

HAINAN AIRLINES CO., LTD.

**FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2014**

HAINAN AIRLINES CO., LTD.

**FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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Report of the Auditors

PwC ZT Shen Zi (2015) No. 10067
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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 2014, 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.

Report of the Auditors (Continued)

PwC ZT Shen Zi (2015) No. 10067
(Page 2 of 2)

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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Hainan Airlines as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
25 March 2015

Duan Yongqiang
Certified Public Accountant

Xie Jingying
Certified Public Accountant

HAINAN AIRLINES CO., LTD.

**CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2014**

(All amounts in RMB Thousand Yuan unless otherwise stated)

ASSETS	Notes	31 December 2014	31 December 2013 (Restated)	1 January 2013 (Restated) Notes 2(29) and 5(1)
		RMB'000	RMB'000	RMB'000
Current assets				
Cash at bank and on hand	4(1)	21,715,590	21,729,850	23,339,667
Notes receivable		-	25,000	-
Accounts receivable	4(2)	733,906	905,626	670,382
Advances to suppliers	4(5)	953,863	409,750	369,017
Interest receivable	4(4)	473,753	408,093	261,155
Dividends receivable		4,641	6,730	1,865
Other receivables	4(3)	1,652,016	1,320,188	3,047,944
Inventories	4(6)	62,913	64,352	72,621
Other current assets	4(7)	3,192,735	2,914,836	3,200,000
Total current assets		<u>28,789,417</u>	<u>27,784,425</u>	<u>30,962,651</u>
Non-current assets				
Available-for-sale financial assets	4(8)	4,421,499	2,764,581	3,760,565
Long-term equity investments	4(9)	12,825,132	11,292,114	5,606,218
Investment properties	4(10)	9,268,104	10,742,182	7,256,342
Fixed assets	4(11)	50,295,563	42,856,409	35,729,715
Construction in progress	4(12)	13,061,147	11,936,427	12,046,663
Intangible assets	4(13)	341,465	355,250	364,948
Goodwill	4(14)	328,865	328,865	328,865
Long-term prepaid expenses	4(15)	617,415	664,258	592,499
Other non-current assets	4(16)	2,033,434	3,892,577	2,443,622
Total non-current assets		<u>93,192,624</u>	<u>84,832,663</u>	<u>68,129,437</u>
TOTAL ASSETS		<u>121,982,041</u>	<u>112,617,088</u>	<u>99,092,088</u>

HAINAN AIRLINES CO., LTD.

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS AT 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 December 2014	31 December 2013 (Restated)	1 January 2013 (Restated) Notes 2(29) and 5(1)
		RMB'000	RMB'000	RMB'000
Current liabilities				
Short-term borrowings	4(19)	18,525,425	21,878,657	16,785,336
Notes payable	4(20)	5,528,136	4,668,804	6,105,681
Accounts payable	4(21)	3,790,588	5,149,797	4,995,291
Advances from customers	4(22)	1,539,538	1,639,875	1,047,264
Employee benefits payable	4(23)	287,008	293,309	213,105
Taxes payable	4(24)	779,841	804,426	679,339
Interest payable	4(25)	473,503	374,075	352,668
Dividends payable	4(36)	29,746	59,381	68,521
Other payables	4(26)	763,207	1,446,372	1,629,996
Current portion of non-current liabilities	4(27)	6,829,007	7,567,251	6,588,167
Total current liabilities		38,545,999	43,881,947	38,465,368
Non-current liabilities				
Long-term borrowings	4(28)	27,664,889	25,749,667	23,219,711
Debentures Payable	4(29)	15,244,001	8,637,955	7,123,105
Long-term payables	4(30)	3,844,207	2,656,236	2,236,998
Deferred revenue	4(31)	811,835	740,444	625,589
Deferred tax liabilities	4(17)	3,822,107	3,339,036	2,098,694
Other non-current liabilities		324,258	-	7,359
Total non-current liabilities		51,711,297	41,123,338	35,311,456
Total liabilities		90,257,296	85,005,285	73,776,824
Shareholders' equity				
Share capital	4(32)	12,182,182	12,182,182	6,091,091
Capital surplus	4(33)	5,688,139	6,596,153	12,251,504
Other comprehensive income	4(34)	692,592	260,165	90,681
Surplus reserve	4(35)	969,849	852,630	702,966
Undistributed profits	4(36)	9,118,873	7,229,735	5,771,335
Total equity attributable to equity shareholders of the Company		28,651,635	27,120,865	24,907,577
Minority interests	4(37)	3,073,110	490,938	407,687
Total shareholders' equity		31,724,745	27,611,803	25,315,264
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		121,982,041	112,617,088	99,092,088

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 BALANCE SHEETS
AS AT 31 DECEMBER 2014**

(All amounts in RMB Thousand Yuan unless otherwise stated)

ASSETS	Notes	31 December 2014	31 December 2013 (Restated)	1 January 2013 (Restated) Notes 2(29) and 5(1)
		RMB'000	RMB'000	RMB'000
Current assets				
Cash at bank and on hand		14,632,504	16,438,440	17,433,182
Notes receivable		-	25,000	-
Accounts receivable	16(1)	727,106	115,052	326,636
Advances to suppliers		906,988	334,454	348,636
Interest receivable		198,018	153,480	90,937
Dividends receivable		4,641	6,730	1,865
Other receivables	16(2)	1,354,603	759,661	1,087,544
Inventories		54,073	52,649	60,924
Other current assets		1,836,891	862,565	1,000,000
Total current assets		19,714,824	18,748,031	20,349,724
Non-current assets				
Available-for-sale financial assets		2,776,046	2,189,507	2,822,007
Long-term equity investments	16(3)	18,868,958	15,626,741	10,369,053
Investment properties		988,338	2,487,999	2,452,974
Fixed assets		39,333,576	33,928,417	27,731,799
Construction in progress		11,856,039	10,928,168	11,543,185
Intangible assets		63,753	65,222	66,691
Long-term prepaid expenses		449,965	506,835	457,364
Other non-current assets		1,558,784	3,363,147	1,945,181
Total non-current assets		75,895,459	69,096,036	57,388,254
TOTAL ASSETS		95,610,283	87,844,067	77,737,978

HAINAN AIRLINES CO., LTD.

COMPANY'S BALANCE SHEETS (CONTINUED)
AS AT 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2014	31 December 2013 (Restated)	1 January 2013 (Restated) Notes 2(29) and 5(1)
	RMB'000	RMB'000	RMB'000
Current liabilities			
Short-term borrowings	12,034,098	15,450,010	11,706,561
Notes payable	4,144,676	2,813,404	3,554,473
Accounts payable	11,393,879	9,960,901	7,537,384
Advances from customers	22,060	183,993	22,060
Employee benefits payable	116,954	146,536	110,600
Taxes payable	328,306	360,500	226,351
Interest payable	369,018	283,130	299,467
Dividends payable	29,746	59,381	68,521
Other payables	115,269	346,235	332,938
Current portion of non-current liabilities	5,668,811	4,560,229	5,085,484
Total current liabilities	34,222,817	34,164,319	28,943,839
Non-current liabilities			
Long-term borrowings	22,517,268	21,958,150	18,452,711
Debentures Payable	8,555,305	4,951,977	4,939,440
Long-term payables	1,999,335	1,219,012	1,195,060
Deferred revenue	532,923	506,151	401,578
Deferred tax liabilities	2,081,476	1,541,055	1,252,865
Other non-current liabilities	285,603	-	7,359
Total non-current liabilities	35,971,910	30,176,345	26,249,013
Total liabilities	70,194,727	64,340,664	55,192,852
Shareholders' equity			
Share capital	12,182,182	12,182,182	6,091,091
Capital surplus	5,759,951	5,975,682	12,066,773
Other comprehensive income	575,777	164,380	36,508
Surplus reserve	969,849	798,200	657,397
Undistributed profits	5,927,797	4,382,959	3,693,357
Total shareholders' equity	25,415,556	23,503,403	22,545,126
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	95,610,283	87,844,067	77,737,978

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 2014**

(All amounts in RMB Thousand Yuan unless otherwise stated)

	Notes	2014 Consolidated RMB'000	2013 Consolidated (Restated) RMB'000	2014 Company RMB'000	2013 Company (Restated) RMB'000
Revenue	4(38), 16(4)	36,043,771	33,276,254	25,097,747	22,187,454
Less: Operating cost	4(38), 16(4)	(27,702,882)	(26,144,416)	(18,938,395)	(17,309,003)
Business taxes and surcharges	4(39)	(68,318)	(597,517)	(15,107)	(415,895)
Selling and distribution expenses	4(40)	(2,166,136)	(2,077,680)	(1,388,939)	(1,384,394)
General and administrative expenses	4(41)	(768,210)	(699,370)	(346,024)	(375,803)
Financial expenses - net	4(42)	(3,401,198)	(2,045,331)	(2,833,522)	(1,487,697)
Asset impairment losses	4(44)	6,141	(54,771)	7,000	(55,145)
Add: (Losses) / gains on changes in fair value	4(45)	(249,168)	(64,363)	(259,745)	35,025
Investment income	4(46), 16(5)	804,651	696,383	361,246	239,835
Including: Share of results of associates		534,625	439,798	160,253	178,123
Operating profit		2,498,651	2,289,189	1,684,261	1,434,377
Add: Non-operating income	4(47)	728,831	475,429	544,331	390,726
Including: Gains on disposal of non-current assets		158,824	22,872	72,179	28,545
Less: Non-operating expenses		(14,856)	(3,455)	(86,477)	(1,986)
Including: Losses on disposal of non-current assets		(2,288)	(2,093)	(85,691)	(814)
Total profit		3,212,626	2,761,163	2,142,115	1,823,117
Less: Income tax expenses	4(48)	(569,978)	(585,852)	(425,628)	(415,092)
Net profit		2,642,648	2,175,311	1,716,487	1,408,025
- Attributable to equity shareholders of the Company		2,591,173	2,158,660	1,716,487	1,408,025
- Minority interests		51,475	16,651		
Net amount of other comprehensive income after tax	4(34)	432,427	169,484	411,397	127,872
Changes in fair value of available-for-sale financial assets		432,427	169,484	411,397	127,872
Total comprehensive income		3,075,075	2,344,795	2,127,884	1,535,897
- Attributable to equity shareholders of the Company		3,023,600	2,328,144		
- Minority interests		51,475	16,651		
Earnings per share(EPS)					
Basic earnings per share (RMB Yuan)	4(49)(a)	0.213	0.177		
Diluted earnings per share (RMB Yuan)	4(49)(b)	0.213	0.177		

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 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	2014	2013	2014	2013
		Consolidated RMB'000	Consolidated (Restated) RMB'000	Company RMB'000	Company (Restated) RMB'000
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		40,333,646	38,268,056	25,479,668	23,230,776
Cash received relating to other operating activities	4(50)(a)	2,430,827	2,921,987	2,012,604	2,099,154
Sub-total of cash inflows		<u>42,764,473</u>	<u>41,190,043</u>	<u>27,492,272</u>	<u>25,329,930</u>
Cash paid for goods and services		(26,381,529)	(21,556,268)	(15,996,454)	(12,363,231)
Cash paid to and on behalf of employees		(2,045,333)	(1,902,190)	(1,247,473)	(1,083,435)
Payments of taxes and surcharges		(3,611,077)	(3,294,703)	(679,013)	(1,077,537)
Cash paid relating to other operating activities	4(50)(b)	(4,721,892)	(3,689,266)	(1,644,724)	(1,759,174)
Sub-total of cash outflows		<u>(36,759,831)</u>	<u>(30,442,427)</u>	<u>(19,567,664)</u>	<u>(16,283,377)</u>
Net cash flows from operating activities	4(51)(a)	<u>6,004,642</u>	<u>10,747,616</u>	<u>7,924,608</u>	<u>9,046,553</u>
2. Cash flows from investing activities					
Cash received from disposal of investments		2,188,931	3,295,000	1,188,931	1,090,000
Cash received from returns on investments		204,929	308,806	79,965	62,549
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,511,816	1,571,490	1,615,912	886,321
Cash received relating to other investing activities	4(50)(c)	4,490,270	1,983,746	976,842	594,642
Sub-total of cash inflows		<u>9,395,946</u>	<u>7,159,042</u>	<u>3,861,650</u>	<u>2,633,512</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(7,784,950)	(8,816,143)	(5,458,935)	(8,692,259)
Cash paid to acquire investments		(4,787,552)	(7,621,837)	(1,500,000)	(5,190,340)
Net cash paid to acquire subsidiaries and other business units		(902,133)	(3,686,347)	(2,562,133)	(673,217)
Cash paid relating to other investing activities	4(50)(d)	(2,233,577)	(3,867,357)	(460,000)	(497,000)
Sub-total of cash outflows		<u>(15,708,212)</u>	<u>(23,991,684)</u>	<u>(9,981,068)</u>	<u>(15,052,816)</u>
Net cash flows used in investing activities		<u>(6,312,266)</u>	<u>(16,832,642)</u>	<u>(6,119,418)</u>	<u>(12,419,304)</u>
3. Cash flows from financing activities					
Cash proceeds from capital contributions		2,740,000	500,000	-	-
Cash received from borrowings		40,571,986	41,673,399	30,250,906	32,146,962
Cash received from issuance of bonds		6,967,418	2,961,280	3,987,696	-
Cash received relating to other financing activities	4(50)(e)	4,602,450	2,150,000	4,002,450	2,050,000
Sub-total of cash inflows		<u>54,881,854</u>	<u>47,284,679</u>	<u>38,241,052</u>	<u>34,196,962</u>
Cash repayments of borrowings		(43,247,725)	(33,341,579)	(32,374,771)	(24,748,628)
Cash payments for interest expenses and distribution of dividends		(4,097,106)	(4,540,531)	(3,546,113)	(3,387,145)
Cash payments relating to other financing activities	4(50)(f)	(7,076,546)	(5,469,009)	(6,347,087)	(3,616,651)
Sub-total of cash outflows		<u>(54,421,377)</u>	<u>(43,351,119)</u>	<u>(42,267,971)</u>	<u>(31,752,424)</u>
Net cash flows from / (used in) financing activities		<u>460,477</u>	<u>3,933,560</u>	<u>(4,026,919)</u>	<u>2,444,538</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents					
		<u>9,385</u>	<u>(6,396)</u>	<u>9,013</u>	<u>(6,265)</u>
5. Net increase / (decrease) in cash and cash equivalents					
	4(51)(a)	<u>162,238</u>	<u>(2,157,862)</u>	<u>(2,212,716)</u>	<u>(934,478)</u>
Add: Cash and cash equivalents at beginning of year	4(51)(a)	<u>17,203,390</u>	<u>19,361,252</u>	<u>15,172,055</u>	<u>16,106,533</u>
6. Cash and cash equivalent at end of year					
	4(51)(c)	<u>17,365,628</u>	<u>17,203,390</u>	<u>12,959,339</u>	<u>15,172,055</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 2014**

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	Attributable to equity shareholders of the Company					Minority interests RMB'000	Total shareholders' equity RMB'000
		Share capital RMB'000	Capital surplus RMB'000	Other comprehensive income RMB'000	Surplus reserves RMB'000	Undistributed profits RMB'000		
Balance at 31 December 2012 (restated)		6,091,091	11,785,658	90,681	657,397	5,309,332	111,656	24,045,815
Business combination involving enterprises under common control		-	465,846	-	45,569	462,003	296,031	1,269,449
Balance at 1 January 2013 (restated)		6,091,091	12,251,504	90,681	702,966	5,771,335	407,687	25,315,264
Movements for the year ended 31 December 2013 (restated)								
- Total comprehensive income								
Net profit		-	-	-	-	2,158,660	16,651	2,175,311
Other comprehensive income	4(34)	-	-	169,484	-	-	-	169,484
Total comprehensive income		-	-	169,484	-	2,158,660	16,651	2,344,795
- Profit distribution								
Appropriation to surplus reserves	4(35)	-	-	-	140,803	(140,803)	-	-
Profit distribution to shareholders	4(36)	-	-	-	-	(609,109)	-	(609,109)
- Transfer within shareholders' equity								
Transfer from capital surplus to share capital	4(33)	6,091,091	(6,091,091)	-	-	-	-	-
- Investment income from long term investments due to the change from cost method to equity method with increase in investment		-	-	-	-	60,853	-	60,853
Business combination involving enterprises under common control		-	435,740	-	8,861	(11,201)	66,600	500,000
Balance at 31 December 2013 (restated)		12,182,182	6,596,153	260,165	852,630	7,229,735	490,938	27,611,803
Balance at 1 January 2014 (restated)		12,182,182	6,596,153	260,165	852,630	7,229,735	490,938	27,611,803
Movements for the year ended 31 December 2014								
- Total comprehensive income								
Net profit		-	-	-	-	2,591,173	51,475	2,642,648
Other comprehensive income	4(34)	-	-	432,427	-	-	-	432,427
Total comprehensive income		-	-	432,427	-	2,591,173	51,475	3,075,075
- Profit distribution								
Appropriation to surplus reserves	4(35)	-	-	-	171,649	(171,649)	-	-
- Business combination involving enterprises under common control		-	(1,117,317)	-	(54,430)	(530,386)	-	(1,702,133)
- Capital contribution by minority shareholders	6(1)	-	209,303	-	-	-	2,530,697	2,740,000
Balance at 31 December 2014		12,182,182	5,688,139	692,592	969,849	9,118,873	3,073,110	31,724,745

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 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

Items	Notes	Share capital RMB'000	Capital surplus RMB'000	Other comprehensive income RMB'000	Surplus reserve RMB'000	Undistributed profits RMB'000	Total shareholders' equity RMB'000
Balance at 1 January 2013 (restated)		<u>6,091,091</u>	<u>12,066,773</u>	<u>36,508</u>	<u>657,397</u>	<u>3,693,357</u>	<u>22,545,126</u>
Movements for the year ended 31 December 2013 (restated)							
- Total comprehensive income							
Net profit		-	-	-	-	1,408,025	1,408,025
Other comprehensive income		-	-	127,872	-	-	127,872
Total comprehensive income		-	-	127,872	-	1,408,025	1,535,897
- Profit distribution							
Appropriation to surplus reserves	4(35)	-	-	-	140,803	(140,803)	-
Profit distribution to shareholders	4(36)	-	-	-	-	(609,109)	(609,109)
- Transfer within shareholders' equity							
Transfer from capital surplus to share capital	4(33)	6,091,091	(6,091,091)	-	-	-	-
- Investment income from long term investments due to the change from cost method to equity method with increase in investment		-	-	-	-	31,489	31,489
Balance at 31 December 2013 (restated)		<u>12,182,182</u>	<u>5,975,682</u>	<u>164,380</u>	<u>798,200</u>	<u>4,382,959</u>	<u>23,503,403</u>
Balance at 1 January 2014 (restated)		<u>12,182,182</u>	<u>5,975,682</u>	<u>164,380</u>	<u>798,200</u>	<u>4,382,959</u>	<u>23,503,403</u>
Movements for the year ended 31 December 2014							
- Total comprehensive income							
Net profit		-	-	-	-	1,716,487	1,716,487
Other comprehensive income		-	-	411,397	-	-	411,397
Total comprehensive income		-	-	411,397	-	1,716,487	2,127,884
- Profit distribution							
Appropriation to surplus reserves	4(35)	-	-	-	171,649	(171,649)	-
- Business combination involving enterprises under common control		-	(215,731)	-	-	-	(215,731)
Balance at 31 December 2014		<u>12,182,182</u>	<u>5,759,951</u>	<u>575,777</u>	<u>969,849</u>	<u>5,927,797</u>	<u>25,415,556</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 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

1 GENERAL INFORMATION OF THE COMPANY

Hainan Airlines Co., Ltd. (the "Company") is 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 RMB250,100 thousand when it was initially established.

In March 1994, a bonus dividend was approved by a resolution passed at the general meeting of shareholders whereby 50,020 thousand shares were issued, and thereafter the Company's total shares were increased to 300,120 thousand, and the total share capital was increased to RMB300,120 thousand.

On 2 November 1995, the Company issued 100,040 thousand shares to American Aviation LTD. After the share issuance, the Company's total share capital was increased to RMB400,160 thousand.

On 26 June 1997, the Company issued 71,000 thousand 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 RMB471,160 thousand.

On 11 October 1999, the Company completed a public offering of 205,000 thousand 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 RMB676,160 thousand.

On 18 May 2000, the Company distributed a bonus dividend of 0.8 share for every ten shares to all shareholders with total of 54,092,800 shares being issued. After the bonus shares were distributed, the Company's total share capital was increased to RMB730,253 thousand.

