IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: Investors must read the following before continuing. The following applies to the preliminary offering circular following this page (the "**Offering Circular**"), and investors are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing this Offering Circular, investors agree to be bound by the following terms and conditions, including any modifications to them any time investors receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES AND THE GUARANTEE THEREOF HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT ("REGULATION S").

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, ELECTRONICALLY OR OTHERWISE, AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of investors' Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. This Offering Circular is being sent at the investors' request and by accepting the e-mail and accessing this Offering Circular, investors shall be deemed to have represented to Guotai Junan Securities (Hong Kong) Limited, the sole global coordinator, a joint bookrunner and a joint lead manager (the "**Sole Global Coordinator**") and GPB Financial Services Hong Kong Limited as a joint bookrunner and a joint lead manager (together with the Joint Global Coordinator, the "**Joint Lead Managers**") that investors and any customers investors represent are not, and the electronic mail address that investors gave the Joint Lead Managers to which this e-mail has been delivered is not, located in the United States and that investors consent to delivery of such Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document is in the preliminary form and is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S. You are reminded that the information in the attached Offering Circular is not complete and may be changed.

Investors are reminded that this Offering Circular has been delivered to investors on the basis that investors are persons into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which investors are located and investors may not, nor are investors authorised to, deliver this Offering Circular, electronically or otherwise, to any other person. If investors have gained access to this transmission contrary to the foregoing restrictions, investors are not allowed to purchase any of the securities described in the attached.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents (each as defined in the attached Offering Circular) to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of them is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Circular has been sent to investors in an electronic form. Investors are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents, nor any person who controls any of them, nor their respective directors, officers, employees, representatives nor agents or affiliates of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to investors in electronic format and the hard copy version available to investors on request from the Joint Lead Managers.

Investors are responsible for protecting against viruses and other destructive items. The investors' use of this e-mail is at the investors' own risk and it is the investors' responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Actions that investors may not take: If investors receive this document by e-mail, investors should not reply by e-mail to this announcement, and investors may not purchase any securities by doing so. Any reply e-mail communications, including those investors generate by using the "Reply" function on the investors' e-mail software, will be ignored or rejected.

SUBJECT TO COMPLETION **STRICTLY CONFIDENTIAL**
PRELIMINARY OFFERING CIRCULAR DATED 24 OCTOBER 2018

HAINAN AIRLINES (HONG KONG) CO., LIMITED

(incorporated with limited liability in Hong Kong)

U.S.$[●] [●] per cent. Guaranteed Bonds due [●]
Unconditionally and Irrevocably Guaranteed by

HAINAN AIRLINES HOLDING CO., LTD.

(incorporated in the People' Republic of China with limited liability)

(SHSE Stock Code: 600221)
Issue Price: [●] per cent.

The [●] per cent. guaranteed bonds due on [●] (the "**Bonds**") will be issued in the aggregate principal amount of U.S.$[●] by Hainan Airlines (Hong Kong) Co., Limited (the "**Issuer**") and are in registered form in the denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof. The Bonds will be unconditionally and irrevocably guaranteed (the "**Guarantee of the Bonds**") by Hainan Airlines Holding Co., Ltd. ("**Hainan Airlines**", or the "**Guarantor**"), a company incorporated under the laws of the People's Republic of China. The Issuer is a direct, wholly-owned subsidiary of the Guarantor.

The Bonds will bear interest from and including [●] 2018 at the rate of [●] per cent. per annum and such interest will be payable semi-annually in arrear on [●] and [●] in each year (each an "**Interest Payment Date**").

The Bonds will constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantor will enter into a deed of guarantee (the "**Deed of Guarantee**") on or around [●] 2018. The Guarantee of the Bonds will constitute direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Guarantor will be required to file or cause to be filed with the Hainan Bureau of the State Administration of Foreign Exchange of the PRC ("**SAFE**") the Deed of Guarantee within the prescribed timeframe after execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014. The Guarantor intends to complete the registration for the execution of the Deed of Guarantee with SAFE as soon as practicable and in any event before the Registration Deadline (being the day falling 90 China Business Days after the Issue Date).

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee of the Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax to the extent described in "*Terms and Conditions of the Bonds – Taxation*".

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on [●]. The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, at their principal amount together with interest accrued to, but excluding the date fixed for redemption, in the event of certain changes affecting taxes of Hong Kong or the PRC. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for tax reasons*". At any time following the occurrence of a Change of Control or a No Registration Event (each as defined in the Terms and Conditions of the Bonds), the holder of a Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*". The Issuer shall, at the option of the Holder of any Bond redeem all or some only of that Holder's Bonds on the Put Option Settlement Date (as defined in the Terms and Conditions of the Bonds) at 100 per cent. of their principal amount, together with interest accrued to, but excluding such Put Option Settlement Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption at the option of Bondholders*".

Investing in the Bonds involves risks. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds. In particular, the Guarantor has announced on the Shanghai Stock Exchange that it is currently engaged in a restructuring exercise pursuant to which it will acquire shares of certain companies owned by certain of its affiliates including HNA Group Co., Ltd. ("HNA Group Co."). See "*Risk Factors – The Group is engaged in a restructuring exercise pursuant to which it would acquire shares of certain companies owned by certain of its affiliates including HNA Group Co..*" *for risks involved in the restructuring.*

The PRC government (including the Hainan provincial government) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds, the Guarantee of the Bonds or the transaction document to be executed in connection with this offering in lieu of the Issuer, or as the case may be, the Guarantor. See "*Risk Factors – The PRC government has no obligations under the Bonds*".

The Bonds and the Guarantee of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds and the Guarantee of the Bonds are being offered in offshore transactions outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the Guarantee of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*".

Approval in principle has been obtained from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to deal in, and for quotation of, the Bonds. Such permission will be granted when such Bonds have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group or such Bonds.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) promulgated by the National Development and Reform Commission of the PRC or its local counterparts (the "**NDRC**") on 14 September 2015 which came into effect immediately (the "**NDRC Circular**"), the Guarantor has registered the issuance of the Bonds with the NDRC and has obtained a certificate from the NDRC on 24 August 2018 evidencing such registration and undertakes under the Terms and Conditions to file the requisite information and documents with the NDRC within the time period prescribed by NDRC or under the NDRC Circular after the issue of the Bonds.

The Bonds will be represented by beneficial interests in the global bond certificate (the "**Global Bond Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about [●] 2018 (the "**Issue Date**") with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**", together with Euroclear, the "**Clearing Systems**"). Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, individual certificates for Bonds will not be issued in exchange for interests in the Global Bond Certificate.

Sole Global Coordinator

Guotai Junan International

Joint Lead Managers and Joint Bookrunners

Guotai Junan International

GPB Financial Services Hong Kong Limited

Offering Circular dated [●] 2018

IMPORTANT NOTICE

Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable inquiries that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and its subsidiaries taken as a whole (collectively, the "**Group**"), its affiliates, the Bonds and the Guarantee of the Bonds which is material in the context of the issue and offering of the Bonds (including all information which, according to the particular nature of the Issuer, the Guarantor, the Group and of the Bonds and the Guarantee of the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial condition, profits and losses and prospects of the Issuer, the Guarantor, the Group and of the rights attaching to the Bonds), (ii) the statements of fact contained in this Offering Circular are in every material particular true and accurate and not misleading, (iii) the statements of intention, opinion, belief or expectation contained in this Offering Circular are honestly and reasonably made or held and have been reached after considering all relevant circumstances, (iv) all reasonable enquiries have been and will be made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such statements, and (v) all descriptions of contracts or other material documents described in this Offering Circular are accurate descriptions in all material respects and fairly summarise the contents of such contracts or documents.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee and the Agents (as defined in the Terms and Conditions of the Bonds) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Bonds in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised in connection with the issue, offer or sale of the Bonds to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Bonds or the Guarantee of the Bonds, other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Group, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group, or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates to subscribe for or purchase, any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer and the Guarantor in connection with the offering of the Bonds exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Bonds. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Guarantor and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Bonds offered by this Offering Circular is prohibited. Each offeree of the Bonds, by accepting delivery of this Offering Circular, agrees to the foregoing.

In connection with the issue of the Bonds, the Joint Lead Managers or persons acting on their behalf (the "Stabilisation Manager") may over allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on the Stabilisation Manager to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds or the Guarantee of the Bonds and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors. The Joint Lead Managers, the Trustee and the Agents and their respective affiliates have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Guarantor, the Group, the issue and offering of the Bonds or the giving of the Guarantee of the Bonds. Each of the Joint Lead Managers, the Trustee, the Agents and their respective affiliates, directors or advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Bonds remain outstanding nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates, directors or advisors.

This Offering Circular is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisors as it deems necessary.

The Joint Lead Managers and their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Group.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, each investor should consult his or her advisor. The Issuer, the Guarantor, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors or advisors are not making any representation to any purchaser of the Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations.

The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors in connection with his or her investigation of the accuracy of such information or his or her investment decision.

All non-company specific statistics and data relating to the Group's industry or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. Each of the Issuer and the Guarantor believes that the sources of this information are appropriate for such information and each of the Issuer and the Guarantor has taken reasonable care in extracting and reproducing such information. Neither the Issuer nor the Guarantor has reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, this information has not been independently verified by the Issuer, the Guarantor or the Joint Lead Managers, the Trustee or the Agents and none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents make any representation as to the correctness, accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

Unless otherwise indicated, all references in this Offering Circular to "China" or the "PRC" are to the People's Republic of China and, for the purpose of this Offering Circular only, exclude, Hong Kong, Macau SAR of the PRC and Taiwan, and all references to "Hong Kong" are to the Hong Kong SAR of China.

Unless otherwise specified or the context requires, references herein to "Renminbi", "RMB" or "CNY" are to the lawful currency of the PRC, references herein to "Hong Kong dollars", "HK dollars", "HK$", "HK cents" or "HK¢" are to the lawful currency of Hong Kong, references herein to "U.S. dollars", "U.S.$", "U.S. cents" or "U.S.¢" are to the lawful currency of the United States, references herein to "S$" are to the lawful currency of Singapore and references herein to "PRC Accounting Standards" are to the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter. In addition, references herein to the financial ratios of the Guarantor and defined terms used in the calculation of such ratios may differ from those in the "*Terms and Conditions of the Bonds*".

Unless otherwise stated in this Offering Circular, all translations from Renminbi into U.S. dollars were made at the rate of RMB6.5063 to U.S.$1.00, the noon buying rate in New York City as certified by the Federal Reserve Bank of New York for customs purposes for cable transfers payable in Renminbi on 29 December 2017, as set forth in the H.10 statistical release of the Federal Reserve Board. All such translations in this Offering Circular are provided solely for investors' convenience and no representation is made that the amounts referred to herein have been, could have been or could be converted into U.S. dollars or Renminbi, or *vice versa,* at any particular rate or at all. For further information relating to the exchange rates, see "*Exchange Rates*".

The contents of this Offering Circular have not been reviewed by any regulatory authority in Singapore, including the Monetary Authority of Singapore, or Hong Kong. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

PRESENTATION OF FINANCIAL INFORMATION

The Guarantor has prepared consolidated financial statements as at and for the year ended 31 December 2017, which includes the restated comparative financial information in respect of the previous year, in accordance with the Accounting and Standards for Business Enterprises promulgated by Ministry of Finance ("**MOF**") on 15 February 2006, and PRC Accounting Standards, and disclosure requirements in Preparation Convention for Information Disclosures by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting (2010 Revised) (公開發行證券的公司信息披露編報規則第15號–財務報告的一般規定(2010年修訂)) issued by China Securities Regulatory Commission. The consolidated financial statements of the Guarantor and its subsidiaries for the year ended 31 December 2017, which includes the restated comparative financial information in respect of the previous year, and consolidated financial statements as at and for the year ended 31 December 2016, which includes the comparative financial information in respect of the previous year (the "**Guarantor's Audited Consolidated Financial Statements**") have been audited by PricewaterhouseCoopers Zhong Tian LLP ("**PwC ZT**") in accordance with China Standards on Auditing ("**CSAs**").

The Guarantor's comparative financial information as at and for the year ended 31 December 2016, as contained in the consolidated financial statements as at and for the year ended 31 December 2017, was restated to reflect the change in accounting policies with effect from 1 January 2017 when the Guarantor changed to record the gains or losses on disposal of fixed assets and intangible assets in gains on disposal of assets rather than non-operating income and non-operating expenses, as the MOF released the *Accounting Standards for Business Enterprises No. 42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations*, and revised the *Accounting Standards for Business Enterprises No. 16 – Government Grants and the Circular on Amendment to Formats of Financial Statements of General Industry* and its interpretation (Cai Kuai [2017] No. 30) (collectively, the "**New Accounting Standards**"). In addition, in accordance with the above standards and circular, the Guarantor recorded flight route subsidies and tax subsidies related to ordinary activities for the year ended 31 December 2017 in other income rather than non-operating income, while the comparative financial information for the year ended 31 December 2016 was not restated in respect of such change.

The restated summary consolidated financial information for the year ended 31 December 2016 of the Guarantor as contained in this Offering Circular (which has been restated in the manner mentioned in the preceding paragraph) was neither audited nor reviewed by the independent auditor of the Guarantor. The comparative financial information of the Guarantor as at and for the year ended 31 December 2015 as contained in this Offering Circular has not been restated and therefore is not comparable to the consolidated financial information for the years ended 31 December 2016 and 2017 as contained in the consolidated financial statements as at and for the year ended 31 December 2017. Investors must exercise cautious when using the consolidated financial information as at and for the year ended 31 December 2015 to evaluate the Guarantor's financial condition and results of operations.

The audited consolidated financial statements as at and for the year ended 31 December 2016, which includes the comparative financial information as at and for the year ended 31 December 2015, including the notes thereto, are included elsewhere in this Offering Circular, and have not reflected the above restatements and are for reference purpose only. Should such information be restated to reflect the effect of such change in accounting policies, the restated amounts might be different from the financial information reported therein. Consequently, potential investors should exercise caution when using such financial information to evaluate the Guarantor's financial condition and results of operations.

The Guarantor's Audited Consolidated Financial Statements have been prepared only in Chinese. The Guarantor has prepared an English translation of the Guarantor's Audited Consolidated Financial Statements which is included in the Offering Circular for reference only (the "**English Translated Guarantor's Consolidated Financial Statements**"). The English Translated Guarantor's Consolidated Financial Statements do not themselves constitute audited financial statements, and are qualified in their entirety by, and are subject to the information set out or referred to in the Guarantor's Audited Consolidated Financial Statements. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors has independently verified or checked the accuracy of the English Translated Guarantor's Consolidated Financial Statements and can give no assurance that the information contained in the English Translated Guarantor's Consolidated Financial Statements is accurate, truthful or complete. Potential purchasers must exercise caution when using such financial information to evaluate the financial condition, results of operations and prospects of the Guarantor.

On 30 August 2018, Hainan Airlines published (in the Chinese language only) its unaudited consolidated financial statements as at and for the six-month period ended 30 June 2018 (with the inclusion, for comparison purpose, of similar information as at and for the six-month period ended 30 June 2017) in accordance with PRC Accounting Standards and its obligations under the listing rules of the Shanghai Stock Exchange (the "**Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements**"). Certain financial information from the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements is included in this Offering Circular in "Summary Financial and Other Information of the Guarantor – Unaudited and Unreviewed Financial Information as at and for the Six Months Ended 30 June 2017 and 2018". These financial statements were prepared by Hainan Airlines' management and approved by its Board of Directors, but have not been reviewed, audited or verified by PwC ZT, auditor of Hainan Airlines, or by any other person. Consequently, the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate Hainan Airlines' or the Group's business, financial condition and results of operations. Neither the Joint Lead Managers nor any of their affiliates, directors or advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of such unaudited financial statements for an assessment of Hainan Airlines or the Group's business, financial condition and results of operations.

The Guarantor's Audited Consolidated Financial Statements and the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements are available at http://www.sse.com.cn/disclosure/listedinfo/announcement/.

The Guarantor has not prepared its financial statements in accordance with International Financial Reporting Standards ("**IFRS**"). PRC Accounting Standards differ in certain material respects from IFRS. For a discussion of the difference between PRC Accounting Standards and IFRS most relevant to the Guarantor, see "*Relevant Difference between PRC Accounting Standards and International Reporting Standards*".

The Issuer has prepared consolidated financial statements as at and for the year ended 31 December 2017, which includes the comparative financial information in respect of the previous year, in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"). The consolidated financial statements of the Issuer for the year ended 31 December 2017, which includes the comparative financial information in respect of the previous year, have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong in accordance with Hong Kong Standards on Auditing ("**HKSAs**") and is included elsewhere in this Offering Circular.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made forward-looking statements in this Offering Circular regarding, among other things, the Group's financial condition, future expansion plans and business strategy. These forward-looking statements are based on the Group's current expectations about future events. Although the Issuer and the Guarantor believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- risks associated with general political, social and economic conditions globally, in the PRC and related to the aviation industry;
- changes in the price of aviation fuel;
- the Group's ability to finance future aircraft acquisitions;
- the Group's ability to manage working capital and operations-related expenditure requirements;
- the Group's ability to achieve its business strategies and plans of operation;
- the Group's ability to maintain code share agreements with partner airlines;
- the Group's ability to expand its route network and its customer base;
- foreign exchange controls and fluctuations in exchange rates and interest rates;
- certain government regulations, policies and other factors beyond the Group's control; and
- those other risks identified in the "Risk Factors" section of this Offering Circular.

The words "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "schedule", "will", "would" and similar words or expressions are intended to identify a number of these forward-looking statements. However, these words are not the exclusive means of identifying forward-looking statements. The Issuer and the Guarantor undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Issuer's, the Guarantor's or the Group's actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on these forward-looking statements.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

CONTENTS

GLOSSARY

In this Offering Circular, unless the context indicates otherwise, the following terms have the respective meanings set forth below.

Capacity measurements

"**available seat kilometres**" or "**ASKs**"	the number of seats made available for sale multiplied by the kilometres flown
"**tonne**"	a metric ton, equivalent to 2,204.6 pounds

Traffic measurements

"**cargo traffic**"	measured in RFTKs, unless otherwise specified
"**passenger traffic**"	measured in RPKs, unless otherwise specified
"**revenue freight tonne kilometres**" or "**RFTKs**"	the revenue cargo and mail load in tonnes multiplied by the kilometres flown
"**revenue passenger kilometres**" or "**RPKs**"	the number of passengers carried multiplied by the kilometres flown

Load factors

"**passenger load factor**"	RPKs expressed as a percentage of ASKs

Utilisation

"**block hours**"	each whole or partial hour elapsing from the moment the chocks are removed from the wheels of the aircraft for flights until the chocks are next again returned to the wheels of the aircraft
"**utilisation rates**"	the actual number of flight and taxi hours per aircraft per operating day

Others

"**CAAC**"	Civil Aviation Administration of China
"**CAOSC**"	China Aviation Oil Supplies Company
"**CSRC**"	China Securities Regulatory Commission
"**GDP**"	Gross Domestic Product, refers to the market value of all final goods and services produced within a country in a given period
"**HNA Group**"	HNA Group Co., Ltd., and its affiliates

"**IATA**"	International Air Transport Association
"**MOF**"	Ministry of Finance
"**MOFCOM**"	Ministry of Commerce
"**NDRC**"	National Development and Reform Commission of China
"**PBOC**"	People's Bank of China
"**SAFE**"	State Administration of Foreign Exchange of China
"**SAR**"	Special Administrative Region
"**SASAC**"	State-owned Assets Supervision and Administration Commission of the State Council
"**Total Debt**"	including short-term borrowings and long-term borrowings (including long-term borrowings due within one year) and debentures payable
"**%**" or "**per cent.**"	per cent.

SUMMARY

The summary below is only intended to provide a very limited overview of information described in more detail elsewhere in this Offering Circular. This summary does not contain all the information that may be important to prospective investors in deciding to invest in the Bonds. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should read the entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

THE GUARANTOR

As a leading provider of air passenger, air cargo and airline-related services in China, Hainan Airlines is the fourth-largest airline in China in terms of fleet size, revenue and number of passengers carried in 2017. As at 30 June 2018, Hainan Airlines provided scheduled domestic, regional and international services using a hub and spoke strategy on approximately 1,700 routes to 216 cities including two regional cities and 57 international cities in 27 countries. Hainan Airlines' expanding network is based on its business in major regions in the PRC through operating in Haikou and Nanning in mid-Southern China, Tianjin in Northern China, Xi'an in North-Western China, Kunming in South-Western China, Urumqi in Xianjiang and Fuzhou in Eastern China. The Group has also established subsidiaries and operating bases in 24 major cities in the PRC including Beijing, Shenzhen, Sanya, Chengdu and Chongqing.

The Group has been well-recognised globally for its high quality service and excellent safety record by independent awards and surveys of air travellers, in particular for its highly trained employees, advance seat assignments, expedited check-in, attention to customer needs, frequent flyer programme, well-maintained aircraft and other amenities. For instance, Hainan Airlines is one of 10 global winners and the only PRC airline that has obtained 5-Star Airline certification from Skytrax, an independent airline benchmarking firm, which it received for an eighth consecutive year in 2018. Hainan Airlines was also ranked as the ninth best globally for the World's Best Airline at the Skytrax 2017 World Airline Awards in June 2017. For details, see "*– Competitive Strengths – Global brand recognition of high-quality service and excellent safety record and standards*".

In addition to passenger services, the Group provides bellyhold cargo and mail services through its passenger aircraft. As at 30 June 2018, Hainan Airlines leased out a total of 28 aircraft to other HNA Group affiliated airline companies. The Group also provides other airline-related services, including property leasing, lodging, catering, ticketing and ground services in Beijing, Haikou, Xi'an and other locations through its subsidiaries.

The young and growing fleet of Hainan Airlines primarily comprises Boeing 737-800 aircraft, along with Boeing 737-700, Boeing 737-MAX 8, Boeing 767-300, Boeing 787-9, Boeing 787-8, Airbus A330-300, Airbus A330-200, Airbus A321, Airbus A320, Airbus 319, Embraer E145, Embraer E190 and Embraer E195 aircraft for both passenger and cargo transportation. As at 30 June 2018, Hainan Airlines operated a fleet of 420 aircraft, serving 157 domestic, two regional and 57 international destinations. In 2015, 2016 and 2017, the fleet carried approximately 38.60 million, 47.02 million and 71.69 million passengers, an increase of 21.81% from 2015 to 2016 and 52.46% from 2016 to 2017. Hainan Airlines' RPK in 2015, 2016 and 2017 was 66,239.37 million, 82,951.27 million and 121,223.48 million, an increase of 25.23% from 2015 to 2016 and 46.14% from 2016 to 2017.

Experiencing significant growth in both passenger and cargo traffic, the Group has an established track record of improving financial performance. In 2015, 2016 and 2017, the Group's consolidated total revenue was RMB35,225.44 million, RMB40,678.13 million and RMB59,903.95 million, respectively, an increase of 15.48% from 2015 to 2016 and 47.26% from 2016 to 2017. In 2015, 2016 and 2017, the Group's net profit attributable to equity shareholders was RMB3,002.69 million, RMB3,138.26 million and RMB3,322.95 million, respectively, an increase of 4.51% from 2015 to 2016 and 5.89% from 2016 to 2017.

COMPETITIVE STRENGTHS

The Group believes it has the following key competitive strengths:

- *High operational efficiency, strong profitability with seamless service and young fleet*
- *Global brand recognition of high-quality service and excellent safety record and standards*
- *Well-positioned to benefit from the development of Hainan province as an international tourist destination and strong beneficial policies related to shareholders and local governments*
- *Multiple financing channels and continuously improved financial and liquidity position*
- *Experienced management team*

BUSINESS STRATEGIES

The Group aims to become the airline of choice in China and one of the world's most competitive airlines by enhancing its existing strengths and developing new potential, and by implementing the following strategies:

- *Maintain disciplined and rationalised fleet growth*
- *Further expand core domestic, and accelerate build-up of, international route networks*
- *Continue development into a premium brand airline, to capture a greater share of premium passenger traffic with personalized travel experience*
- *Cost control, focus on routes with high profitability and strategic avoidance of direct competition with high-speed railways*
- *Continue to develop alliances with airlines affiliated with HNA Group and with other airlines*

RECENT DEVELOPMENTS

On 9 June 2018, Hainan Airlines made an announcement summarising its restructuring plan (the "**Restructuring Plan**"), pursuant to which Hainan Airlines plans to purchase (a) from HNA Aviation Group Co., Ltd ("**HNA Aviation Group**"), HNA Aviation Group's 60.78% shareholding in HNA Aviation Technic Co., Ltd. ("**HNA Technic**"), 59.93% shareholding in HNA Aviation (Hong Kong) Technics Holding Co., Limited ("**HNA Aviation Hong Kong**") and 100.00% shareholding in Hainan Sky Plumage Pilot Training Co., Ltd., (b) from Tianjin Chuangxin Investment LLP ("**Tianjin Chuangxin**"), Tianjin Chuangxin's 29.72% shareholding in West Air, and (c) from HNA Southwest Headquarter Co., Ltd. ("**HNA Southwest**"), HNA Southwest's 60.00% shareholding in Chongqing West Holding Co., Ltd. ("**West Holding**"), respectively (HNA Technic, HNA Aviation Hong Kong, Hainan Sky Plumage Pilot Training Co., Ltd., West Air and West Holding collectively, the "**Target Companies**"). The aggregate purchase price is expected to be approximately RMB10,478 million and the purchases are expected to be made by delivery of (i) 1,988,086,662, (ii) 791,352,367 and (iii) 578,908,634 shares of Hainan Airlines as consideration to HNA Aviation Group, Tianjin Chuangxin and HNA Southwest, respectively, subject to potential refunds of portions of such consideration shares if the guaranteed levels of net profit of certain Target Companies (or the main operating subsidiary of one Target Company) under the Restructuring Plan are not met. Upon completion of any of the acquisitions contemplated by the Restructuring Plan, Hainan Airlines plans to also conduct a private placement of additional shares (the "**Private Placement**") to up to 10 investors, and to raise no more than the lower of (i) RMB7,033.80 million and (ii) the aggregate value of the purchase prices in the acquisitions to be made pursuant to the Restructuring Plan (less certain increases in cash holdings of the Target Companies), subject to a limit of a 20.00% increase in pre-Private

Placement total share capital. On 20 July 2018, Hainan Airlines published a revised draft of the Restructuring Plan which included details of the sale and purchase agreements entered into under the Restructuring Plan (the "**Sale and Purchase Agreements**"). The implementation of the Restructuring Plan is subject to, among other things, the satisfaction of the conditions precedent in the Sale and Purchase Agreements. For details, see "*Description of the Guarantor – Recent Developments*".

On 30 August 2018, Hainan Airlines published (in the Chinese language only) its unaudited consolidated financial statements as at and for the six-month period ended 30 June 2018 (with the inclusion, for comparison purpose, of similar information as at and for the six-month period ended 30 June 2017) in accordance with PRC Accounting Standards and its obligations under the listing rules of the Shanghai Stock Exchange (the "Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements"). See "*– Summary Financial and Other Information of the Guarantor – Unaudited and Unreviewed Financial Information as at and for the Six Months Ended 30 June 2017 and 30 June 2018*".

THE ISSUER

The Issuer is an "existing company" (CR No. 1611211) under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and was incorporated in Hong Kong on 2 June 2011 as a limited liability non-private company under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force before 3 March 2014. Its registered office is Room 804, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong. The Issuer is a wholly-owned subsidiary of the Guarantor. The Issuer is a holding company and is the issuer of a number of offshore notes and bonds.

RISK FACTORS

There are certain risks involved in the Group's operations and investing in the Bonds, including: (i) risks relating to the Group's businesses and industry; (ii) risks relating to the PRC; and (iii) risks relating to risks relating to the Bonds and the Guarantee of the Bonds. See "*Risk Factors*". In particular, the Guarantor has announced on the Shanghai Stock Exchange that it is currently engaged in a restructuring exercise pursuant to which it will acquire shares of certain companies owned by certain of its affiliates including HNA Group Co., Ltd. ("**HNA Group Co.**"). See "*Risk Factors – The Group is engaged in a restructuring exercise pursuant to which it would acquire shares of certain companies owned by certain of its affiliates including HNA Group Co.*" for risks involved in the restructuring.

THE OFFERING

The following summary contains some basic information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Bonds, see "Terms and Conditions of the Bonds".

Issuer	Hainan Airlines (Hong Kong) Co., Limited
Guarantor	Hainan Airlines Holding Co., Ltd.
Bonds	U.S.$[●] [●] per cent. Guaranteed Bonds due [●].
Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect are contained in the Deed of Guarantee.
Issue Price	[●] per cent.
Form and Specified Denomination	The Bonds will be issued in registered form in the specified denomination of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof.
Interest	The Bonds will bear interest on their outstanding principal amount from and including [●] 2018 at the rate of [●] per cent. per annum, payable semi-annually in arrear on [●] and [●] in each year (each an "**Interest Payment Date**").
Issue Date	[●] 2018.
Maturity Date	[●].
Status of the Bonds	The Bonds will constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Status of the Guarantee of the Bonds	The obligations of the Guarantor under the Guarantee of the Bonds will constitute direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Bonds will contain a negative pledge provision as further described in Condition 3(a) (*Covenants – Negative Pledge*) of the Terms and Conditions of the Bonds.

Redemption at Maturity	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on [●].
Taxation	All payments of principal and interest in respect of the Bonds or under the Guarantee of the Bonds by or on behalf of the Issuer or, as the case may be, the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If the Issuer or the Guarantor is required to make a deduction or withholding required by law, the Issuer or, as the case may be, the Guarantor shall pay (except in certain circumstances set out in Condition 7 (*Taxation*) of the Terms and Conditions of the Bonds) such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.
Redemption for Tax Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount together with interest accrued to, but excluding the date fixed for redemption, at any time in the event of certain changes affecting taxes of Hong Kong or the PRC, as further described in "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for tax reasons*".
Redemption for Relevant Event	At any time following the occurrence of a Change of Control or a No Registration Event (each a "**Relevant Event**"), the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*".
Redemption at the option of Bondholders	The Issuer shall, at the option of the Holder of any Bond redeem all or some only of that Holder's Bonds on the Put Option Settlement Date at 100 per cent. of their principal amount, together with interest accrued to, but excluding such Put Option Settlement Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption at the option of Bondholders*".

Events of Default	Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Bonds, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (provided in any such case that the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give written notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued and unpaid interest.
Cross-Default	The Bonds will contain a cross-default provision as further described in Condition 8(c) (*Events of Default – Cross-default of Issuer, Guarantor or Subsidiaries*).
Clearing Systems	The Bonds will be represented by beneficial interests in a Global Bond Certificate in registered form, which will be registered in the name of a nominee for, and shall be deposited with, a common depository for Euroclear and Clearstream. Beneficial interests in the Global Bond Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except in the limited circumstances described in the Global Bond Certificate, owners of interests in Bonds represented by the Global Bond Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.
Clearance and Settlement	The Bonds have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS1829905741. LEI Code: 3003007TQ6PN3B90J733 Common Code: 182990574.
Governing Law and Jurisdiction	English law. Exclusive jurisdiction of the Hong Kong courts.
Trustee	The Bank of New York Mellon, London Branch
Principal Paying Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch

Listing	Approval in principle has been obtained from the SGX-ST for permission to deal in, and for quotation of, the Bonds. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Bond Certificate for the Bonds is exchanged for Individual Bond Certificates, the Issuer will appoint and maintain a paying agent in Singapore, where the Individual Bond Certificates in respect of the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Bond Certificate for the Bonds is exchanged for the Individual Bond Certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Individual Bond Certificates, including details of the paying agent in Singapore. The Bonds will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies) for so long as the Bonds are listed on the SGX-ST.
Further Issues	Subject to compliance with the undertaking in Condition 3(c) (*Covenants – Undertakings in relation to the Guarantee of the Bonds*), the Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest and the timing for reporting to the NDRC and SAFE) so as to form a single series with the Bonds.
Use of Proceeds	See the section entitled "*Use of Proceeds*".

SUMMARY FINANCIAL AND OTHER INFORMATION OF THE GUARANTOR

CONSOLIDATED FINANCIAL INFORMATION AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2015, 2016 AND 2017

The following tables set forth the summary consolidated financial information of the Guarantor as at the dates and for the periods indicated. The summary consolidated financial information as at and for the years ended 31 December 2015, 2016 and 2017 set forth below is derived from the Guarantor's Audited Consolidated Financial Statements which were prepared and presented in accordance with PRC Accounting Standards and have been audited by PwC ZT in accordance with CSAs.

The Guarantor's comparative financial information as at and for the year ended 31 December 2016, as contained in the consolidated financial statements as at and for the year ended 31 December 2017, was restated to reflect the change in accounting policies with effect from 1 January 2017 when the Guarantor changed to record the gains or losses on disposal of fixed assets and intangible assets in gains on disposal of assets rather than non-operating income and non-operating expenses, as the MOF released the Accounting Standards for Business Enterprises No. 42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations, revised the Accounting Standards for Business Enterprises No. 16 – Government Grants and the Circular on Amendment to Formats of Financial Statements of General Industry and its interpretation (Cai Kuai [2017] No. 30). In addition, in accordance with the above standards and circular, the Guarantor recorded flight route subsidies and tax subsidies related to ordinary activities for the year ended 31 December 2017 in other income rather than non-operating income, while the comparative financial information for the year ended 31 December 2016 was not restated in respect of such change.

The restated summary consolidated financial information for the year ended 31 December 2016 of the Guarantor as contained in this Offering Circular (which has been restated in the manner mentioned in the preceding paragraph) was neither audited nor reviewed by the independent auditor of the Guarantor. The comparative financial information of the Guarantor as at and for the year ended 31 December 2015 as contained in this Offering Circular has not been restated and therefore is not comparable to the consolidated financial information for the years ended 31 December 2016 and 2017 as contained in the consolidated financial statements as at and for the year ended 31 December 2017. Investors must exercise cautious when using the consolidated financial information as at and for the year ended 31 December 2015 to evaluate the Guarantor's financial condition and results of operations. The Guarantor's Audited Consolidated Financial Statements are available at http://www.sse.com.cn/disclosure/listedinfo/announcement/.

The audited consolidated financial statements as at and for the year ended 31 December 2016, which includes the comparative financial information as at and for the year ended 31 December 2015, including the notes thereto, are included elsewhere in this Offering Circular, have not reflected the above restatements and are for reference purpose only. Should such information be restated to reflect the effect of such change in accounting policies, the restated amounts might be different from the financial information reported therein. Consequently, potential investors should exercise caution when using such financial information to evaluate the Guarantor's financial condition and results of operations.

The Guarantor's Audited Consolidated Financial Statements have been prepared only in Chinese. The Guarantor has prepared an English translation of the Guarantor's Audited Consolidated Financial Statements which is included in this Offering Circular for reference only, namely the English Translated Guarantor's Consolidated Financial Statements. The English Translated Guarantor's Consolidated Financial Statements do not themselves constitute audited financial statements, and are qualified in their entirety by, and are subject to the information set out or referred to in the Guarantor's Audited Consolidated Financial Statements which are included elsewhere in this Offering Circular. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors has independently verified or checked the accuracy of the English Translated Guarantor's Consolidated

Financial Statements and can give no assurance that the information contained in the English Translated Guarantor's Consolidated Financial Statements is accurate, truthful or complete. Potential purchasers must exercise caution when using such financial information to evaluate the financial condition, results of operations and prospects of the Guarantor.

The summary financial information set out below should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements of the Guarantor, including the notes thereto.

The Guarantor has not prepared its financial statements in accordance with IFRS. PRC Accounting Standards differ in certain material respects from IFRS. For a discussion of the difference between the PRC Accounting Standards and IFRS most relevant to the Guarantor, see "Relevant Difference between PRC Accounting Standards and International Financial Reporting Standards".

Consolidated income statement data

	Year ended 31 December		
	2015	2016	2017
		(Restated) (RMB'000)	
Revenue	**35,225,439**	**40,678,130**	**59,903,948**
Less: Cost of sales	(25,756,170)	(31,360,526)	(51,792,703)
Taxes and surcharges	(105,201)	(120,412)	(159,333)
Selling and distribution expenses	(1,987,205)	(1,781,930)	(2,460,994)
General and administrative expenses	(840,590)	(926,700)	(1,417,697)
Financial expenses – net	(4,644,615)	(4,522,025)	(2,100,957)
Assets impairment losses	(1,282)	(2,011)	(4,781)
Add: Gains/(losses) on changes in fair value	166,184	(20,043)	82,789
Investment income	978,153	1,060,313	1,242,738
Including: Share of profit of associates	840,566	899,347	1,052,976
Other income(3)	–	–	780,995
Gains on disposals of assets(3)	–	109,853	222,349
Operating profit	**3,034,713**	**3,114,649**	**4,296,354**
Add: Non-operating income(3)	883,940	948,680	517,615
Less: Non-operating expenses(3)	(4,834)	(958)	(3,533)
Total profit	**3,913,819**	**4,062,371**	**4,810,436**
Less: Income taxes expenses	(656,568)	(652,227)	(928,690)
Net profit	**3,257,251**	**3,410,144**	**3,881,746**
– Attributable to shareholders of the Company	3,002,694	3,138,255	3,322,947
– Minority interest	254,557	271,889	558,799
Earnings per share (EPS)			
Basic earnings per share (RMB Yuan)	0.246	0.210	0.182
Diluted earnings per share (RMB Yuan)	0.246	0.210	0.182
Other comprehensive income/(loss), net of tax	**79,669**	**29,259**	**(418,632)**
Total comprehensive income	**3,336,920**	**3,439,403**	**3,463,114**
– Attributable to shareholders of the Company	3,055,331	3,144,836	2,929,207
– Minority interests	281,589	294,567	533,907
Other financial data			
EBITDA(1)	11,504,234	11,643,594	14,947,725
EBITDAR(2)	14,181,744	15,992,668	23,562,795

Notes:

1. EBITDA for any period is calculated as profit before income tax expense, adjusted by adding back depreciation of fixed assets, amortisation of intangible assets, amortisation of long-term prepaid expenses and amortisation of deferred loss on sales and leaseback transaction, interest expense. EBITDA is not a standard measure under PRC Accounting Standards. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or constructed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities.

2. EBITDAR for any period is calculated as profit before income tax expense, adjusted by adding back depreciation of fixed assets, amortisation of intangible assets, amortisation of long-term prepaid expenses and amortisation of deferred loss on sales and leaseback transaction, interest expense and rental expenses under aircraft operating leases. EBITDAR is not a standard measure under PRC Accounting Standards. EBITDAR is a widely used financial indicator of a company's ability to service and incur debt in the aviation industry. EBITDAR should not be considered in isolation or constructed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities.

3. The Guarantor's comparative financial information as at and for the year ended 31 December 2016, as contained in the consolidated financial statements as at and for the year ended 31 December 2017, was restated to reflect the change in accounting policies with effect from 1 January 2017 when the Guarantor changed to record the gains or losses on disposal of fixed assets and intangible assets in gains on disposal of assets rather than non-operating income and non-operating expenses, as the Ministry of Finance released the *Accounting Standards for Business Enterprises No. 42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations*, revised the *Accounting Standards for Business Enterprises No. 16 – Government Grants and the Circular on Amendment to Formats of Financial Statements of General Industry* and its interpretation (Cai Kuai [2017] No. 30). In addition, in accordance with the above standards and circular, the Guarantor recorded flight route subsidies and tax subsidies related to ordinary activities for the year ended 31 December 2017 in other income rather than non-operating income, while the comparative financial information for the year ended 31 December 2016 were not restated. The comparative financial information of the Guarantor as at and for the year ended 31 December 2015 as contained herein has not been restated in respect of such change.

Consolidated balance sheet data

	Year ended 31 December		
	2015	**2016**	**2017**
		(RMB'000)	
Assets			
Current assets			
Cash at bank and on hand	18,693,452	21,590,823	36,391,287
Financial assets at fair value through profit or loss	–	8,472	547,870
Accounts receivable	710,246	1,201,620	2,196,511
Advances to suppliers	485,604	980,050	1,759,561
Interest receivable	454,148	480,761	542,103
Dividends receivable	5,857	102,659	125,719
Other receivables	619,033	765,086	847,983
Inventories	35,843	20,947	254,470
Assets held for sale	–	335,673	–
Other current assets	2,546,602	4,053,149	436,790
Total current assets	**23,550,785**	**29,539,240**	**43,102,294**
Non-current assets			
Available-for-sale financial assets	5,335,650	9,369,036	21,226,064
Long-term equity investments	13,097,909	19,049,278	22,274,389
Investment properties	9,578,169	10,035,665	10,079,876
Fixed assets	57,876,536	58,090,889	73,907,936
Construction in progress	11,993,844	11,516,019	14,949,308
Intangible assets	331,953	548,516	625,679
Goodwill	328,865	328,865	328,865
Long-term prepaid expenses	697,448	954,213	1,683,489
Other non-current assets	2,590,068	8,712,296	9,169,988
Total non-current assets	**101,830,442**	**118,604,777**	**154,245,594**
TOTAL ASSETS	**125,381,227**	**148,144,017**	**197,347,888**

	Year ended 31 December		
	2015	2016	2017
	(RMB'000)		
Liabilities and shareholders' equity			
Current liabilities			
Short-term borrowings	10,918,192	7,906,690	23,906,887
Financial liabilities at fair value through profit or loss	–	103,987	48,109
Notes payable	1,242,352	1,185,000	1,999,994
Accounts payable	4,219,148	4,703,245	9,339,551
Advances from customers	1,845,435	2,587,447	2,907,702
Employee benefits payable	324,141	310,534	481,546
Taxes payable	676,079	832,879	2,465,490
Interest payable	675,046	648,616	777,990
Dividends payable	54,716	54,716	–
Other payables	739,772	1,032,307	2,044,874
Current portion of non-current liabilities	9,032,936	13,509,247	17,215,378
Other current liabilities	–	–	6,990,066
Total current liabilities	**29,727,817**	**32,874,668**	**68,177,587**
Non-current liabilities			
Long-term borrowings	30,242,605	25,345,357	28,992,986
Bonds payable	11,896,141	5,957,956	10,807,249
Long-term payables	9,395,106	10,202,885	8,982,236
Deferred income	799,551	884,728	1,038,879
Deferred tax liabilities	4,411,773	4,757,264	5,134,511
Other non-current liabilities	343,792	245,002	257,121
Total non-current liabilities	**57,088,968**	**47,393,192**	**55,212,982**
Total liabilities	**86,816,785**	**80,267,860**	**123,390,569**
Shareholders' equity			
Share capital	12,182,182	16,806,120	16,806,120
Other equity instruments – perpetual bonds	2,500,000	5,086,250	5,221,250
Capital surplus	5,773,506	18,156,215	17,882,204
Other comprehensive income	711,675	718,256	324,516
Surplus reserve	1,172,569	1,390,356	1,672,872
Undistributed profits	11,141,624	13,803,342	15,709,560
Total equity attributable to shareholders of the Company	**33,481,556**	**55,960,539**	**57,616,522**
Minority interests	5,082,886	11,915,618	12,113,854
Other equity instruments	–	–	4,226,943
Total shareholders' equity	**38,564,442**	**67,876,157**	**73,957,319**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**125,381,227**	**148,144,017**	**197,347,888**

UNAUDITED AND UNREVIEWED FINANCIAL INFORMATION AS AT AND FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 30 JUNE 2018

On 30 August 2018, Hainan Airlines published (in the Chinese language only) the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements. These financial statements were prepared by Hainan Airlines' management and approved by its Board of Directors, but have not been reviewed, audited or verified by PwC ZT, auditor of Hainan Airlines, or by any other person. Consequently, the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate Hainan Airlines' or the Group's business, financial condition and results of operations. Neither the Joint Lead Managers nor any of their respective affiliates, directors or advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of such unaudited financial statements for an assessment of Hainan Airlines or the Group's business, financial condition and results of operations.

The Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements are available at http://www.sse.com.cn/disclosure/listedinfo/announcement/.

The Guarantor has not prepared its financial statements in accordance with IFRS. PRC Accounting Standards differ in certain material respects from IFRS. For a discussion of the difference between the PRC Accounting Standards and IFRS most relevant to the Guarantor, see "Relevant Difference between PRC Accounting Standards and International Financial Reporting Standards".

Consolidated income statement data

	Six months ended 30 June	
	2017	2018
	(Unaudited)	
Revenue	**28,526,222**	**32,941,415**
Less: Cost of sales	(24,585,527)	(29,417,458)
Taxes and surcharges	(58,326)	(54,607)
Selling and distribution expenses	(1,156,783)	(1,160,082)
General and administrative expenses	(650,329)	(884,311)
Financial expenses – net	(1,435,424)	(2,268,958)
Assets impairment losses	–	–
Add: Gains/(losses) on changes in fair value	–	585,002
Investment income	419,533	98,663
Including: Share of profit of associates	317,494	239,306
Other income	406,790	653,685
Gains on disposals of assets	63,574	189,159
Operating profit	**1,466,156**	**682,508**
Add: Non-operating income	272,074	76,200
Less: Non-operating expenses	2,411	1,915
Total profit	**1,735,819**	**756,793**
Less: Income taxes expenses	349,454	147,226
Net profit	**1,386,365**	**609,567**
– Attributable to shareholders of the Company	1,147,333	548,484
– Minority interest	239,032	61,083

	Six months ended 30 June	
	2017	2018
	(Unaudited)	
Earnings per share (EPS)		
Basic earnings per share (RMB Yuan)	0.0683	0.0326
Diluted earnings per share (RMB Yuan)	0.0683	0.0326
Other comprehensive income/(loss), net of tax	**121,437**	**(221,711)**
Total comprehensive income	**1,507,802**	**387,855**
– Attributable to shareholders of the Company	1,234,276	345,079
– Minority interests	273,526	42,776

Consolidated balance sheet data

	Six months ended 30 June	
	2017	2018
	(Unaudited)	
Assets		
Current assets		
Cash at bank and on hand	39,871,897	27,546,806
Financial assets at fair value through profit or loss	27,959	547,870
Accounts receivable	2,558,464	2,512,222
Advances to suppliers	1,049,847	1,321,223
Interest receivable	528,298	662,752
Dividends receivable	258,612	424,521
Other receivables	1,986,085	2,774,286
Inventories	220,149	212,602
Assets held for sale	–	–
Other current assets	939,133	690,418
Total current assets	**47,440,444**	**36,692,700**
Non-current assets		
Available-for-sale financial assets	18,760,807	21,076,968
Long-term equity investments	20,085,931	19,055,383
Investment properties	10,036,339	10,457,629
Fixed assets	65,962,033	72,454,113
Construction in progress	16,474,862	14,119,865
Intangible assets	605,349	616,108
Goodwill	411,966	328,865
Long-term prepaid expenses	1,703,697	1,589,472
Other non-current assets	3,451,061	9,367,007
Total non-current assets	**137,492,045**	**149,065,410**
TOTAL ASSETS	**184,932,489**	**185,758,110**

	Six months ended 30 June	
	2017	2018
	(Unaudited)	
Liabilities and shareholders' equity		
Current liabilities		
Short-term borrowings	14,963,619	22,301,956
Financial liabilities at fair value through profit or loss	87,269	36,685
Notes payable	3,208,095	1,878,280
Accounts payable	6,388,161	6,955,345
Advances from customers	2,567,042	4,274,750
Employee benefits payable	150,764	317,763
Taxes payable	1,467,707	1,435,470
Interest payable	829,032	899,749
Dividends payable	55,119	–
Other payables	1,458,448	2,183,422
Current portion of non-current liabilities	15,049,344	15,196,898
Other current liabilities	6,994,138	3,997,090
Total current liabilities	**53,218,738**	**59,477,408**
Non-current liabilities		
Long-term borrowings	28,387,218	29,411,103
Bonds payable	10,621,887	9,728,094
Long-term payables	9,964,256	7,342,805
Deferred income	929,069	781,262
Deferred tax liabilities	5,385,507	5,171,374
Other non-current liabilities	272,123	257,561
Total non-current liabilities	**55,560,060**	**52,692,199**
Total liabilities	**108,778,798**	**112,169,607**
Shareholders' equity		
Share capital	16,806,120	16,806,120
Other equity instruments – perpetual bonds	8,929,552	4,968,750
Capital surplus	18,328,448	17,882,204
Other comprehensive income	805,199	121,112
Surplus reserve	1,390,356	1,672,872
Undistributed profits	14,087,160	15,955,748
Total equity attributable to shareholders of the Company	**60,346,835**	**57,406,806**
Minority interests	6,877,304	12,091,176
Other equity instruments	8,929,552	4,090,521
Total shareholders' equity	**76,153,691**	**73,588,503**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**184,932,489**	**185,758,110**

SUMMARY FINANCIAL AND OTHER INFORMATION OF THE ISSUER

The following tables set forth the summary consolidated financial information of the Issuer as at the dates and for the periods indicated. The summary audited consolidated financial information as at and for the years ended 31 December 2016 and 2017 set forth below is derived from the Issuer's consolidated financial statements, as at and for the year ended 31 December 2017, which includes the comparative financial information in respect of the previous year, were prepared and presented in accordance with HKFRS and have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong in accordance with HKSAs and is included elsewhere in this Offering Circular.

