net profit
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Tianjin Airlines	42.02%	42.02%	22,092,838	14,054,898	8,037,940	6,465,624	206,844
Bohai Trust	39.78%	39.78%	3,267,635	79,689	3,187,946	1,005,985	508,705
Hong Kong Airlines	27.02%	27.02%	18,172,800	12,409,100	5,763,700	7,274,594	211,478
Group							
HNA Technology	48.08%	48.08%	2,896,527	510,537	2,385,989	1,592,288	161,651
Lucky Air	33.78%	33.78%	9,144,239	6,316,804	2,827,435	3,481,571	102,739
HNA Finance	23.70%	23.70%	22,705,252	19,023,664	3,681,588	531,793	264,032
Hunan Golden Deer	47.37%	47.37%	956,799	500	956,299	-	6,543
Xi'an Chanba	40.00%	40.00%	1,063,871	15,908	1,047,963	-	28,132

(10) Investment properties

Items	Fair value as at 1 January 2013 RMB'000	Current year additions		Current year	Fair value as at 31 December 2013 RMB'000
		Current year	Changes in	reductions	
		new additions	fair value		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	5,380,950	38,345	-	(399,949)	5,019,346
Buildings	5,096,375	38,345	-	(399,949)	4,734,771
Land use rights	284,575	-	-	-	284,575
Changes in fair value	1,875,392	-	34,022	(98,385)	1,811,029
Buildings	1,743,914	-	13,219	(98,385)	1,658,748
Land use rights	131,478	-	20,803	-	152,281
Net book value	7,256,342	38,345	34,022	(498,334)	6,830,375
Buildings	6,840,289	38,345	13,219	(498,334)	6,393,519
Land use rights	416,053	-	20,803	-	436,856

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)

(10) Investment properties (Continued)

As at 31 December 2013, the net book value of the investment properties was RMB6,830,375 thousand (31 December 2012: RMB7,256,342 thousand). The valuation of the investment properties with valuation date of 31 December 2013 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 2013, the total changes in the fair value of the investment properties of the Group amounted to RMB34,022 thousand (2012: RMB504,363 thousand), and was fully recognised in profit or loss for the year.

As at 31 December 2013, investment properties with book value of RMB5,243,804 thousand (31 December 2012: RMB4,229,656 thousand) were pledged for long-term borrowings (Note 5(28)(a)(i) and Note 5(28)(d)(ii)).

As at 31 December 2013, the title certificates of certain buildings and land use rights with carrying amount of RMB74,350 thousand (31 December 2012: RMB75,378 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.

In 2013, the Company's subsidiary, Xinhua Airlines, entered into a property disposal agreement with Beijing Guorui Xingye Property Co., Ltd. As of 31 December 2013, the investment properties held by Xinhua Airlines had been disposed, which resulted a other operating income of RMB487,778 thousand and other operating expenses of RMB399,949 thousand respectively (Note 5(37)(b)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Cost	46,281,116	9,715,476	(1,413,688)	54,582,904
Buildings	3,475,865	93,257	(50,293)	3,518,829
Aircraft and engines	39,521,798	9,440,537	(1,319,122)	47,643,213
Rotables	2,526,360	119,311	(3,773)	2,641,898
Motor vehicles	221,931	16,810	(8,107)	230,634
Machinery and equipment	535,162	45,561	(32,393)	548,330
Accumulated depreciation	(11,887,048)	(2,597,226)	964,672	(13,519,602)
Buildings	(376,402)	(80,440)	1,240	(455,602)
Aircraft and engines	(9,391,719)	(2,303,927)	924,358	(10,771,288)
Rotables	(1,594,419)	(160,657)	2,047	(1,753,029)
Motor vehicles	(156,688)	(9,994)	7,563	(159,119)
Machinery and equipment	(367,820)	(42,208)	29,464	(380,564)
Book value before impairment	34,394,068	—	—	41,063,302
Buildings	3,099,463	—	—	3,063,227
Aircraft and engines	30,130,079	—	—	36,871,925
Rotables	931,941	—	—	888,869
Motor vehicles	65,243	—	—	71,515
Machinery and equipment	167,342	—	—	167,766
Provision for impairment loss	(16,378)	(55,145)	-	(71,523)
Buildings	-	-	-	-
Aircraft and engines	-	-	-	-
Rotables	(16,378)	(55,145)	-	(71,523)
Motor vehicles	-	-	-	-
Machinery and equipment	-	-	-	-
Net book value	34,377,690	—	—	40,991,779
Buildings	3,099,463	—	—	3,063,227
Aircraft and engines	30,130,079	—	—	36,871,925
Rotables	915,563	—	—	817,346
Motor vehicles	65,243	—	—	71,515
Machinery and equipment	167,342	—	—	167,766

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets (Continued)

As at 31 December 2013, fixed assets with net book value of RMB27,840,091 thousand (31 December 2012: RMB21,546,792 thousand) and original cost of RMB33,961,653 thousand (31 December 2012: RMB27,022,311 thousand) were pledged for short-term borrowings of RMB150,000 thousand and long-term borrowings of RMB22,955,463 thousand (Note 5(19)&(28)).

For the year ended 31 December 2013, total amount of depreciation charges for fixed assets amounted to RMB2,597,226 thousand (2012: RMB2,330,061 thousand), which were charged to operating costs, selling and distribution expense, general and administrative expense amounting to RMB2,526,521 thousand, RMB4,952 thousand and RMB65,753 thousand respectively (2012: RMB2,288,391 thousand, RMB5,148 thousand and RMB36,522 thousand respectively).

For the year ended 31 December 2013, constructions in progress with original cost of RMB9,261,159 thousand (2012: RMB4,373,498 thousand) were transferred to fixed assets.

(a) Fixed assets held under financial leases

	Cost	Accumulated depreciation	Book value
	RMB'000	RMB'000	RMB'000
31 December 2013			
Aircraft and engines	5,520,106	(1,535,452)	3,984,654
Rotables	50,000	(16,459)	33,541
	<u>5,570,106</u>	<u>(1,551,911)</u>	<u>4,018,195</u>
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>

(b) Fixed assets without property certificates

As at 31 December 2013, property certificates of certain buildings with net book value of RMB169,741 thousand and original cost of RMB189,933 thousand (31 December 2012: net book value of RMB1,004,349 thousand and original cost of RMB1,006,043 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)

(12) Construction in progress

	31 December 2013			31 December 2012		
	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	10,903,768	-	10,903,768	11,525,757	-	11,525,757
Beijing base expansion project	481,411	-	481,411	455,351	-	455,351
Others	136,351	(2,307)	134,044	22,361	(2,307)	20,054
	<u>11,521,530</u>	<u>(2,307)</u>	<u>11,519,223</u>	<u>12,003,469</u>	<u>(2,307)</u>	<u>12,001,162</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Construction in progress (Continued)

(a) Movements of major construction in progress

Name of project	Budget RMB'000	31 December		Transfer to fixed assets during current year RMB'000	Other transfer during current year RMB'000	31 December		% completion of construction project	Construction progress	Accumulated borrowing costs capitalised RMB'000	Capitalised amount during the current year		Annual interest rate for capitalisation	Source of fund RMB'000
		2012 RMB'000	Current year additions RMB'000			2013 RMB'000	Exchange gain or loss of special borrowings RMB'000				Interests RMB'000			
Advanced payments for aircraft acquisitions	75,449,578	11,525,757	8,549,337	(9,171,326)	-	10,903,768	14%	14%	984,300	525,714	(98,220)	4.64%	Bank loans	
Beijing base expansion project	734,373	455,351	114,568	(52,800)	(35,708)	481,411	66%	66%	119,907	13,278	-	6.56%	Bank loans and self generated fund	
Others		22,361	153,798	(37,033)	(2,775)	136,351			-	-	-			
		<u>12,003,469</u>	<u>8,817,703</u>	<u>(9,261,159)</u>	<u>(38,483)</u>	<u>11,521,530</u>			<u>1,104,207</u>	<u>538,992</u>	<u>(98,220)</u>			

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Construction in progress (Continued)

(b) The progress of the major constructions in progress as at 31 December 2013 is as follows:

	Construction progress	Remarks
Beijing base expansion project	66%	The construction progress is estimated based on the budgeted project costs.

(13) Intangible assets

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Original cost	227,673	-	-	227,673
Land use rights	227,075	-	-	227,075
Software	598	-	-	598
Accumulated amortisation	(63,469)	(5,339)	-	(68,808)
Land use rights	(63,128)	(5,192)	-	(68,320)
Software	(341)	(147)	-	(488)
Net book value	164,204	(5,339)	-	158,865
Land use rights	163,947	(5,192)	-	158,755
Software	257	(147)	-	110

For the year ended 31 December 2013, total amortisations of the intangible assets amounted to RMB5,339 thousand (2012: RMB5,783 thousand).

As at 31 December 2013, land use rights with net book value of RMB112,815 thousand and original cost of RMB161,531 thousand (31 December 2012: net book value of RMB31,170 thousand and original cost of RMB40,421 thousand) were pledged for long-term borrowings of RMB2,297,593 thousand (Note 5(28)(d)(viii)&(x)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(14) Goodwill

As at 31 December 2013, 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.

(15) Long-term prepaid expenses

	31 December 2012 RMB'000	Current year additions RMB'000	Amortisation for the year RMB'000	Other reductions RMB'000	31 December 2013 RMB'000
Deferred pilot recruitment costs	461,080	157,879	(127,342)	-	491,617
Others	22,515	22,807	(10,231)	-	35,091
	<u>483,595</u>	<u>180,686</u>	<u>(137,573)</u>	<u>-</u>	<u>526,708</u>

(16) Other non-current assets

	31 December 2013 RMB'000	31 December 2012 RMB'000
Prepayment for investments (Note)	1,826,940	-
Maintenance reserve fund for aircraft and engines	934,546	1,290,691
Security deposits for leased aircraft and engines	742,870	739,285
Deferred losses on sales and lease back transactions	248,616	231,901
Others	20,000	20,000
	<u>3,772,972</u>	<u>2,281,877</u>

Note: As at 31 December 2013, the prepayment for investment mainly included:

- (a) The Company plans to invest RMB1 billion to Western Airlines. After the investment, the Company's equity percentage in Western Airlines will be 29.40%. As at 31 December 2013, the Company had paid RMB966,940 thousand and relevant procedures for capital investment are still under progress.
- (b) The Company plans to purchase 52.90% of equity in Lucky Air from Grand China Air with a consideration of RMB17.02 billion. After the equity purchase, the Company's equity percentage in Lucky Air will be increased to 86.68%. As at 31 December 2013, the Company had paid RMB800,000 thousand, and relevant procedures for equity transfer are still under progress.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2013		31 December 2012	
	Deferred tax assets	Deductible temporary differences and tax losses	Deferred tax assets	Deductible temporary differences and tax losses
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued aircraft and engines overhaul and maintenance cost	351,814	1,407,256	260,771	1,043,085
Accrued aircraft rental	25,424	101,696	-	-
Fixed assets impairment	13,786	55,145	-	-
Changed in fair value of available-for-sale financial assets	18,584	74,335	36,828	147,310
Tax losses	22,499	149,994	5,834	38,891
	<u>432,107</u>	<u>1,788,426</u>	<u>303,433</u>	<u>1,229,286</u>

(b) Deferred tax liabilities before offsetting

	31 December 2013		31 December 2012	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets depreciation	1,847,124	7,702,357	1,481,458	6,135,074
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	551,614	2,206,458	529,829	2,119,295
	<u>2,745,032</u>	<u>11,293,990</u>	<u>2,357,581</u>	<u>9,639,544</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Deductible temporary differences	-	-
Tax losses	15,092	1,911
	<u>15,092</u>	<u>1,911</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 2013 RMB'000	31 December 2012 RMB'000
Year 2017	-	1,911
Year 2018	15,092	-
	<u>15,092</u>	<u>1,911</u>

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Deferred tax assets	432,107	303,433
Deferred tax liabilities	<u>432,107</u>	<u>303,433</u>

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

	31 December 2013		31 December 2012	
	Net deferred tax liabilities RMB'000	Net taxable temporary differences RMB'000	Net deferred tax liabilities RMB'000	Net taxable temporary differences RMB'000
Deferred tax liabilities	<u>2,312,925</u>	<u>9,505,564</u>	<u>2,054,148</u>	<u>8,410,258</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(18) Provisions for asset impairment

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Provisions for available-for-sale financial assets impairment (Note 5 (8)(a))	86,104	-	-	86,104
Provisions for bad debts	84,067	55	-	84,122
Including: Accounts receivable	28,803	-	-	28,803
Other receivables	55,264	55	-	55,319
Provisions for impairment of long-term equity investment	6,774	-	-	6,774
Provisions for impairment of fixed assets	16,378	55,145	-	71,523
Provisions for impairment of construction in progress	2,307	-	-	2,307
	<u>195,630</u>	<u>55,200</u>	<u>-</u>	<u>250,830</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings

	Currency	31 December 2013 RMB'000	31 December 2012 RMB'000
Pledged (a)	RMB	-	500,000
Impawn (b)		7,836,181	4,965,890
	RMB	6,221,050	3,834,500
	USD	151,875	1,131,390
	EUR	1,463,256	-
Guaranteed (c)		6,689,200	6,474,275
	RMB	6,689,200	6,160,000
	USD	-	314,275
Borrowings with guarantee and pledge/impawn (d)		5,585,001	3,615,500
	RMB	5,548,420	3,615,500
	USD	36,581	-
Unsecured	RMB	304,953	236,671
Total		<u>20,415,335</u>	<u>15,792,336</u>

(a) As at 31 December 2012, the pledged borrowings of RMB500,000 thousand are secured by aircraft of the Company with a net book value of RMB310,505 thousand (original cost of RMB356,602 thousand) (Note 5(11)) (31 Decemeber 2013: Nil).