On 29 June 2006, the Company completed a non-public offerings with 2,800,000 thousand shares issued, of which 1,650,000 thousand shares were issued to Grand China Air. Together with previously owned 53,108 thousand shares, Grand China Air held 1,703,108 thousand shares of the Company after the issuance. After the above share issuance, the Company's share capital was increased to RMB3,530,253 thousand. 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 thousand and 4,370 thousand shares of the Company they held respectively. Thereafter, Grand China Air and its subsidiary, American Aviation LTD, held 1,716,395 thousand shares and 108,043 thousand 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 12 to 36 months. 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 297,619 thousand 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 RMB4,125,491 thousand, among which Grand China Air, the parent company, owned RMB1,716,395 thousand shares or 41.60% of the share capital.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

1 GENERAL INFORMATION OF THE COMPANY (CONTINUED)

On 3 May 2012, as approved by CSRC, the Company completed another non-public share offerings of 1,965,600 thousand A shares with lock-up period of 12 months (Note 4(32)). After the completion of the above share issuance, the Company's share capital was increased to RMB6,091,091 thousand, among which RMB1,716,395 thousand 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.

On 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 were increased to RMB12,182,182 thousand.

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.

For major subsidiaries consolidated in current year, refer to Note 6. Subsidiaries newly consolidated in current year include Yunnan Xiangpeng Airlines Co., Ltd. (hereinafter "Lucky Air"), Xinjiang Urumqi Airlines Co., Ltd. (hereinafter "Urumqi Airlines") and Fuzhou Airlines Co., Ltd. (hereinafter "Fuzhou Airlines"), refer to Note 5.

The financial statements were approved for issuance by the Company's Board of Directors on 25 March 2015.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group determines its specific accounting policies and accounting estimates on the basis of the production and operation features, which are mainly represented in "provision for bad debts of receivables" (Note 2(10)), "valuation method of delivered inventories" (Note 2(11)), "criterion for determining impairment loss on an available-for-sale financial asset" (Note 2(9)), "depreciation methods of fixed assets" and "amortisation of intangible assets" (Notes 2(14), 2(17)), "measurement model of investment property" (Note 2(13)) and "recognition time of revenue" (Note 2(23)).

For details of critical judgements and estimates adopted in the use of significant accounting policies by the Group, please refer to Note 2(30).

(1) Basis of preparation

(i) Basis of preparation

These financial statements were prepared in accordance with i) the *Accounting Standard for Business Enterprises - Basic Standard*, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance ("MoF") on 15 February 2006 and in subsequent periods (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* (《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》) issued by CSRC.

(ii) Going concern basis

As at 31 December 2014, the current liabilities of the Group exceed its current assets by approximately RMB9.757 billion. In preparing these financial statements, the Board has thoroughly assessed the going concern ability of the Group in association with the Group's current financial situation.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Basis of preparation (Continued)

(ii) Going concern basis (Continued)

The Company's Board has already taken active measures in dealing with the net working capital deficit mentioned above, and has been continuously seeking new financing channels and has obtained sufficient banking facilities to improve the Group's liquidity position. In light of the available banking facilities, the Group's raising fund history and the established good cooperation relationship with banks and financial institutions, the Board believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

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

The financial statements of the Company for the year ended 31 December 2014 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Group and the Company as at 31 December 2014 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting period

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

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combinations

(a) Business combinations involving enterprises 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 in which 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 in which 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.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Business combinations (Continued)

(c) Purchase of minority interests of a subsidiary

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

(6) Preparation of consolidated financial statements

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

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

In preparing the consolidated financial statements, where the accounting policies or 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 intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of subsidiaries' net profits and losses for the period not attributable to the Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. The unrealised profits or losses on the intra-group transactions arisen when the Company sells assets to its subsidiaries offset net profit attributable to shareholders of the Company in full; The unrealised profits or losses on the intra-group transactions arisen when subsidiaries sells assets to the Company offset between net profit attributable to shareholders of the Company and profits or losses attributable to minority shareholders according to the Company's distribution proportion in its subsidiaries. Unrealized profits and losses resulting from the sales of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(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.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(8) Foreign currency translation

(a) Foreign currency transaction

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 or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' 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 in other comprehensive income. 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. The 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.

Receivables

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

Available-for-sale financial assets

Available-for-sale financial assets 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 after the balance sheet date.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification of financial assets (Continued)

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 clear 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.

(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 initially recognised 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. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in the 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.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from 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.

Objective evidences of impairment are events that occurred after the initial recognition of the asset, that have an impact on the estimated future cash flows of the financial asset and of which impact can be reliably measured by the Group.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

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 an available-for-sale 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 its initial investment cost or the decline in fair value of equity instrument persists for more than one year (including one year) at reporting date, 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 its initial investment cost at reporting date, the Group will consider other factors such as price fluctuation rate etc., to judge 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 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.

When an impairment loss on available-for-sale financial assets at fair value 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 available-for-sale financial assets at cost incurred, the difference of their carrying amounts over the present values of future cash flows discounted at the prevailing market yield rate for similar financial assets is recognised as impairment loss and included in profit or loss in current period. The previously recognised impairment loss will not be reversed in subsequent periods.

(iv) Derecognition of financial assets

Where a financial asset satisfies any of the following conditions, the recognition of it shall be terminated: (1) the contractual rights for collecting the cash flow of the said financial asset are terminated; or (2) the said financial asset has been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets to the transferee; or (3) the said financial asset has been transferred and although the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset, it has not retained the control of the said financial asset.

When the recognition of the financial assets is terminated, the difference between the book value of the financial assets and the sum of the consideration and the accumulated fair value changes directly recorded into the shareholders' equity shall be recognised in profit or loss for the current period.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (Continued)

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including 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 payable 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 that is not traded in an active market is determined by using a valuation technique. During valuation, the Group adopts valuation techniques that are applicable in current conditions and supported by adequate usable data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant trade of assets or liabilities by market participants. Furthermore, the Group uses relevant observable inputs in preference as much as possible, and uses unobservable inputs only when relevant observable inputs are not available or feasible.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from rendering of services are initially recognised at fair value by the Group in accordance with the consideration receivable from the 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 separate assessment for impairment. 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 RMB10,000 thousand.

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.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (Continued)

(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	Ageing analysis method

For Group 3, the provision percentages of receivables with ageing analysis method are as follows:

	<u>Provision % of accounts receivable</u>	<u>Provision % 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) Receivables that are not individually significant but subject to separate assessment for provision for bad debts:

Criteria of recognising 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.

HAINAN AIRLINES CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

(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 selling proceeds in ordinary course of business after reporting date or the estimation of current market condition.

(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, and the Group's long-term equity investments in its associates.

Subsidiaries are the investees over which the Company is able to exercise control. 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.

(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.

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Long-term equity investments (Continued)

(b) Subsequent measurement and recognition of profit 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 recognising its share of the net losses of an investee after the carrying amounts of the 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 obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. The changes of the Group's share of the investee's shareholders' equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognised in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are not eliminated.

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

The term "control" refers to the power to investee, so as to obtain variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

(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)).

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 land use rights and buildings that are 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.

Investment properties are subsequently measured using fair value model and are not depreciated or amortised, the carrying amounts are adjusted to the fair value at balance sheet date, and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period.

When an investment property is transferred to owner-occupied properties, it is reclassified to fixed asset or intangible asset with the carrying amount determined at the fair value of the investment property at the date of the transfer, and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment properties with carrying amount determined at the fair value at the date of the transfer. If the fair value at the date of the transfer is less than the original carrying amount of the fixed asset or the intangible asset, the difference is recognised in profit or loss for the current period; otherwise, it is included in other comprehensive income.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses 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, aircraft and engines, rotables, motor vehicles and other equipment.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs 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 the related 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.

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(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(14) Fixed assets (Continued)

(b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

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

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
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

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. 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 (Note 2(26)(c)).

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy adopted for fixed assets that are self-owned. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the leased asset is depreciated over the shorter period of the lease term and the period of expected use.

(e) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are 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 book value, the book value 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 the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial 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.

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

When the recoverable amount of intangible asset is less than its book value, the carrying amount is reduced to the recoverable amount (Note 2(19)).

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 at least annually for impairment, irrespective of whether there is any indication that it 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.

(20) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonuses, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, labor union funds and employee education funds, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which an employee has rendered service with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary employee benefits are measured at fair value.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Employee benefits (Continued)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(21) Profit distribution

Cash dividend is recognised as a liability for 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 discounts, rebates 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 determined by using the effective interest method, based on the length of time for which the Group’s cash is used by others.

Aircraft lease income and other rental incomes 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, 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.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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:

- the deferred taxes are related to the same taxpayer within the Group and the same taxation authority; and,
- that taxpayer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(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.

(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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 aircraft and engines under operating leases, the Group has obligations to fulfil 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.

(29) Significant accounting policy changes

In 2014, MoF issued CAS 39 "Fair Value Measurement", CAS 40 "Joint arrangement", CAS 41 "Disclosure of Interests in Other Entities", and CAS 2 "Long-Term Equity Investments"(revised), CAS 9 "Employee Benefits" (revised), CAS 30 "Presentation of Financial Statements" (revised), CAS 33 "Consolidated Financial Statements" (revised) and CAS 37 "Presentation of Financial Instrument" (revised) which should be applied from 1 July 2014 with the exception of CAS 37 "Presentation of Financial Instrument" (revised) being required to be implemented for financial statements of annual 2014 and ever since.

The Group has adopted the above new standards to prepare the financial statements for the year ended 31 December 2014, and the major impacts on the Group's financial statements are as follows:

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant accounting policy changes (Continued)

Details and reasons for changes of accounting policies	Financial statement line items affected	Amount affected in 2014 Increase / (decrease)
Certain items of the financial statements have been revised or added and the comparative financial information has been adjusted accordingly in compliance with the above prescribed standards. The balance sheet as at 1 January 2013 has been re-presented according to Application Guidance for Accounting Standard for Business Enterprises No. 30 - Presentation of Financial Statements.	Deferred revenue	811,835
	Other non-current liabilities	(811,835)
	Capital surplus	(692,592)
	Other comprehensive income	692,592
	Long-term equity investments	(3,252,301)
	Available-for-sale financial assets	3,252,301

The Group has adopted the above new standards to prepare the financial statements for the year ended 31 December 2014, retrospectively adjusted the comparative financial statements and re-presented the balance sheet as at 1 January 2013. Except for the presentation of financial statements and reclassification of certain accounts, the above changes of accounting standards have no significant impact on the Group's financial statements.

(30) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements 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 accounting 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 judgement 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 judgement as to the ability to generate sufficient future taxable profit to offset the tax losses and deductible temporary differences in the future. Calculation of future taxable profits involves a lot of judgements and estimations, together with the consideration of the tax planning strategies and overall economic environment. Different judgements 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(30) Critical accounting estimates and judgements (Continued)

- (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 judgements or estimates are based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Different judgements or estimates would affect the estimated provision for the costs of return condition checks and overhauls.

- (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.

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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》) approved by the National People’s Congress on 16 March 2007, the Company’s applicable corporate income tax rates for current year and the prior year were 25%.

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 “Catalogue of Encouraged Industries in West Region” (《西部地区鼓励类产业目录》), and with main operation revenue accounts for over 70% of its total revenue, will be entitled to a reduced income tax rate of 15% from 1 January 2011 to 31 December 2020 upon approval from tax authorities. As approved by Shaanxi 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. In addition, the applicable corporate income tax rates for the Company’s subsidiaries, Lucky Air and Urumqi Airlines, are 15% starting from 2012 and 2014 respectively.

Except for Chang’an Airlines, Lucky Air and Urumqi Airlines, the Company and other group companies established in other regions are subject to corporate income tax rates at 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” (Cai Shui [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. International transportation services refer to carrying passengers or goods to leave the country, carrying passengers or goods to enter the country and carrying passengers or goods abroad.

Pursuant to the “Circular on the Pilot Plan for Levying VAT in Place of Business Tax” (Cai Shui [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” (Cai Shui [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 from 1 September 2012. Pursuant to the “Circular on the Pilot Plan for Levying VAT in Place of Business Tax” (Cai Shui [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” (Cai Shui [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 revenues of the Company and two of the Company’s subsidiaries, Chang’an Airlines and Shanxi Airlines, are subject to value added tax in place of business tax (Note 3(3)).

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3 TAXATION (CONTINUED)

(2) Business tax (Continued)

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

(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" (Cai Shui [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" (Cai Shui [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 from 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" (Cai Shui [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" (Cai Shui [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 revenues of the Company and two of the Company's subsidiaries, Chang'an Airlines and Shanxi Airlines, are 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" (Cai Shui [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" (Cai Shui [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 inflight sales, maintenance income and aircraft lease rental income are subject to 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 net balance of output VAT net of deductible input VAT.

In addition, as stipulated by relevant national laws and regulations, the imported airplanes and aviation materials of the Group are subject to 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 Policies 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% from 30 August 2013.

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

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3 TAXATION (CONTINUED)

(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" (Guo Fa [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 Aircraft and Related Parts and questions on the tax rates applicable to leased aircraft after adjustment of import duty rate" (Shu Shui [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 equipment, cabin equipment 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" (Shui Wei Hui [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, effective from 30 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-favoured-nation Rate of Duty of 5% was resumed. The Company's leased aircraft and imported aircraft equipment 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" (Cai Zong [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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2014 RMB'000	31 December 2013 RMB'000
Cash on hand	1,552	1,207
Cash at banks and financial institutions	17,364,076	17,202,183
Other cash balances (a) and (b)	4,349,962	4,526,460
Including: Total offshore cash balances	303,028	533,566
	<u>21,715,590</u>	<u>21,729,850</u>

(a) As at 31 December 2014, the cash at bank and on hand included deposits of RMB 4,824,267 thousand (31 December 2013: RMB4,900,911 thousand) placed in HNA Finance, a related party of the Group (Note 8(6)), among which, RMB2,909,311 thousand (31 December 2013: RMB2,632,351 thousand) was recorded in cash at banks and financial institutions, and RMB1,914,956 thousand (31 December 2013: RMB2,268,560 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Term deposits (Note)	2,233,577	2,897,357
Security deposits for notes payable	947,358	864,385
Other restricted deposits	1,169,027	764,718
	<u>4,349,962</u>	<u>4,526,460</u>

Note: As at 31 December 2014, the above term deposit was pledged for short-term borrowings and borrowings from related parties of RMB2,918,290 thousand (31 December 2013: short-term borrowings of RMB3,870,581 thousand and long-term borrowings of RMB400,000 thousand) (Note 4(19)&(28)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable

	31 December 2014 RMB'000	31 December 2013 RMB'000
Accounts receivable	763,147	934,436
Less: Provision for bad debts	(29,241)	(28,810)
	<u>733,906</u>	<u>905,626</u>

(a) The ageing of accounts receivable is analysed as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	700,496	846,367
1 to 2 years	17,664	49,946
2 to 3 years	14,504	9,685
3 to 4 years	2,045	15
4 to 5 years	15	-
5 to 6 years	-	-
Over 6 years	28,423	28,423
	<u>763,147</u>	<u>934,436</u>

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

	31 December 2014				31 December 2013			
	Amount RMB'000	% of total balance	Provision for bad debts RMB'000	% of total provision for bad debts	Amount RMB'000	% of total balance	Provision for bad debts RMB'000	% of total provision for bad debts
Provisions for bad debts by group								
- Group by ageing analysis method	552,765	72%	(1,944)	0%	598,541	64%	(1,513)	0%
- Group by related parties	183,085	24%	-	-	308,598	33%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	27,297	4%	(27,297)	100%	27,297	3%	(27,297)	100%
	<u>763,147</u>	<u>100%</u>	<u>(29,241)</u>	<u>4%</u>	<u>934,436</u>	<u>100%</u>	<u>(28,810)</u>	<u>3%</u>

(c) As at 31 December 2014, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2013: Nil).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (Continued)

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

	31 December 2014				31 December 2013			
	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	535,504	97%	-	-	589,800	99%	-	-
1 to 2 years	16,120	3%	(806)	5%	-	-	-	-
2 to 3 years	-	-	-	-	7,600	1%	(380)	5%
3 to 4 years	-	-	-	-	15	0%	(7)	47%
4 to 5 years	15	0%	(12)	80%	-	-	-	-
5 to 6 years	-	-	-	-	-	-	-	-
Over 6 years	1,126	0%	(1,126)	100%	1,126	0%	(1,126)	100%
	<u>552,765</u>	<u>100%</u>	<u>(1,944)</u>	<u>0%</u>	<u>598,541</u>	<u>100%</u>	<u>(1,513)</u>	<u>0%</u>

- (e) As at 31 December 2014, accounts receivable that were not individually significant but with specific provisions for bad debts are analysed as follows:

	Gross amount RMB'000	Provisions for bad debts RMB'000	% of provisions for bad debts
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 2014, 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 2014, the five largest accounts receivable are analysed as follows:

	Balance RMB'000	Provision for bad debts RMB'000	% of total accounts receivable balance
Total balance of the five largest accounts receivable	<u>327,931</u>	<u>-</u>	<u>43%</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Other receivables

	31 December 2014 RMB'000	31 December 2013 RMB'000
Aircraft leasing security deposits and maintenance funds receivable	564,692	280,348
Investments receivable (Note)	545,000	-
Receivables from related parties	252,059	1,006,692
Housing refund receivables from Guirui City (Note 4(10))	200,000	-
Amount receivable from disposal of aviation materials	59,453	-
Others	79,601	88,509
	<u>1,700,805</u>	<u>1,375,549</u>
Less: Provision for bad debts	(48,789)	(55,361)
	<u>1,652,016</u>	<u>1,320,188</u>

Note: As at 31 December 2014, investments receivable is receivable from disposal of equity of Yanshan Funds by the Company (Note 8(a)(ii)), the amount was fully received by the Company at the end of March 2015.

(a) The ageing of other receivables is analysed as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	1,622,329	852,869
1 to 2 years	18,903	148,080
2 to 3 years	6,195	273,086
3 to 4 years	17,878	33,364
4 to 5 years	31,340	11,032
5 to 6 years	531	7,201
Over 6 years	3,629	49,917
	<u>1,700,805</u>	<u>1,375,549</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Other receivables (Continued)

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

	31 December 2014				31 December 2013			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of	Provision	% of	Amount	% of	Provision	% of
	RMB'000	total	for bad	total	RMB'000	total	for bad	total
		balance	debts	balance			debts	balance
			RMB'000		RMB'000		RMB'000	
Amounts that are individually significant and with specific provision for bad debts (c)	11,799	1%	(11,799)	100%	11,799	1%	(11,799)	100%
Provision for bad debts by group								
- Group by ageing analysis method (d)	850,117	50%	(14,852)	2%	47,573	3%	(14,424)	30%
- Aircraft leasing security deposits and maintenance funds receivable	564,692	33%	-	-	280,347	20%	-	-
- Group by related parties	252,059	15%	-	-	1,006,692	74%	-	-
Amounts that are not individually significant but with specific provision for bad debts (e)	22,138	1%	(22,138)	100%	29,138	2%	(29,138)	100%
	<u>1,700,805</u>	<u>100%</u>	<u>(48,789)</u>	<u>3%</u>	<u>1,375,549</u>	<u>100%</u>	<u>(55,361)</u>	<u>4%</u>

(c) As at 31 December 2014, other receivables that were individually significant and with specific provisions for bad debts are analysed below:

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

As at 31 December 2014, 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 of other receivables is grouped using ageing analysis method are as follows:

	31 December 2014				31 December 2013			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of	Amount	% of	Amount	% of	Amount	% of
	RMB'000	total	RMB'000	total	RMB'000	total	RMB'000	total
		balance		balance		balance		balance
			RMB'000		RMB'000		RMB'000	
Within 1 year	807,191	95%	-	-	19,982	42%	-	-
1 to 2 years	18,629	2%	(931)	5%	6,201	13%	(178)	3%
2 to 3 years	6,195	1%	(620)	10%	6,417	13%	(362)	6%
3 to 4 years	6,079	1%	(1,820)	30%	874	2%	(261)	30%
4 to 5 years	863	0%	(432)	50%	538	1%	(216)	40%
Over 5 years	11,160	1%	(11,049)	99%	13,561	29%	(13,407)	99%
	<u>850,117</u>	<u>100%</u>	<u>(14,852)</u>	<u>2%</u>	<u>47,573</u>	<u>100%</u>	<u>(14,424)</u>	<u>30%</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Other receivables (Continued)

(e) As at 31 December 2014, 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 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	5,716	(5,716)	100%
	<u>22,138</u>	<u>(22,138)</u>	

As at 31 December 2014, as these other receivables have been long outstanding and the Group was unable to get contact with the debtors. Management envisaged that such receivables were difficult to recover and therefore full provisions for bad debts were made.