Consolidated income statement data

	Year ended 31 December	
	2016	**2017**
	(Audited)	
	(HK$)	
Revenue	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Administrative expenses	(403,050.93)	(2,476,468.48)
Operating loss	**(403,050.93)**	**(2,476,468.48)**
Finance income	50,489,404.47	13,716,653.55
Finance costs	(635,530,625.67)	(149,897,599.09)
Finance costs – net	**(585,041,221.20)**	**(136,180,945.54)**
Share of profit of investments accounted for using the equity method	122,220,573.49	(40,194,069.61)
Loss before income tax	**(463,223,698.64)**	**(178,851,483.63)**
Income tax expense	–	–
Loss for the year	**(463,223,698.64)**	**(178,851,483.63)**
Other comprehensive income, net of tax		
Change in fair value of available-for-sale financial assets	9,096,599.71	(8,813,975.57)
Currency translation differences	(165,836,502.30)	47,717,825.95
Share of other comprehensive income of investments accounted for using the equity method	–	22,789,992.05
Other comprehensive income for the year, net of tax	**(156,739,902.59)**	**61,693,842.43**
Total comprehensive income for the year	**(619,963,601.23)**	**(117,157,641.20)**

Consolidated balance sheet data

	Year ended 31 December	
	2016	2017
	(audited) (HK$)	
ASSETS		
Non-current assets		
Investment in an associate	2,113,600,821.69	2,243,715,588.26
Available-for-sale financial assets	1,921,553,516.76	2,045,289,759.32
	4,035,154,338.45	4,289,005,347.58
Current assets		
Amounts due from immediate holding company.	1,677,209,024.04	5,265,794,381.26
Amounts due from related parties	5,918,006.33	6,332,877.75
Prepayments, deposits and other receivables	7,596,078.84	8,128,588.58
Interest receivable	1,061,268.77	1,135,667.16
Cash and cash equivalents	2,143,999,061.68	61,826,885.84
	3,835,783,439.66	5,343,218,400.59
Total assets	**7,870,937,778.11**	**9,632,223,748.17**
EQUITY		
Share capital	70,200,000.00	70,200,000.00
Other reserve	2,030,043,798.55	2,547,364,062.68
Accumulated losses	(1,574,914,742.96)	(1,753,766,226.59)
Total equity	**525,329,055.59**	**863,797,836.09**
LIABILITIES		
Non-current liabilities		
Bonds payable	3,841,952,735.15	3,885,983,919.33
Current liabilities		
Interest payable	143,219,382.00	205,618,122.68
Deferred tax liability	6,645,144.12	5,303,902.93
Current portion of non-current liabilities	3,353,791,461.25	4,671,519,967.14
	3,503,655,987.37	4,882,441,992.75
Total liabilities	**7,345,608,722.52**	**8,768,425,912.08**
Total equity and liabilities	**7,870,937,778.11**	**9,632,223,748.17**
Net current assets	**332,127,452.29**	**460,776,407.84**
Total assets less current liabilities	**4,367,281,790.74**	**4,749,781,755.42**

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The Issuer and the Guarantor believe that the following factors may affect the Issuer's and the Guarantor's ability to fulfil their respective obligations under the Bonds. Additional considerations and uncertainties not presently known to the Issuer or the Guarantor or which they currently deem immaterial may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Bonds are also described below. The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer or the Guarantor to repay principal, interest or other amounts or fulfil other obligations on or in connection with the Bonds may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of investment in the Bonds are exhaustive.

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

Any aviation fuel shortages or any increase in domestic or international aviation fuel prices may adversely affect the Group's financial condition and results of operations.

The availability of aviation fuel has a significant influence on the Group's business, financial condition and results of operations. In the past, aviation fuel shortages have occurred in the PRC and, on some rare occasions prior to 1993, resulted in the Group's predecessor's delay or cancellation of flights. Although aviation fuel shortages have seldom occurred since the end of 1993, there can be no assurance that aviation fuel shortages will not occur in the future. If such a shortage occurs in the future and the Group has to delay or cancel flights, its operational reputation among passengers as well as its results of operations may suffer.

In addition, aviation fuel costs constituted a significant portion of the Group's operating costs accounting in 2015, 2016 and 2017, namely for approximately 28.93%, 25.06% and 28.17% of Hainan Airlines' consolidated operating costs, respectively. As such, the Group is sensitive to aviation fuel prices. Aviation fuel prices are susceptible to, among other factors, political unrest in various parts of the world, Organisation of Petroleum Exporting Countries policies, the rapid growth of the economies of certain countries, including the PRC and India, the levels of fuel inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities and weather conditions. These and other factors that affect the global supply and demand for aviation fuel are out of the Group's control. In particular, the recent political uncertainty in the Middle East continues to cause fluctuations in aviation fuel prices and may result in increases in aviation fuel prices. Further, China has implemented a more market-driven pricing mechanism for ex-refinery jet fuel since 1 August 2011, which introduced greater volatility to the Group's fuel cost and earnings. In March 2016, in reaction to the pressure in connection with the historic low price of aviation fuel in the international market, the NDRC reduced the domestic price of aviation fuel by 40%. As a result of the variety of factors that affect the price of fuel, the cost of fuel cannot be predicted with any degree of certainty, either in the short-term or the long-term. Due to the highly competitive nature of the aviation industry and government regulation on airfare pricing and the level of aviation fuel surcharges, the Group may be unable to fully or effectively pass on to its customers any increased aviation fuel costs that it may encounter in the future, which could negatively affect the Group's business, financial condition and results of operations.

The Group faces increasingly intense competition both in the domestic aviation industry and in the international market, as well as from alternative means of transportation.

The Group faces intense competition in each of the domestic, regional and international markets that it serves. In the domestic markets, the Group competes against airline companies that have the same routes, including smaller domestic airline companies that operate with costs that are lower than that of the Group. In the regional and international markets, the Group competes against certain PRC airlines and international airline companies that have significantly longer operating histories, greater name recognition, more resources or larger sales networks than the Group does, or utilise more developed reservation systems than the Group. Any liberalisation of traffic rights or change of traffic pattern in respect of a major route that the Group operates could result in increasing competition or loss in demand on that route. A significant and prolonged reduction in yields or loss of market share to competitors would affect the Group's financial condition and results of operations.

Airlines with different business models are emerging as potential threats to full service airlines. Such business models include low cost airlines and all premium class airlines offering similar routes. Low cost airlines may compete on short haul sectors of up to approximately four hours, or on long haul sectors including Asia-Europe, Asia-North America and Asia-Australia.

In response to competition, the Group has, from time to time in the past, lowered its airfares for certain of its routes, and the Group may do the same in the future. Increased competition and pricing pressure from competition may have an adverse effect on the Group's business, financial condition and results of operations.

Further, for short-distance travel, trains and buses provide alternatives to air travel. High-speed railway has been rapidly developing in China in recent years. The PRC nationwide high-speed railway network has by far the longest operational route in the world. In addition, the PRC continues to grow its inter-city expressway network and has the largest scale of high-speed railway under construction. Given the recent development of high-speed train travel, the construction of the nationwide high-speed railway network and the improvement of the inter-city expressway network in the PRC, the PRC commercial aviation sector, as a whole, faces increasing competition from alternative means of transportation such as railways and highways. Even though the Group strives to develop its international network, most of its routes are domestic routes. As there is a reliable and expanding rail network in China, if alternative modes of transport provide a more cost-effective means of travel or there is a change in preference among airline travellers, increasing competition from PRC high-speed railway may adversely affect the financial condition and operating results of the Group.

Airline alliances may lead to a fiercely competitive environment and the Group may not obtain marketing alliances.

Although the first airline alliance was formed in the 1930s, it was the establishment of Star Alliance in 1997 that started the modern trend of creating alliances. Star Alliance was followed by One World and SkyTeam, and together these three groups represent approximately 70.00% of internationally scheduled flights.

Not only do alliances provide a network of connectivity and convenience for international passengers and packages, they also provide convenient market branding to facilitate travellers making inter-airline code share connections within countries. Airlines joining an alliance also enjoy the benefit of cost reduction by sharing of sales offices, maintenance facilities, operational facilities, operational staff and certain investments and purchases.

Therefore, joining an alliance or developing strategic partnerships with other airlines is critical for unaligned airline companies. The Group maintains a frequent flyer programme for Grand China Airlines, Hainan Airlines, Lucky Air, Tianjin Airlines, Hong Kong Airlines, Beijing Capital Airlines, Fuzhou Airlines, Guangxi Beibu Gulf Airlines and Suparna Airlines under the name "Fortune Wings Club". The Group is not a member of the largest three airline alliances in the world, Star Alliance, SkyTeam and Oneworld, which exposes it to risks in connection with the fiercely competitive environment. There is no assurance that the Group will be able to join any other alliance or strategic partnership in the near future, or at all.

The Group is engaged in a restructuring exercise pursuant to which it would acquire shares of certain companies owned by certain of its affiliates including HNA Group Co.

On 9 June 2018, Hainan Airlines announced that it plans to purchase from HNA Aviation Group Co., Ltd, Tianjin Chuangxin Investment LLP and HNA Aviation Group Co., Ltd the equity interests in HNA Technic, Hainan Sky Plumage Pilot Training Co., Ltd, West Airlines Co., Ltd and Chongqing West Holding Co., Ltd, in exchange for shares of Hainan Airlines. Such acquisitions involve risks such as unanticipated costs or liabilities, including liabilities for past activities of the entities or businesses that Hainan Airlines acquires, entering markets in which it may have limited prior experience and diversion of the attention of the management of Hainan Airlines from the core business of Hainan Airlines.

Hainan Airlines also announced it plans to conduct a private placement to up to 10 investors if the aforesaid acquisitions are completed in whole or in part.

The implementation of the Restructuring Plan is subject to approval by, among others, the Group's board of directors and shareholders, SASAC of the Hainan provincial government and CSRC. The Group cannot assure investors if any of these approvals can be obtained, nor is it certain of the time required for obtaining these approvals. If any of such approvals are not obtained, the Restructuring Plan will not be implemented. In addition, the Group may receive vetting comments from the relevant PRC authorities throughout their approval review processes of the Restructuring Plan and based on which the Group may have to revise the Restructuring Plan. There is uncertainty as to the nature and form of such vetting comments, and whether in view of the possible changes to the Restructuring Plan, the Group can reach agreement with the counterparties to the Sale and Purchase Agreements. See "*Description of the Guarantor – Recent Developments*".

The Group recorded net current liabilities as at 31 December 2017, and it may continue to record net current liabilities in the foreseeable future, which may adversely affect its liquidity.

As at 31 December 2017, the Group had recorded net current liabilities of RMB25,076 million (represented by current liabilities of RMB68,178 million exceeding current assets of RMB43,102 million). The Group's net current liabilities are attributable to a number of non-current liabilities which will mature in 2018 and are treated as current liabilities. This includes long-term borrowings within one year of RMB8,907 million, debentures payable within one year of RMB5,132 million and long-term payables within one year of RMB3,176 million, altogether RMB17,215 million, which will all mature by 31 December 2018. The Group may continue to record net current liabilities in the foreseeable future. Net current liabilities expose the Group to liquidity risk. The Group's future liquidity, the payment of trade and other payables and the repayment of the Group's outstanding debt obligations as and when they become due will depend primarily on the Group's ability to maintain adequate cash inflows from operating activities. As at the date of this Offering Circular, the Group has not experienced any liquidity problems in settling its payables or rolling over its short-term bank loans in the ordinary course of business when they fell due. However, there can be no assurance that the Group will always be able to raise the necessary funding to refinance its short-term borrowings upon maturity and finance its capital commitments.

The Group's business is subject to extensive government regulation and unforeseeable changes in rules and regulations by the PRC government may affect the Group's business.

The PRC commercial aviation industry is heavily regulated by CAAC. Regulations and policies issued or implemented by CAAC encompass substantially all aspects of the PRC commercial aviation industry, including:

- route allocation;
- air fares;
- the level of aviation fuel surcharges;
- aircraft acquisition;
- aircraft registration and aircraft airworthiness certification;
- aviation fuel prices;
- standards for aircraft maintenance and airport operations; and
- administration of air traffic control systems and certain airports.

As a result of this extensive level of government regulation, the Group may face significant constraints on its flexibility and ability to expand its business operations or to maximise its profitability. See "*PRC Regulations on the PRC Commercial Aviation Industry*" for further details.

In addition, the regulations and policies applicable to the airline industry, including the Group, may change from time to time. Changes in regulations and policies may adversely affect the Group's operations. The cost of complying with government regulations may become substantial. Although the Group has obtained all the approvals required to conduct its present operations, a failure or delay in obtaining any additional regulatory approvals required in the future could harm the Group's business, financial condition and results of operations.

The Group's business is subject to regulations in other countries which its expanding international route network covers, and to applicable international conventions. Non-compliance with such regulations and conventions could adversely affect the Group's operations.

For the Group to maintain its air operator's certificates, it has to comply with regulations in other countries which its expanding international route network covers, and to applicable international conventions. These regulations deal mainly with safety issues from aircraft airworthiness to training of crew. Governments across the world have also become more active in regulatory intervention on issues ranging from environmental protection to anti-corruption and consumer welfare. Changes in such regulations, or the administration of such regulations, could have an adverse impact on the Group's business by increasing costs, impeding normal service, restricting market access and benefiting its competitors. In the event that the Group does not fully comply with such laws and regulations in the conduct of its business or operations, there can be no assurance that any such non-compliance would not have an adverse effect on the Group's business, financial condition, results of operations, performance or prospects. In addition, such laws and regulations may be ambiguous and their interpretations and applications may potentially be detrimental to the Group. In some instances, governments may adopt restrictive policies with respect to the issuance of certain permits and approvals.

The airline industry is exposed to risks associated with the limitation of greenhouse gas emissions and related trading schemes or allowances and any changes to environmental legislation.

Under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, certain contracting states entered into obligations to control and reduce the emission of greenhouse gasses. To comply with its obligations under public international law, some countries in which the Group operates have issued relevant regulations. For instance, the European Union (the "**EU**") introduced the Emissions Trading Scheme (the "**ETS**") in 2005 to limit greenhouse gas emissions and the trading allowances which apply to certain industrial installations. Customer attitudes to environmental and climate issues may also change and this may lead to a reduced demand for air travel, reputational consequences for less environmentally conscious airlines or may affect transportation modes and the economics of the transportation industry.

Further regulations on greenhouse gas emissions may be enacted in one or more of the countries which the Group's international route network covers. All of these factors may limit the Group's operational flexibility, increase costs and therefore could have an adverse effect on its business, financial condition and results of operations.

Any adverse public health developments, including SARS, avian flu or influenza A (H1N1), or the occurrence of natural disasters may, among other things, lead to travel restrictions and reduced levels of economic activity in the affected areas, which may in turn significantly reduce demand for the Group's services and have an adverse effect on its business, financial condition and results of operations.

Adverse public health epidemics or pandemics, in particular, contagious diseases with human-to-human airborne or contact propagation effects, could disrupt businesses and the national economy of China and other countries where the Group conducts business. Air travel could be severely reduced even though international and national response plans to address such events have been developed or are in development. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volume and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have recently encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, the outbreak of influenza A (H1N1), a highly contagious acute respiratory disease, in March 2009, Ebola, a virus that can cause fatal symptoms in humans, in early 2014, Middle East respiratory syndrome (MERS), a virus that can cause severe and even fatal respiratory infections in humans, in May 2015 and Zika, a virus that has a suspected link with newborn microcephaly, in late 2015 has had an adverse influence on the aviation industry globally (including the Group). If there were another outbreak of a disease that affects travel behaviour in the future, it could adversely affect the Group's business operations.

Natural disasters, such as earthquakes, snowstorms, floods, volcanic eruptions or tsunami may disrupt or seriously affect air travel activity. In April 2015, an earthquake struck Nepal, killing over 9,000 people and injuring over 23,000 more. In July 2015, Bali was affected by a volcanic eruption from Mount Raung, on the neighbouring island of Java. The eruption caused spewing of corrosive, silica-based volcanic ash which was carried over Bali by unfavourable winds. In February 2016, the deadliest earthquake since 1999 struck Taiwan. In August 2017, an earthquake struck Jiuzhaigou, Sichuan province, the PRC and resulted in fatalities and injuries. All of these natural disasters adversely affected the aviation industry by reducing revenues and affecting travel behaviour. Any period of sustained disruption to the aviation industry may have an adverse effect on the Group's business, financial condition and results of operations.

Both international and domestic economic fluctuations and the PRC government's macroeconomic controls affect the demand for air travel, which can in turn cause volatility to the Group's business, financial condition and results of operations.

The aviation industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the domestic and global economies. As a substantial portion of airline travel, for both business and leisure, is discretionary, and strong demand for air transportation services depends largely on favourable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. Yields may also experience a decline as airlines may offer fare sales in certain markets to stimulate demand. The airline industry tends to experience adverse financial performance during an economic downturn. In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession and China experienced a slowdown in overall economic growth, which led to a reduction in economic activity and the demand for air travel.

As the airline industry is generally characterised by high fixed costs, including aircraft costs such as aircraft depreciation, lease rentals, maintenance and repair costs, a drop in revenue levels as a result of a slower economic cycle could have an adverse impact on the Group's financial performance.

The global economic slowdown has also negatively affected the growth rate of the PRC economy. Although the PRC government instituted certain initiatives in recent years in response to the slowdown in the PRC economy, the resulting rapid increase in liquidity in the market due to the fiscal stimulus measures prompted the PRC government to implement a number of measures to control such increase, including raising interest rates, financing adjustments, credit adjustments, price controls and exchange rate policies, all of which presented unexpected changes to the aviation industry. As a result, the continuing economic situation and PRC macroeconomic controls may continue to cause volatility to the Group's business, financial condition and results of operations.

Further, if the recent Sino-U.S. trade disturbances persist, and as a result affect the global economic environment, the demand for air travel could be affected, which may in turn have an adverse impact on the Group's business, financial condition and results of operations. Also, changes in Sino-U.S. trade practices could adversely affect the Group's business, both by increasing purchase costs for machinery and equipment, and by reducing the Group's sales in the United States.

The United Kingdom's ("U.K.") decision to leave the European Union may have negative economic effects on the United Kingdom, the European Union and elsewhere, which could have negative effects on the Group, the Bonds and the airline industry.

Pursuant to the European Referendum Act 2015, a referendum on the United Kingdom's membership of the EU was held on 23 June 2016 with the majority voting to leave the EU. On 29 March 2017, the United Kingdom invoked Article 50 of the Treaty of Lisbon to leave the EU. This gives the two sides two years to agree the terms of withdrawal by the end of March 2019. There may be a transition period from 30 March 2019 to 31 December 2020. At this stage the terms of the UK's exit from the EU are unclear. Moreover, the nature of the future relationship of the UK with the EU has yet to be discussed. Negotiations with the EU on the terms of the exit are likely to take a number of years. While the medium to long-term consequences of the decision to leave the EU remain uncertain, it is expected that there could be a short-term negative impact to the general economic conditions in the UK and business and consumer confidence in the UK, which may in turn have a negative impact elsewhere in the EU and more widely. This may be affected by the length of time it takes for the UK to leave the EU and the terms of any future arrangements the UK has with the remaining member states of the EU. Any of these factors could depress economic activity and restrict the Group's access to capital, which could have an adverse effect on the Group's business, financial condition and results of operations.

A drop in business or consumer confidence may have an impact on GDP growth in one or more significant markets and therefore the Group's performance. Output growth is likely to be at a slower pace than forecasted and growth potential could be eroded by reduced levels of fixed asset investment and productivity growth. No assurance can be given that such matters would not adversely affect the market value and/or the liquidity of the Bonds in the secondary market and/or the ability of the Issuer and the Group to satisfy their obligations under the Bonds and the Guarantee of the Bonds.

While some indicators have shown signs of an economic recovery, the global economy may not improve materially for an extended period of time. Stagnant or worsening global economic conditions in these areas and continued volatility in the global financial and credit markets may have an adverse effect on the airline industry. Demand for air travel could continue to fall if the global economic recession continues, which could have an adverse effect on the Group's business, financial condition and results of operations.

In addition, the financial crisis and other global events may reduce consumer spending or cause shifts in spending. A general reduction or shift in discretionary spending could result in decreased demand for leisure and business travel and could also affect the Group's ability to raise fares to counteract increased fuel and labour costs. No assurance can be given that capacity reductions or other steps that the Group may take will be adequate to offset the effects of reduced demand.

Certain of Hainan Airlines' largest shareholders and their affiliates have pledged a majority of their shares to third-party financial institutions and defaults under their obligations to such institutions could result in a change of control of Hainan Airlines.

Certain of Hainan Airlines' largest shareholders and their affiliates have pledged a majority of their shares to third-party financial institutions in order to guarantee their indebtedness. In particular, as at 30 June 2018, Grand China Air had pledged 4,808,032,301 shares of Hainan Airlines, Haikou Meilan International Airport Co., Ltd. had pledged 864,848,900 shares of Hainan Airlines, HNA Group Co. had pledged 593,920,000 shares of Hainan Airlines and Changjiang Leasing Co., Ltd had pledged 517,545,280 shares of Hainan Airlines. In total, these shareholders had pledged 36.07% of the outstanding shares of Hainan Airlines.

Under the various pledge agreements, the pledgees are entitled to dispose of the pledged shares by auction or sale of the pledged shares following events of default as defined in such pledge agreements. As such, there is a risk of change of control of Hainan Airlines, which could adversely affect its business, financial condition, results of operations and its ability to satisfy its obligations under the Guarantee of the Bonds. It also may trigger the provisions set out under "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*". If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. See "*– Risks Relating to the Bonds and the Guarantee of the Bonds – The Issuer may not be able to meet its outstanding obligations under the Bonds*". In addition, there may be uncertainty relating to the enforceability of the Guarantee of the Bonds. See "*– Risks Relating to the Bonds and the Guarantee – There is uncertainty relating to the enforceability of the Guarantee of the Bonds. If the Guarantor fails to complete the SAFE registration in connection with the Guarantee of the Bonds within the time period prescribed by SAFE, there may be logistical hurdles for cross border payment under the Guarantee of the Bonds*".

Hainan Airlines has pledged a portion of its shares over its subsidiaries to third-party financial institutions and defaults under its obligations to such institutions could result in a change of control of Hainan Airlines' subsidiaries.

Hainan Airlines has pledged a portion of its shareholding in its subsidiaries to certain third-party financial institutions in order to guarantee its indebtedness. In particular, as at 30 June 2018, Hainan Airlines had pledged 500,000,000 shares of Lucky Air Co., Ltd. ("**Lucky Air**") to China Everbright Bank Co., Ltd., 531,531,796 shares of Lucky Air to Agriculture Bank of China, Hainan Branch and 350,000,000 shares of Lucky Air to Bank of China Xi'an, Beida Street Sub-branch.

Under the various pledge agreements, the pledgees are entitled to dispose of the pledged shares by auction or sale of the pledged shares following events of default as defined in such pledge agreements. As such, there is a risk of a change of control of Hainan Airlines' subsidiaries, which could adversely affect Hainan Airlines' business, financial condition and results of operations on a consolidated basis. In addition, if such an event were to occur, it may affect the Guarantor's ability to satisfy its obligations under the Guarantee of the Bonds because as a holding company, the Guarantor depends and will depend on the receipt of dividends from and the interest and principal payments on intercompany loans or advances to its subsidiaries to satisfy its obligations.

The interests of the Group's controlling shareholders, Hainan Development Holdings Co., Ltd. and HNA Group Co., may not align with the Group's or the Group's interests and the interests of the Holders.

As at 30 June 2018, Grand China Air Co., Ltd. ("**Grand China Air**") owned 24.33% directly of Hainan Airlines and a further 1.29% indirectly through American Aviation LDC, an aggregate of 25.62% of Hainan Airlines' share capital, and was the largest shareholder of Hainan Airlines. As at 30 June 2018, HNA Group Co. directly owned 3.53% of Hainan Airlines. As at 30 June 2018, Hainan Development Holdings Co., Ltd. ("**Hainan Development**") and HNA Group Co. also held 24.97% and 23.11% of the shares of Grand China Air, directly or indirectly controlling the Group. Consequently, Hainan Development and HNA Group Co. will be able to exercise substantial influence over matters requiring shareholders' approval, including election of directors, approval of significant corporate transactions and approval of final dividend payments.

Hainan Development is 100% owned by the SASAC of the Hainan provincial government. Hainan Development engages in various types of businesses including but not limited to project development, equity investment, asset management, project financing, business consultancy and provision of financial guarantees. HNA Group Co. is the parent company of HNA Group, a large multi-industry enterprise group. HNA Group's core business sectors include air travel, logistics and financial services. Although HNA Group's current aviation business (other than that within the Group), focuses on feeder line air passenger services, which are not in competition with the Group's core aviation business, trunk line air passenger services, there is a risk that HNA Group may change its business strategies and develop trunk line air passenger services that compete with the Group in the future.

Therefore, the strategic goals and interests of Hainan Development and HNA Group Co. may not always be aligned with the Group's strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. The interests of the Group's controlling shareholders may also differ from those of the Holders.

The Group engages in related party transactions, which may result in conflicts of interests.

The Group has engaged, from time to time, and may continue to engage, in the future, in a variety of transactions with its shareholders and their various subsidiaries, from whom the Group receives a number of important services, including support for sales of flight tickets, leases of aircraft and pilots, airport landing, and repair and maintenance services. The details of the Group's related party transactions in 2015, 2016 and 2017 have been disclosed in the Hainan Airlines Audited Consolidated Financial Statements and the Group's related party transactions in the six months ended 30 June 2018 have been disclosed in the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements.

The Group's transactions with its shareholders and their subsidiaries are conducted through a series of arm's length contracts, which the Group has entered into in the ordinary course of business. However, because its shareholders may have interests that are different from its interests, there can be no assurance that the Group's shareholders will not take actions that will serve their interests or the interests of their subsidiaries over the Group's interests.

The Group may not be successful in implementing its growth strategy.

The Group's growth strategy involves increasing the frequency of flights to markets that it currently serves and linking the markets that the Group currently serves by introducing flights between these markets and expanding its route portfolio, including through the establishment of new airlines and/or new bases.

The Group's success in implementing its growth strategy is affected by:

- the general condition of the global economy, the PRC economy and continued growth in demand for regional air transportation;

- the Group's ability to acquire additional licences and traffic rights to its targeted geographical markets in order to expand its route portfolio;

- the Group's ability to secure the necessary landing and takeoff slots at its targeted airports; and

- fulfilment of the Group's aircraft orders on a timely basis by the aircraft manufacturer and the Group's ability to finance the acquisition of such aircraft on acceptable terms.

Many of these factors are beyond the Group's control. In the future, the Group is likely to operate in countries where it has limited operating experience and where the operating, financial and legal challenges presented could be significantly different from those that it currently faces in its existing markets. There can be no assurance that it will succeed in implementing its strategy of expanding into these new markets. In addition, the Group has committed to purchase additional aircraft to increase its fleet size. As at 30 June 2018, the fleet size of Hainan Airlines had been increased to 420 aircraft. In the event that the Group is unable to successfully implement its growth strategy, it may have to delay or cancel the scheduled deliveries of these aircraft and could incur penalties for such delay or cancellation, which may adversely affect its business, financial condition and results of operations.

When the Group commences new routes, the Group's load factors initially tend to be lower than those on its established routes and costs related to compliance with local regulations as well as the Group's start-up costs tend to be higher, which may result in initial losses. The Group also routinely runs special promotional fare campaigns, in particular in connection with the opening of new routes. Promotional fares may have the effect of increasing load factors but tend to reduce the Group's yield and passenger revenues on such routes during the periods that they are in effect.

The Group may experience difficulty integrating its acquisitions or operating joint ventures, and obligations and liabilities may continue notwithstanding the termination of joint ventures the Group enters into, both of which could result in an adverse effect on its operations, financial condition and growth.

The Group may from time to time expand its business through acquisitions of airline companies or airline-related businesses or forming joint ventures with strategic partners. For example, Hainan Airlines announced in July 2018 that it entered into the Sale and Purchase Agreements pursuant to the Restructuring Plan. See "*Description of the Guarantor – Recent Developments*". On 24 October 2012, Hainan Airlines entered into a cooperative agreement to form a joint venture, Fuzhou Airlines Co., Ltd. ("**Fuzhou Airlines**"), with Fuzhou State Asset Investment Holdings Co., Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co., Ltd. to utilise local aviation resources, expand local market share and build a strong service brand. Hainan Airlines agreed to invest a total of RMB1.20 billion in cash or in kind, or 60.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Fuzhou Airlines in February 2014. Fuzhou Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC in October 2014 and made its first flight from Fuzhou to Beijing on 30 October 2014. In February 2013, Hainan Airlines entered into a framework agreement to form a joint venture, Urumqi Airlines Co., Ltd. ("**Urumqi Airlines**"), with Urumqi City Construction Investment Co., Ltd. to promote the development of the civil aviation and tourism industries in the Xinjiang area. Hainan Airlines agreed to invest a total of RMB2.10 billion in cash or in kind, or 70.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Urumqi Airlines in November 2013. In August 2014, Urumqi Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC and made its first flight from Urumqi to Yining on 29 August 2014. In January 2014, Hainan Airlines entered into a cooperative agreement to form a joint venture, Qianhai Aviation and Maritime Trading Center Co., Ltd., with HNA Capital Holding Co., Ltd., Jinhai Heavy Industry Co., Ltd., Hong Kong Airlines Co., Ltd. ("**Hong Kong Airlines Co.**") and Hong Kong International Financial Services. Hainan Airlines agreed to invest a total of RMB20.00 million in cash or in kind, or 20.00% of the aggregate capital commitments by the parties. Shenzhen Municipal Government Financial Development Services Office approved the formation of Qianhai Aviation and Maritime Trading Center Co., Ltd. in January 2014. The joint venture commenced its business in August 2014 with a registered capital of RMB100 million and is the first aviation and shipping exchange in the PRC which serves as an third-party exchange platform for Internet-based aviation and shipping asset financing and investment.

There can be no assurance that the Group will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses nor can it assure investors that it will make the newly acquired companies or businesses or newly formed joint ventures as profitable as it expects. In the event that the Group is unable to efficiently and effectively integrate newly acquired airline companies or airline-related businesses into its existing businesses or operate its newly formed joint ventures, the Group may be unable to achieve the objectives or anticipated synergies of such acquisitions or benefit from the newly formed joint ventures with its strategic partners, which may adversely affect the operations and financial results of its existing businesses and growth of its business.

The Group may enter into joint ventures to establish strategic alliances and may incur obligations and liabilities as a result. Such obligations and liabilities may continue notwithstanding the termination or disposal by the Group of its interest in such joint ventures. Disagreements may occur between the Group and a joint venture partner regarding the business and operations of the joint venture which may not be resolved amicably. In addition, a joint venture partner of the Group may (i) have economic or business interests or goals that are not aligned with those of the Group; (ii) take actions contrary to the Group's instructions, requests, policies or objectives; (iii) be unable or unwilling to fulfil its obligations; (iv) have financial difficulties; or (v) have disputes with the Group as to the scope of its responsibilities and obligations.

If a joint venture partner of the Group (i) is unable to fulfil its contractual obligations or (ii) experiences a decline in creditworthiness, the performance of the Group's joint venture entity may be adversely affected which in turn may adversely affect the Group's business, financial condition, results of operations, performance or prospects.

The Group's failure to maintain a high utilisation rate for each aircraft may adversely affect its profitability and reputation.

One of the key elements of the Group's profitability is to maintain a high utilisation rate for each aircraft. In 2015 and 2016, Hainan Airlines' utilisation rate for each aircraft was 9.67 hours and 10.07 hours, compared with the PRC industry average of 9.15 hours and 8.07 hours for the same periods. In 2017, Hainan Airlines' utilisation rate for each aircraft was 9.31 hours. Such decrease from 2016 to 2017 was primarily due to the comparatively lower utilisation rates of Tianjin Airlines and the increases in Hainan Airlines' fleet and route network, resulting in initially lower utilisation, adversely affecting overall utilisation rates. The Group may in its operations suffer from inferior quality infrastructure and facilities of less developed airports that would affect operational efficiency and delay turnaround time of the aircraft. This would affect the Group's ability to maximise aircraft utilisation and could adversely affect its financial results. Pursuing new routes and increasing flights on current routes could also increase the risk of delays in the Group's flight schedule.

High aircraft utilisation also increases the risk that, in the event that an aircraft falls behind schedule during the day, it will remain behind schedule for the rest of the day, which can disrupt timely operations and lead to passenger dissatisfaction. Therefore, such delays may reduce the Group's operating efficiency and utilisation rate, adversely affecting its profitability and reputation.

There is no assurance that the Group will maintain a high utilisation rate for each of its aircraft. If the Group fails to maintain high utilisation rates for its aircraft, its profitability and reputation may be adversely affected.

The Group has significant committed capital expenditures, but the Group may not be able to secure future financing at terms acceptable to it or at all.

The Group's business and operations are capital intensive, requiring significant on-going capital expenditure to acquire aircraft and expand operations as well as enhance operating efficiency and comply with laws and regulations. As a result, the Group will require significant amounts of external financing to meet its capital commitments.

The Group generally acquires aircraft through either long-term capital leases or operating leases. In the past, the Group has obtained, sometimes with the assistance of CAAC, guarantees from reputable PRC banks in respect of payments under its foreign loan and capital lease obligations. The Group is still in the process of obtaining financing for aircraft that it has scheduled for delivery in future years.

The Group also has significant committed capital expenditures to expand its business through acquisitions of airline companies or airline-related businesses or form joint ventures with strategic partners. See "*– The Group is engaged in a restructuring exercise pursuant to which it would acquire shares of certain companies owned by certain of its affiliates including HNA Group Co.*", "*– The Group may experience difficulty integrating its acquisitions or operating joint ventures, and obligations and liabilities may continue notwithstanding the termination of joint ventures the Group enters into, both of which could result in an adverse effect on its operations, financial condition and growth.*" and "*Description of the Guarantor – Business Strategies – Further expand core domestic, and accelerate build-up of, international route network*". In addition, in order to eliminate potential competition with Grand China Air and HNA Group, the Group has undertaken to acquire relevant airline businesses from Grand China Air and HNA Group in future years, subject to regulatory approvals and Hainan Airlines' business needs and financial condition. In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired an additional 13.95% shareholding in Tianjin Airlines from HNA Group Co. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of a capital contribution to Tianjin Airlines by Tianhang Holding Co., Ltd (天航控股有限責任公司). In July 2014, Hainan Airlines completed a further subscription of 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%, which was diluted to 39.06% in December 2014 as a result of the capital contributions to Tianjin Airlines by Tianjin Chuangxin Investment LLP (天津創鑫投資合夥企業(有限合夥)) in August 2014 and Tianjin Free Trade Zone Investment Co., Ltd (天津保税區投資有限公司) in December 2014, respectively. In April 2015, Hainan Airlines announced that it intended to acquire a further 48.21% shares of Tianjin Airlines. On 4 February 2017, Hainan Airlines announced the completion of this acquisition, for a cash purchase price of approximately RMB5,554 million. On 24 June 2017, Hainan Airlines announced that HNA Group Co. intended to form a joint venture, Ningbo Yinzhou Xintuoheng Investment Management Limited Partnership ("**Xintuoheng**"), with Tianjin Trust Co., Ltd. ("**Tianjin Trust**") and Shanghai Huashuo Investment Management Co., Ltd. ("**Shanghai Huashuo**"). HNA Group Co. plans to invest RMB636.50 million while Tianjin Trust and Shanghai Huashuo plan to invest RMB1,110.00 million and RMB0.01 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB1,736.50 million in cash at a price of RMB1.51 per share. On the same day, Hainan Airlines announced that HNA Group Co. intended to form a joint venture, Guangzhou Jinhaichuangxin Equity Limited Partnership ("**Jinhaichuangxin**"), with CITIC Trust Co., Ltd. ("**CITIC Trust**") and Guangzhou Securities Innovation Investment Management Co., Ltd. ("**Innovation Investment Management**"). HNA Group Co. plans to invest RMB1,000.00 million while CITIC Trust and Innovation Investment Management plan to invest RMB1,952.60 million and RMB1.00 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB2,952.60 million in cash at a price of RMB1.51 per share. After these two subscriptions, Tianjin Airlines' registered capital will increase from RMB8,192.60 million to RMB11,297.96 million, resulting in a dilution of Hainan Airlines' direct shareholding interest in Tianjin Airlines from 87.28% to 63.28%. In November 2013, Hainan Airlines announced that it intended to invest RMB1 billion in new share capital of West Airlines Co., Ltd. ("**West Air**") in cash. As at 31 January 2016, Hainan Airlines had completed the share subscription in West Air, increasing its shareholding to 28.43%. In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. In September 2015, in order to lower the asset-liability ratio, supplement capital, enhance regional competitiveness and promote the development of the Group, Grand China Air announced that it intended to form a joint venture, Jiaxing Xingsheng Haixin Investment Partnership ("**Jiaxing Xingsheng**"), with Xingye International Trust Company Limited ("**Xingye Trust**") and Ningbo Meishan Duty Free Port Zone Yuansheng Investment Management Company Limited ("**Ningbo Yuansheng**"). Grand China Air had invested an amount of RMB500 million. Upon its establishment, Jiaxing Xingsheng invested RMB1.5 billion to Xinhua Airlines in cash at the price of RMB2.808 per share. Upon the completion of the capital increase, the registered capital of Xinhua Airlines increased to RMB3,243 million from RMB2,709 million and Grand China Air's shareholding in Xinhua Airlines increased to 69.65%. See "*Description of the Guarantor – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines*" and "*Principal Shareholders*".

In June 2018, Hainan Airlines made an announcement relating to the Restructuring Plan, pursuant to which Hainan Airlines plans to purchase (a) from HNA Aviation Group, HNA Aviation Group's 60.78% shareholding in HNA Technic, 59.93% shareholding in HNA Aviation Hong Kong and 100.00% shareholding in Hainan Sky Plumage Pilot Training Co., Ltd., (b) from Tianjin Chuangxin, Tianjin Chuangxin's 29.72% shareholding in West Air, and (c) from HNA Southwest, HNA Southwest's 60.00% shareholding in West Holding, respectively. The aggregate purchase price is expected to be approximately RMB10,478 million, and the purchases are expected to be made by delivery of shares of Hainan Airlines as consideration. Upon completion of any of the acquisitions contemplated by the Restructuring Plan, Hainan Airlines plans to also conduct the Private Placement. See "*Description of the Guarantor – Recent Developments*".

There is no assurance that the Group will be able to roll over its bank facilities or continue to obtain bank guarantees or new bank or other types of financing in the future. The unavailability of credit facilities or guarantees from reputable PRC banks or the increased cost of such guarantees may adversely affect its ability to borrow additional funds from banks or other sources or enter into international aircraft lease financings or other additional financings on acceptable terms. In addition, if the Group is not able to arrange financing for its aircraft on order, it may seek to defer aircraft deliveries or use cash from operations or other sources to acquire the aircraft, which will adversely affect its liquidity and operations. Further, if the Group is not able to secure sufficient financing to cover its committed capital expenditures, its business, prospects, financial condition and results of operations could be adversely affected.

The Group may not be able to generate sufficient cash flows to service its debt obligations.

The Group's ability to make scheduled payments on, or to refinance its obligations with respect to, the indebtedness of any member of the Group, including the Bonds, will depend on its financial and operating performance, which in turn will be affected by general economic conditions and by financial, competitive, regulatory and other factors beyond its control. The Group's business may not generate sufficient cash flow from operations and future sources of capital may not be available to it in amounts sufficient to service the indebtedness of any member of the Group, including the Bonds, or to fund the Group's other liquidity needs.

If the Group is unable to generate sufficient cash flow to satisfy its debt obligations, it may have to adopt alternative strategies, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. There is no assurance that any refinancing would be possible, that any assets could be sold or, if sold, of the timing of the sales and the amount of proceeds that would be realised from those sales, or that additional financing could be obtained on acceptable terms, if at all.

The Group's inability to generate sufficient cash flows to satisfy its debt obligations, or inability to refinance its indebtedness on commercially reasonable terms, could adversely affect its financial condition and results of operations and the ability of the Issuer and the Guarantor to satisfy their respective obligations under the Bonds and the Guarantee of the Bonds.

The Group may fail to comply with certain financial or restrictive covenants under its financing arrangements.

Certain of the Group's financing arrangements require it to comply with various restrictive covenants including, in some cases, specified financial ratios and tests. Failure of the Group to meet these covenants could result in default under these financing arrangements and would be likely to result in a cross default under other financing agreements. In the event of a default and the Group's inability to obtain a waiver of the default, all amounts outstanding under these financing arrangements could be declared immediately due and payable. The Group's failure to comply with these covenants could adversely affect its business, financial condition and results of operations.

The Group's financing costs are subject to changes in interest rates.

The Group maintains a substantial level of bank facilities with a number of PRC commercial banks to finance its operations. Changes in interest rates have affected and will continue to affect the Group's financing costs and, ultimately, its results of operations. Prior to 20 July 2013, the majority of the Group's bank borrowings were variable rate borrowings, and the interest rates for a large portion of the Group's bank borrowings were linked to the benchmark lending rates published by the PBOC. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times from 7.47% to 5.31% in December 2008. The benchmark rate remained unchanged from December 2008 to October 2010, when the PBOC increased the rate to 5.56%. The PBOC has further adjusted the benchmark rate eight times since October 2010. Under the Notice of Further Promoting Market-Oriented Reform of Interest Rates (中國人民銀行關於進一步推進利率市場化改革的通知) issued by the PBOC on 19 July 2013, since 20 July 2013, the PBOC abolished the minimum rates for RMB-denominated loans (excluding interest rates for residential mortgage loans) and allowed financial institutions to charge interest rates based on commercial terms. The Group has and in the future will likely continue to have substantial debt. There can be no assurance that the Group can negotiate and obtain favourable interest rates for its bank facilities, and any increase in these rates will increase the Group's financing costs. As a result, the interest cost associated with its debt may adversely affect the Group's business, financial condition and results of operations.

Due to the Group's high degree of operating leverage, high fixed costs and competitive environment, any change in revenues of the Group could have a proportionately less positive or more negative effect on in its net income.

The aviation industry is generally characterised by a high degree of operating leverage. In addition, due to high fixed costs, including payments made in connection with aircraft leases, the expenses relating to the operation of any given flight do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of such flight. Further, due to the competitive nature of the aviation industry, the Group may not be able to transfer all of its cost increases to its customers through higher ticket prices. Accordingly, any change in revenues could have a proportionately less positive or more negative effect on net income.

The success of the Group depends on its key personnel, including its experienced management team and skilled labour force.

The success of the Group depends to a significant extent upon the continued services of its executive officers and other key management personnel. The loss of any of these executive officers or other key management personnel or failure to recruit suitable or comparable replacements could have an adverse effect on the business of the Group.

In addition, the business of the Group requires highly-skilled pilots, trained and competent cabin crew and other personnel. From time to time, the aviation industry may experience a shortage of skilled personnel, especially pilots. The Group competes against all other airlines, including major PRC airlines, for these highly skilled personnel and as such it faces significant competition in attracting and retaining pilots. The Group's competitors may be able to offer more competitive salaries to the same personnel the Group is trying to attract. If the Group is unable to hire, train and retain qualified employees at a reasonable cost, its ability to run its business and implement its development strategies may be adversely affected.

If the Group's employee relations deteriorate, and there are labour disputes, it may have to incur significant costs to resolve such disputes, which could have an adverse effect on its business, financial condition and results of operations.

The Group relies on third-party service providers to perform many functions integral to its business.

The Group relies on agreements with third-party service providers for significant aspects of its operations, including fuel supply, aircraft maintenance, ground handling, landing and parking, catering and cargo handling. Failure to renew any of its contracts with third-party service providers or negotiate replacement contracts with other service providers at comparable or acceptable rates on the termination or expiration of such contracts could harm its results of operations. The Group is likely to enter into similar service agreements in new markets that it decides to enter and there can be no assurance that it will be able to obtain the necessary services at acceptable rates.

Although the Group monitors the performance of these third-party services providers, the efficiency, timeliness and quality of their performance is not wholly within its control, and failure by its material service providers to perform their contracts in a timely manner and to the required standard may have an adverse impact on the Group's business and operations.

The Group's insurance coverage may not adequately protect it against the possible risk of loss.

The operations of the Group are subject to risks inherent in the course of its operations, such as the discharge or release of hazardous substances and other environmental risks, mechanical failure of aircraft and natural disasters. In addition, many of these operating and other risks may cause personal injury and loss of life, severe damage to or destruction of properties and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties. While the Group believes that it maintains insurance coverage in amounts consistent with industry norms in China, there can be no assurance that such insurance policies will be adequate to cover the losses that may be incurred by it. If the Group suffers a large uninsured loss or any insured loss suffered significantly exceeds the insurance coverage the Group maintains, its business, financial condition and results of operations may be adversely affected.

The Group's insurance coverage and costs have increased substantially, and could have an adverse effect on its operations.

As a result of the events of 11 September 2001, insurance providers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events, or war-risk coverage. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. The Group renews its insurance policies on a yearly basis and is currently insured through 31 July 2019. However, if the insurance providers further reduce the amount of insurance coverage available or increase the premium for such coverage when the Group renews its insurance coverage, its financial condition and results of operations may be adversely affected.

Terrorist attacks or the fear of such attacks, wars or international hostilities, even if not made directly on the aviation industry, could negatively affect the Group and the aviation industry as a whole; the travel industry continues to face on-going security concerns and cost burdens.

The aviation industry as a whole has been beset with high-profile terrorist attacks. CAAC has also implemented increased security measures in relation to the potential threat of terrorist attacks. Terrorist attacks, even if not made directly towards the Group or on the aviation industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated threat warnings or selective cancellation or redirection of flights) could adversely affect the Group and the aviation industry. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by grounding of fleet, significant increases of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and revenue per revenue passenger kilometre.

Further, the tension arising from the territorial disputes between China and Japan over a group of uninhabited islands controlled by Japan in the East China Sea and the tension between China and the Republic of Korea over the deployment of the THAAD system could lead to war or hostilities between the countries, which could in turn have a serious impact on China's airline industry. As the Group has included Sapporo in Japan as one of its destinations, any such war or international hostilities could have an adverse impact on the Group's business, financial condition and results of operations.

Geo-political events may result in a reduction in the demand for air travel, which could negatively affect the Group's operations.

The Group's business includes carriage of passengers and freight globally. It will be affected if there is a widespread reduction in the demand for air travel arising from geo-political events that cause customers to reduce or avoid air travel, or that prevent the Group from delivering its services, which in turn could have an adverse effect on the Guarantor's business, financial condition and results of operations.

Airport, transit and landing fees and security charges, along with other costs airlines must pay to ensure air traffic security, may increase further.

Airport, transit and landing fees, along with security charges and costs, represent a significant portion of the operating costs of the Group and directly affect the fares that it must charge its passengers in order to operate cost-effectively. There can be no assurance that such costs will not rise in the future or that the Group will not incur additional costs. New costs could arise if, for example, airports levied noise or landing charges or fees based on environmental criteria such as aircraft noise or emission levels, or if airlines were required to assume additional security responsibilities. Future events or developments, such as terrorist acts or other conflicts, could also result in heightened security regulations for air traffic. Any of these developments could cause operating costs to increase. If the Group is unable to pass on increases in fees, charges or other costs to its customers, these increases could have an adverse effect on its business, financial condition and results of operations.

The Group's operations are dependent on the PRC aviation infrastructure, which is currently under development and may be insufficient to meet increased air traffic volumes.

The rapid increase in air traffic volume in the PRC in recent years has put pressure on many components of the PRC commercial aviation industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. However, the ability of the Group to increase utilisation rates and to provide safe and efficient air transportation in the future will depend in part on factors such as the improvement of national air traffic control and navigation systems and ground control operations at PRC airports, all of which are beyond the control of the Group.

In particular, the Group's ability to provide safe air transportation depends on the availability of qualified and experienced pilots in the PRC and the improvement of maintenance services, national air traffic control and navigational systems and ground control operations at PRC airports. If any of these are not available or are inadequate, the Group's ability to provide safe air transportation will be compromised and its financial condition and results of operations may be adversely affected. In addition, insufficient aviation infrastructure may cause relatively high amounts of time on the ground during turnaround, which may adversely affect the perception of the service provided by the Group and, consequently, its operating results.

Any problems in connection with operation and maintenance of the Group's aircraft could adversely affect the Group's business.

The Group's operations result in the normal wear and tear of its aircraft. Consequently, the Group's aircraft, equipment and other assets used in its operations require periodic downtime for repairs and maintenance. If the time required for such repairs and maintenance exceeds the expected time, the Group's operations and financial performance may be adversely affected.

In general, the cost of maintaining an aircraft in good operating condition increases with the age of the aircraft. As the Group's aircraft fleet ages, the Group will incur increased maintenance costs. Older aircraft cost more to maintain because they have sustained more wear and tear over time.

In addition, if any extraordinary or extensive repairs to the Group's aircraft, equipment, or other assets are required, due to any catastrophic event or otherwise, the Group's aircraft, equipment, or other assets would not be available for use or deployment. In the event of any such extraordinary or extensive repairs, the Group's operations could experience major disruptions. The loss of its aircraft, equipment, or other assets or the inability to use its aircraft, equipment or other assets may adversely affect its business, financial condition, results of operations, performance and prospects.

Any real or perceived problem with aircraft manufactured by Airbus, Boeing or Embraer could adversely affect the Group's operations.