(b) As at 31 December 2013, impawn borrowings comprise:

- (i) Borrowings of RMB1,070,325 thousand (including RMB918,450 thousand and EUR18,000 thousand) (31 Decemeber 2012: RMB361,500 thousand) is impawned by the term deposit of RMB1,035,000 thousand and EUR21,000 thousand (31 December 2012: RMB415,000 thousand) (Note 5(1)).
- (ii) Borrowings of RMB910,000 thousand (31 December 2012: RMB2,152,390 thousand) is impawned by certain equity interests held by the Group's related parties (Note 7(5)(c)).
- (iii) Borrowings of RMB1,071,000 thousand (31 Decemeber 2012: Nil) is impawned by certain equity interests held by the Group and the the Group's related parties (Note 7(5)(c)).
- (iv) Borrowings of RMB2,463,256 thousand (including RMB1,000,000 thousand and USD240,000 thousand, equivalent to RMB1,463,256 thousand) (31 Decemeber 2012: Nil) is impawned by the term deposit of RMB918,560 thousand and certain equity interests held by the Group's related parties (Note 7(5)(c)).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings (Continued)

(b) As at 31 December 2013, impawn borrowings comprise: (Continued)

- (v) Borrowings of RMB2,321,600 thousand (31 December 2012: RMB1,952,000 thousand) represents the letter of credit, including RMB1,821,600 thousand is impawned by certain equity interests held by related parties and RMB500,000 thousand is impawned by certain equity interests held by the Group (31 December 2012: Nil).

As at 31 December 2013, borrowings of RMB1,952,000 thousand represents the letter of credit impawned by certain equity interests held by related parties of the Group and third parties, and borrowings of RMB500,000 thousand impawned by certain equity interests held by related parties of the Group and third parties were matured and repaid in 2013.

(c) As at 31 December 2013, guaranteed borrowings comprise:

- (i) Borrowings of RMB810,000 thousand (31 December 2012: RMB3,195,000 thousand) is guaranteed by related parties of the Group (Note 7(5)(c)).
- (ii) Borrowings of RMB3,130,000 thousand (31 December 2012: RMB3,279,275 thousand) is guaranteed by the Company.
- (iii) Borrowings of RMB 2,000,000 thousand is guaranteed by the Group and related parties of the Group (31 December 2012: Nil).
- (iv) Borrowing of RMB749,200 thousand (31 December 2012: Nil) represents the letter of credit, among which RMB524,200 thousand is guaranteed by related parties of the Group and RMB225,000 thousand is guaranteed by the Company respectively.

(d) As at 31 December 2013, borrowings with guarantee and pledge/impawn comprise:

- (i) Borrowings of RMB1,970,000 thousand (31 December 2012: RMB2,330,000 thousand) is impawned by certain equity interests held by related parties of the Group, and also guaranteed by related parties of the Group (Note 7(5)(c)).
- (ii) Borrowings of RMB37,000 thousand (31 December 2012: Nil) is impawned by the term deposit of RMB37,000 thousand (Note 5(1)) and guaranteed by related parties of the Group.
- (iii) Borrowings of RMB180,000 thousand (31 December 2012: RMB300,000 thousand) is impawned by certain equity interests held by related parties of the Group, and guaranteed by the Company.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings (Continued)

- (d) As at 31 December 2013, borrowings with guarantee and pledge/impawn comprise: (Continued)
- (iv) Borrowings of RMB1,286,581 thousand (including RMB1,250,000 thousand and USD6,000 thousand, equivalent to RMB36,581 thousand) (31 December 2012: Nil) is impawned by certain equity interests held by related parties of the Group and guaranteed by the Group.
 - (v) Borrowings of RMB800,000 thousand (31 December 2012: Nil) is impawned by certain equity interests held by the Group and the related parties of the Group, and guaranteed by the Group and the related parties of the Group.
 - (vi) Borrowings of RMB300,000 thousand (31 December 2012: Nil) is impawned by the term deposit of RMB180,000 thousand (Note 5(1)) and financial products of RMB100 million (Note 5(7)(a)).
 - (vii) Borrowings of RMB150,000 thousand (31 December 2012: RMB125,000 thousand) is pledged by fixed assets of the Group with net book value of RMB91,518 thousand and original cost of RMB118,587 thousand (31 December 2012: Net book value of RMB94,422 thousand and original cost of RMB118,587 thousand) (Note 5(11)) and is guaranteed by the Company.
 - (viii) Borrowings of RMB300,000 thousand (31 December 2012: Nil) is impawned by the future BSP ticket collection rights of the Group and guaranteed by the Group and related parties of the Group.
 - (ix) Borrowings of RMB561,420 thousand (31 December 2012: Nil) represents the letter of credit, including RMB171,420 thousand is impawned by equity interests held by related parties of the Group and guaranteed by related parties of the Group (Note 7(5)(c)). RMB 390,000 thousand is impawned by equity interests held by third parties and guaranteed by related parties of the Group (Note 7(5)(c)).

As at 31 December 2012, borrowings of RMB150,000 thousand impawned by certain equity interests held by the Company and guaranteed by related parties of the Group; borrowings of RMB150,000 thousand impawned by certain equity interests held by third parties and guaranteed by related parties of the Group; letter of credit of RMB560,500 thousand impawned by security deposit of the Company amounting to RMB168,150 thousand and guaranteed by related parties of the Group were matured and repaid in 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings (Continued)

(e) As at 31 December 2013, the annual weighted average interest for the short-term borrowings of the Group is 6.26% per annum (31 December 2012: 6.89%).

(f) As at 31 December 2013, there are no short-term borrowings which are matured but not repaid by the Group.

(20) Notes payable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Bank acceptance notes	2,518,147	4,782,981
Commercial acceptance notes	995,257	681,492
	<u>3,513,404</u>	<u>5,464,473</u>

As at 31 December 2013 and 31 December 2012, all notes payable will be matured within one year.

(21) Accounts payable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Aircraft and engines maintenance fees payable	2,177,077	1,864,348
Taking-off and landing fees payable	641,312	631,558
Fuel cost payable	513,547	1,225,628
Operating lease aircraft rental payable	311,835	32,430
Ticket reservation fees payable	169,696	284,060
In-flight catering payable	175,710	181,686
Flight equipment payable	141,915	118,739
Others	885,800	586,500
	<u>5,016,892</u>	<u>4,924,949</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(21) Accounts payable (Continued)

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Grand China Air	36,271	25,112
Haikou Meilan	3,110	2,147
	<u>39,381</u>	<u>27,259</u>

(b) Accounts payable to related parties:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Hong Kong Airlines	76,010	-
HNA Technology	54,352	54,231
Grand China Air	36,271	25,112
Western Airlines	33,879	16,194
Xinsheng Feixiang	11,093	8,277
HNA Information	9,429	7,199
Lucky Air	-	38,079
HNA Aviation Sales	-	18,888
Others	113,462	83,840
	<u>334,496</u>	<u>251,820</u>

(c) As at 31 December 2013, the accounts payable with aging over 1 year amounted to RMB317,991 thousand (31 December 2012: RMB417,595 thousand), mainly comprised of payable of fuel costs, take-off and landing fees, in-flight catering fees, ticket reservation 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 2013			31 December 2012		
	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000
USD	81,890	6.0969	499,275	389,196	6.2855	2,446,291
Others			284,833			338,653
			<u>784,108</u>			<u>2,784,944</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(22) Advances from customers

	31 December 2013 RMB'000	31 December 2012 RMB'000
Sales in advance of carriage	1,261,038	862,207
Other advances received	229,698	56,255
	<u>1,490,736</u>	<u>918,462</u>

- (a) As at 31 December 2013, 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 2012: Nil).
- (b) As at 31 December 2013, advances from customers with aging over 1 year amounted to RMB70,671 thousand (31 December 2012: 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 been recognised as the revenue.
- (c) As at 31 December 2013, there is no significant balance dominated in foreign currency included in advances from customers.

(23) Employee benefits payable

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Wages and salaries, bonuses, allowances and subsidies	143,681	1,362,897	(1,275,174)	231,404
Social security contributions	7,906	339,719	(343,776)	3,849
Including: Medical insurance	1,702	85,271	(86,116)	857
Basic pensions	4,876	207,016	(209,847)	2,045
Unemployment insurance	403	22,159	(22,002)	560
Work injury insurance	149	9,869	(9,932)	86
Maternity insurance	64	6,219	(6,228)	55
Annuity	712	9,185	(9,651)	246
Housing funds	28,208	56,628	(65,437)	19,399
Labor union funds and employee education funds	18,453	40,493	(37,503)	21,443
	<u>198,248</u>	<u>1,799,737</u>	<u>(1,721,890)</u>	<u>276,095</u>

As at 31 December 2013, the employee benefits payable does not include any overdue amounts and the payable balance is expected to be paid in 2014.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(24) Taxes payable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Corporate income tax payable	288,586	140,068
Aviation development fund payable	290,805	292,327
Business tax payable	25,325	42,911
Others	105,227	77,364
	<u>709,943</u>	<u>552,670</u>

(26) Interest payable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Interests on debentures (Note 5(29)(b))	221,464	188,873
Interests on borrowings	142,768	157,338
	<u>364,232</u>	<u>346,211</u>

(26) Other payables

	31 December 2013 RMB'000	31 December 2012 RMB'000
Security deposits and various funds	267,961	234,283
Aircraft acquisition	45,687	47,100
Pilot training fees	44,076	33,545
Amounts due to related parties (b)	24,346	298,921
Others	220,956	263,496
	<u>603,026</u>	<u>877,345</u>

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
HNA Group	<u>1,024</u>	<u>180,456</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other payables (Continued)

(b) Other payables to related parties:

	31 December 2013 RMB'000	31 December 2012 RMB'000
HNA Group	1,024	180,456
Capital Airlines	-	33,044
Changjiang Leasing	-	20,967
HNA Aviation Holding	-	20,477
Others	23,322	43,977
	<u>24,346</u>	<u>298,921</u>

(c) As at 31 December 2013, other payables aging over one year amounted to RMB259,330 thousand (31 December 2012: RMB216,816 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 2013			31 December 2012		
	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000	Amount in foreign currency ('000)	Exchange rate	RMB equivalent RMB'000
USD	8,248	6.0969	50,287	8,701	6.2855	54,689
EUR	-	-	-	2,273	8.3176	18,905
			<u>50,287</u>			<u>73,594</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Non-current liabilities within one year

		31 December 2013 RMB'000	31 December 2012 RMB'000
Long-term borrowings within one year (a)		5,918,624	5,587,758
Debentures payable within one year (Note 5(29)(a))		997,476	-
Long-term payables within one year (b)		426,825	597,012
		<u>7,342,925</u>	<u>6,184,770</u>
 (a) Long-term borrowings within one year			
	Currency	31 December 2013 RMB'000	31 December 2012 RMB'000
Pledged (Note 5(28)(a))		2,302,574	2,975,479
	RMB	773,102	1,712,339
	USD	1,529,472	1,254,471
	EUR	-	8,669
Impawn (Note 5(28)(b))	RMB	530,000	1,129,250
Guaranteed (Note 5(28)(c))		642,994	636,678
	RMB	270,380	149,130
	USD	372,614	487,548
Guaranteed and pledged/impawn (Note 5(28)(d))		2,376,389	656,715
	RMB	1,796,479	383,798
	USD	579,910	272,917
Unsecured		66,667	189,636
	RMB	66,667	152,112
	USD	-	37,524
		<u>5,918,624</u>	<u>5,587,758</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2013		
				Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
BANK A	12/03/2012	16/06/2014	Benchmark rate plus 10%	RMB	–	570,682
BANK B	17/05/2012	17/05/2014	Benchmark rate plus 15%	RMB	–	270,000
BANK C	11/03/2011	15/01/2014	6.10%	RMB	–	200,000
BANK D	30/12/2011	20/02/2014	3 month LIBOR plus 5.5%	USD	20,503	125,002
BANK E	30/12/2011	20/01/2014	3 month LIBOR plus 5.5%	USD	20,310	123,831
						<u>1,289,515</u>