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

(g) As at 31 December 2014, the top 5 largest other receivables are analysed below:

	Relationship with the Group	Amount RMB'000	Ageing	% of total balance	Provision for bad debts
Company A	Third party	545,000	Within 1 year	32%	
Company B	Third party	200,000	Within 1 year	12%	-
Capital Airlines	Related party	142,828	Within 1 year	8%	-
Company C	Third party	69,545	Within 1 year	4%	-
Company D	Third party	59,453	Within 1 year	4%	-
		<u>1,016,826</u>		<u>60%</u>	<u>-</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Interest receivable

	31 December 2014 RMB'000	31 December 2013 RMB'000
HNA Finance (Note 8(6))	268,510	226,716
Others	205,243	181,377
	<u>473,753</u>	<u>408,093</u>

(5) Advances to suppliers

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

Ageing	31 December 2014		31 December 2013	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Within 1 year	912,879	96%	343,974	84%
1 to 2 years	18,744	2%	22,042	5%
2 to 3 years	12,342	1%	34,902	9%
Over 3 years	9,898	1%	8,832	2%
	<u>953,863</u>	100%	<u>409,750</u>	100%

As at 31 December 2014, advances to suppliers with ageing over 1 year amounted to RMB40,984 thousand (31 December 2013: RMB65,776 thousand). As the related services have not yet been rendered by the suppliers, such amounts have not been cleared.

(b) As at 31 December 2014, the top 5 largest advances to suppliers are analysed below:

	Amount RMB'000	% of total balance
Total amount of the 5 largest advances to suppliers	<u>671,922</u>	<u>70%</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Inventories

	31 December 2014			31 December 2013		
	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	39,708	-	39,708	33,174	-	33,174
Others	23,205	-	23,205	31,178	-	31,178
	<u>62,913</u>	<u>-</u>	<u>62,913</u>	<u>64,352</u>	<u>-</u>	<u>64,352</u>

(7) Other current assets

	31 December 2014 RMB'000	31 December 2013 RMB'000
Financial products with guaranteed principal and returns (a)	2,650,000	-
Deductible input VAT	542,735	294,836
Available-for-sale financial assets with maturity within 1 year (b)	-	1,650,000
Entrusted loans - HNA Group (Note 8(6))	-	870,000
Entrusted loans - HNA Travel Group (Note 8(6))	-	100,000
	<u>3,192,735</u>	<u>2,914,836</u>

- (a) In September 2014, the Group purchased short-term financial products from a third party commercial bank at an aggregate amount of RMB2.5 billion. These financial products are principal guaranteed and with a fixed annual yield of 4.35% - 4.65%. Investment income of RMB34,895 thousand had been accrued in the current year. In addition, Chang'an Airlines, a subsidiary of the Company, purchased financial products from a third party amounted to RMB150 million. The investment was principal guaranteed with guaranteed return of 5.7% per annum. Investment income of RMB6,713 thousand had been accrued in the current year (Note 4(46)).
- (b) In 2013, the Group purchased short-term financial products from a third party commercial bank at an aggregate amount of RMB1.65 billion. These financial products are with no guaranteed principal and return. As at 31 December 2014, the short-term financial products as at 31 December 2013 had been mature and collected with investment income of RMB58,263 thousand (Note 4(46)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Available-for-sale financial assets

	31 December 2014 RMB'000	31 December 2013 RMB'000
Measured at fair value		
Available-for-sale equity instruments	4,072,787	2,025,869
Others	200,000	2,260,000
	<u>4,272,787</u>	<u>4,285,869</u>
Measured at cost		
Available-for-sale equity instruments	234,816	214,816
Less: Provisions for impairment	<u>(86,104)</u>	<u>(86,104)</u>
	4,421,499	4,414,581
Less: Available-for-sale financial assets recorded in other current assets (Note 4(7))	<u>-</u>	<u>(1,650,000)</u>
	<u>4,421,499</u>	<u>2,764,581</u>

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

(a) The available-for-sale financial assets are analysed below:

Available-for-sale financial assets measured at fair value:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Available-for-sale equity instruments (i)		
- Fair value	4,072,787	2,025,869
- Cost	3,151,498	1,677,737
- Accumulated amount included in other comprehensive income	692,592	260,165
- Accumulated provision for impairment	(86,104)	(86,104)
Financial products (Note 4(7)(b))		
- Fair value	-	1,650,000
- Cost	-	1,650,000
- Accumulated amount included in other comprehensive income	-	-
- Accumulated provision for impairment	-	-
Yanshan Funds (ii)		
- Fair value	-	410,000
- Cost	-	410,000
- Accumulated amount included in other comprehensive income	-	-
- Accumulated provision for impairment	-	-
Guokai Jingcheng Investment Fund (iii)		
- 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	4,272,787	4,285,869
- Cost	3,351,498	3,937,737
- Accumulated amount included in other comprehensive income	692,592	260,165
- Accumulated provision for impairment	(86,104)	(86,104)

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) The available-for-sale financial assets are analysed below (Continued):

(i) Available-for-sale equity instruments

	31 December 2014 RMB'000	31 December 2013 RMB'000
China Merchants Securities (Note 1)	1,054,642	520,524
Yangtze River Express (Note 2&3)	810,000	10,000
Capital Airlines (Note 2)	508,620	508,620
Western Airlines (Note 2)	428,009	-
TravelSky Tech (Note 1)	384,940	350,215
HKIAL	309,490	299,818
Others	577,086	336,692
	<u>4,072,787</u>	<u>2,025,869</u>

Note 1: The fair value of these shares as at 31 December 2014 were determined based on the closing price of the trading shares at 31 December 2014.

Note 2: These shares are purchased at fair value by the Company in recent years.

Note 3: In March 2014, the Company's subsidiary, Lucky Air, acquired 18.60% shares of Yangtze River Express held by Jianying Investment at the consideration of RMB800,000 thousand. After the completion of the acquisition, the Group held 18.97% shares of Yangtze River Express in total. As at 31 December 2014, risk premium of related shares had been transferred, but the transfer formalities were in process.

- (ii) The Company and a third party (the "Partner") set up a limited partnership enterprise, i.e., Yanshan Funds, 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. In 2013, the Company collected investment cost of RMB90,000 thousand. The Company disposed the financial assets in the current year and recognised investment income of RMB135,000 thousand.
- (iii) 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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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) The available-for-sale financial assets are analysed below (Continued):

Available-for-sale financial assets measured at cost:

	31 December 2013 RMB'000	Current year addition RMB'000	Current year reduction RMB'000	31 December 2014 RMB'000	Shareholding of investee RMB'000	Cash dividends in the current year RMB'000
Available-for-sale equity instruments - cost						
- Inflection Energy LLC	123,825	-	-	123,825	8.11%	-
- Others	90,991	20,000	-	110,991		-
Total	<u>214,816</u>	<u>20,000</u>	<u>-</u>	<u>234,816</u>		<u>-</u>
Available-for-sale equity instruments – - Provisions for impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		

The available-for-sale financial assets measured at cost mainly include the unlisted equity investments held by the Group. These investments are not quoted in an active market, and the range of their estimated fair value is large and the variables used for determining the fair values can not be reasonably measured. Hence the fair values of the investments cannot be reliably measured and these financial assets are stated at cost. As at 31 December 2014, the Group had no plan to dispose these investments.

(b) The provision for impairment of available-for-sale financial assets are analysed below:

	Available-for-sale equity instruments RMB'000
31 December 2013	86,104
Increase in the current year	-
Decrease in the current year	-
31 December 2014	<u>86,104</u>

(9) Long-term equity investments

	31 December 2014 RMB'000	31 December 2013 RMB'000
Associates (a)	12,825,132	11,292,114
Less: Provision for impairment of long-term equity investments	<u>-</u>	<u>-</u>
	<u>12,825,132</u>	<u>11,292,114</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(a) Associates

	Movements in the current year									
	31 December 2013 RMB'000	Investment addition RMB'000	Investment reduction RMB'000	Share of net profit/(loss) under equity method RMB'000	Adjustment for other comprehensive income RMB'000	Share of other changes in equity RMB'000	Cash dividends or profits declared by associates RMB'000	Provision for impairment loss RMB'000	31 December 2014 RMB'000	Provision for impairment loss RMB'000
Tianjin Airlines (i)	3,574,211	980,000	-	98,826	-	-	-	-	4,653,037	-
Bohai Trust	2,963,269	-	-	235,286	-	-	-	-	3,198,555	-
HKAGH	1,849,587	-	-	53,058	-	-	-	-	1,902,645	-
HNA Technology	1,089,931	-	-	56,314	-	-	-	-	1,146,245	-
HNA Finance	916,215	-	-	78,379	-	-	(55,932)	-	938,662	-
Hunan Golden-Deer	450,000	-	-	-	-	-	-	-	450,000	-
Xi'an Chanba	419,192	-	-	7,649	-	-	-	-	426,841	-
Xinsheng Feixiang (ii)	-	86,207	-	-	-	-	-	-	86,207	-
Others	29,709	-	-	5,113	-	-	(11,882)	-	22,940	-
	11,292,114	1,066,207	-	534,625	-	-	(67,814)	-	12,825,132	-

- (i) In July 2014, the Company increased investment of RMB980,000 thousand in Tianjin Airlines in cash. After the increase, the Company's share percentage in Tianjin Airlines was increased to 39.06%.
- (ii) In December 2014, the Company increased investment of RMB86,207 thousand in Xinsheng Feixiang in cash. After the increase, the Company's share percentage in Xinsheng Feixiang was increased to 27.26%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Investment properties

	Buildings RMB'000	Land use rights RMB'000	Total RMB'000
31 December 2013	6,393,519	4,348,663	10,742,182
Transfers from construction in progress in the current year	15,004	-	15,004
Changes in fair value	(3,574)	26,711	23,137
Disposals in the current year	(1,512,219)	-	(1,512,219)
31 December 2014	<u>4,892,730</u>	<u>4,375,374</u>	<u>9,268,104</u>

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

As at 31 December 2014, the net book value of the investment properties was RMB9,268,104 thousand (31 December 2013: RMB10,742,182 thousand). The valuation of the investment properties with valuation date of 31 December 2014 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 2014, the total changes in the fair value of the investment properties of the Group amounted to RMB23,137 thousand (2013: RMB34,022 thousand), and was fully recognised gains/losses on changes in fair value in profit or loss for the year.

In 2013, the Company entered into a property disposal agreement with Beijing Guorui Xingye Property Co., Ltd. As at 31 December 2014, the investment properties with book values of RMB1,512,219 thousand held by the Company was disposed, which resulted in another operating income of RMB1,512,219 thousand and other operating expenses of RMB1,239,914 thousand respectively (Note 4(38)(b)). The accumulated changes in fair value of RMB272,305 thousand were transferred from gains/losses on changes in fair values (Note 4(45)).

As at 31 December 2014, investment properties with book values of RMB6,344,210 thousand (31 December 2013: RMB6,320,859 thousand) were pledged for long-term borrowings (Note 4(28)).

As at 31 December 2014, the title certificates of certain buildings and land use rights with carrying amount of RMB75,413 thousand (31 December 2013: RMB74,350 thousand) were under the process of application. The Company's management believes that the lack of certificates of the buildings and land use rights has no material impact on the Group's operations.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets

	Buildings RMB'000	Aircraft and engines RMB'000	Rotables RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Total RMB'000
Cost						
31 December 2013	3,665,234	49,465,928	2,641,898	243,838	559,024	56,575,922
Increase in the current year						
Purchasing	51,246	6,248,720	242,252	22,095	17,187	6,581,500
Transfers from construction in progress	73,150	5,251,761	-	-	19,324	5,344,235
Decrease in the current year						
Disposal and scrapping	(11,998)	(2,196,518)	(415,155)	(11,266)	(12,427)	(2,647,364)
31 December 2014	3,777,632	58,769,891	2,468,995	254,667	583,108	65,854,293
Accumulated depreciation						
31 December 2013	(467,464)	(10,880,118)	(1,753,029)	(162,119)	(385,260)	(13,647,990)
Increase in the current year						
Addition	(86,913)	(2,958,495)	(144,383)	(11,689)	(28,624)	(3,230,104)
Decrease in the current year						
Disposal and scrapping	3,279	1,092,242	219,098	10,352	10,771	1,335,742
31 December 2014	(551,098)	(12,746,371)	(1,678,314)	(163,456)	(403,113)	(15,542,352)
Provision for impairment loss						
31 December 2013	-	-	(71,523)	-	-	(71,523)
Increase in the current year	-	-	-	-	-	-
Decrease in the current year	-	-	55,145	-	-	55,145
31 December 2014	-	-	(16,378)	-	-	(16,378)
Net book value						
31 December 2014	3,226,534	46,023,520	774,303	91,211	179,995	50,295,563
31 December 2013	3,197,770	38,585,810	817,346	81,719	173,764	42,856,409

As at 31 December 2014, fixed assets with a net book value of RMB27,672,455 thousand (31 December 2013: RMB27,973,021 thousand) and a cost of RMB33,937,836 thousand (31 December 2013: RMB34,106,132 thousand) were pledged for short-term borrowings of RMB1,000,000 thousand and long-term borrowings of RMB26,286,923 thousand (Note 4(19)&(28)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Fixed assets (Continued)

For the year ended 31 December 2014, total amount of depreciation charges for fixed assets amounted to RMB3,230,104 thousand (2013: RMB2,697,001 thousand), which were charged to operating costs, selling and distribution expense, general and administrative expense at RMB3,140,242 thousand, RMB4,444 thousand and RMB85,418 thousand respectively (2013: RMB2,621,558 thousand, RMB 4,952 thousand and RMB70,491 thousand respectively).

For the year ended 31 December 2014, constructions in progress with original cost of RMB5,344,235 thousand (2013: RMB9,267,469 thousand) were transferred to fixed assets.

(a) Fixed assets held under finance leases

As at 31 December 2014, the fixed assets with a net book value of RMB10,499,410 thousand (a cost of RMB12,726,442) were held under finance leases (31 December 2013: net book value of RMB5,731,862 and a cost of RMB7,392,767) (Note 11). The analysis is as follows:

	Cost RMB'000	Accumulated depreciation RMB'000	Provision for impairment loss RMB'000	Book value RMB'000
31 December 2014				
Aircraft and engines	12,676,442	(2,206,406)	-	10,470,036
Rotables	50,000	(20,626)	-	29,374
	<u>12,726,442</u>	<u>(2,227,032)</u>	<u>-</u>	<u>10,499,410</u>
31 December 2013				
Aircraft and engines	7,342,767	(1,644,446)	-	5,698,321
Rotables	50,000	(16,459)	-	33,541
	<u>7,392,767</u>	<u>(1,660,905)</u>	<u>-</u>	<u>5,731,862</u>

(b) Fixed assets without property certificates

As at 31 December 2014, property certificates of certain buildings with a net book value of RMB210,598 thousand and a cost of RMB234,949 thousand (31 December 2013: net book value of RMB169,741 thousand and a cost of RMB189,933 thousand) had not been obtained by the Group. The Company's 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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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Construction in progress

	31 December 2014			31 December 2013		
	Book value before impairment RMB'000	Provision for impairment loss RMB'000	Net book value RMB'000	Book value before impairment RMB'000	Provision for impairment loss RMB'000	Net book value RMB'000
Advanced payments for aircraft acquisitions	11,733,888	-	11,733,888	10,903,768	-	10,903,768
Construction project for new base of Changshui Airport	565,212	-	565,212	417,204	-	417,204
Beijing base expansion project	511,867	-	511,867	481,411	-	481,411
Others	252,487	(2,307)	250,180	136,351	(2,307)	134,044
	<u>13,063,454</u>	<u>(2,307)</u>	<u>13,061,147</u>	<u>11,938,734</u>	<u>(2,307)</u>	<u>11,936,427</u>

As at 31 December 2014, construction in progress of RMB565,212 thousand (31 December 2013: RMB417,204 thousand) was pledged for long-term borrowings of RMB332,000 thousand (Note 4(28)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Construction in progress (Continued)

(a) Movement of major construction in progress

Name of project	Budget RMB'000	31 December 2013 RMB'000	Current year additions RMB'000	Transfer to fixed assets during current year RMB'000	Transfer to investment property during current year RMB'000	31 December 2014 RMB'000	% completion of construction project RMB'000	Construction progress RMB'000	Accumulated borrowing costs capitalised RMB'000	Capitalised amount during the current year		Annual interest rate for capitalisation RMB'000	Source of funds RMB'000
										Interests RMB'000	Exchange gain or loss of special borrowings RMB'000		
Advanced payments for aircraft acquisitions	63,559,158	10,903,768	6,081,881	(5,251,761)	-	11,733,888	18%	18%	1,207,165	482,285	(11,120)	4.75%	Bank borrowings
Construction project for new base of Changshui Airport	2,284,532	417,204	148,008	-	-	565,212	25%	25%	100,400	61,038	-	7.30%	Bank borrowings and self generated funds
Beijing base expansion project	622,710	481,411	85,462	(40,002)	(15,004)	511,867	82%	82%	131,192	11,285	-	6.22%	Bank borrowings and self generated funds
Others		136,351	168,608	(52,472)	-	252,487			-	-	-		
		<u>11,938,734</u>	<u>6,483,959</u>	<u>(5,344,235)</u>	<u>(15,004)</u>	<u>13,063,454</u>			<u>1,438,757</u>	<u>554,608</u>	<u>(11,120)</u>		

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(13) Intangible assets**

	Land use rights RMB'000	Software RMB'000	Total RMB'000
Cost			
31 December 2013	436,051	1,754	437,805
Increase in the current year	-	-	-
Decrease in the current year	-	-	-
31 December 2014	436,051	1,754	437,805
Accumulated amortisation			
31 December 2013	(81,207)	(1,348)	(82,555)
Increase in the current year	(13,519)	(266)	(13,785)
Decrease in the current year	-	-	-
31 December 2014	(94,726)	(1,614)	(96,340)
Provision for impairment loss			
31 December 2013	-	-	-
Increase in the current year	-	-	-
Decrease in the current year	-	-	-
31 December 2014	-	-	-
Net book value			
31 December 2014	341,325	140	341,465
31 December 2013	354,844	406	355,250

For the year ended 31 December 2014, total amortisations of the intangible assets amounted to RMB13,785 thousand (2013: RMB9,697 thousand).

As at 31 December 2014, land use rights with a net book value of RMB120,369 thousand and a cost of RMB174,672 thousand (31 December 2013: net book value of RMB112,815 thousand and a cost of RMB161,531 thousand) were pledged for short-term borrowings of RMB300,000 thousand (Note 4(19)) and long-term borrowings of RMB1,804,794 thousand (Note 4(28)).