The Group currently operates only aircraft manufactured by Airbus, Boeing and Embraer. The Group's dependence on these aircraft makes it particularly vulnerable to any problems that might be associated with such aircraft. No significant design defects or mechanical problems have to date been experienced with the Group's fleet. However, if any such defect or problem is discovered, the relevant aircraft may have to be withheld from service until such defect or problem is resolved. In particular, the Boeing 787 Dreamliner has experienced a number of operational problems since it first entered into commercial service in October 2011, including battery malfunctions, fuel leaks, faulty wiring and malfunctions in computer modules. Due to serious safety concerns, the U.S. Federal Aviation Administration issued an emergency airworthiness directive on 16 January 2013 and grounded all Boeing 787 Dreamliners in the United States. The aviation regulatory authorities in Japan, India and Chile followed suit and grounded the Dreamliners in their jurisdictions. In May 2015, the U.S. Federal Aviation Administration (the "**FAA**") issued another direction mandating "a repetitive maintenance task" for Boeing 787 Dreamliners. In February 2016, the FAA proposed a new airworthiness directive for certain Boeing 787-8 Dreamliners, requiring revising the maintenance or inspection program for these Dreamliners to include an airworthiness limitation for repetitive inspection of the web fastener holes in a wing component. In April 2016, the FAA ordered fixes on General Electric engines used on some Boeing 787 Dreamliners after it found that an icing problem can cause the engines to shut down mid-flight. In December 2016, the FAA mandated a periodic restart of electric power on certain Boeing 787 Dreamliners to avoid the possibility that all the computer modules that manage the aircraft's flight-control surfaces could briefly stop working while in flight. The directives have caused significant losses to the airlines that operated these aircraft. Although these operational problems have been resolved, there can be no assurance that similar operational problems will not recur or that the aviation regulatory authorities in different countries will not take further precautionary measures or impose stricter safety requirements. Further, the Group's business could be adversely affected if passengers avoid flying with the Group due to real or perceived safety concerns or other problems associated with aircraft manufactured by Airbus, Boeing or Embraer, including but not limited to any Dreamliners it may operate in the near future.

The Group is exposed to the future value of second-hand aircraft which crystallises when aircraft exit the fleet.

The Group owns a portion of its fleet of Airbus A319 and Airbus A320 aircraft which, at the appropriate time, it may seek to sell or may lease such aircraft to other members of HNA Group or to sell in the second-hand aircraft market. If second-hand prices drop or if the Group faces delays in making these sales, this could have an adverse effect on the Group's operations and financial condition.

The Group may be adversely affected by weather conditions, traffic congestion at airports, increased security measures or other factors beyond its control.

The Group's flight operations are subject to delays or cancellations caused by factors outside of its control, such as weather conditions, traffic congestion at airports and increased security measures. During periods of adverse weather conditions, such as during the typhoon season, it is possible that flights may be cancelled or significantly delayed. In the event that the Group delays or cancels flights for any of the above reasons, it may suffer a loss of reputation which could result in a loss of customers.

The Group's results of operations tends to be volatile and fluctuate due to seasonality.

The Group's operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for the Group's flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo volume. In particular, the Group's airline revenue is generally higher in the first and third quarters than in the second and fourth quarters. As a result, the Group's results tend to be volatile and subject to rapid and unexpected change.

The Group's reputation and business could be adversely affected in the event of an emergency, accident or incident involving the Group's aircraft.

The Group is exposed to potential significant adverse effects in the event that any of its aircraft is subject to an emergency, accident, terrorist incident or other disaster, and significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. If the Group's aircraft are involved in crashes or other safety incidents, there may be other associated losses. Costs associated with the repair or replacement of damaged or lost aircraft, consequent temporary or permanent loss from service of such damaged or lost aircraft and claims by affected passengers, owners and third parties may occur. Failure to prevent or respond promptly and effectively to such an incident could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

There can be no assurance that the Group will not be affected by such events or that the amount of its insurance coverage will be adequate in the event such circumstances arise and any such event could cause a substantial increase in the Group's insurance premiums. In addition, any future aircraft accidents or incidents, even if fully insured, may create a public perception that the Group is less reliable or safe than other airlines, which could have an adverse impact on the Group's reputation and business.

Major litigation may affect the business, financial condition and results of operations of the Group.

As at the date of this Offering Circular, none of the Issuer, the Guarantor, or any member of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Guarantor believes are material in the context of the Bonds, nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened. However, due to the nature of its business and operations, the Group may be involved in major litigation in the future. The cost of pursuing and defending any legal proceeding in which it is involved may be substantial, and may divert its management from the effective operation of its business. In addition, if the Group is unsuccessful in defending any legal proceeding, or is unsuccessful in settling any legal proceeding on commercially reasonable terms, it may be liable for amounts that may have an adverse effect on its business, financial condition and results of operations.

Any failure or disruption of its computer, communications, flight equipment or other technology systems could have an adverse effect on the Group's business operations, profitability, reputation and customer services.

The Group relies heavily on computer, communications, flight equipment and other technology systems to operate its business and enhance customer service. Substantially all of the Group's tickets are issued to passengers as electronic tickets, and the Group depends on its computerised reservation system to be able to issue, track and accept these electronic tickets. The Group's cybersecurity measures may not detect or prevent all attempts to compromise its computerised reservation systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardise the security of information stored in and transmitted by such systems or that the Group otherwise maintains. Breaches of the Group's cybersecurity measures could result in unauthorised access to its computerised reservation system and other systems, misappropriation of information or data, deletion or modification of client information, or a denial-of-service or other interruption to its business operations. While the Group has disaster recovery and business continuity plans in place, any disruption in its computerised systems may result in the loss of important data and ticket sales, increased costs, and may adversely affect its reputation and business.

In addition, the Group relies on other automated systems for crew scheduling, flight dispatch and other operational needs. These systems could be disrupted due to various events, some of which are beyond its control, including natural disasters, power failures, terrorist attacks, equipment failures, software failures, computer viruses and hackers. The Group has taken certain steps to help reduce the risk of some of these potential disruptions. However, the Group cannot guarantee that the measures that it has taken to reduce the risk of some of these potential disruptions are adequate to prevent or remedy disruptions or failures of these systems. Any substantial or repeated failure of these systems could result in the loss of important data, loss of revenues, and increased costs, and generally harm the Group's business, profitability, reputation and customer services. Moreover, a failure of certain of the Group's vital systems could limit its ability to operate its flights, which could have an adverse effect on its business.

The Group relies heavily on the internet. Any disruption in internet networks could prevent or deter people from using the internet to conduct transactions. Such disruption in turn may adversely affect the Group's business, financial condition, results of operations, performance or prospects.

Limitations on foreign ownership of PRC airline companies may affect the Group's access to capital markets funding or business opportunities.

The current CAAC policies limit foreign ownership of PRC airlines. Under these limits, foreign investors cannot hold a majority equity interest in a PRC airline company. As a result, the Group's access to international equity capital markets may be limited. This restriction may also limit the opportunities available to the Group to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. The Group cannot provide any assurance that CAAC will not increase these limits in the near future or at all.

RISKS RELATING TO THE PRC

Substantially all of the Group's assets are located in the PRC and most of the Group's revenue is sourced from the PRC. Accordingly, the Group's business, financial condition, results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC.

Changes in the PRC economic, political and social conditions, as well as government policies may adversely affect the Group's financial condition and results of operations.

Since the late 1970s, the PRC government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. Although the Group believes these reforms will have a positive effect on its overall and long-term development, these policies and measures may from time to time be modified or revised. Adverse changes in economic and social conditions in the PRC, in the policies of the PRC government or in the laws and regulations of the PRC, if any, may have an adverse effect on the overall economic growth of the PRC and investments in the domestic aviation industry. These developments, in turn, may have adverse effects on the Group's business operations and may also adversely affect its financial condition and results of operations.

Foreign exchange controls by the PRC government may adversely affect the Group's ability to satisfy its foreign exchange liabilities.

The Group has significant exposure to foreign currency risk as substantially all of its obligations under aircraft leases are denominated in foreign currencies, principally U.S. dollars, and a portion of its capital expenditures and debt are denominated in U.S. dollars and other foreign currencies. Depreciation or appreciation of Renminbi against foreign currencies affects its results significantly because a significant portion of its revenue and operating costs are denominated in Renminbi and its foreign currency payments generally exceed its foreign currency receipts. Even though the Group has a portion of its revenue that is denominated in U.S. dollars and other foreign currencies, it is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by SAFE, or subject to certain restrictive conditions, entering into foreign exchange forward option contracts with authorised banks.

On 5 August 2008, the State Council issued the revised Regulation of the People's Republic of China on Foreign Exchange Administration (中華人民共和國外匯管理條例) (the "**Revised Regulation on Foreign Exchange**"), which has made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Regulation on Foreign Exchange has adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Regulation on Foreign Exchange has improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Revised Regulation on Foreign Exchange has enhanced the monitoring of cross border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the PRC government may adopt necessary safeguard or control measures.

Fourth, the Revised Regulation on Foreign Exchange has enhanced the supervision and administration of foreign exchange transactions and granted extensive authorities to SAFE to enforce its supervisory and administrative powers. On 10 January 2014, SAFE issued the Circular on Further Improvement and adjustment of Foreign Exchange Administration Policies regarding Capital Account Items (Hui Fa [2014] No. 2) (國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知(匯發[2014]2號)), which has simplified a series of foreign exchange administrative procedures regarding capital account items including the procedures in connection with domestic enterprises' overseas lending to their overseas affiliated companies and domestic enterprises' profit remittances outside the PRC.

Although new foreign exchange rules issued by SAFE shows a more market oriented trend to deregulate the foreign exchange controls in some areas, SAFE may still limit or eliminate the Group's ability to purchase and retain foreign currencies in the future. In addition, certain large foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect the Group's ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. As such, the Group cannot assure investors that it will be able to obtain sufficient foreign exchange to satisfy its foreign exchange liabilities.

Fluctuations in exchange rates may have an adverse effect on the Group's business, financial condition and results of operations.

The value of Renminbi against U.S. dollars and other currencies may fluctuate significantly and is affected by, among other things, the domestic and international economies, political conditions and the supply and demand of currency. On 21 July 2005, the PRC government changed its policy of pegging the value of Renminbi to U.S. dollars. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of Renminbi against U.S. dollars. According to Announcement No. 5 [2014] of the PBOC (中國人民銀行公告[2014]第5號) issued on 14 March 2014, since 17 March 2014, the fluctuation range of Renminbi against U.S. dollars in the interbank spot foreign exchange market expanded from 1.00 per cent. to 2.00 per cent., meaning that the daily exchange trading price of Renminbi against U.S. dollars in the interbank spot foreign exchange market can fluctuate above or below the central parity of Renminbi against U.S. dollars announced by China Foreign Exchange Trading System & National Interbank Funding Center up to 2.00 per cent. In August 2015 the PBOC devalued the Renminbi, lowering its daily mid-point trading price significantly against the U.S. dollar three times. According to the announcement that the PBOC published on 11 August 2015 on its official website, the currency devaluation of the Renminbi was intended to bring the Renminbi's daily mid-point trading price against the U.S. dollar as a benchmark more in line with the market by taking market signals into account. The Renminbi depreciated significantly against the U.S. dollar following this August 2015 announcement by the PBOC. In January and February 2016, the Renminbi experienced further fluctuation in value against the U.S. dollar. After the Renminbi weakened by 6.5% against the U.S. dollar in 2016, the PRC government tightened capital controls, which resulted in the Renminbi appreciating by 1.2% in 2017. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the midpoint exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long-term.

The Group currently generate the vast majority of their revenue in Renminbi. However, the Group plans to grow its operations in the international markets and it currently operates its business in many countries. The Group generates revenue in different currencies, and its foreign currency liabilities at the end of the period are typically much higher than its foreign currency assets. Its purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. However, if the Group sells or leases aircraft or aircraft equipment to customers in the PRC, it may receive payments in Renminbi or other currencies. Fluctuations in exchange rates will affect its costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. Where fluctuations in exchange rates are significant, the exchange losses resulting from the translation of foreign currency denominated liabilities would be greater and would affect the profitability of the Group.

Uncertainty with respect to the PRC legal system and lack of uniform interpretation and effective enforcement may cause significant uncertainties to the Group's operations.

As most of the Group's businesses are conducted, and most of the Group's assets are located, in the PRC, its operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes while prior court decisions can only be cited for reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade (including with respect to the commercial aviation industry), with a view to developing a comprehensive system of commercial law. However, the PRC has not developed a fully integrated legal system and recently enacted laws and regulations that may not sufficiently cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Group may not be aware of its violation of these policies and rules until some time after the violation or at all. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

On 14 September 2015, the NDRC promulgated the NDRC Circular pursuant to which if a PRC enterprise or an offshore branch or enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a tenor of more than one year, such PRC enterprise must, in advance of issuing such bonds, file certain prescribed documents with the NDRC and obtain the Enterprise Foreign Debt Filing Certificate (企業發行外債備案登記證明) from the NDRC in respect of such issue. According to the NDRC

Circular, the NDRC will decide whether to accept a submission within five working days upon receipt of the submission and is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the bonds to the NDRC within ten business days upon the completion of the bond issue.

The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. In the worst case scenario, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Bonds. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular.

On 18 December 2015, the NDRC issued the Guidelines on Overseas Corporate Bond Issuance (企業境外發行債券指引) (the "**Guideline**"), which further strengthened the compliance of registration requirements under the NDRC Circular, and provides that companies, underwriters, law firms and other intermediary institutions that fail to comply with registration requirements and commit to maliciously report foreign debt percentage and provide fake information might be put on the blacklist of dishonest persons and sanctioned by the PRC government. However, the Guideline does not provide details as to how to implement such blacklist and measures of sanction that the government will take.

The Guarantor has completed the registration with the NDRC and obtained a registration certificate on 24 August 2018 in respect of the issuance of Bonds. The NDRC Circular is new and without any detailed implementation procedures, there is no assurance that the NDRC will not issue further implementation rules or notices that may require additional steps in terms of the registration or provide sanctions or other administrative procedures the NDRC may impose if not in compliance with such registration or post-issuance report required by the NDRC Circular. If the Guarantor does not report the post-issuance information with respect to the Bonds within the timeframe as provided under the NDRC Circular, the NDRC may impose sanctions or other administrative procedures on the Guarantor that may have a material adverse impact to its business, financial condition or results of operations.

The PRC government's pilot plan to replace business tax with value-added tax ("VAT") may subject the Group to more taxes, which could adversely affect the Group's business, future results of operations and prospects.

Pursuant to the PRC Provisional Regulations on Business Tax (中華人民共和國營業税暫行條例), taxpayers providing taxable services falling under the category of service industry in China are required to pay a business tax at a normal tax rate of 5 per cent. of their revenues. In November 2011, the MOF and the State Administration of Taxation (the "**SAT**") promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (營業税改徵增值税試點方案). Pursuant to this pilot plan and relevant subsequent notices, from 1 January 2012, VAT gradually replaced business tax in the transport and post industry, telecom industry and some of the modern service industries in China. Under the pilot plan, a VAT rate of 6 per cent. applies to certain modern service industries. On 23 March 2016, the MOF and the SAT promulgated the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-Added Tax to Replace Business Tax (關於全面推開營業税改徵增值税試點的通知) ("**Circular 36**"). Pursuant to Circular 36, starting from 1 May 2016, the VAT pilot programme will cover the transportation industry on a nation-wide basis. Although the VAT pilot programme is mainly intended to reduce double taxation under the business tax system, the Group may be subject to more taxes under the VAT pilot programme in connection with the Group's operations and activities in China, which could adversely affect the Group's business, financial condition, future results of operations and prospects.

The operations of the Group may be affected by rising inflation rates within the PRC.

Inflation rates within the PRC have been on an uptrend in recent years. The PRC government has taken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic growth and control price rises. Increasing inflationary rates are due to many factors beyond the Group's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Group's expectations, the costs of its business operations may become significantly higher than it has anticipated for the future, and the Group may be unable to pass on such higher costs to its customers in amounts that are sufficient to cover increasing operating costs.

As a result, further inflationary pressures within the PRC may have an adverse effect on the Group's business, financial condition and results of operations, as well as its liquidity and profitability.

Substantially all of the Group's assets are located in the PRC, and substantially all of the Group's revenue is sourced from the PRC. Accordingly, the Group's business, financial condition, results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC.

RISKS RELATING TO THE BONDS AND THE GUARANTEE OF THE BONDS

The PRC government has no obligations under the Bonds.

The PRC government (including Hainan provincial government) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds, the Guarantee of the Bonds or the transaction documents to be executed in connection with the offering in lieu of the Issuer or as the case may be, the Guarantor. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知, 財金[2018]23 號) (the "**MOF Circular**") promulgated on 28 March 2018 and took effect on the same day, and the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) (the "**Joint Circular**") promulgated on 11 May 2018 and took effect on the same day.

The PRC government as the ultimate shareholder of the Guarantor only has limited liability in the form of its equity contribution in the Guarantor. As such, the PRC government does not have any payment obligations under the Bonds, the Guarantee of the Bonds or the transaction documents to be executed in connection with the offering. The Bonds are solely to be repaid by the Issuer (and the Guarantee of the Bonds by the Guarantor), each as an obligor under the relevant transaction documents and as an independent legal person.

There is uncertainty relating to the enforceability of the Guarantee of the Bonds. If the Guarantor fails to complete the SAFE registration in connection with the Guarantee of the Bonds within the time period prescribed by SAFE, there may be logistical hurdles for cross border payment under the Guarantee of the Bonds.

On 12 May 2014, the SAFE promulgated the Notice concerning the Foreign Exchange Administration Rules on Cross Border Security and the relating implementation guidelines (collectively the "**SAFE Regulations**") which stipulates that any guarantee provided by PRC-incorporated entities in favour of offshore creditors in connection with debt financing granted to offshore debtors is required to be registered with the SAFE. Under the SAFE Regulations, the Guarantor is required to register the Guarantee of the Bonds with the SAFE as a procedural matter within 15 business days after the date of execution of the Deed of Guarantee. In the event that the Guarantor is required to perform its payment obligations under the Guarantee of the Bonds, the Guarantor must submit the registration documents issued by the SAFE to banks, which upon reviewing such registration documents will process its remittance request directly.

Pursuant to the SAFE Regulations, the registration or record-filing of a cross border guarantee contract by the SAFE, and other administrative matters and requirements specified therein, will not constitute prerequisites for the cross-border guarantee contract to enter into effect. However, failure to complete the registration as required may result in a fine up to RMB300,000 under the Foreign Exchange of Cross Border Guarantee Measures. In addition, where the Guarantor fails to complete the registration with the SAFE, the Guarantor must, before performing the obligations under the Guarantee of the Bonds, complete a remedial registration. Only by submitting the registration documents or remedial registration documents will the Guarantor be able to remit funds outside PRC in order to perform its payment obligations under the Guarantee of the Bonds. In addition, if the guarantee liability is a repayment obligation for an issuer under the offshore bond issuance, the equity interests of such issuer must be directly or indirectly held by an onshore entity and the proceeds of the bond issuance must be used for an offshore project in which the onshore entity has an equity interest and the issuer and such offshore project must have been duly approved by, registered and filed with the relevant authorities in charge of outbound investment.

There is no assurance that the Guarantor will be able to complete the registration of the Deed of Guarantee with SAFE within the prescribed timeframe or at all. Under the Terms and Conditions of the Bonds, Bondholders may require the Issuer to redeem their Bonds in the event that the Guarantee of the Bonds is not registered within a specified timeframe. Bondholders that do not exercise such redemption option should note that before requisite registrations and/or approvals of the Guarantee of the Bonds given by the Guarantor are completed, it is uncertain whether the Guarantee of the Bonds given by the Guarantor can be enforced in practice. There may be hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee of the Bonds) as domestic banks may require evidence of SAFE registration in connection with the Guarantee of the Bonds in order to effect such remittance.

The SAFE Regulations are recent regulations and may be subject to a degree of executive and policy discretion and interpretation by the SAFE.

One of the initial investors is an affiliate of the Guarantor and its interest may not be aligned with the interest of other Bondholders.

One of the initial investors is an affiliate of the Guarantor. The goals and interests of such investor may in certain respects reflect those of the Guarantor, and may not be aligned with the goals and interests of the Bondholders. Further, due to its affiliation with such investor, it is possible that the Guarantor would be able to exercise influence on such investor. If such investor purchases a significant portion or majority of the Bonds, it may be able to exercise certain rights and powers on their own which will be binding on all holders. Additionally, this may reduce the liquidity of the Bonds in the secondary trading market. See also "*One initial investor will purchase a substantial portion of the Bonds and it is possible for such investor to exercise certain rights and powers on its own which will have significant influence on matters voted on by other Bondholders. Additionally, this may reduce the liquidity of the Bonds in the secondary trading market.*"

One initial investor will purchase a substantial portion of the Bonds and it is possible for such investor to exercise certain rights and powers on its own which will have significant influence on matters voted on by other Bondholders. Additionally, this may reduce the liquidity of the Bonds in the secondary trading market.

One initial investor will purchase a substantial portion of the Bonds in this offering. Any holder of a significant percentage of the Bonds, even if less than a majority, will be able to exercise certain rights and powers and will have significant influence on matters voted on by Bondholders. For example, holders of at least 25 per cent. of the aggregate principal amount of the Bonds may, subject to the provisions of the Trust Deed, direct the Trustee to declare all the Bonds to be due and payable immediately if an Event of Default has occurred. If the amount of bonds purchased by such initial investor reaches a majority aggregate principal amount of the Bonds, such investor will be able to exercise certain rights and powers on its own under the Conditions and Trust Deed, which will be binding on Bondholders. For example, the Bonds and the Trust Deed may be amended with the consent of the holders of a majority of the aggregate principal amount of the Bonds, and any Event of Default or non-compliance with any provision of the Conditions and the Trust Deed may be waived with the consent of the holders of a majority of the aggregate principal amount of the Bonds, subject in each case to certain exceptions in connection with the reserved matters set forth in the Trust Deed. Accordingly, any holder of a majority in aggregate principal amount of the Bonds will be able to exercise such rights and powers on its own, which will be binding on all Bondholders and control the outcome of votes on such matters. Subject to certain exceptions, a holder of the relevant percentage of Bonds outstanding may by way of written resolutions in accordance with the Trust Deed direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. In addition, holders of at least 75 per cent. of the aggregate principal amount of the Bonds will be able vote on reserved matters, including reduction or cancellation of the Bonds and reduction or variation of interest rate of the Bonds on its own, which decision will be binding on all Bondholders. Additionally, the existence of any such significant Bondholder may reduce the liquidity of the Bonds in the secondary trading market.

The Bonds and the Guarantee of the Bonds are unsecured obligations.

As the Bonds and the Guarantee of the Bonds are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

The Bonds may not be a suitable investment for all investors.

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rates and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

The Bonds will be new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer, the Guarantor, or the Group. If the Bonds are traded at a discount, investors may not be able to receive a favourable price for their Bonds, and in some circumstances investors may not be able to sell their Bonds at all or at their fair market value.

Although approval in principle has been obtained from the SGX-ST for permission to deal in, and for quotation of the Bonds, there is no assurance that the Bonds will be so listed and quoted or that an active trading market will develop. There is also no assurance that the Bonds will not be delisted due to change of circumstances. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Bonds. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for the Bonds.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Bonds and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken.

Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. As compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Bondholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Bondholders' ability to initiate a claim outside of Hong Kong will be limited.

Changes in interest rates may have an adverse effect on the price of the Bonds.

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders.

However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Investment in the Bonds is subject to exchange rate risks.

Investment in the Bonds is subject to exchange rate risks. The value of the U.S. dollar against the Renminbi and other foreign currencies fluctuates and is affected by changes in the United States and international political and economic conditions and by many other factors. All payments of interest and principal with respect to the Bonds will be made in U.S. dollar. As a result, the value of these U.S. dollar payments may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollar depreciates against the Renminbi or other foreign currencies, the value of a Bondholder's investment in Renminbi or other applicable foreign currency terms will decline.

The Bonds are redeemable in the event of certain withholding taxes being applicable.

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Bonds may be made without withholding taxes or deductions for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or the PRC or any political subdivision, territory, possession thereof or authority therein having power to tax (the "**Relevant Jurisdiction**"). Although, pursuant to the Terms and Conditions of the Bonds, the Issuer or the Guarantor, as the case may be, is required to make gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Bonds at any time in the event that it or, as the case may be, the Guarantor has or will become obliged to pay additional tax amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or (only where such tax or withholding is in excess of the rate applicable on [●] 2018) the PRC or any political subdivision, territory, possession thereof or any authority therein having power to tax as a result of any change in, or amendment to, the laws of Hong Kong or the PRC or any regulations or rulings promulgated thereunder, or any change in the application or official interpretation of such laws, rulings or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after [●] 2018.

The Bonds and the Guarantee of the Bonds will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and the Guarantor's secured debt to the extent of the value of the collateral securing such indebtedness.

The Issuer is a holding company with no material operations. The Bonds and the Guarantee of the Bonds will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, whether or not secured. The Bonds will not be guaranteed by any of the Issuer's or the Guarantor's subsidiaries, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or the Guarantor. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under applicable law. Each of the Issuer's and the Guarantor's subsidiaries is a separate legal entity that has no obligation to pay any amounts due under the Bonds or the Guarantee of the Bonds or make any funds available therefor whether by dividends, loans or other payments. The Issuer's and the Guarantor's right to receive assets of any of the Issuer's and the Guarantor's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or the Guarantor is a creditor of that subsidiary). Consequently, the Bonds and the Guarantee of the Bonds will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and the Guarantor's subsidiaries, other than the Issuer, and any subsidiaries that the Guarantor may in the future acquire or establish.

The Bonds and the Guarantee of the Bonds are the Issuer's and the Guarantor's unsecured obligations, respectively, and will (i) at all times rank at least pari passu in right of payment with all the Issuer's and the Guarantor's other present and future unsecured indebtedness other than any such indebtedness preferred by law; (ii) be effectively subordinated to all of the Issuer's and the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and the Guarantor's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders ratably with all of the Issuer's or the Guarantor's other unsecured creditors, including trade creditors. If there are not sufficient assets remaining to pay all such creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

The insolvency laws of Hong Kong and the PRC and other local insolvency laws may differ from those of another jurisdiction with which the Bondholders are familiar.

As the Issuer and the Guarantor are incorporated under the laws of Hong Kong (the Issuer) and the PRC (the Guarantor), respectively, any insolvency proceeding relating to the Issuer and the Guarantor, even if brought in other jurisdictions, would likely involve Hong Kong and the PRC insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Bondholders are familiar.

If the Issuer and the Guarantor are unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated.

If the Issuer and/or the Guarantor are unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer and/or the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's and the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's and the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure the Bondholders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure the Bondholders that it would be on terms that are favourable or acceptable to such Bondholders.

The Issuer may not be able to meet its outstanding obligations under the Bonds.

The Issuer may (and at maturity, will) be required to redeem all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash on hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by or on behalf of the Issuer may constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's other indebtedness.

The Group may issue additional Bonds in the future.

The Group may, from time to time, and without prior consultation with the Bondholder, create and issue further bonds (see "*Terms and Conditions of the Bonds – Further Issues*") or otherwise raise additional capital through such means and in such manner as the Group may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

Income or gains from the Bonds may be subject to income tax or VAT under PRC tax laws.

The Issuer is incorporated under the laws of Hong Kong. Pursuant to the Enterprise Income Tax Law of the PRC (the "**EIT Law**") and its implementation regulations, enterprises that are established under the laws of foreign countries and regions but whose "de facto management bodies" are within the PRC are treated as PRC tax resident enterprises for the purposes of the EIT Law. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purposes of the EIT Law and income or gains paid with respect to the Bonds may be considered to be derived from sources within the PRC.

Under the EIT Law and its implementation rules, any income or gains realised by non-resident enterprises may be subject to PRC enterprise income tax if such income or gains are regarded as derived from sources within the PRC. Under the EIT Law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. In the event the Issuer or Guarantor is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, interest paid on the Bonds or the Guarantee of the Bonds may be considered to be PRC-sourced, in which case the Issuer or Guarantor, as the case may be, would be required to withhold income tax at a rate of 10 per cent. from payments of interest in respect of the Bonds to any non-resident enterprise holders. Any capital gain realised by a non-resident enterprise from the transfer of the Bonds may be regarded as being derived from sources within the PRC and, accordingly, may be subject to a PRC tax of up to 10 per cent. if the Issuer is treated as a PRC tax resident. Pursuant to the Individual Income Tax Law of the PRC and its implementation regulations, if the Issuer or Guarantor is considered to be a PRC tax resident enterprise, the Issuer or Guarantor, as the case may be, may be obliged to withhold such individual income tax on payments of interests to non-resident individual holders of the Bonds. Any capital gain realised by a non-resident individual holder from transfer of the Bonds may also be regarded as being derived from sources within the PRC and be subject to PRC tax of up to 20 per cent. if the Issuer is a PRC tax resident enterprise. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Arrangement**"), which was promulgated on 21 August 2006, Bondholders that are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular 36, which introduced a new VAT from 1 May 2016. VAT is applicable where the entities or individuals provide services within the PRC. VAT is unlikely to apply to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to apply to gains realised upon such transfers, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. However, Circular 36 and laws and regulations pertaining to VAT are relatively new, and the interpretation and enforcement of such laws and regulations involve uncertainties.

If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax or VAT on gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be adversely affected.

The Bonds will be represented by a Global Bond Certificate, and holders of a beneficial interest in the Global Bond Certificate must rely on the procedures of the relevant Clearing System.

The Bonds will be represented by a Global Bond Certificate which will be deposited with a common depositary for Euroclear and Clearstream (each, a "**Clearing System**"). Except in the circumstances described in the Global Bond Certificate, investors will not be entitled to receive definitive Bonds. The Clearing Systems will maintain records of the beneficial interests in the Global Bond Certificate. For so long as the Bonds are represented by the Global Bond Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

For so long as the Bonds are represented by the Global Bond Certificate, the Issuer, or failing which, the Guarantor, will discharge its payment obligations under the Bonds by making payments to the Clearing System for distribution to their account holders.

A holder of a beneficial interest in the Global Bond Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bond Certificate.

Holders of beneficial interests in the Global Bond Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Bond Certificate will not have a direct right under the Global Bond Certificate to take enforcement action against the Issuer or the Guarantor in the event of a default under the Bonds but will have to rely upon their rights under the Trust Deed.

The Guarantor may not be able to raise the funds necessary to finance the purchase of Bonds upon the exercise of redemption rights by a holder of the Bonds pursuant to the occurrence of a Relevant Event or at the option of the Bondholders.

Following the occurrence of a Relevant Event, Bondholders may require the Issuer to redeem their Bonds. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*". The Bondholders may also require the Issuer to redeem their Bonds at the Put Option Settlement Date. The source of funds for any such redemption would be the Group's available cash or third-party financing. However, there is no assurance that the Issuer or the Guarantor would have sufficient funds at that time to make the required redemption of the Bonds. In addition, agreements to which the Guarantor is a party at that time may restrict or prohibit such a payment.

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including, without limitation, the giving of notice to the Issuer and the Guarantor pursuant to Condition 8 (*Events of Default*) of the Terms and Conditions of the Bonds and taking enforcement steps pursuant to Condition 13 (*Enforcement*) of the Terms and Conditions of the Bonds, the Trustee may, at its sole discretion, request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of the Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions of the Bonds and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws and regulations, it will be for the holders of the Bonds to take such actions directly.

Decisions that may be made on behalf of all holders of the Bonds may be adverse to the interests of individual holders of the Bonds.

The Terms and Conditions of the Bonds contain provisions for calling meetings of holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of individual Bondholders.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds and the Trust Deed by the Trustee or less than all of the holders of the Bonds, and decisions may be made on behalf of all holders of the Bonds that may be adverse to the interests of individual holders of the Bonds.

The Terms and Conditions of the Bonds contain provisions for calling meetings of the holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including those Bondholders who did not attend and vote at the relevant meeting and those Bondholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of individual holders of the Bonds.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of the holders of the Bonds, agree to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Deed of Guarantee which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Deed of Guarantee which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the holders of the Bonds, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed or the Deed of Guarantee (other than a proposed breach, or a breach relating to the subject to certain reserved matters) if, in the opinion of the Trustee, the interests of the holders of the Bonds will not be materially prejudiced thereby.

RISKS RELATING TO THIS OFFERING CIRCULAR

Financial information relating to the Guarantor set out in this Offering Circular other than the Guarantor's Audited Consolidated Financial Statements is unaudited and unreviewed.

Prospective investors should note that the financial information set out in this Offering Circular relating to the Guarantor other than the Guarantor's Audited Consolidated Financial Statements, including the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements and comparative financial information for the six months ended 30 June 2017, is unaudited and unreviewed. In addition, the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements may not reflect the full year results for the year ending 31 December 2018 and may be subject to adjustments based on the audit. Such financial information is provided for illustrative and reference purposes only.

TERMS AND CONDITIONS OF THE BONDS

The following other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The U.S.$[●] [●] per cent. guaranteed bonds due [●] (the "**Bonds**", which expression includes any further bonds issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Hainan Airlines (Hong Kong) Co., Limited (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated [●] 2018 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, Hainan Airlines Holding Co., Ltd. (the "**Guarantor**") and The Bank of New York Mellon, London Branch as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of (a) a deed of guarantee dated [●] 2018 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by the Guarantor and (b) an agency agreement dated [●] 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Bonds) and transfer agent (the "**Transfer Agent**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds), The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds), and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Deed of Guarantee, the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Deed of Guarantee, the Trust Deed and the Agency Agreement applicable to them. Copies of the Deed of Guarantee, the Trust Deed and the Agency Agreement are available for inspection following prior written request and satisfactory proof of holding by Bondholders during normal office hours between 9:00 a.m. and 3:00 p.m. at the registered office for the time being of the Trustee and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee of the Bonds

(a) *Form and Denomination*: The Bonds are in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Bonds*: The Bonds constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Bonds*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds. This guarantee (the "**Guarantee of the Bonds**") constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Bonds will be evidenced by a global bond certificate (the "**Global Bond Certificate**") substantially in the form scheduled to the Trust Deed. The Global Bond Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"), and will be exchangeable for individual Bond Certificates (as defined below) only in the circumstances set out therein.*

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Bonds outside the United Kingdom and the PRC in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Bond means the person in whose name such Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Bondholder**" shall be construed accordingly. A certificate (each, a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Bond shall (except as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Bonds, the Deed of Guarantee or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Bond may not be transferred unless the principal amount of Bonds transferred and (where not all of the Bonds held by a Holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor.

Transfers of interests in the Bonds evidenced by the Global Bond Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Bond Certificates*: Within five business days of the surrender of a Bond Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Bond Certificate of a like principal amount to the Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Bond will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Bondholders may not require transfers to be registered during the period of seven days ending on the due date for redemption or any payment of principal or interest in respect of the Bonds.

(g) *Regulations concerning transfers and registration*: All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder) by the Registrar to any Bondholder following prior written request and satisfactory proof of holding.

3. Covenants

(a) Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without at the same time or prior thereto (i) securing the Bonds equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

(b) Financial Covenant

So long as any Bond remains outstanding, the Guarantor shall not directly or indirectly, permit Consolidated Tangible Net Worth as at the end of any Relevant Period to be less than RMB15.00 billion.

The financial covenant set out in this Condition shall be (where applicable) calculated in accordance with PRC Accounting Standards and tested by reference to the audited (or, as the case may be, unaudited) consolidated balance sheet and income statements of the Guarantor as at the end of the Relevant Period.

(c) Undertakings in relation to the Guarantee of the Bonds

The Guarantor undertakes to:

(i) file or cause to be filed with SAFE, the Guarantee of the Bonds within 15 China Business Days after execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (the "**Cross-border Security Registration**");

(ii) use its best endeavours to complete the Cross-border Security Registration on or before the Registration Deadline and obtain evidence of such registration from SAFE and the completed SAFE registration status form;

(iii) before the Registration Deadline and within five China Business Days after receipt of such evidence and form deliver to the Trustee the documents comprising the Registration Condition; and

(iv) comply with all applicable PRC laws and regulations in relation to the Guarantee of the Bonds.

(d) Notification to NDRC

The Guarantor undertakes to:

(i) file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044 號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**");

(ii) within five China Business Days after submission of such NDRC Post-issue Filing provide the Trustee with a certificate signed by any director or duly authorised officer of the Guarantor confirming the submission of the NDRC Post-issue Filing (together with the document(s), if any, evidencing due filing with the NDRC); and

(iii) comply with all applicable PRC laws and regulations in connection with the Bonds.

(e) Financial Statements

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor shall send to the Trustee:

(i) as soon as practicable after their date of publication and in any event not more than 150 days after the end of each financial year, two copies of their audited annual financial statements (audited by an internationally recognised firm of independent accountants) (in the case of the Issuer) in English and (in the case of the Guarantor) if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally recognised firm of accountants or (B) a professional translation service provider and checked by an internationally recognised firm of accountants, together with a certificate signed by a director of the Guarantor, certifying that such translation is complete and accurate; and

(ii) as soon as practicable after their date of publication and in any event not more than 120 days after the end of each financial period, two copies of the unaudited semi-annual and quarterly financial statements of the Guarantor in the Chinese language.

In these Conditions:

"**China Business Day**" means a day (other than a Saturday, Sunday or a public holiday) on which banks in Beijing, the PRC are not authorised or obligated by law of executive order to be closed;

"**Consolidated Tangible Net Worth**" means at any time the aggregate of the amounts paid up or credited as paid up on the issued ordinary share capital of the Guarantor and the aggregate amount of the reserves of the Group, including:

(i) any amount credited to the share premium account;

(ii) any capital redemption reserve fund; and

(iii) any balance standing to the credit of the consolidated profit and loss account of the Group,

but deducting:

(a) any debit balance on the consolidated profit and loss account of the Group;

(b) (to the extent included) any amount shown in respect of goodwill (including goodwill arising only on consolidation) or other intangible assets of the Group;

(c) any amount in respect of interests of non-Group members in Group subsidiaries;

(d) (to the extent included) any amount set aside for taxation, deferred taxation or bad debts;

(e) (to the extent included) any amounts arising from an upward revaluation of assets made at any time after 31 December 2017;

(f) any amount in respect of any dividend or distribution declared, recommended or made by any member of the Group to the extent payable to a person who is not a member of the Group and to the extent such distribution is not provided for in the most recent financial statements; and

(g) any amount due from shareholders, directors and/or related companies,

provided so that no amount shall be included or excluded more than once;

"**Group**" means the Guarantor and its Subsidiaries, taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

"**PRC Accounting Standards**" means the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter;

"**Registration Condition**" means the receipt by the Trustee of:

(i) a certificate in substantially the form set out in the Trust Deed of any two directors or duly authorised officers of the Guarantor confirming (A) the completion of the Cross-border Security Registration with SAFE and (B) no Event of Default or any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default has occurred; and

(ii) a certified true copy of the relevant SAFE registration evidence (業務登記憑證) from SAFE and the completed SAFE registration status form (together with an English translation thereof and a certificate signed by a director or authorised officer of the Guarantor certifying that such translation is complete and accurate);

"**Registration Deadline**" means the day falling 90 China Business Days after the Issue Date;

"**Relevant Indebtedness**" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Period**" means each period of 12 months ending on the last day of the Guarantor's financial year and each period of six months ending on the last day of the first half of the Guarantor's financial year;

"**SAFE**" means the Hainan Bureau of the State Administration of Foreign Exchange of the PRC;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; and

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

For the purposes of this definition, "**control**" means the right to appoint and/or remove all or the majority of the members of the board of directors or other governing body of a Person, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

4. Interest

The Bonds bear interest from [●] 2018 (the "**Issue Date**") at the rate of [●] per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on [●] and [●] in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each period beginning on (and including) the Issue Date on any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein an "**Interest Period**".

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$[●] in respect of each Bond of U.S.$1,000 in the principal amount. If interest is required to be paid in respect of a Bond on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Bond divided by the Calculation Amount, where:

"**Calculation Amount**" means U.S.$1,000; and

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30".

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on [●] subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (A) the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after [●] 2018; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) (if a demand was made under the Guarantee of the Bonds) the Guarantor has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after [●] 2018; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor (as the case may be) would be obliged to pay such Additional Amounts if a payment in respect of the Bonds (or the Guarantee of the Bonds, as the case may be) were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

(A) a certificate signed by two directors of the Issuer or the Guarantor (as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or the Guarantor (as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i)(A) and (i)(B) above or (as the case may be) (ii)(A) and (ii)(B) above, in which event such evidence shall be conclusive and binding on the Bondholders and the Trustee shall be protected and shall have no liability to any Bondholder or any other person for so accepting and relying on such certificate or opinion.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 5(b).

In this Condition 5(b) (*Redemption for tax reasons*):

"**Additional Amounts**" means the additional amounts provided or referred to in Condition 7 (*Taxation*) which are in respect of any withholding or deduction (i) by or within the PRC, in excess of the rate applicable on [●] 2018 or (ii) by or within Hong Kong or any other jurisdiction through which payments on the Bonds are made or any authority thereof or therein having power to tax, other than the PRC.

(c) *Redemption for Relevant Event*: At any time following the occurrence of a Relevant Event, the Holder of any Bond will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Bonds on the Put Settlement Date at 101 per cent. (in the case of a Change of Control) and 100 per cent. (in the case of a No Registration Event) of their principal amount, together with interest accrued to, but excluding such Put Settlement Date. To exercise such right, the Holder of the relevant Bond must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Bond Certificates evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day (in the case of a Change of Control) and the fifth day (in the case of a No Registration Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Put Exercise Notices delivered as aforesaid.

The Issuer and the Guarantor shall give notice to Bondholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which either of them becomes aware of the occurrence of a Change of Control or five days from the occurrence of a No Registration Event, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Bonds pursuant to this Condition 5(c) (*Redemption for Relevant Event*).

In this Condition 5(c) (*Redemption for Relevant Event*):

a "**Change of Control**" occurs when:

(i) any Person or Persons acting together acquires Control of the Guarantor if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Guarantor on the Issue Date; or

(ii) one or more Persons acting together acquires the legal or beneficial ownership (directly or indirectly) of the issued share capital of the Guarantor greater than such beneficial ownership (directly or indirectly) held by the Substantial Shareholders in aggregate; or

(iii) the Substantial Shareholders in aggregate beneficially own (directly or indirectly) less than 35 per cent. of the issued share capital of the Guarantor; or

(iv) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity;

"**Control**" means (a) the acquisition or control of more than 35 per cent. of the voting rights of the issued share capital of the Guarantor or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms "**Controlling**" and "**Controlled**" shall have meanings correlative to the foregoing;

"**Grand China**" means Grand China Air Co., Ltd.;

"**Haikou Meilan**" means Haikou Meilan International Airport Co., Ltd.;

"**Hainan SASAC**" means the Hainan Bureau of SASAC;

"**issued share capital**" means issued and outstanding ordinary shares having voting rights, but does not include ordinary or preference shares without voting rights;

a "**Person**", as used in this Condition 5(c) (*Redemption for Relevant Event*), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Substantial Shareholders;

a "**Relevant Event**" will be deemed to occur if:

(i) there is a Change of Control; or

(ii) there is a No Registration Event;

a "**No Registration Event**" occurs when the Registration Condition has not been satisfied on or prior to the Registration Deadline;

"**SASAC**" means the State-owned Assets Supervision and Administration of the State Council of the PRC or its successor; and

"**Substantial Shareholders**" means Hainan SASAC, HNA Group Co., Ltd., Grand China and Haikou Meilan, *provided that* with respect to each of Grand China and Haikou Meilan, SASAC and any municipal or provincial bureau of SASAC together constitute (directly or indirectly) its single largest shareholder, failing which the definition of "**Substantial Shareholders**" shall exclude Grand China or Haikou Meilan, as the case may be.

(d) *Redemption at the option of Bondholders*: The Issuer shall, at the option of the Holder of any Bond redeem all or some only of that Holder's Bonds on [●] 2019 (the "**Put Option Settlement Date**") at 100 per cent. of their principal amount, together with interest accrued to, but excluding such Put Option Settlement Date. To exercise such right, the Holder of the relevant Bond must, not less than 30 nor more than 60 days before the relevant Put Option Settlement Date, deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption (which notice shall be irrevocable), in the form obtainable from the Specified Office of any Paying Agent (a "**Put Option Notice**"), together with the Bond Certificates evidencing the Bonds to be redeemed; provided, however, that if, prior to the relevant Put Option Settlement Date, the Bonds evidenced by any Bond Certificate so deposited become immediately due and payable or, upon due presentation of any Bond Certificate on the relevant Put Option Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Bond Certificate shall, without prejudice to the exercise of the put option, be returned to the Holder by uninsured first class mail (airmail if overseas) at the address specified by such Holder in the relevant Put Option Notice.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Bonds otherwise than as provided in paragraphs (a) (*Scheduled redemption)* to (d) (*Redemption at the option of Bondholders*) above.

(f) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price.

(g) *Cancellation*: All Bonds so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6. Payments

(a) *Principal*: Payments of principal shall be made in U.S. dollars by transfer to a U.S. dollar account maintained by the payee with, a bank and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made in U.S. dollars by transfer to a U.S. dollar account maintained by the payee with, a bank and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

*Notwithstanding the foregoing, so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Bond Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(c) *Payments subject to fiscal laws*: All payments in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Bond Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong, New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Bond Certificate, in the place in which the Bond Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Bond Certificate.

(f) *Record date*: Each payment in respect of a Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

7. Taxation

All payments of principal and interest in respect of the Bonds or under the Guarantee of the Bonds by or on behalf of the Issuer or, as the case may be, the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(i) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; or

(ii) held by or on behalf of a Holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such Holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(iii) where (in the case of a payment of principal or interest on redemption) the relevant Bond Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such additional amounts if it had surrendered the relevant Bond Certificate on the last day of such period of 30 days.

None of the Trustee or any of the Agents shall be under any obligation to determine, calculate or approve any reduced amount payable to a Bondholder, or assist with the collection of any tax related declaration or form from Bondholders or any other person, or with any filing to any relevant tax authority, in each case as contemplated by Condition 7(ii), nor shall any of them be liable to the Issuer, the Guarantor, the Bondholders or any other person for not doing so.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due, and (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Hong Kong or the PRC, respectively, references in these Conditions to Hong Kong or the PRC shall be construed as references to Hong Kong or, as the case may be, the PRC, and/or such other jurisdiction.

8. Events of Default

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least 25 per cent. of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer or the Guarantor fails to pay any amount of principal in respect of the Bonds or the Guarantee of the Bonds, as the case may be, on the due date for payment thereof or fails to pay any amount of interest in respect of the Bonds or the Guarantee of the Bonds, as the case may be, within 14 business days of the due date for payment thereof. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and banks in Beijing, PRC are not authorised or obligated by law or executive order to be closed; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Bonds, the Deed of Guarantee or the Trust Deed and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Guarantor, as the case may be; or

(c) *Cross-default of Issuer, Guarantor or Subsidiaries*:

(i) any Indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.$20,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an aggregate amount in excess of U.S.$5,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer, the Guarantor or any of their respective Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Subsidiaries and such action is not discharged within 45 days after the date thereof; or

(f) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any of their respective Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any of their respective Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any of their respective Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business, except (a) in the case of any Subsidiary, where the cessation is for the purpose of and followed by a solvent winding up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor, and/or another Subsidiary or (b) on terms approved by an Extraordinary Resolution of the Bondholders; or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Subsidiaries, except (i) in the case of any Subsidiary, for the purpose of and followed by a solvent winding up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor and/or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Bondholders; or

(h) *Government intervention*: (i) all or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of their respective Subsidiaries is prevented by any such person from exercising normal control over all or any part of its undertaking, assets and revenues; or

(i) *Analogous event*: any event occurs which under the laws of Hong Kong or the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (h) (*Government intervention*) above; or

(j) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Bonds, the Deed of Guarantee, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bonds, the Deed of Guarantee, the Trust Deed or the Agency Agreement admissible in evidence in the courts of Hong Kong or the PRC is not taken, fulfilled or done; or

(k) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Bonds, the Deed of Guarantee, the Trust Deed or the Agency Agreement; or

(l) *Guarantee*: the Guarantee of the Bonds or the Cross-border Security Registration is not (or is claimed by the Guarantor not to be) in full force and effect or (in the case of the Cross-border Security Registration) has been revoked; or

(m) *Ownership*: the Issuer ceases to be a wholly-owned subsidiary of the Guarantor.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Bond Certificates are presented for payment within ten years of the appropriate Relevant Date.

10. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or such Agent may require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions, the Deed of Guarantee and the Trust Deed, the Trustee will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual Holders of Bonds as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

Neither the Agents nor the Trustee shall be required to monitor or to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur and none of them shall have any obligation or duty to verify the accuracy, validity and/or genuineness of any documents in relation to or connection with the Registration Conditions or the NDRC Post-issue Filing, and none of them shall be liable to Bondholders, the Issuer, the Guarantor or any other person for not doing so.

In acting under the Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

12. Meetings of Bondholders; Modification and Waiver

(a) *Meetings of Bondholders*: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions, the Deed of Guarantee or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, to change the currency of payments under the Bonds, to effect the exchange, conversion or substitution of the Bonds for other obligations or securities, to amend Condition 3 (*Covenants*), to amend the terms of the Guarantee of the Bonds or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Bondholders, who for the time being are entitled to receive notice of a meeting of Bondholders under the Trust Deed, holding not less than 90 per cent. in principal amount of the Bonds outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Bondholders agree to any modification of these Conditions, the Deed of Guarantee or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Bondholders and to any modification of the Bonds, the Deed of Guarantee or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders authorise or waive any proposed breach or breach of the Bonds, the Deed of Guarantee or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Bondholders as soon as practicable thereafter and shall be binding on all Bondholders.

(c) *Directions from Bondholders*: Notwithstanding anything to the contrary in these Conditions, the Deed of Guarantee, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Deed of Guarantee, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

(d) *Certificates and Reports*: The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

13. Enforcement

The Trustee may at any time, at its absolute discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Deed of Guarantee or the Trust Deed in respect of the Bonds or the Guarantee of the Bonds, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least 25 per cent. of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

Subject to compliance with the undertaking in Condition 3(c) (*Undertakings in relation to the Guarantee of the Bonds*), the Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest and the timing for reporting to the NDRC and SAFE) so as to form a single series with the Bonds.

15. Notices

Notices to the Bondholders will be validly given if sent to them at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of being sent.