	Loan commencement date	Loan maturity date	Interest rate (%)	31 December 2012		
				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>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Long-term payables within one year

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

	Lease term	Initial amount RMB'000	Interest rate (%)	Accrued interest in current year RMB'000	31 December 2013			Borrowing conditions
					Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000	
Lessor of finance lease 1	5 years	779,155	Fixed interest rate	35,459	RMB		195,030	Aircraft finance lease
Lessor of finance lease 2	5 years	143,377	Fixed interest rate	10,637	RMB		132,740	Aircraft finance lease
Lessor of finance lease 3	5 years	59,229	Floating interest rate	11,229	RMB		48,000	Aircraft finance lease
Lessor of finance lease 4	10 years	33,213	Floating interest rate	13,273	RMB		19,940	Aircraft finance lease
Lessor of finance lease 5	7 years	21,254	Floating interest rate	2,162	USD	3,131	19,092	Aircraft finance lease
							414,802	

(28) Long-term borrowings

		31 December 2013			31 December 2012		
		Total amount RMB'000	Less: long-term borrowings due within 1 year RMB'000	Balance after deducting the amount due within 1 year RMB'000	Total amount RMB'000	Less: long-term borrowings due within 1 year RMB'000	Balance after deducting the amount due within 1 year RMB'000
Pledged (a)		18,658,114	(2,302,574)	16,355,540	18,750,133	(2,975,479)	15,774,654
	RMB	3,067,706	(773,102)	2,294,604	5,032,387	(1,712,339)	3,320,048
	USD	15,590,408	(1,529,472)	14,060,936	13,631,893	(1,254,471)	12,377,422
	EUR	-	-	-	85,853	(8,669)	77,184
Impawn (b)	RMB	1,100,000	(530,000)	570,000	1,799,250	(1,129,250)	670,000
Guaranteed (c)		1,217,156	(642,994)	574,162	2,023,327	(636,678)	1,386,649
	RMB	844,542	(270,380)	574,162	677,376	(149,130)	528,246
	USD	372,614	(372,614)	-	1,345,951	(487,548)	858,403
Guaranteed and pledged/ impawn (d)		10,551,936	(2,376,389)	8,175,547	5,853,799	(656,715)	5,197,084
	RMB	5,602,138	(1,796,479)	3,805,659	3,870,786	(383,798)	3,486,988
	USD	4,596,204	(579,910)	4,016,294	1,983,013	(272,917)	1,710,096
	EUR	353,594	-	353,594	-	-	-
Unsecured		141,085	(66,667)	74,418	330,960	(189,636)	141,324
	RMB	133,334	(66,667)	66,667	285,445	(152,112)	133,333
	USD	7,751	-	7,751	45,515	(37,524)	7,991
Total		31,668,291	(5,918,624)	25,749,667	28,757,469	(5,587,758)	23,169,711

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

(a) As at 31 December 2013, pledged borrowings comprise:

- (i) The pledged borrowings of RMB16,835,662 thousand (including: RMB2,547,706 thousand and USD2,343,478 thousand) (31 December 2012: RMB13,521,806 thousand) are pledged by the following fixed assets and investment properties individually or collectively:

	31 December 2013		31 December 2012	
	Cost RMB'000	Net book value RMB'000	Cost RMB'000	Net book value RMB'000
Fixed assets - buildings	-	-	512,384	398,180
Fixed assets – aircraft	24,899,453	20,760,948	18,955,890	15,938,709
Subtotal (Note 5(11))	24,899,453	20,760,948	19,468,274	16,336,889
Investment properties (Note 5(10))		1,774,005		763,156
Total		22,534,953		17,100,045

- (ii) The pledged borrowings of RMB1,822,452 thousand (including: RMB520,000 thousand, USD213,626 thousand, equivalent to RMB1,302,452 thousand) (31 December 2012: RMB3,116,920 thousand) are pledged by the Company's purchase rights of certain aircrafts for which the related mortgage procedures have not been completed.

As at 31 December 2012, the pledged borrowings of RMB2,111,407 thousand impawned by aircrafts of the Group's related parties and the intangible assets of the Company (Note 5(28)(d)).

(b) As at 31 December 2013, impawn borrowings comprise:

- (i) The impawn borrowings of RMB400,000 thousand (31 December 2012: RMB599,250 thousand) is impawned by the term deposits of RMB550,000 thousand of the Group (31 December 2012: RMB750,000 thousand) (Note 5(1)).
- (ii) The impawn borrowings of RMB700,000 thousand (31 December 2012: RMB700,000 thousand) is impawned by certain equity interests held by related parties of the Group (Note 7(5)(c)).

As at 31 December 2012, impawn borrowings of RMB500,000 thousand, which was impawned by certain equity interests held by the Group's related parties and third parties, had been matured and repaid in 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

- (c) As at 31 December 2013, guaranteed borrowings of RMB1,217,156 thousand (including: RMB844,542 thousand, USD61,115 thousand, equivalent to RMB372,614 thousand) (31 December 2012: RMB2,023,327 thousand) is guaranteed by relate parties of the Group (Note 7(5)(c)) and the Group, among which, RMB409,000 thousand is guaranteed by related parties of the Group, RMB210,542 thousand and USD61,115 thousand (equivalent to RMB372,614 thousand) is guaranteed by the Company, and RMB225,000 thousand is guaranteed by both the Group and the related parties of the Group.
- (d) As at 31 December 2013, borrowings with guarantee and pledge/impawn comprise:
- (i) Borrowings of RMB3,692,492 thousand (including RMB1,260,206 thousand, USD398,939 thousand, equivalent to RMB2,432,289 thousand) (31 December 2013: RMB2,759,870 thousand) is pledged by aircrafts of the Group with net value of RMB5,680,986 thousand and original cost of RMB7,443,044 thousand (31 December 2012: net book value of RMB3,806,561 thousand and original cost of RMB5,293,670 thousand) (Note 5(11)), and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (ii) Borrowings of RMB1,110,000 thousand (31 December 2012: RMB1,240,000 thousand) is pledged by the Group's investment properties with fair value of RMB3,469,799 thousand (31 December 2012: RMB3,466,500 thousand) (Note 5(10)), and also guaranteed by the Company and related parties of the Group (Note 7(5)(c)), among which, RMB240,000 thousand is guaranteed by related parties of the Group.
 - (iii) Borrowings of RMB1,787,189 thousand (including RMB1,426,432 thousand, USD59,171 thousand, equivalent to RMB360,757 thousand) (31 December 2012: RMB1,214,542 thousand) is pledged by the Company's purchase rights of certain aricrafts for which the related morgate procedures have not been completed, and also guaranteed by related parties of the Group (Note 7(5)(c)).
 - (iv) Borrowings of RMB308,000 thousand (31 December 2012: RMB250,000 thousand) is pledged by fixed assets of related parties of the Group, and guaranteed by related parties of the Group (Note 7(5)(c)).
 - (v) Borrowings of USD29,600 thousand (equivalent to RMB180,468 thousand) (31 December 2012: RMB196,108 thousand) is impawned by equity interest held by the Company and the related parties of the Group, and also guaranteed by the related parties of the Group (Note 7(5)(c)).
 - (vi) Borrowings of USD130,000 thousand (equivalent to RMB792,597 thousand) (31 December 2012: Nil) is pledged by aircrafts of the Group with net book value of RMB906,987 thousand and original cost of RMB924,366 thousand (Note 5(11)) and also guaranteed by the Company.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

(d) As at 31 December 2013, borrowings with guarantee and pledge/impawn comprise: (Continued)

- (vii) Borrowings of RMB30,000 thousand (31 December 2012: Nil) is pledged by aircrafts of the related parties of the Group and guaranteed by related parties of the Group (Note 7(5)(c)).
- (viii) Borrowings of RMB613,000 thousand (31 December 2012: Nil) is impawned by fixed assets of the Group with net book value of RMB7,264 thousand and original cost of RMB10,531 thousand and intangible assets with net book value of RMB82,476 thousand and original cost of RMB121,110 thousand, and also guaranteed by the related parties of the Group (Note 7(5)(c)).
- (ix) Borrowings of EUR42,000 thousand (equivalent to RMB353,594 thousand) (31 December 2012: Nil) is impawned by fixed assets of the Group with net book value of EUR6,737 thousand (equivalent to RMB56,717 thousand) and original cost of EUR11,389 thousand (equivalent to RMB95,886 thousand), and certain equity interests held by the Company, and also guaranteed by related parties of the Group.
- (x) Borrowings of RMB1,684,593 thousand (including: RMB854,500 thousand, USD136,150 thousand equivalent to RMB830,093 thousand) (31 December 2012: RMB2,111,407 thousand) is pledged by aircrafts of the related parties of the Group, the intangible assets of the Company with net book value of RMB30,339 thousand and original cost of RMB40,421 thousand (31 December 2012: net book value of RMB31,170 thousand and original cost of RMB40,421 thousand) (Note 5(13)), and the fixed assets of the Company with net book value of RMB335,671 thousand and original cost of RMB469,785 thousand (31 December 2012: net book value of RMB342,814 thousand and original cost of RMB465,563 thousand) (Note 5(11)), and also impawned by intangible assets and certain equity interests held by related parties of the Group (31 December 2012: Nil).

As at 31 December 2012, the borrowings of USD30,750 thousand pledged by aircrafts of the Group and impawned by certain equity interests held by related parties of the Group were all matured and repaid in 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

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

				31 December 2013		
Loan commencement date	Loan maturity date	Interest rate (%)	Currency	Amount in foreign currency ('000)	RMB equivalent	RMB'000
BANK A	28/12/2007	27/12/2022	3 month LIBOR plus 1.3%	USD	224,000	1,365,706
BANK B	31/10/2008	29/10/2023	3 month LIBOR plus 4%	USD	216,000	1,316,930
BANK C	28/09/2007	31/08/2020	6 month LIBOR plus 1.1%	USD	178,900	1,090,735
BANK D	19/11/2009	18/11/2021	Benchmark rate plus 5%	RMB	–	790,000
BANK E	30/06/2003	29/06/2018	Benchmark rate	RMB	–	654,500
						<u>5,217,871</u>

				31 December 2012		
Loan commencement date	Loan maturity date	Interest rate (%)	Currency	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>

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
1 to 2 years	6,052,776	4,239,331
2 to 5 years	9,385,072	9,398,720
Over 5 years	10,311,819	9,531,660
	<u>25,749,667</u>	<u>23,169,711</u>

As at 31 December 2013, the weighted average interest rate of long-term borrowings is 4.59% per annum (31 December 2012: 4.59% per annum).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Debentures Payable

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Corporate bonds	4,939,440	12,537	-	4,951,977
RMB bonds	1,490,623	3,256	(496,403)	997,476
USD bonds	-	3,079,253	(87,170)	2,992,083
Total amount	<u>6,430,063</u>	<u>3,095,046</u>	<u>(583,573)</u>	<u>8,941,536</u>
Less: maturity within 1 year (Note 5(27))	<u>-</u>	<u>(997,476)</u>	<u>-</u>	<u>(997,476)</u>
Debentures payable	<u>6,430,063</u>	<u>2,097,570</u>	<u>(583,573)</u>	<u>7,944,060</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 and 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
USD bonds (iv)	3,048,450	07/02/2013	7 years	2,961,280

- (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 Hong Kong, 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 Hong Kong, 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. In January 2013, HNA Hong Kong, the wholly-owned subsidiary of the Company, has early repaid the bonds.
- (iv) In February 2013, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued seven-year USD corporate bonds of USD0.5 billion with final maturity in 2020 and bearing interest at 3.625% per annum. The bonds are listed in Singapore and guaranteed by an irrevocable standby letter of credit issued by Bank of China Limited, Hainan Branch for a period of seven years, and the letter of credit is unconditionally guaranteed by the Company.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Debentures Payable (Continued)

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

	31 December 2012 RMB'000	Interest accrued in current year RMB'000	Interest paid in current year RMB'000	31 December 2013 RMB'000
Corporate bonds	162,922	288,640	(288,640)	162,922
RMB bonds	25,951	66,208	(76,658)	15,501
USD bonds	-	161,354	(118,313)	43,041
	<u>188,873</u>	<u>516,202</u>	<u>(483,611)</u>	<u>221,464</u>

(30) Long-term payables

	31 December 2013 RMB'000	31 December 2012 RMB'000
Finance lease obligations	1,645,837	1,792,072
Less: portion within 1 year (Note 5(27))	<u>(426,825)</u>	<u>(597,012)</u>
	<u>1,219,012</u>	<u>1,195,060</u>

(a) Breakdown of finance lease obligations by lessor:

	31 December 2013			31 December 2012		
	Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000	Currency	Amount in foreign currency ('000)	RMB equivalent RMB'000
Lessor No. 1	RMB	—	592,486	RMB	—	249,531
Changjiang Leasing	USD	65,443	398,999	USD	65,178	409,678
Lessor No. 2	RMB	—	225,457	RMB	—	324,533
Lessor No. 3	RMB	—	177,533	RMB	—	223,873
Lessor No. 4	RMB	—	170,948	RMB	—	186,212
Yangtze River Leasing	USD	11,414	69,591	USD	14,217	89,360
Lessor No. 5	RMB	—	-	RMB	—	194,655
Lessor No. 6	USD	—	-	USD	15,762	99,072
Other	RMB	—	10,823	RMB	—	15,158
			<u>1,645,837</u>			<u>1,792,072</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Long-term payables (Continued)

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

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).