(14) Goodwill

As at 31 December 2014, the book value of goodwill is generated from the acquisition of Beijing Kehang. The goodwill is attributable to strengthening the competitiveness of the Group, aligning synergy through integration with the Company's other resources. For the purpose of impairment testing, the goodwill is allocated to the group of airline operation segment and other business segment. Based on the impairment testing result, the Group did not identify any impairment indicators.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(15) Long-term prepaid expenses

	31 December 2013 RMB'000	Current year additions RMB'000	Amortisation for the year RMB'000	31 December 2014 RMB'000
Deferred pilot recruitment costs	625,563	177,163	(202,408)	600,318
Others	38,695	5,939	(27,537)	17,097
	<u>664,258</u>	<u>183,102</u>	<u>(229,945)</u>	<u>617,415</u>

(16) Other non-current assets

	31 December 2014 RMB'000	31 December 2013 RMB'000
Security deposits for leased aircraft and engines	899,958	758,722
Maintenance reserve fund for aircraft and engines	818,326	1,038,299
Deferred losses on sales and lease back under finance leases	181,557	248,616
Prepayment for investments	65,593	1,826,940
Others	68,000	20,000
	<u>2,033,434</u>	<u>3,892,577</u>

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2014		31 December 2013	
	Deductible temporary differences and tax losses RMB'000	Deferred tax assets RMB'000	Deductible temporary differences and tax losses RMB'000	Deferred tax assets RMB'000
Accrued aircraft and engines overhaul and maintenance cost	1,442,774	346,347	1,517,172	368,301
Tax losses	-	-	149,994	22,499
Accrued aircraft rental	-	-	101,696	25,424
Fixed assets impairment	-	-	55,145	13,786
Others	942	142	24,077	3,612
	<u>1,443,716</u>	<u>346,489</u>	<u>1,848,084</u>	<u>433,622</u>
Including:				
Expected to reverse within one year (inclusive)		87,129		108,231
Expected to reverse after one year		259,360		325,391
		<u>346,489</u>		<u>433,622</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Deferred tax liabilities before offsetting

	31 December 2014		31 December 2013	
	Taxable temporary differences RMB'000	Deferred tax liabilities RMB'000	Taxable temporary differences RMB'000	Deferred tax liabilities RMB'000
Depreciation of fixed assets	8,263,225	2,065,806	7,702,357	1,847,124
Differences between book value and tax base of investment properties	7,088,401	1,772,100	7,356,010	1,839,002
Changes in fair value of available-for-sale financial assets	834,525	207,168	271,042	66,440
Investment income of non-monetary assets	294,059	73,515	-	-
Others	259,202	50,007	133,946	20,092
	<u>16,739,412</u>	<u>4,168,596</u>	<u>15,463,355</u>	<u>3,772,658</u>

Including:

Expected to reverse within one year (inclusive)

Expected to reverse after one year

51,361	346,031
<u>4,117,235</u>	<u>3,426,627</u>
<u>4,168,596</u>	<u>3,772,658</u>

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Deductible temporary differences	-	-
Deductible losses	<u>110,656</u>	<u>15,092</u>
	<u>110,656</u>	<u>15,092</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 2014 RMB'000	31 December 2013 RMB'000
Year 2018	15,092	15,092
Year 2019	<u>95,564</u>	-
	<u>110,656</u>	<u>15,092</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

	31 December 2014		31 December 2013	
	Offsetting amount RMB'000	Balance after offsetting RMB'000	Offsetting amount RMB'000	Balance after offsetting RMB'000
Deferred tax assets	346,489	-	433,622	-
Deferred tax liabilities	346,489	3,822,107	433,622	3,339,036

(18) Provision for asset impairment

	31 December 2013 RMB'000	Current year additions RMB'000	Current year reductions		31 December 2014 RMB'000
			Reversal RMB'000	Write-off RMB'000	
Provision for available-for-sale financial assets impairment (Note 4(8)(b))	86,104	-	-	-	86,104
Provisions for bad debts	84,171	7,431	(13,572)	-	78,030
Including: Accounts receivable	28,810	7,431	(7,000)	-	29,241
Other receivables	55,361	-	(6,572)	-	48,789
Provisions for impairment of fixed assets	71,523	-	-	(55,145)	16,378
Provisions for impairment of construction in progress	2,307	-	-	-	2,307
	<u>244,105</u>	<u>7,431</u>	<u>(13,572)</u>	<u>(55,145)</u>	<u>182,819</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings

	Currency	31 December 2014 RMB'000	31 December 2013 RMB'000
Pledged borrowings (a)	RMB	450,000	150,000
Impawn borrowings (b)		4,455,990	7,836,181
	RMB	3,782,900	6,221,050
	USD	673,090	1,463,256
	EUR	-	151,875
Guaranteed borrowings (c)		8,146,127	7,944,200
	RMB	7,742,273	7,944,200
	USD	403,854	-
Borrowings with guarantee and pledge/impawn (d)		4,649,700	5,585,001
	RMB	4,649,700	5,548,420
	USD	-	36,581
Unsecured borrowings		823,608	363,275
	RMB	266,110	363,275
	USD	557,498	-
Total		<u>18,525,425</u>	<u>21,878,657</u>

(a) As at 31 December 2014, the pledged borrowings of RMB450,000 thousand (31 December 2013: RMB150,000 thousand) are secured by building of the Group with a net book value of RMB130,950 thousand (a cost of RMB144,346 thousand) and aircraft of the Company with a net book value of RMB279,774 thousand (a cost of RMB356,603 thousand) (31 December 2013: a net book value of RMB132,930 thousand and a cost of RMB144,479 thousand) (Note 4(11)).

(b) As at 31 December 2014, impawn borrowings comprise:

- (i) Borrowings of RMB745,200 thousand (31 December 2013: RMB1,070,325 thousand) are impawned by the term deposit of RMB925,000 thousand (31 December 2013: term deposit of RMB1,035,000 thousand and EUR21,000 thousand) (Note 4(1)).
- (ii) Borrowings of RMB1,552,700 thousand (31 December 2013: RMB910,000 thousand) are impawned by certain equity interests held by the Group's related parties (Note 8(5)(c)).
- (iii) Borrowings of RMB140,000 thousand (31 December 2013: Nil) are impawned by financial products of RMB150,000 thousand of the Group.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings (Continued)

(b) As at 31 December 2014, impawn borrowings comprise (Continued):

- (iv) Borrowings of RMB1,873,090 thousand (including RMB1,200,000 thousand and USD110,000 thousand, equivalent to RMB673,090 thousand) (31 December 2013: Nil) are impawned by the term deposit of RMB918,577 thousand (Note 4(1)) and certain equity interests held by the Company, the Group's related parties and third parties.
- (v) Borrowings of RMB145,000 thousand (31 December 2013: RMB2,321,600 thousand) represent the letter of credit, which are impawned by certain equity interests held by related parties (Note 8(5)(c)) and third parties (31 December 2013: RMB500,000 thousand).

As at 31 December 2013, borrowings of RMB1,071,000 thousand were impawned by certain equity interests held by related parties of the Group and the Group, and borrowings of RMB2,463,256 thousand impawned by certain equity interests held by related parties of the Group were matured and repaid in 2014.

(c) As at 31 December 2014, guaranteed borrowings comprise:

- (i) Borrowings of RMB4,290,000 thousand (31 December 2013: RMB2,015,000 thousand) are guaranteed by related parties of the Group (Note 8(5)(c)).
- (ii) Borrowings of RMB3,443,854 thousand (RMB3,040,000 thousand, USD66,000 thousand, equivalent to RMB403,854 thousand) (31 December 2013: RMB3,180,000 thousand) are guaranteed by the Company.
- (iii) Borrowings of RMB300,000 thousand are guaranteed by related parties of the Group and the Company (31 December 2013: Nil).
- (iv) Borrowings of RMB77,000 thousand are guaranteed by third parties (31 December 2013: Nil).
- (v) Borrowing of RMB35,273 thousand (31 December 2013: RMB749,200 thousand) represent the letter of credit, which is guaranteed by related parties of the Group.

As at 31 December 2013, borrowings of RMB2,000,000 thousand guaranteed by related parties of the Group and the Group were matured and repaid in 2014.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings (Continued)

(d) As at 31 December 2014, borrowings with guarantee and pledge/impawn comprise:

- (i) Borrowings of RMB2,600,000 thousand (31 December 2013: RMB1,970,000 thousand) are impawned by certain equity interests held by related parties of the Group, and also guaranteed by related parties of the Group (Note 8(5)(c)).
- (ii) Borrowings of RMB300,000 thousand are impawned by the term deposit of RMB30,000 thousand (31 December 2013: RMB37,000 thousand) (Note 4(1)) and guaranteed by related parties of the Group.
- (iii) Borrowings of RMB80,000 thousand (31 December 2013: RMB180,000 thousand) are impawned by certain equity interests held by related parties of the Group (Note 8(5)(c)), and guaranteed by the Company.
- (iv) Borrowings of RMB150,000 thousand (31 December 2013: RMB150,000 thousand) are pledged by fixed assets of the Group with a net book value of RMB88,813 thousand and a cost of RMB118,587 thousand (31 December 2013: Net book value of RMB91,518 thousand and a cost of RMB118,587 thousand) (Note 4(11)) and are guaranteed by the Company.
- (v) Borrowings of RMB300,000 thousand (31 December 2013: RMB300,000 thousand) are impawned by the future BSP ticket collection rights of the Group and guaranteed by the Group and related parties of the Group.
- (vi) Borrowings of RMB300,000 thousand (31 December 2013: Nil) are pledged by intangible assets of the Company with a net book value of RMB80,779 thousand and a cost of RMB134,251 thousand and fixed assets of the Company with a net book value of RMB56,521 thousand and a cost of RMB93,398 thousand, and guaranteed by related parties of the Group.
- (vii) Borrowings of RMB100,000 thousand are pledged by fixed assets of the Company with a net book value of RMB105,687 thousand and a cost of RMB211,926 thousand, and impawned by equity interests held by related parties of the Group.
- (viii) Borrowings of RMB500,000 thousand (31 December 2013: Nil) are impawned by certain equity interests held by the Company and related parties of the Group, and also guaranteed by related parties of the Group.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Short-term borrowings (Continued)

(d) As at 31 December 2014, borrowings with guarantee and pledge/impawn comprise (Continued):

(ix) Borrowings of RMB319,700 thousand (31 December 2013: RMB561,420 thousand) represent the letter of credit, which are guaranteed by related parties of the Group (Note 8(5)(c)), and impawned by equity interests held by third parties.

As at 31 December 2013, borrowings of RMB1,286,581 thousand impawned by certain equity interests held by related parties of the Group and guaranteed by the Group; borrowings of RMB800,000 thousand impawned by certain equity interests held by the Group and related parties of the Group and guaranteed by the Group and related parties of the Group; borrowings of RMB300,000 thousand pledged by term deposit and financial products were matured and repaid in 2014.

(e) As at 31 December 2014, the interest rate for the short-term borrowings was 2.32% - 8.40% (31 December 2013: 3.58% - 8.40%).

(f) As at 31 December 2014, there were no short-term borrowings which are matured but not repaid by the Group.

(20) Notes payable

	31 December 2014 RMB'000	31 December 2013 RMB'000
Bank acceptance notes	4,885,910	3,633,547
Trade acceptance notes	642,226	1,035,257
	<u>5,528,136</u>	<u>4,668,804</u>

As at 31 December 2014 and 31 December 2013, all notes payable will be matured within one year.

HAINAN AIRLINES CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(21) Accounts payable**

	31 December 2014 RMB'000	31 December 2013 RMB'000
Aircraft and engines maintenance fees payable	2,003,814	2,197,133
Taking-off and landing fees payable	578,192	712,980
Ticket reservation fees payable	254,846	187,188
Fuel cost payable	216,055	513,547
Operating lease aircraft rental payable	211,461	311,835
In-flight catering payable	169,525	196,467
Flight equipment payable	62,394	141,915
Assignment fee of debt payable	-	480,000
Others	294,301	408,732
	<u>3,790,588</u>	<u>5,149,797</u>

- (a) As at 31 December 2014, the accounts payable with ageing over 1 year amounted to RMB299,330 thousand (31 December 2013: RMB318,212 thousand), mainly comprised of payable of 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.

(22) Advances from customers

	31 December 2014 RMB'000	31 December 2013 RMB'000
Sales in advance of carriage	1,460,138	1,410,177
Other advances received	79,400	229,698
	<u>1,539,538</u>	<u>1,639,875</u>

- (a) As at 31 December 2014, advances from customers with ageing over 1 year amounted to RMB112,458 thousand (31 December 2013: RMB79,303 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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(23) Employee benefits payable

	31 December 2014 RMB'000	31 December 2013 RMB'000
Short-term employee benefits payable (a)	280,962	290,704
Defined contribution plans payable (b)	6,046	2,605
	<u>287,008</u>	<u>293,309</u>

(a) Short-term employee benefits

	31 December 2013 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2014 RMB'000
Wages and salaries, bonus, allowances and subsidies	248,618	1,764,152	(1,778,360)	234,410
Social security contributions	1,244	50,796	(49,210)	2,830
Including: Medical insurance	857	33,358	(32,996)	1,219
Work injury insurance	86	3,600	(3,595)	91
Maternity insurance	55	3,035	(2,991)	99
Annuity	246	10,803	(9,628)	1,421
Housing funds	19,399	79,650	(85,362)	13,687
Labour union funds and employee education funds	21,443	37,317	(28,725)	30,035
	<u>290,704</u>	<u>1,931,915</u>	<u>(1,941,657)</u>	<u>280,962</u>

(b) Defined contribution plans payable

	31 December 2013 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2014 RMB'000
Basic pensions	2,045	103,319	(99,997)	5,367
Unemployment insurance	560	3,798	(3,679)	679
	<u>2,605</u>	<u>107,117</u>	<u>(103,676)</u>	<u>6,046</u>

(24) Taxes payable

	31 December 2014 RMB'000	31 December 2013 RMB'000
Corporate income tax payable	378,177	306,899
Aviation development fund payable	284,566	350,254
Business tax payable	25,679	29,353
Others	91,419	117,920
	<u>779,841</u>	<u>804,426</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Interest payable

	31 December 2014 RMB'000	31 December 2013 RMB'000
Interest payable on debentures	357,884	223,978
Interests on borrowings	115,619	150,097
	<u>473,503</u>	<u>374,075</u>

(26) Other payables

	31 December 2014 RMB'000	31 December 2013 RMB'000
Security deposits and various funds	368,926	299,537
Amounts due to related parties	51,099	728,733
Air base project expenses	50,539	99,483
Aircraft acquisition	45,853	45,687
Pilot training fees	29,567	44,076
Others	217,223	228,856
	<u>763,207</u>	<u>1,446,372</u>

- (a) As at 31 December 2014, other payables ageing over one year amounted to RMB640,684 thousand (31 December 2013: RMB615,493 thousand) and mainly comprised ticket deposits placed by ticket sales agents and other payables. As the Group has continuing business relationships with these agents, such payable amounts have not yet been settled.

(27) Non-current liabilities within one year

	31 December 2014 RMB'000	31 December 2013 RMB'000
Long-term borrowings within one year (a)	5,758,116	5,998,624
Long-term payables within one year (Note 4(30))	671,838	571,151
Debenture payable within one year (Note 4(29))	399,053	997,476
	<u>6,829,007</u>	<u>7,567,251</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) Current portion of long-term borrowings

	Currency	31 December 2014 RMB'000	31 December 2013 RMB'000
Pledged borrowings (Note 4(28)(a))		2,869,768	2,302,574
	RMB	1,190,523	773,102
	USD	1,679,245	1,529,472
Impawn borrowings (Note 4(28)(b))	RMB	67,500	530,000
Guaranteed borrowings (Note 4(28)(c))		538,530	722,994
	RMB	503,366	350,380
	USD	35,164	372,614
Borrowings with guaranteed and pledged/impawn (Note 4(28)(d))		2,197,677	2,376,389
	RMB	1,460,797	1,796,479
	USD	689,164	579,910
	EUR	47,716	-
Unsecured borrowings		84,641	66,667
	RMB	77,261	66,667
	EUR	7,380	-
		<u>5,758,116</u>	<u>5,998,624</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings

	Currency	31 December 2014 RMB'000	31 December 2013 RMB'000
Pledged borrowings (a)		16,353,444	16,355,540
	RMB	1,169,876	2,294,604
	USD	15,183,568	14,060,936
Impawn borrowings (b)	RMB	5,000	570,000
Guaranteed borrowings (c)		3,909,409	574,162
	RMB	3,241,296	574,162
	USD	668,113	-
Borrowings with guarantee and pledge/impawn (d)		7,135,057	8,175,547
	RMB	2,380,112	3,805,659
	USD	4,489,526	4,016,294
	EUR	265,419	353,594
Unsecured borrowings		261,979	74,418
	RMB	134,761	66,667
	USD	7,779	7,751
	EUR	119,439	-
		<u>27,664,889</u>	<u>25,749,667</u>

(a) As at 31 December 2014, pledged borrowings comprise:

(i) The pledged borrowings of RMB16,089,953 thousand (including: RMB1,840,399 thousand and USD2,328,739 thousand, equivalent to RMB14,249,554 thousand) (31 December 2013: RMB16,835,662 thousand) are pledged by the following fixed assets and investment properties individually or collectively:

	31 December 2014		31 December 2013	
	Cost RMB'000	Net book value RMB'000	Cost RMB'000	Net book value RMB'000
Fixed assets – aircraft (Note 4(11))	<u>25,907,678</u>	<u>20,852,190</u>	<u>24,899,453</u>	<u>20,760,948</u>
Investment properties (Note 4(10))		<u>1,869,512</u>		<u>1,774,005</u>
Total		<u>22,721,702</u>		<u>22,534,953</u>

(ii) The pledged borrowings of RMB3,133,259 thousand (including: RMB520,000 thousand, USD427,073 thousand, equivalent to RMB2,613,259 thousand) (31 December 2013: RMB1,822,452 thousand) are pledged by the Company's purchase rights of certain aircraft for which the related mortgage procedures have not been completed.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

(b) As at 31 December 2014, impawn borrowings comprise:

- (i) The impawn borrowings of RMB72,500 thousand (31 December 2013: RMB700,000 thousand) are impawned by certain equity interests held by related parties of the Group (Note 8(5)(c)).

As at 31 December 2013, borrowings of RMB400,000 thousand, which were impawned by term deposit of RMB550,000 thousand, had been matured and repaid in 2014.

(c) As at 31 December 2014, guaranteed borrowings of RMB4,447,939 thousand (including: RMB3,744,663 thousand, USD114,933 thousand, equivalent to RMB703,277 thousand) (31 December 2013: RMB1,297,156 thousand) were guaranteed by relate parties of the Group (Note 8(5)(c)) and the Group, among which, RMB3,300,000 thousand and USD114,933 thousand were guaranteed by related parties of the Group (equivalent to RMB703,277 thousand), and RMB444,662 thousand was guaranteed by the Company.

(d) As at 31 December 2014, borrowings with guarantee and pledge/impawn comprise:

- (i) Borrowings of RMB4,397,619 thousand (including RMB696,409 thousand, USD604,872 thousand, equivalent to RMB3,701,210 thousand) (31 December 2013: RMB3,692,495 thousand) are pledged by aircraft of the Group with a net value of RMB4,754,212 thousand and a cost of RMB5,513,891 thousand (31 December 2013: net book value of RMB5,680,986 thousand and a cost of RMB7,443,044 thousand) (Note 4(11)), and also guaranteed by related parties of the Group (Note 8(5)(c)).
- (ii) Borrowings of RMB1,096,000 thousand (31 December 2013: RMB1,110,000 thousand) are pledged by the Group's investment properties with fair value of RMB5,463,035 thousand (31 December 2013: RMB3,469,799 thousand) (Note 4(10)), and also guaranteed by the Company and related parties of the Group (Note 8(5)(c)), among which, RMB306,000 thousand is guaranteed by related parties of the Group.
- (iii) Borrowings of RMB549,000 thousand (31 December 2013: RMB1,787,189 thousand) are pledged by the Company's purchase rights of certain aircraft for which the related mortgage procedures have not been completed, and also guaranteed by related parties of the Group (Note 8(5)(c)).
- (iv) Borrowings of USD115,000 thousand (equivalent to RMB703,685 thousand) (31 December 2013: RMB792,597 thousand) are pledged by aircraft of the Group with a net book value of RMB1,030,480 thousand and a cost of RMB1,034,850 thousand (Note 4(11)) and also guaranteed by the Company.
- (v) Borrowings of RMB513,000 thousand (31 December 2013: RMB613,000 thousand) are impawned by fixed assets of the Group with a net book value of RMB6,994 thousand and a cost of RMB10,531 thousand and intangible assets with a net book value of RMB75,008 thousand and a cost of RMB128,391 thousand, and also guaranteed by the related parties of the Group (Note 8(5)(c)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Long-term borrowings (Continued)

(d) As at 31 December 2014, borrowings with guarantee and pledge/impawn comprise (CONTINUED):

- (vi) Borrowings of RMB332,000 thousand (31 December 2013: Nil) are pledged by construction in progress of the Group with a net book value of RMB565,212 thousand and guaranteed by related parties of the Group.
- (vii) Borrowings of RMB22,308 thousand (31 December 2013: RMB136,501 thousand) (31 December 2013: RMB180,468 thousand) are impawned by equity interests held by the Company and related parties of the Group, and also guaranteed by related parties of the Group (Note 8(5)(c)).
- (viii) Borrowings of EUR42,000 thousand (equivalent to RMB313,135 thousand) (31 December 2013: RMB42,000 thousand) are impawned by fixed assets of the Group with a net book value of EUR6,396 thousand (equivalent to RMB47,684 thousand) and a cost of EUR11,396 thousand (equivalent to RMB84,967 thousand), and certain equity interests held by the Company, and also guaranteed by related parties of the Group.
- (ix) Borrowings of RMB1,291,794 thousand (including: RMB654,500 thousand, USD104,150 thousand equivalent to RMB637,294 thousand) (31 December 2013: RMB1,684,593 thousand) are pledged by aircraft of the related parties of the Group, the intangible assets of the Company with a net book value of RMB39,590 thousand and a cost of RMB40,421 thousand (31 December 2013: net book value of RMB30,339 thousand and a cost of RMB40,421 thousand) (Note 4(13)), and the fixed assets of the Company with a net book value of RMB326,144 thousand and a cost of RMB471,591 thousand (31 December 2013: net book value of RMB335,671 thousand and a cost of RMB469,786 thousand) (Note 4(11)), and also impawned by intangible assets and certain equity interests held by related parties of the Group (31 December 2013: Intangible assets and certain equity interests held by related parties of the Group).

As at 31 December 2013, the borrowings of RMB30,000 thousand pledged by aircraft of related parties of the Group and also guaranteed by related parties of the Group (Note 8(5)(c)); the borrowings of RMB308,000 thousand pledged by the fixed assets of related parties of the Group and also guaranteed by related parties of the Group were all matured and repaid in 2014.

(e) As at 31 December 2014, the Group's long-term borrowings were bearing interests at range between 0.10% and 7.38% per annum (31 December 2013: 1.42% - 7.76%).