Until such time as any definitive certificates are issued and so long as the Global Bond Certificate is held in its entirely on behalf of Euroclear and Clearstream any notice to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. Currency Indemnity

If any sum due from the Issuer or the Guarantor in respect of the Bonds or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Bonds, the Issuer and the Guarantor shall indemnify the Trustee and each Bondholder, on the written demand of the Trustee or such Bondholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of each of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) *Governing law*: The Bonds, the Deed of Guarantee and the Trust Deed and any non-contractual obligations arising out of or in connection with the Bonds, the Deed of Guarantee and the Trust Deed are governed by English law.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor has in the Trust Deed and the Guarantor has in the Deed of Guarantee (i) agreed for the benefit of the Trustee and the Bondholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Bonds, the Deed of Guarantee or the Trust Deed (including any non-contractual obligation arising out of or in connection with the Bonds, the Deed of Guarantee or the Trust Deed); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient to accept service of any process on its behalf.

(c) *Waiver of immunity*: To the extent that the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or the Guarantor or their respective assets or revenues, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

The Bonds will be represented by a Global Bond Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Bond Certificate, the Issuer, for value received, will promise to pay the amount payable upon redemption under the Terms and Conditions in respect of the Bonds represented by the Global Bond Certificate to the Bondholder in such circumstances as the same may become payable in accordance with the Terms and Conditions.

The Global Bond Certificate will become exchangeable in whole, but not in part, for duly authenticated and completed individual Bond certificates ("**Individual Bond Certificates**") if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 *(Events of Default)* occurs.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within five business days of the delivery, by or on behalf of the registered Bondholder of the Global Bond Certificate, Euroclear and/or Clearstream to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Bondholder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office.

In addition, the Global Bond Certificate will contain provisions that modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Bond Certificate. The following is a summary of certain of those provisions:

Payment Record Date: Each payment made in respect of a Global Bond Certificate will be made to the person shown as the Bondholder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Exercise of Put Option: In order to exercise the option contained in Condition 5(c) *(Redemption and Purchase – Redemption for Relevant Event) or 5(d) (Redemption at the option of Bondholders)* (together, the "**Put Options**"), the Bondholder must, within the period specified in the Terms and Conditions for the deposit of the relevant Bond Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which the relevant Put Option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 15 *(Notices)*, so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Bondholders represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds from the offering of the Bonds, consisting of the gross proceeds less the commissions and other estimated expenses payable by the Issuer in connection with the Bonds, are planned to be used for repayment of certain indebtedness and general corporate purposes.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

As at 31 December 2017, there was a total of 16,806,120,330 shares of the Guarantor outstanding (the "**Shares**").

The following table sets forth the consolidated total borrowings (both current and non-current portions), equity attributable to the equity holders of the Guarantor and total capitalisation of the Guarantor as at 31 December 2017 and adjusted to give effect to the issue of the Bonds before deducting underwriting discounts and commissions and other offering expenses:

	As at 31 December 2017		As at 31 December 2017	
	Actual	As adjusted	Actual	As adjusted
	(RMB'000)		(USD'000)[6]	
Borrowings – current portion[1]				
Short-term borrowings	23,906,887	23,906,887	3,674,421	3,674,421
Current portion of non-current liabilities [2]	17,215,378	17,215,378	2,645,955	2,645,955
Other current liabilities [3]	6,990,066	6,990,066	1,074,353	1,074,353
Total borrowings – current portion	48,112,331	48,112,331	7,394,730	7,394,730
Borrowings – non-current portion[4]				
Long-term borrowings	28,992,986	28,992,986	4,456,140	4,456,140
Bonds payable	10,807,249	10,807,249	1,661,044	1,661,044
Long-term payables [5]	8,982,236	8,982,236	1,380,544	1,380,544
The Bonds to be issued [7]	–	[●]	–	[●]
Total borrowings – non-current portion	48,782,471	[●]	7,497,729	[●]
Shareholders' equity				
Share capital	16,806,120	16,806,120	2,583,053	2,583,053
Other Equity Instruments	5,221,250	5,221,250	802,491	802,491
Capital surplus	17,882,204	17,882,204	2,748,444	2,748,444
Other Comprehensive income	324,516	324,516	49,877	49,877
Surplus reserves	1,672,872	1,672,872	257,116	257,116
Undistributed profits	15,709,560	15,709,560	2,414,515	2,414,515
Total equity attributable to the shareholders of the Company	57,616,522	57,616,522	8,855,497	8,855,497
Minority interests	12,113,854	12,113,854	1,861,865	1,861,865
Other equity instruments	4,226,943	4,226,943	649,669	649,669
Total shareholders' equity	73,957,319	73,957,319	11,367,032	11,367,032
Total capitalisation [8]	170,852,121	[●]	26,259,490	[●]

Notes:

(1) Borrowings – current portion includes short-term borrowings and long-term borrowings due within one year.

(2) Current portion of non-current liabilities includes current portion of long-term borrowings, bonds payable and long-term payables, which are all due within one year.

(3) Other current liabilities includes short-term financing bonds.

(4) Borrowings – non-current portion represents long-term borrowings excluding long-term borrowings due within one year.

(5) Long-term payables includes finance lease obligations and securitisations.

(6) The translation of Renminbi amounts into U.S. dollar amounts has been made at the exchange rate of RMB6.5063 to U.S.$1.00 on 29 December 2017 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

(7) The aggregate principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.

(8) Total capitalisation represents the sum of total borrowings and total shareholders' equity.

On 28 November 2017, the Guarantor received approval from CSRC to establish a RMB5 billion bond issuance programme for onshore issuances. On 13 September 2018, the Guarantor issued RMB500 million of 7.60% bonds due 2021 under such programme. Except for this issuance, and the redemption of U.S.$300,000,000 5.5% guaranteed bonds due 2018 in June 2018, there has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 31 December 2017.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets forth the consolidated total capitalisation of the Issuer as at 31 December 2017 and as adjusted to give effect to the issue of the Bonds, before deducting the underwriting fees and commissions and other estimated expenses payable in connection with this offering:

	As at 31 December 2017		As at 31 December 2017	
	Actual	As adjusted	Actual	As adjusted
	(HK$)		(U.S.$)[1]	
Borrowings – current portion				
Bonds payable	4,671,519,967.14	4,671,519,967.14	597,931,595.22	597,931,595.22
Total borrowings – current portion	**4,671,519,967.14**	**4,671,519,967.14**	**597,931,595.22**	**597,931,595.22**
Borrowings – non-current portion				
Bonds payable	3,885,983,919.33	3,885,983,919.33	497,386,842.02	497,386,842.02
The Bonds to be issued[2]	–	[●]	–	[●]
Total borrowings – non-current portion	**3,885,983,919.33**	**[●]**	**497,386,842.02**	**[●]**
Equity				
Share capital	70,200,000.00	70,200,000.00	8,985,254.97	8,985,254.97
Other reserve	2,547,364,062.68	2,547,364,062.68	326,050,079.70	326,050,079.70
Accumulated losses	(1,753,766,226.59)	(1,753,766,226.59)	(224,473,457.22)	(224,473,457.22)
Total equity	**863,797,836.09**	**863,797,836.09**	**110,561,877.45**	**110,561,877.45**
Total capitalisation[3]	**9,421,301,722.56**	**[●]**	**1,205,880,314.69**	**[●]**

Notes:

(1) The translation of Hong Kong dollar amounts into U.S. dollar amounts has been made at the exchange rate of HKD7.8128 to USD1.00 on 29 December 2017 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

(2) The aggregate principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.

(3) Total capitalisation represents the sum of total borrowings and total shareholders' equity.

Except for the redemption of U.S.$300,000,000 5.5% guaranteed bonds due 2018 in June 2018, there has been no material change in the consolidated capitalisation and indebtedness of the Issuer since 31 December 2017.

DESCRIPTION OF THE GUARANTOR

OVERVIEW

As a leading provider of air passenger, air cargo and airline-related services in China, Hainan Airlines is the fourth-largest airline in China in terms of fleet size, revenue and number of passengers carried in 2017. As at 30 June 2018, the Group provided scheduled domestic, regional and international services using a hub and spoke strategy on approximately 1,700 routes to 216 cities including two regional cities and 57 international cities in 27 countries. The Group's expanding network is based on its business in major regions in the PRC through operating in Haikou and Nanning in mid-Southern China, Tianjin in Northern China, Xi'an in North-Western China, Kunming in South-Western China, Urumqi in Xianjiang and Fuzhou in Eastern China. The Group has also established subsidiaries and operating bases in 24 major cities in the PRC including Beijing, Shenzhen, Sanya, Chengdu and Chongqing.

The Group has been well-recognised globally for its high quality service and excellent safety record by independent awards and surveys of air travellers, in particular for its highly trained employees, advance seat assignments, expedited check-in, attention to customer needs, frequent flyer programme, well-maintained aircraft and other amenities. For instance, Hainan Airlines is one of 10 global winners and the only PRC airline that has obtained 5-Star Airline certification from Skytrax, an independent airline benchmarking firm, which it received for an eighth consecutive year in 2018. For details, see "*– Competitive Strengths – Global brand recognition of high-quality service and excellent safety record and standards*".

In addition to passenger services, the Group provides bellyhold cargo and mail services through its passenger aircraft. As at 30 June 2018, Hainan Airlines leased out a total of 28 aircraft to other HNA Group affiliated airline companies. The Group also provides other airline-related services, including property leasing, lodging, catering, ticketing and ground services in Beijing, Haikou, Xi'an and other locations through its subsidiaries.

The young and growing fleet of the Group primarily comprises Boeing 737-800 aircraft, along with Boeing 737-700, Boeing 737-800, Boeing 737-MAX 8, Boeing 767-300, Boeing 787-9, Boeing 787-8, Airbus A330-300, Airbus A330-200, Airbus A321, Airbus A320, Airbus 319, Embraer E145, Embraer E190 and Embraer E195 aircraft for both passenger and cargo transportation. As at 30 June 2018, Hainan Airlines operated a fleet of 420 aircraft, serving 157 domestic, two regional and 57 international destinations. In 2015, 2016 and 2017, the fleet carried approximately 38.60 million, 47.02 million and 71.69 million passengers, an increase of 21.81% from 2015 to 2016 and 52.46% from 2016 to 2017. Hainan Airlines' RPK in 2015, 2016 and 2017 was 66,239.37 million, 82,951.27 million and 121,223.48 million, an increase of 25.23% from 2015 to 2016 and 46.14% from 2016 to 2017.

Experiencing significant growth in both passenger and cargo traffic, the Group has an established track record of improving financial performance. In 2015, 2016 and 2017, the Group's consolidated total revenue was RMB35,225.44 million, RMB40,678.13 million and RMB59,903.95 million, respectively, an increase of 15.48% from 2015 to 2016 and 47.26% from 2016 to 2017. In 2015, 2016 and 2017, the Group's net profit attributable to equity shareholders was RMB3,002.69 million, RMB3,138.26 million and RMB3,322.95 million, respectively, an increase of 4.51% from 2015 to 2016 and 5.89% from 2016 to 2017.

History and development

Hainan Airlines' predecessor Hainan Provincial Airlines was established in October 1989 by the Hainan provincial government, as a government initiative to promote the development of Hainan, a then newly established island province, and the largest special economic zone in China. Following a restructuring in January 1993, Hainan Provincial Airlines became China's first joint-stock air transport company and began scheduled services on 2 May 1993.

In 1995, Hainan Provincial Airlines was approved by the Ministry of Foreign Trade and Economic Cooperation to issue shares to American Aviation LDC, an entity then ultimately controlled by George Soros' Quantum Fund, raising approximately U.S.$25 million and becoming China's first joint venture airline.

In 1996, Hainan Provincial Airlines was renamed Hainan Airlines.

In 1997, Hainan Airlines completed a public offering of B Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. Subsequently, in 1999, Hainan Airlines completed a public offering of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange.

On 10 December 2014, Hainan Development signed a share transfer agreement with Grand China Air and agreed to transfer 595,238,094 A shares in Hainan Airlines, approximately 4.89% of Hainan Airlines' issued shares, to Grand China Air for a consideration of RMB3,166,666,660. The transaction was completed on 9 November 2015.

Hainan Airlines' shares quoted in U.S. dollars in the form of B Shares were listed on the Shanghai Stock Exchange (the "**Shanghai Stock Exchange**") in 1997 and Hainan Airlines' ordinary domestic shares in the form of A Shares were listed on the Shanghai Stock Exchange in 1999. As at 30 June 2018, Hainan Airlines had 16,806,120,330 shares and its market capitalisation was RMB54,406 million (including RMB53,090 million in terms of its A Shares and U.S.$199 million in terms of its B Shares).

As part of the PRC government's industry consolidation plan, the Group was given approval by CAAC in 2000 to reorganise Chang'an Airlines, a local airline operated by the Shanxi provincial government, and was approved by CAAC in 2002 to reorganise Xinhua Airlines, a government airline operated by China Aviation Service Limited serving solely the PRC National Economic Commission and the Disciplinary Commission of the Communist Party of China, and Shanxi Airlines, a local airline operated by the Shanxi provincial government. In 2002, the Group was approved by CAAC to operate Hainan Airlines and its three subsidiary airlines under the uniform code "HU".

In October 2012, Hainan Airlines entered into a cooperative agreement to form a joint venture, Fuzhou Airlines, with Fuzhou State Asset Investment Holdings Co. Ltd, Century Golden Resources Group and Ningbo Ruitong Internet Technology Co., Ltd. to utilise local aviation resources, expand local market share and build a strong service brand. Hainan Airlines agreed to invest a total of RMB1.20 billion in cash or in kind, or 60.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Fuzhou Airlines in February 2014. Fuzhou Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC in October 2014 and made its first flight from Fuzhou to Beijing on 30 October 2014.

In February 2013, Hainan Airlines entered into a framework agreement to form a joint venture, Urumqi Airlines, with Urumqi City Construction Investment Co., Ltd to promote the development of the civil aviation and tourism industries in the Xinjiang area. Hainan Airlines agreed to invest a total of RMB2.10 billion in cash or in kind, or 70.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Urumqi Airlines Co., Ltd. in November 2013. In August 2014, Urumqi Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC and made its first flight from Urumqi to Yining on 29 August 2014. In April 2015, Hainan Airlines increased its shareholding in Urumqi Airlines to 86.32%.

In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of the capital contribution to Tianjin Airlines by Tianhang Holding Co., Ltd. (天航控股有限責任公司). In July 2014, Hainan Airlines completed a further subscription of 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%, which was diluted to 39.06% in December 2014 as a result of the capital contributions to Tianjin Airlines by Tianjin Chuangxin Investment LLP (天津創鑫投資合夥企業(有限合夥)) in August 2014 and Tianjin Free Trade Zone Investment Co., Ltd. (天津保税區投資有限公司). In April 2015, Hainan Airlines announced that it intended to acquire a further 48.21% shares of Tianjin Airlines. On 4 February 2017, Hainan Airlines announced the completion of this acquisition, for a cash purchase price of approximately RMB5,554 million. As at 30 June 2018, Hainan Airlines' shareholding in Tianjin Airlines was 87.27%. On 24 June 2017, Hainan Airlines announced that HNA Group Co. intended to form a joint venture, Xintuoheng, with Tianjin Trust and Shanghai Huashuo. HNA Group Co. plans to invest RMB636.50 million while Tianjin Trust and Shanghai Huashuo plan to invest RMB1,110.00 million and RMB0.01 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB1,736.50 million in cash at a price of RMB1.51 per share. On the same day, Hainan Airlines announced that HNA Group Co. intended to form a joint venture, Jinhaichuangxin, with CITIC Trust and Innovation Investment Management. HNA Group Co. plans to invest RMB1,000.00 million while CITIC Trust and Innovation Investment Management plan to invest RMB1,952.60 million and RMB1.00 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB2,952.60 million in cash at a price of RMB1.51 per share. After these two subscriptions, Tianjin Airlines' registered capital will increase from RMB8,192.60 million to RMB11,297.96 million, resulting in a dilution of Hainan Airlines' direct shareholding interest in Tianjin Airlines from 87.27% to 63.28%.

In March 2014, Hainan Airlines acquired a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. In December 2016, Hainan Airlines' shareholding in Lucky Air was diluted to 69.82%. See "*– Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and with other airlines*" and "*Principal Shareholders*". As at 30 June 2018, Hainan Airlines' shareholding in Lucky Air was 73.48%.

In November 2014, Hainan Airlines announced that HNA Aviation Group Co., Ltd. (海航航空集團有限公司) intended to invest RMB500 million in new share capital of Shanxi Airlines in cash. This investment was completed in January 2015. Upon this investment, Hainan Airlines changed its shareholding in Shanxi Airlines to 23.43%. Chang'an Airlines, a subsidiary of Hainan Airlines, also has a 27.17% shareholding in Shanxi Airlines. As at 30 June 2018, Hainan Airlines' shareholding in Shanxi Airlines was 72.83%.

In April 2015, Hainan Airlines invested RMB400 million in new share capital of Chang'an Airlines in cash and upon this investment changed its shareholding in Chang'an Airlines to 61.43% as a result of share dilution. As at 30 June 2018, Hainan Airlines' shareholding in Chang'an Airlines was 71.34%.

In April 2015, Hainan Airlines decreased its shareholding in Xinhua Airlines to 83.39%. As at 30 June 2018, Hainan Airlines' shareholding in Xinhua Airlines was 61.74%.

In June 2015, Hainan Airlines set up a 100% owned subsidiary, Shenzhen Tiantong Hechuang Private Equity Co., Ltd. in Qianhai, Shenzhen with a registered capital of RMB100 million in order to manage equity investment funds, conduct equity investment and provide relevant consultancy services.

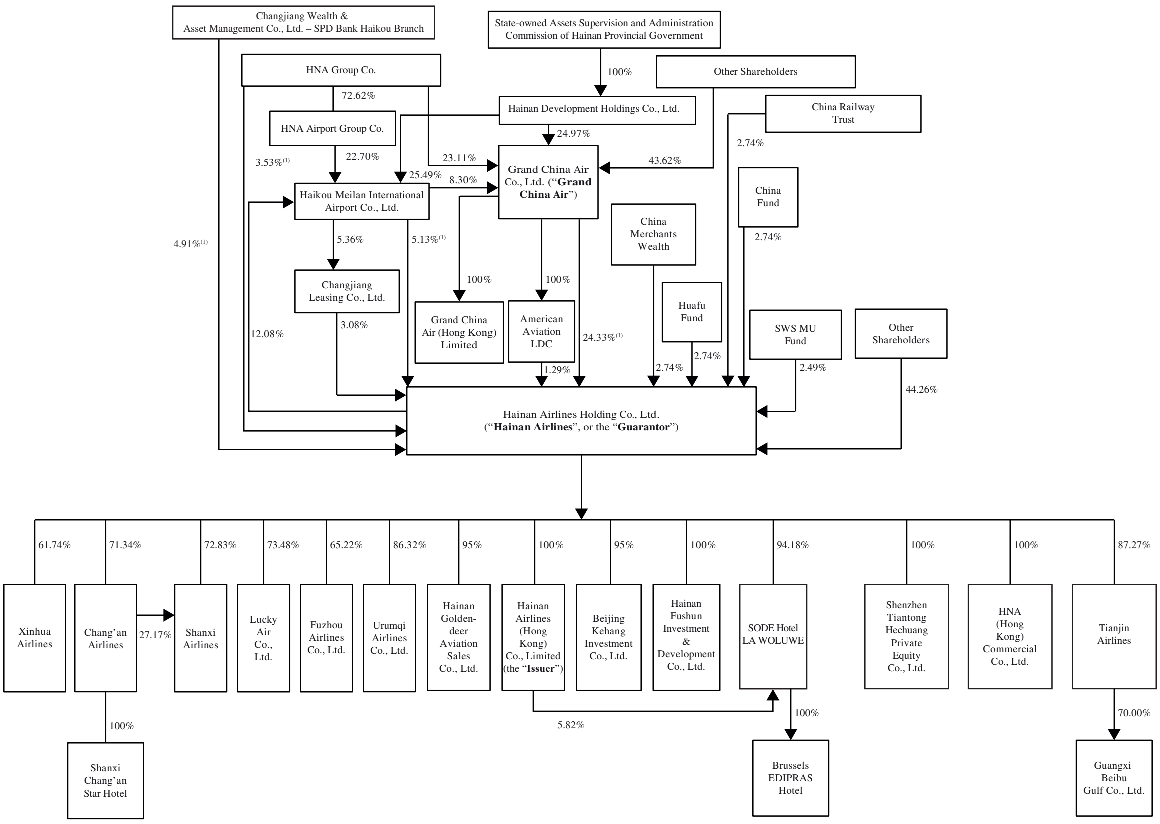
In July 2015, Hainan Airlines set up a 100% owned subsidiary, HNA (Hong Kong) Commercial Co., Ltd., in Hong Kong with a registered capital of HK$1 in order to make and hold offshore equity investments.

On 5 September 2016, as approved by CSRC, Hainan Airlines completed a private placement and increased its share capital to RMB16,806,120,330 in total. As at 30 June 2018, the Guarantor had 16,806,120,330 shares and its market capitalisation was RMB54,406 million (including RMB53,090 million in terms of its A Shares and U.S.$199 million in terms of its B Shares.)

For the year ended 31 December 2017, no change has been made to the number of ordinary shares of Hainan Airlines and its share capital structure.

Corporate structure

The following chart sets forth the organisational structure of the Group, its principal shareholders and its principal subsidiaries as at the date of this Offering Circular (prior to the implementation of the Restructuring Plan; see "– *Recent Developments*"):



Note:

(1) As at 30 June 2018, Grand China Air had pledged 4,808,032,301 shares of Hainan Airlines, Haikou Meilan International Airport Co., Ltd. had pledged 862,848,900 shares of Hainan Airlines, HNA Group Co. had pledged 593,920,000 shares of Hainan Airlines and Changjiang Leasing had pledged 517,545,280 shares of Hainan Airlines to PRC banks as collateral for certain bank loans.

RECENT DEVELOPMENTS

On 9 June 2018, Hainan Airlines made an announcement summarising the Restructuring Plan, pursuant to which Hainan Airlines plans to purchase (a) from HNA Aviation Group, HNA Aviation Group's 60.78% shareholding in HNA Technic, 59.93% shareholding in HNA Aviation Hong Kong and 100.00% shareholding in Hainan Sky Plumage Pilot Training Co., Ltd., (b) from Tianjin Chuangxin, Tianjin Chuangxin's 29.72% shareholding in West Air, and (c) from HNA Southwest, HNA Southwest's 60.00% shareholding in West Holding, respectively. The aggregate purchase price is estimated to be approximately RMB10,478 million, and the purchases are expected to be made by delivery of (i) 1,988,086,662, (ii) 791,352,367 and (iii) 578,908,634 shares of Hainan Airlines as consideration to HNA Aviation Group, Tianjin Chuangxin and HNA Southwest, respectively (HNA Aviation Group, Tianjin Chuangxin and HNA Southwest, collectively "**Sellers**"), subject to potential refunds of portions of such consideration shares in the event that the net profit of each of HNA Technic, SR Technics Holdco I GmbH (the main operating subsidiary of HNA Aviation Hong Kong) and West Air, as guaranteed by their respective Sellers, are not met. Upon completion of any of the acquisitions contemplated by the Restructuring Plan, Hainan Airlines plans to also conduct the Private Placement, with the net proceeds to be used principally in connection with investment in projects and purchases of equipment relating to the companies to be acquired pursuant to the Restructuring Plan, including expansion of pilot training simulators, investment in pilot training schemes and engine and parts maintenance, and the purchase of four aircraft. A portion of the net proceeds of the Private Placement will also be used to pay expenses incurred in connection with the Restructuring Plan.

Hainan Airlines expects to make the Private Placement to up to 10 investors, and to raise no more than the lower of (i) RMB7,033.80 million and (ii) the aggregate value of the purchase prices in the acquisitions to be made pursuant to the Restructuring Plan (less certain increases in cash holdings of the Target Companies), subject to a limit of a 20.00% increase in pre-Private Placement total share capital. To the extent, if any, that the net proceeds from the Private Placement are insufficient to cover the intended uses, the shortfall will be paid through internal funding.

On 20 July 2018, Hainan Airlines published a revised draft of the Restructuring Plan which included details of the Sale and Purchase Agreements entered into under the Restructuring Plan. The implementation of the Restructuring Plan is subject to, among other things, the satisfaction of the conditions precedent in the Sale and Purchase Agreements including approval by, among others, the Group's board of directors and shareholders, the Target Companies' respective shareholders, SASAC of the Hainan provincial government and CSRC.

In January 2018, Hainan Airlines launched its Tianjin – Zhengzhou – Sydney and Haikou – Sydney services. In March 2018, Hainan Airlines launched its Shenzhen – Sihanoukville/Brussels/Madrid services, Beijing – Tijuana – Mexico City service, and Changsha – London service. In May 2018, Hainan Airlines launched its Tianjin – Xi'an – London (Heathrow) service, Shenzhen – Tianjin – Vancouver service, and Nanning – Siem Reap service, and in June 2018, it launched its Beijing – Edinburgh/Dublin – Dublin/Edinburgh – Beijing services and Urumqi – Irkutsk service.

On 30 August 2018, Hainan Airlines published (in the Chinese language only) the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements. The Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements are incorporated by reference in, and form part of, this Offering Circular. These financial statements were prepared by Hainan Airlines' management and approved by its Board of Directors, but have not been reviewed, audited or verified by PwC ZT, auditor of Hainan Airlines, or by any other person. Consequently, the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate Hainan Airlines' or the Group's business, financial condition and results of operations. None of the Joint Lead Managers or any of their respective affiliates, directors, employees, agents or advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of such unaudited financial statements for an assessment of Hainan Airlines or the Group's business, financial condition and results of operations. See "*Risk Factors – Financial information relating to the Guarantor set out in this Offering Circular other than the Guarantor's Audited Consolidated Financial Statements is unaudited and unreviewed*."

On 14 September 2018, HNA Innovation Co., Ltd. ("**HNA Innovation**"), a non-wholly owned subsidiary of HNA Group, announced that the payment date of the trust loan it had entered into with Hunan Trust Co., Ltd. had passed without payment, leading to a breach of contract. HNA Innovation does not own shares of the Guarantor, and nor does the Guarantor own any interest in HNA Innovation. HNA Innovation's payment default will not result in any cross-default or similar breach under any indebtedness (either onshore or offshore) of the Guarantor or any of its subsidiaries, nor does the Guarantor believe it will have any material adverse effect on the Group.

COMPETITIVE STRENGTHS

The Group's primary business strengths in the commercial aviation industry include the following:

High operational efficiency, strong profitability with seamless service and young fleet

Hainan Airlines' profitability remained among the highest of all major PRC airlines in 2015, 2016 and 2017. In 2015, 2016 and 2017, the Group's consolidated total revenue was RMB35,225.44 million, RMB40,678.13 million and RMB59,903.95 million, respectively, an increase of 15.48% from 2015 to 2016 and 47.26% from 2016 to 2017. In 2015, 2016 and 2017, the Group's net profit attributable to equity shareholders was RMB3,002.69 million, RMB3,138.26 million and RMB3,322.95 million, respectively, an increase of 4.51% from 2015 to 2016 and 5.89% from 2016. Based upon publicly available information, Hainan Airlines was the best performing airline in terms of operating profit margin (7.2%) among all major PRC airlines in 2017.

The Group's high operational efficiency, along with its strong passenger load factor and aircraft utilisation rate, has contributed to its continuously improved financial performance in 2015, 2016 and 2017, respectively. The Group maintained high operating efficiency with a relatively low average of 79, 84 and 92 employees per aircraft, respectively, in 2015, 2016 and 2017. The Group achieved passenger load factors of 88.19%, 87.83% and 86.07% in 2015, 2016 and 2017, each number the highest figure reported by major PRC airlines for the same periods. The Group achieved aircraft utilisation of 9.67 hours and 10.07 hours per aircraft per day in 2015 and 2016, respectively, among the highest reported by major PRC airlines, compared with the PRC industry average of 9.15 hours and 8.07 hours for the same period. The Group's aircraft utilisation rate in 2017 was 9.31 hours per aircraft per day (2017 PRC industry average data is not available), a decrease from 2016 primarily due to the comparatively lower utilisation rates of Tianjin Airlines and the increases in Hainan Airlines' fleet and route network, resulting in initially lower utilisation, adversely affecting overall utilisation rates.

As an indigenous group with consistent support from local governments and community, the Group's strong profitability also derives from its dominant position in Hainan related routes and minimal route overlaps with other PRC airlines and high-speed railways. Unlike the other three major PRC airlines, which compete fiercely as many of their routes are overlapping, the Group has minimal route overlaps with other PRC airlines. Among all the PRC airlines, the Group has a major market share in the domestic, international and regional routes to and from Hainan province. In 2015 and 2016, the Group had an approximately 45.69% and 51.06% market share of total passenger throughout at Haikou Meilan International Airport and Sanya Phoenix International Airport. In 2017, the Group had an approximately 47.86% and 52.33% market share of total passenger throughout at Haikou Meilan International Airport and

Sanya Phoenix International Airport, respectively. As China's southernmost and only tropical island-based province, Hainan province has become one of the most popular vacation destinations in Asia, attracting both international and domestic tourists. The Group's leading position in Hainan province enables it to benefit from the fast-growing demand for aviation services to and from Hainan province. See "– *Well-positioned to benefit from the development of Hainan province as an international tourist destination and strong beneficial policies related to shareholders and local governments*". In addition, according to industry consensus, airlines are more competitive on long-haul routes, while high-speed railways are more competitive on short-haul routes. The Group believes that its member airlines will be the least affected by high-speed railways among PRC major airlines as its long haul routes originating from its nine route bases, together with its routes originating from Hainan Island, constitute a majority of its domestic routes. Further, only a limited number of the Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. See "– *Competition*".

The seamless service realized by the Group's expanding route network and relationships with airports have further helped improve its financial performance. The Group's domestic route network reaches all first tier PRC cities and is expanding to the second and third tier high-growth cities, growing into one of the largest networks in the country. Although it started with a relatively underdeveloped international route network, the Group has accelerated its expansion of international routes. As at 30 June 2018, Hainan Airlines had 214 international routes, including 108 intercontinental routes. The Group strives to form long-term partnerships with the airports in its major route bases (such as Beijing, Haikou and Sanya), which partnerships have increased the Group's control over and flexibility of operating its routes, making flight changes and providing customer services.

The Group has one of the youngest fleets among the major PRC airlines, with an average aircraft age of 5.01 years as at 30 June 2018, which was also a decrease from the 6.02 years as at 31 December 2015, a moderate increase from the 4.62 years as at 31 December 2016 and a slight increase from the 4.70 years as at 31 December 2017. It was due to a year passing, mainly. Generally, a more youthful fleet corresponds to higher performance reliability, greater fuel efficiency and lower maintenance costs, as compared to airlines with an older fleet. The Group's fleet primarily comprises Boeing 737-800 aircraft. Boeing aircraft have a strong track record of reliability in high-frequency operations. In addition, having a standardised fleet reduces the Group's inventory costs, as it requires smaller inventories for spare parts, and reduces the need to train the Group's pilots to operate different types of aircraft. A standardised fleet also reduces maintenance costs and operation-related processes.

Global brand recognition of high-quality service and excellent safety record and standards

The Group enjoys strong domestic and worldwide brand recognition in spite of its comparatively short operating history among major PRC airlines. Hainan Airlines obtained the Skytrax 5-Star Airline certification, a rating in recognition of its front-line product and high-quality services both on-board and at airports, its offer of the best experience as well as continuous technological innovation and personal care, top for a seventh time in 2017, one of only ten global winners in the year and the only PRC winner ever. In addition to a No. 9 global rating in the World's Best Airline category, Skytrax also acknowledged Hainan Airlines' unremitting endeavor on its service system, facilities and route network in 2017 with awards of "Best Airline in China" and "Best Airline Staff Service in China". Hainan Airlines also received "Asia's Leading Airline", "Asia's Leading Airline – Business Class", "Asia's Leading Airport Lounge – Business Class", "Asia's Leading Cabin Crew" and "Asia's Leading Inflight Food & Beverage" in 2017, presented by World Travel Awards ("**WTA**"). Hainan Airlines was named "Fastest-Growing Airline in Asia" and "Best Airline in China" by Global Traveler and "Best Airline in China" by Premier Traveler. In addition, in June 2016, Hainan Airlines was awarded the "Most Welcomed Domestic Airlines" by Tsinghua University's National Image and Communication Research Center. In December 2016, Hainan Airlines was named the "Most Welcomed Domestic Airline by Chinese Families" by Global Times.

Hainan Airlines was named as one of the BrandZ Top 100 Most Valuable Chinese Brands ("**Millward Top 100 Brand list**") in 2015, 2016 and 2017 and one of Top 20 Chinese Brands in Overseas Revenue in 2016 by Millward Brown Optimor ("**Millward**"), a global research agency analysing the world's leading brands. Of the four major PRC airlines on the Millward Top 100 Brand list, Hainan Airlines was the only one that increased in value, from U.S.$633 million in 2015, to U.S.$866 million in 2016 and then to U.S.$909 million in 2017.

Hainan Airlines has established a strong safety record during its 24 years of operation, during which it has flown over 6.31 million accumulated safe block hours. There have been no significant incidents involving casualty or flight damage in Hainan Airlines' operations since they commenced in 1993. Hainan Airlines has also kept the number of minor incidents (including various events and conditions prescribed by CAAC and not involving serious personal injury or material damage to flight equipment) consistently below the standard prescribed by CAAC. For example, Hainan Airlines' "Accidents Per Ten Thousand Hours Ratio" has been less than 0.1 since it started operations. In comparison, CAAC's published maximum acceptable Accidents Per Ten Thousand Hours Ratio is 0.6. In November 2015, it received the 5-Star Civil Aviation Safety Award from CAAC, improved from the 4-Star Civil Aviation Safety Award it was previously given. In March 2016, Hainan Airlines received the 5-Star Civil Aviation Safety Award again from CAAC for its 23 years of operations with a record of flying over 5.60 million safe block hours. Hainan Airlines has also been awarded the "Golden Eagle Award" and "Golden Roc Award" for airline safety, which are the highest civil aviation safety awards from CAAC, several times. Hainan Airlines serves as a model for other PRC airlines as CAAC gradually phases in the SMS for all PRC airlines.

As a registered member of the IATA Operational Safety Audit ("**IOSA**"), an auditing standard focusing on key aspects of airlines and airline support operations, Hainan Airlines' high safety standards have also been recognised world-wide. In January 2016, Hainan Airlines was ranked the fifth safest airline in the world and the safest PRC domestic airline by the German aviation accident investigation agency Jet Airliner Crash Data Evaluation Centre ("**JACDEC**"), which published its aviation safety ranking in Aero International, a German aviation industry journal. In 2017, the ranking of Hainan Airlines on such list has improved to third. See "– *Safety*".

Well-positioned to benefit from the development of Hainan province as an international tourist destination and strong beneficial policies related to shareholders and local governments

The description of support from the PRC government in this section is on the support given to the Guarantor's business operations and should not be read as any indication that the PRC government will provide any financial support to the Guarantor in respect of its obligations under the Bonds. Please see *"Risk Factors – The PRC government has no obligations under the Bonds."*

Hainan province, as China's southernmost and only tropical island-based province, has become one of the most popular vacation destinations in Asia, attracting both international and domestic tourists. The number of overnight visitors to Hainan province from around the world reached 44.92 million, 61.35 million and 77.45 million in 2015, 2016 and 2017, respectively. The total revenue of the tourism industry of Hainan province reached RMB57.25 billion, RMB65.78 billion and RMB80.68 billion in 2015, 2016 and 2017, respectively.

On 31 December 2009, Several Opinions of the State Council of the PRC regarding the Development of Hainan International Tourism Island (國務院關於推進海南國際旅遊島建設發展的若干意見) was approved and the strategy of developing Hainan as an international tourism island was promoted on the national level. In early 2011, the State Council of the PRC announced plans to transform Hainan province into an international resort destination by 2020. To upgrade the tourism industry of Hainan province, the Hainan provincial government also enacted several incentive policies including the 12th Five-Year Plan Regarding the Development of Tourism Industry in Hainan Province (海南省旅遊業發展"十二五"規劃)

and Projects in the 12th Five-Year Plan Regarding the Development of Tourism Industry in Hainan Province (海南省旅遊業發展"十二五"規劃項目). Moreover, Outline Regarding the Development Plan of the PRC Tourism Industry in the 12th Five-Year Plan (中國旅遊業"十二五"發展規劃綱要) enacted by China National Tourism Administration designated a specific Five-Year Plan for Hainan international tourism island including implementing duty-free and visa-free policies, liberalising airlines rights and establishing a free trade zone. The Outline regarding Travel and Leisure of PRC citizens (國民旅遊休閒綱要), enacted by the State Council of the PRC in February 2010, also is intended to promote the development of the tourism industry in the PRC. To facilitate the development of Hainan as an international tourism destination, the 12th Five-Year Plan issued by the PRC National People's Congress includes a plan to reconstruct and expand Haikou Meilan International Airport and Sanya Phoenix International Airport by 2015. In addition, the MOF of the PRC has issued a policy establishing Hainan province as a pilot duty-free tourism destination for international and domestic tourists to shop for imported goods. This duty-free scheme was officially launched in January 2011 for international tourists and in April 2011 for domestic tourists. In connection with the scheme, the finance department of Hainan province issued a tax refund letter to the Group in 2011, as a result of which the Group received a tax refund of RMB70.00 million for that year. After the promulgation of the Notice of the PRC Ministry of Finance regarding Adjustment on the Duty-Free Shopping Policy for Customers Departing from Hainan Island (財政部關於調整海南離島旅客免稅購物政策的公告) in November 2012, the average purchase amount and average daily sales amount of two duty-free shops in Haikou and Sanya increased 33% and 85%, respectively. In April 2018, the PRC government announced its plan and policies to transform Hainan province into China's largest free-trade zone, including modifying the offshore duty-free shopping in Hainan province to cover all outbound tourists and adopting a new 30-day visa-free policy in Hainan province for people from 59 countries.

The Group's indigenous identity and leading position in Hainan province enables it to benefit from the fast-growing demand for aviation services to and from Hainan province. The Group had an approximately 45.69% and 51.06% market share of total passenger throughput at Haikou Meilan International Airport and Sanya Phoenix International Airport in 2015 and 2016, respectively. In 2017, the Group had an approximately 47.86% and 52.33% market share of total passenger throughout at Haikou Meilan International Airport and Sanya Phoenix International Airport, respectively. The Group has received substantial support from its significant shareholders, including its beneficial shareholders HNA Group Co. and Hainan Development. The Group is one of the largest enterprises in Hainan province in terms of revenue and tax contribution. Hainan Development, a wholly owned subsidiary of the SASAC of the Hainan provincial government, is the ultimate controlling party of the Group through its controlling 24.97% shareholding in Grand China Air, the largest shareholder of Hainan Airlines. Accordingly Hainan provincial government's policies have favoured the growth of the Group. In July 2010, the Tourism Development Committee of Hainan Province signed a strategic cooperation framework agreement with HNA Group for improving tourism infrastructure and public service facilities, providing tourism services as well as internationalising the tourism industry on Hainan island.

HNA Group is a large conglomerate whose core business sectors include air travel, logistics and financial services. Through a variety of means, HNA Group has provided the Group with both strategic benefits and operating efficiency. The Group will develop new routes exploiting the existing route network of HNA Group and has entered into codeshare agreements with affiliated airlines under HNA Group, so as to further expand its route network and distribution channels within China. For example, Grand China Airlines and its subsidiaries under HNA Group have together been the primary provider of feeder line air passenger services in China. Through cooperation with Grand China Airlines and its subsidiaries, the Group is able to access the fast-growing feeder line transfer markets. In addition, the Group is also able to take advantage of HNA Group's airline-related businesses such as aircraft maintenance services, aircraft equipment and spare parts procurement, and crew training programmes. For example, Hainan Airlines has a strategic partnership with Caissa travel group, a member of HNA Group, which is a travel agency devoted to offering upscale and personalized travel for members of China's expanding middle class who desire more than the usual tour experience. During such partnership, Hainan Airlines has been upgrading its fleet with upscale accommodations and entertainment. The Group is also able to phase out its older model aircraft which no longer meet its requirements for passenger services, by selling or leasing those aircraft to affiliated cargo service companies under HNA Group. Through cooperation with affiliated airlines and other entities under HNA Group, the Group is also able to modernise and rationalise its fleet at a lower cost, centralise the procurement and inventory management of aircraft components and integrate maintenance resources. HNA Group also has controlling or substantial interests in 16 airports, including Haikou Meilan International Airport and Sanya Phoenix International Airport. As a result of its coordination with HNA Group, the Group has been able to improve its operating efficiency and to achieve better financial performance.

Multiple financing channels and continuously improved financial and liquidity position

The Group believes that a strong liquidity and cash position is critical to its success. It has strived to maintain strong relationships with major PRC banks including China Development Bank, the Export-Import Bank of China, Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of Communications, Beijing Rural Commercial Bank and China Everbright Bank. It has transacted business with major aircraft lease financing companies including ILFC, GE Capital Aviation Services, Aviation Capital Group, Aircastle, BOC Aviation, CIT and HKAC. Hainan Airlines was the first PRC airline to issue bonds guaranteed by the Export-Import Bank of the United States. Hainan Airlines has completed four issues of its bonds in the international bonds markets since 2000. The Group has been able to take advantage of the multiple financing channels available to the Issuer and the Guarantor in and outside of the PRC, through which it has improved its capital structure and lowered financing costs.

The Group's financial and liquidity position has improved significantly since 2014 due to its effort in exploring and developing multiple financing channels. In May 2014, Hainan Airlines issued CNY400,000,000 five year medium term notes in the PRC. Between August and October 2014, Hainan Airlines completed a private placement of three year corporate notes to institutional investors recognised by the National Inter Bank Note Market Dealers Association in the PRC in an aggregate amount of CNY3,200,000,000. Hainan Airlines also started to explore other financing channels such as asset securitisation. In January 2015, Hainan Airlines announced that it intended to issue a billing and settlement plan ("**BSP**") supported by the revenue and receivables of its air fares in an aggregate amount of CNY6,150,000,000 through three offerings to no more than 200 qualified investors. The first BSP in an amount of CNY2,050,000,000 was issued on 10 April 2015. In March 2015, Hainan Airlines' subsidiary, Lucky Air, issued CNY2,000,000,000 corporate notes in the PRC guaranteed by HNA Aviation Group Co., Ltd. in five tranches with terms from one year to five years, which have been listed on the Shanghai Stock Exchange. The Issuer also issued CNY1,700,000,000 guaranteed notes in May 2014, a further CNY1,300,000,000 guaranteed notes (which are consolidated and form a single series with the CNY1,700,000,000 guaranteed notes issued in May 2014) in June 2014, U.S.$300,000,000 guaranteed notes in June 2017 and U.S.$300,000,000 guaranteed notes in October 2017, in the international capital markets. In September 2016, Hainan Airlines completed a private placement of A shares with an increase of share capital from RMB12,182,181,790 to RMB16,806,120,330. The placement raised net proceeds of approximately RMB16,404 million.

The Group's gearing ratio (defined as total debt divided by total assets) was 48.74%, 34.58% and 39.40% as at 31 December 2015, 2016 and 2017, respectively. The Group's total cash at bank and on hand was RMB18.69 billion, RMB21.59 billion and RMB36.39 billion as at 31 December 2015, 2016 and 2017, respectively. As at 30 June 2018, the Group's unused revolving line of credit granted by PRC banks was approximately RMB33.41 billion.

The Group is also committed to having sufficient cash and cash equivalents to repay any significant financial debt coming due within a three-year horizon. In this regard, the Group believes that a prudent capital structure and a strong balance sheet, combined with its operating cash flow generation, will improve its operational flexibility to allow rapid responses to market changes and exploration of new opportunities.

Experienced management team

The core members of the Group's senior management team have been in the aviation industry for over 20 years on average and each has extensive experience in both airline managerial and operating roles. The Group's senior management team has created a modernised management system by employing advanced technologies and experience, and has a track record of sound decision-making which helped transform the Group from a small regional airline to a profitable and well-known national airline in a short time period.

BUSINESS STRATEGIES

The Group aims to become the airline of choice in China and one of the world's most competitive airlines by enhancing its existing strengths and developing new potential, and by implementing the following strategies:

Maintain disciplined and rationalised fleet growth

The Group has grown its fleet size to 420 aircraft as at 30 June 2018. See "– *Fleet – Fleet Composition*".

The Group employs a disciplined fleet expansion strategy. The Group's goal is to react quickly to changes in the economic environment and market conditions so each aircraft it operates delivers high operating profitability. The Group intends to rationalise its fleet to focus on limited types of aircraft, engines and equipment and modernise its fleet. Rationalisation of the Group's fleet is one of the key elements of its business strategy in order to allow greater efficiencies and reduce operating costs. Having a standardised fleet reduces inventory costs, as it limits the required size of physical inventories, and reduces the need to train the Group's pilots to operate different types of aircraft. A standardised fleet also reduces maintenance costs and operation-related processes.

Currently, the Group maintains a young fleet primarily comprising Boeing 737-800 aircraft. Boeing aircraft have a strong track record of reliability in high-frequency operations. On 24 July 2014, Hainan Airlines announced that it had agreed with Boeing to purchase 50 Boeing 737 MAX 8 airplanes in the next 10 years. The scheduled purchase of these aircraft has been and will be monitored carefully while the Group expands its network in order to reduce the risk of over-expansion and undue exposure to market downturns. On 30 September 2014, Hainan Airlines announced that it plans to lease 12 Boeing 737-800 airplanes from Tianjin Yangtze River No. 4 Leasing Company Limited, a wholly-owned subsidiary of Changjiang Leasing, for 12 years through financial leasing with floating rental rates for a total rental amount of up to U.S.$1.1 billion. In December 2014, Hainan Airlines signed a sale-leaseback contract with Tianjin Bohai No. 3 Leasing Co., Ltd., an affiliate of Hainan Airlines, and Team Cignus Limited for a Boeing 737-800 aircraft. As at the date of this Offering Circular, the sale-lease back contract is still valid. These transactions are connected transactions under the listing rules of the Shanghai Stock Exchange and have been approved by the independent directors of Hainan Airlines. On 26 March 2015, Hainan Airlines announced that its Board of Directors had approved the purchase of 35 aircraft in 2015, including six A330-300 aircraft, five B330-200 aircraft, 22 B737-800 aircraft and two B787-8 aircraft and to sign an agreement with Boeing to purchase 30 B787-9 aircraft to be delivered before 2021 and such plans have been approved by its shareholders on 16 April 2015. The first B787-9 aircraft was delivered in June 2016. The Group expects to use its additional aircraft to add capacity on existing routes in both its targeted growth markets and its higher demand domestic routes, as well as to expand its network footprint. The

Group also plans to replace older aircraft with new models, replacing a total of 14 aircraft from 2015 to 2018. In addition, the Group plans to carry out a reconfiguration and refurbishment programme to modernise its existing fleet, eliminate product inconsistencies and improve operational inflexibilities to further enhance the travel experience of its passengers.

Further expand core domestic and accelerate build-up international route network

The Group intends to further expand its core domestic route network and to strengthen its position in Hainan province by continuing to optimise its route network structure. In particular, the Group plans to (i) increase and coordinate its fleet deployment in Haikou and Sanya to a size and structure necessary to satisfy the increasing market demand, (ii) expand its route network radiating from Hainan Island, (iii) centralise the allocation of its operating resources and (iv) optimise flight connections and improve ground services.

In addition, the Group plans to strengthen its position in strategically important regions and destinations by selectively establishing new route bases and introducing additional routes, both independently and through codeshare arrangements with external airlines and airlines affiliated with HNA Group, as well as overseas acquisitions and investments. For example, the Group intends to strengthen its route network coverage in western China and increase connections between eastern and western China to serve the increasing number of passengers resulting from the PRC government's "Develop-the-West" policy to advance economic development in western China. The Group plans to cooperate with HNA Group to build an extensive route network covering western China, through connecting the Group's two hubs in Xi'an and Urumqi with HNA Group's feeder line route network in that region and expanding the route network radiating from these two hubs. The Group intends to develop Guangzhou as its southern hub and expand its route network radiating from Guangzhou and Shenzhen. The Group intends to integrate its Beijing and Tianjin operations into hubs in central China. The Group is also contemplating ten routes connecting cities including Guangzhou, Shanghai, Shenzhen, Xi'an, Kunming, Chengdu, Chongqing and Urumqi.

In October 2012, Hainan Airlines entered into a cooperative agreement to form a joint venture, Fuzhou Airlines, with Fuzhou State Asset Investment Holdings Co. Ltd., Century Golden Resources Group and Ningbo Ruitong Internet Technology Co., Ltd. to utilise local aviation resources, expand local market share and build a strong service brand. Hainan Airlines has agreed to invest a total of RMB1.20 billion in cash or in kind, or 60.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Fuzhou Airlines in February 2014. Fuzhou Airlines obtained a Public Air Transportation Enterprise Operating License from CAAC in October 2014 and made its first flight from Fuzhou to Beijing on 30 October 2014.

In February 2013, Hainan Airlines entered into a framework agreement to form a joint venture, Urumqi Airlines, with Urumqi City Construction Investment Co., Ltd. to promote the development of the civil aviation and tourism industries in Xinjiang area. Hainan Airlines has agreed to invest a total of RMB2.1 billion in cash or in kind, or 70.00% of the aggregate capital commitments by the parties. CAAC approved the formation of Urumqi Airlines in November 2013. In August 2014, Urumqi Airlines has obtained the Public Air Transportation Enterprise Operating License from CAAC and completed its relevant registration procedures with Urumqi High-Tech Development Zone Administration for Industry and Commerce. Urumqi Airlines has its operating base in Urumqi International Airport and initially engages in domestic passenger and cargo air transportation; Urumqi Airlines will place three airplanes for its arterial routes and focus initially on the routes between Urumqi and Beijing, Urumqi and Shanghai, and Urumqi and Guangzhou as well as branch routes within Xinjiang province. The first flight of Urumqi Airlines flew from Urumqi to Yining on 29 August 2014.