	2013 RMB'000	2012 RMB'000
Beginning balance of the year	1,792,072	1,834,117
Add: current year additions	529,624	393,873
Less: current year payment	<u>(675,859)</u>	<u>(435,918)</u>
Ending balance of the year	1,645,837	1,792,072
Less: finance lease obligations within one year	<u>(426,825)</u>	<u>(597,012)</u>
	<u>1,219,012</u>	<u>1,195,060</u>
	31 December 2013 RMB'000	31 December 2012 RMB'000
Minimum lease payments	2,000,393	2,139,167
Less: unrecognised finance charge	<u>(354,556)</u>	<u>(347,095)</u>
Net balance of lease obligations	<u>1,645,837</u>	<u>1,792,072</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
Lessor No.1	5 years	779,155	Floating interest rate	186,669	592,486	Finance lease
Changjiang Leasing	13 years	409,678	Floating interest rate	10,679	398,999	Finance lease
Lessor No.2	5 years	324,533	Fixed interest rate	99,076	225,457	Finance lease
Lessor No.3	5 years	260,977	Floating interest rate	37,104	223,873	Finance lease
Lessor No.4	10 years	<u>186,212</u>	Fixed interest rate	<u>15,264</u>	<u>170,948</u>	Finance lease
		<u>1,960,555</u>		<u>348,792</u>	<u>1,611,763</u>	

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Long-term payables (Continued)

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
1 to 2 years	320,157	231,885
2 to 5 years	425,290	473,921
Over 5 years	473,565	489,254
	<u>1,219,012</u>	<u>1,195,060</u>

(31) Other non-current liabilities

	31 December 2013 RMB'000	31 December 2012 RMB'000
Deferred revenue – unredeemed mileages under frequent flyer programme (a)	740,444	603,169
Deferred revenue – unrealised gain on sales and leaseback transaction (b)	-	22,420
Customs duties and VAT relating to finance lease	-	7,359
	<u>740,444</u>	<u>632,948</u>

(a) Unredeemed mileages under frequent flyer programme

	2013 RMB'000	2012 RMB'000
As at 1 January	603,169	437,219
Current year additions	278,049	287,306
Current year redemption/(expiration)	(140,774)	(121,356)
As at 31 December	<u>740,444</u>	<u>603,169</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Share capital

	31 December	Current year movement			31 December
	2012	Trading restrictions lifted (a)	Increase of share capital from capital surplus (b)	Trading restrictions lifted (c)	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shares with trading restrictions -					
Shares held by domestic non-state-owned legal persons	2,263,556	(297,619)	1,965,937	(3,931,200)	674
Shares held by domestic state-owned legal persons	297,619	(297,619)	-	-	-
	<u>2,561,175</u>	<u>(595,238)</u>	<u>1,965,937</u>	<u>(3,931,200)</u>	<u>674</u>
Shares without trading restrictions -					
A shares	3,345,193	595,238	3,940,431	3,931,200	11,812,062
B shares	184,723	-	184,723	-	369,446
	<u>3,529,916</u>	<u>595,238</u>	<u>4,125,154</u>	<u>3,931,200</u>	<u>12,181,508</u>
	<u>6,091,091</u>	<u>-</u>	<u>6,091,091</u>	<u>-</u>	<u>12,182,182</u>
	31 December	Current year movement			31 December
	2011	Trading restrictions lifted	Increase of share capital from capital surplus	Increase from non-public share offering(c)	2012
	RMB'000	RMB'000	RMB'000	RMB'000	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>-</u>	<u>-</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>-</u>	<u>-</u>	<u>3,529,916</u>
	<u>4,125,491</u>	<u>-</u>	<u>-</u>	<u>1,965,600</u>	<u>6,091,091</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Share capital (Continued)

- (a) In February 2010, the lock-up periods of the 297,619 thousand A shares purchased by Hainan Development Holding and the 297,619 thousand A shares purchased by HNA Group were 36 months. In February 2013, these non-circulating shares with trading restrictions had passed restriction period and became tradable.
- (b) On 18 June 2013, the Company proposed to offer 10 extra shares for each 10 shares through transfer from capital surplus. The share capital was increased by RMB6,091,091 thousand in total. After the increase, the total share capital of the Company was increased to RMB12,182,182 thousand.
- (c) Pursuant to “Approval of Hainan Airlines Co., Ltd. to non-public share offerings” (【2012】No. 612) issued by 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》”) was approved 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 RMB4.07 per share and the total proceeds from the share issuance amounted to RMB7,786,992 thousand after deducting the related issuing costs of RMB213,000 thousand. The difference between the total proceeds and the share capital, amounting to RMB5,821,392 thousand, was recorded as capital surplus (share premium). 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. As at 12 August 2013, the commitment of the lock-up period for these shares had been fulfilled.

(33) Capital surplus

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Share premium (Note 5(32)(b))	11,751,844	-	(6,091,091)	5,660,753
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(48))	(45,905)	54,729	-	8,824
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Long-term investments accounted for by equity method	1,850	-	-	1,850
- Others	796	-	-	796
	<u>11,739,753</u>	<u>54,729</u>	<u>(6,091,091)</u>	<u>5,703,391</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Capital surplus (Continued)

	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Share premium	5,930,452	5,821,392	-	11,751,844
Other capital surplus				
- Change in fair value of available-for-sale financial assets (Note 5(48))	(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>

(34) Surplus reserve

	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Statutory surplus reserve	<u>657,397</u>	<u>140,803</u>	<u>-</u>	<u>798,200</u>
	31 December 2011 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2012 RMB'000
Statutory surplus reserve	<u>568,001</u>	<u>89,396</u>	<u>-</u>	<u>657,397</u>

In accordance with Company Law of the People's Republic of China and the Company's Articles of the Association, the Company shall appropriate 10% of net profit to statutory surplus reserve, and the Company can cease appropriation when accumulated statutory surplus reserve up to more than 50% of registered capital. Statutory surplus reserve can be used to make up for the losses or increase share capital after appropriate approval. The Company appropriated 10% of net profit, amounted to RMB140,803 thousand (2012: RMB89,396 thousand), to statutory surplus reserve for the year ended 31 December 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) Undistributed profits

	2013 RMB'000	2012 RMB'000
Undistributed profits as at January 1	5,309,332	3,966,000
Add: Net profits attributable to the equity shareholders of the Company	2,105,052	1,927,787
Less: Appropriation to surplus reserves	(140,803)	(89,396)
Dividends to ordinary shares	(609,109)	(495,059)
Investment income recognised during measure change from the cost method to equity method upon increase of investment	60,853	-
Undistributed profits as at December 31	<u>6,725,325</u>	<u>5,309,332</u>

As at 31 December 2013, undistributed profits included surplus reserve of RMB223,601 thousand attributable to the Company's subsidiaries (31 December 2012: RMB161,346 thousand).

According to the shareholders meeting resolution passed on 25 April 2013, a cash dividend of RMB1 yuan per 10 shares (tax inclusive) to all shareholders was proposed. Based on a total of 6,091,091,085 outstanding shares in issue, the total cash dividends proposed amount to RMB609,109 thousand. As at 31 December 2013, RMB59,381 thousand has not been paid yet.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(36) Minority interests

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Beijing Kehang	108,754	105,674
Others	5,982	5,982
	<u>114,736</u>	<u>111,656</u>

(37) Revenue and operating costs

	2013 RMB'000	2012 RMB'000
Revenue from main operations (a)	27,507,353	26,870,275
Revenue from other operations (b)	2,724,009	1,997,310
	<u>30,231,362</u>	<u>28,867,585</u>
Operating costs of main operations	(22,098,650)	(20,671,305)
Operating costs of other operations (b)	(1,402,508)	(886,336)
	<u>(23,501,158)</u>	<u>(21,557,641)</u>

(a) Revenue from main operations

Revenue from main operations by categories is analysed as follows:

	2013 RMB'000	2012 RMB'000
Passenger	26,476,885	25,794,029
Cargo and Mail	885,644	934,105
Others	144,824	142,141
	<u>27,507,353</u>	<u>26,870,275</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(37) Revenue and operating costs (Continued)****(b) Revenue and operating costs of other operations**

	2013		2012	
	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 (Note 7(5)(b))	1,262,124	(803,637)	1,192,902	(757,056)
Investment properties disposal (Note 5(10))	487,778	(399,949)	-	-
Property rental	385,510	(58,065)	397,135	(68,776)
Processing fee for cancelled tickets	303,849	-	186,669	-
Maintenance service	120,198	(85,258)	-	-
Commission	46,785	-	39,802	-
Others	117,765	(55,599)	180,802	(60,504)
	<u>2,724,009</u>	<u>(1,402,508)</u>	<u>1,997,310</u>	<u>(886,336)</u>

The costs of aircraft leasing did not include interest charge of RMB298,651 thousand (2012: RMB327,273 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 2013, total revenue of the top 5 customers of the Group amounted to RMB6,411,738 thousand (2012: RMB6,840,314 thousand), accounting for 21% of the total revenues of the Group (2012: 24%).

(38) Business tax and surcharges

	2013 RMB'000	2012 RMB'000
Business tax	453,598	777,399
City maintenance and construction tax	38,236	54,421
Education surcharges	28,342	40,768
Others	2,020	2,593
	<u>522,196</u>	<u>875,181</u>

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

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

	2013 RMB'000	2012 RMB'000
Commissions tickets sales	1,379,392	1,388,371
Tickets reservation fee	199,714	172,080
Wages, bonuses and welfares	158,844	120,842
Sales branches expenses	68,608	68,979
Rentals	43,887	40,530
Others	91,730	56,052
	<u>1,942,175</u>	<u>1,846,854</u>

(40) General and administrative expenses

	2013 RMB'000	2012 RMB'000
Wages, bonuses and welfares	88,206	128,379
Various types of taxes	45,483	90,535
Insurances	42,570	41,108
Rentals	25,016	37,811
Depreciation	65,753	36,522
Others	342,196	264,149
	<u>609,224</u>	<u>598,504</u>

(41) Finance expenses – net

	2013 RMB'000	2012 RMB'000
Interest expenses	3,524,489	3,645,329
Less: Interest capitalised (Note 5(12)(a))	(538,992)	(459,300)
Less: Interest income	(561,725)	(644,623)
Net exchange gains	(685,446)	(60,904)
Others	139,768	123,121
	<u>1,878,094</u>	<u>2,603,623</u>

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

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(42) Impairment losses**

	2013 RMB'000	2012 RMB'000
Provisions for impairment of fixed assets	55,145	-
Provision for bad debts	55	380
Provision for available-for-sale financial assets (Note 5 (8)(a))	-	86,104
	<u>55,200</u>	<u>86,484</u>

(43) (Loss)/gain on changes in fair value

	2013 RMB'000	2012 RMB'000
Investment properties (Note 5(10))	34,022	504,363
Transfer out of accumulated changes in fair value upon disposal of investment properties	(98,385)	-
	<u>(64,363)</u>	<u>504,363</u>

(44) Investment income

	2013 RMB'000	2012 RMB'000
Share of results of investees accounted for under equity method (Note 5(9)(a))	474,503	212,413
Investment income of financial products (Note 5(7)(a))	108,703	-
Gain on disposal of long-term equity investments	10,450	9,012
Dividend income from investees accounted for under cost method (Note 5(9)(b))	7,744	4,636
Dividend income from available-for-sale financial assets (Note 5(8)(a))	4,865	2,296
Loss on disposal of available-for-sale financial assets (Note 5(8)(a))	-	(40,116)
	<u>606,265</u>	<u>188,241</u>

The Group has no significant limitation on returns on investments.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(45) Non-operating income

	2013	2012	Amount recorded in extraordinary items of 2013
	RMB'000	RMB'000	RMB'000
Subsidy income	307,038	460,154	307,038
Including: Flight route subsidies (a)	153,150	185,302	153,150
Tax refund	100,326	125,376	100,326
Other financial subsidies	53,562	149,476	53,562
Pilot transferring income	68,963	8,040	68,963
Gain on disposal of non current assets	22,872	78,092	22,872
Profit compensation received from HNA Group with respect to Beijing Kehang (b)	-	117,875	-
Others	11,988	10,288	11,988
	<u>410,861</u>	<u>674,449</u>	<u>410,861</u>

(a) Flight route subsidies mainly represents the subsidies from MOF with respect to special long-distance international routes and other subsidies from local governments and airports.