HAINAN AIRLINES CO., LTD.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Debentures Payable

	31 December 2013 RMB'000	Current year issuance RMB'000	Issuance cost RMB'000	Amortisation of premium and discount RMB'000	Current year repayment RMB'000	31 December 2014 RMB'000
Corporate bonds	5,645,872	-	-	13,179	-	5,659,051
RMB bonds	997,476	-	-	2,524	(1,000,000)	-
USD bonds	2,992,083	-	-	19,107	-	3,011,190
Private placement note	-	3,200,000	(9,504)	932	-	3,191,428
Short-term financing bonds	-	400,000	(1,600)	653	-	399,053
Medium term notes	-	400,000	(1,200)	132	-	398,932
Singapore bonds	-	3,000,000	(20,278)	3,678	-	2,983,400
Total amount	9,635,431	7,000,000	(32,582)	40,205	(1,000,000)	15,643,054
Less: Maturity within 1 year (Note 4(27))	<u>(997,476)</u>					<u>(399,053)</u>
	8,637,955					15,244,001

(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 May 2011	5 and 10 years	4,920,000
Corporate bonds (ii)	700,000	14 December 2012	7 years	693,000
RMB bonds (iii)	1,000,000	27 September 2011	3 years	990,371
USD bonds (iv)	3,048,450	7 February 2013	7 years	2,961,280
Private placement note (v)	1,170,000	1 August 2014	3 years	1,166,525
	1,200,000	17 September 2014	3 years	1,196,436
	830,000	14 October 2014	3 years	827,535
Short-term financing bonds (vi)	400,000	23 April 2014	1 year	398,400
Medium term notes (vii)	400,000	9 May 2014	5 years	398,800
Singapore bonds (viii)	1,700,000	23 May 2014	3 years	1,684,715
	1,300,000	18 June 2014	3 years	1,295,007

(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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Debentures Payable (Continued)

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

- (ii) In December 2012, the Company's subsidiary, Lucky Air, issued seven-year corporate bonds of RMB700 million bearing interest at 7.29% per annum and payable annually. The bonds are listed in Shanghai Stock Exchange and with an unconditional and irrevocable guarantee provided by HNA Aviation Group, a related party of the Company.
- (iii) 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. The bonds were matured and repaid in the current year.
- (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.
- (v) From August to October 2014, the Company issued a three-year private placement note of RMB3.2 billion by instalment. The note bears interest at 7.20% - 7.40% per annum and payable annually.
- (vi) In April 2014, the Company issued one year short-term financing bonds of RMB400 million with interest bearing at 6.88% per annum and payable monthly.
- (vii) In May 2014, the Company issued five-year medium term notes of RMB400 million with interest bearing at 8.00% per annum and payable annually.
- (viii) From May to June 2014, HNA Hong Kong, a wholly-owned subsidiary of the Company, issued three-year Singapore bonds of RMB3 billion by instalments. The bonds bear interest at 6.25% per annum and payable semi-annually. The bonds are listed in Singapore and with an unconditional and irrevocable guarantee provided by the Company for a period of three years.

(30) Long-term payables

	31 December 2014 RMB'000	31 December 2013 RMB'000
Finance lease obligations	4,516,045	3,227,387
Less: current portion payable within 1 year (Note 4(27))	(671,838)	(571,151)
	<u>3,844,207</u>	<u>2,656,236</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Deferred revenue

	1 January 2014 RMB'000	Current year addition RMB'000	Current year reduction RMB'000	31 December 2014 RMB'000	Reason
Unredeemed mileages under frequent flyer programme	740,444	241,094	(169,703)	811,835	Unredeemed

(32) Share capital

	31 December 2013 RMB'000	Movements in the current year RMB'000	31 December 2014 RMB'000
Shares with trading restrictions -			
Shares held by domestic non-state-owned legal persons	674	-	674
Shares held by domestic state-owned legal persons	-	-	-
	<u>674</u>	<u>-</u>	<u>674</u>
Shares without trading restrictions -			
A shares	11,812,062	-	11,812,062
B shares	369,446	-	369,446
	<u>12,181,508</u>	<u>-</u>	<u>12,181,508</u>
	<u>12,182,182</u>	<u>-</u>	<u>12,182,182</u>

	31 December 2012 RMB'000	Movements in the current year			31 December 2013 RMB'000
		Trading restrictions lifted (a) RMB'000	Increase of share capital from capital surplus (b) RMB'000	Trading restrictions lifted (c) 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>

- (a) In February 2010, 297,619 thousand A shares purchased by Hainan Development Holding and 297,619 thousand A shares purchased by HNA Group were restricted from trading with a lock-up period of 36 months. In February 2013, these non-circulating shares with trading restrictions had passed restriction period and became tradable.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Share capital (Continued)

- (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 2013 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2014 RMB'000
Share premium	5,660,753	-	-	5,660,753
Other capital surplus				
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Long-term investments accounted for by equity method	1,850	-	-	1,850
- Business combination involving enterprises under common control (Note 5(1)(c))	901,586	(1,117,317)	-	(215,731)
- Capital contribution by minority shareholders	-	209,303	-	209,303
- Others	796	-	-	796
	<u>6,596,153</u>	<u>(908,014)</u>	<u>-</u>	<u>5,688,139</u>
	31 December 2012 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2013 RMB'000
Share premium	11,751,844		(6,091,091)	5,660,753
Other capital surplus				
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Long-term investments accounted for by equity method	1,850	-	-	1,850
- Business combination involving enterprises under common control	465,846	435,740	-	901,586
- Others	796	-	-	796
	<u>12,251,504</u>	<u>435,740</u>	<u>(6,091,091)</u>	<u>6,596,153</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(34) Other comprehensive income

	Other comprehensive income in balance sheet			Other comprehensive income in income statement for the year ended 31 December 2014				
	31 December 2013	Attributable to the parent company after tax	31 December 2014	Amount before income tax	Less: Previously recognized other comprehensive income recycled to profit or loss in the current year	Less: Income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholders after tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other comprehensive income items which will be reclassified subsequently to profit or loss: Gains or losses arising from changes in fair value of available-for-sale financial assets	260,165	432,427	692,592	573,155	-	(140,728)	432,427	-
	260,165	432,427	692,592	573,155	-	(140,728)	432,427	-
	Other comprehensive income in balance sheet			Other comprehensive income in income statement for the year ended 31 December 2013				
	31 December 2012	Attributable to the parent company after tax	31 December 2013	Amount before income tax	Less: Previously recognized other comprehensive income recycled to profit or loss in the current year	Less: Income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholders after tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other comprehensive income items which will be reclassified subsequently to profit or loss: Gains or losses arising from changes in fair value of available-for-sale financial assets	90,681	169,484	260,165	228,133	-	(58,649)	169,484	-
	90,681	169,484	260,165	228,133	-	(58,649)	169,484	-

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) Surplus reserve

	31 December 2013 RMB'000	Current year addition RMB'000	Current year reduction RMB'000	31 December 2014 RMB'000
Statutory surplus reserve	<u>852,630</u>	<u>171,649</u>	<u>(54,430)</u>	<u>969,849</u>
	31 December 2012 RMB'000	Current year addition RMB'000	Current year Adjustment RMB'000	31 December 2013 RMB'000
Statutory surplus reserve	<u>702,966</u>	<u>140,803</u>	<u>8,861</u>	<u>852,630</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 RMB171,649 thousand (2013: RMB140,803 thousand), to statutory surplus reserve for the year ended 31 December 2014.

(36) Undistributed profits

	2014 RMB'000	2013 RMB'000
Undistributed profits as at 1 January	7,229,735	5,309,332
Adjustments (a)	-	<u>462,003</u>
Undistributed profits as at 1 January (after adjustments)	<u>7,229,735</u>	<u>5,771,335</u>
Add: Net profits attributable to the equity shareholders of the Company	2,591,173	2,158,660
Less: Appropriation to surplus reserves	(171,649)	(140,803)
Dividends to ordinary shares	-	(609,109)
Business combination involving enterprises under common control	(530,386)	(11,201)
Investment income from long term investments due to change from cost method to equity method with increase in investments	-	<u>60,853</u>
Undistributed profits at the end of the year	<u>9,118,873</u>	<u>7,229,735</u>

- (a) The adjustment of undistributed profits at the beginning of the year amounts to RMB462,003 was due to business combination involving enterprises under common control in the current year (Note 5(1)).

As at 31 December 2014, undistributed profits included surplus reserve of RMB370,456 thousand attributable to the Company's subsidiaries (31 December 2013: RMB223,601 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 2014, RMB29,746 thousand has not been paid yet.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) Minority interests

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Chang'an Airlines	1,253,580	-
Shanxi Airlines	984,700	-
Lucky Air	392,258	376,202
Fuzhou Airlines	224,960	-
Beijing Kehang	113,417	108,754
Urumqi Airlines	98,213	-
Others	5,982	5,982
	<u>3,073,110</u>	<u>490,938</u>

(38) Revenue and operating costs

	2014 RMB'000	2013 RMB'000
Revenue from main operations (a)	32,415,023	30,972,759
Revenue from other operations (b)	3,628,748	2,303,495
	<u>36,043,771</u>	<u>33,276,254</u>
Operating costs of main operations (a)	(25,730,252)	(25,052,379)
Operating costs of other operations (b)	(1,972,630)	(1,092,037)
	<u>(27,702,882)</u>	<u>(26,144,416)</u>

(a) Revenue and operating costs of main operations

	2014		2013	
	Revenue from main operations RMB'000	Operating costs of main operations RMB'000	Revenue from main operations RMB'000	Operating costs of main operations RMB'000
Passenger	31,459,572	(25,019,620)	29,900,222	(24,294,306)
Cargo and mail	893,546	(710,632)	932,998	(758,073)
Others	61,905	-	139,539	-
	<u>32,415,023</u>	<u>(25,730,252)</u>	<u>30,972,759</u>	<u>(25,052,379)</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(38) Revenue and operating costs (Continued)

(b) Revenue and operating costs of other operations

	2014		2013	
	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
Disposal of investment properties (Note 4(10))	1,512,219	(1,239,914)	487,778	(399,949)
Aircraft leasing (Note 8(5)(b))	1,026,505	(641,999)	948,880	(578,092)
Processing fee for cancelled tickets	464,497	-	280,065	-
Property rental	406,147	(37,582)	402,910	(58,065)
Commission fee	43,491	-	46,785	-
Maintenance service	7,906	(4,444)	1,312	-
Others	167,983	(48,691)	135,765	(55,931)
	<u>3,628,748</u>	<u>(1,972,630)</u>	<u>2,303,495</u>	<u>(1,092,037)</u>

The costs of aircraft leasing did not include interest charge of RMB188,086 thousand (2013: RMB206,711 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(39) Business tax and surcharges

	2014 RMB'000	2013 RMB'000
Business tax	45,124	517,449
City maintenance and construction tax	10,582	44,923
Educational surcharge	8,442	33,126
Others	4,170	2,019
	<u>68,318</u>	<u>597,517</u>

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

(40) Selling and distribution expenses

	2014 RMB'000	2013 RMB'000
Commissions tickets sales	1,458,004	1,462,763
Tickets reservation fee	292,236	239,075
Wages, bonuses and welfares	180,596	168,156
Sales branches expenses	73,924	68,608
Rental	45,864	43,887
Others	115,512	95,191
	<u>2,166,136</u>	<u>2,077,680</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(41) General and administrative expenses

	2014 RMB'000	2013 RMB'000
Wages, bonuses and welfares	201,915	140,592
Depreciation	85,418	70,491
Insurances	70,919	42,570
Rental	26,375	26,571
Various types of taxes	25,344	53,535
Others	358,239	365,611
	<u>768,210</u>	<u>699,370</u>

(42) Finance expenses – net

	2014 RMB'000	2013 RMB'000
Interest expenses	4,423,724	3,774,183
Less: Interest capitalised (Note 4(12)(a))	(554,608)	(575,795)
Less: Interest income	(688,573)	(573,875)
Less: Net exchange losses/(gains)	71,804	(721,942)
Others	148,851	142,760
	<u>3,401,198</u>	<u>2,045,331</u>

Interest income includes interests received from related parties (Note 8(5)(a)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(43) Expenses by nature**

The operating cost, selling and distribution expenses and general and administrative expenses in the income statements are listed as follows by nature:

	2014 RMB'000	2013 RMB'000
Cost of aviation fuel	10,933,095	10,987,002
Depreciation and amortization expenses	3,473,834	2,883,044
Cost of take-off and landing	3,218,962	2,865,020
Rental expenses	2,604,636	3,014,109
Maintenance of aircraft and consumption of aviation materials	2,124,956	2,230,719
Employee benefits	2,039,032	1,982,393
Commissions tickets sales	1,458,004	1,462,763
Disposal of investment properties	1,239,914	399,949
Civil Aviation Development Fund	777,748	681,316
Cost of catering	769,379	705,559
Pilot training fees	295,858	238,536
Others	1,701,810	1,471,056
	<u>30,637,228</u>	<u>28,921,466</u>

(44) Impairment losses

	2014 RMB'000	2013 RMB'000
Provisions for impairment of fixed assets	-	55,145
Provisions for bad debts	(6,141)	(374)
	<u>(6,141)</u>	<u>54,771</u>

(45) Loss on changes in fair value

	2014 RMB'000	2013 RMB'000
Investment properties (Note 4(10))	23,137	34,022
Transfer out of accumulated changes in fair value upon disposal of investment properties	(272,305)	(98,385)
	<u>(249,168)</u>	<u>(64,363)</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(46) Investment income

	2014 RMB'000	2013 RMB'000
Share of results of investees accounted for under equity method (Note 4(9)(a))	534,625	439,798
Investment gains from disposal of available-for-sale financial assets (Note 4(8)(a)(ii))	135,000	10,450
Investment income from financial products (Note 4(7)(a)(b))	99,871	108,703
Dividend income from available-for-sale financial assets	24,353	12,609
Interest income of entrusted loans	10,802	124,823
	<u>804,651</u>	<u>696,383</u>

The Group has no significant limitation on returns on investments.

(47) Non-operating income

	2014 RMB'000	2013 RMB'000	Amount recorded in extraordinary items of 2014 RMB'000
Subsidy income	504,193	362,284	504,193
Including: Flight route subsidies (a)	362,398	153,150	362,398
Tax refund	63,267	108,220	63,267
Other financial subsidies	78,528	100,914	78,528
Gain on disposal of non-current assets	158,824	22,872	158,824
Pilot transferring income	42,033	68,963	42,033
Others	23,781	21,310	23,781
	<u>728,831</u>	<u>475,429</u>	<u>728,831</u>

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(48) Income tax expenses**

	2014 RMB'000	2013 RMB'000
Current income tax	328,013	336,773
Deferred income tax	241,965	249,079
	<u>569,978</u>	<u>585,852</u>

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

	2014 RMB'000	2013 RMB'000
Total profit	<u>3,212,626</u>	<u>2,761,163</u>
Income tax expenses calculated at the applicable tax rate of 25% (2013: 25%)	803,157	690,291
Effect of different tax rates of subsidiaries	(29,699)	(27,366)
Income not subject to tax	(169,763)	(120,562)
Expenses not deductible for tax purposes	14,954	31,233
Unrecognised deductible tax losses	23,891	3,774
Adjustment of current income tax in accordance of tax clearance	(72,562)	8,482
Income tax expenses	<u>569,978</u>	<u>585,852</u>

(49) Earnings per share**(a) Basic earnings per share**

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

	2014 RMB'000	2013 RMB'000
Profits attributable to the ordinary shareholders of the Company	2,591,173	2,158,660
Weighted average number of outstanding ordinary shares in issue	<u>12,182,182</u>	<u>12,182,182</u>
Basic earnings per share (RMB Yuan per share)	<u>0.213</u>	<u>0.177</u>

(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, and divided by the weighted average number of ordinary shares of the Company. For the year ended 31 December 2014, there are no diluted ordinary shares (2013: Nil), therefore diluted earnings per share is equal to basic earnings per share.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) Notes to consolidated cash flow statements

(a) Cash received relating to other operating activities:

	2014 RMB'000	2013 RMB'000
Receipt of notes payable and other security deposits	1,247,049	2,096,013
Receipts of subsidy income (Note 4(47))	504,193	362,284
Others	679,585	463,690
	<u>2,430,827</u>	<u>2,921,987</u>

(b) Cash paid relating to other operating activities:

	2014 RMB'000	2013 RMB'000
Payments of notes payable and other security deposits	2,116,385	1,247,049
Payments of ticket sales commission	1,458,004	1,462,763
Payments of ticket reservation fees	292,236	239,075
Payments of bank charges	148,851	142,760
Payments of advertising and entertainment expenses	84,534	90,632
Payments of sales branches' expenses	73,924	68,608
Others	547,958	438,379
	<u>4,721,892</u>	<u>3,689,266</u>

(c) Cash received relating to other investing activities

	2014 RMB'000	2013 RMB'000
Receipts of term deposits upon maturity	2,897,357	1,525,000
Cash received from repayment of entrusted loans by related parties	970,000	-
Interests on deposits	622,913	458,746
	<u>4,490,270</u>	<u>1,983,746</u>

(d) Cash paid relating to other investing activities

	2014 RMB'000	2013 RMB'000
Payment of term deposits	2,233,577	2,897,357
Cash paid for entrusted loans to related parties	-	970,000
	<u>2,233,577</u>	<u>3,867,357</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(e) Cash received relating to other financing activities

	2014 RMB'000	2013 RMB'000
Cash received from discounted notes payable	<u>4,602,450</u>	<u>2,150,000</u>

(f) Cash paid relating to other financing activities

	2014 RMB'000	2013 RMB'000
Payments of finance leases	3,609,866	675,859
Payments of discounted notes payable	3,194,000	4,602,450
Interest on discounting notes	<u>272,680</u>	<u>190,700</u>
	<u>7,076,546</u>	<u>5,469,009</u>

(51) Supplementary information for consolidated cash flow statement

(a) Supplementary information for consolidated cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2014 RMB'000	2013 RMB'000
Net profit	2,642,648	2,175,311
Adjust for: Provision for asset impairment (Note 4(44))	(6,141)	54,771
Depreciation of fixed assets (Note 4(11))	3,230,104	2,697,001
Amortisation of intangible assets (Note 4(13))	13,785	9,698
Amortisation of long-term prepaid expenses (Note 4(15))	229,945	176,345
Amortisation of deferred loss on sales and leaseback transaction	40,548	71,918
Gains on disposals of fixed assets	(156,536)	(20,779)
Loss on changes in fair value (Note 4(45))	249,168	64,363
Financial expenses	3,252,347	1,888,084
Investment income (Note 4(46))	(804,651)	(696,383)
Increase in deferred tax liabilities	342,341	240,596
Increase in deferred revenue (Note 4(31))	71,391	114,855
Decrease in inventories	1,439	8,269
(Increase)/decrease in operating receivables	(572,481)	2,401,157
(Decrease)/Increase in operating payables	<u>(2,529,265)</u>	<u>1,562,410</u>
Net cash flows from operating activities	<u>6,004,642</u>	<u>10,747,616</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

	2014 RMB'000	2013 RMB'000
Fixed assets acquired under finance leases	<u>5,255,316</u>	<u>601,761</u>

Movement in cash and cash equivalents

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents at end of the year	17,365,628	17,203,390
Less: Cash and cash equivalents at beginning of year	<u>(17,203,390)</u>	<u>(19,361,252)</u>
Net increase/(decrease) in cash and cash equivalents	<u>162,238</u>	<u>(2,157,862)</u>

(b) Acquisition or disposal of subsidiaries

(i) Acquisition of subsidiaries

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents paid in the current year for business combination occurred in the current year	902,133	-
Including: Lucky Air	902,133	-
Hainan Guoshan, Hainan Guoxu, Hainan Hangpeng	-	2,984,738
Less: Cash and cash equivalents held by the subsidiary at the acquisition date	-	(200,000)
Including: Hainan Fushun	-	(200,000)
Net cash outflow on acquisition of the subsidiary	<u>902,133</u>	<u>2,784,738</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Acquisition or disposal of subsidiaries (Continued)

(i) Acquisition of subsidiaries (Continued)

	2014 RMB'000	2013 RMB'000
Consideration for acquisition of subsidiaries in the current year		
Lucky Air	1,702,133	-
Urumqi Airlines	631,238	-
Fuzhou Airlines	360,000	-
Hainan Fushun	-	1,094,161
Hainan Guoshan, Hainan Guoxu, Hainan Hangpeng	-	2,984,738
	<u>2,693,371</u>	<u>4,078,899</u>

Consideration for acquisition of subsidiaries in prior years

Lucky Air	<u>842,000</u>	<u>-</u>
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Net assets of the subsidiaries acquired

Current assets	1,477,184	200,000
Non-current assets	7,493,202	3,878,899
Current liabilities	(2,744,834)	-
Non-current liabilities	(3,371,247)	-
	<u>2,854,305</u>	<u>4,078,899</u>