The Group intends to further expand its international route network, especially the routes to Southeast Asia, Europe and North America, in the next five years. The Group also intends to further develop Beijing as a key international hub for its flights to Southeast Asia, Europe and North America. As China's capital city, Beijing is China's political centre and one of its most important economic and cultural centres. Beijing Capital International Airport is China's busiest air hub and one of its most important aviation gateways. In addition to Beijing, the Group intends to develop Urumqi as another key international departure base in western China, connecting its domestic routes to major cities in northern, southern and eastern China and its international routes to former Soviet countries. In October 2012, HNA Group took a 48.00% stake in Aigle Azur, a French airline, at a price of U.S.$40 million. By having an interest in a French airline, HNA Group hopes to open services between France and the PRC, which HNA Group has been unable to do as a result of PRC restrictions that limit the number of local carriers on intercontinental routes. The Group intends to exploit this resource to further expand its international routes. In September 2014, Hainan Airlines launched its Hangzhou-Xi'an-Paris route with two scheduled flights weekly. In 2015, Hainan Airlines launched its Chongqing-Rome, Beijing-San Jose/Birmingham/ Prague. In September 2016, Hainan Airlines launched its Shanghai-Seattle/Boston, Xi'an-Rome/Sydney services, Xi'an-Sydney, Changsha-Sydney and Guangzhou-Danang services. Hainan Airlines launched its Haikou-Danang service in October 2016, its Haikou-Hanoi, Xi'an-Melbourne, Changsha-Melbourne and Shenzhen-Danang services in November 2016, its Shenzhen-Phuket, Shenzhen-Nha Trang, Guangzhou-Nha Trang, Shenzhen-Auckland, Haikou-Luangprabang, Sanya-Phnom Penh services in December 2016, its Haikou-Vientiane, Sanya-Siem Reap, Hangzhou-Sapporo, Changsha-Sapporo and Sanya-Bangkok services in January 2017, its Chengdu-Los Angeles service in March 2017, its Sanya-Rayong service in April 2017, its Kunming-Manila service in May 2017, its Kunming-Cebu, Kunming-Moscow, Chongqing-Moscow, Tianjin-Moscow, Baotou-Irkutsk and Chengdu-Irkutsk services in June 2017 its Tianjin-Vladivostok/Hakodate, Haikou-Phuket, Nanning/Kunming-Seri Begawan, Guangzhou-Seam Reap/ Phnom Penh services in July 2017, its Shanghai Pudong-Tel Aviv, Beijing-Prague-Belgrade, Naichang-Hanoi, Shenzhen-Brisbane and Haikou- Pattaya services in September 2017, its Shenzhen-Luang Prabang/Vientiane/Chiang Rai, Chongqing-New York/Melbourne, Chengdu-New York and Shanghai Pudong-Brussels services in October 2017, and its Lijiang-Kuala Lumpur. Shenzhen-Cairns and Tianjin-Xian-Auckland services in December 2017.

In January 2018, Hainan Airlines launched its Tianjin – Zhengzhou – Sydney and Haikou – Sydney services. In March 2018, Hainan Airlines launched its Shenzhen – Sihanoukville/Brussels/Madrid services, Beijing – Tijuana – Mexico City service, and Changsha – London service. In May 2018, Hainan Airlines launched its Tianjin – Xi'an – London (Heathrow) service, Shenzhen – Tianjin – Vancouver service, and Nanning – Siem Reap service, and in June 2018, it launched its Beijing – Edinburgh/Dublin – Dublin/Edinburgh – Beijing services and Urumqi – Irkutsk service.

Continue development into a premium brand airline, to capture a greater share of premium passenger traffic with personalised travel experience

The Group aims to continue to evolve into a premium brand airline by maintaining its safety track record, improving on-time performance and differentiating its products and services. The Group's goal is to deliver friendly, professional and "best-in-class" service on a consistent basis to all its customers. Specifically, the Group plans to optimise its fleet deployment and streamline check-in and other ground services. For certain long-haul routes, the Group plans to reconfigure its first-class and business-class cabins by installing larger and more comfortable seats and upgrading the in-flight entertainment system. The Group will continuously strive to improve overall cabin service by emphasising training for and enhancing the communication skills of its flight crews. The Group will also continue to adhere to recognised industry standards and procedures for aircraft maintenance. The Group aims to create a widely recognised brand that is distinguished from its competitors and associated with a safe and reliable airline focused on customer services and high quality travel experiences.

The Group believes that customer recognition will be the key for it to use its brand power in marketing efforts and position itself to be a preferred partner with business travellers. The Group plans to continue to seek ways to improve its business-class travel experience as this customer segment plays an important role in maintaining profitability. The Group also plans to place further emphasis on delivering enhancements and travel preferences that business travellers value most as well as identifying areas for further improvement. For example, Hainan Airlines has a strategic partnership with Caissa travel group, a member of HNA Group, which is a travel agency devoted to offering upscale and personalized travel for members of China's expanding middle class who desire more than the usual tour experience. During such cooperation, Hainan Airlines has been upgrading its fleet with upscale accommodations and entertainment.

Cost control, focus on routes with high profitability and strategic avoidance of direct competition with high-speed railways

The commercial aviation industry is characterised by high fixed costs. The Group believes that cost control and efficiency improvements are key to maintaining its competitiveness. The Group has adopted a performance improvement programme intended to reduce its operating costs, primarily by: further increasing aircraft utilisation by achieving better alignment: (i) between route structure and market demand; (ii) between fleet allocation and route networks; and (iii) between maintenance capabilities and fleet deployment; and optimising inventory levels for aviation spare parts and centralising its procurement activities.

The Group also plans to improve its profitability across its route network. In particular, the Group continuously analyses the profitability of each route, and selectively increases or reduces the number of flights to focus on higher margin routes. As at 31 December 2017, Hainan Airlines Group provided regular scheduled domestic flights between Haikou and Beijing, and scheduled regional flights from several cities in Mainland China to Taipei and Taichung, each of which has a track record of profitability for the Group.

The Group also strategically circumvents competition with routes of the high-speed. According to industry consensus, airlines are more competitive on long-haul routes, while high-speed railways are more competitive on short-haul routes. The Group believes that its member airlines will be the least affected by high-speed railways among PRC major airlines as its long haul routes originating from its nine route bases, together with its routes originating from Hainan Island, to which there is not any railway connecting to Mainland China, constitute a majority of its domestic routes. Further, only a limited number of the Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. See "– *Competition*".

Continue to develop alliances with airlines affiliated with HNA Group and with other airlines

The Group plans to exploit its own extensive PRC route network and take advantage of HNA Group's route network to offer connecting flights to and from destinations in the PRC not already served by The Group by way of codeshare agreements and special pro-rate agreements between Hainan Airlines and HNA Group or other airlines. Hainan Airlines plans to increase passenger traffic by increasing the number of PRC cities in its route network and attracting passengers who will be transiting from the major PRC cities served by The Group to other lower tier PRC cities on flights offered by HNA Group. Similarly, passengers arriving on domestic flights offered by HNA Group can then be served by the regional or international flights offered by the Group. The Group also plans to maximise its passenger traffic and aircraft utilisation by selectively expanding its regional and international network in coordination with the network of HNA Group. It also plans to take advantage of the route base currently operated in Hong Kong by HNA Group in addition to the nine route bases operated by the Group to achieve greater connectivity between the flight routes of the two groups. The Group believes that this will enable it to expand its customers' choices, increase consumers' brand awareness and increase its market share in the PRC and international markets.

In August 2012, Hainan Airlines was authorised by its board and shareholders to hold the shares in several airlines on behalf of their beneficial owners, Grand China Air and HNA Group Co.. Hainan Airlines will exercise shareholders' rights on their behalf and manage and operate these airlines for certain fees during the agreed periods. The airlines to be managed by Hainan Airlines include Beijing Capital Airlines, West Air, Tianjin Airlines, Hong Kong Airlines, Lucky Air and Grand China Airlines (only in respect of its aviation transportation business). Hainan Airlines believes that the arrangements will help satisfy regulatory and governance requirements for the contribution of these interests to Hainan Airlines in the future. On 6 September 2014, HNA Group Co. altered the above undertaking as it considered such alteration to be appropriate to reduce potential competition between HNA Group and Hainan Airlines through selling its interest in Hong Kong Airlines Co. to independent third parties in light of the proposed initial public offering of Hong Kong Airlines Co., as a result of which Hainan Airlines will cease to manage Hong Kong Airlines. In July 2017, HNA Group Co. fulfilled its undertaking in connection with selling its shareholding interest in Hong Kong Airlines Co.. On 24 June 2017, Hainan Airlines announced that the undertakings of HNA Group Co. in connection with transferring its shareholding interests in West Air and Beijing Capital Airlines, originally required to be satisfied by 12 July 2017, would be extended for 24 months upon the approval of Hainan Airlines' shareholders' general meeting. In the same announcement, Hainan Airlines reported that HNA Group Co. had undertaken that within 24 months of such approval, HNA Group Co. would complete the transfers.

In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of the capital contribution to Tianjin Airlines by Tianhang Holding Co., Ltd. (天航控股有限責任公司). In July 2014, Hainan Airlines completed a further subscription of 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%, which was diluted to 39.06% in December 2014 as a result of the capital contributions to Tianjin Airlines by Tianjin Chuangxin Investment LLP (天津創鑫投資合夥企業(有限合夥)) in August 2014 and Tianjin Free Trade Zone Investment Co., Ltd. (天津保稅區投資有限公司) in December 2014, respectively. In April 2015, Hainan Airlines announced that it intended to acquire a further 48.21% shares of Tianjin Airlines. On 4 February, 2017, Hainan Airlines announced that such acquisition with a cash payment of approximately RMB5,554 million and the registration with the corresponding Administration for Industry and Commerce in connection with such increase of shareholding in Tianjin Airlines had been both completed. On 24 June 2017, Hainan Airlines announced that HNA Group Co. intended to form a joint venture, Xintuoheng, with Tianjin Trust and Shanghai Huashuo. HNA Group Co. plans to invest RMB636.50 million while Tianjin Trust and Shanghai Huashuo plan to invest RMB1,110.00 million and RMB0.01 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB1,736.50 million in cash at a price of RMB1.51 per share. On the same day, Hainan Airlines announced that HNA Group Co. intended to form a joint venture, Jinhaichuangxin, with CITIC Trust and Innovation Investment Management. HNA Group Co. plans to invest RMB1,000.00 million while CITIC Trust and Innovation Investment Management plan to invest RMB1,952.60 million and RMB1.00 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB2,952.60 million in cash at a price of RMB1.51 per share. After these two subscriptions, Tianjin Airlines' registered capital will increase from RMB8,192.60 million to RMB11,297.96 million, resulting in a dilution of Hainan Airlines' direct shareholding interest in Tianjin Airlines from 87.28% to 63.28%. In November 2013, Hainan Airlines announced that it intended to invest RMB1 billion in new share capital of West Air in cash. As at 31 January 2016, Hainan Airlines had completed the share subscription in West Air, increasing its shareholding to 28.43%. In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. In the future, the Group plans to develop West Air and Lucky Air into low-cost airlines to meet the increasing competition from alternative means of transportation, such as highways and railways. Hainan Airlines has entered into or plans to enter into these investments to help the Group build its core business, market share and competitiveness and eliminate potential competition issues among the Group, Grand China Air and HNA Group Co. See "*Principal Shareholders*".

BUSINESS ACTIVITIES

The Group provides passenger, bellyhold cargo and mail and aircraft leasing services and other airline-related services including property leasing, lodging, catering, ticketing and ground services.

Passenger services

The Group provides domestic, regional and international passenger services. Also, as at 30 June 2018, the Group operated charter flights to 50 domestic destinations and 18 international destinations for business, government, educational or tourist groups travelling to international, regional and domestic destinations. The Group determines its charter flight arrangements, including pricing and locations, primarily in accordance with market demand.

The Group's passenger services have historically provided its largest source of revenue. For the years ended 31 December 2015, 2016 and 2017, the Group generated revenue of approximately RMB32.07 billion, RMB37.03 billion and RMB55.21 billion, respectively, from its air passenger services, accounting for 91.03%, 91.04% and 92.16% of its total revenue for the same periods. For the six months ended 30 June 2017 and 2018, the Group generated revenue of approximately RMB26.22 million RMB30.38 billion, respectively, from its air passenger services, accounting for 91.90% and 92.22% of its total revenue for such periods respectively.

The following table sets forth certain passenger operating statistics of the Group by route for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018:

	Year Ended 31 December			Six Months Ended 30 June	
	2015	2016	2017	2017	2018
		(RMB million)			
Passenger revenue	**32,067.03**	**37,033.18**	**55,207.41**	**26,215.92**	**30,379.94**
Domestic	27,274.50	30,658.52	45,142.19	21,700.74	25,102.21
Regional	70.34	141.26	–(1)	–(2)	–(2)
International	4,722.20	6,233.40	–(1)	–(2)	–(2)

Notes:

(1) International and regional passenger revenue of the Group by route for the year ended 31 December 2017 was RMB10,065.21 million in aggregate. Separate data for each of international and regional passenger revenue is not available.

(2) International and regional passenger revenue of the Group by route for the six months ended 30 June 2017 and 2018 was RMB4,515.18 million and RMB5,277.73 million, respectively, in aggregate. Separate data for each of international and regional passenger revenue is not available.

The following table sets forth certain passenger operating statistics of the Group by route for the years ended 31 December 2015, 2016 and 2017:

	Year Ended 31 December			Six Months Ended 30 June	
	2015	2016	2017	2017	2018
Passenger Traffic (in RPKs) (millions)	**66,239.52**	**82,951.27**	**121,223.48**	**58,159.21**	**67,963.30**
Domestic	55,396.42	66,566.25	96,088.71	46,456.82	53,631.41
Regional	644.69	572.90	521.39	265.84	251.50
International	10,198.40	15,812.13	24,613.37	11,436.55	14,080.39
Passenger Capacity (in ASKs) (millions)	**75,112.15**	**94,441.54**	**140,843.20**	**67,121.32**	**79,596.39**
Domestic	61,772.41	73,957.19	107,367.21	51,582.21	60,245.46
Regional	780.43	720.82	702.80	350.63	339.80
International	12,559.31	19,763.53	32,773.19	15,188.48	19,011.14
Passenger Load Factor (%)	**88.19**	**87.83**	**86.07**	**86.65**	**85.38**
Domestic	89.68	90.01	89.50	90.06	89.02
Regional	82.61	79.48	74.19	75.82	74.01
International	81.20	80.01	75.10	75.30	74.06

Route bases

The Group operates most of its flights using a hub and spoke strategy through its nine route bases, including Beijing, Dalian and Taiyuan in northern China, Haikou, Guangzhou and Shenzhen in southern China, and Xi'an, Lanzhou and Urumqi in Northwestern China. Each of the route bases is a hub for transiting passengers of the Group and has facilities for the maintenance of the Group's aircraft and parking spaces exclusively used by the Group's aircraft. By providing services between these locations and other major cities in China, the Group believes that it will benefit from the level of development and growth opportunities in northern and southern China, and benefit from the increased passenger growth resulting from the PRC government's "Develop-the-West" policy to advance economic development in western China. The Group's aircraft used for regional operations are mainly maintained in these nine route bases, and the Group's sales offices are also based at each route base. The Group believes that its nine route bases enable it to coordinate flights and deploy its aircraft more effectively and to provide more convenient connecting flight schedules and access service and maintenance facilities for its aircraft.

Route network

As at 30 June 2018, the Group operated approximately 1,700 routes consisting of over 1,400 domestic routes, more than 200 international routes and 14 regional routes.

The Group has established a highly integrated, multiple-hub domestic route network, which allows it to offer frequent, non-stop flights among China's most important provincial capitals and major commercial cities. The Group also offers a large number of interconnections through its nine route bases linking city pairing with a combination of two or more flights with limited connecting or stop-over time. In addition, the Group's network allows it to increase the load factors on its most popular routes through offering stop-over rather than only direct flights. The Group's multi-hub domestic network allows it to build its flight routes to add destinations to cities that would not, individually, be economically viable to serve in the traditional point-to-point model, but become feasible to serve when added as additional points on its multi-stop route network.

With existing more than 200 international and 14 regional routes, the Group has built an international route network worldwide consisting of short-haul and medium-haul flights to countries including Thailand, Singapore, Kazakhstan, Japan, Laos, Cambodia, the Philippines and Vietnam and long-haul flights to countries including the United States, Canada, Mexico, Belgium, Germany, Russia, Spain, United Kingdom, Czech, Italy, Australia, Israel and the Maldives. In order to expand the Group's international route network, the Group has entered into codeshare agreements with several international airlines, including American Airlines, Air Berlin, Brussels Airlines, Hong Kong Airlines, Korean Air, EVA AIR, UNI Air, Aigle Azur, S7 Airlines and Etihad Airways. Under the codeshare agreements, the participating airlines are permitted to sell tickets on certain international routes operated by the Group to passengers using the Group's codes. See "– *Codeshare Agreements*". Similarly, the Group is permitted to sell tickets for the other participating airlines using its "HU" code. The code sharing agreements help increase the number of the Group's international sales outlets.

The Group continually evaluates its network of domestic, regional and international routes in light of its operating profitability and efficiency. The Group seeks to coordinate flight schedules within the Group and with other airlines under HNA Group on shared routes to maximise load factors and utilisation rates. See "– *Codeshare Agreements*".

Domestic routes

The Group operates over 1,400 domestic routes and has traditionally focused on short-haul (less than 800 kilometres) to medium-haul (from 800 to 1,500 kilometres) flights originating from its nine route bases. The Group provides scheduled service to 30 provincial capitals, major commercial cities and tourist destinations in China.

In addition, to avoid direct competition with its three major competitors in China, the Group has focused on developing its routes originating from the Northwestern region in China, where its competitors have less coverage. For example, the Group has the most extensive route network originating from Lanzhou and Urumqi among all airlines in China with passenger load factors of 92.0% and 94.4% in 2017, the highest figures reported by PRC airlines for such routes.

The Group also strategically circumvents competition with routes of the high-speed railways. The Group believes that its member airlines will be the least affected by high-speed railways among PRC major airlines as its long haul routes originating from its nine route bases, together with its routes originating from Hainan Island, constitute a majority of its domestic routes. Further, only a limited number of the Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. See "– *Competition*".

Regional routes

The Group services 14 regional routes providing scheduled service between Taipei and six cities in Mainland China, namely Haikou, Beijing, Guangzhou, Xi'an, Dalian and Lanzhou and Kunming and between Haikou and Macau, with approximately 45 scheduled flights per week.

Before 2008, direct flights between Taiwan and Mainland China were only available during certain holidays, and travellers between Taiwan and China have generally had to go through intermediate stops in Hong Kong or elsewhere. Since July 2008, however, the limitation on direct flights has been further eased to allow direct charter flights on weekends. Hainan Airlines became the first PRC carrier to fly nonstop to Taiwan. On 4 November 2008, Mainland China and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On 31 August 2009, Mainland China and Taiwan increased the number of regular cross-Strait direct passenger flights from 108 to 270 per week. The 108 direct passenger flights previously operating were all charter flights. The new services comprise both regular charter and scheduled flights.

In order to further strengthen its presence in Taiwan, the Group opened a branch office in Taipei in 2008.

The map below sets out Hainan Airlines' domestic and regional destinations as at 30 June 2018:

International routes

The Group operates 542 scheduled international flights per week, serving 57 cities in 26 countries.

The Group provides scheduled service to East Asian destinations in Japan, to Southeast Asian destinations in Laos, Cambodia, Vietnam, Singapore, Thailand, the Philippines, Malaysia and the Maldives, to Israel in the Middle East and to Central Asian destinations in Kazakhstan. The Group provides scheduled service to North American destinations including the United States, Canada and Mexico and to European destinations in Belgium, Germany, Russia, Spain, United Kingdom, the Czech Republic, Serbia and Italy. The Group also provides scheduled service to Australia.

The Group added seven international routes in 2014, including Beijing-Bali with three scheduled flights weekly since January 2014, Kunming-Guiyang-Singapore with one scheduled flight weekly since January 2014, Hefei-Haikou-Singapore with three scheduled flights weekly since March 2014, Beijing-Boston with four scheduled flights weekly since June 2014, Kunming-Koh Samui route with three scheduled flights weekly since August 2014, Hangzhou-Xi'an-Paris with two scheduled flights weekly since September 2014 and Kunming-Yekaterinburg route with two scheduled flights weekly since October 2014. The Group also resumed its Beijing-Bangkok route with four scheduled flights weekly since December 2014.

In 2015, the Group launched its Chongqing-Rome, Beijing-San Jose/Birmingham/Prague, Shanghai-Seattle/Boston and Xi'an-Rome/Sydney services, constituting altogether eight new international routes.

In early 2015, Hainan Airlines established an office in Paris to conduct passenger and cargo transportation.

In September 2016, Hainan Airlines launched its Shanghai-Seattle/Boston, Xi'an-Rome/Sydney, Xi'an-Sydney, Changsha-Sydney and Guangzhou-Danang services. Hainan Airlines launched its Haikou-Danang service in October 2016, its Haikou-Hanoi, Xi'an-Melbourne, Changsha-Melbourne and Shenzhen-Danang services in November 2016, its Shenzhen-Phuket, Shenzhen-Nha Trang, Guangzhou-Nha Trang, Shenzhen-Auckland, Haikou-Luangprabang, and Sanya-Phnom Penh services in December 2016, and its Haikou-Vientiane, Sanya-Siem Reap, Hangzhou-Sapporo, Changsha-Sapporo and Sanya-Bangkok services in January 2017.

Hainan Airlines launched its Chengdu-Los Angeles service in March 2017, its Sanya-Rayong service in April 2017, its Kunming-Manila service in May 2017, its Kunming-Cebu, Kunming-Moscow, Chongqing-Moscow, Tianjin-Moscow, Baotou-Irkutsk and Chengdu-Irkutsk services in June 2017 its Tianjin-Vladivostok/Hakodate, Haikou-Phuket, Nanning/Kunming-Seri Begawan, Guangzhou-Seam Reap/Phnom Penh services in July 2017, its Shanghai Pudong-Tel Aviv, Beijing-Prague-Belgrade, Naichang-Hanoi, Shenzhen-Brisbane and Haikou-Pattaya services in September 2017, its Shenzhen-Luang Prabang/Vientiane/Chiang Rai, Chongqing-New York/Melbourne, Chengdu-New York and Shanghai Pudong-Brussels services in October 2017, and its Lijiang-Kuala Lumpur. Shenzhen-Cairns and Tianjin-Xian-Auckland services in December 2017.

In January 2018, Hainan Airlines launched its Tianjin – Zhengzhou – Sydney and Haikou – Sydney services. In March 2018, Hainan Airlines launched its Shenzhen – Sihanoukville/Brussels/Madrid services, Beijing – Tijuana – Mexico City service, and Changsha – London service. In May 2018, Hainan Airlines launched its Tianjin – Xi'an – London (Heathrow) service, Shenzhen – Tianjin – Vancouver service, and Nanning – Siem Reap service, and in June 2018, it launched its Beijing – Edinburgh/Dublin – Dublin/Edinburgh – Beijing services and Urumqi – Irkutsk service.

The map below sets out Hainan Airlines' major international routes as at 30 June 2018:

Cargo and mail

The Group's cargo and mail services are combined with passenger flight services as the Group does not own or operate cargo freighters. Therefore, the Group's cargo route network overlaps with its passenger route network, serving 1,700 domestic cargo routes, 14 regional cargo routes and more than 200 international cargo routes.

At present, the Group conducts its cargo business primarily through its nine route bases. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group generated revenue of RMB970.89 million, RMB951.29 million, RMB1,403.60 million, RMB798.05 million and RMB802.87 million, respectively, from its cargo and mail services, constituting 2.76%, 2.34%, 2.34%, 2.80% and 2.44% of its total revenue for the same period.

Aircraft leasing services

The Group has leased aircraft to airlines affiliated with HNA Group. As at 30 June 2018, in addition to its fleet of 420 aircraft, the Group leased 28 aircraft to other HNA Group affiliated airline companies. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group generated revenue of RMB820.20 million, RMB989.17 million, RMB674.85 million, RMB321.38 million and RMB334.84 million, respectively, from its aircraft leasing services, constituting 2.33%, 2.43%, 1.13%, 1.13% and 1.02% of its total revenue for the same period. The Group plans to gradually phase out its aircraft leasing services to affiliated airlines as they become capable of purchasing aircraft on their own.

General aviation services and ancillary activities

In addition to its airline operations, the Group also generates commission revenue from tickets sold on behalf of other airlines. Commission rates for these sales are determined by CAAC and are based on the price of the tickets sold. In 1995, the Group acquired Hainan Golden Deer Aviation Sales Co., Ltd. to serve as its agent in collecting flight booking fees. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group generated commission revenue of RMB36.81 million, RMB86.12 million, RMB55.01 million, RMB139.30 million and RMB27.51 million, respectively, from its flight booking business.

The Group also derives revenue from the provision of airport ground services for other airlines operating to or from its nine route bases, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present, the Group is the principal provider of these services at Haikou Meilan International Airport, Xi'an Xianyang International Airport and Sanya Phoenix International Airport. The Group provides these services to foreign carriers generally pursuant to one-year renewable contracts. In 2015, the Group generated revenue of RMB24.94 million, from its airport ground services and cargo handling services. Since February 2016, the Group no longer provides any airport ground services and cargo handling services.

The Group also conducts real estate related business, including the provision of property leasing, lodging and catering services through its subsidiaries including Beijing Kehang Investment Co., Ltd, Brussels SODE Hotel and Shaanxi Chang'an Star Hotel. Beijing Kehang Investment Co., Ltd. holds certain real estate properties in Beijing and has leased such real estate properties to Marriott as a luxury hotel. In October 2013, the Group acquired a 100% shareholding in Hainan Fushun Investment & Development Co., Ltd., which holds certain real estate properties in HNA Plaza, the Group's headquarter in Haikou, with an aggregate gross floor area of approximately 41,257.46 square meters. The Group is currently in the process of registering its equity interest in such company. The Group generated revenue of approximately RMB410.37 million, RMB403.13 million, RMB483.86 million, RMB228.97 million and RMB198.60 million from its real estate related business for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively.

The Group also conducts other ancillary activities such as aircraft media services. In December 2014, Hainan Airlines increased its shareholding in Hainan Xinsheng Feixiang Culture Media Co., Ltd. ("**Xinsheng Feixiang**") to 30.30% by investing RMB86 million in December 2014 and RMB14 million in 2015, respectively, in its new share capital. The business scope of Xinsheng Feixiang includes but is not limited to serving as agent for both international and domestic airlines ticket sales and conducting advertising business. Also, in December 2014, Hainan Airlines and its subsidiary Lucky Air entered into a ten-year franchise agreement with Xinsheng Feixiang and engaged Xinsheng Feixiang to operate their aircraft media services for a consideration of RMB3.70 million per year. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group generated revenue of RMB1,367.32 million, RMB1,704.49 million, RMB2,618.09 million, RMB1,190.88 million and RMB1,432.77 million, respectively, from its other businesses (excluding its passenger services, cargo and mail services and aircraft leasing services), accounting for 3.88%, 4.19%, 4.37%, 4.17% and 4.32% of its total revenue for the same period.

OPERATIONS

Flight scheduling

The Group's marketing and sales department formulates flight schedules to meet market demands for various routes. Consistent with market practice and with IATA guidelines, the Group publishes summer and winter schedules each year. The winter schedule runs from the last Sunday of October to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October of each year. From time to time, the Group also makes adjustments to the flight frequency and type of aircraft utilised on scheduled routes based on anticipated seasonal demand.

Flight operations

The Group's operations and control centre supervises and controls its flight activities in accordance with its flight operation schedules. The centre collects and analyses information relating to the projected payload, the weather condition and status of aircraft equipment; approves flight dispatches; and coordinates necessary ground services. The centre monitors flights by radio communications and air-to-ground datalink communications. In the event of irregular flights (flights that are cancelled or delayed or that land at alternative airports), the centre may adjust flight schedules, combine flights and, if necessary, cancel flights.

On-time departure and arrival are important to customer satisfaction. According to data published by CAAC, the Group's average on-time departure rate was 68.89%, 77.37% and 72.95% compared with the PRC industry average of 68.33%, 76.76% and 71.67% in 2015, 2016 and 2017, respectively. In 2015 and 2016, 7.96% and 1.39% of the Group's flight irregularities were attributable to factors within its control (such as flight scheduling, mechanical incidents and passenger services) compared with the PRC industry average of 5.65% and 2.10%, respectively. In 2017, 5.77% of the Group's flight irregularities were attributable to factors within its control (such as flight scheduling, mechanical incidents and passenger services) (2017 PRC industry average data is not available). Also in 2015 and 2016, 23.15% and 21.24% of the Group's flight irregularities were due to factors beyond its control (such as poor weather, airport congestion, limitations of airport facilities, air traffic control and no-flight orders) compared with the PRC industry average of 26.02% and 21.14%, respectively. In 2017, 19.65% of the Group's flight irregularities were due to factors beyond its control (such as poor weather, airport congestion, limitations of airport facilities, air traffic control and no-flight orders) (2017 PRC industry average data is not available).

Aviation fuel

Aviation fuel costs typically represents a major component of an airline's operating costs. The Group's aviation fuel costs were RMB7,451.78 million, RMB7,858.58 million and RMB14,590.18 million in 2015, 2016 and 2017, respectively, accounting for 28.93%, 25.06% and 28.17% of the Group's operating costs for the same period. Like all PRC airlines, the Group is generally required by the PRC government to purchase its aviation fuel requirements from regional branches of CAOSC and Bluesky Oil Supplies Company, except at the Shenzhen, Zhuhai, Sanya, Haikou, and Shanghai Pudong airports, where aviation fuel is supplied by Shenzhen Chengyuan Oil Company, Pacific Oil Co., Ltd. and Shanghai Pudong Airport Oil Company, each a Sino-foreign joint venture in which CAOSC is a joint venture partner. CAOSC is a state-owned organisation controlled and supervised by CAAC that controls the importation and distribution of aviation fuel throughout China.

Aviation fuel obtained from CAOSC's regional branches and its joint ventures is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of CAAC and the pricing department of the NDRC based on market conditions and other factors. As a result, the costs of transportation and storage of aviation fuel in all regions of China are spread among all domestic airlines. Aviation fuel costs in China are influenced by costs at state-owned oil refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China.

In addition to purchases of aviation fuel from CAOSC, the Group is also permitted by the PRC government to purchase a portion of its aviation fuel requirements for its international flights from foreign fuel suppliers located outside China at prevailing international market prices. Aviation fuel purchased from such sources outside China were RMB596.86 million, RMB1,872.00 million and RMB5,877 million in 2015, 2016 and 2017, respectively, accounting for approximately 8.01%, 23.72% and 40.35% of the Group's total aviation fuel costs for the same period. The increases from 2016 to 2017 in both the value of aviation fuel purchased from outside China and the percentage it accounted for out of the Group's total aviation fuel costs for the same periods were results of the expansion of the Group's international route network and, in the case of value, increases in the prices of aviation fuel during the same periods.

Prior to 1994, domestic aviation fuel prices were generally below international aviation fuel prices. The PRC government has gradually increased domestic aviation fuel prices in order to reflect more accurately the costs of supplying aviation fuel in China. As a result, domestic aviation fuel prices have become higher than those in the international market since the beginning of 1994. In 2007 through the first half of 2008, crude oil prices in the international markets reached historic highs. In response to the pressure imposed by such increasing prices, on 1 November 2007 and 20 June 2008, respectively, the NDRC increased the domestic price for aviation fuel. Thereafter, in order to cushion fuel cost pressure faced by PRC airlines, on 19 December 2008 and 1 January 2009, respectively, the NDRC approved reductions in domestic prices for aviation fuel. However, starting from February 2009, crude oil prices in the international markets started to pick up gradually. As a result, the NDRC increased the domestic price for aviation fuel in July 2009 and made several subsequent adjustments thereafter. The NDRC further adjusted the domestic price for aviation fuel multiple times in 2010, which resulted in increases in the price during 2010. In March 2016, in reaction to the pressure in connection with the historic low price of aviation fuel in the international market, the NDRC reduced the domestic price of aviation fuel by 40%.

Fuel surcharge

According to relevant regulations promulgated by the NDRC and CAAC, domestic airlines imposed fuel surcharges, based on flight time, for all domestic routes (excluding those from Mainland China to Hong Kong and Macau) with effect from 1 August 2005. The imposition of the fuel surcharge permits the airline to have passengers share a portion of the high aviation fuel cost of the Group. The level of fuel surcharges, and any adjustments of which, are determined by CAAC and the NDRC based on such factors as aviation fuel price, route miles and the location of the relevant destination. As international fuel prices gradually increased, and in response to increases in fuel cost, on 11 November 2009, the NDRC issued a notice to introduce a new pricing mechanism of fuel surcharge that links it with airlines' aviation fuel costs. According to the new mechanism, when the purchase cost of aviation fuel is lower than RMB4,140.00 per ton (i.e., the benchmark price of aviation fuel), airlines may not charge any fuel surcharge. When the purchase cost of aviation fuel exceeds RMB4,140.00 per ton, the airlines may charge a set fuel surcharge. The NDRC and CAAC jointly set the maximum rate of fuel surcharge at RMB0.002656 per passenger kilometre for the period from 1 April 2014 to 30 June 2015. Based on that rate, for every RMB100.00 by which the cost of aviation fuel exceeds RMB4,140.00 per ton, the airlines are allowed to charge a maximum of RMB0.002656 per passenger kilometre for the flight distance. Since February 2015, domestic airlines no longer impose fuel surcharges.

Fuel costs

Fuel costs have historically been extremely volatile, as they are subject to many global economic and geopolitical factors which cannot be controlled or accurately predicted by the Group. Because international prices for aviation fuel are denominated in U.S. dollars, the Group's fuel costs, payable in RMB, are subject not only to price fluctuations but also to exchange rate fluctuations. The fluctuations in aviation fuel prices expose the Group to fuel price risks. In addition to risks relating to price increases, a rapid fall in the price of fuel such as witnessed in the autumn of 2008 and the spring of 2016 can also have a negative impact on the profitability of airlines with a significant level of fuel hedging, both in terms of volume and duration, because these airlines are contractually bound by the terms of their hedging arrangements and cannot fully enjoy any fall in the price of fuel. Considering the current market conditions, the Group does not currently engage in fuel hedging activities using derivative instruments.

At present, the management of the Group believes that it is able to pass on any significant increases in aviation fuel costs to passengers through fuel surcharges. However, management will monitor the fuel price risk exposure and consider using hedging instruments if and when such need arises.

FLEET

Aircraft procurement and disposal policy

The Group seeks to maintain a rationalised and modern fleet to serve its route network and various markets. When evaluating its aircraft procurement and disposition plan, the Group considers a number of factors, including aviation market demand forecasts, current fleet capacity, current and future aircraft requirements, capital structure, cash flow, purchase and leasing costs, prevailing interest rates and other market conditions that may affect financing costs. The Group evaluates on a case-by-case basis the retirement or disposal of a particular aircraft based on a number of factors, including operating and safety efficiency and market demand for a particular aircraft type. Moreover, the Group carefully balances the aviation fuel consumption and maintenance costs of ageing aircraft against the finance costs and depreciation expense for acquiring newer aircraft.

Fleet composition

As at 30 June 2018, the Group operated a fleet of 420 aircraft with an average age of 5.01 years. All these aircraft were manufactured by Boeing, Airbus and Embraer S.A.. The Group has the fourth largest fleet among all PRC airlines. Out of the 420 aircraft, 147 were owned by the Group, and 263 were leased to the Group pursuant to various types of finance and operating leasing arrangements.

The following table sets forth the details of the fleet of the Group as at 30 June 2018:

	Number of Aircraft	Number of Seats	Average Age (years)
Wide-body:			
Airbus A330-300	18	5,256	3.65
Airbus A330-200	13	2,886	5.83
Boeing 767-300	1	699	15.67
Boeing 787-8	10	1,917	4.34
Boeing 787-9	17	6,460	1.31
Narrow-body:			
Boeing 737-800	213	33,456	5.20
Boeing 737-700	15	1,920	5.68
Boeing 737-MAX8	4	352	0.41
Airbus A319	3	414	7.02
Airbus A320	47	8,280	2.98
Airbus A321	1	220	0.94
Embraer E145	11	600	8.80
Embraer E190	50	5,284	8.04
Embraer E195	17	2,074	1.48
Total/Average:	**420**	**69,818**	**5.01**

The Group's daily average aircraft utilisation rate was 9.67 hours and 10.07 hours in 2015 and 2016, respectively, the highest among all PRC airlines. The Group's daily average aircraft utilization rate was 9.31 hours in 2017. Such decrease from 2016 to 2017 was primarily due to the comparatively lower utilisation rates of Tianjin Airlines and the increases in Hainan Airlines' fleet and route network, resulting in initially lower utilisation, adversely affecting overall utilisation rates. The table below sets forth the daily average utilisation rates of the aircraft of the Group for each of the three years ended 31 December 2015, 2016 and 2017:

	Year ended 31 December		
	2015	**2016**	**2017**
Wide-body:			
Airbus A330-300	11.99	11.82	12.12
Airbus A330-200	12.32	10.77	11.59
Boeing 767-300	11.38	–	11.48
Boeing 787-8	12.46	12.06	11.85
Boeing 787-9	–	13.66	13.57
Narrow-body:			
Boeing 737-800	10.22	9.68	9.45
Boeing 737-700	10.25	9.44	8.89
Boeing 737-MAX8	–	–	10.61
Airbus A319	10.33	10.19	8.77
Airbus A320	6.45	11.31	10.60
Airbus A321	–	–	10.83
Embraer E145	–	–	3.41
Embraer E190	–	–	7.3
Embraer E195	–	–	7.0

Future fleet development

The Group's aircraft acquisition programme focuses on aircraft that will modernise and rationalise its fleet to better meet the anticipated requirements of its route structure, taking into account aircraft size and fuel efficiency. The Group's aircraft acquisition programme, however, is subject to the approval of CAAC and the NDRC. The following table summarises its anticipated aircraft deliveries from 2018 to 2019 as at 30 June 2018:

	2018 E	2019 E	Total
Airbus A330-300	9	7	16
Airbus A350	4	4	8
Airbus A320	6	7	13
Boeing 737	35	30	65
Boeing 787	10	9	19
Embraer E195	–	–	–
Embraer E190	5	6	11

The actual acquisition of any of these aircraft or any additional aircraft may depend on factors such as general economic conditions, the Group's operating results and other capital requirements. The Group believes that its aircraft acquisition plan will help it to accomplish its expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

AIRCRAFT PURCHASE AND LEASING ARRANGEMENTS

The Group's fleet and the aircraft leased by the Group to HNA Group consist of aircraft purchased as well as leased pursuant to finance and operating leases. As at 30 June 2018, of the 420 aircraft operated by the Group, 154 aircraft were owned by the Group, 43 aircraft were leased under finance leases and 223 aircraft were leased under operating leases.

The following table sets forth, as at 30 June 2018, the number of aircraft operated by the Group's fleet pursuant to finance and operating leases:

			Lease	
	Total	Owned	Finance Lease	Operating Lease
Wide-Body:				
Airbus A330-300	18	7	–	11
Airbus A330-200	13	–	–	13
Boeing 767-300	1	1	–	–
Boeing 787-8	10	10	–	–
Boeing 787-9	17	6	–	11
Narrow-Body:				
Boeing 737-800	213	67	22	124
Boeing 737-700	15	5	2	8
Boeing 737-MAX8	4	4	–	–
Airbus A319	3	–	3	–
Airbus A320	47	2	7	38
Airbus A321	1	–	–	1
Embraer E145	11	11	–	–
Embraer E190	50	41	9	–
Embraer E195	17	–	–	17
Total	**420**	**154**	**43**	**223**

The Group's planned acquisitions of aircraft in the foreseeable future will generally be made through acquisitions by bank loans and the Group's own funds, and pursuant to operating leases or finance leases. The Group's determination as to its acquisition strategy depends on the Group's evaluation at the time of its capacity requirements, anticipated deliveries of aircraft, the Group's capital structure and cash flow, prevailing interest rates and other general market conditions.

Finance leases

The Group enters into the majority of its finance leases in China with Changjiang Leasing an entity affiliated with HNA Group. Under such finance leases, the Group makes lease payments that finance most of the purchase price of an aircraft over the lease term and bears substantially all of the economic risks and rewards of owning the aircraft and has the option to purchase the aircraft upon the expiration of the lease and the right to obtain title to the aircraft upon payment of all amounts owed under such lease.

The terms of the Group's finance leases vary depending on the financing structures and the commercial agreements reached by the parties concerned. Generally, the Group is given an option between floating rate financing and fixed rate financing. The level of interest rates for fixed rate loans depends on the loan market at the time the loans are drawn. Lease payments are generally paid on a quarterly or semi-annual basis. The terms of the Group's finance leases are typically 10 to 15 years. Depending on the financing structures, an early termination of a finance lease may result in a penalty payable by the Group. However, under certain leases, the Group is given an option to terminate the lease early on a voluntary basis if certain conditions are satisfied and in those cases, no penalty is payable. Circumstances under which a lessor may have the right to terminate a lease early and the Group be required to surrender the aircraft include the occurrence of an event of default such as non-payment of rent, failure to maintain insurance coverage for the aircraft and insolvency. As at the date of this Offering Circular, the Group's lessors have not terminated any applicable lease or required it to return an aircraft as a result of a breach or default by the Group.

Operating leases

The Group enters into operating leases with various international aircraft leasing service providers, including, among others, ILFC, GE Capital Aviation Services, Aviation Capital Group, Aircastle, BOC Aviation, CIT and HKAC. The Group's operating leases generally have original terms ranging from five to seven years from the aircraft's delivery. Under operating leases, the Group is entitled to use the aircraft and is obligated to make rental payments according to the relevant lease agreements. The Group's operating leases typically have no purchase options, although the Group may enter into different arrangements according to its fleet requirements. The lessor bears the economic benefits and obligations associated with ownership, including the residual value of the aircraft at the end of the lease term. The Group is required to return the aircraft in the agreed condition at the end of the lease term. Although the title remains with the lessor, the Group is responsible during the lease term for legal and regulatory compliance, maintenance, servicing, insurance, taxes and repair of the aircraft. The operating leases allocate responsibilities for the overhaul of the aircraft and the related contributions from the lessor or The Group.

The Group's rental expenses under its aircraft operating leases were RMB2,677.51 million, RMB4,349.07 million and RMB8,615.07 million in 2015, 2016 and 2017, respectively.

Purchase

The Group prepares a long-term fleet expansion plan every five years and submits it to CAAC for approval. Within the framework of the five-year plan approved by CAAC, the Group typically initiates negotiations to purchase or lease aircraft one to two years prior to the aircraft's delivery. Once the key terms have been finalised, the Group submits an application to the NDRC and CAAC for approval. The NDRC and CAAC consider a number of factors in granting approval for aircraft acquisition, including the requirements of the PRC aviation market as well as each airline's safety record and resources. Upon receipt of such approvals, the Group enters into agreements for the acquisition of aircraft. The Group typically finances its aircraft purchases through bank loans and cash from operations.

AIRCRAFT EQUIPMENT AND SPARE PARTS

The purchase of aircraft and aircraft equipment is subject to rules and regulations in China, and PRC airlines without import and export rights are required to purchase their aircraft equipment and spare parts through the CASC. The Group has been in compliance with relevant rules and regulations by purchasing or leasing aircraft engines, spare parts and other aircraft equipment mainly through HNA Import and Export Corporation, an entity within HNA Group, which has the relevant import and export rights. The Group believes that its ability to purchase aircraft parts and equipment through HNA Import and Export Corporation gives it flexibility in procurement and allows it to maintain a relatively limited inventory of aircraft parts and equipment.

AIRCRAFT MAINTENANCE, REPAIR AND OVERHAUL

Aircraft maintenance, repair and overhaul, also known as MRO, is critical to the safety and comfort of the Group's passengers, the efficient use and maintenance of the Group's aircraft and the optimisation of the Group's fleet utilisation. The schedule and cycle of MRO services for the Group's fleet varies depending on certain factors, including the age and type of aircraft and the manufacturers' specifications.

A majority of the maintenance for the Group's fleet is performed by HNA Aviation Technology Co. Ltd. ("**HNA Technology**"), an entity within HNA Group. The remaining part of the maintenance for the Group's fleet is performed by service providers in China and overseas. HNA Technology performs all types of maintenance services, ranging from maintenance inspections performed on aircraft to major overhauls performed at specified intervals. HNA Technology is able to perform checks on Boeing 767 and Airbus A319, D328 and EMB-145/190 aircraft. HNA Technology has three regional aircraft maintenance centres in Haikou, Beijing and Xi'an, respectively. HNA Technology also has additional maintenance bases in Guangzhou, Shenzhen, Lanzhou, Dalian, and Urumqi. All of HNA Technology's maintenance centres and bases have received JMM accreditation, an accreditation jointly granted by CAAC, the Civil Aviation Department of Hong Kong, and the Civil Aviation Authority of Macau, which permits the accredited unit to provide maintenance services to clients from Mainland China, Hong Kong and Macau.

The Group's expenses incurred for the MRO of its fleet were RMB3,205.41 million, RMB3,988.98 million and RMB5,887.77 million in 2015, 2016 and 2017, respectively.

MARKETING, SALES AND RESERVATIONS

Passenger services

Marketing

The Group's marketing strategy with respect to passenger services is primarily aimed at increasing its market share for all categories of air travellers, through exploiting its strong brand name. The Group believes that the "Hainan Airlines" brand has become increasingly widely recognised in China and abroad as a safe and reliable airline focused on customer service and providing a high quality travel experience.

The Group's promotional and marketing activities for domestic routes emphasise safety, passenger comfort and the frequency of the Group's flights. The Group's promotional and marketing activities for international and regional passengers emphasise the Group's quality of service, extensive route network in China and greater frequency of flights relative to other PRC airlines. In addition, the Group also promotes and markets its regional and international routes on the basis of price.

The Group advertises mainly through outdoor billboards, newspapers and magazines and television and radio commercials. The Group also engages in numerous promotional activities, including sponsorship of important cultural and sporting events.

The Group has also adopted customised strategies to market its services to business travellers. The Group seeks to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travellers, the Group focuses on the frequency of flights between major business centres, convenient transit services and an extensive sales network. The Group launched its frequent flyer programme "Fortune Wings Club" in 1999 to attract and retain business travellers and frequent flyers. The "Fortune Wings Club" programme covers the Group as well as its partners Grand China Airlines, Lucky Air, Tianjin Airlines, Hong Kong Airlines, Beijing Capital Airlines, Fuzhou Airlines, Guangxi Beibu Gulf Airlines and Suparna Airlines. Members can earn miles by flying with The Group or any of its partner airlines, and through purchases from a wide range of the Group's business travel partners including hotels, car rental services and restaurants. Members can also earn miles by using the Group's co-branded credit cards issued by Industrial and Commercial Bank of China, China Merchants Bank, or Agricultural Bank of China. As a result of the Group's efforts to develop the "Fortune Wings Club" programme, the number of members of the frequent flyer programme reached approximately 82 million as at 31 December 2017.

Sales and reservations

In 1998, the Group upgraded its online ticket booking and payment system to facilitate customer purchases of tickets via the internet. While the Group continues to encourage its customers to book and purchase tickets online, the Group also maintains an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of the Group's airline tickets are sold by domestic and international sales agents. The Group's tickets for domestic routes are sold throughout China through over 3,900 domestic sales agents, 77 of which are the Group's direct domestic ticket sales agents. Currently, the Group's direct domestic ticket sales are handled primarily through its sales offices located at all of its destination cities, and regional sales offices located in Xi'an, Lanzhou, Urumqi and Yinchuan in western China, Chongqing, Kunming, Guiyang and Chengdu in southwestern China, Shanghai, Suzhou, Nanjing and Hangzhou in southeastern China, Dalian, Shenyang, Beijing, Tianjin, Jinan, Qingdao and Harbin in northern China, Hefei, Changsha, Nanning, Haikou, Sanya, Guangzhou, Xiamen and Shenzhen in southern China, and Zhengzhou, Wuhan and Taiyuan in central China. The Group's direct domestic ticket sales are also handled by employees based at its ticket counters located at 25 airports in China. Direct sales are also promoted through the availability of the Group's telephone reservation and confirmation services.

In addition to its domestic sales agents, the Group's tickets for overseas routes are sold through over 4,430 overseas sales agents, 25 of which are the Group's direct overseas ticket sales agents. The Group maintains overseas sales or representative offices worldwide, including in European locations such as Berlin and Brussels, North American locations such as Seattle and Toronto, and Asia-Pacific locations such as Hong Kong, Singapore and Bangkok, which facilitate the sale of international and regional air tickets and provide reservation confirmation and other services. In addition, the Group opened its Taipei branch office in 2008 to facilitate its marketing and sales in Taiwan and to provide administrative and support services for passengers, as well as to prepare assistance for its flight crew.

As at 1 June 2008, the Group stopped issuing paper tickets for air travel in accordance with a mandate from the IATA. As a result of the mandate, the Group now issues electronic itineraries and receipts as well as electronic tickets to its passengers. The Group believes the transition to 100% electronic ticketing has decreased administrative costs and increased flexibility and travel options for passengers in addition to benefiting the environment through the reduced need for paper. All of the Group's direct passenger ticket sales are recorded on its computer systems. Most PRC airlines, including those within the Group, are required to use the passenger reservation service system provided by CAAC's computer information management centre, which is linked with the computer systems of major PRC commercial airlines. The Group has also entered into membership agreements with several international reservation systems, including BSP, which have made it easier for customers and sales agents to make reservations and purchase tickets for its international flights.