(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. As at 31 December 2013, the commitment made by HNA Group had been fulfilled.

(46) Income tax expenses

	2013	2012
	RMB'000	RMB'000
Current income tax	311,237	73,194
Deferred income tax	253,286	635,574
	<u>564,523</u>	<u>708,768</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	2013 RMB'000	2012 RMB'000
Total profit	<u>2,672,655</u>	<u>2,653,714</u>
Income tax expenses calculated at the applicable tax rate of 25% (2012: 25%)	668,164	663,428
Effect of different tax rates of subsidiaries	(15,045)	(48,884)
Income not subject to tax	(120,562)	(63,832)
Expenses not deductible for tax purposes	15,440	15,555
Unrecognised deductible tax losses	3,773	478
Adjustment of income not subject to tax in accordance of tax clearance	12,753	66,354
Reversal of deferred tax assets reviously recognised for tax losses	-	85,227
Other differences	-	(9,558)
Income tax expenses	<u>564,523</u>	<u>708,768</u>

(47) 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.

	2013 RMB'000	2012 RMB'000
Profits attributable to the ordinary shareholders of the Company	2,105,052	1,927,787
Weighted average number of outstanding ordinary shares in issue	<u>12,182,182</u>	<u>10,871,782</u>
Basic earnings per share (RMB Yuan per share)	<u>0.173</u>	<u>0.177</u>

In 2013, the Company transferred capital surplus to share capital (Note 5 (32)). As these capital increase has no impact on the total amount of equity, the Company recalculated earnings per share for the comparative period (for the year ended 31 December 2012) based on adjusted number of shares in accordance with the accounting standards.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(47) 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 2013, there are no diluted ordinary shares (2012: Nil), therefore diluted earnings per share is equal to basic earnings per share.

(48) Other comprehensive income

	2013 RMB'000	2012 RMB'000
Gain arising from available-for-sale financial assets	72,974	135,334
Less: income tax impact	<u>(18,245)</u>	<u>(33,833)</u>
	<u>54,729</u>	<u>101,501</u>

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

	2013 RMB'000	2012 RMB'000
Refunds of security deposits for notes payable	1,796,013	2,369,984
Receipts of subsidy income (Note 5(45))	307,038	460,154
Receipts of net profit compensation of Beijing Kehang (Note 5(45)(b))	-	117,875
Others	<u>473,779</u>	<u>112,053</u>
	<u>2,576,830</u>	<u>3,060,066</u>

(b) Cash paid relating to other operating activities:

	2013 RMB'000	2012 RMB'000
Payments of notes payable, and other security deposits	757,855	1,796,013
Payments of ticket sales commission	1,379,392	1,388,371
Payments of ticket reservation fees	199,714	172,080
Payments of bank charges	160,977	123,121
Payments of sales branches' expenses	68,608	68,979
Payments of advertising and entertainment expenses	90,632	62,364
Others	<u>466,197</u>	<u>545,711</u>
	<u>3,123,375</u>	<u>4,156,639</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Cash received relating to other investing activities

	2013 RMB'000	2012 RMB'000
Receipts of term deposits upon maturity	1,525,000	1,750,000
Interests on deposits	446,472	604,482
	<u>1,971,472</u>	<u>2,354,482</u>

(d) Cash paid relating to other investing activities

	2013 RMB'000	2012 RMB'000
Payment of term deposits	<u>2,897,357</u>	<u>1,525,000</u>

(e) Cash received relating to other financing activities

	2013 RMB'000	2012 RMB'000
Cash received from discounted notes payable	<u>2,150,000</u>	<u>2,753,000</u>

(f) Cash paid relating to other financing activities

	2013 RMB'000	2012 RMB'000
Payments of discounted notes payable	4,113,000	4,272,000
Payments of finance leases	675,859	435,918
Interest on discounting notes	190,700	362,357
	<u>4,979,559</u>	<u>5,070,275</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) 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

	2013 RMB'000	2012 RMB'000
Net profit	2,108,132	1,944,946
Add: Adjust by provision for asset impairment (Note 5(42))	55,200	86,484
Depreciation of fixed assets (Note 5(11))	2,597,226	2,330,061
Amortisation of intangible assets (Note 5(13))	5,339	5,783
Amortisation of long-term prepaid expenses (Note 5(15))	137,573	100,350
Amortisation of deferred loss on sales and leaseback transaction	71,918	66,001
Gains on disposals of fixed assets	(20,779)	(76,370)
(Loss)/gains on changes in fair value (Note 5(43))	64,363	(504,363)
Finance expenses	1,717,117	2,480,502
Investment income (Note 5(44))	(606,265)	(188,241)
Increase in deferred tax liabilities	240,532	590,386
Increase in deferred revenue (Note 5(31))	114,855	162,053
Decrease in inventories	8,827	55,742
Decrease in operating receivables	876,867	479,832
Increase in operating payables	464,258	2,662,745
Net cash flows from operating activities	<u>7,835,163</u>	<u>10,195,911</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) 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:

	2013 RMB'000	2012 RMB'000
Asset transfer	-	192,552
Fixed assets acquired under finance leases	-	473,000
	<u>-</u>	<u>665,552</u>

Movement in cash and cash equivalents:

	2013 RMB'000	2012 RMB'000
Cash and cash equivalents at end of year	16,695,689	18,633,988
Less: Cash and cash equivalents at beginning of year	<u>(18,633,988)</u>	<u>(14,598,317)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(1,938,299)</u>	<u>4,035,671</u>

(b) Cash and cash equivalents

	31 December 2013 RMB'000	31 December 2012 RMB'000
Cash on hand	898	2,409
Bank deposits available for drawing at any time	<u>16,694,791</u>	<u>18,631,579</u>
Cash and cash equivalents at end of year	<u>16,695,689</u>	<u>18,633,988</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 2013 and 2012 are as follows:

	<u>Airline operation segment</u>		<u>Other segments</u>		<u>Elimination between segments</u>		<u>Unallocated items (Note)</u>		<u>Total</u>	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Revenue generated from										
external transactions	29,912,005	28,603,582	319,357	264,003	-	-	-	-	30,231,362	28,867,585
Interest income	561,387	642,264	338	2,359	-	-	-	-	561,725	644,623
Interest expenses	3,453,873	3,565,099	70,616	80,230	-	-	-	-	3,524,489	3,645,329
Assets impairment losses	55,200	-	-	380	-	-	-	86,104	55,200	86,484
Depreciations and amortisations	2,772,028	2,463,750	40,028	38,445	-	-	-	-	2,812,056	2,502,195
(Loss)/gain on changes in fair value	(65,024)	141,371	661	362,992	-	-	-	-	(64,363)	504,363
Total profit	1,885,701	2,122,199	201,925	429,378	(21,236)	-	606,265	102,137	2,672,655	2,653,714
Income tax expenses	536,869	605,730	27,654	103,038	-	-	-	-	564,523	708,768
Net profit	1,348,832	1,516,469	174,271	326,340	(21,236)	-	606,265	102,137	2,108,132	1,944,946
Total assets	84,726,110	78,048,028	7,576,170	4,710,474	(5,707,274)	(2,506,807)	16,686,905	12,467,449	103,281,911	92,719,144
Total liabilities	73,624,151	65,796,404	5,838,594	3,543,275	(1,704,668)	(529,764)	-	-	77,758,077	68,809,915

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, available-for-sale financial assets and financial products recorded in other non-current assets.

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6 SEGMENT INFORMATION (CONTINUED)

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

	2013 RMB'000	2012 RMB'000
Domestic	26,596,342	25,257,345
International and regional	3,635,020	3,610,240
	<u>30,231,362</u>	<u>28,867,585</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 2012 RMB'000	Current year additions	Current year reductions	31 December 2013 RMB'000
Grand China Air	6,008,324	-	-	6,008,324

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(1) The parent company (Continued)

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

	31 December 2013		31 December 2012	
	% of direct equity interests held	% of direct voting rights	% of direct equity interests held	% of direct voting rights
Grand China Air	28.18%	28.18%	28.18%	28.18%

Except for the 28.18% shares directly held by Grand China Air, American Aviation LDC, a wholly-owned subsidiary of Grand China Air, held 1.77% shares of the Company. As at 31 December 2013, Grand China Air directly and indirectly held 29.95% shares of the Company in total.

(2) Subsidiaries

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

(3) Associates

	Enterprise type	Place of registration	Legal representative	Nature of business	Registered capital	% equity interests held	% voting right held	Organisation code
							by the Company	
Tianjin Airlines	Limited company	Tianjin	Xin Di	Domestic goods and passengers transport; goods and passengers transport from Tianjin to Hong Kong, Macao Special Administrative Region and neighbouring countries; accident insurance, health insurance, traditional life insurance; rent and maintenance of aircrafts, professional aircraft training and consultancy service; import and export of goods and technologies; advertisement management; goods combined transport and agency service; operation of aircraft materials and general merchandise	RMB'000 5,950,000	42.02%	42.02%	79496844-2

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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	
Bohai Trust	Limited company	Shijia Zhuang	Jin Pin	Assets trust, movable trust, and 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.	2,000,000	39.78%	39.78%	104323736
Hong Kong Airlines Group	Limited company	British Virgin Islands		Goods and passengers transport	HK\$ 5,324,768	27.02%	27.02%	N/A

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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	
Grand China Technology	Limited company	Haikou	Wang Yingming	Maintenance, protection and retreat of aircrafts, engines and other accessories; crew services and duty services insurance, maintenance and technology services provision; fleet technology management and other project services; checking services; personnel training; technology consultancy; maintenance development; assets managements, etc.	2,080,000	48.08%	48.08%	69890098-2
Lucky Air	Limited company	Kunming	Wang Yangang	Domestic passenger and cargo air transportation, cargo import and export; insurance by-business agency (operating with permission), etc.	1,766,826	40.00%	40.00%	76044470-4

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Associates (Continued)

	Enterprise	Place of	Legal		Registered	% equity	% voting	
	type	registration	representative	Nature of business	Capital	interests	right held	Organisation
					RMB'000	held	by the	code
							Company	
HNA Finance	Limited company	Beijing	Zhang Shanghai	Financial and financing consultancy , credit authentication and relevant consultancy and agency services to member companies; assistance to member companies on receipt and payment of trading receivables and payables; warranty provision to member companies; entrusted loan and entrusted investments handling among member companies; notes acceptance and discount to member companies; internal accounts transfer and settlement of member companies and relevant program design of accounts settlement and clearing; absorption of member companies' deposits; borrowings and financing rental provision to member companies; inter-bank borrowings; issuance of finance company bonds after approved; corporate bonds underwritten of member companies; negotiable securities investment, etc.	2,700,000	23.70%	23.70%	102054341
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

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Associates (Continued)

	Enterprise type	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
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
Bairuichen Culture	Under HNA Group's control	55141614-1
Yisheng Holding	Under HNA Group's control	693161850
Capital Airlines	Under HNA Group's control	70887277-9
Western 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 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
Beijing HNA Real Estate	Under HNA Group's control	789953019
HNA Property Holdings	Under HNA Group's control	79872661-9
Hong Kong Airlines	Under HNA Group's control	N/A
Xinsheng Info Tech	Under HNA Group's control	671060987
Changjiang Leasing	A shareholder with over 5% voting rights of the Company	72123031-6
Bohai Trust	Under HNA Group's control	22859736-8
Hainan Guoshan	Under the same control of the parent company of the Company	55739943-4
HNA Beverage	Under HNA Group's control	747780842
HNA Songzhuang	Under HNA Group's control	58445217-3
HNA Group (International)	Under HNA Group's control	N/A
HNA Information	Under HNA Group's control	713859165
Xinsheng Feixiang	Under HNA Group's control	698934891