(ii) Disposal of subsidiaries

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents received from disposal of subsidiaries in the current year	-	-
Less: Cash and cash equivalents held by the Company on the control losing date	-	(901,609)
Add: Cash and cash equivalents received in the current year from disposal of subsidiaries in prior years	-	-
Decrease in net proceeds from disposal of subsidiaries	<u>-</u>	<u>901,609</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Acquisition or disposal of subsidiaries (Continued)

(ii) Disposal of subsidiaries (Continued)

Net assets of the subsidiaries disposed

	2014 RMB'000	2013 RMB'000
Current assets	-	901,609
Non-current assets	-	192,552
Current liabilities	-	-
Non-current liabilities	-	-
	<u>-</u>	<u>1,094,161</u>

(c) Cash and cash equivalents

	31 December 2014 RMB'000	31 December 2013 RMB'000
Cash on hand	1,552	1,207
Bank deposits available for drawing at any time	<u>17,364,076</u>	<u>17,202,183</u>
Cash and cash equivalents at end of year	<u>17,365,628</u>	<u>17,203,390</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(52) Monetary items denominated in foreign currencies

	31 December 2014		
	Balances denominated in foreign currency RMB'000	Translation rate RMB'000	Balances denominated in RMB RMB'000
Cash at bank and on hand -			
USD	424,622	6.1190	2,598,262
EUR	33,676	7.4556	251,075
Others			910
Accounts receivable -			
USD	697	6.1190	4,267
EUR	660	7.4556	4,923
Others			3,239
Advances to suppliers -			
USD	43,013	6.1190	263,197
Others			2,189
Other receivables -			
USD	96,297	6.1190	589,242
Others			14,211
Accounts payable -			
USD	58,786	6.1190	359,712
Others			64,754
Other payables -			
USD	7,494	6.1190	45,853
Others			2,645
Short-term borrowings -			
USD	267,109	6.1190	1,634,440
Long-term borrowings -			
USD	3,718,346	6.1190	22,752,559
EUR	59,010	7.4556	439,955
Long-term payables -			
USD	445,240	6.1190	2,724,426
Debentures Payables -			
USD	492,105	6.1190	3,011,190

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5 CHANGES OF THE EXTENT OF CONSOLIDATION

(1) Business combinations involving enterprises under common control

(a) Business combinations involving enterprises under common control in the current year

Combined party	% acquired	Basis of business combination involving enterprises under common control	Combination date	Basis of combination date	Income from combined parties for the period from 1 January 2014 to combination date	Net profit from combined parties for the period from 1 January 2014 to combination date	Income from combined parties for the year ended 31 December 2013	Net profit from combined parties for the year ended 31 December 2013	Cash flows from operating activities of combined parties for the period from 1 January 2014 to the combination date	Net cash flows from combined parties for the period from 1 January 2014 to the combination date
Lucky Air	86.68%	Lucky Air and the Company are ultimately controlled by Grand China Air and the control is not transitory	28 March 2014	The combination date on which the Company effectively obtains the power to control Lucky Air	918,901	29,968	3,511,534	101,884	1,099,192	(420,285)

The above business combination is deemed as business combination under common control, where retrospective adjustments on the opening balance of the comparative period are required according to the Accounting Standard for Business Enterprises, as if the reporting entity after the combination had been existing since the prior periods.

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5 CHANGES OF THE EXTENT OF CONSOLIDATION (CONTINUED)

(1) Business combination involving enterprises under common control (Continued)

- (b) The consideration of the business combination and carrying amount of net assets acquired are as follows:

	Lucky Air RMB'000
Costs of combination -	
Cash paid	2,544,133
Carrying amount of non-cash assets transferred	-
Carrying amount of liabilities incurred or assumed	-
	<u>2,544,133</u>

- (c) The carrying amounts of assets and liabilities of combined parties at the combination date are as follows:

- (i) Lucky Air

	Combination date Carrying amount RMB'000	31 December 2013 Carrying amount RMB'000
Cash at bank and on hand	644,737	1,065,022
Receivables	257,247	370,874
Inventories	2,931	2,665
Other current assets	572,268	1,995,415
Available-for-sale financial assets	800,000	-
Fixed assets	1,840,895	1,864,630
Intangible assets	195,300	196,385
Other non-current assets	4,657,008	4,586,174
Less: Borrowings	(1,343,033)	(1,463,322)
Payables	(215,788)	(227,540)
Employee benefits payable	(11,480)	(17,214)
Deferred tax liabilities	(941,094)	(941,087)
Other liabilities	(3,604,685)	(4,607,664)
Net assets	<u>2,854,306</u>	<u>2,824,338</u>
Less: Minority interests	(380,194)	(376,202)
Net assets obtained	<u>2,474,112</u>	<u>2,448,136</u>

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5 CHANGES OF THE EXTENT OF CONSOLIDATION (CONTINUED)

(1) Business combination involving enterprises under common control (Continued)

- (c) The carrying amounts of assets and liabilities of combined parties at the combination date are as follows (Continued):

Net assets obtained	2,474,112
Less: Cash paid for acquisition of 52.9% equity interest of Lucky Air at the combination date	(1,702,133)
The carrying amounts of long-term equity investments in Lucky Air at the combination date	(987,710)
	<u>(2,689,843)</u>
Amount of capital surplus adjusted	<u>(215,731)</u>

- (2) Subsidiaries included in the consolidation scope for newly incorporated in the year ended 31 December 2014 are as follows:

Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Registered capital RMB
				Direct	Indirect	
Urumqi Airlines	Urumqi	Urumqi	Transportation	86.32%	-	3,000,000 thousand
Fuzhou Airlines	Fuzhou	Fuzhou	Transportation	60.00%	-	2,000,000 thousand

6 EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

- (a) Composition

Subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Acquisition methods
				Direct	Indirect	
Xinhua Airlines	Beijing	Beijing	Transportation	100%	-	Business combinations involving enterprises not under common control
Shanxi Airlines (Note 1)	Taiyuan	Taiyuan	Transportation	23.43%	27.17%	Business combinations involving enterprises not under common control
Chang'an Airlines (Note 2)	Xi'an	Xi'an	Transportation	67.01%	-	Business combinations involving enterprises not under common control
Beijing Kehang	Beijing	Beijing	Holding property	95%	-	Business combinations involving enterprises not under common control
Brussels EDIP	Brussels	Brussels	Hotel operation	100%	-	Business combinations involving enterprises not under common control
Brussels DATA	Brussels	Brussels	Hotel operation	100%	-	Business combinations involving enterprises not under common control
Brussels SODE	Brussels	Brussels	Hotel operation	94.18%	5.82%	Business combinations involving enterprises not under common control
Golden-Deer Sales	Haikou	Haikou	Transportation	95%	-	Incorporation or investment
HNA Group (Hong Kong)	Hong Kong	Hong Kong	Investment	100%	-	Incorporation or investment
Hainan Fushun	Haikou	Haikou	Project management	100%	-	Incorporation or investment
Fuzhou Airlines (Note 3)	Fuzhou	Fuzhou	Transportation	60%	-	Incorporation or investment
Urumqi Airlines (Note 4)	Urumqi	Urumqi	Transportation	86.32%	-	Incorporation or investment
Lucky Air	Kunming	Kunming	Transportation	86.68%	-	Business combinations involving enterprises under common control

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

(a) Composition (Continued)

Note 1: In June and November 2014, HNA Aviation Group and other shareholders increased investment of RMB1,000,000 thousand in Shanxi Airlines, the original wholly-owned subsidiary of the Company. After the capital investment, the Company's equity percentage in Shanxi Airlines was diluted to 50.60%.

Note 2: In November 2014, HNA Aviation Group and other shareholders increased investment of RMB1,400,000 thousand in Chang'an Airlines, the original wholly-owned subsidiary of the Company. After the the capital investment, the Company's equity percentage in Chang'an Airlines was diluted to 67.01%.

Note 3: The Company and other shareholders jointly contributed RMB600,000 thousand to incorporate Fuzhou Airlines, therein, the Company contributed RMB360,000 thousand and other shareholders contributed RMB240,000 thousand. After the incorporation, the Company's equity percentage in Fuzhou Airlines is 60%.

Note 4: The Company and other shareholders jointly contributed RMB731,238 thousand to establish Fuzhou Airlines, of which RMB631,238 thousand was contributed by the Company and the remaining RMB100,000 thousand was contributed by other shareholders. After the establishment, the Company holds 86.23% equity interests in Urumqi Airlines.

(b) Subsidiaries have significant minority interests

Subsidiaries	Shareholding of minority shareholders	Profit or loss attributable to minority shareholders for the year ended 31 December 2014 RMB'000	Dividends paid to minority interests for the year ended 31 December 2014 RMB'000	Minority interests as at 31 December 2014 RMB'000
Chang'an Airlines	32.99%	29,466	-	1,253,580
Shanxi Airlines	49.40%	18,919	-	984,700
Lucky Air	13.32%	16,056	-	392,258
Fuzhou Airlines	40.00%	(15,040)	-	224,960
Beijing Kehang	5.00%	3,894	-	113,417
Urumqi Airlines	13.68%	(1,820)	-	98,213
		<u>51,475</u>	<u>-</u>	<u>3,067,128</u>

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

(b) Subsidiaries have significant minority interests (Continued)

The major financial information of the significant non-wholly-owned subsidiaries of the Group is listed below:

	31 December 2014						31 December 2013					
	Current assets RMB'000	Non-current assets RMB'000	Total assets RMB'000	Current liabilities RMB'000	Non-current liabilities RMB'000	Total liabilities RMB'000	Current assets RMB'000	Non-current assets RMB'000	Total assets RMB'000	Current liabilities RMB'000	Non-current liabilities RMB'000	Total liabilities RMB'000
Chang'an Airlines	3,666,128	5,256,745	8,922,873	2,716,396	2,406,598	5,122,994	3,976,813	3,915,380	7,892,193	3,546,314	2,106,776	5,653,090
Shanxi Airlines	2,914,225	1,045,268	3,959,493	1,749,691	216,483	1,966,174	1,438,491	854,248	2,292,739	886,460	520,967	1,407,427
Lucky Air	2,196,645	8,379,946	10,576,591	2,680,646	4,951,065	7,631,711	3,433,976	6,647,181	10,081,157	4,184,613	3,072,206	7,256,819
Fuzhou Airlines	620,294	11,318	631,612	69,213	-	69,213	-	-	-	-	-	-
Beijing Kehang	292,285	3,517,823	3,810,108	194,347	1,347,431	1,541,778	215,501	3,517,253	3,732,754	153,619	1,388,659	1,542,278
Urumqi Airlines	375,511	414,486	789,997	72,065	-	72,065	-	-	-	-	-	-

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

(b) Subsidiaries have significant minority interests (Continued)

The major financial information of the significant non-fully-owned subsidiaries of the Group is listed below (Continued):

	2014				2013			
	Revenue RMB'000	Net profit RMB'000	Total comprehensive income RMB'000	Cash flows from operating activities RMB'000	Revenue RMB'000	Net profit RMB'000	Total comprehensive income RMB'000	Cash flows from operating activities RMB'000
Chang'an Airlines	2,408,222	148,344	149,559	1,287,649	2,039,812	178,404	183,823	(262,628)
Shanxi Airlines	1,693,219	108,007	108,007	(702,812)	1,601,539	100,411	100,411	(18,406)
Lucky Air	3,971,973	120,542	120,542	488,318	3,511,534	101,884	101,884	2,423,004
Fuzhou Airlines	45,096	(37,601)	(37,601)	(363,380)	-	-	-	-
Beijing Kehang	208,907	77,854	77,854	158,446	211,010	76,997	76,997	162,668
Urumqi Airlines	136,689	(13,306)	(13,306)	(160,735)	-	-	-	-

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in associates

(a) General information of significant associates

	Major business location	Place of registration	Nature of business	Whether strategic to the Group's activities	Equity interest held (%)	
					Direct	Indirect
Associates –						
Tianjin Airlines	Tianjin	Tianjin	Domestic (including Hong Kong, Macao and Taiwan) goods and passengers transport; goods and passengers transport to neighbouring countries; accident insurance, health insurance, traditional life insurance; lease and maintenance of aircraft, 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 (items involving with approval pursuant to laws shall be operated with approval of competent authorities)	Yes	39.06%	-
Bohai Trust	Shijiazhuang	Shijiazhuang	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, interbank business, loan, lease, capital operation, assets guarantees and other business according to regulation and business approval of the China Banking Regulatory Commission.	Yes	-	39.78%
HKAGH	Hong Kong	BVI	Goods and passengers transport	Yes	-	27.02%

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in associates (Continued)

(a) General information of significant associates (Continued)

	Major business location	Place of registration	Nature of business	Whether strategic to the Group's activities	Equity interest held (%)	
					Direct	Indirect
Associates –						
HNA Technology	Haikou	Haikou	Maintenance, protection and retreat of aircraft, engines (including auxiliary power units) and other accessories for domestic and overseas users; crew services and duty services insurance for domestic and overseas airline companies, maintenance and technology services provision.	Yes	48.08%	-
HNA Finance	Beijing	Beijing	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; approved insurance brokerage; 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; equity investment in financial institutions; negotiable securities investment; consumption loan, buyer's credit and finance lease to member companies.	Yes	-	23.70%

The above equity investments are accounted for under equity method by the Group.

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in associates (Continued)

(b) Summarised financial information of significant associates

	31 December 2014					31 December 2013				
	Tianjin Airlines RMB'000	Bohai Trust RMB'000	HKAGH RMB'000	HNA Technology RMB'000	HNA Finance RMB'000	Tianjin Airlines RMB'000	Bohai Trust RMB'000	HKAGH RMB'000	HNA Technology RMB'000	HNA Finance RMB'000
Current assets	6,441,640	3,421,462	3,051,767	2,203,659	23,170,218	5,831,289	2,824,238	2,536,266	1,957,572	21,694,947
Including: Cash and cash equivalents	4,440,380	1,955,546	2,075,879	402,957	3,289,685	3,423,305	1,127,884	1,179,810	307,443	2,800,869
Non-current assets	23,634,433	2,138,487	19,436,802	1,070,095	1,049,255	16,458,219	2,138,501	16,718,085	881,701	1,053,985
Total assets	30,076,073	5,559,949	22,488,569	3,273,754	24,219,473	22,289,508	4,962,739	19,254,351	2,839,273	22,748,932
Current liabilities	5,269,818	85,167	5,698,645	666,850	20,391,173	3,680,189	79,087	5,367,500	475,233	19,002,198
Non-current liabilities	13,187,207	263	9,748,306	161,043	8,318	10,374,709	602	7,041,600	35,304	21,466
Total liabilities	18,457,025	85,430	15,446,951	827,893	20,399,491	14,054,898	79,689	12,409,100	510,537	19,023,664
Minority interests Attributable to equity holders of the Company	-	-	-	118,924	-	-	-	-	93,655	-
Shares of net assets in proportion (i)	4,653,038	3,198,555	1,902,645	1,146,244	938,663	3,574,212	2,963,269	1,849,587	1,089,930	916,216
Adjustments										
- Goodwill	-	-	-	-	-	-	-	-	-	-
Carrying amount of investment in associates	4,653,038	3,198,555	1,902,645	1,146,244	938,663	3,574,212	2,963,269	1,849,587	1,089,930	916,216

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in associates (Continued)

(b) Summarised financial information of significant associates (Continued)

	2014					2013				
	Tianjin Airlines RMB'000	Bohai Trust RMB'000	HKAGH RMB'000	HNA Technology RMB'000	HNA Finance RMB'000	Tianjin Airlines RMB'000	Bohai Trust RMB'000	HKAGH RMB'000	HNA Technology RMB'000	HNA Finance RMB'000
Revenue	7,683,017	281,377	8,876,477	1,670,730	670,587	6,465,624	1,005,985	7,274,594	1,592,288	531,793
Net profit	252,590	119,620	108,296	182,933	330,711	206,844	508,705	211,478	161,651	264,032
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	252,590	119,620	108,296	182,933	330,711	206,844	508,705	211,478	161,651	264,032
Dividends received from associates by the Group for the current year	-	-	-	-	55,932	-	-	-	-	83,069

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6 EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in associates (Continued)

(b) Summarised financial information of significant associates (Continued)

(i) The Group calculates the shares of net assets in proportion of the shareholdings and based on the amount attributable to the parent company of the associates in their consolidated financial statements, which has taken into account the impact of both the fair value of the net identifiable assets and liabilities of the associates upon the acquisition of investment and accounting policy unifying.

(ii) Other adjustments include provisions for impairment and unrecognised excess loss.

(c) Summarised financial information of insignificant associates

	2014 RMB'000	2013 RMB'000
Aggregated carrying amount of investments	985,989	898,902
Aggregate of the following items in proportion		
Net profit (i)	(14,799)	(6,602)
Other comprehensive income (i)	-	-
Total comprehensive income	<u>(14,799)</u>	<u>(6,602)</u>

(i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment and accounting policies unifying.

7 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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7 SEGMENT INFORMATION (CONTINUED)

(a) The revenue, total profit, assets and liabilities of reporting segments for the years ended 31 December 2014 and 2013 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue generated from external transactions	35,793,377	32,956,897	250,394	319,357	-	-	-	-	36,043,771	33,276,254
Interest income	660,364	573,537	28,209	338	-	-	-	-	688,573	573,875
Interest expenses	4,362,497	3,703,566	61,227	70,617	-	-	-	-	4,423,724	3,774,183
Asset impairment losses	(6,106)	54,771	(35)	-	-	-	-	-	(6,141)	54,771
Depreciation and amortizations	3,440,463	2,843,016	33,371	40,028	-	-	-	-	3,473,834	2,883,044
Gain/(loss) on changes in fair value	247,847	65,024	1,321	(661)	-	-	-	-	249,168	64,363
Total profit	2,202,708	1,884,091	205,267	201,925	-	(21,236)	804,651	696,383	3,212,626	2,761,163
Income tax expenses	543,953	558,198	26,025	27,654	-	-	-	-	569,978	585,852
Net profit	<u>1,658,755</u>	<u>1,325,893</u>	<u>179,242</u>	<u>174,271</u>	<u>-</u>	<u>(21,236)</u>	<u>804,651</u>	<u>696,383</u>	<u>2,642,648</u>	<u>2,175,311</u>
Total assets	101,353,566	94,712,632	9,888,538	7,576,170	(6,835,559)	(5,707,274)	17,575,496	16,035,560	121,982,041	112,617,088
Total liabilities	<u>82,571,057</u>	<u>80,871,359</u>	<u>8,075,927</u>	<u>5,838,594</u>	<u>(389,688)</u>	<u>(1,704,668)</u>	<u>-</u>	<u>-</u>	<u>90,257,296</u>	<u>85,005,285</u>

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

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7 SEGMENT INFORMATION (CONTINUED)

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

	2014 RMB'000	2013 RMB'000
Domestic	31,975,345	29,641,234
International and regional	4,068,426	3,635,020
	<u>36,043,771</u>	<u>33,276,254</u>

The revenue of the Group mainly comes from aircraft assets which are all registered in PRC. Since the aircraft 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.

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

(a) General information of the parent company

	Place of registration	Nature of business
Grand China Air	Haikou	Transportation

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 2013 RMB'000	Current year additions RMB'000	Current year reductions RMB'000	31 December 2014 RMB'000
Grand China Air	<u>6,008,324</u>	-	-	<u>6,008,324</u>

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

	31 December 2014		31 December 2013	
	% of direct equity interests held	% of direct voting rights	% of direct equity interests held	% of direct voting rights
Grand China Air	<u>28.18%</u>	<u>28.18%</u>	<u>28.18%</u>	<u>28.18%</u>

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 2014, Grand China Air directly and indirectly held 29.95% shares of the Company in total.

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(2) Subsidiaries

The general information and other related information of the subsidiaries is set out in Note 6(1).

(3) Associates

There is no other associate which has related transactions with the Group other than the major associates disclosed in Note 6(2).