Cargo and mail services

The Group maintains a network of cargo sales agents domestically and internationally. The Group has established domestic sales offices in all of its destination cities, and other major transportation hubs in China, and international cargo sales offices in Berlin, Cairo, Hong Kong, Brussels, Budapest, Seattle, Zurich and its other overseas flight destinations. The Group has also established regional cargo sales offices in Xi'an, Lanzhou, Urumqi and Yinchuan in western China, Chongqing, Kunming, Guiyang and Chengdu in southwestern China, Shanghai, Suzhou, Nanjing and Hangzhou in southeastern China, Dalian, Shenyang, Beijing, Tianjin, Jinan, Qingdao and Harbin in northern China, Hefei, Changsha, Nanning, Haikou, Sanya, Guangzhou, Xiamen and Shenzhen in southern China, and Zhengzhou, Wuhan and Taiyuan in central China, to improve coordination among its sales offices within each region.

CODESHARE AGREEMENTS

Code sharing is a marketing arrangement through which the non-operating airline sells seats and/or space on flights operated by its codeshare partner as its own product using its own two-letter airline designator code.

The Group has successfully established codeshare partnerships with ten international airlines and three domestic airlines. The Group has also established special pro-rate agreements with 81 international and PRC airlines. The Group believes that code sharing is a cost-effective means to expand the scope of its passenger services, increase its revenue and enhance its image in the international market. The Group also cooperates with 116 international airlines on combined transportation.

The Group has codeshare agreements with ten international airlines, American Airlines, Air Berlin, Brussels Airlines, Hong Kong Airlines, Korean Air, EVA AIR, UNI Air, Aigle Azur, S7 Airlines and Etihad Airways. The Group has codeshare agreements with three domestic airlines including Grand China Airlines, Lucky Air and Tianjin Airlines. As at 30 June 2017, on average, the Group had 2,110 scheduled codeshare flights every week operated by its codeshare partners and it operated 196 scheduled codeshare flights every week.

COMPETITION

Domestic

CAAC's extensive regulation of the PRC commercial aviation industry has had the effect of managing competition among PRC airlines. Nevertheless, competition has become increasingly intense in recent years due to a number of factors, including relaxation of certain regulations by CAAC, an increase in the number of PRC airlines and an increase in the capacity, routes and flights of PRC airlines.

The Group expects that competition in China's commercial aviation industry will continue to be intense. The Group competes with the other three major airlines, namely China Southern Airlines, Air China and China Eastern Airlines. Most major PRC airlines including those within the Group have in recent years significantly expanded their fleets, although at the same time passenger traffic has not increased proportionately. As a result, PRC airlines are required to be more competitive with respect to, for example, quality of service including ticketing and reservations, in-flight services, flight scheduling and timeliness.

The Group also expects to face increasing competition from alternative means of transportation, such as highways and railways, as China's transportation infrastructure improves. In particular, the so-called "Four Longitudinal and Four Horizontal" high-speed railways under construction may have a huge negative impact on the domestic commercial aviation sector once they go into full operation. According to industry consensus, airlines are more competitive on long-haul routes, while high-speed railways are more competitive on short-haul routes. The Group believes that it will be the least affected airline by high-speed railways among all PRC major airlines. The Group's long haul routes originating from its nine route bases, together with its routes originating from Hainan Island, constitute a majority of its domestic routes. In addition, only a limited number of the Group's short to medium haul routes originating from its nine route bases overlap with routes of the high-speed railways under construction. Further, the Group has planned to develop West Air and Lucky Air into low-cost airlines to meet the increasing competition from alternative means of transportation, such as highways and railways. See "*– Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and other airlines*" and "*Principal Shareholders*".

The Group competes against its domestic competitors primarily on the basis of safety, quality of service and its highly integrated multiple-hub route network. With the combination of the Group's highly integrated multiple-hub route and its continued commitment to safety and service quality, the Group believes that it is well-positioned to compete against its domestic competitors in the growing commercial aviation industry in China. In light of increasing competition from high speed railways, the Group also believes that its optimised route network, increased operational efficiency and improved service quality will attract more travellers, particularly business travellers.

International

The Group competes with Air China, China Eastern Airlines and a number of foreign airlines on its international routes. Most of these international competitors have significantly longer operating histories, substantially greater financial and technological resources and greater name recognition than the Group. In addition, the public's perception of the safety and service records of PRC airlines may adversely affect the Group's ability to compete against its regional and international competitors. Many of the Group's international competitors have larger sales networks and participate in reservation systems that are more comprehensive and convenient than those of the Group, or engage in promotional activities that may enhance their ability to attract international passengers.

The Group competes against, among other airlines, Singapore Airlines and Air China on flights to Southeast Asian destinations. In the case of its European routes, the Group's competitors include Air China and China Eastern Airlines. The Group faces competition on its North American routes from Air China and other international airlines within that region. Air China has the most extensive international route network among PRC airlines. Beijing, the hub of Air China's operations, has been the destination for most international flights to China. The Group competes in the international market primarily on the basis of its higher level of customer service as one of ten Skytrax 5-Star airlines in the world, and its exclusive international routes.

INSURANCE

The Group maintains its fleet and legal liability insurance with PICC Property and Casualty PRC Limited, Ping An Property and Casualty Insurance Company of China Limited, Minan Insurance (China) Limited and China Pacific Property Insurance Company Ltd. The Group maintains aviation hull all risks, spares and airline liability insurance, aircraft hull all risks and spare engines deductible insurance and aviation hull war and allied perils policies of the type and in the amounts customary in the PRC aviation industry.

Under the relevant PRC laws, civil liability of PRC airlines for death or injuries suffered by passengers on domestic flights is limited to RMB400,000 per passenger. As at 31 July 2006, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or the Montreal Convention, became effective in China. Under the Montreal Convention, carriers of international flights are strictly liable for proven damages up to 100,000 Special Drawing Rights and beyond that, carriers are only able to exclude liability if they can prove that the damage was not due to negligence or other wrongful act of the carrier (and its agents), or the damage arose solely from the negligence or other wrongful act of a third party. The Group believes that it maintains adequate insurance coverage for the civil liability that can be imposed in respect of death or injuries to passengers under PRC law, the Montreal Convention and any agreement which the Group is subject to.

The Group believes its insurances policies are of the types consistent with industry practice in the PRC and in amounts that are adequate to protect it against material loss.

SAFETY

The Group has maintained a strong safety record during its over 20 years of operation. The provision of safe and reliable air services for all of its customers is one of the Group's primary operating objectives. Hainan Airlines endeavours to maintain strict compliance with all laws and regulations applicable to flight safety. In addition, Hainan Airlines has adopted measures to eliminate or minimise factors that may impair flight safety, including implementation of uniform safety standards and safety-related training programmes in all operations. In 2005, Hainan Airlines was selected by CAAC as a pilot airline to adopt the SMS safety system, a safety standard widely used throughout the aviation industry worldwide. The SMS safety system covers each operating aspect of Hainan Airlines' business. Under the SMS safety system, the Group' flight safety management division identifies, monitors and manages risks as they may occur from time to time and ensures that each particular aspect of the business is compliant with the relevant regulations and protocol to prevent risk from materialising or mitigating it when it occurs. The flight safety management division also implements safety-related training programmes on an ongoing basis in all of the Group's operations to raise the safety awareness of all employees. The Group also has a flight safety committee, comprising members of its senior management, to formulate policies and implement routine safety checks at all nine route bases. The flight safety committee meets periodically to review the Group's overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. The Group periodically evaluates the skills, experience and safety records of its pilots in order to maintain strict control over the quality of its pilot crews.

Currently, CAAC requires all PRC airlines to adopt the SMS and Hainan Airlines serves as a model for other PRC airlines when CAAC gradually phases in SMS for all PRC airlines. In 2005, Hainan Airlines also passed the IOSA, an auditing standard focusing on key aspects of airline and airline support operations.

In November 2015, Hainan Airlines received the 5-Star Civil Aviation Safety Award from CAAC, improving from the 4-star Civil Aviation Safety Award it was previously given. In March 2016, Hainan Airlines received the 5-Star Civil Aviation Safety Award again from CAAC for its 23 years of operations with a record of flying over 5.95 million safe block hours. Hainan Airlines has also been awarded the "Golden Eagle Award" and "Golden Roc Award" for airline safety, which are the highest civil aviation safety awards from CAAC, multiple times. In January 2016, Hainan Airlines was ranked the fifth safest airline in the world and the safest PRC domestic airline by the German aviation accident investigation agency JACDEC, which published its aviation safety ranking in Aero International, a German aviation industry journal. In 2017, the ranking of Hainan Airlines on such list has improved to third.

PROPERTIES AND FACILITIES

The Group currently occupies 21 parcels of land with an aggregate gross floor area of approximately 1,503,414.40 square meters in China.

The Group currently occupies 52 buildings with an aggregate gross floor area of approximately 503,844.66 square meters in China.

The Group currently holds and occupies three properties in Brussels (the "**Overseas Properties**"). The Overseas Properties are used as lodgings for the Group's pilots, crew and other staff when staying in Brussels.

The Group has entered into lease agreements with affiliates of HNA Group and other third parties both domestically and overseas for the properties that the Group uses to conduct its operations, which generally include leasing ticket counters, terminal space and other ancillary airport facilities.

The following table sets forth certain information with respect to the Group's principal properties at its nine route bases as at 30 June 2018:

	Land		Buildings	
	Owned	Leased	Owned	Leased
	(in square metres)		(in square metres)	
Haikou	349,040.30	–	106,935.74	–
Beijing	853,289.22	–	346,245.49	–
Xi'an	183,725.21	–	24,278.43	–
Taiyuan	15,333.00	–	–	9,435.00
Urumqi	102,026.67	–	12,820.00	–
Guangzhou	–	–	–	6,704.77
Dalian	–	–	–	420.01
Lanzhou	–	–	13,565.00	750.02
Shenzhen	–	–	–	1,023.47
Total	**1,503,414.40**	**–**	**503,844.66**	**18,333.27**

ENVIRONMENTAL REGULATION

The Group is subject to PRC environmental and noise regulations, including regulations relating to discharges to surface and subsurface waters, the management of hazardous substances, oils and waste materials, and noise levels. The Group is also subject to the environmental and noise regulations in each country where it flies. The Group believes that it is in compliance in all material respects with all applicable environmental laws.

INTELLECTUAL PROPERTY

The Group owns or has obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to its business. While patents, patent applications and trademarks are important to its competitive position, no single one of them except for the trademark of "Hainan Airlines" is material to the Group as a whole.

Hainan Airlines believes its most important trademarks are the service trademark of "Hainan Airlines" and relevant logo, both of which were registered in 2007, extended to 2027 and are renewable upon expiration. All of the Group's trademarks are registered in China.

EMPLOYEES

As at 30 June 2018, the Group had a total of 23,322 employees, including 5,857 pilots. Approximately 5.92% and 67.91% of the employees received master's degrees or above and undergraduate education, respectively. The following table sets forth, as at such date, the number of employees of the Group, set out by job function:

Non-technical services	12,151
Marketing and Sales	1,748
Pilots and technical staff	6,619
Finance	552
Administrative	1,160
Other	1,092
Total	**23,322**

The Group organised a labour union on behalf of its employees, which represents the interests of the employees and works closely with the Group's management on labour-related issues. The Group believes its relationship with its employees and the labour union is satisfactory.

The Group's employees receive cash remuneration consisting of salary and other cash subsidies. In general, employee salaries are determined based on the employee's qualification, position, seniority and performance. Cash subsidies may include living subsidies, and may vary depending on circumstances. The Group also provides non-cash benefits, including medical insurance, unemployment insurance, early retirement and other social welfare benefits. In addition, all of the Group's full-time employees in the PRC are covered by a defined contribution retirement scheme administered by the PRC government, to which the Group is required to make annual contributions at rates ranging from 15.00% to 25.00% of its employees' base salaries.

LEGAL PROCEEDINGS

The Group is not a party to any legal or administrative proceedings that are material to the Group's financial condition or results of operations, nor is the Group aware of any potential legal or administrative proceedings that could reasonably be expected to have an adverse effect on the Group's business, financial condition or results of operations.

DESCRIPTION OF THE ISSUER

FORMATION

The Issuer is an "existing company" (CR No. 1611211) under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and was incorporated in Hong Kong on 2 June 2011 as a limited liability non-private company under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force before 3 March 2014. Its registered office is Room 804, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong. The Issuer is a wholly-owned subsidiary of the Guarantor.

CORPORATE ACTIVITIES

As at the date of this Offering Circular, the Issuer did not have any material business and had not entered into any material contracts other than in connection with a series of bonds offerings and investing activities.

The Issuer, a wholly-owned subsidiary of Hainan Airlines, issued CNY1,000,000,000 and CNY500,000,000 guaranteed notes outside of the PRC in 2011 and 2012, respectively. The noteholders of CNY500,000,000 guaranteed notes exercised their option to require the Issuer to redeem their notes. The Issuer paid an aggregate amount of approximately CNY513,305,000 to the noteholders on 20 January 2013 in full redemption of these notes.

The Issuer issued U.S.$500,000,000 3.625% credit enhanced bonds due 2020 in February 2013.

The Issuer issued U.S.$300,000,000 5.5% guaranteed bonds due 2018 in June 2017.

The Issuer issued U.S.$300,000,000 6.35% guaranteed bonds due 2018 in October 2017.

The Issuer acquired a 19.02% shareholding in HKA Group Holdings Company Limited ("**HKAGH**"), which is now the parent of Hong Kong Airlines Co. and Hong Kong Express Airways Limited, at a price of CNY842,000,000 in December 2011 through its wholly-owned subsidiary, Hainan Airlines Investment Holding Co., Limited ("**HAIH**"). The Issuer further acquired an additional 8.00% shareholding in HKAGH at a price of U.S.$152,000,000 in June 2013 through HAIH. As at the date of this Offering Circular, the Issuer has a 27.02% shareholding in HKAGH.

Hong Kong Airlines Co. is a full service airline incorporated and based in Hong Kong. As at 30 June 2017, it operated a fleet of 39 aircraft, offering scheduled passenger service to 30 destinations and cargo service to 20 destinations across the Asia-Pacific. It has been awarded a 4-Star airline rating by Skytrax since 2010. As at 30 June 2017, Hong Kong Express Airways Limited operated a fleet of 17 aircraft, serving 23 destinations. The Group believes that these investments by the Issuer can help the Group build its core business, market share and competitiveness. The Issuer currently does not have any representation on the board of Hong Kong Airlines Co. or Hong Kong Express Airways Limited and is not involved in their management or business operations.

The Issuer acquired a 9.87% shareholding in Hong Kong International Aviation Leasing Co., Ltd. ("**HKIAL**") at a price of U.S.$50,000,000 in June 2013. HKIAL was incorporated in 2007. Its main business covers the leasing of aircraft, engines, equipment, ships and yachts.

As at the date of this Offering Circular, the Issuer does not have any employees.

In the future, the Issuer may engage in business in Hong Kong and Macau, including import and export trading, equipment leasing, information technology services, high technology development and capital financing, and may incur substantial liabilities and indebtedness.

DIRECTORS AND OFFICERS

The directors of the Issuer are Li Tie, Wang Ying Ming, Chen Ming, Wang Hao and Xu Zhou Jin. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer.

ISSUED SHARES

The Issuer does not have an authorised share capital. As at the date of this Offering Circular, the paid-up share capital of the Issuer is HK$70,200,000.

As at the date of this Offering Circular, the Issuer has 70,200,000 fully paid shares issued and outstanding, all of which are held by the Guarantor. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

FINANCIAL INFORMATION OF THE ISSUER

The Issuer has prepared its financial statements as at and for the period from 2 June 2011 (date of incorporation) to 31 December 2017.

DIRECTORS, SUPERVISORS AND MANAGEMENT

The members of the board of directors (the "**Board of Directors**"), the supervisors and senior management as at the date of this Offering Circular are as follows:

Name	Age	Positions
Directors		
Bao Qifa (包啟發)	54	Executive Director (Chairman)
Chen Ming (陳明)	53	Executive Director (Vice Chairman)
Liu Lu (劉璐)	48	Executive Director (Vice Chairman) and Chief Executive Officer
Wang Fei (王斐)	38	Executive Director
Mu Weigang (牟偉剛)	54	Executive Director (Vice Chairman)
Wang Shaoping (王少平)	60	Executive Director (Vice Chairman)
Sun Jianfeng (孫劍鋒)	51	Executive Director
Deng Tianlin (鄧天林)	67	Independent Non-executive Director
Xu Jingchang (徐經長)	51	Independent Non-executive Director
Lin Zeming (林澤明)	63	Independent Non-executive Director
Supervisors		
Cao Ningning (曹寧寧)	33	Supervisor
Du Jian (杜建)	33	Supervisor
Chen Mingqiong (陳明瓊)	44	Supervisor
Feng Jun (馮俊)	36	Supervisor
Li Fanghui (李方輝)	48	Supervisor
Senior management		
Xu Jun (徐軍)	45	President
He Haiyan (何海燕)	54	Vice President
Liu Jichun (劉吉春)	38	Vice President
Zhang Zhigang (張志剛)	43	Vice President
Wu Xiaoxi (伍曉熹)	39	Vice President
Xiao Fei (蕭飛)	44	Head of Risk Management
Cheng Ning (陳寧)	48	Head of Safety
Wu Qiang (武強)	34	Company Secretary
Quan Dong (權棟)	37	Head of Human Resources
Sun Dong (孫棟)	30	Chief Financial Officer

EXECUTIVE DIRECTORS

Bao Qifa (包啟發), aged 54, joined HNA Group in 1993 and has been the executive director and chairman of the Board of Directors of Hainan Airlines since January 2018 and is currently the director of HNA Aviation Technics. He was a director, vice chairman and general manager of Changan Aviation Co., Ltd., executive vice president of HNA Group Co., Ltd., CEO and Chairman of Yangtze River Express Airways Co., Ltd., Chairman of Tianjin Airlines Co., Ltd., Haihang Shenlu New Energy Holdings Co., Ltd. Chairman and President of the company, Chairman of Tianjin Shenlu Energy Co., Ltd. Mr. Bao graduated from the Maastricht School of Management in the Netherlands with an MBA.

Chen Ming (陳明), aged 53, joined HNA Group in 1994 and has been the executive director and vice chairman of the Board of Directors since June 2018. He served as general manager, deputy general manager of the sales and marketing department and office director of Hainan Airlines, chief executive officer and general manager of Deer Jet Co., Ltd., chairman of the board of directors of HNA Aviation Food Co. Ltd., president, vice president and chairman of the board of directors of Hainan Airlines Co., Ltd., vice chairman of the board of directors and vice-president of Hainan Airlines Co., Ltd. and vice-chairman of the board of directors of Hainan Airlines Tourism Group Co., Ltd. and vice-chairman of the board of directors of the Hainan Airlines Aviation Tourism Group Co., Ltd. Mr. Chen graduated from the Maastricht School of Management in the Netherlands with a degree in Business Administration.

Liu Lu (劉璐), aged 48, joined HNA Group in 1994 and has been the executive director, vice chairman of the Board of Directors and CEO of Hainan Airlines since August 2018. He has served as chairman and president of Hainan Meilan Airport Co., Ltd. and executive director of Gansu Airport Group Co., Ltd., chairman of HNA Airport Group Co., Ltd., director of Haikou Meilan International Airport Co., Ltd., director and president of Hainan Airlines Co., Ltd., chairman and president of Tianjin Airlines, chairman of Beijing Capital Airlines, president of Suparna Airlines, chairman of Deer Air Co., Ltd., chairman of Shanghai Deer Jet Co., Ltd., and currently the chief operating officer of Hainan Airlines Tourism Group Co., Ltd. Mr. Liu graduated from Beihang University (北京航空航天大學) with a major in business administration.

Wang Fei (王斐), aged 39, joined HNA Group in 2001 and has been the executive director of the Board of Directors of Hainan Airlines since June 2017. She currently serves as vice chairman of the board of directors of HNA Travel Industry Group Co., Ltd. She served as securities affairs representative of Hainan Airlines Co., Ltd., assistant general manager of the securities business department of HNA Group, general manager of the capital operation department of HNA Infrastructure Industry Group Limited, general manager of the securities business department of HNA Holding Group Co., Ltd., chairman of the board of supervisors, general manager of the investment banking department and president of operations of HNA Travel Industry Group Co., Ltd., and chairman of the board of directors of Hainan Airlines Holding Co., Ltd. Ms. Wang graduated from the Northwest University of Political Science and Law.

Mu Weigang (牟偉剛), aged 55, has been vice chairman of the Board of Directors of the Guarantor since December 2012. Mr. Mu joined HNA Group in 1992 and has approximately 30 years of relevant experience in aviation industry. He has served as deputy general manager, chief pilot and deputy chief pilot of our aviation department. Prior to his appointment with HNA Group, Mr. Mu served in a division of the air force as chief pilot and deputy chief of staff. Mr. Mu graduated from the First Air Force Flight Academy.

Wang Shaoping (王少平), aged 61, has been vice chairman of the Board of Directors of the Guarantor since November 2016. Mr. Wang joined the HNA Group in 1992 and has served in various managerial positions including vice president of the Guarantor's operating base in Beijing, executive vice president of China Xinhua Airlines Co., Ltd. (中國新華航空有限責任公司), chairman and president of HNA (Beijing) Aviation Ground Service Co., Ltd. (海航(北京)航空地面服務有限公司), and chairman and chief executive officer of myTECHNIC, a privately owned aircraft and engine maintenance, repair and operations center in Turkey. Mr. Wang obtained his master's degree in business administration from Maastricht School of Management.

Sun Jianfeng (孫劍鋒), aged 51, has been a director of the Board of Directors of the Guarantor since November 2016. Mr. Sun joined HNA Group in 1996, and has served in various managerial positions including chief pilot, general manager of production operation center, general manager of aviation department of China Xinhua Airlines Co., Ltd. (中國新華航空有限責任公司), manager of aviation department and general manager of operation control department of the Guarantor's operating base in Beijing, and vice president of Hong Kong Airlines Co.. Mr. Sun obtained his master's degree in business administration from Tianjin University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Deng Tianlin (鄧天林), aged 68, is a registered accountant, senior accountant and a guest professor at Hainan University, and has been an independent non-executive director of the Board of Directors of the Guarantor since April 2012. Mr. Deng was an official at the office of human resources of the finance department, deputy bureau chief of the taxation bureau of Fangxian County, head of the office of the World Bank loans, a deputy director at the office of agricultural taxation of Hubei Province. He was assigned to the finance department of Hainan Province in 1990 and became the head of its accounting office. He also served as secretary of the Association of the Registered Accountants of Hainan Province. He retired in 2009. Mr. Deng graduated from Dongbei University of Finance and Economics, majoring in accounting.

Xu Jingchang (徐經長), aged 52, is the chairman, a professor and doctoral supervisor in the accounting department of the business school at Renmin University. He is also a guest professor at Hainan University. Mr. Xu has been an independent non-executive director of the Board of Directors of the Guarantor since November 2016. He has been selected into the "accountant training project" initiated by the Ministry of Finance, and is a member of the consultative committee on enterprise accounting standards, lecturer of National Excellent Courses, member and convenor of the fourth and fifth audit committee of China Securities Regulatory Commission on mergers and acquisitions, member of Accounting Society of China, deputy director of the professional committee for basic theory of accounting, standing member of Financial Accounting Society of China, and independent director of Sinochem International Corporation and Everbright Securities Company Limited. Mr. Xu is currently a member of third expert consultative committee of China Securities Regulatory Commission on mergers and acquisitions of listed companies.

Lin Zeming (林澤明), aged 64, has been an independent non-executive director of the Board of Directors of the Guarantor since November 2016. Mr. Lin was the director of the accounting office of the finance and taxation department of Hainan province, director of the accounting office, legal and audit office, tax administration office, local tax office, business tax office and income tax office, respectively, of the land tax bureau of Hainan Province. He retired in June 2013 and was subsequently employed as the land tax consultant of Hainan Province.

SUPERVISORS

Cao Ningning (曹寧寧), aged 33, has been the supervisor of the Guarantor since May 2018. He joined the HNA Group in 2010. He served as deputy general manager of the project management department of Hainan Airlines International Tourism Island Development and Construction (Group) Co., Ltd., and the director of the office parking complex project of Meilan Base of Hainan Haijian Engineering Supervision Co., Ltd. and director of the integrated management department. Mr. Cao is currently the general manager of the infrastructure management department of Hainan Airlines.

Du Jian (杜建), aged 33, has been the supervisor of the Guarantor since May 2018. He joined HNA Group in 2008. Since joining HNA Group, he has served in its human resources administration department. Mr. Du is currently the deputy general manager of human resources department of Hainan Airlines.

Chen Mingqiong (陳明瓊), aged 44, has been the supervisor of the Guarantor since October 2017. He joined HNA Group in 1997 and is currently the marketing director of Lucky Air (雲南祥鵬航空有限責任公司). He has previously served as the general manager of each of the marketing department (of each of Berlin, Brussels and Seoul offices) of Hainan Airlines Co., Ltd., strategic manager and team planning manager of the strategic planning department of HNA Aviation Group, and general manager of the strategic marketing department of HNA Aviation Management Services Co., Ltd. Mr. Chen graduated from Zhongnan University of Economics and Law (中南財經政法大學) with a master's degree in business administration.

Feng Jun (馮俊), aged 37, has been a supervisor of the Guarantor since November 2016. Mr. Feng joined HNA Group in 2001 and has served in various managerial positions including general manager of the risk control department of HNA Group Finance Co., Ltd (海航財務集團有限公司), deputy general manager of the audit and legal department of HNA Holdings Group Co., Ltd (海航實業控股(集團)有限公司), deputy general manager of the compliance department of HNA Aviation Group Co., Ltd (海航航空集團有限公司) and deputy general manager of the risk control department of HNA Tourism Group Co., Ltd (海航旅遊集團有限公司).

Li Fanghui (李方輝), aged 49, has been a supervisor of the Guarantor since April 2012. Mr. Li has been executive deputy general manager of the planning and accounting department and employee supervisor of the Guarantor. Mr. Li obtained his bachelor's degree in accounting from Guangxi University.

SENIOR MANAGEMENT

Xu Jun (徐軍), aged 47, joined HNA Group in 1992 and has been the president of Hainan Airlines since February 2018. He served as director of the Xi'an district control centre of the operation and control department of Hainan Airlines Co., Ltd., manager of the operation and control department of Changan Airlines Co., Ltd., general manager of the operation and control department and vice president of Deer Jet Co., Ltd., president of Beijing Capital Airlines Co., Ltd., and chairman of the board of directors of Tianjin Airlines Co., Ltd. Mr. Xu graduated from Tianjin University Ye Jin Branch (天津大學冶金分校).

He Haiyan (何海燕), aged 54, joined HNA Group in 2000 and has been the vice president of Hainan Airlines since September 2017. He served as general manager and chairperson of the board of directors of Hainan HNA Aviation Information System Co., Ltd (海南海航航空信息系統有限公司), general manager of the information planning and management department of HNA Group Co., Ltd., general manager of the information management department of HNA Aviation Group Co., Ltd., and chief information officer of HNA Aviation Management Services Co., Ltd. Mr. He graduated from Lanzhou University with a degree in nuclear physics.

Liu Jichun (劉吉春), aged 38, joined HNA Group in 2002 and has been the vice president of Hainan Airlines since November 2017. He served as manager of each of the international business division of the sales department and deputy general manager of the sales department of Hainan Airlines Co., Ltd., chairman of the board of directors of Hainan Airlines Sales Co., Ltd., and general manager of the marketing department of Hainan Airlines Holding Co., Ltd. Mr. Liu graduated from the City University in the United States (美國城市大學).

Zhang Zhigang (張志剛), aged 44, joined HNA Group in 1997 and has been the vice president of Hainan Airlines since December 2017. He currently serves as chairman of the board of directors of HNA Technic. He served as manager of the maintenance and engineering department planning centre, assistant general manager and manager of the integrated management centre of Hainan Airlines Co., Ltd., general manager of the technical service department, vice-president, president of Grand China Aviation Technik Co. Ltd., chairman of the board of directors of Gulfstream HNA (Beijing) Technical Services Co. Ltd., and general manager of HNA Technic. Mr. Zhang graduated from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學).

Xiao Fei (蕭飛), aged 44, joined HNA Group in 1996 and has been the head of risk management of Hainan Airlines since October 2017. He served as assistant general manager of the international investment management department of HNA Group Co., Ltd., general manager of the international and investment department of HNA Aviation Group Co., Ltd., and managing director of China Civil Aviation Investment Group Limited. Mr. Xiao graduated from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學) majoring in international trade.

Chen Ning (陳寧), aged 48, joined HNA Group in 1996 and has been the head of safety of Hainan Airlines since October 2017. He served as chief engineer of the maintenance department and general manager of the safety supervision department of Hainan Airlines Co., Ltd., and general manager of the safety supervision department of HNA Aviation Group Co., Ltd. Mr. Chen graduated from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學) majoring in engines.

Wu Qiang (武強), aged 35, joined HNA Group in 2004 and has been the secretary of the board of directors of Hainan Airlines since June 2017. He served as secretary of the international affairs office of the board of directors of Hainan Meilan International Airport Company Limited, head of affairs of the board of directors of E-Food Group Co., Ltd., manager of securities affairs of the securities business department and business director of HNA Group Co., Ltd., securities affairs representative of Hainan Airlines Co., Ltd., and secretary of the board of directors of Tianjin Tianhai Investment Co., Ltd. Mr. Wu graduated from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學) with a bachelor's degree in business administration.

Wu Xiaoxi (伍曉熹), aged 39, joined HNA Group in 2001 has been the vice president of Hainan Airlines since August 2018. He previously served as the deputy general manager of each of the safety supervision departments of Hainan Airlines Group Co., Ltd., HNA Management Services Co., Ltd. and Hainan Airlines. He is currently the executive director of the safety committee of Hainan Airlines. Mr. Wu graduated from Civil Aviation Flight University of China, majoring in transport pilot.

Quan Dong (權棟), aged 38, has been the head of human resources of the Guarantor since October 2017. Mr. Quan joined HNA Group in 2001 and was the general manager of the integrated management department of Deer Jet Co., Ltd (金鹿公務機關有限公司), general manager and director of the human resources department of HNA Tourism Group Co., Ltd (海航旅遊集團有限公司), general manager of the human resources department and vice president of Hainan Airlines, general manager of the department of cabin services of Beijing Capital Airlines Co., Ltd. Mr. Quan graduated from Northwestern University, majoring in management science.

Sun Dong (孫棟), aged 31, has been chief financial officer of the Guarantor since July 2016. Mr. Sun joined HNA Group in 2008 and has served in various managerial positions in Tianjin Airlines including the chief financial officer and the secretary of the board of directors. Mr. Sun obtained his master's degree in business administration from Civil Aviation University of China.

BOARD COMMITTEES

There are four standing committees of the Guarantor's Board of Directors: audit and risk management committee, remuneration and assessment committee, nominee committee and strategy committee.

Audit and risk management committee

The audit and risk management committee makes recommendations to the Board of Directors on the appointment of the Group's external auditors, supervises the Group's internal audit, reviews the Group's internal control system and operational risks such as the risk in connection with the Group's significant on-going investment projects and provides advice and comments to the Board of Directors. The audit and risk management committee comprises five directors, of whom the independent directors are a majority and at least one independent director is an accounting professional. The Guarantor's audit and risk management committee currently comprises the following five members: Deng Tianlin, Xu Jingchang, Lin Zeming, Bao Qifa and Liu Lu.

Remuneration and assessment committee

The remuneration and assessment committee makes recommendations to the Board of Directors on the Group's compensation policy including the Group's annual compensation plan, the formulation and reviewing of the specific remuneration for directors, supervisors and senior management, and the performance and selection procedures of directors, supervisors and managerial staff. The remuneration and assessment committee comprises three directors, at least two of whom are independent directors. The Guarantor's remuneration and assessment committee currently comprises the following three members: Xu Jingchang, Deng Tianlin and Bao Qifa.

Nominating committee

The nominating committee makes recommendations to the Board of Directors on the candidates, selecting criteria and procedures of the Group's directors and senior managements. The nominating committee comprises three directors, at least two of whom are independent directors. The Guarantor's nominating committee currently comprises the following three members: Lin Zeming, Deng Tianlin and Bao Qifa.

Strategy committee

The strategy committee conducts research and makes recommendations to the Board of Directors on the Group's medium-to-long term strategic development plans, significant investment and financing plans, significant capital operational projects, significant business operational projects including procurement of aircrafts and development of new flight routes and other significant matters as well as reviews and evaluates such significant matters. The strategy committee comprises five directors. The Guarantor's strategy committee currently comprises the following five members: Bao Qifa, Wang Fei, Liu Lu, Sun Jianfeng and Deng Tianlin.

PRINCIPAL SHAREHOLDERS

The largest shareholder of Hainan Airlines is Grand China Air.

In order to reorganise Hainan Airline Co., Ltd., Grand China Air was incorporated in 2004 by Hainan Development Holdings Co., Ltd., an entity wholly-owned by the State-owned Assets Supervision and Administration Commission of Hainan provincial government. In June 2006, Grand China Air subscribed 1,650,000,000 new ordinary domestic shares of Hainan Airlines in the form of A Shares, and became the largest shareholder of Hainan Airlines, holding 46.74% of Hainan Airlines' then issued share capital.

In August 2012, Hainan Airlines completed a private placement of 1,965,600,000 new ordinary domestic shares in the form of A shares in the PRC, raising approximately RMB8.00 billion. As a result of this private placement, the respective direct shareholding interests in Hainan Airlines held by each of Hainan Development Holdings Co., Ltd. and HNA Group Co. decreased from 7.21% to 4.89%. The direct shareholding interest held by Changjiang Leasing decreased from 6.27% to 4.25%. The shareholding interests acquired by the investors in the private placement ranged from 1.54% to 4.84% and aggregated 32.27%.

In June 2013, Hainan Airlines increased its share capital by 6,091,090,895 shares by capitalisation from its capital surplus. As at 31 December 2014, Hainan Airlines had a total issued share capital of 12,182,181,790 shares.

As at 30 June 2018, Hainan Development Holding Co., Ltd. held 24.97% of the issued share capital of Grand China Air. As at 30 June 2018, HNA Group Co., held 23.11% of the issued share capital of Grand China Air, and directly owned 3.53% of the issued share capital of Hainan Airlines.

On 10 December 2014, Hainan Development Holdings Co., Ltd. signed a share transfer agreement and a supplemental share transfer agreement with Grand China Air and agreed to transfer 595,238,094 A shares in Hainan Airlines, representing approximately 4.89% of Hainan Airlines' issued shares, to Grand China Air. The transaction was completed on 9 November 2015. As at 30 June 2018, Grand China Air owned 24.33% directly of Hainan Airlines and a further 1.29% indirectly through American Aviation LDC, an aggregate of 25.62% of Hainan Airlines' share capital, and was the largest shareholder of Hainan Airlines.

According to Hainan Airlines' announcement on 8 December 2015, it planned to conduct a private placement (the "**Share Placement**") of up to 4,623,938,547 A Shares to no more than 10 investors consisting of investment companies or investment funds to raise no more than RMB16.5 billion in order to purchase 37 aircraft, acquire 48.21% shares of Tianjin Airlines, and repay bank loans. Such plan was approved by the Board of Directors of Hainan Airlines in April 2015, by the shareholders of Hainan Airlines in July 2015, and by CSRC in February 2016. As at 6 September 2016, this Share Placement had been completed with an increase of the shares of Hainan Airlines from 12,182,181,790 shares to 16,806,120,330 shares and net proceeds of approximately RMB16,404 million. As at 6 September 2016, Grand China Air's direct shareholding and indirect shareholding, through American Aviation LDC, in Hainan Airlines had decreased from 33.57% to 24.33% and from 1.77% to 1.29%, respectively, which led to Grand China Air's aggregate shareholding in Hainan Airlines decreasing from 35.34% to 25.62%.

As at 31 December 2017, the following shareholders had a direct interest of 5% or more in Hainan Airlines' shares:

Name	Number of Shares	Approximate Percentage of the Total Number of Shares
Grand China Air	4,089,167,580	24.33%
Haikou Meilan International Airport Co., Ltd	862,848,902	5.13%

As at 31 December 2017, 3,808,032,301 of 4,089,167,580 shares held by Grand China Air, 862,000,000 of 862,848,902 shares held by Haikou Meilan International Airport Co., Ltd., 593,920,000 of 593,941,394 shares held by HNA Group Co. and 517,545,280 of 517,671,098 shares held by Changjiang Leasing were pledged by the holders to PRC banks as collateral for certain bank loans.

SIGNIFICANT SHAREHOLDERS

HNA Group Co., a shareholder of Hainan Airlines, was also a significant shareholder holding 23.11% of the share capital of Grand China Air and directly owned 3.53% of the issued share capital of Hainan Airlines as at 31 December 2017. HNA Group, a PRC conglomerate, is a large multi-industry enterprise group controlled by HNA Group Co. HNA Group's core business sectors include air travel, logistics and financial service. HNA Group's business scope covers air transportation, airport investment and management, hotel and golf course investment and management, information technology service, import and export of aircraft and aviation equipment, investment, development and equity management in the areas of energy, logistics, new technology and new material, including domestic labour and commercial agency service.

Although HNA Group also provides aviation services, the Group believes that HNA Group's aviation resources are complementary and that its relationship with HNA Group has been beneficial to the Group's operations. The Group has been able to exploit the resources of HNA Group, particularly with HNA Group's existing route network as well its air related services including aircraft maintenance services, aircraft equipment and spare parts procurement, and crew training programmes. See "*Description of the Guarantor – Competitive Strengths – Well-positioned to benefit from the development of Hainan province as an international tourist destination and strong beneficial policies related to shareholders and local governments*", "*– Aircraft equipment and spare parts*", "*– Aircraft maintenance, repair and overhaul*" and "*– Employees*".

To eliminate potential competition issues arising from their shareholding interests in Hainan Airlines, Grand China Air and HNA Group Co. gave their respective undertakings to Hainan Airlines in April 2012. In its undertakings, Grand China Air agreed to entrust Hainan Airlines, before the publication of Hainan Airlines' interim report of 2012, to manage its air transportation business and exercise shareholder's rights on its behalf in respect of its shareholding interest in Lucky Air. It has further undertaken to transfer the above business and interest to Hainan Airlines within 36 months and the rest of its airline business to Hainan Airlines within 60 months of Hainan Airlines' private placement of its ordinary shares in August 2012, subject to regulatory approvals and Hainan Airlines' business needs and financial condition. On 24 June 2017, Hainan Airlines announced that it intended to enter into a trust beneficial interest transfer agreement with Grand China Air and Tianjin Trust. Pursuant to such agreement, Grand China Air will entrust all of its future beneficial interest in respect of its operating airlines to Tianjin Trust for RMB5,536.29 million and Hainan Airlines will be the sole beneficiary of such trust. After the formation of such trust, there will not be any competitive conflict between Hainan Airlines and Grand China Air. Similarly, HNA Group Co. undertook to entrust Hainan Airlines, before the publication of Hainan Airlines' 2012 interim report, to exercise shareholder's rights on its behalf in respect of its shareholding interests in several airlines, including Beijing Capital Airlines, West Air, Tianjin Airlines and Hong Kong Airlines. It has also undertaken to transfer its shareholding interests in these airlines to Hainan Airlines within 36 months of Hainan Airlines' private placement of its ordinary shares, subject to regulatory approvals and Hainan Airlines' business needs and financial condition. On 6 September 2014, HNA Group Co. altered the above undertaking as it considered such alteration to be appropriate to reduce potential competition between HNA Group and Hainan Airlines through selling its interest in Hong Kong Airlines Co. to independent third parties in light of the proposed initial public offering of Hong Kong Airlines. In July 2017, HNA Group Co. fulfilled its undertaking in connection with selling its shareholding interest in Hong Kong Airlines Co.. On 24 June 2017, Hainan Airlines announced that the undertakings of HNA Group Co. in connection with transferring its shareholding interests in West Air and Beijing Capital Airlines, originally required to be satisfied by 12 July 2017, would be extended for 24 months upon the approval of Hainan Airlines' shareholders' general meeting. In the same announcement, Hainan Airlines reported that HNA Group Co. had undertaken that within 24 months of such approval, HNA Group Co. would complete the transfers.

In August 2012, Hainan Airlines was authorised by its board and shareholders to hold the shares in several airlines on behalf of their beneficial owners, Grand China Air and HNA Group Co.. Hainan Airlines will exercise shareholders' rights on their behalf and manage and operate these airlines for certain fees during the above agreed periods. The airlines to be managed by Hainan Airlines include Beijing Capital Airlines, West Air, Tianjin Airlines, Hong Kong Airlines, Lucky Air and Grand China Airlines (only in respect of its aviation transportation business). Hainan Airlines believes that the arrangements will help satisfy regulatory and governance requirements for the contribution of these interests to Hainan Airlines in the future. As a result of the change of HNA Group's undertaking described above, Hainan Airlines will cease to manage Hong Kong Airlines Co..

In May 2013, Hainan Airlines subscribed for 1.2 billion new shares of Tianjin Airlines for RMB1,680 million in cash and increased its shareholding in Tianjin Airlines from 11.79% to 30.70%. In October 2013, Hainan Airlines acquired a 13.95% shareholding in Tianjin Airlines from HNA Group Co. at a price of RMB1,093 million which it paid in cash and further increased its shareholding in Tianjin Airlines from 30.70% to 44.65%, which was diluted to 37.59% in May 2014 as a result of the capital contribution to Tianjin Airlines by Tianhang Holding Co., Ltd (天航控股有限責任公司). In July 2014, Hainan Airlines completed a further subscription for 700 million new shares of Tianjin Airlines for RMB980 million in cash and increased its shareholding in Tianjin Airlines from 37.59% to 43.54%, which was diluted to 39.06% in December 2014 as a result of the capital contributions to Tianjin Airlines by Tianjin Chuangxin Investment LLP (天津創鑫投資合夥企業(有限合夥)) in August 2014 and Tianjin Free Trade Zone Investment Co., Ltd (天津保稅區投資有限公司) in December 2014, respectively. In April 2015, Hainan Airlines announced that it intended to acquire a further 48.21% shares of Tianjin Airlines. On 4 February 2017, Hainan Airlines announced the completion of this acquisition, for a cash purchase price of approximately RMB5,554 million. On 24 June 2017, Hainan Airlines announced that it intended to form a joint venture, Xintuoheng, with Tianjin Trust and Shanghai Huashuo. Hainan Airlines plans to invest RMB636.50 million while Tianjin Trust and Shanghai Huashuo plan to invest RMB1,110.00 million and RMB0.01 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB1,736.50 million in cash at a price of RMB1.51 per share. On the same day, Hainan Airlines announced that it intended to form a joint venture, Guangzhou Jinhaichuangxin Equity Limited Partnership, with CITIC Trust and Innovation Investment Management. Hainan Airlines plans to invest RMB1,000.00 million while CITIC Trust and Innovation Investment Management plan to invest RMB1,952.60 million and RMB1.00 million, respectively. After such formation, the joint venture plans to subscribe for new shares of Tianjin Airlines for RMB2,952.60 million in cash at a price of RMB1.51 per share. After these two subscriptions, Tianjin Airlines' registered capital will increase from RMB8,192.60 million to RMB11,297.96 million, resulting in a dilution of Hainan Airlines' direct shareholding interest in Tianjin Airlines from 87.28% to 63.28%. In November 2013, Hainan Airlines announced that it intended to invest RMB1 billion in new share capital of West Air in cash and upon this investment increased its shareholding in West Air to 29.40%. As at the date of this Offering Circular, Hainan Airlines had completed the share subscription in West Air, increasing its shareholding to 28.43% In March 2014, Hainan Airlines completed its acquisition of a 52.90% shareholding in Lucky Air from Grand China Air at a price of RMB1,702 million payable in cash and upon this subscription increased its shareholding in Lucky Air from 33.78% to 86.68%. As at 31 December 2017, Hainan Airlines' shareholding in Lucky Air is 73.48%. In the future, the Group plans to develop West Air and Lucky Air into low-cost airlines to meet the increasing competition from alternative means of transportation, such as highways and railways. Hainan Airlines has entered into or plans to enter into these investments to help the Group build its core business, market share and competitiveness and eliminate potential competition issues among the Group, Grand China Air and HNA Group Co. See "*Description of the Group – Business Strategies – Continue to develop alliances with airlines affiliated with HNA Group and with other airlines*".

Certain transactions may occur between Hainan Airlines and/or subsidiaries of the Group and Hainan Airlines' principal shareholders, or entities associated with its principal shareholders, which are related parties of Hainan Airlines.

EXCHANGE RATES

The People's Bank of China (the "**PBOC**") sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi with reference to a basket of currencies in the market during the prior day. The PBOC also takes into account other factors such as general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although PRC Governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the SAFE and other relevant authorities. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Centre, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 AM each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank foreign exchange spot market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced that it intended to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate and the band was expanded to 1.0 per cent. on 16 April 2012 and it was further expanded to 2.0 per cent. on 17 March 2014. On 11 August 2015, the PBOC announced that the exchange rates between the Renminbi and foreign currencies would become more market driven, taking into account of the closing exchange rates on the previous trading day, supply and demand of foreign currencies and the fluctuations of exchanges rates between major international currencies. From 11 August to 13 August 2015, the value of the Renminbi depreciated by approximately 4.4 per cent. against the U.S. dollar. In January and February 2016, the Renminbi experienced further fluctuations in value against the U.S. dollar. The PRC government may make further adjustments to the exchange rate system in the future.

The following table sets forth the noon buying rates for U.S. dollars in New York City for cable transfers payable in Renminbi as certified by the Federal Reserve Bank of New York for customs purposes for and as at the periods indicated, as set forth in the H.10 statistical release of the Federal Reserve Board.

	Noon Buying Rate			
Period	**Low**	**Average**(1)	**High**	**Period End**
	(Renminbi per U.S.$1.00)			
2009	6.8176	6.8295	6.8470	6.8259
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2221	6.2990	6.3879	6.2301
2013	6.0537	6.1478	6.2438	6.0537
2014	6.0402	6.1704	6.2591	6.2046
2015	6.1870	6.2869	6.4896	6.4778
2016	6.4480	6.6549	6.9580	6.9430
2017	6.4773	6.7569	6.9575	6.5063
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.2649	6.3183	6.3471	6.3280
March	6.2685	6.3174	6.3565	6.2726
April	6.2655	6.2967	6.3340	6.3325

(1) Averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

On 29 December 2017, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was RMB6.5063 to U.S.$1.00, as set forth in the H.10 statistical release of the Federal Reserve Board.

PRC REGULATIONS ON FOREIGN DEBTS AND THE GUARANTEE OF FOREIGN DEBTS

This section contains a summary of certain laws and regulations in the PRC currently relevant to the Bonds and the Guarantee.

CROSS BORDER GUARANTEE LAWS AND THE EXTERNAL SECURITY REGIME

On 19 May 2014, the SAFE promulgated the Notice concerning the Foreign Exchange Administration Rules on Cross Border Security and the relating implementation guidelines (collectively the "**SAFE Regulations**"). The SAFE Regulations, which come into force on 1 June 2014, replace 12 other regulations regarding cross border security and introduce a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross border security; (ii) requiring SAFE registration for two specific types of cross border security only; (iii) removing eligibility requirements for providers of cross border security; (iv) the validity of any cross border security agreement is no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; (v) removing SAFE verification requirement for performance of cross-border security. A cross border guarantee is a form of security under the SAFE Regulations. The SAFE Regulations classify cross border security into three types:

- Nei Bao Wai Dai ("**NBWD**"): security/guarantee provided by an onshore security provider for a debt owing by an offshore debtor to an offshore creditor.

- Wai Bao Nei Dai ("**WBND**"): security/guarantee provided by an offshore security provider for a debt owing by an onshore debtor to an onshore creditor.

- Other Types of Cross Border Security: any cross border security/guarantee other than NBWD and WBND.

In respect of NBWD, in the case where the onshore security provider is a non-financial institution, it shall conduct a registration of the relevant security/guarantee with SAFE within 15 working days after its execution (or 15 working days after the date of any change to the security). The funds borrowed offshore shall not be directly or indirectly repatriated to or used onshore by means of loans, equity investments or securities investments without SAFE approval. The onshore security provider can pay to the offshore creditor directly (by effecting remittance through an onshore bank) where the NBWD has been registered with SAFE. In addition, if any onshore security provider under a NBWD provides any security or guarantee for an offshore bond issuance, the offshore issuer's equity shares must be fully or partially held directly or indirectly by the onshore security provider.

The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed are contained in the Deed of Guarantee. The Deed of Guarantee will be executed by the Guarantor on or before the Issue Date. Under the SAFE Regulations, the Deed of Guarantee does not require any pre-approval by SAFE and is binding and effective upon execution.

The Guarantor is required to submit the Deed of Guarantee to the local SAFE for registration within 15 China business days after its execution. The SAFE registration is merely a post signing registration requirement, which is not a condition to the effectiveness of the Guarantee.

Under the SAFE Regulations, the local SAFE will go through a procedural review (as opposed to a substantive approval process) of the Guarantor's application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the Guarantor to confirm the completion of the registration.

Under the SAFE Regulations:

- non-registration does not render the Guarantee ineffective or invalid under PRC law although SAFE may impose penalties on the Guarantor if submission for registration is not carried out within the stipulated time frame of 15 working days; and

- there may be logistical hurdles at the time of remittance (if any cross border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of SAFE registration in order to effect such remittance, although this does not affect the validity of the Guarantee itself.

The Terms and Conditions provide that the Guarantor will file, or cause to be filed, the Deed of Guarantee with SAFE in accordance with, and within the time period prescribed by, the SAFE Regulations and use its best endeavours to complete the registration and obtain a registration record from SAFE on or before the Registration Deadline. If the Guarantor fails to complete the SAFE registration and deliver the registration records to the Trustee before the Registration Deadline, under the Terms and Conditions of the Bonds, Holders may require the Issuer to redeem their Bonds.