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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	2013		2012	
			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	145,966	22%	117,751	17%
		Air Catering Holding	43,721	7%	37,955	6%
		Xinjiang Catering	34,515	5%	24,650	4%
		HNA Beverage	20,115	3%	-	-
		Sanya Catering	13,888	2%	12,032	2%
			258,205	39%	192,388	29%
Take-off and landing	Government directed price	Meilan Airport	94,797	4%	95,914	4%
		Haikou Meilan	43,252	2%	39,175	2%
		Sanya Phoenix Airport	66,759	3%	49,124	2%
		Gansu Airport	34,833	1%	-	-
			239,641	10%	184,213	8%
Providing advertising services	Mutually agreed price	Beijing Business Culture	15,000	100%	30,000	100%
Receiving advertising services	Mutually agreed price	Bairuichen Culture	13,425	24%	5,827	10%
Import & export agency fee	0.3%~3% of purchase prices	HNA Import & Export	51,226	100%	27,395	100%
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	186,479	14%	152,344	11%
	Mutually agreed price	Yisheng Holding	2,332	0.2%	3,747	0.3%
	Mutually agreed price	Xinsheng Info Tech	881	0.1%	14,675	1%
			189,692	14.3%	170,766	12%
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	10,601	23%	11,991	30%
		Tianjin Airlines	3,122	7%	4,571	11%
		Capital Airlines	2,702	6%	2,747	7%
		Lucky Air	947	2%	1,587	4%
		Western Airlines	514	1%	705	2%
			17,886	39%	21,601	54%
Cargo agency fees paid to related parties	Mutually agreed price	HNA Cargo	57,200	4%	60,929	4%
Sales of New Gold Deer cards	Mutually agreed price	Yisheng Holding	24,827	0.92%	37,640	0.15%

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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	2013		2012	
			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	777,206	44%	610,330	39%
Interest income	Market price	HNA Finance	84,193	15%	138,398	21%
Charter income	Mutually agreed price	Gansu Airport	25,225	1%	61,644	4%
Frequent flyer mileages income	Mutually agreed price	Tianjin Airlines	28,792	20%	44,520	31%
	Mutually agreed price	Capital Airlines	22,296	15%	28,322	20%
	Mutually agreed price	Lucky Air	10,042	7%	18,322	13%
	Mutually agreed price	Western Airlines	5,557	4%	-	-
			66,687	46%	91,164	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	Lessee	Leased assets	Lease commencement date	Lease expiry date	Lease income in 2013 RMB'000	Lease income in 2012 RMB'000
The Group	Capital Airlines	Aircraft	18/12/2008	Automatic roll-over annually	537,919	478,880
	Tianjin Airlines		25/05/2008	Automatic roll-over annually	247,872	246,961
	Lucky Air		01/01/2007	Automatic roll-over annually	313,244	264,044
	Grand China Air		30/11/2007	Automatic roll-over annually	111,591	113,632
	Western Airlines		09/08/2010	Automatic roll-over annually	48,902	73,800
	Yangtze River Express		16/04/2010	28/2/2013	2,597	15,585
					1,262,125	1,192,902

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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	Lessee	Leased assets	Lease commencement date	Lease expiry date	Lease income in 2013 RMB'000	Lease income in 2012 RMB'000
The Company	HNA Tourism	Properties	16/04/2009	Automatic roll-over annually	12,619	12,619
Xinhua Airlines	HNA Technology	Properties	01/01/2011	Automatic roll-over annually	37,748	37,748
Beijing Kehang Group	HNA Hotel Group	Properties	01/04/2012	31/03/2015	139,169	142,941
	HNA Finance		01/10/2008	31/12/2013	9,556	9,558
	HNA Group		01/10/2008	31/12/2013	9,080	9,084
					<u>208,172</u>	<u>292,080</u>

(ii) The Group as lessee:

Lessor	Lessee	Leased assets	Lease commencement date	Lease expiry date	Lease rentals in 2013 RMB'000	Lease rentals in 2012 RMB'000
Hong Kong Airlines	The Company	Aircraft	2010 - 2013	Automatic roll-over annually	742,042	322,708
Yangtze River Leasing	The Company	Aircraft engines	15/07/2010	12/11/2017	22,271	20,462
Meilan Airport	The Company	Terminal	26/02/2009	Automatic roll-over annually	5,898	5,808
Capital Airlines	Chang'an Airlines	Aircraft	01/01/2011	Automatic roll-over annually	14,850	16,200
					<u>785,061</u>	<u>365,178</u>

Note: The pricing of the above leases are all mutually agreed prices.

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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 2013
(i) Short-term borrowings					
Grand China Air	Chang'an Airlines	100,000	16/01/2013	16/01/2014	No
Grand China Air	The Company	2,150,000	22/02/2013	14/11/2014	No
HNA Group	Chang'an Airlines	80,000	18/09/2013	18/09/2014	No
HNA Group	The Company	3,294,456	03/05/2013	18/12/2014	No
HNA Group	Xinhua Airlines	300,000	08/05/2013	20/11/2014	No
Haikou Meilan	Xinhua Airlines	40,000	15/05/2013	12/05/2014	No
HNA Hotel Group	Xinhua Airlines	70,000	08/05/2013	27/04/2014	No
Haikou Meilan	The Company	1,000,000	18/06/2013	17/06/2014	No
HNA Group and Grand China Air	The Company	7,700,601	01/03/2013	15/12/2014	No
Grand China Air	The Company	2,355,000	04/01/2012	09/12/2013	Yes
HNA Group	The Company	4,982,500	06/04/2012	20/12/2013	Yes
HNA Group	Xinhua Airlines	300,000	16/11/2012	15/11/2013	Yes
HNA Group and Grand China Air	The Company	5,437,000	04/01/2013	11/12/2013	Yes
HNA Group and Haikou Meilan	The Company	1,131,390	28/06/2012	27/06/2013	Yes
HNA Group and HNA Finance	The Company	300,000	26/07/2012	25/07/2013	Yes
HNA Industrial	Beijing Kehang	20,000	13/02/2012	13/02/2013	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 2013
(ii) Long-term borrowings					
HNA Group and Haikou Meilan	Shanxi Airlines	320,000	20/12/2005	17/10/2016	No
HNA Group and Haikou Meilan	Chang'an Airlines	390,000	19/05/2005	28/10/2016	No
HNA Group	Chang'an Airlines	1,345,449	29/09/2007	31/08/2020	No
HNA Group	The Company	4,789,829	11/04/2007	31/07/2025	No
HNA Group and Grand China Air and Hainan Guoshan	The Company	308,000	24/12/2012	23/12/2015	No
HNA Group and HNA Airport Holding	The Company	180,468	02/08/2002	02/08/2035	No
HNA Group and HNA Airport Holding	The Company	30,000	31/03//2004	31/03/2014	No
Grand China Air	The Company	950,000	17/05/2012	16/06/2016	No
HNA Group and HNA Hotel Group and HNA Airlines Holdings	The Company	1,684,593	30/06/2003	07/07/2018	No
HNA Group and Grand China Air	The Company	225,000	18/06/2013	17/06/2016	No
HNA Airport Holding	The Company	193,279	19/12/2003	01/03/2013	Yes
HNA Group	Xinhua Airlines	116,875	09/03/2009	07/03/2013	Yes
HNA Group	The Company	160,938	03/08/2009	01/08/2013	Yes
HNA Group and Haikou Meilan	Shanxi Airlines	110,000	17/06/2005	17/10/2013	Yes
HNA Group and Haikou Meilan	Chang'an Airlines	120,000	19/05/2005	20/12/2013	Yes
HNA Group and Haikou Meilan	The Company	700,000	11/30/2010	29/11/2013	Yes
Grand China Air	The Company	280,000	25/11/2011	25/11/2013	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 and pledged amount RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2013
(i) Short-term borrowings					
The Company	HNA Group	147,000	13/08/2013	13/08/2014	No
Shanxi Airlines	Grand China Air	300,000	25/09/2013	22/09/2014	No
The Company	Grand China Air	300,000	30/09/2013	29/09/2014	No
The Company	Lucky Air	300,000	10/28/2013	27/10/2014	No
The Company	HNA Hotel Group	100,000	12/06/2013	06/06/2014	No
The Company	Capital Airlines	200,000	15/04/2013	15/04/2014	No
The Company	HNA Hotel Group	500,000	11/03/2013	10/03/2014	No
The Company	HNA Hotel Group	200,000	14/08/2013	13/02/2014	No
The Company	HNA Hotel Group	100,000	10/09/2013	10/09/2014	No
The Company	Lucky Airlines	300,000	25/10/2012	25/04/2013	Yes
The Company	Grand China Air	300,000	16/04/2012	15/04/2013	Yes
The Company	Grand China Air	300,000	29/09/2012	28/09/2013	Yes
Shanxi Airlines	Grand China Air	300,000	18/09/2012	18/09/2013	Yes
The Company	HNA Group	280,000	06/06/2012	06/06/2013	Yes
The Company	HNA Group	117,200	18/12/2012	18/12/2013	Yes
The Company	HNA Group	111,700	06/06/2012	06/06/2013	Yes
The Company	Yangtze River Express	100,000	29/09/2012	28/09/2013	Yes
The Company	Bohai Leasing	30,000	02/07/2012	02/07/2013	Yes
The Company	HNA Hotel Group	<u>193,000</u>	24/05/2013	30/11/2013	Yes
(ii) Long-term borrowings					
The Company	Changjiang Leasing	262,000	02/11/2012	02/05/2015	No
The Company	HNA Tourism	300,000	10/11/2011	08/11/2014	No
The Company	HNA Airlines Holding	238,800	18/09/2012	17/09/2017	No
The Company	Grand China Air	1,000,000	06/09/2013	05/03/2015	No
The Company	HNA Group	754,260	31/12/2009	03/08/2013	Yes
The Company	Yangtze River Leasing	525,468	01/02/2007	30/12/2013	Yes
The Company	Yangtze River Leasing	33,000	01/02/2007	30/12/2013	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 Airport Holding	<u>34,224</u>	Opening balance	<u>-</u>	
Yangtze River Leasing	<u>4,223</u>	Opening balance	<u>-</u>	
HNA Group	<u>208,342</u>	Opening balance	<u>149,460</u>	11/01/2013
HNA Hotel Holding	7,481	Opening balance	34,400	31/12/2013
HNA Hotel Holding	2,057	31/01/2013		
HNA Hotel Holding	2,560	28/02/2013		
HNA Hotel Holding	3,470	30/04/2013		
HNA Hotel Holding	3,092	30/05/2013		
HNA Hotel Holding	3,525	28/06/2013		
HNA Hotel Holding	2,735	31/07/2013		
HNA Hotel Holding	2,211	30/08/2013		
HNA Hotel Holding	2,492	27/09/2013		
HNA Hotel Holding	2,426	31/10/2013		
HNA Hotel Holding	3,180	28/11/2013		
HNA Hotel Holding	<u>2,501</u>	29/12/2013		
	<u>37,730</u>		<u>34,400</u>	
HNA Property Holdings	<u>1,160</u>	Opening balance	<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	2013		2012	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Yangtze River Express	Transfer of aircraft	Valuation amount	73,301	60%	-	-
Yangtze River Express	Transfer of aircraft	Valuation amount	49,280	40%	-	-
Contruction of new urban city	Purchase of fix asset	Valuation amount	-	-	(894,161)	47%
Contruction of new urban city	Disposal of fixed assets and land	Valuation amount	-	-	192,552	100%
			<u>122,581</u>		<u>(701,609)</u>	

(g) Capital injections

Related party	Nature of transaction	Pricing policy	2013		2012	
			Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Tianjin Airlines (Note 5(9)(a)(ii))	Capital injection – Tianjin Airlines	Mutually agreed price	1,680,000	64%	-	-
HKIAL	Capital injection – HKIAL	Mutually agreed price	308,830	12%	-	-
HKAGH	Capital injection – HKAGH	Mutually agreed price	617,660	24%	-	-
HNA Airport Holding	Capital injection – Hunan Golden Deer	Mutually agreed price	-	-	500,000	100%
			<u>2,606,490</u>	100%	<u>500,000</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	2013		2012	
			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%
Total equity transfer			-	-	50,000	100%
HNA Group	Equity interest acquisition - Tianjin Airlines	Mutually agreed price	1,093,400	77%	-	-
HNA Group (International)	Equity interest acquisition - Hong Kong Group	Mutually agreed price	321,183	23%	-	-
Haikou Meilan、HNA Hotel Holding、Yangtze River Real Estate、 Yanjing Resturant、 HNA Information	Equity interest acquisition - Bohai Trust	Mutually agreed price	-	-	2,760,906	84%
HNA Tourism	Equity interest acquisition - Capital Airlines Holding	Mutually agreed price	-	-	508,620	16%
Total equity transfer			1,414,583	100%	3,269,526	100%