(4) Other related parties

Abbreviation (Full names are set out in Note 17)	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	74471275-6
HNA Air Catering	Under HNA Group's control	62001238-7
Xinjiang Catering	Under HNA Group's control	781752984
Sanya Catering	Under HNA Group's control	74259875-0
HNA Infrastructure	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	Associate of HNA Group	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	Associate of HNA Group	741185823
HNA Travel Group	Under HNA Group's control	735810119
HNA Hotel Group	Associate of HNA Group	70886444-5
Yangtze River Leasing	Under HNA Group's control	621904344
HNA Airport Holding	Under HNA Group's control	75436025-6
HNA Aviation Group	Under HNA Group's control	68117653-7
HNA Hotel Holding	Under HNA Group's control	76597075-4
Xinsheng Info Tech	Under HNA Group's control	671060987
Changjiang Leasing	A shareholder with over 5% voting rights of the Company	72123031-6
HNA Beverage	Under HNA Group's control	747780842
HNA Group (International)	Under HNA Group's control	N/A
HNA Information	Under HNA Group's control	713859165

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Other related parties (Continued)

Abbreviation (Full names are set out in Note 17)	Relationship with the Company	Organisation code
Weifang Airport	Under HNA Group's control	72754971-5
Tangshan Airport	Under HNA Group's control	69346010-5
Yichang Airport	Under HNA Group's control	73519863-6
Qianhai Aviation & Shipping Exchange	Under HNA Group's control	08777689-8
CAISSA International Travel	Under HNA Group's control	71092605-1
Southwest Headquarters	Under HNA Group's control	56874228-5

(5) Related party transactions

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

Nature of transaction	Pricing policies	Related party	2014 Amount RMB'000	2013 Amount RMB'000
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	140,480	145,966
		HNA Air Catering	44,576	43,721
		Xinjiang Catering	35,034	34,515
		HNA Beverage	25,339	22,994
		Sanya Catering	17,713	13,888
				<u>263,142</u>
Take-off and landing	Government directed price	HNA Infrastructure	118,448	98,415
		Sanya Phoenix Airport	93,676	73,775
		Haikou Meilan	46,427	43,252
		Gansu Airport	40,905	34,833
			<u>299,456</u>	<u>250,275</u>
Provision of advertising services	Mutually agreed price	Xinsheng Feixiang	6,300	-
		Beijing Business Culture	-	15,000
			<u>6,300</u>	<u>15,000</u>
Receiving advertising services	Mutually agreed price	Bairuichen Culture	12,284	13,425
Import & export agency fee	0.3%~3% of purchase prices	HNA Import & Export	49,035	51,226
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	245,890	188,038
		Yisheng Holding	5,553	4,338
		Xinsheng Info Tech	857	881
			<u>252,300</u>	<u>193,257</u>

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8 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 policies	Related party	2014	2013
			Amount RMB'000	Amount RMB'000
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	10,303	10,601
		Tianjin Airlines	3,825	3,122
		Capital Airlines	1,576	2,702
		Western Airlines	463	514
			<u>16,167</u>	<u>16,939</u>
Cargo agency fees paid to related parties	Mutually agreed price	HNA Cargo	-	73,356
Sales of New Gold Deer cards	Mutually agreed price	Yisheng Holding	19,923	24,827
Receipt of aircraft maintenance services	Mutually agreed price	HNA Technology	1,038,050	835,030
		Capital Airlines	40,985	3,777
			<u>1,079,035</u>	<u>838,807</u>
Interest income	Market rate	HNA Finance	101,817	85,343
		HNA Aviation Group	-	61,829
		HNA Group	10,802	52,682
			<u>112,619</u>	<u>199,854</u>
Charter income from cargo transport	Mutually agreed price	HNA Cargo	876,923	-
Charter income from passenger transport	Mutually agreed price	CAISSA International Travel	217,480	-
		Weifang Airport	147,149	-
		Tangshan Airport	47,190	-
		Yichang Airport	20,135	-
		Gansu Airport	14,160	25,225
			<u>446,114</u>	<u>25,225</u>
Frequent flyer mileages income	Mutually agreed price	Tianjin Airlines	20,888	28,792
		Capital Airlines	7,823	22,296
		Hong Kong Airlines	3,285	-
		Western Airlines	-	5,557
			<u>31,996</u>	<u>56,645</u>

The above related transactions are entered in the ordinary course of business of the Group and the related parties. The above transactions have been approved by the Company's shareholder's meetings, and the pricing policies and nature of the transactions have been properly approved and authorised by the Board.

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(b) Leasing

(i) The Group as a lessor:

Lessee	Leased assets	Lease income in 2014 RMB'000	Lease income in 2013 RMB'000
Capital Airlines	Aircraft	517,165	537,918
Tianjin Airlines		310,105	247,872
Grand China Air		106,667	111,591
Western Airlines		79,625	48,902
Yangtze River Express		12,943	2,597
		<u>1,026,505</u>	<u>948,880</u>

Lessee	Leased assets	Lease income in 2014 RMB'000	Lease income in 2013 RMB'000
HNA Hotel Group	Properties	131,669	139,169
HNA Technology		41,099	37,748
HNA Travel Group		12,730	12,619
Capital Group		9,942	9,556
HNA Group		4,606	9,080
		<u>200,046</u>	<u>208,172</u>

(ii) The Group as lessee:

Lessor	Leased assets	Lease rentals in 2014 RMB'000	Lease rentals in 2013 RMB'000
Hong Kong Airlines	Aircraft	580,324	742,042
HK Airlines Leasing	Aircraft	124,083	23,432
HK Express	Aircraft	50,148	26,689
Yangtze River Leasing	Aircraft engines	41,669	22,271
HNA Infrastructure	Terminal	7,075	5,898
Capital Airlines	Aircraft	-	14,850
		<u>803,299</u>	<u>835,182</u>

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

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8 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 RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2014
(i) Short-term borrowings					
Grand China Air	The Company	1,390,000	14/01/2014	29/06/2015	No
HNA Aviation Group	The Company	100,000	31/10/2014	31/10/2015	No
HNA Aviation Group and Grand China Air	The Company	700,000	27/03/2014	13/11/2015	No
HNA Group	The Company	3,644,990	07/03/2014	10/12/2015	No
HNA Group and Grand China Air	The Company	4,035,500	08/02/2014	13/11/2015	No
HNA Group and Haikou Meilan	The Company	1,050,000	30/05/2014	30/05/2015	No
HNA Group	Xinhua Airlines	300,000	24/10/2014	23/10/2015	No
HNA Group	Chang'an Airlines	80,000	14/11/2014	13/11/2015	No
HNA Aviation Group	Lucky Air	60,000	20/01/2014	10/03/2015	No
HNA Group	Lucky Air	735,273	18/02/2014	20/04/2015	No
HNA Group and Grand China Air	Lucky Air	500,000	30/06/2014	27/06/2015	No
HNA Group and Changjiang Leasing	Lucky Air	100,000	31/07/2014	31/07/2015	No
Grand China Air	The Company	1,270,000	15/01/2014	29/12/2014	Yes
HNA Group	The Company	2,487,057	09/01/2014	31/12/2014	Yes
HNA Group and Grand China Air	The Company	4,650,820	08/01/2014	15/12/2014	Yes
Haikou Meilan	The Company	900,000	09/01/2014	25/11/2014	Yes
HNA Group	Chang'an Airlines	80,000	15/09/2014	14/11/2014	Yes
HNA Aviation Group	Lucky Air	146,000	22/01/2014	19/11/2014	Yes
HNA Group	Lucky Air	200,431	28/01/2014	23/09/2014	Yes
Grand China Air	Chang'an Airlines	100,000	16/01/2013	16/01/2014	Yes
Grand China Air	The Company	2,150,000	22/02/2013	14/11/2014	Yes
HNA Group	Chang'an Airlines	80,000	18/09/2013	18/09/2014	Yes
HNA Group	The Company	3,294,456	03/05/2013	18/12/2014	Yes
HNA Group	Xinhua Airlines	300,000	08/05/2013	20/11/2014	Yes
Haikou Meilan	Xinhua Airlines	40,000	15/05/2013	12/05/2014	Yes
HNA Hotel Group	Xinhua Airlines	70,000	08/05/2013	27/04/2014	Yes
Haikou Meilan	The Company	1,000,000	18/06/2013	17/06/2014	Yes
HNA Group and Grand China Air	The Company	7,700,601	01/03/2013	15/12/2014	Yes
HNA Group	Lucky Air	859,000	14/01/2013	26/12/2014	Yes
HNA Aviation Group	Lucky Air	196,000	23/05/2013	23/05/2014	Yes
Changjiang Leasing	Lucky Air	150,000	04/07/2013	03/07/2014	Yes

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8 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 RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2014
(ii) Long-term borrowings					
HNA Group and Grand China Air	The Company	328,000	11/02/2014	31/10/2017	No
HNA Group	The Company	1,060,747	18/03/2014	17/07/2026	No
HNA Aviation	Lucky Air	1,000,000	12/06/2014	24/07/2017	No
HNA Group	Lucky Air	252,000	30/06/2014	28/11/2024	No
Changjiang Leasing	Lucky Air	703,277	12/05/2014	12/05/2024	No
HNA Group and Haikou Meilan	Shanxi Airlines	210,000	20/12/2005	17/10/2016	No
HNA Group	Chang'an Airlines	1,157,178	29/09/2007	31/08/2020	No
HNA Group	The Company	4,789,829	11/04/2007	31/07/2025	No
HNA Group and HNA Airport Holding	The Company	136,501	02/08/2002	02/08/2035	No
Grand China Air	The Company	372,500	17/05/2012	16/06/2016	No
HNA Group, HNA Hotel Group and HNA Aviation Group	The Company	1,291,794	30/06/2003	07/07/2018	No
HNA Group and Grand China Air	The Company	533,000	18/06/2013	17/06/2016	No
HNA Group	Lucky Air	80,000	29/11/2012	28/11/2024	No
HNA Group and HNA Aviation Group	The Company	30,000	31/03/2004	31/03/2014	Yes
HNA Group and HNA Airport Holding	The Company	43,968	02/08/2002	27/03/2014	Yes
HNA Group and Haikou Meilan	Shanxi Airlines	110,000	17/06/2005	17/10/2014	Yes
HNA Group and Haikou Meilan	Chang'an Airlines	390,000	22/09/2005	21/12/2014	Yes
HNA Group	Chang'an Airlines	188,271	29/09/2007	30/06/2014	Yes
HNA Group, HNA Hotel Group and HNA Aviation Group	The Company	392,799	30/06/2003	26/12/2014	Yes
Grand China Air	The Company	<u>577,500</u>	17/05/2012	29/12/2014	Yes

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8 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 RMB'000	Starting date	Ending date	Whether guarantee ends as at 31 December 2014
(i)	Short-term borrowings					
	The Company	Grand China Air	1,400,000	04/09/2014	18/12/2015	No
	The Company	HNA Aviation Group	190,000	04/09/2014	28/05/2015	No
	The Company	HNA Group	500,000	13/03/2014	13/03/2015	No
	The Company	Haikou Meilan	260,000	19/11/2014	19/11/2015	No
	The Company	Capital Airlines	350,000	15/10/2014	14/10/2015	No
	The Company	Logistics Group	140,000	25/04/2014	25/03/2015	No
	The Company	Yangtze River Express	150,000	06/09/2014	12/05/2015	No
	The Company	HNA Aviation Group	200,000	05/03/2014	04/09/2014	Yes
	The Company	Capital Airlines	150,000	19/05/2014	19/11/2014	Yes
	The Company	HNA Group	147,000	13/08/2013	13/08/2014	Yes
	The Company	HNA Hotel Holding	100,000	06/12/2013	06/06/2014	Yes
	The Company	HNA Aviation Group	800,000	11/03/2013	10/09/2014	Yes
	The Company	Capital Airlines	200,000	15/04/2013	15/04/2014	Yes
	The Company and Shanxi Airlines	Grand China Air	<u>300,000</u>	25/09/2013	29/09/2014	Yes
(ii)	Long-term borrowings					
	The Company	Grand China Air	1,000,000	06/09/2013	06/03/2015	No
	The Company	HNA Aviation Group	2,188,800	18/09/2012	17/09/2017	No
	The Company	HNA Group	734,280	23/10/2014	23/12/2014	Yes
	The Company	Yangtze River Express	870,000	14/07/2014	19/12/2023	No
	The Company	Changjiang Leasing	262,000	02/11/2012	02/05/2015	No
	The Company	HNA Travel Group	<u>300,000</u>	10/11/2011	08/11/2014	Yes

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(e) Borrowing and lending funds

	Amount RMB'000	Starting date
Borrowing from -		
HNA Aviation Group	10,000	28/02/2014
HNA Aviation Group	15,000	03/03/2014
HNA Aviation Group	49,000	25/03/2014
HNA Aviation Group	26,987	25/03/2014
HNA Aviation Group	9,900	28/03/2014
HNA Aviation Group	50,000	02/04/2014
HNA Aviation Group	21,160	11/12/2014
Western Airlines	10,000	31/01/2014
Western Airlines	5,000	25/03/2014
HNA Group	400,000	10/03/2014
HNA Group	400,000	10/03/2014
HNA Group	200,000	31/03/2014
HNA Group	19,227	11/12/2014
HNA Hotel Group	1,567	31/01/2014
HNA Hotel Group	1,375	28/02/2014
HNA Hotel Group	814	30/03/2014
HNA Hotel Group	4,015	30/04/2014
HNA Hotel Group	3,692	28/05/2014

(f) Asset transfers

Related party	Nature of transaction	Pricing policies	2014	2013
			Amount RMB'000	Amount RMB'000
Changjiang Leasing	Aircraft finance lease	Valuation amount	3,777,639	-
Yangtze River Express	Transfer of engines and aviation materials	Valuation amount	11,781	-
Yangtze River Express	Transfer of aircraft	Valuation amount	-	122,581
			<u>3,789,420</u>	<u>122,581</u>

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(g) Capital injections

Related party	Nature of transaction	Pricing policies	2014	2013
			Amount RMB'000	Amount RMB'000
Tianjin Airlines (Note 4(9)(a)(i))	Capital injection – Tianjin Airlines	Mutually agreed price	980,000	1,680,000
HNA Aviation Group	Capital injection – Shanxi Airlines	Mutually agreed price	500,000	-
Western Airlines	Capital injection – Western Airlines	Mutually agreed price	428,009	-
HNA Aviation Group	Capital injection – Chang'an Airlines	Mutually agreed price	400,000	-
Xinsheng Feixiang (Note 4(9)(a)(ii))	Capital injection – Xinsheng Feixiang	Mutually agreed price	86,207	-
Qianhai Aviation & Shipping Exchange	Capital injection – Qianhai Aviation & Shipping Exchange	Mutually agreed price	20,000	-
HKIAL	Capital injection – HKIAL	Mutually agreed price	-	308,830
HKAGH	Capital injection – HKAGH	Mutually agreed price	-	617,660
			<u>2,414,216</u>	<u>2,606,490</u>

(h) Equity interest acquisition

Related party	Nature of transaction	Pricing policies	2014	2013
			Amount RMB'000	Amount RMB'000
Grand China Air	Equity interest acquisition - Lucky Air	Mutually agreed price	1,702,133	-
Grand China Air	Equity interest acquisition - Hainan Guoxu, Hainan Guoshan, Hainan Hangpeng	Mutually agreed price	-	2,984,738
HNA Group	Equity interest acquisition - Tianjin Airlines	Mutually agreed price	-	1,093,400
HNA Group (International)	Equity interest acquisition - HKAGH	Mutually agreed price	-	321,183
			<u>1,702,133</u>	<u>4,399,321</u>

(i) Remuneration of key management

	2014 RMB'000	2013 RMB'000
Remuneration of key management	<u>6,162</u>	<u>5,553</u>

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(j) Other related party transactions

Related party	Nature of transaction	2014	2013
		Amount RMB'000	Amount RMB'000
Western Airlines	Pilot transfer	7,500	8,000
Yangtze River Express	Pilot transfer	4,500	-
Tianjin Airlines	Pilot transfer	3,000	1,000
Capital Airlines	Pilot transfer	2,000	2,300
HNA Technology	Amounts paid on behalf *	77,268	-
Tianjin Airlines	Amounts paid on behalf *	40,264	34,209
Capital Airlines	Amounts paid on behalf *	35,543	131,153
Yangtze River Express	Amounts paid on behalf *	27,987	34,695
Grand China Air	Amounts paid on behalf *	11,772	11,600
Western Airlines	Amounts paid on behalf *	8,943	28,202

* 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 2014 RMB'000	31 December 2013 RMB'000
Cash at bank and on hand	HNA Finance	4,824,267	4,900,911
Notes receivable	Tianjin Airlines	-	25,000
Interest receivable	HNA Finance	268,510	226,716
	Others	40,385	62,552
		308,895	289,268
Dividends receivable	Haikou Meilan	966	966
	HNA Infrastructure	899	899
		1,865	1,865

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties

Account	Related party	31 December 2014 RMB'000	31 December 2013 RMB'000
Accounts receivable	Yisheng Holding	73,266	243,836
	Weifang Airport	48,535	-
	Gansu Airport	22,330	-
	HNA Cargo	22,027	7,686
	Capital Airlines	-	19,397
	Others	16,927	37,679
		<u>183,085</u>	<u>308,598</u>
Other receivables	Capital Airlines	142,828	71,579
	Changjiang Leasing	29,200	25,700
	HNA Hotel Group	24,448	-
	Tianjin Airlines	10,544	56,002
	HNA Travel Group	5,299	479,402
	HNA Import & Export	-	14,147
	Southwest Headquarters	-	244,000
	HNA Infrastructure	-	13,809
	Others	39,740	102,053
		<u>252,059</u>	<u>1,006,692</u>
Advances to suppliers	Others	<u>12,042</u>	<u>6,666</u>
Other current assets	HNA Group	-	870,000
	HNA Travel Group	-	100,000
		<u>-</u>	<u>970,000</u>
Other non-current assets	Changjiang Leasing	359,362	359,366
	Hong Kong Airlines	62,131	36,500
	HK Airlines Leasing	31,179	-
	Grand China Air	-	800,000
	Western Airlines	-	966,940
	HKIAL	15,085	15,085
		<u>467,757</u>	<u>2,177,891</u>

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

Account	Related party	31 December 2014 RMB'000	31 December 2013 RMB'000
Notes payable	HNA Import & Export	2,192,450	2,050,000
	HNA Technology	60,000	-
	Xinhua Air Catering	-	80,483
	HNA Air Catering	-	16,580
		<u>2,252,450</u>	<u>2,147,063</u>
Accounts payable	Hong Kong Airlines	92,801	76,010
	HNA Import & Export	47,210	-
	HNA Technology	22,227	78,642
	Sanya Phoenix Airport	18,493	8,875
	Grand China Air	14,542	36,271
	HNA Information	13,656	9,429
	Western Airlines	-	33,879
	Xinsheng Feixiang	-	11,093
	Others	66,589	84,729
		<u>275,518</u>	<u>338,928</u>
Other payables	HNA Aviation Group	13,974	248,891
	HNA Group	-	155,794
	Others	37,125	324,048
		<u>51,099</u>	<u>728,733</u>
Long-term payables	Changjiang Leasing	1,833,239	1,135,642
	Yangtze River Leasing	745,248	914,498
		<u>2,578,487</u>	<u>2,050,140</u>

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8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)**(7) Commitments in relation to related parties**

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Operating lease out		
- Capital Airlines	296,965	314,069
- Tianjin Airlines	236,007	228,465
- Western Airlines	62,447	64,948
- Grand China Air	54,700	65,231
	<u>650,119</u>	<u>672,713</u>

9 COMMITMENTS**(1) 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 2014 RMB'000	31 December 2013 RMB'000
Aircraft purchases	51,825,271	64,544,811
Long-term equity investments	571,991	4,235,060
Buildings, machineries and equipment	672,115	906,762
	<u>53,069,377</u>	<u>69,686,633</u>

(2) Operating lease commitments

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	2,178,222	3,038,930
1 to 2 years	1,845,491	2,597,083
2 to 3 years	1,686,697	1,399,235
Over 3 years	7,516,940	5,342,829
	<u>13,227,350</u>	<u>12,378,077</u>

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10 POST BALANCE SHEET DATE EVENTS

In accordance with the board resolution passed on 25 March 2014, a cash dividend of RMB0.638 per 10 shares (tax included) was proposed. The total cash dividends proposed amounted to RMB777,223 thousand based on 12,182,182 thousand shares in issue. The proposal is subject to the approval of the Company's shareholder's meeting.

11 LEASES

The Group leases in certain fixed assets under finance leases (Note 4(30)). The future minimum lease payments of the finance leases are summarised in the following table:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	843,912	719,037
1 to 2 years	712,548	501,358
2 to 3 years	696,651	454,300
Over 3 years	3,571,864	2,342,417
	<u>5,824,975</u>	<u>4,017,112</u>

As at 31 December 2014, the unrecognised financing charge amounts to RMB1,308,930 thousand (31 December 2013: RMB789,725 thousand) (Note 4(30)).

12 CONTINGENCIES

Other than the guarantees provided by the Group to its related parties as disclosed in Note 8(5)(d), the Group has no other significant contingencies to be disclosed as at the date of these financial statements.