THE NDRC RULES ON REGISTRATION FOR ISSUANCE OF FOREIGN DEBTS

On 14 September 2015, the NDRC issued the Notice of the National Development and Reform Commission on Promoting the Reform of Managing the External Debt Issuance by Enterprises with a Record-filing and Registration System (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "**NDRC Circular**") which became effective on 14 September 2015. The NDRC Circular provides that, among others, (i) the issuance of foreign debts by domestic enterprises shall be subject to the record-filing and the registration system as well as the quota review and approval system by NDRC; and (ii) the enterprises issuing foreign debts must complete the record-filing and registration in respect of the foreign debts with the NDRC before issuance and then report the details of such issuance to the NDRC within 10 business days following the closing date of such issuance. The term "foreign debts" referred to in the NDRC Circular means (i) RMB-denominated or foreign currency-denominated debt instruments with a maturity date of more than one year; (ii) issued overseas by the domestic enterprises, their controlled overseas enterprises or branches; and (iii) with agreed payment terms of principal and interest. It also includes bonds issued overseas, long-term and medium-term international commercial loans, etc. The Guarantor has registered the issuance of the Bonds with the NDRC and has obtained a certificate from the NDRC on 24 August 2018 evidencing such registration and undertakes under the Terms and Conditions to file the requisite information and documents with the NDRC within the time period prescribed by NDRC or under the NDRC Circular after the issue of the Bonds.

PRC REGULATIONS ON THE COMMERCIAL AVIATION INDUSTRY

This section contains a summary of certain laws and regulations currently relevant to the Group's operations in the PRC.

The PRC commercial aviation industry is subject to a high degree of regulation and oversight by CAAC. Regulations and policies issued or implemented by CAAC encompass substantially all aspects of airline operations, including the approval of domestic, regional and international route allocation, published air fares, aircraft acquisition, aviation fuel prices and standards for aircraft maintenance, airport operations and air traffic control. The Civil Aviation Law, which became effective in March 1996, provides a framework for regulation of many of these aspects of commercial aviation activities. Some of the clauses of the Civil Aviation Law have been amended by the Decision of the Standing Committee of the National People's Congress on Amending Some Laws issued on 27 August 2009 and the Decision of the Standing Committee of the National People's Congress on Amending Five Laws Including the Metrology Law of the People's Republic of China (Decree of the President No. 26) issued on 24 April 2015 and the Decision of the Standing Committee of the National People's Congress on Amending Twelve Laws Including the Foreign Trade Law of the People's Republic of China (Decree of the President No. 57) issued on 7 November 2016. Although China's airlines operate under the supervision and regulation of CAAC, they are accorded an increasingly significant degree of operational autonomy, including with respect to the application for domestic, regional and international routes, the allocation of aircraft among routes, the purchase of flight equipment, the pricing of air fares within a certain range, the training and supervision of personnel and their day-to-day operations.

Providing services on international routes, the Group is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between China and various other countries. In addition, China is a contracting state, as well as a permanent member, of the International Civil Aviation Organisation (the "**ICAO**"), an agency of the United Nations established in 1947 to assist in the planning and development of international air transport, and is a party to many other international aviation conventions. The ICAO establishes technical standards for the international aviation industry. The Group believes that it, in all material respects, complies with all such technical standards.

ROUTE RIGHTS

Domestic routes

The right of any PRC airline to carry passengers or cargo on any domestic route must be obtained from CAAC.

Non-PRC airlines are not permitted to provide domestic air service among destinations in China. CAAC's policy is to assign a domestic route to the PRC airline that is best suited to serve the route based, in part, on the location of the airline's main or regional base at the point of origin. Under current regulations, airlines are generally expected to operate mainly from their route bases, and flights within a particular region are expected to be served by airlines based in that region. CAAC also considers other factors that may make a particular airline suitable to operate a domestic route, including the applicant's general operating authority, compliance with pricing regulations and regulations applicable to safety and service quality, market demand, the ability of the applicant in terms of its existing routes, and airport facilities and related support services.

CAAC considers market conditions for a domestic route in determining whether the route should be allocated to one or more airlines. Generally, CAAC requires the passenger load factor on certain route should be above the average rate of the whole market in the last flight season before additional flights and participants may be put on that route.

Regional routes

Hong Kong and Macau routes and landing rights are derived from agreements between the PRC government and the government of the Hong Kong SAR, and between the PRC government and the government of Macau SAR. Such rights are allocated by CAAC among limited number of PRC airlines, including Hainan Airlines permitted to fly to Hong Kong or Macau. The Group understands that the criteria for determining whether a Hong Kong and Macau route will be allocated to a particular airline include market demand, the ability of the airline to service the route and the appropriateness of the airline's aircraft for such route.

A number of Hong Kong routes are operated by PRC airlines on a "charter" flight basis. Permission to operate these flights is in theory subject to monthly review by CAAC and the Hong Kong Civil Aviation Department. CAAC has informally indicated that it primarily considers market demand and airline capability in granting permission for such flights.

Previously, direct flights between Taiwan and Mainland China were only available during certain festivals. Since 4 July 2008, however, the limitation on direct flights has been further liberalised to allow direct charter flights on weekends. On 4 November 2008, the PRC and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On 31 August 2009, the PRC and Taiwan extended the number of regular cross-Strait direct passenger flights from 108 to 270 a week. The 108 direct passenger flights previously operating were all classed as charter flights. The new services comprise both regular charter and scheduled flights. Hainan Airlines became the first PRC carrier to fly nonstop to Taiwan. Previously, travellers between Taiwan and China have had to make use of intermediate stops in Hong Kong or elsewhere.

International routes

International route rights, as well as the corresponding landing rights, are derived from air services agreements negotiated between the PRC government, through CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled service between certain destinations within each of such countries. Upon entering into an air services agreement, CAAC determines the airline to be awarded such routes based on various criteria, including the availability of appropriate aircraft, flight and management personnel, safety record, the overall size of the airline, financial condition and sufficiency of assets to bear civil liabilities in international air services. These route rights may be terminated by CAAC under special circumstances.

The criteria for determining whether an international route will be allocated to a second airline generally include (i) the terms of the relevant bilateral civil aviation agreement; (ii) consistency with overall national plans and the national interest and the enhancement of reasonable competition; and (iii) whether the international airports to be used are sufficient for the aircraft flown and employ security measures consistent with international standards.

In addition, if the relevant bilateral civil aviation agreement permits more than one PRC airline to operate a particular international route, CAAC will only permit a second airline to operate on such route if the number of passengers carried annually exceeds 100,000 and if there is a minimum average load factor of 68.00 per cent. for routes with at least five weekly flights by the PRC airlines, or 80.00 per cent. for routes with four weekly flights by the PRC airlines.

Airfare pricing policy

Pursuant to "Pricing Reform of Domestic Civil Aviation" as approved by the State Council of the PRC effective on 20 April 2004, prices on domestic routes fluctuate freely within a predetermined range. Instead of direct supervision by setting prices of air tickets through a local price bureau, the government now provides guidance on domestic flights and domestic civil aviation is controlled by the government indirectly. Market-oriented pricing policy was introduced and pricing system has been adjusted as a result of the above pricing reform. The pricing regulation was further eased in 2010. According to a new regulation jointly issued by CAAC and NDRC in 2010, the PRC airlines can now decide the price of first-class and business-class fares for domestic flights. Previously, first-class and business-class fares were fixed at 1.5 times and 1.3 times the full fare of an economy class ticket. Further, pursuant to the Notice of Transport Price Policy Relevant Issues on Domestic Civil Aviation jointly issued by CAAC and NDRC on 9 October 2013, the PRC airlines now have greater freedom to determine their pricing for domestic flights: (i) there is no limit on their price reductions; (ii) they can increase their prices up to 25.00 per cent. more than the standard prices; and (iii) the prices for certain domestic routes jointly operated by at least two airlines and under competition with principle ground transportation are now market-oriented prices rather than government guided prices.

Published air fares of the PRC airlines for the Hong Kong and Macau routes are determined by CAAC and the relevant civil aviation authorities in Hong Kong or Macau, subject to consultation between the relevant PRC airlines and Hong Kong or Macau airlines. Airlines may offer discounts on flights on their Hong Kong regional routes. With respect to the Taiwan routes, the air fares are currently determined by the PRC airlines at their own discretion and may be subject to certain pricing guidance to be issued by CAAC in the future.

Published air fares of the PRC airlines for international routes are determined through consultation between the relevant PRC airlines and foreign airlines in accordance with the civil aviation agreements between the PRC government and the relevant foreign government, taking into account the international air fare standards established through the International Air Transport Association. All air fares for international routes must be approved by CAAC. Discounting of published international air fares is permitted.

Acquisition of aircraft and flight equipment

CAAC requires all PRC airlines to acquire their aircraft through China Aviation Supplies Import and Export Corporation ("**CASC**"), an entity controlled by CAAC. If a PRC airline plans to acquire an aircraft, the airline must first seek approval from CAAC and NDRC. The airline must, as a condition of approval, provide specific acquisition plans, which are subject to modification by CAAC and NDRC. If CAAC and NDRC approve an aircraft acquisition, the airline negotiates the terms of the acquisition with the manufacturer together with CASC because CASC possesses the license required to import or export aircraft, and CASC receives a commission in respect thereof. Most of the PRC airlines are also required to acquire their aircraft engines, spare parts and other flight equipment through CASC. Hainan Airlines and a few other PRC airlines are permitted to import jet engines and other flight equipment for their own use without the participation of CASC. In the case of Hainan Airlines, HNA Import and Export Corporation, an entity under HNA Group, which has the relevant import and export rights, acts as its import agent and is paid an agency fee for its services.

Aviation fuel supply and pricing

CAOSC and Bluesky Oil Supplies Company, controlled and supervised by CAAC, are the only aviation fuel supply companies in China, with the exception of the joint venture aviation fuel supply companies that supply the Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports, in each of which CAOSC is a partner. Airlines are generally not permitted to buy aviation fuel from other suppliers in their domestic operations, since the direct import of aviation fuel for domestic purposes is prohibited. As a result, all PRC airlines purchase their domestic aviation fuel supply requirements (other than the above mentioned exceptions) from the seven regional branches of CAOSC. Aviation fuel obtained from such regional branches is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of CAAC and the pricing department of NDRC based on market conditions and other factors.

Safety

CAAC has made the improvement of air traffic safety in China a high priority and is responsible for the establishment of operational safety, maintenance and training standards for all PRC airlines. The PRC airlines are required to provide monthly flight safety reports to CAAC, including reports of flight or other incidents or accidents and other safety related problems involving such airline's aircraft occurring during the relevant reporting period. CAAC periodically conducts safety inspections on individual airlines.

CAAC oversees the standards of all PRC airline pilots through its operation of CAAC Aviation College. CAAC Aviation College is a monitoring unit located in Tianjin which implements a uniform pilot certification process applicable to all PRC airline pilots and is responsible for the issuance, renewal, suspension and cancellation of pilot licenses. Every pilot is required to pass CAAC-administered examinations before obtaining a pilot license and is subject to an annual recertification examination.

All aircraft operated by the PRC airlines, other than a limited number of leased aircraft registered in foreign countries, are required to be registered with CAAC. All aircraft operated by the PRC airlines must have a valid certificate of airworthiness, which is issued annually by CAAC. In addition, maintenance permits are issued to a PRC airline only after its maintenance capabilities pass the examination and assessment of CAAC. Such maintenance permits are renewed annually. All aircraft operated by the PRC airlines may be maintained and repaired only by CAAC-certified maintenance facilities, whether located within or outside China. Aircraft maintenance personnel must be certified by CAAC before assuming aircraft maintenance posts.

Security

CAAC establishes and supervises the implementation of security standards and regulations for the PRC commercial aviation industry. Such standards and regulations are based on the PRC laws, as well as standards developed by international commercial aviation organisations. Each airline and airport in China is required to submit to CAAC an aviation security handbook describing specific security procedures established by such airline or airport for the day-to-day operations of commercial aviation and procedures for staff training on security. Such security procedures must be based on relevant CAAC regulations and international commercial aviation treaties. The PRC airports and airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements.

Noise and environmental regulation

All airlines in China must comply with the noise and environmental regulations of the PRC State Environmental Protection Agency. Applicable regulations of CAAC permit the PRC airports to refuse take-off and landing rights to any aircraft that does not comply with noise regulations.

The PRC airport policy

CAAC supervises and regulates all civilian airports in China. Local PRC governments manage the administration of most civilian airports in China, with limited exceptions. Airports in China are also subject to regulation and ongoing review by CAAC, which determines take-off and landing charges, as well as charges for the use of airports and airport services.

RELEVANT DIFFERENCE BETWEEN PRC ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Guarantor's Audited Consolidated Financial Statements have been prepared in accordance with PRC Accounting Standards. Other than on reversal of impairment provisions taken on assets, PRC Accounting Standards have substantively converged with the IFRS in all ways relevant to the Group. Accordingly, there are no other significant differences between the principal accounting policies adopted by the Guarantor and IFRS.

Reversal of Impairment Losses on Assets

In accordance with "Accounting and Standards for Business Enterprises No. 8 – Impairment of Assets", an asset impairment loss that has been recognised shall not be reversed in subsequent accounting periods, while in accordance with IAS36 "Impairment of Assets", an entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognised in prior periods for an asset other than goodwill can be reversed if, and only if, there has been a change in the estimates used to determine the recoverable amount of that asset since the last impairment loss was recognised.

For the years ended 31 December 2015, 2016 and 2017, respectively, the Guarantor had no such reversal of impairment losses on assets. Therefore, the above technical difference had no substantial impact on the Guarantor's Audited Consolidated Financial Statements included elsewhere in this Offering Circular.

The above analysis is not meant to be an exhaustive description of all significant differences between PRC accounting standards and IFRS. In making an investment decision, investors must rely upon their own examination of the Issuer, the Guarantor, the Group, and the terms of the offering and the financial information included herein. Potential investors should consult their own professional advisers for an understanding of any differences that may exist between PRC Accounting Standards and IFRS, and how those differences might affect the financial information included herein.

TAXATION

The following summary of certain Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Bonds.

HONG KONG

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of the Bonds.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of Mainland China for PRC tax purposes. These beneficial owners are referred to as (a) non-PRC Holders, or (b) beneficial owners who are entities or individuals located outside of the PRC in this "Taxation – PRC" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application fork tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Enterprise Income Tax

Pursuant to the EIT Law and its implementation regulations and Individual Income Tax Law of the PRC, which was amended on 30 June 2011 and took effect on 1 September 2011, and its implementation regulations, an income tax is imposed on payment of interest and capital gains realised by non-PRC resident enterprises or non-PRC resident individuals by way of withholding in respect of debt securities, issued by PRC enterprises to non-PRC Holders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 10 per cent. for non-PRC resident enterprises and 20 per cent. for non-PRC resident individuals.

If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the actual management organ of the Issuer is within the territory of PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to EIT at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. If the Issuer is regarded as a PRC tax resident enterprise, such income tax shall be withheld by the Issuer that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment due. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Holders. The tax so charged on interests paid on the Bonds to non-PRC Holders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined in the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) which was promulgated on 21 August 2006 (the "**Arrangement**") will be 7 per cent. of the gross amount of the interest pursuant to the Arrangement and relevant interpretation of the Arrangement formulated by the State Administration of Taxation of China ("**SAT**"). To enjoy this preferential tax rate of 7 per cent., the Issuer could apply, on behalf of the Holders, to the State Administration of Taxation of the PRC for the application of the tax rate of 7 per cent. in accordance with the Arrangement on the interest payable in respect of the Bonds.

In addition, in the event that the Guarantor is required to discharge its obligations under the Guarantee of the Securities, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate of 10 per cent. in respect of payments to non-PRC resident enterprise Bondholders and at a rate of 20 per cent. In respect of payments to non-PRC resident individual Bondholders, subject to the application of any relevant income tax treaty that the PRC has entered into, on the payments of interest made by it under the Guarantee of the Securities to non-PRC resident enterprise Bondholders as such interest payment obligations will be regarded as being derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. Nevertheless, repayment of the principal will not be subject to PRC withholding tax.

VAT

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Securities is likely to be treated as the holders of the Bonds providing loans to the Issuer, which thus shall be regarded as financial services subject to VAT. Further, the payments of the interest and other interest like earnings may be subject to VAT at the rate of 6 per cent. in the event that the Guarantor is required to discharge its obligations under the Guarantee of the Bonds. In addition, under such an interpretation Bondholders could become subject to local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies payable on interest due to Bondholders could be up to 6.72 per cent.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Securities is located inside the PRC.

Circular 36 has been issued quite recently, the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law and the VAT reform detailed above, if the Issuer is regarded as a PRC tax resident enterprise, it shall withhold EIT (should such tax apply) from the payments of interest in respect of the Bonds for any non-PRC-resident Holder and the Issuer shall withhold VAT (should such tax apply) from the payments of interest in respect of the Bonds for any Holders located outside of the PRC. However, in the event that the Issuer is required to make such a deduction or withholding (whether by way of EIT, VAT or otherwise), the Issuer has agreed to pay such additional amounts as will result in receipt by the Holders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of the Bonds – Condition 7 (Taxation)*".

Stamp Duty

No PRC stamp duty will be imposed on non-PRC Holders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Bonds is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA")

Whilst the Bonds are in global form and held within Clearstream and/or Euroclear, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Bonds by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement with the United States (an "**IGA**") will be unlikely to affect the Bonds. The documentation expressly contemplates the possibility that the Bonds may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA withholding. However, definitive financial instruments will only be printed in remote circumstances. Further, foreign financial institutions in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated [●] 2018 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer and the Guarantor have undertaken, among other things, that the Bonds will be issued on [●] 2018 (the "**Closing Date**"), and the Joint Lead Managers have agreed with the Issuer to subscribe and pay for, or procure subscribers to subscribe and pay for, the Bonds at an issue price of [●] per cent. of their principal amount in the proportions set out as follows:

Manager	**Principal amount of the Bonds to be subscribed**
Guotai Junan Securities (Hong Kong) Limited	U.S.$[●]
GPB Financial Services Hong Kong Limited	U.S.$[●]
Total	**U.S.$[●]**

The Subscription Agreement provides that the Issuer (failing which, the Guarantor) has agreed to pay the Joint Lead Managers certain fees and underwriting commissions, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Bonds, and the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and their subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and certain of their subsidiaries or affiliates may have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with the Issuer, the Guarantor or any member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor or any member of the Group and/or their respective subsidiaries and affiliates in the ordinary course of their business.

The Joint Lead Managers and their affiliates may purchase the Bonds and be allocated Bonds for asset management and/or proprietary purposes but not with a view to distribution. References herein to the Bonds being offered should be read as including any offering of the Bonds to the Joint Lead Managers and/or their affiliates acting in such capacity. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this Offering Circular, or any offering material, and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular, or any offering material, are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken that would, or is intended to, permit a public offering of the Bonds, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

Accordingly, the Bonds should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Bonds should be distributed or published in or from any jurisdiction, except in circumstances which will result in compliance with any applicable laws and regulations and will not, save as disclosed in this Offering Circular, impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

If a jurisdiction requires that the offering of the Bonds be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers are a licensed broker or dealer in that jurisdiction, the offering of the Bonds shall be deemed to be made by the Joint Lead Managers or their respective affiliates on behalf of the Issuer in such jurisdiction.

GENERAL

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

UNITED STATES

The Bonds and the Guarantee of the Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds and the Guarantee of the Bonds are being offered and sold outside of the United States in reliance on Regulation S.

UNITED KINGDOM

The Joint Lead Managers have represented, warranted and undertaken that:

(a) *Financial promotion:* they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) *General compliance:* they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the Bonds in, from or otherwise involving the United Kingdom.

HONG KONG

The Joint Lead Managers have represented, warranted and undertaken that:

(a) they have not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) they have not issued or had in their possession for the purposes of issue, and will not issue or have in their possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

SINGAPORE

The Joint Lead Managers have acknowledged that the Offering Circulars has not been registered as a prospectus with the Monetary Authority of Singapore ("**MAS**"). Accordingly, the Joint Lead Managers have represented, warranted and agreed that they have offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will they circulate or distribute, the Offering Circulars or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

THE PRC

The Joint Lead Managers have represented, warranted and undertaken that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macao Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

GENERAL INFORMATION

1. **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code 182990574, LEI Code 3003007TQ6PN3B90J733 and ISIN XS1829905741.

2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer on 18 September 2018 and by the shareholder of the Issuer on 18 September 2018. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee of the Bonds. The giving of the Guarantee of the Bonds was authorised by the board of directors of the Guarantor on 17 September 2018 and the shareholders of the Guarantor on 12 April 2018.

   Pursuant to the Foreign Exchange Administration Rules on Cross-border Security of the PRC (跨境擔保外匯管理規定), the Guarantor shall apply to SAFE or its local counterparts for the registration of the Deed of Guarantee within 15 China Business Days after its execution. The Guarantor undertakes under the Terms and Conditions to register the Deed of Guarantee within such timeframe and use its best endeavors to complete the Cross-border Security Registration (as defined in the Terms and Conditions) on or before the Registration Deadline.

   Pursuant to the NDRC Circular, the Guarantor has registered the issuance of the Bonds with the NDRC and has obtained a certificate from the NDRC on 24 August 2018 evidencing such registration and undertakes under the Terms and Conditions to file the requisite information and documents with the NDRC within the time period prescribed by NDRC or under the NDRC Circular after the issue of the Bonds.

3. **No Material Adverse Change:** There has been no material adverse change in the trading position, condition (financial or otherwise), results of operations, profitability, shareholders' equity, business, properties, general affairs, management or prospects of the Issuer, the Guarantor or the Group since 31 December 2017.

4. **Litigation:** Neither the Issuer nor the Guarantor nor any member of the Group is involved in any litigation or arbitration proceedings that are material in the context of the Bonds nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.

5. **Available Documents:** So long as any of the Bonds is outstanding, copies of the following documents will be available for inspection upon prior written request and satisfactory proof of holding from the Issue Date at the principal office of the Guarantor in the PRC at HNA Plaza, No. 7 Guoxing Road, Haikou City, Hainan Province, 570203, PRC and at the specified office of the Trustee during normal business hours, so long as any of the Bonds is outstanding:

   - the Trust Deed;
   - the Deed of Guarantee;
   - the Agency Agreement;
   - the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2016 and 2017; and
   - the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2016.

6. **Financial Statements:** The audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2017, which includes the restated comparative financial information in respect of the previous year, and the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2016, which includes the comparative financial information in respect of the previous year) collectively, the Guarantor's Audited Consolidated Financial Statements, which were prepared and presented in accordance with PRC Accounting Standards and, have been audited by PwC ZT in accordance with CSAs.

The Guarantor's comparative financial information as at and for the year ended 31 December 2016, as contained in the consolidated financial statements as at and for the year ended 31 December 2017, was restated to reflect the change in accounting policies with effect from 1 January 2017 when the Guarantor changed to record the gains or losses on disposal of fixed assets and intangible assets in gains on disposal of assets rather than non-operating income and non-operating expenses, as the Ministry of Finance released the *Accounting Standards for Business Enterprises No. 42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations*, revised the *Accounting Standards for Business Enterprises No. 16 – Government Grants and the Circular on Amendment to Formats of Financial Statements of General Industry* and its interpretation (Cai Kuai [2017] No. 30). In accordance with the above standards and circular, the Guarantor recorded flight route subsidies and tax return related to ordinary activities for the year ended 31 December 2017 in other income rather than non-operating income, while the comparative financial information for the year ended 31 December 2016 was not restated in respect of this.

The summary consolidated financial information for the year ended 31 December 2016 of the Guarantor as contained herein (which has been restated in a manner mentioned in the preceding paragraph) was neither audited nor reviewed by the independent auditor of the Guarantor. The comparative financial information of the Guarantor as at and for the year ended 31 December 2015 as contained therein has not been restated and therefore is not comparable to the consolidated financial information for the years ended 31 December 2016 and 2017 as contained in the consolidated financial statements as at and for the year ended 31 December 2017. Investors must exercise cautious when using the consolidated financial information as at and for the year ended 31 December 2015 to evaluate the Guarantor's financial condition and results of operations. The Guarantor's Audited Consolidated Financial Statements and the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements are available at http://www.sse.com.cn/disclosure/listedinfo/announcement/.

The audited consolidated financial statements as at and for the year ended 31 December 2016, which includes the comparative financial information as at and for the year ended 31 December 2015, including the notes thereto, were included elsewhere in this Offering Circular, have not reflected the above restatements and are for reference purpose only. Should such information be restated to reflect the effect of such change in accounting policies, the restated amounts might be different from the financial information reported therein. Consequently, potential investors must exercise caution when using such financial information to evaluate the Guarantor's financial condition and results of operations.

The Guarantor's Audited Consolidated Financial Statements and the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements have been prepared only in Chinese. The Guarantor has prepared an English translation of the Guarantor's Audited Consolidated Financial Statements, namely the English Translated Guarantor's Consolidated Financial Statements which are included in this Offering Circular for reference only. The English Translated Guarantor's Consolidated Financial Statements do not themselves constitute audited financial statements, and are qualified in their entirety by, and are subject to the information set out or referred to in the Guarantor's Audited Consolidated Financial Statements. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors has independently verified or checked the accuracy of the English Translated Guarantor's Consolidated Financial Statements and can give no assurance that the information contained in the English Translated Guarantor's Consolidated Financial Statements are accurate, truthful or complete. Potential purchasers must exercise caution when using such financial information to evaluate the financial condition, results of operations and prospects of the Guarantor.

The Guarantor's Audited Consolidated Financial Statements and the Guarantor's Unaudited and Unreviewed 30 June 2018 Financial Statements are available at http://www.sse.com.cn/ disclosure/listedinfo/announcement/.

The consolidated financial statements of the Issuer as at and for the year ended 31 December 2016, which includes the comparative financial information in respect of the previous year, were prepared and in accordance with HKFRS, are included elsewhere in this Offering Circular have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong in accordance with HKSAs.

Approval in principle has been obtained from the SGX-ST for permission to deal in, and for quotation of, the Bonds. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Bond Certificate for the Bonds is exchanged for Individual Bond Certificates, the Issuer will appoint and maintain a paying agent in Singapore, where the Individual Bond Certificates in respect of the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Bond Certificate for the Bonds is exchanged for the Individual Bond Certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Individual Bond Certificates, including details of the paying agent in Singapore. The Bonds will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies) for so long as the Bonds are listed on the SGX-ST.

INDEX TO FINANCIAL STATEMENTS

Notes:

(1) The Guarantor's Consolidated Financial Statements set forth herein have been reproduced from the Guarantor's Audited Consolidated Financial Statements for the year ended 31 December 2017 and page references are references to pages set forth in such audited consolidated financial statements.

(2) The Guarantor's Consolidated Financial Statements set forth herein have been reproduced from the Guarantor's Audited Consolidated Financial Statements for the year ended 31 December 2016 and page references are references to pages set forth in such audited consolidated financial statements. The financial information of the Guarantor as set out in such consolidated financial statements as at and for the year ended 31 December 2016, including the comparative financial information in respect of the previous year, has not been restated to reflect the effect of the change in accounting policies with effect from 1 January 2017 when the Group changed to record the gains or losses on disposal of fixed assets and intangible assets in gains on disposal of assets rather than non-operating income and non-operating expenses, and the flight route subsidies and tax subsidies related to ordinary activities in other income rather than non-operating income. Should such information (as included in this Offering Circular) be restated to reflect the effect of such change in presentation, the restated amounts might be different from the financial information previously reported in such consolidated financial statements. Consequently, potential investors should exercise caution when using such consolidated financial statement to evaluate the Guarantor's financial condition and results of operations.

Issuer's Audited Consolidated Financial Statements as at and for the year ended 31 December 2017		**2017 Consolidated Financial Statements[(3)]**
Independent Auditor's Report	F-276	3
Consolidated Statement of Comprehensive Income	F-281	8
Consolidated Balance Sheet	F-282	9
Consolidated Statement of Changes in Equity	F-284	11
Consolidated Cash Flow Statement	F-285	12
Notes to the Consolidated Financial Statements	F-286	13

Note:

(3) The Issuer's Audited Consolidated Financial Statements set forth herein have been reproduced from the Issuer's Consolidated Financial Statements for the year ended 31 December 2017 and page references and references to pages set forth in such consolidated financial statements.

HAINAN AIRLINES HOLDING CO., LTD.
(ORIGINAL NAME: HAINAN AIRLINES CO., LTD.)

FINANCIAL STATEMENTS AND
AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Hainan Airlines Holding Co., Ltd.
(Original Name: Hainan Airlines Co., Ltd.)

Financial Statements and Auditor's Report
For The Year Ended 31 December 2017
[English translation for reference only]

Content **Page**

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060
(Page 1 of 8)

To the shareholders of Hainan Airlines Holding Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Hainan Airlines Holding Co., Ltd. (hereinafter "Hainan Airlines Holding" or "the Group"), which comprise:

- the consolidated and company balance sheets as at 31 December 2017;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in owners' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company financial position of the Group as at 31 December 2017, and the consolidated and company financial performance and cash flows for the year then ended in accordance with the requirements of the *Accounting Standards for Business Enterprises*.

Basis for Opinion

We conducted our audit in accordance with the *China Standards on Auditing* ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants* ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Recognition of passenger revenue
- Provision for return condition check of aircraft and engines under operating leases
- Fair value of the identifiable net assets of Tianjin Airlines
- Fair value measurement of investment properties

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060
(Page 2 of 8)

Key Audit Matters (Cont'd)

Key Audit Matters	How our audit addressed the Key Audit Matter
Recognition of passenger revenue As disclosed under Note 2(24) and Note 4(42), passenger revenue was recognised at the time when the transportation service was provided, and the proceeds from sold but unused tickets for services pending to render was recognised as liabilities and recorded as advances from customers. The Group's passenger revenue was RMB55.2 billion, accounting for 92% of the consolidated revenue for the year ended 31 December 2017. We determined the recognition of passenger revenue as one of KAMs due to its significant amount and huge transaction volume and complicated information system involved.	We understood, evaluated and tested the controlling process and management's key internal control of the revenue from passenger transportation, as well as the general control, automatic control and manual control of information system relating to the revenue from passenger transportation and reports generated by the system. We analysed the revenue from passenger transportation, and compared the amounts in revenue reports generated by the IT system with those generated by the financial system. For the vital data (including ticket price, quantity of passengers, etc.) in information system relating to the passenger revenue, we conducted testing on sampling basis and checked with relevant supporting materials, including notices on ticket price, flight assignment sheets, etc. In addition, for the revenue from passenger transportation recognised before and after the balance sheet date, we conducted testing on sampling basis and checked with the implementation of flight assignments to evaluate whether the revenue from passenger transportation were recognised in right period of time. We selected the manual accounting entries of the passenger revenue with certain risk, and checked with relevant supporting materials to evaluate their authenticity and reasonableness. Based on audit procedures performed, we found the recognition of the revenue from passenger transportation were supported by the evidence we obtained and in compliance with agreed accounting policies.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060

Key Audit Matters (Cont'd)

Key Audit Matters	How our audit addressed the Key Audit Matter
Provision for return condition check of aircraft and engines under operating leases Refer to Note 2(29) - Routine maintenance and overhaul costs, Note 2(31)(e) Provision for return condition check of aircraft and engines under operating leases and Note 4(23) Accounts payable. As at 31 December 2017, the carrying amount of provision for return condition check of aircraft and engines under operating leases was RMB3.2 billion. Pursuant to relevant leasing contracts, the Group should return aircraft and engines to lessor in the conditions agreed in leasing contracts when the lease term expires, and have the obligation to make return condition check. The Group made provisions for return condition check to be conducted to fulfil the return conditions based on the estimated costs over relevant periods. The estimated costs was calculated based on the checks and overhaul to be required at the end of the leases. Such estimates needed to take into account anticipated overhaul interval and overhaul costs to be incurred at the end of the lease. These judgements or estimates were based on historical experience on returning similar airframe and engine models, actual costs incurred and aircraft and engines status. Provision for return condition check of aircraft and engines under operating leases involved significant judgements and estimations from management, and different judgements or estimates would affect the estimated provision for the costs of return condition check. Therefore, we determined the provision for return condition check of aircraft and engines under operating leases as one of KAMs.	We understood, evaluated and tested the internal control process and management's key internal control relating to the provision for return condition check of aircraft and engines under operating leases. We reviewed the leasing contracts of aircraft and engines and interviewed management of the Group to understand and evaluate the clauses of leasing contracts and the accounting estimates and assumptions adopted by the Group for calculating the provision for return condition check. We compared the actual costs of checks and overhauls and actual overhaul intervals of aircraft and engines in previous years with the estimated costs and overhaul intervals, and made analysis to verify the reasonableness of accounting estimates by management. We obtained and recalculated the reconciliation of provision for return condition check, and checked the key inputs that reflected the actual use conditions of aircraft and engines with relevant records of Maintenance & Engineering Department. Based on audit procedures performed, we found the accuracy of provision for return condition check of aircraft and engines under operating leases by management was supported by the evidence we obtained.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060
(Page 4 of 8)

Key Audit Matters (Cont'd)

Key Audit Matters	**How our audit addressed the Key Audit Matter**
Fair value of the identifiable net assets from acquisition of Tianjin Airlines Refer to Note 2(5)(b), Note 4(50), Note 4(53) and Note 5. In January 2017, the Group acquired 48.21% of the equity interests of Tianjin Airlines Co., Ltd. ("Tianjin Airlines") at a consideration of RMB5,554 million. After the acquisition, the Group held 87.27% equity of Tianjin Airlines in total and had control over it. Therefore, the Group included Tianjin Airlines into the consolidation scope at the acquisition date. The acquisition was a business combination not under common control, and the identifiable net assets of Tianjin Airlines acquired in the business combination was measured at the fair value as at the acquisition date. Management employed an independent appraiser to evaluate the fair value of identifiable net assets of Tianjin Airlines at the acquisition date. We identified the identifiable net assets of Tianjin Airlines acquired in the business combination as one of KAMs for its recognition involving significant accounting estimates from management.	We evaluated the competency, professional quality and objectivity of the independent appraiser employed by management. We analysed the reasonableness of valuation methods for identifiable net assets adopted by management, and checked the key assumptions and parameters (e.g. market price and share price of similar companies) used in evaluation with relevant supporting materials and comparable data in the market. Based on audit procedures performed, we found the key assumptions adopted by management for the recognition of fair value of identifiable net assets of Tianjin Airlines were supported by the evidence we obtained.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060
(Page 5 of 8)

Key Audit Matters (Cont'd)

Key Audit Matters	**How our audit addressed the Key Audit Matter**
Measurement of fair value of investment properties The Group referred to Note 2(13) and Note 2(31)(g) to measure fair value of investment properties. As at 31 December 2017, the carrying amount of investment properties was RMB10.08 billion (Note 4(12)), and evaluation appreciation of RMB40 million was listed as gains or losses arising from changes in fair value (Note 4(9)). Management employed an independent appraiser to evaluate and determine the fair value of investment properties. The fair value was 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. Key assumptions adopted included capitalisation rate of net income, rental rates and etc. - 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 evaluation involved significant accounting estimates and judgements from management like the selection of valuation methods and key assumptions; therefore, we identified the measurement of fair value of investment properties as one of KAMs.	We evaluated the competency, professional quality and objectivity of the independent appraiser employed by management. We evaluated the approaches adopted for valuation model based on industry practices and evaluation guidance. For key assumptions adopted for valuation, we checked with relevant supporting materials, including market comparable prices and leasing agreements of investment properties. We evaluated the reasonableness of capitalisation rate of net income adopted by management based on the comparison with industry and market data and the reference to comparable investment properties. In addition, we reviewed the calculation accuracy of valuation model. Based on audit procedures performed, we found the valuation approaches adopted by management were in compliance with industry practices, and key assumptions adopted for valuation were supported by the evidence we obtained.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060
(Page 6 of 8)

Other Information

Management is responsible for the other information. The other information comprises all of the information included in 2017 annual report of the Group other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Management and Audit Committee's Responsibility for the Financial Statements

Management of the Group is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, 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.

In preparing these financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2018) No. 10060
(Page 8 of 8)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PicewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

22 March 2018

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2017

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand	4(1)	36,391,287	21,590,823
Financial assets at fair value through profit or loss	4(2)	547,870	8,472
Accounts receivable	4(3)	2,196,511	1,201,620
Advances to suppliers	4(4)	1,759,561	980,050
Interest receivable	4(5)	542,103	480,761
Dividends receivable		125,719	102,659
Other receivables	4(6)	847,983	765,086
Inventories	4(7)	254,470	20,947
Assets held for sale	4(8)	-	335,673
Other current assets	4(9)	436,790	4,053,149
Total current assets		**43,102,294**	**29,539,240**
Non-current assets			
Available-for-sale financial assets	4(10)	21,226,064	9,369,036
Long-term equity investments	4(11)	22,274,389	19,049,278
Investment properties	4(12)	10,079,876	10,035,665
Fixed assets	4(13)	73,907,936	58,090,889
Construction in progress	4(14)	14,949,308	11,516,019
Intangible assets	4(15)	625,679	548,516
Goodwill	4(16)	328,865	328,865
Long-term prepaid expenses	4(17)	1,683,489	954,213
Other non-current assets	4(18)	9,169,988	8,712,296
Total non-current assets		**154,245,594**	**118,604,777**
TOTAL ASSETS		**197,347,888**	**148,144,017**

CONSOLIDATED BALANCE SHEETS (CONT'D)
AS AT 31 DECEMBER 2017
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 December 2017	31 December 2016
Current liabilities			
Short-term borrowings	4(21)	23,906,887	7,906,690
Financial assets at fair value through profit or loss	4(2)	48,109	103,987
Notes payable	4(22)	1,999,994	1,185,000
Accounts payable	4(23)	9,339,551	4,703,245
Advances from customers	4(24)	2,907,702	2,587,447
Employee benefits payable	4(25)	481,546	310,534
Taxes payable	4(26)	2,465,490	832,879
Interests payable	4(27)	777,990	648,616
Dividends payable		-	54,716
Other payables	4(28)	2,044,874	1,032,307
Current portion of non-current liabilities	4(29)	17,215,378	13,509,247
Other non-current liabilities	4(30)	6,990,066	-
Total current liabilities		**68,177,587**	**32,874,668**
Non-current liabilities			
Long-term borrowings	4(31)	28,992,986	25,345,357
Bonds payable	4(32)	10,807,249	5,957,956
Long-term payables	4(33)	8,982,236	10,202,885
Deferred income	4(34)	1,038,879	884,728
Deferred tax liabilities	4(19)	5,134,511	4,757,264
Other non-current liabilities		257,121	245,002
Total non-current liabilities		**55,212,982**	**47,393,192**
Total liabilities		**123,390,569**	**80,267,860**
Shareholders' equity			
Share capital	4(35)	16,806,120	16,806,120
Other equity instruments - perpetual bonds	4(36)	5,221,250	5,086,250
Capital surplus	4(37)	17,882,204	18,156,215
Other comprehensive income	4(38)	324,516	718,256
Surplus reserve	4(39)	1,672,872	1,390,356
Undistributed profit	4(40)	15,709,560	13,803,342
Total equity attributable to shareholders of the Company		**57,616,522**	**55,960,539**
Minority interests	4(41)	12,113,854	11,915,618
Other equity instruments	4(36)	4,226,943	-
Total shareholders' equity		**73,957,319**	**67,876,157**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**197,347,888**	**148,144,017**

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

Legal representative: Bao Qifa	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

COMPANY'S BALANCE SHEET
AS AT 31 DECEMBER 2017
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand		17,124,862	13,806,901
Financial assets at fair value through profit or loss		547,870	8,472
Accounts receivable	16(1)	1,200,356	953,272
Advances to suppliers		652,932	816,929
Interest receivable		248,481	183,902
Dividends receivable		44,014	62,081
Other receivables	16(2)	629,264	331,387
Inventories		59,885	12,365
Assets held for sale		-	335,673
Other current assets		-	1,154,114
Total current assets		**20,507,664**	**17,665,096**
Non-current assets			
Available-for-sale financial assets		5,168,703	5,104,933
Long-term equity investments	16(3)	38,587,956	25,854,831
Investment properties		1,074,833	1,050,776
Fixed assets		53,588,424	47,134,064
Construction in progress		7,839,436	7,298,926
Intangible assets		59,345	60,814
Long-term prepaid expenses		661,741	559,523
Other non-current assets		7,377,301	7,775,848
Total non-current assets		**114,357,739**	**94,839,715**
TOTAL ASSETS		**134,865,403**	**112,504,811**

COMPANY'S BALANCE SHEET (CONT'D)
AS AT 31 DECEMBER 2017

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2017	31 December 2016
Current liabilities		
Short-term borrowings	11,829,138	3,538,000
Financial assets at fair value through profit or loss	34,867	87,269
Notes payable	1,337,494	1,185,000
Accounts payable	18,536,809	9,391,947
Advances from customers	2,136,140	2,144,308
Employee benefits payable	165,737	107,718
Taxes payable	1,760,248	544,088
Interests payable	247,519	395,930
Dividends payable	-	54,716
Other payables	633,540	586,326
Current portion of non-current liabilities	8,984,154	8,499,369
Other non-current liabilities	1,997,179	-
Total current liabilities	**47,662,825**	**26,534,671**
Non-current liabilities		
Long-term borrowings	23,272,895	22,056,286
Bonds payable	1,827,280	1,824,622
Long-term payables	6,116,416	8,302,585
Deferred income	835,586	673,318
Deferred tax liabilities	3,167,539	2,926,326
Other non-current liabilities	225,322	245,002
Total non-current liabilities	**35,445,038**	**36,028,139**
Total liabilities	**83,107,863**	**62,562,810**
Shareholders' equity		
Share capital	16,806,120	16,806,120
Other equity instruments - perpetual bonds	5,221,250	5,086,250
Capital surplus	17,532,097	17,532,097
Other comprehensive income	440,379	450,784
Surplus reserve	1,672,872	1,390,356
Undistributed profit	10,084,822	8,676,394
Total shareholders' equity	**51,757,540**	**49,942,001**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**134,865,403**	**112,504,811**

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

Legal representative:	Person in charge of	Person in charge of
Bao Qifa	accounting function:	accounting department:
	Sun Dong	Lan Tian

HAINAN AIRLINES HOLDING CO., LTD.
(ORIGINAL NAME: HAINAN AIRLINES CO., LTD.)

CONSOLIDATED AND COMPANY'S INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	2017 Consolidated	2016 Consolidated	2017 Company	2016 Company
Revenue	4(42), 16(4)	59,903,948	40,678,130	33,784,550	28,513,772
Less: Cost of sales	4(42), 16(4)	(51,792,703)	(31,360,526)	(28,633,807)	(21,717,848)
Taxes and surcharges	4(43)	(159,333)	(120,412)	(52,386)	(47,660)
Selling and distribution expenses	4(44)	(2,460,994)	(1,781,930)	(1,411,136)	(1,196,743)
General and administrative expenses	4(45)	(1,417,697)	(926,700)	(622,426)	(517,440)
Finance expenses - net	4(46)	(2,100,957)	(4,522,025)	(835,466)	(3,822,704)
Asset impairment losses	4(48)	(4,781)	(2,011)	-	-
Add: Gains/(losses) on changes in fair value	4(49)	82,789	(20,043)	76,710	46,076
Investment income	4(50), 16(5)	1,242,738	1,060,313	667,241	571,774
Including: Share of profit of associates		1,052,976	899,347	513,723	492,914
Other income	4(51)	780,995	-	156,111	-
Gains on disposals of assets	4(52)	222,349	109,853	319,709	111,366
Operating profit		**4,296,354**	**3,114,649**	**3,449,100**	**1,940,593**
Add: Non-operating income	4(53)	517,615	948,680	157,636	660,016
Less: Non-operating expenses		(3,533)	(958)	(1,516)	(415)
Total profit		**4,810,436**	**4,062,371**	**3,605,220**	**2,600,194**
Less: Income tax expenses	4(54)	(928,690)	(652,227)	(780,063)	(422,320)
Net profit		**3,881,746**	**3,410,144**	**2,825,157**	**2,177,874**
Net profit from continuing operations		3,881,746	3,410,144	2,825,157	2,177,874
Net profit from discontinued operations		-	-	-	-
Attributable to shareholders of the Company		**3,322,947**	3,138,255		
Minority interest		**558,799**	271,889		
Other comprehensive income, net of tax					
- Attributable to shareholders of the company					
Shares of other comprehensive income of the investee accounted for using equity method that will be subsequently reclassified to profit or loss		27,022	(24,515)	-	(40,357)
Changes in fair value of available-for-sale financial assets		(420,762)	22,819	(10,405)	(29,879)
Transfer from fixed assets into investment properties		-	8,277	-	-
- Other comprehensive income attributable to minority interests, net of tax		(24,892)	22,678	-	-
Other comprehensive income, net of tax	4(38)	**(418,632)**	**29,259**	**(10,405)**	**(70,236)**
Total comprehensive income		**3,463,114**	**3,439,403**	**2,814,752**	**2,107,638**
- Attributable to shareholders of the Company		2,929,207	3,144,836		
- Minority interests		533,907	294,567		
Earnings per share (EPS)					
Basic earnings per share (RMB Yuan)	4(55)(a)	0.182	0.210		
Diluted earnings per share (RMB Yuan)	4(55)(b)	0.182	0.210		

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

Legal representative: Bao Qifa	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	2017 Consolidated	2016 Consolidated	2017 Company	2016 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		68,875,683	47,686,865	40,416,994	34,011,923
Cash received relating to other operating activities	4(56)(a)	1,231,771	1,695,202	959,487	1,074,963
Sub-total of cash inflows		70,107,454	49,382,067	41,376,481	35,086,886
Cash paid for goods and services		(42,474,219)	(26,483,697)	(15,993,505)	(19,277,647)
Cash paid to and on behalf of employees		(5,458,302)	(3,450,557)	(2,609,928)	(2,006,945)
Payments of taxes and surcharges		(4,728,056)	(4,237,839)	(3,378,323)	(3,329,179)
Cash paid relating to other operating activities	4(56)(b)	(4,486,743)	(2,922,885)	(2,331,728)	(1,506,248)
Sub-total of cash outflows		(57,147,320)	(37,094,978)	(24,313,484)	(26,120,019)
Net cash flows from operating activities	4(57)(a)	**12,960,134**	**12,287,089**	**17,062,997**	**8,966,867**
2. Cash flows from investing activities					
Cash received from acquisition of Tianjin Airlines	5(3)	7,414,708	-	-	-
Cash received from disposal of investments		4,718,178	1,900,000	1,718,178	-
Cash received from returns on investments		626,280	120,862	73,196	38,758
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,415,807	4,217,005	1,150,634	7,632,682
Cash received relating to other investing activities	4(56)(c)	1,241,006	2,738,745	387,596	915,934
Sub-total of cash inflows		16,415,979	8,976,612	3,329,604	8,587,374
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(13,285,472)	(8,499,393)	(11,469,698)	(7,832,815)
Cash paid to acquire investments		(9,822,564)	(3,900,000)	(7,036,292)	(1,100,000)
Net cash paid to acquire subsidiaries and other business units		(1,804,925)	(14,450,745)	(1,266,744)	(11,914,155)
Cash paid relating to other investing activities	4(56)(d)	(930,000)	(470,000)	-	-
Sub-total of cash outflows		(25,842,961)	(27,320,138)	(19,772,734)	(20,846,970)
Net cash flows used in investing activities		**(9,426,982)**	**(18,343,526)**	**(16,443,130)**	**(12,259,596)**
3. Cash flows from financing activities					
Cash received from capital contributions		2,970,740	23,103,584	-	16,403,584
Cash received from borrowings		40,979,020	20,602,671	26,219,519	12,247,916
Cash received from issuance of bonds		17,538,537	2,485,000	3,493,125	2,485,000
Cash received relating to other financing activities	4(56)(e)	1,647,500	2,473,000	985,000	2,473,000
Sub-total of cash inflows		63,135,797	48,664,255	30,697,644	33,609,500
Cash repayments of borrowings		(41,042,585)	(32,581,349)	(17,620,121)	(23,473,790)
Cash payments for interest expenses and distribution of dividends		(5,905,873)	(3,627,251)	(4,020,305)	(3,121,165)
Cash paid to acquire minority interests of subsidiaries		(5,429,628)	-	(5,429,628)	-
Cash paid relating to other financing activities	4(56)(f)	(2,593,840)	(1,667,482)	(1,533,772)	(1,566,293)
Sub-total of cash outflows		(54,971,926)	(37,876,082)	(28,603,826)	(28,161,248)
Net cash flows from financing activities		**8,163,871**	**10,788,173**	**2,093,818**	**5,448,252**
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(12,727)**	**104,344**	**(7,623)**	**87,756**
5. Net increase in cash and cash equivalents	4(57)(a)	**11,684,296**	**4,836,080**	**2,706,062**	**2,243,279**
Add: Cash and cash equivalents at the beginning of the year	4(57)(a)	**20,203,911**	**15,367,831**	**13,251,968**	**11,008,689**
6. Cash and cash equivalents at the end of the year	4(57)(b)	**31,888,207**	**20,203,911**	**15,958,030**	**13,251,968**

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

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Bao Qifa	Sun Dong	Lan Tian

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

		Attributable to shareholders of the parent company						Minority interests		
Item	**Notes**	**Share capital**	**Other equity instruments**	**Capital surplus**	**Other comprehensive income**	**Surplus reserve**	**Undistributed profits**	**Non-controlling interests of ordinary shares**	**Other equity instruments**	**Total Shareholders' equity**
Balance at 1 January 2016		12,182,182	2,500,000	5,773,506	711,675	1,172,569	11,141,624	5,082,886	-	38,564,442
Movements for the year ended 31 December 2016										
- Total comprehensive income										
Net profit		-	258,750	-	-	-	2,879,505	271,889	-	3,410,144
Other comprehensive income	4(38)	-	-	-	6,581	-	-	22,678	-	29,259
Total comprehensive income		-	258,750	-	6,581	-	2,879,505	294,567	-	3,439,403
- Capital contribution and withdrawal by shareholders										
Capital contribution by shareholders	4(35)	4,623,938	-	11,779,646	-	-	-	-	-	16,403,584
- Issuance of other equity instruments	4(36)	-	2,462,500	-	-	-	-	-	-	2,462,500
- Capital increase of minority shareholder		-	-	493,931	-	-	-	6,435,338	-	6,929,269
- Other changes in equity under equity method		-	-	109,132	-	-	-	102,827	-	211,959
- Profit distribution										
Distribution to holders of other equity instruments	4(40)	-	(135,000)	-	-	-	-	-	-	(135,000)
Appropriation to surplus reserve	4(39)	-	-	-	-	217,787	(217,787)	-	-	-
Balance at 31 December 2016		16,806,120	5,086,250	18,156,215	718,256	1,390,356	13,803,342	11,915,618	-	67,876,157
Balance at 1 January 2017		16,806,120	5,086,250	18,156,215	718,256	1,390,356	13,803,342	11,915,618	-	67,876,157
Movements for the year ended 31 December 2017										
- Total comprehensive income										
Net profit		-	270,000	-	-	-	3,052,947	355,919	202,880	3,881,746
Other comprehensive income	4(38)	-	-	-	(393,740)	-	-	(24,892)	-	(418,632)
Total comprehensive income		-	270,000	-	(393,740)	-	3,052,947	331,027	202,880	3,463,114
- Capital contribution and withdrawal by shareholders										
- Issuance of other equity instruments	4(36)	-	-	-	-	-	-	-	2,100,000	2,100,000
- Capital increase of minority shareholder	6(1)	-	-	69,668	-	-	-	2,901,072	-	2,970,740
- Acquisition of minority interests	6(1)	-	-	(343,679)	-	-	-	(5,085,949)	-	(5,429,628)
- Acquisition of Tianjin Airlines not under common control		-	-	-	-	-	-	2,052,086	2,050,803	4,102,889
- Profit distribution										
Distribution to holders of other equity instruments	4(40)	-	(135,000)	-	-	-	-	-	(126,740)	(261,740)
Appropriation to surplus reserve	4(39)	-	-	-	-	282,516	(282,516)	-	-	-
Ordinary share dividends payable	4(40)	-	-	-	-	-	(864,213)	-	-	(864,213)
Balance at 31 December 2017		16,806,120	5,221,250	17,882,204	324,516	1,672,872	15,709,560	12,113,854	4,226,943	73,957,319

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

Legal representative: Bao Qifa	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

COMPANY'S STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	Share capital	Other equity instruments	Capital surplus	Total other comprehensive income	Surplus reserve	Undistributed profit	Total Shareholders' equity
Balance at 1 January 2016		12,182,182	2,500,000	5,752,451	521,020	1,172,569	6,975,057	29,103,279
Movements for the year ended 31 December 2016								
- Total comprehensive income								
Net profit		-	258,750	-	-	-	1,919,124	2,177,874
Other comprehensive losses		-	-	-	(70,236)	-	-	(70,236)
Total comprehensive income		-	258,750	-	(70,236)	-	1,919,124	2,107,638
- Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		4,623,938	-	11,779,646	-	-	-	16,403,584
- Issuance of other equity instruments		-	2,462,500	-	-	-	-	2,462,500
- Other changes in equity under equity method								
- Profit distribution		-	(135,000)	-	-	-	-	(135,000)
Appropriation to surplus reserve	4(39)	-	-	-	-	217,787	(217,787)	-
Balance at 31 December 2016		16,806,120	5,086,250	17,532,097	450,784	1,390,356	8,676,394	49,942,001
Balance at 1 January 2017		16,806,120	5,086,250	17,532,097	450,784	1,390,356	8,676,394	49,942,001
Movements for the year ended 31 December 2017								
- Total comprehensive income								
Net profit		-	270,000	-	-	-	2,555,157	2,825,157
Other comprehensive income		-	-	-	(10,405)	-	-	(10,405)
Total comprehensive income		-	270,000	-	(10,405)	-	2,555,157	2,814,752
- Profit distribution								
Distribution to holders of other equity instruments	4(40)	-	(135,000)	-	-	-	-	(135,000)
Appropriation to surplus reserve	4(39)	-	-	-	-	282,516	(282,516)	-
Ordinary share dividends payable	4(40)	-	-	-	-	-	(864,213)	(864,213)
Balance at 31 December 2017		16,806,120	5,221,250	17,532,097	440,379	1,672,872	10,084,822	51,757,540

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

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Bao Qifa	Sun Dong	Lan Tian

1. GENERAL INFORMATION

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 ("PRC"). The Company's registered capital was RMB250,100 thousand when it was initially established.