(i) Remuneration of key management

	2013 RMB '000	2012 RMB '000
Remuneration of key management	4,228	4,143

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7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(j) Other related party transactions

Related party	Nature of transaction	2013		2012	
		Amount RMB'000	% of transactions in same nature	Amount RMB'000	% of transactions in same nature
Capital Airlines	Pilot transfer	2,300	3%	4,050	23%
Lucky Air	Pilot transfer	4,300	6%	2,100	12%
Tianjin Airlines	Pilot transfer	1,000	1%	4,550	26%
Western Airlines	Pilot transfer	8,000	12%	4,500	25%
Lucky Air	Amounts paid on behalf (i)	283,531	54%	216,855	43%
Capital Airlines	Amounts paid on behalf (i)	131,153	25%	122,714	24%
Yangtze River Express	Amounts paid on behalf (i)	34,695	7%	33,952	7%
Tianjin Airlines	Amounts paid on behalf (i)	34,209	6%	13,711	3%
Western Airlines	Amounts paid on behalf (i)	28,202	5%	32,186	6%
Grand China Air	Amounts paid on behalf (i)	11,600	1%	-	-
HNA Technology	Amounts paid on behalf (i)	5,320	2%	65,714	13%
HNA Group	Profit compensation of Beijing Kehang	-	-	117,875	100%

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

(6) Receivables from and payables to related parties

Account	Related party	31 December 2013 RMB '000	31 December 2012 RMB '000
Cash at bank and on hand	HNA Finance	4,511,052	4,699,439
Notes receivable	Tianjin Airlines	25,000	-
Interest receivable	HNA Finance	226,716	169,806
Dividends receivables	Haikou Meilan Meilan Airport	966 899	966 899
		1,865	1,865
Accounts receivable	Yisheng Holding HNA Cargo Xinsheng Info Tech Others	14,106 7,686 - 7,562	34,597 4,333 19,087 7,980
		29,354	65,997

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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 2013 RMB'000	31 December 2012 RMB'000
Other receivables	Tianjin Airlines	56,002	-
	Lucky Air	51,184	-
	Capital Airlines	50,163	-
	Meilan Airport	13,809	-
	Others	42,816	19,503
		<u>213,974</u>	<u>19,503</u>
Advances to suppliers	Others	<u>6,666</u>	<u>7,602</u>
Other non-current assets	Grand China Air	800,000	-
	Western Airlines	966,940	-
	Changjiang Leasing	359,366	359,366
	Hong Kong Airlines	36,500	345,538
	HKIAL	15,085	-
		<u>2,177,891</u>	<u>704,904</u>
Notes payable	HNA Import & Export	2,050,000	2,753,000
	Xinhua Air Catering	80,483	-
	HNA Air Catering	16,580	-
	Yangtze River Investment	-	820,000
	Sanya Phoenix Airport	-	54,000
		<u>2,147,063</u>	<u>3,627,000</u>
Interest payable	HNA Finance	<u>-</u>	<u>5,450</u>

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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 2013 RMB'000	31 December 2012 RMB'000
Accounts payable	Hong Kong Airlines	76,010	-
	HNA Technology	54,352	54,231
	Grand China Air	36,271	25,112
	Western Airlines	33,879	16,194
	Xinsheng Feixiang	11,093	8,277
	HNA Information	9,429	7,199
	Lucky Air	-	38,079
	HNA Airline sales	-	18,888
	Others	113,462	83,840
	<u>334,496</u>	<u>251,820</u>	
Other payables	HNA Group	1,024	180,456
	Capital Airlines	-	33,044
	Changjiang Leasing	-	20,967
	HNA Airlines Holdings	-	20,477
	Others	23,322	43,977
	<u>24,346</u>	<u>298,921</u>	
Long-term payables	Changjiang Leasing	398,999	409,678
	Yangtze River Leasing	69,591	89,360
	<u>468,590</u>	<u>499,038</u>	

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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 2013	31 December 2012
	RMB'000	RMB'000
Operating lease out		
- Capital Airlines	314,069	341,667
- Tianjin Airlines	228,465	115,416
- Lucky Air	182,107	114,872
- Grand China Air	65,231	105,096
- Western Airlines	64,948	33,825
- Yangtze River Express	-	12,511
	<u>854,820</u>	<u>723,387</u>

8 COMMITMENTS

(1) Performance of prior year commitments

The capital expenditure commitments and operating lease commitments of the Group as at 31 December 2012 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	31 December
	2013	2012
	RMB'000	RMB'000
Aircraft purchases	64,544,811	75,627,309
Long-term equity investments	4,235,060	-
Buildings, machineries and equipments	574,934	147,411
	<u>69,354,805</u>	<u>75,774,720</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 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	2,938,197	2,115,764
1 to 2 years	2,529,481	1,752,991
2 to 3 years	1,335,291	1,297,613
Over 3 years	5,228,921	5,584,598
	<u>12,031,890</u>	<u>10,750,966</u>

9 POST BALANCE SHEET DATE EVENTS

In March 2014, the Board of the Company decided no dividend distribution for profit of the year ended 31 December 2013.

10 LEASES

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	500,127	651,987
1 to 2 years	287,351	277,452
2 to 3 years	248,797	258,632
Over 3 years	964,118	951,096
	<u>2,000,393</u>	<u>2,139,167</u>

As at 31 December 2013, the unrecognised finance charge amounted to RMB354,556 thousand (31 December 2012: RMB347,095 thousand) (Note 5(30)(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 2013 and 2012, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

	31 December 2013		
	USD RMB'000	Other currencies RMB'000	Total RMB'000
Financial assets -			
Cash at bank and on hand	206,759	8,069	214,828
Accounts receivable	8,039	14,912	22,951
Other receivables	219,714	33,387	253,101
Other non-current assets	1,228,055	-	1,228,055
	<u>1,662,567</u>	<u>56,368</u>	<u>1,718,935</u>
Financial liabilities -			
Short-term borrowings	1,499,837	151,875	1,651,712
Accounts payable	499,275	284,833	784,108
Other payables	50,287	-	50,287
Long-term borrowings	20,566,977	353,594	20,920,571
Long-term payables	468,590	-	468,590
	<u>23,084,966</u>	<u>790,302</u>	<u>23,875,268</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2012		
	USD RMB'000	Other currencies RMB'000	Total 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>

As at 31 December 2013, 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 profit before tax for the year would have been increased/decreased by approximately RMB2,215,633 thousand (31 December 2012: approximately RMB1,997,524 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 2013, the Group's long-term interest bearing liabilities mainly included:

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(1) Market risk (Continued)

(b) Interest rate risk (Continued)

	31 December 2013 RMB'000	31 December 2012 RMB'000
Short-term borrowings	20,415,335	15,792,336
Notes payable	2,518,147	4,782,981
Long-term borrowings	31,668,291	28,757,469
Long-term payables	1,645,837	1,792,072
Debentures payable	7,944,060	6,430,063
	<u>64,191,670</u>	<u>57,554,921</u>
Including: liabilities at floating rates	40,935,312	34,098,247
liabilities at fixed rates	23,256,358	23,456,674
	<u>64,191,670</u>	<u>57,554,921</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 2013 and 2012, the Group had not entered into any interest rate swap agreements.

For the year ended 31 December 2013, 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 profit before tax would have decreased/ increased by approximately RMB102,338 thousand (2012: approximately RMB85,246 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(7)) 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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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 2013, the Group's current liabilities exceeded current assets by approximately RMB15.3 billion. For the year ended 31 December 2013, the net cash inflows from operating activities of the Group were approximately RMB7.8 billion, the net cash outflows from investment activities and financing activities were approximately RMB9.8 billion, and cash and cash equivalents increased by approximately RMB1.9 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 2013				
	Within 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	After 5 years RMB'000	Total RMB'000
Financial assets -					
Cash at bank and on hand	19,214,643	286,500	3,312	1,160,373	20,664,828
Accounts receivable	578,203	-	-	-	578,203
Other receivables	468,460	-	-	-	468,460
Other current assets - available-for-sale financial assets due within one year	1,650,000	-	-	-	1,650,000
	<u>21,911,306</u>	<u>286,500</u>	<u>3,312</u>	<u>1,160,373</u>	<u>23,361,491</u>
Financial liabilities -					
Short-term borrowings	21,010,340	-	-	-	21,010,340
Accounts payable	5,016,892	-	-	-	5,016,892
Other payables	603,026	-	-	-	603,026
Long-term borrowings	7,267,153	6,824,809	11,308,230	13,066,154	38,466,346
Long-term payables	500,127	287,351	573,869	639,046	2,000,393
	<u>34,397,538</u>	<u>7,112,160</u>	<u>11,882,099</u>	<u>13,705,200</u>	<u>67,096,997</u>

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12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(3) Liquidity risk (Continued)

	31 December 2012				
	Within 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	After 5 years RMB'000	Total RMB'000
Financial assets -					
Cash at bank and on hand	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>

(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 2013		31 December 2012	
	Net book value RMB'000	Fair value RMB'000	Net book value RMB'000	Fair value RMB'000
Financial liabilities -				
Long-term borrowings	31,668,291	31,714,132	28,757,469	29,195,307
Long-term payables	1,645,837	1,723,929	1,792,072	1,819,829
	<u>33,314,128</u>	<u>33,438,061</u>	<u>30,549,541</u>	<u>31,015,136</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 2013, 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-	-	434,420	2,260,000	2,694,420

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

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.

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13 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2012 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 2013 RMB'000
Investment properties measured at fair value (Note 5(10))	7,256,342	(64,363)	-	(361,604)	6,830,375
Available-for-sale financial assets (Note 5(8))	1,061,446	-	72,974	(90,000)	1,044,420
Other current assets - available-for- sale financial assets due within one year	2,000,000	-	-	(350,000)	1,650,000
	<u>10,317,788</u>	<u>(64,363)</u>	<u>72,974</u>	<u>(801,604)</u>	<u>9,524,795</u>

14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	31 December 2013 RMB'000	31 December 2012 RMB'000
Financial assets -		
Cash at bank and on hand	214,828	266,538
Accounts receivable	<u>276,052</u>	<u>133,925</u>
Financial assets subtotal	<u>490,880</u>	<u>400,463</u>
Financial liabilities -		
Borrowings and payables	<u>23,875,268</u>	<u>21,994,538</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2013 RMB'000	31 December 2012 RMB'000
Accounts receivable	124,362	335,946
Less: Provisions for bad debts	<u>(9,310)</u>	<u>(9,310)</u>
	<u>115,052</u>	<u>326,636</u>

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	115,052	326,636
Over 6 years	<u>9,310</u>	<u>9,310</u>
	<u>124,362</u>	<u>335,946</u>

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

	31 December 2013				31 December 2012			
	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	5,383	4%	(1,126)	21%	3,065	1%	(1,126)	37%
- Group by related parties	110,795	89%	-	-	324,697	97%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	8,184	7%	(8,184)	100%	8,184	2%	(8,184)	100%
	<u>124,362</u>	<u>100%</u>	<u>(9,310)</u>	<u>7%</u>	<u>335,946</u>	<u>100%</u>	<u>(9,310)</u>	<u>3%</u>

(c) As at 31 December 2013, accounts receivable did not include any amounts due from entities which hold over 5% (5% included) voting shares of the Company (31 December 2012: Nil).

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

(1) Accounts receivable (Continued)

(d) As at 31 December 2013, 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	51,971	Within 1 year	42%
Xinhua Airlines	Subsidiary	14,586	Within 1 year	12%
Yisheng Holding	Under HNA Group's control	14,106	Within 1 year	11%
Hainan Fu Shun	Subsidiary	13,863	Within 1 year	11%
HNA Cargo	Under HNA Group's control	7,686	Within 1 year	6%
		<u>102,212</u>		<u>82%</u>

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

Relationship with the Company	31 December 2013			31 December 2012		
	Amount RMB'000	% of total balance	Provisions	Amount RMB'000	% of total balance	Provisions
			for bad debts RMB'000			for bad debts RMB'000
Golden-Deer Sales	51,971	42%	-	196,992	59%	-
Xinhua Airlines	14,586	12%	-	22,212	7%	-
Yisheng Holding	14,106	11%	-	34,597	10%	-
Hainan Fu Shun	13,863	11%	-	-	-	-
HNA Cargo	7,686	6%	-	4,333	1%	-
Others	8,583	7%	-	66,563	20%	-
	<u>110,795</u>	<u>89%</u>	<u>-</u>	<u>324,697</u>	<u>97%</u>	<u>-</u>

(2) Other receivables

	31 December 2013 RMB'000	31 December 2012 RMB'000
Amounts due from related parties	567,934	979,145
Aircraft leasing security deposits and maintenance funds receivable	118,800	53,149
Others	86,656	68,979
	<u>773,390</u>	<u>1,101,273</u>
Less: Provisions for bad debts	(13,729)	(13,729)
	<u>759,661</u>	<u>1,087,544</u>

HAINAN AIRLINES CO., LTD.