13 FINANCIAL RISK

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

Except for certain 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 2014 and 2013, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised below:

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13 FINANCIAL RISK (CONTINUED)

(1) Market risk

(a) Foreign exchange risk

	31 December 2014		
	USD RMB'000	Other currencies RMB'000	Total RMB'000
Financial assets denominated in foreign currency -			
Cash at bank and on hand	2,598,262	251,985	2,850,247
Accounts receivable	4,267	8,162	12,429
Other receivables	589,242	14,211	603,453
Other non-current assets	1,234,304	-	1,234,304
	<u>4,426,075</u>	<u>274,358</u>	<u>4,700,433</u>
Financial liabilities denominated in foreign currency			
Short-term borrowings	1,634,440	-	1,634,440
Accounts payable	359,712	64,754	424,466
Other payables	45,853	2,645	48,498
Long-term borrowings	22,752,559	439,955	23,192,514
Long-term payables	2,724,426	-	2,724,426
	<u>27,516,990</u>	<u>507,354</u>	<u>28,024,344</u>
	31 December 2013		
	USD RMB'000	Other currencies RMB'000	Total RMB'000
Financial assets denominated in foreign currency -			
Cash at bank and on hand	206,759	8,069	214,828
Accounts receivable	8,039	14,912	22,951
Other receivables	264,968	33,387	298,355
Other non-current assets	1,347,660	-	1,347,660
	<u>1,827,426</u>	<u>56,368</u>	<u>1,883,794</u>
Financial liabilities denominated in foreign currency			
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	2,053,640	-	2,053,640
	<u>24,670,016</u>	<u>790,302</u>	<u>25,460,318</u>

As at 31 December 2014, for the Group's various financial assets and liabilities which were denominated in USD, if RMB had appreciated/depreciated by 5% 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 RMB1,154,546 thousand (31 December 2013: approximately RMB1,142,130 thousand).

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13 FINANCIAL RISK (CONTINUED)

(1) Market risk (Continued)

(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 fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2014, the Group's long-term interest bearing liabilities mainly included:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Short-term borrowings	18,525,425	21,878,657
Notes payable	4,885,910	3,633,547
Long-term borrowings	33,423,005	31,748,291
Long-term payables	4,516,045	3,227,387
Debentures Payable	15,643,054	9,635,431
	<u>76,993,439</u>	<u>70,123,313</u>
Including: Liabilities at floating rates	42,513,233	42,420,312
Liabilities at fixed rates	34,480,206	27,703,001
	<u>76,993,439</u>	<u>70,123,313</u>

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2014 and 2013, the Group did not enter into any interest rate swap agreements.

For the year ended 31 December 2014, if interest rates on the floating rate borrowings had been 50 basis points higher/lower while all other variables had been held constant, the Group's profit before tax would have decreased/ increased by approximately RMB212,566 thousand (2013: approximately RMB212,102 thousand).

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank and on hand, available-for-sale financial assets, 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 4(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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13 FINANCIAL RISK (CONTINUED)

(2) Credit risk (Continued)

In addition, parts 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 publicly 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海航集团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 the credit exposure on 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 history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at 31 December 2014, the Group had no significant overdue accounts receivable (31 December 2013: Nil).

(3) Liquidity risk

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

The Group's 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 2014, the Group's current liabilities exceeded current assets by approximately RMB9,757 million. For the year ended 31 December 2014, the net cash inflows from operating activities of the Group were approximately RMB6,005 million, the net cash outflows from investment activities and financing activities were approximately RMB5,852 million, and cash and cash equivalents increased by approximately RMB162 million.

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

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13 FINANCIAL RISK (CONTINUED)**(3) Liquidity risk (Continued)**

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 2014				Total RMB'000
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	After 5 years RMB'000	
Financial liabilities -					
Short-term					
borrowings	19,019,632	-	-	-	19,019,632
Accounts payable	3,790,588	-	-	-	3,790,588
Other payables	763,207	-	-	-	763,207
Long-term					
borrowings	7,272,542	5,988,506	12,743,999	14,450,593	40,455,640
Long-term payables	843,912	712,548	1,900,266	2,368,249	5,824,975
	<u>31,689,881</u>	<u>6,701,054</u>	<u>14,644,265</u>	<u>16,818,842</u>	<u>69,854,042</u>
	31 December 2013				Total RMB'000
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	After 5 years RMB'000	
Financial liabilities -					
Short-term					
borrowings	22,571,559	-	-	-	22,571,559
Accounts payable	5,149,797	-	-	-	5,149,797
Other payables	1,446,372	-	-	-	1,446,372
Long-term					
borrowings	7,352,985	6,824,809	11,308,230	13,066,154	38,552,178
Long-term payables	719,037	501,358	1,168,482	1,628,235	4,017,112
	<u>37,239,750</u>	<u>7,326,167</u>	<u>12,476,712</u>	<u>14,694,389</u>	<u>71,737,018</u>

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14 FAIR VALUE ESTIMATES

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

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 or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

(1) Continuous assets measured at fair value

As at 31 December 2014, the assets measured at fair value on a recurring basis 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	-	1,466,151	2,806,636	4,272,787
Non-financial assets -				
Investment properties	-	-	9,268,104	9,268,104
	-	1,466,151	12,074,740	13,540,891

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	-	902,666	3,383,203	4,285,869
Non-financial assets -				
Investment properties	-	-	10,742,182	10,742,182
	-	902,666	14,125,385	15,028,051

The Group takes the date on which events causing the transfers between the levels take place as the specific timing for recognising the transfers. There is no transfer between Level 1 and Level 2 in the current year.

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, etc. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, interest rates or discount rates.

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14 FAIR VALUE ESTIMATES (CONTINUED)

(1) Continuous assets measured at fair value (Continued)

The Group entrusts external valuers to evaluate the fair value of investment properties. The methods primarily comprise rental income model and comparable market approach. The inputs mainly include rental growth rate, capitalisation rate and unit price.

(2) Assets and liabilities not measured at fair value but disclosed

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

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

	31 December 2014		31 December 2013	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities -				
Long-term borrowings	33,423,005	33,721,114	31,748,291	31,844,110
Long-term payables	4,516,045	4,578,864	3,227,387	3,380,521
	<u>37,939,050</u>	<u>38,299,978</u>	<u>34,975,678</u>	<u>35,224,631</u>

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

15 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is calculated as 'shareholder's equity' as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of asset-liability ratio.

As at 31 December 2014 and 31 December 2013, the Group's asset-liability ratio is as follows:

	31 December 2014	31 December 2013
Asset-liability ratio	<u>74%</u>	<u>75%</u>

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16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2014 RMB'000	31 December 2013 RMB'000
Accounts receivable	736,416	124,362
Less: Provision for bad debts	<u>(9,310)</u>	<u>(9,310)</u>
	<u>727,106</u>	<u>115,052</u>

(a) The ageing of accounts receivable is analysed as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	727,106	115,052
Over 6 years	<u>9,310</u>	<u>9,310</u>
	<u>736,416</u>	<u>124,362</u>

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

	31 December 2014				31 December 2013			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Provisions for bad debts by group								
- Group by ageing analysis method	1,126	0%	(1,126)	100%	5,383	4%	(1,126)	21%
- Group by related parties	727,106	99%	-	-	110,795	89%	-	-
Amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	<u>8,184</u>	<u>1%</u>	<u>(8,184)</u>	<u>100%</u>	<u>8,184</u>	<u>7%</u>	<u>(8,184)</u>	<u>100%</u>
	<u>736,416</u>	<u>100%</u>	<u>(9,310)</u>	<u>1%</u>	<u>124,362</u>	<u>100%</u>	<u>(9,310)</u>	<u>7%</u>

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

(1) Accounts receivable (Continued)

(c) Provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2014			31 December 2013		
	Ending balance	Provision for bad debts		Ending balance	Provision for bad debts	
	RMB'000	Amount RMB'000	% of total balance	RMB'000	Amount RMB'000	% of total balance
Within 1 year	-	-	-	4,257	-	-
1 to 2 years	-	-	-	-	-	-
2 to 3 years	-	-	-	-	-	-
3 to 4 years	-	-	-	-	-	-
4 to 5 years	-	-	-	-	-	-
Over 5 years	1,126	(1,126)	100%	1,126	(1,126)	100%
	<u>1,126</u>	<u>(1,126)</u>	<u>100%</u>	<u>5,383</u>	<u>(1,126)</u>	<u>100%</u>

(d) As at 31 December 2014, the five largest accounts receivable are analysed by borrowing parties as follows:

	Balance RMB'000	Provision for bad debts RMB'000	% of total balance
Total amount of the five largest accounts receivable	<u>663,329</u>	<u>-</u>	<u>90%</u>

(2) Other receivables

	31 December 2014 RMB'000	31 December 2013 RMB'000
Investments receivable (Note 4(3))	545,000	-
Aircraft leasing security deposits and maintenance funds receivable	352,471	118,800
Receivables from related parties	251,683	567,934
Amount receivable from disposal of aviation materials	59,453	-
Others	152,725	86,656
	<u>1,361,332</u>	<u>773,390</u>
Less: Provision for bad debts	<u>(6,729)</u>	<u>(13,729)</u>
	<u>1,354,603</u>	<u>759,661</u>

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

(2) Other receivables (Continued)

(a) The ageing of other receivables is analysed as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	1,337,746	681,239
1 to 2 years	11,809	70,359
2 to 3 years	5,101	8,962
3 to 4 years	2,771	4,971
4 to 5 years	400	129
5 to 6 years	110	116
Over 6 years	<u>3,395</u>	<u>7,614</u>
	<u>1,361,332</u>	<u>773,390</u>

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

	31 December 2014				31 December 2013			
	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 the related provision for bad debts is provided on the grouping basis								
- Group by ageing analysis method	757,178	56%	(6,729)	1%	79,656	10%	(6,729)	8%
- Aircraft leasing deposits and maintenance funds	352,471	26%	-	-	118,800	16%	-	-
- Group by related parties	251,683	18%	-	-	567,934	73%	-	-
Amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	-	-	-	-	7,000	1%	(7,000)	100%
	<u>1,361,332</u>	<u>100%</u>	<u>(6,729)</u>	<u>1%</u>	<u>773,390</u>	<u>100%</u>	<u>(13,729)</u>	<u>2%</u>

HAINAN AIRLINES CO., LTD.

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

(2) Other receivables (Continued)

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

	31 December 2014			31 December 2013		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
		Amount	% of total balance		Amount	% of total balance
	RMB'000	RMB'000		RMB'000	RMB'000	
Within 1 year	732,764	-	-	31,899	-	-
1 to 2 years	5,074	(256)	5%	35,980	(1,804)	5%
2 to 3 years	10,563	(1,058)	10%	4,791	(481)	10%
3 to 4 years	3,407	(1,024)	30%	3,520	(1,059)	30%
4 to 5 years	1,920	(960)	50%	97	(48)	49%
Over 5 years	3,450	(3,431)	99%	3,369	(3,337)	99%
	<u>757,178</u>	<u>(6,729)</u>	<u>1%</u>	<u>79,656</u>	<u>(6,729)</u>	<u>8%</u>

- (d) As at 31 December 2014, the top 5 largest other receivable are analysed as follows:

	Relationship with the Company	Balance RMB'000	Ageing	% of total balance	Provision for bad debts RMB'000
Company A	Third party	545,000	Within 1 year	40%	-
Company B	Third party	200,000	Within 1 year	15%	-
Capital Airlines	Related party	142,828	Within 1 year	10%	-
Company C	Third party	69,545	Within 1 year	5%	-
Company D	Third party	59,453	Within 1 year	5%	-
		<u>1,016,826</u>		<u>75%</u>	<u>-</u>

(3) Long-term equity investments

	31 December 2014 RMB'000	31 December 2013 RMB'000
Subsidiaries(a)	12,975,745	10,498,106
Associates (b)	<u>5,893,213</u>	<u>5,128,635</u>
Less: Provision for impairment of long-term equity investments	-	-
	<u>18,868,958</u>	<u>15,626,741</u>

There is no restriction on sale of the long-term equity investments held by the Company.

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

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Movements in the current year							Cash dividends declared in the current year RMB'000
	31 December 2013 RMB'000	Investment addition RMB'000	Investment reduction RMB'000	Provision for impairment loss RMB'000	Others RMB'000	31 December 2014 RMB'000	Provision for impairment loss RMB'000	
Xinhua Airlines	3,746,107	-	-	-	-	3,746,107	-	-
Chang'an Airlines	1,799,408	-	-	-	-	1,799,408	-	-
Beijing Kehang	1,728,341	-	-	-	-	1,728,341	-	-
Shanxi Airlines	408,467	-	-	-	-	408,467	-	-
HNA Group (Hong Kong)	58,417	-	-	-	-	58,417	-	-
Golden-Deer Sales	7,600	-	-	-	-	7,600	-	-
Hainan Fushun	1,094,161	-	-	-	-	1,094,161	-	-
Brussels EDIP	62,996	-	-	-	-	62,996	-	-
Brussels DATA	61,764	-	-	-	-	61,764	-	-
Brussels SODE	543,135	-	-	-	-	543,135	-	-
Urumqi Airlines	-	631,238	-	-	-	631,238	-	-
Fuzhou Airlines	-	360,000	-	-	-	360,000	-	-
Lucky Air	987,710	1,486,401	-	-	-	2,474,111	-	-
	10,498,106	2,477,639	-	-	-	12,975,745	-	-

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

(3) Long-term equity investments (Continued)

(b) Associates

	Movements in the current year										31 December 2014 RMB'000	Provision for impairment loss RMB'000
	31 December 2013 RMB'000	Investment addition RMB'000	Investment reduction RMB'000	Share of net profit under equity method RMB'000	Adjustment for other comprehensive income RMB'000	Other changes in equity RMB'000	Cash dividends or profits declared by associates RMB'000	Provision for impairment loss RMB'000	Others RMB'000			
Tianjin Airlines	3,574,211	980,000	-	98,826	-	-	-	-	-	-	4,653,037	-
HNA Technology	1,089,931	-	-	56,314	-	-	-	-	-	-	1,146,245	-
Hunan Golden- Deer	450,000	-	(450,000)	-	-	-	-	-	-	-	-	-
HNA Import & Export	14,493	-	-	5,113	-	-	(11,882)	-	-	-	7,724	-
Xinsheng Feixiang	-	86,207	-	-	-	-	-	-	-	-	86,207	-
	5,128,635	1,066,207	(450,000)	160,253	-	-	(11,882)	-	-	-	5,893,213	-

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

(4) Revenue and cost of sales

	2014 RMB'000	2013 RMB'000
Revenues from main operations (a)	19,939,872	19,797,883
Revenues from other operations (b)	5,157,875	2,389,571
	<u>25,097,747</u>	<u>22,187,454</u>
Operating cost of main operations (a)	(16,036,715)	(16,166,512)
Operating cost of other operations (b)	(2,901,680)	(1,142,491)
	<u>(18,938,395)</u>	<u>(17,309,003)</u>

(a) Revenue and cost of sale from main operations

	2014		2013	
	Revenue from main operations RMB'000	Operating cost of main operations RMB'000	Revenue from main operations RMB'000	Operating cost of main operations RMB'000
Passenger	19,177,423	(15,475,717)	18,934,162	(15,575,152)
Cargo and mail	695,185	(560,998)	718,896	(591,360)
Others	67,264	-	144,825	-
	<u>19,939,872</u>	<u>(16,036,715)</u>	<u>19,797,883</u>	<u>(16,166,512)</u>

(b) Revenue and cost of sales from other operations

	2014		2013	
	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	3,040,303	(1,604,067)	1,841,532	(1,007,850)
Disposal of investment properties	1,512,219	(1,239,914)	-	-
Processing fee for cancelled tickets	292,828	-	217,798	-
Building rental	75,226	-	68,310	-
Commission fee	30,753	-	33,685	-
Aircraft advertising	12,685	-	15,000	-
Others	193,861	(57,699)	213,246	(134,641)
	<u>5,157,875</u>	<u>(2,901,680)</u>	<u>2,389,571</u>	<u>(1,142,491)</u>

Costs of aircraft leasing did not include interests charge of RMB172,988 thousand (2013: RMB141,455 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

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16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)**(5) Investment income**

	2014 RMB'000	2013 RMB'000
Investment income from long-term equity investment under equity method	160,253	178,123
Investment gains from disposal of available-for-sale financial assets	135,000	-
Investment income of financial products	45,822	52,438
Dividends declared by investees under cost method	11,347	4,409
Dividend income from available-for-sale financial assets	8,824	4,865
	<u>361,246</u>	<u>239,835</u>

17 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
Anhui Feixi Rural Commercial Bank Co., Ltd.	Anhui Feixi Bank
Bairuichen Culture Media (Beijing) Co., Ltd.	Bairuichen Culture
Beijing CAISSA International Travel Service Co., Ltd.	CAISSA International Travel
Beijing Kehang Investment Co., Ltd.	Beijing Kehang
Beijing Business Culture Diffusion Co., Ltd.	Beijing Business Culture
Beijing Capital Airlines Co., Ltd.	Capital Airlines
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Bohai International Trust Co., Ltd.	Bohai Trust
Brussels EDIP Hotel	Brussels EDIP
Brussels DATA Hotel	Brussels DATA
Brussels SODE Hotel	Brussels SODE
Grand China Air Co., Ltd.	Grand China Air
Fuzhou Airlines Co., Ltd.	Fuzhou Airlines
Gansu HNA Hansha Air Catering Co., Ltd.	Gansu Catering
Gansu Airport Group Co., Ltd.	Gansu Airport
Guokai Jingcheng (Beijing) Investment Fund Limited	Guokai Jingcheng Investment Fund
HNA Aviation Group Co., Ltd.	HNA Aviation Group
HNA Aviation Technology (Yunnan) Co., Ltd.	Yunnan HNA Technology
HNA Technology Limited	HNA Technology
HNA Cargo Co., Ltd.	HNA Cargo
HNA Airport Holding (Group) Co., Ltd.	HNA Airport Holding
HNA Infrastructure Company Limited	HNA Infrastructure
HNA Group (International) Co., Ltd.	HNA Group (International)
HNA Group Finance Co., Ltd.	HNA Finance
HNA Group Southwest Headquarters	Southwest Headquarters

HAINAN AIRLINES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in RMB Thousand Yuan unless otherwise stated)

17 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 Group Co., Ltd.	HNA Group
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Hotel Holding Group Co., Ltd.	HNA Hotel Holding
HNA Travel Group Co., Ltd.	HNA Travel Group
HNA Yisheng Holding Co., Ltd.	Yisheng Holding
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
Hainan Fushun Investment and Development Co., Ltd.	Hainan Fushun
Hainan Guoshan Industrial Co., Ltd.	Hainan Guoshan
Hainan Guoxu Industrial Co., Ltd.	Hainan Guoxu
Hainan Air Aviation Import & Export Co., Ltd.	HNA Import & Export
Hainan HNA Aviation Sales Co., Ltd.	HNA Aviation Sales
Hainan HNA Aviation Information Systems Co., Ltd.	HNA Information
Hainan HNA Beverage Co., Ltd.	HNA Beverage
HNA Group (Hong Kong) Co., Ltd.	HNA Group (Hong Kong)
HNA Air Catering Co., Ltd.	HNA Air Catering
Hainan Hangpeng Industrial Co., Ltd.	Hainan Hangpeng
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Hainan Qixing Industrial Investment Co., Ltd.	Hainan Qixing
Hainan Development Holding Company	Hainan Development Holding
Hainan New Generation Media Co., Ltd.	Xinsheng Feixiang
Hainan Xinsheng Information Technology Co., Ltd.	Xinsheng Info Tech
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
Sanya Phoenix International Airport Co., Ltd.	Sanya Phoenix Airport
Sanya Hansha Air Catering Co., Ltd.	Sanya Catering
Shanxi Airlines Co., Ltd.	Shanxi Airlines
Shanghai Rural Commercial Bank Co., Ltd.	SRCB
Shenzhen Qianhai Aviation & Shipping Exchange Co., Ltd.	Qianhai Aviation & Shipping Exchange
Tangshan Sannvhe Airport Management Co., Ltd.	Tangshan Airport
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Tianjin Yanshan Aircraft Leasing Industry Equity Funds Partnership Firm	Yanshan Funds
Weifang Nanyuan Airport Co., Ltd.	Weifang Airport
Urumqi Airlines Co., Ltd.	Urumqi Airlines
Xi'an Chanba Financing Warranty Co., Ltd.	Xi'an Chanba
Western Airlines Co., Ltd.	Western Airlines
Hong Kong International Aviation Leasing Co., Ltd.	HKIAL
HKA Group Holdings Co., Ltd.	HKAGH
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines

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**17 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
Hong Kong Aviation Leasing Co., Ltd.	HK Airlines Leasing
Hong Kong Express Airways Limited	HK Express
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Catering
Yangtze River International Leasing Co., Ltd.	Yangtze River Leasing
Yangtze River Express Airlines Co., Ltd.	Yangtze River Express
Yichang Sanxia Airport Company Limited	Yichang Airport
Yunnan Xiangpeng Airlines Co., Ltd.	Lucky Air
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Changjiang Leasing Co., Ltd.	Changjiang Leasing
China Merchants Securities Co., Ltd.	China Merchants Securities
TravelSky Technology, Ltd.	TravelSky Tech
China Xinhua Airlines Co., Ltd.	Xinhua Airlines