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

(2) Other receivables (Continued)

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

	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	681,239	1,075,096
1 to 2 years	70,359	11,542
2 to 3 years	8,962	6,601
3 to 4 years	4,971	175
4 to 5 years	129	116
5 to 6 years	116	685
Over 6 years	7,614	7,058
	<u>773,390</u>	<u>1,101,273</u>

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

	31 December 2013				31 December 2012			
	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	1%	(7,000)	100%
Provision for bad debts by group								
- Group by aging analysis method	79,656	10%	(6,729)	10%	68,979	6%	(6,729)	10%
- Aircraft leasing security deposits and maintenance funds receivable	118,800	16%	-	-	46,149	4%	-	-
- Group by related parties	567,934	73%	-	-	979,145	89%	-	-
	<u>773,390</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>	<u>1,101,273</u>	<u>100%</u>	<u>(13,729)</u>	<u>1%</u>

HAINAN AIRLINES CO., LTD.

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

(2) Other receivables (Continued)

(c) As at 31 December 2013, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount	Aging	% of total balance
Xinhua Airlines	Subsidiary	329,530	Within 1 year	43%
Other Receivable 1	Third Party	173,613	Within 1 year	22%
Tianjin Airlines	Associate of the Group	56,002	Within 1 year	7%
Lucky Air	Associate of the Group	51,184	Within 1 year	7%
Capital Airlines	Under HNA Group's control	50,163	Within 1 year	6%
		<u>660,492</u>		<u>85%</u>

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

Relationship with the Company	31 December 2013			31 December 2012		
	Amount	% of total balance	Provisions for bad debts	Amount	% of total balance	Provisions for bad debts
	RMB'000		RMB'000	RMB'000		RMB'000
Xinhua Airlines	329,530	43%	-	799,916	72%	-
Tianjin Airlines	56,002	7%	-	-	-	-
Tianjin Airlines	51,184	7%	-	-	-	-
Capital Airlines	50,163	6%	-	-	-	-
control						
Beijing Kehang	-	-	-	160,280	15%	-
Others	81,055	10%	-	18,949	2%	-
	<u>567,934</u>	<u>73%</u>	<u>-</u>	<u>979,145</u>	<u>89%</u>	<u>-</u>

(3) Long-term equity investments

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Subsidiaries (a)	9,510,396	7,943,018
Associates - without quoted price (b)	6,116,345	2,426,035
Other long-term equity investments (c)	942,679	1,655,679
	<u>16,569,420</u>	<u>12,024,732</u>
Less: Provisions for impairment	(5,000)	(5,000)
	<u>16,564,420</u>	<u>12,019,732</u>

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

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Accounting method	Original investment cost RMB'000	31 December 2012 RMB'000	Current year additions/ disposals RMB'000	31 December 2013 RMB'000	% shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment RMB'000	Provisions for impairment made in current year RMB'000	Cash dividends declared in current year RMB'000
Xinhua Airlines	Cost method	3,746,107	3,746,107	-	3,746,107	100.00%	100.00%	N/A	-	-	-
Chang'an Airlines	Cost method	1,799,408	1,799,408	-	1,799,408	100.00%	100.00%	N/A	-	-	-
Beijing Kehang	Cost method	1,728,341	1,728,341	-	1,728,341	95.00%	95.00%	N/A	-	-	-
Shanxi Airlines	Cost method	408,467	408,467	-	408,467	46.29%	46.29%	N/A	-	-	-
Brussels EDIP	Cost method	62,996	62,996	-	62,996	100.00%	100.00%	N/A	-	-	-
Brussels DATA	Cost method	61,764	61,764	-	61,764	100.00%	100.00%	N/A	-	-	-
Brussels SODE	Cost method	543,135	59,918	483,217	543,135	94.18%	94.18%	N/A	-	-	-
HNA Hongkong	Cost method	58,417	58,417	-	58,417	100.00%	100.00%	N/A	-	-	-
Golden-Deer Sales	Cost method	7,600	7,600	-	7,600	95.00%	95.00%	N/A	-	-	-
Hainan Fushun (Note 4(1)(a))	Cost method	1,094,161	-	1,094,161	1,094,161	100.00%	100.00%	N/A	-	-	-
Others	Cost method	10,000	10,000	(10,000)	-			N/A	-	-	-
			<u>7,943,018</u>	<u>1,567,378</u>	<u>9,510,396</u>				<u>-</u>	<u>-</u>	<u>-</u>

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

(3) Long-term equity investments (Continued)

(b) Associates

	Accounting method	Original investment cost RMB'000	31 December 2012 RMB'000	Current year increase/decrease		Share of results of associates RMB'000	Investment income recognised with the cost method to transferring from RMB'000	Cash dividends declared by associate RMB'000	31 December 2013 RMB'000	% equity shareholding	% voting right	Explanation for difference between % shareholding and % voting rights	Provisions for impairment RMB'000	Provisions for current year RMB'000
				Capital addition RMB'000	Capital addition /reduction RMB'000									
Tianjin Airlines (Note 5(9)(a))	Equity method	3,486,400	-	713,000	2,773,400	56,322	31,489	-	3,574,211	42.02%	42.02%	N/A	-	-
HNA Technology	Equity method	1,000,000	1,012,209	-	-	77,722	-	-	1,089,931	48.08%	48.08%	N/A	-	-
Lucky Air	Equity method	842,000	953,005	-	-	34,705	-	-	987,710	33.78%	33.78%	N/A	-	-
Hunan Golden-Deer	Equity method	450,000	450,000	-	-	-	-	-	450,000	47.37%	47.37%	N/A	-	-
HNA Import & Export	Equity method	3,000	10,821	-	-	9,374	-	(5,702)	14,493	30%	30%	N/A	-	-
			<u>2,426,035</u>	<u>713,000</u>	<u>2,773,400</u>	<u>178,123</u>	<u>31,489</u>	<u>(5,702)</u>	<u>6,116,345</u>					

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

(3) Long-term equity investments (Continued)

(c) Other long-term equity investments

								Explanation for difference between % shareholding and % voting rights	Provisions for impairment	Provisions made in current year	Cash dividends declared in current year
	Accounting method	Original investment cost RMB'000	31 December 2012 RMB'000	Current year additions RMB'000	31 December 2013 RMB'000	% shareholding	% voting right		RMB'000	RMB'000	RMB'000
Capital Aviation Holdings	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	-	-	-
HNA Hotel Group	Cost method	58,161	58,161	-	58,161	19%	19%	N/A	-	-	-
Xin Guo Hotel	Cost method	40,000	31,952	-	31,952	13.33%	13.33%	N/A	-	-	-
TravelSky Tech	Cost method	17,000	17,000	-	17,000	1.13%	1.13%	N/A	-	-	4,409
Yangtze River Express	Cost method	10,000	10,000	-	10,000	2%	2%	N/A	-	-	-
Meilan Airport	Cost method	6,906	6,906	-	6,906	1.12%	1.12%	N/A	-	-	-
Tianjin Airlines (Note 5(9)(b))	Cost method	713,000	713,000	(713,000)	-	17.59%	17.59%	N/A	-	-	-
Others	Cost method	5,275	5,275	-	5,275				(5,000)	-	-
			<u>1,655,679</u>	<u>(713,000)</u>	<u>942,679</u>				<u>(5,000)</u>	<u>-</u>	<u>4,409</u>

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

(4) Revenue and operating costs

	2013 RMB'000	2012 RMB'000
Revenue from main operations (a)	19,797,883	18,798,687
Revenue from other operations (b)	2,389,571	1,214,600
	<u>22,187,454</u>	<u>20,013,287</u>
Operating costs of main operations	(16,166,512)	(14,322,333)
Operating costs of other operations (b)	(1,142,491)	(611,261)
	<u>(17,309,003)</u>	<u>(14,933,594)</u>

(a) Revenue from main operations

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

	2013 RMB'000	2012 RMB'000
Passenger	18,934,162	17,942,293
Cargo and mail	718,896	714,253
Others	144,825	142,141
	<u>19,797,883</u>	<u>18,798,687</u>

The total revenue of the Company's top 5 customers for the year ended 31 December 2013 amounted to RMB6,837,165 thousand (2012: RMB5,227,691 thousand), accounting for 31% of total revenue of the Company (2012: 26%).

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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)**

	2013		2012	
	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	1,841,532	(1,007,850)	846,083	(550,757)
Processing fee for cancelled tickets	217,798	-	119,770	-
Building rental	68,310	-	63,259	-
Commission fee	33,685	-	24,952	-
Aircraft advertising	15,000	-	30,210	-
Others	213,246	(134,641)	130,326	(60,504)
	<u>2,389,571</u>	<u>(1,142,491)</u>	<u>1,214,600</u>	<u>(611,261)</u>

Costs of aircraft leasing did not include interests charge of RMB222,297 thousand (2012: RMB208,679 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(5) Investment income

	2013 RMB'000	2012 RMB'000
Share of results of investees under equity method	178,123	125,785
Investment income of financial products	52,438	-
Dividend income from available-for-sale financial assets	4,865	4,636
Dividends declared by investees under cost method	4,409	5,843
Gain on disposal of long-term equity investments	-	(40,116)
	<u>239,835</u>	<u>96,148</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

	2013 RMB'000	2012 RMB'000
Net profit	1,408,025	893,959
Add: Provisions for asset impairment	55,145	86,104
Depreciation of fixed assets	2,172,892	1,919,989
Amortisation of intangible assets	1,469	1,911
Amortisation of long-term deferred expenses	121,744	84,591
Amortization of deferred loss on sales and leaseback transaction	67,976	48,123
Gains on disposals of fixed assets, intangible assets and other long-term assets	(27,731)	(76,068)
Gains on changes in fair value	(35,025)	(118,396)
Finance expenses	1,385,312	2,053,783
Investment losses	(239,835)	(96,148)
Increase in deferred tax liabilities	245,563	369,630
Increase in deferred revenue	104,573	111,500
Decrease in inventories	8,275	61,107
Decrease/(increase) in operating receivables	1,220,102	(75,396)
Increase/(decrease) in operating payables	2,558,068	(813,266)
Net cash flows from operating activities	<u>9,046,553</u>	<u>4,451,423</u>

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

	2013 RMB'000	2012 RMB'000
Assets transfer	-	192,552
Fixed assets acquired under finance leases	-	473,000
	<u>-</u>	<u>665,552</u>

(c) Net increase in cash and cash equivalents

	2013 RMB'000	2012 RMB'000
Cash and cash equivalents at end of year	15,172,055	16,106,533
Less: Cash and cash equivalents at beginning of year	<u>(16,106,533)</u>	<u>(10,915,876)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(934,478)</u>	<u>5,190,657</u>

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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
Bairuichen Culture Media(Beijing) Co., Ltd.	Bairuichen 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 Xin Guo Hotel Ltd.	Xin Guo Hotel
Hainan Xinsheng Information Technology Co., Ltd.	Xinsheng Info Tech
Hainan Haidao Hangxiang Investment and Development Co., Ltd.	Haidao 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 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 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

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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 Industrial Holding Co., Ltd.	HNA Industrial
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 Co., Ltd.	HNA Group
HNA Group Finance Co., Ltd.	HNA Finance
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
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
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Catering
Xi'an Chanba Financing Warranty Co., Ltd	Xi'an Chanba
Western Airlines Co., Ltd.	Western Airlines
HKA Group Holdings Co., Ltd	HKAGH
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines
Yunnan Xiangpeng Airlines Co., Ltd.	Lucky Air
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
Hainan Xinsheng Feixiang Shopping Co., Ltd.	Xinsheng Feixiang
Beijing HNA Real Estate Co., Ltd	Beijing HNA Real Estate
HNA Group (International) Co., Ltd.	HNA Group (International)
Hainan Fushun Investment and Development Co., Ltd.	Hainan Fushun
Hong Kong International Aviation Leasing Co., Ltd.	HKIAL