In March 1994, a bonus dividend for 1993 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 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 outstanding shares of the Company they held respectively. Thereafter, Grand China Air and its subsidiary, American Aviation LTD, held 1,716,395 thousand and 108,043 thousand shares of the Company respectively, which represent total 51.68% of the share capital of the Company.

On 29 September 2006, the Company implemented the share reform scheme, under which the non-circulating A-share 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 issued 297,619 thousand shares of A-share of the Company to Hainan Development Holding and HNA Group, respectively, with a lock-up period of 36 months. After completion of the above issuance, the Company's share capital was increased to RMB4,125,491 thousand, among which 1,716,395 thousand shares or 41.60% of the share capital were held by Grand China Air, the parent company.

1. GENERAL INFORMATION (CONT'D)

On 3 May 2012, as approved by CSRC, the Company completed another non-public share offerings of 1,965,600 thousand shares of A-share with a lock-up period of 12 months. After completion of the above issuance, the Company's share capital was increased to RMB6,091,091 thousand, among which 1,716,395 thousand shares were held by Grand China Air, whose direct shareholding percentage in the Company was diluted to 28.18%.

On 18 June 2013, the Company increased its shares by 10 shares for each 10 ordinary shares by transfer from its capital surplus, and 6,091,091 thousand shares were issued in total. After the transfer, the Company's total share capital was increased to RMB12,182,182 thousand.

On 5 September 2016, as approved by CSRC, the Company completed the non-public share offerings of 4,623,938 thousand shares of A-share with a lock-up period of 12 months. After completion of the above issuance, the Company's share capital was increased to RMB16,806,120 thousand, among which 4,089,167 thousand and 216,086 thousand shares were held by Grand China Air and its subsidiary American Aviation LDC, respectively. Accordingly, Grand China Air held 25.62% share capital of the Company and remained as the single largest shareholder.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the civil aviation business, and the approved scope of business covers 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 5.

These financial statements were authorised for issue by the Board of Directors of the Company on 22 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group determines the specific accounting policies and accounting estimates according to the production management characteristics, which are reflected mainly in the measurement model of investment properties (Note 2(13)), depreciation of fixed assets, amortisation of intangible assets and long-term prepaid expenses (Note 2(14), (17), (18)), recognition of equity instruments (Note 2(23)), timing of revenue recognition (Note 2(24)), Routine maintenance and overhaul costs (Note 2(29)) and so on.

Details of the Group's critical judgements used in determining significant accounting policies are set forth in Note 2(31).

(1) Basis of preparation

(i) Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS") and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting* issued by the China Securities Regulatory Commission and coming into force from the date of issuance.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(1) Basis of preparation (Cont'd)

(ii) Going concern basis

As at 31 December 2017, the current liabilities of the Group exceed its current assets by approximately RMB25.075 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.

The Company's Board has already taken positive actions in dealing with the net working capital deficit mentioned above, and has been continuously seeking new financing channels and has obtained sufficient banking facilities to improve the Group's liquidity position. In light of the available banking facilities, the Group's raising fund history and the established good cooperation relationship with banks and financial institutions, the Board believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern. Financial statements for current year record no adjustment required under the circumstance that the Group or the Company fail to continue as a going concern.

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

The financial statements of the Company for the year ended 31 December 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position as at 31 December 2017 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

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

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate, and the recording currency of the hotel in Brussels is EUR. The financial statements are presented in RMB.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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. If the absorbed party is acquired from a third party by the ultimate controlling party in a prior year, the consideration paid and net assets obtained by the absorbing party are measured based on the carrying amounts of the absorbed party's assets and liabilities (including the goodwill arising from the acquisition of the absorbed party by the ultimate controlling party) presented in the consolidated financial statements of the ultimate controlling party. 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 for the current 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 cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(6) Preparation of consolidated financial statements (Cont'd)

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

All significant 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 and comprehensive incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the parent company. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent company and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders 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.

When the Company loses control of a subsidiary due to the disposal of a portion of an equity investment or other reasons, the remaining equity investment in the consolidated financial statements is re-measured at its fair value at the date when control is lost. The difference between the total amount of consideration obtained for the disposal of equity investment and the fair value of the remaining equity investment and the sum of share of net assets and goodwill of the former subsidiary calculated continuously from the acquisition date or the combination date based on the previous shareholding proportion, shall be recognised as investment income for the current period when control is lost. In addition, other comprehensive income and other changes in the owners' equity related to equity investment in former subsidiaries are recycled into profit or loss for the current period when losing control, excluding those other comprehensive income arising from remeasurement on net liabilities or net assets of defined benefit plans by investees.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency 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, as well as designated financial assets at fair value through profit or loss. Those that become due subsequent to 12 months since the balance sheet date are presented as other non-current assets on the balance sheet.

Receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(i) Classification of financial assets (Cont'd)

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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities of 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 is 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(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.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 the 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 the 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 cost of available-for-sale equity instrument 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.

If an impairment loss on available-for-sale financial assets measured at fair value is 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 impairment losses incurred will not be reversed in subsequent periods.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in the fair value that had been recorded directly in equity is recognised in profit or loss.

(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 comprise accounts payables and other payables and are recognised at fair value at initial recognition. Payables are measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities of which the period is within one year (including one year) are classified as the current liabilities; the period is over one year while will be due within one year (including one year) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

A financial liability (or a part of a financial liability) is derecognised when all or part of the obligation is extinguished. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(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. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(d) Equity instruments

The equity instrument is a contract that is able to prove that the company has a residual interest in the assets after deducting all of its liabilities. The issue (including refinancing), repurchase, sale or cancellation of equity instruments by the Company are treated as changes in equity, and costs related to equity transactions are deducted from equity.

Various distributions (excluding stock dividends) by the Company to holders of equity instruments reduce the shareholders' equity. The Company does not recognise changes in fair value of equity instruments.

(10) Receivables

Receivables comprise accounts receivable, other receivables and notes receivable. Accounts receivable arising from rendering of services are initially recognised at fair value of the contractual payments from the service recipients.

(a) Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made at the difference between its carrying amount and the present value of estimated future cash flows.

The criterion or amount for determining "individually significant" amount is that any individual amount is more than RMB 10,000 thousand.

The method of provision for bad debts of those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable lowering its carrying amount.

(b) Receivables that the related provision for bad debts is provided on the grouping basis

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

The basis of the grouping recognition:

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

Methods of determining provision for bad debts on the grouping basis are as follows:

Group 1	Based on historical loss ratio
Group 2	Based on historical loss ratio
Group 3	Ageing analysis method

(All amounts in RMB Thousand Yuan unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(10) Receivables (Cont'd)

(b) Receivables that the related provision for bad debts is provided on the grouping basis (Cont'd)

The provision ratios used under the ageing analysis method for the above groupings are as follows:

	Provision % of accounts receivable	Provision % of other receivables
Within 1 year	0%	0%
1 - 2 years	5%	5%
2 - 3 years	10%	10%
3 - 4 years	30%	30%
4 - 5 years	50%	50%
5 - 6 years	80%	80%
Over 6 years	100%	100%

(c) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

The reason for making separate assessment for provision for bad debts is that there is objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable lowering its carrying amount.

(d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

(11) Inventories

(a) Classification

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

(b) Costing of inventories

Costs of cabin supplies are determined using the weighted average method.

(c) Basis for determining net realisable value of inventories and method for making provision for decline in the value of inventories

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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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 combinations: long-term equity investments acquired through business combinations under common control are initially measured at the carrying amount of owners' equity of the combined party in the consolidated financial statements of the ultimate controlling party as at the combination date; long-term equity investments acquired through business combination under non-common control are measured at the combination cost.

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

(b) Subsequent measurement and recognition of profit and 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.

For 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.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group does not recognise further losses when the carrying amounts of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in investees are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions are satisfied, the Group continues recognising the investment losses and the provisions at the amount it expects to undertake. The Group's share of the changes in investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution is recognised in capital surplus with a corresponding adjustment to the carrying amounts of the long-term equity investment. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investees. Unrealised gains or losses on transactions between the Group and its investees are eliminated to the extent of the Group's equity interest in the investees, based on which the investment income or losses are recognised. Any losses resulting from transactions between the Group and its investees, which are attributable to asset impairment losses are not eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(12) Long-term equity investments (Cont'd)

(c) Basis for determining control and significant influence over investees

The term "control" refers to the power over an 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 is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control the making of such decisions.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries and associates are reduced to the recoverable amounts when the recoverable amounts are less than their carrying amounts (Note 2 (19)).

(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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(14) Fixed Assets

(a) Recoginition and initial measurement of fixed assets

Fixed assets comprise buildings, aircraft and engines, high-price spare parts, 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.

(b) Depreciation method for 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 core engine components	20 years	5%	4.75%
Aircraft and core engine components	5 to 7 years	0%	14.29% to 20%
High-price spare parts	12 years	5%	7.9%
Motor vehicles	10 years	5%	9.5%
Machinery and equipment	8 to 14 years	5%	6.79% to 11.875%

The estimated useful life and 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) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying 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(27) (c)).

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(14) Fixed Assets (Cont'd)

(d) 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.

(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 is charged starting from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying 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 an 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 an 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(17) Intangible Assets

Intangible assets mainly comprise land use rights and are measured at 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)).

(18) Long-term prepaid expenses

Long-term prepaid expenses include costs on pilot recruiting and training, compensation paid to the previous airlines where pilots work and subsidies paid to pilots (collectively "pilot introduction fees"), as well as other expenditures that have been made but should be recognised as expenses over more than one year in the current and subsequent periods. Such pilot introduction fees are recorded at actual cost paid, and amortised on the straight-line basis over the useful life or estimated service years of pilots. Long-term prepaid expenses are presented at actual expenditure net of accumulated amortisation.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(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; and 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) Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(22) Provisions (Cont'd)

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

The provisions expected to be settled within one year from the balance sheet date are classified as current liabilities.

(23) Equity instruments

The equity instrument is a contract that is able to prove that the Group has a residual interest in the assets after deducting all of its liabilities. Medium term notes and other financial instruments issued by the Company are recognized as equity instruments when the following conditions are satisfied simultaneously: (1) such financial instruments do not include contractual obligations of delivering cash or other financial assets to other parties or, under the potentially adverse conditions, exchanging with other parties for financial assets or liabilities; (2) where self-owned equity instruments of the enterprise shall or may be utilised to settle such financial instruments in the future. When it is a non-derivative instrument, such instrument does not include contractual obligations of delivering a variable amount of the self-owned equity instruments for settlement; otherwise, they can only be settled by the Group through exchanging a fixed number of self-owned equity instruments for a fixed amount of cash or other financial assets in the case of derivative instruments. Other financial instruments issued by the Group are classified as financial liabilities except for those classified as equity instruments as specified above.

The issue (including refinancing), repurchase, sale or cancellation of medium term notes and other financial instruments classified as equity instruments are treated by the Group as changes in equity, and relevant costs are deducted from equity. Distribution to the holders of the equity instruments is recognised by the Group as profit distribution.

No change in the fair value of equity instruments is recognised by the Company.

(24) 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: it's probable that 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 for each type of the Group's activities as described below have been met:

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(24) Revenue recognition(Cont'd)

(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 be rendered is recognised as liabilities and recorded as advances from customers – sales in advance of carriage.

(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 revenues

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 maintains a frequent flyer program named "Fortune Wings 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 the ticket fare is allocated between the revenue received in relation to rendering of services and the fair value of rewarding earned by the program member. The ticket fare net of fair value of rewarding is recognised as revenue, and the fair value of rewarding is recognised as deferred income. The value originally recognised in deferred income and attributed to the rewarding redeemed is recognised as revenue when the flyer redeems the rewarding and the Group has rendered the service or when the rewarding is expired.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(25) Government grants

Government grants represent monetary or non-monetary assets freely offered by government, including tax refund and government subsidy, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. Government grants in monetary assets are recognised at the amount of receipt or to be received. Government grants in non-monetary assets are recognised at the fair value. If the fair value cannot be measured reliably, it shall be measured at the nominal amount.

Government grants related to assets refer to government grants which are obtained by the Company for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

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.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.

(26) 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.

Deferred tax assets and liabilities are offset when:

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(27) Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. 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 is actually incurred.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(28) Held for sale and discontinued operations

A non-current asset or a disposal group is classified as held for sale when all of the following conditions are satisfied: (1) the non-current asset or the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such non-current asset or disposal group; (2) the Group has entered a legally enforceable sales agreement with other party and obtained relevant approval, and the sales transaction is expected to be completed within one year.

Non-current assets (except for financial assets, investment properties at fair value and deferred tax assets) that meet the recognition criteria for held for sale are recognised at the amount equal to the lower of the fair value less costs to sell and the carrying amount, and the excess of the original carrying amount over the fair value less costs to sell is recognised as asset impairment loss.

Such non-current assets and assets and liabilities included in disposal groups classified as held for sale are classified as current assets and current liabilities respectively, and are separately presented in the balance sheet.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and is separately identifiable and satisfies one of the following conditions: (1) it represents a separate major line of business or geographical area of operations; (2) it is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; and (3) it is a subsidiary acquired exclusively with a view to resale.

The net profit from discontinued operations in the income statement includes operating profit or loss and disposal gains or losses of discontinued operations.

(29) 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.

(30) 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 revenue 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(31) 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 can impact the recognition of the amounts of deferred tax assets.

(b) Impairment of accounts receivable and other receivables

Impairment of accounts receivable and other receivables is based on the evaluation of its recoverability. Judging the impairment of receivables and other receivables requires the management's judgement and estimation. The difference between the actual result and the original estimate impacts the book balance and bad debt's accrual or reversal in the estimated period.

(c) Depreciation of fixed assets

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.

(d) Impairment of long-term assets

The Group will find if there is any indication that the assets may be impaired at the balance sheet date. When there is any indication that it may be impaired, tested for impairment. When the recoverable amount of an asset group or group of asset groups is lower than its carrying amount, that is the higher between the fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset, indicates there is impairment. An asset's fair value less costs to sell, referring to selling price of similar assets in fair dealings or the observable market price, and subtracting direct additional cost of the impairment assets. In assessing the present value of future cash flows, the management should estimate the expected future cash flows of the assets (asset group), and choose appropriate discount rate. Different accounting estimates and judgement will impact the results of the impairment testing and then impact the income statement of the current period.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(31) Critical accounting estimates and judgements (Cont'd)

(a) 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.

(b) 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 ticket price at the end of 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.

(c) Fair value of investment properties

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.

(d) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(24) 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(32) Changes in significant accounting policies

In 2017, the Ministry of Finance released the *Accounting Standards for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations*, revised the *Accounting Standards for Business Enterprises No. 16—Government Grants* and the *Circular on Amendment to Formats of Financial Statements of General Industry* and its interpretation (Cai Kuai [2017] No. 30). The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

Details and reasons for changes in accounting policies	Financial statement items affected	The amount affected
		1 January 2017
The Group recorded flight route subsidies and tax return related to ordinary activities in 2017 in other income (Note 4(51)). The comparative financial statements for the year ended 31 December 2016 are not restated.	Other income	Not applicable
		2016
The Group recorded the gains or losses on disposals of fixed assets and intangible assets, occurred in 2017, in gains on disposal of assets (Note 4(52)). The comparative financial statements for the year ended 31 December 2016 were restated accordingly.	Gains on disposals of assets Non-operating income Non-operating expenses	109,853 112,229 (2,376)

The Group recorded no discontinued operation for the year ended 31 December 2017.

3. TAXATION

(1) Corporate income tax

Pursuant to the *Notice on Deep Implementation of Corporate Income Tax Issues in West Development Strategy* (SAT Notice [2012] No.12) issued by the State Administration of Taxation ("SAT"), if an enterprise is located in the western region and engaged in the industrial activities as listed in the *Catalogue of Encouraged Industries in West Region*, and its main operation revenue accounts for over 70% of its total revenue, it will be entitled to, upon approval of tax authorities, a reduced income tax rate of 15% from 1 January 2011 to 31 December 2020. Accordingly, the Company's subsidiaries as Chang'an Airlines, Lucky Air and Urumqi Airlines are subject to a corporate income tax rate of 15% as the current year and previous year.

Pursuant to the *Notice of the People's Government of Guangxi Zhuang Autonomous Region on Continuing and Modifying Policies of Promoting the Development of Beibu Gulf Economic Zone* (Guizhengfa (2014) No.5), Guangxi Beibu Gulf Air, a subsidiary of the Company, is entitled to the reduced income tax rate of 15% and exempted from income tax levied by local authorities. The income tax rate applicable to Guangxi Beibu Gulf Air was 9% for the year ended 31 December 2017.

Except for the above mentioned Chang'an Airlines, Lucky Air, Urumqi Airlines and Guangxi Beibu Gulf Air, the Company's and the Group's other subsidiaries established in other regions are subject to a corporate income tax rate of 25%.

(2) Value added tax ("VAT")

The Company and the Company's subsidiaries Tianjin Airlines, Lucky Air, Xinhua Airlines, Chang'an Airlines, Shanxi Airlines, Fuzhou Airlines, Urumqi Airlines and Guangxi Beibu Gulf Air are VAT general taxpayers. Pursuant to the *Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax* (Cai Shui [2016] No. 36) and relevant regulations, the revenue of the Company and its subsidiaries arising from transportation and ground handling services are subject to the value added tax in the reporting period of the financial statements, with an VAT output tax rate of 11% applicable to domestic transportation revenue and a zero tax rate applicable to international and regional transportation revenue.

Pursuant to the *Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax* (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, commission fee income and other service income received by the Group is subject to VAT from 1 May 2016, and the applicable tax rate is 6%; the rental incomes are also subject to VAT, with a rate of 5% applicable to rental incomes obtained from properties acquired prior to 30 April 2016, and a rate of 11% applicable to those obtained from properties acquired after 30 April 2016. Prior to 1 May 2016, such businesses were subject to the business tax at a rate of 5%.

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 air planes) and aviation materials by the Company and the aforementioned subsidiaries can deduct VAT output. VAT payable is the net difference between output and deductible input VAT.

3. TAXATION (CONT'D)

(2) Value-added tax ("VAT") (Cont'd)

As stipulated by relevant national laws and regulations, the imported air planes 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), imported air planes with an empty weight over 25t are subject to the import VAT at a rate of 5% from 30 August 2013.

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

(3) City maintenance and construction tax and educational surcharges

In accordance with *Notice on Alignment of the System of City Maintenance and Construction Tax and Educational Surcharges of Foreign and Domestic Enterprises and Individuals* (Guo Fa [2010] No.35) issued by the State Council on 18 October 2010, 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 rates of the Group with regard to the city maintenance and construction tax and educational surcharges are 7% and 5%, respectively.

(4) Customs duties

In accordance with the *Notice on the Tariff Classification of Aircraft and Related Parts and Issues on Tax Rates Applicable to Leased Aircraft after Adjustment of Import Duty Rate* (Shu Shui [1998] No. 472) issued by General Administration of Customs ("GAC") on 12 August 1998, the aircraft leased and airframe imported are subject to customs duty at a rate of 1%. The aircraft equipment, cabin equipment and spare parts are subject to customs duties at rates specified in the *Notice on the Adjustment of Import and Export Duty Rates at Several Categories of Goods* (Shui Wei Hui [1999] No. 1).

According to *Announcement on Adjustment of Import Tariff Rates at Lignite and Other Goods* (Shu Shui [2013] No. 49) issued by GAC on 29 August 2013, effective from 30 August 2013, the provisional import tariff rate of 1% for passenger air planes with an empty weight greater than 25t but less than 45t was cancelled and the most favoured nation tariff rate of 5% was resumed. The Company's leased aircraft and imported aircraft equipment are subject to the tax rate of 5%.

(5) Aviation Development Fund

According to the *Interim Measures for Administration of Collection, Use and Management of the Civil Aviation Development Fund* (Cai Zong [2012] No. 17) issued by MoF, effective from 1 April 2012, the passengers are required to pay Civil Aviation Development Fund at a rate of RMB50 per passenger for domestic route, and RMB90 per passenger (including RMB 20 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2017	31 December 2016
Cash on hand	775	932
Cash at bank	31,887,432	20,202,979
Other cash balances (a) and (b)	4,503,080	1,386,912
Including: Total offshore cash balances	104,281	1,007,581
	36,391,287	21,590,823

(a) As at 31 December 2017, the cash at bank and on hand included deposits of RMB4,938,238 thousand (31 December 2016: RMB4,506,424 thousand) placed in HNA Finance, a related party of the Group (Note 8(6)), among which, RMB4,069,572 thousand (31 December 2016: RMB3,730,027 thousand) was recorded in cash at banks and financial institutions, and RMB868,666 thousand (31 December 2016: RMB776,397 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2017	31 December 2016
Term deposits (Note)	930,000	470,000
Security deposits for notes payable	2,012,242	146,362
Other restricted deposits	1,560,838	770,550
	4,503,080	1,386,912

Note: As at 31 December 2017, RMB930,000 thousand of the above term deposits was pledged to the bank for short-term and long-term borrowings (Note 4(21) & (30)), as well as for related party borrowings (Note 8(5)(d)(i)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Financial assets and liabilities at fair value through profit or loss

	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss		
Beneficial right of assets in trust (Note 4(18))	547,870	-
- Forward foreign exchange contracts (a)	-	8,472
	547,870	8,472
Financial liabilities at fair value through profit or loss		
- Option foreign exchange contracts (b)	18,450	103,987
- Interest rate swaps (c)	29,659	-
	48,109	103,987

(a) The Group reduces the foreign exchange risks relating to foreign currency settlement by signing forward foreign exchange contracts (Note 13(1)). Forward foreign exchange contracts are recognised at fair value in the financial assets at fair value through profit or loss in the balance sheet.

In 2017, the net loss arising from settlement of forward foreign exchange contracts amounting to RMB890 thousand was recorded into the income statement - "investment income" (Note 4(50)). As at 31 December 2017, the Group had no unsettled forward foreign exchange contract.

(b) The Group reduces the foreign exchange risks relating to foreign currency settlement by signing option foreign exchange contracts (Note 13(1)). Option foreign exchange contracts are recognised at fair value in the financial liabilities at fair value through profit or loss in the balance sheet. In 2017, the net loss arising from changes in fair value of option foreign exchange contracts amounting to RMB6,864 thousand was recorded into the income statement - "losses on changes in fair value" (Note 4(49)).

In 2017, the net loss arising from settlement of option foreign exchange contracts amounting to RMB37,477 thousand was recorded into the income statement - "investment income" (Note 4(50)). As at 31 December 2017, the Group held unsettled option foreign exchange contracts with a nominal amount of USD10,770 thousand (equivalent to RMB70,373 thousand), and which will be due and settled in 2018.

(c) The Group reduces the risks of floating interest rate of loans by signing interest rate swap contracts (Note 13(1)). Interest rate swap contracts are recognised at fair value in the financial liabilities at fair value through profit or loss in the balance sheet. In 2017, the net loss arising from changes in fair value of interest rate swap contracts amounting to RMB29,659 thousand was recorded into the income statement - "losses on changes in fair value" (Note 4(49)).

In 2017, the net loss arising from settlement of interest rate swap contracts amounting to RMB41,547 thousand was recorded into the income statement - "investment income" (Note 4(50)). As at 31 December 2017, the Group held unsettled interest rate swap contracts with a nominal amount of USD455,519 thousand (equivalent to RMB2,976,453 thousand), and which will be due in 2019 and 2020.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Accounts receivable

	31 December 2017	31 December 2016
Accounts receivable	2,235,780	1,233,448
Less: Provision for bad debts	(39,269)	(31,828)
	2,196,511	1,201,620

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

	31 December 2017	31 December 2016
Within 1 year	2,094,255	1,158,718
1 to 2 years	90,864	26,580
2 to 3 years	22,938	9,474
3 to 4 years	8,893	8,033
4 to 5 years	8,181	160
5 to 6 years	-	2,045
Over 6 years	10,649	28,438
	2,235,780	1,233,448

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

	31 December 2017				31 December 2016			
	Amount	% of total balance	Provision for bad debts	Provision for bad debts as a percentage of receivables	Amount	% of total balance	Provision for bad debts	% of total provision for bad debts
Provisions for bad debts by group								
- Group by ageing analysis method	1,749,933	78%	(11,972)	1%	1,047,123	85%	(4,531)	0%
- Group by related parties(Note 8(6))	458,550	21%	-	-	159,028	13%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	27,297	1%	(27,297)	100%	27,297	2%	(27,297)	100%
	2,235,780	100%	(39,269)	2%	1,233,448	100%	(31,828)	3%

(c) As at 31 December 2017, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2016: Nil).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Accounts receivable (Cont'd)

(d) Accounts receivable that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2017				31 December 2016			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
Within 1 year	1,638,228	94%	-	-	1,016,973	96%	-	-
1 to 2 years	81,555	5%	(4,078)	5%	16,259	2%	(813)	5%
2 to 3 years	16,259	1%	(1,626)	10%	6,240	1%	(624)	10%
3 to 4 years	6,240	0%	(1,872)	30%	6,510	1%	(1,953)	30%
4 to 5 years	6,510	0%	(3,255)	50%	-	-	-	-
5 to 6 years	-	-	-	-	-	-	-	-
Over 6 years	1,141	-	(1,141)	100%	1,141	0%	(1,141)	100%
	1,749,933	100%	(11,972)	1%	1,047,123	100%	(4,531)	0%

(e) As at 31 December 2017, accounts receivable not individually significant but with specific provisions for bad debts were analysed as follows:

	Book balance	Provision for bad debts	Provision %
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%
	27,297	(27,297)	

As at 31 December 2017, as these accounts receivables had 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 receivables for which full or 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 2017, the five largest accounts receivable were analysed as follows:

	Balance	Provision for bad debts	% of total accounts receivable
Total balance of five largest accounts receivable	622,521	-	28%

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Advances to suppliers

(a) The ageing of advances to suppliers is analysed below:

	31 December 2017		31 December 2016	
Ageing	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,639,740	93%	919,228	93%
1 to 2 years	69,802	4%	18,319	2%
2 to 3 years	20,558	1%	6,345	1%
Over 3 years	29,461	2%	36,158	4%
	1,759,561	100%	980,050	100%

As at 31 December 2017, the advance to suppliers amounting to RMB119,821 thousand (31 December 2016: RMB60,822 thousand) with the ageing longer than 1 year was not settled because the related suppliers had not rendered the relevant services.

(b) As at 31 December 2017, the five largest advances to suppliers were analysed below:

	Amount	% of total advances to suppliers
Total balances of the five largest advances to suppliers	1,053,221	60%

(5) Interest receivable

	31 December 2017	31 December 2016
HNA Finance (Note 8(6))	364,951	315,233
Others	177,152	165,528
	542,103	480,761

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Other receivables

	31 December 2017	31 December 2016
Receivables from related parties (Note 8(6))	400,675	229,571
Aircraft leasing security deposits and maintenance reserve receivable	92,212	170,579
Government subsidies receivable	7,339	40,582
Others	396,251	372,848
	896,477	813,580
Less: Provision for bad debts	(48,494)	(48,494)
	847,983	765,086

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

	31 December 2017	31 December 2016
Within 1 year	732,046	681,306
1 to 2 years	150,471	78,596
2 to 3 years	1,429	32,391
3 to 4 years	1,363	3,274
4 to 5 years	746	6,006
5 to 6 years	2,000	1,081
Over 6 years	8,422	10,926
	896,477	813,580

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Other receivables (Cont'd)

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

	31 December 2017				31 December 2016			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Provision for bad debts	Provision %	Amount	% of total balance	Provision for bad debts	Provision %
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 on the grouping basis								
- Group by ageing analysis method (d)	362,521	41%	(7,425)	2%	372,361	46%	(7,425)	2%
- Aircraft leasing security deposits and maintenance reserve receivable	92,212	10%	-	-	170,579	21%	-	-
- Group by related parties	400,675	45%	-	-	229,571	28%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually (e)	29,270	3%	(29,270)	100%	29,270	4%	(29,270)	100%
	896,477	100%	(48,494)	5%	813,580	100%	(48,494)	6%

(c) As at 31 December 2017, other receivables that were individually significant and with specific provisions for bad debts were analysed as follows:

	Book balance	Provision for bad debts	Provision %
Other receivables	11,799	(11,799)	100%

As at 31 December 2017, as these other receivables had 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) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2017				31 December 2016			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
Within 1 year	333,491	92%	-	-	348,178	94%	-	-
1 to 2 years	19,570	5%	(978)	5%	11,574	3%	(578)	5%
2 to 3 years	1,429	1%	(143)	10%	3,391	1%	(339)	10%
3 to 4 years	1,363	0%	(409)	30%	1,069	0%	(321)	30%
4 to 5 years	746	0%	(373)	50%	3,882	1%	(1,941)	50%
5 to 6 years	2,000	1%	(1,600)	80%	107	0%	(86)	80%
Over 6 years	3,922	1%	(3,922)	100%	4,160	1%	(4,160)	100%
	362,521	100%	(7,425)	2%	372,361	100%	(7,425)	2%

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Other receivables (Cont'd)

(e) As at 31 December 2017, other receivables that are not individually significant but with provisions for bad debts were analysed as follows:

	Bbalance	Provision for bad debts	Provision %
Debtor 2	5,876	(5,876)	100%
Debtor 3	5,280	(5,280)	100%
Debtor 4	3,186	(3,186)	100%
Debtor 5	2,500	(2,500)	100%
Others	12,428	(12,428)	100%
	29,270	(29,270)	

As at 31 December 2017, as these other receivables had 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 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 2017, the five largest other receivables were analysed as follows:

	Relationship with the Group	Balance	Ageing	% of total balance	Provision for bad debts
Grand China Air	Parent company	176,633	Within 1 year	20%	-
Capital Airlines	Related party	103,921	Within 1 year	12%	-
West Airlines	Related party	27,466	Within 1 year	3%	-
Suparna Airlines	Related party	16,767	Within 1 year	2%	-
Company A	Third party	14,440	Within 1 year	2%	-
		339,227		39%	-

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(7) Inventories

	31 December 2017			31 December 2016		
	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount
Aviation consumables	169,107	-	169,107	-	-	-
Cabin supplies	72,946	-	72,946	8,668	-	8,668
Others	12,417	-	12,417	12,279	-	12,279
	254,470	-	254,470	20,947	-	20,947

(8) Assets held for sale

	31 December 2017		
	Carrying amount	Fair value	Estimated costs to sell
Fixed assets	-	-	-

	31 December 2016		
	Carrying amount	Fair value	Estimated costs to sell
Fixed assets	335,673	338,384	-

As at 26 November 2016, with the approval of the Board of Directors, the Group signed an irrevocable agreement with Tianjin Airlines Holding to transfer 3 E145 air planes. Such assets transfer was accomplished in 2017, and gains arising from disposal of air planes amounting to RMB2,711 thousand was recognised as gains on disposal of assets in 2017.

(9) Other current assets

	31 December 2017	31 December 2016
Financial products with guaranteed principal and returns (a)	300,000	2,800,000
VAT input to be deducted	136,790	153,149
Available-for-sale financial assets	-	1,100,000
	436,790	4,053,149

(a) As at 31 December 2017, the financial products with guaranteed principal and returns represented the wealth management product with fixed return purchased by Lucky Air, a subsidiary of the Company, from a third party commercial bank. The product will be due within one year with an annual return rate of 4.65% (31 December 2016: 2.24% - 2.90%).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets

	31 December 2017	31 December 2016
Measured at fair value		
Available-for-sale equity instruments (a)	5,075,327	2,177,635
Financial products with guaranteed principal and floating returns	-	1,100,000
	5,075,327	3,277,635
Measured at cost (b)		
Available-for-sale equity instruments (c)	6,871,354	3,177,505
Others (d)	9,279,383	4,100,000
	16,150,737	7,277,505
Less: Provisions for impairment	-	(86,104)
	-	(86,104)
Less: Available-for-sale financial assets included in other current assets (Note 4(9))	-	(1,100,000)
	21,226,064	9,369,036

(a) Available-for-sale equity instruments measured at fair value:

	31 December 2017	31 December 2016
Available-for-sale equity instruments		
- Fair value	5,075,327	2,177,635
- Cost	4,761,210	1,142,625
- Accumulated in other comprehensive income	283,895	704,657
- Accumulated provision for impairment	-	(86,104)

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets (Cont'd)

(a) Available-for-sale equity instruments measured at fair value (Cont'd)

	31 December 2017	31 December 2016
Binhai Rural Commercial Bank	1,304,876	-
TravelSky Tech	1,141,392	849,000
China Investment Bank Leasing	1,047,186	-
Shenzhen Xinghang Venture Capital Investment	942,339	-
HKIAL	336,192	336,192
New Generation Media	269,265	310,446
HNA Infrastructure	34,077	36,422
China Merchants Securities	-	645,575
	5,075,327	2,177,635

Note: The fair value of Binhai Rural Commercial Bank and HKIAL was estimated based on valuation model and parameters available in the market, and fair value of other shares as at 31 December 2017 were determined based on the closing price of the trading shares at 31 December 2017.

The Company sold out all shares of China Merchants Securities at the price of RMB618,178 thousand in October 2017, and recognised the sum of the difference amounting to RMB195,526 thousand between the price for disposal; net book value of available-for-sale financial assets and changes in fair value originally recognised in other comprehensive income in the investment income for the current year (Note 4(50)).

(b) Available-for-sale financial assets measured at cost:

The available-for-sale financial assets measured at cost mainly include the unlisted equity investments held by the Group which are not quoted in an active market and whose fair value cannot be reliably measured as the variability in the range of reasonable fair value measurements is significant and the parameters used to determine the fair value cannot be reasonably determined. As at 31 December 2017, the Group had no plan to dispose these investments.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets (Cont'd)

(c) Available-for-sale equity instruments

	31 December 2016	Increase in current year	Increase in acquisition of Tianjin Airlines under non-common control	Decrease in current year	31 December 2017	Shareholding of investee as at 31 December 2017	Cash dividends in current year
Hainan Airlines Airport	-	-	2,255,141	-	2,255,141	12.95%	-
HNA General Aviation (i)	-	1,500,000	-	-	1,500,000	15.00%	-
HNA Finance (ii)	946,996	-	-	(946,996)	-	-	148,446
Capital Airlines Holding	508,620	-	-	-	508,620	19.60%	-
Easy Life	500,000	-	-	-	500,000	7.22%	-
Haikou Meilan	304,765	-	-	-	304,765	12.08%	1,105
Brighttime Global Ltd.	219,496	-	-	-	219,496	18.26%	-
Inflection Energy LLC	123,825	-	-	-	123,825	8.11%	-
TAP Portugal	117,531	-	-	-	117,531	9.94%	-
Tianjin Airlines Industry (iii)	-	-	885,704	-	885,704	19.67%	-
Others	456,272	-	-	-	456,272		-
Total	3,177,505	1,500,000	3,140,845	(946,996)	6,871,354		149,551

(i) HNA General Aviation was jointly established by the Company and HNA Group, HNA Aviation & Tourism in 2017. As at 31 December 2017, the actual capital contribution by the Company was RMB1,500,000 thousand, accounting for 15% of the pain-in capital. The Company had no control, joint control or significant influence over HNA General Aviation; therefore, this investment was recognised as available-for-sale equity instruments.

(ii) The Company originally held 8% of the share capital of HNA Finance. In January 2017, the Company obtained the control of Tianjin Airlines. Tianjin Airlines held 25% of the share capital of HNA Finance and had significant impact on it. After the acquisition, the Group totally held 33% of the share capital of HNA Finance; therefore, HNA Finance became an associate and was measured under equity method.

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets (Cont'd)

(c) Available-for-sale equity instruments (Cont'd)

(iii) As at 31 December 2017, Tianjin Airlines, a subsidiary of the Company, held 19.67% of shareholding in Tianjin Airlines Industry. Tianjin Airlines had no control, joint control or significant influence over Tianjin Airlines Industry; therefore, this investment was recognised as available-for-sale equity instruments.

(d) In 2012, the Company and other parties jointly set up Guokaijingcheng investment fund and the Company contributed RMB200 million to the fund.The duration of the fund is 10 years. As a limited partner, the Company does not participate in the daily management and decision-making of the fund. As the Company had no control, joint control or significant influence over the fund, the investment was recognised as available-for-sale financial assets.

In August 2015, Tianjin Airlines, a subsidiary of the Company, and other parties jointly set up Yanshan Funds and Tianjin Airlines contributed RMB1,000,000 thousand to the funds. The duration of the fund is 10 years. As a limited partner, Tianjin Airlines does not participate in the daily management and decision-making of the fund. As Tianjin Airlines had no control, joint control or significant influence over the fund, the investment was recognised as available-for-sale equity instruments.

In February 2016, together with a number of investors, the Company's subsidiary HNA Hong Kong founded the HNA (Cayman) Ground Services Investment Fund with RMB900,000 thousand. The duration of the fund is 10 years.

In September 2016, together with a number of investors, the Company's subsidiary Tianjin Airlines founded Jianxin Tianhang with RMB200,000 thousand. The duration of the fund is 4 years. As a limited partner, Tianjin Airlines does not participate in the daily management and decision-making of the fund. As Tianjin Airlines had no control, joint control or significant influence over the fund, the investment was recognised as available-for-sale financial assets.

In November 2016, together with a number of investors, the Company and its subsidiary Chang'an Airlines jointly founded the Haikou Chuangyuan Cabin Services Investment Fund with RMB3,000,000 thousand. The duration of the fund is 5 years. The Company transferred all its shares of the fund to the subsidiary Chang'an Airlines in December 2017. As a limited partner, the Company does not participate in the daily management and decision-making of the fund. Chang'an Airlines had no control, joint control or significant influence over the fund, so it was recognized as available-for-sale financial assets.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets (Cont'd)

(d) In February 2017, the Company's subsidiary Tianjin Airlines acquired Qianhai Culture & Tourism Fund Management (Shenzhen) Co., Ltd. at the price of RMB2,427,973 thousand. As a limited partner, Tianjin Airlines does not participate in the daily management and decision-making of the fund. Tianjin Airlines had no control, joint control or significant influence over the fund; therefore, the investment was recognised as available-for-sale financial assets.

As at 31 December 2017, the Company's subsidiary Tianjin Airlines held shares of Dadi Ground Services worth RMB1,575,000 thousand. As a limited partner, Tianjin Airlines does not participate in the daily management and decision-making of the fund. Tianjin Airlines had no control, joint control or significant influence over the fund, so the investment was recognised as available-for-sale equity instruments.

(11) Long-term equity investments

	31 December 2017	31 December 2016
Associates	22,274,389	19,049,278
Less: Provision for impairment of long-term equity investments	-	-
	22,274,389	19,049,278

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(11) Long-term equity investments (Cont'd)

		Movements in current year									
	31 December 2016	Transfer from available-for-sale financial assets	Impact of acquisition of Tianjin Airlines under non-common control	Increase in investment	Share of net profit/(loss) under equity method	Adjustment for other comprehensive income	Share of other changes in equity	Dividends or profits declared by associates	Provision for impairment loss	31 December 2017	Provision for impairment loss
Tianjin Airlines	5,005,678	-	(5,005,678)	-	-	-	-	-	-	-	-
Bohai Trust	3,856,642	-	-	-	280,905	-	-	(48,084)	-	4,089,463	-
HNA Finance	-	946,996	2,887,767	-	175,237	(19,544)	-	(148,446)	-	3,842,010	-
Azul Airlines	3,214,401	-	-	-	244,400	-	-	-	-	3,458,801	-
HKAGH	1,890,615	-	-	-	32,547	-	-	-	-	1,923,162	-
Suparna Airlines	1,810,219	-	-	-	(6,190)	-	-	-	-	1,804,029	
Yanghang Investment	-	-	1,513,460	-	13,618	-	-	-	-	1,527,078	-
HNA Technology	1,370,565	-	-	-	114,466	-	-	-	-	1,485,031	-
West Airlines	1,253,363	-	-	-	142,985	-	-	(25,447)	-	1,370,901	-
Sky Bird Airlines (i)	-	-	-	1,050,000	-	-	-	-	-	1,050,000	-
HNA Import & Export	150,000	-	-	750,000	259	-	-	-	-	900,259	-
Hunan Golden-Deer	450,000	-	-	-	-	-	-	-	-	450,000	-
Tianjin Airlines Logistics	-	-	200,033	-	2,251	-	-	-	-	202,284	-
Others	47,795	-	41,078	30,000	52,498	-	-	-	-	171,371	-
	19,049,278	946,996	(363,340)	1,830,000	1,052,976	(19,544)	-	(221,977)	-	22,274,389	-

Note: Equity related information in associates is set forth in Note 6(2).

(i) In December 2017, the Company's subsidiary Lucky Air, together with Yunnan Xiangpeng Investment and Chengdu Communications Investment Group jointly contributed RMB3 billion and founded Sky Bird Airlines. Lucky Air contributed RMB1,05 billion, accounting for 35% of paid-in capital.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Investment properties

	Buildings and relevant land use rights	Land use rights	Total
31 December 2016	6,023,991	4,011,674	10,035,665
Increase in current year	834	-	834
Changes in fair value	28,988	14,389	43,377
31 December 2017	6,053,813	4,026,063	10,079,876

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 2017, the net book value of the investment properties was RMB10,079,876 thousand (31 December 2016: RMB10,035,665 thousand). The fair value was determined based on the valuation conducted by an independent appraiser at the valuation date of 31 December 2017.

In 2017,the evaluated appreciation in the fair value of the investment properties of the Group amounted to RMB 43,377 thousand (2016: Impairment of RMB25,537 thousand), and was fully recognised in profit or loss for the year (Note 4(49)).

As at 31 December 2017, investment properties with book values of RMB9,654,368 thousand (31 December 2016: RMB4,535,864 thousand) were pledged for short-term and long-term borrowings, as well as related party borrowings (Note 8(5)(d)).

As at 31 December 2017, the title certificates of certain buildings and land use rights with book value of RMB525,531 thousand (31 December 2016: RMB523,792 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Fixed assets

	Buildings	Aircraft and engines	High-price spare parts	Motor vehicles	Machinery and equipment	Total
Cost						
31 December 2016	4,553,352	71,851,765	3,158,230	102,111	774,699	80,440,157
Increase in current year						
Acquisition	57,845	905,475	807,751	29,541	110,881	1,911,493
Transfers from construction in progress	126,601	9,152,754	-	-	26,329	9,305,684
Increase in acquisition of Tianjin Airlines under non-common control	608,729	12,476,001	716,459	38,349	61,265	13,900,803
Decrease in current year						
Disposal and scrap	(56,311)	(1,360,257)	(2,918)	(38,320)	(128,399)	(1,586,205)
31 December 2017	5,290,216	93,025,738	4,679,522	131,681	844,775	103,971,932
Accumulated depreciation						
31 December 2016	(736,075)	(19,335,919)	(1,793,542)	(56,987)	(410,367)	(22,332,890)
Increase in current year						
Increase in acquisition of Tianjin Airlines under non-common control	(32,984)	(3,240,993)	(132,954)	(17,453)	(15,133)	(3,439,517)
Provision	(118,638)	(4,618,531)	(204,519)	(15,830)	(78,744)	(5,036,262)
Decrease in current year						
Disposal and scrap	10,013	638,602	1,399	19,820	91,217	761,051
31 December 2017	(877,684)	(26,556,841)	(2,129,616)	(70,450)	(413,027)	(30,047,618)
Provision for impairment						
31 December 2016	-	-	(16,378)	-	-	(16,378)
Increase in current year	-	-	-	-	-	-
Decrease in current year	-	-	-	-	-	-
31 December 2017	-	-	(16,378)	-	-	(16,378)
Carrying amount						
31 December 2017	4,412,532	66,468,897	2,533,528	61,231	431,748	73,907,936
31 December 2016	3,817,277	52,515,846	1,348,310	45,124	364,332	58,090,889

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Fixed assets (Cont'd)

As at 31 December 2017, fixed assets with net book value of RMB42,083,055 thousand (31 December 2016: RMB23,739,633 thousand) and original cost of RMB55,552,828 thousand (31 December 2016: RMB31,538,425 thousand) were pledged for short-term and long-term borrowings (Note 4(21)&(31)). Fixed assets with net book value of RMB171,230 thousand (31 December 2016: Nil) and original cost of RMB237,428 thousand (31 December 2016: Nil) were pledged for long-term related party borrowings (Note 4(5)(d)).

In 2017, total amount of depreciation charges for fixed assets amounted to RMB5,036,262 thousand (2016: RMB4,126,268 thousand), which were charged to operating costs, selling and distribution expense, general expense and administrative expense amounting to RMB4,424,886 thousand, RMB487,154 thousand, RMB7,498 thousand and RMB 116,724 thousand respectively (2016: RMB3,381,515 thousand, RMB 637,960 thousand, RMB5,404 thousand and RMB101,389 thousand respectively).

In 2017, the costs of fixed assets transferred from construction in progress amounted to RMB 9,305,684 thousand (2016: RMB3,913,794 thousand).

In June 2017, the Company transferred several 737-800 air planes to Suparna Airlines at the price (excluding VAT) of RMB 781,461 thousand. After deducting the net book value of RMB 726,662 thousand at the time of disposal, the net gains of RMB60,799 thousand was recognised in gains on disposals of assets for the current year.

(a) Fixed assets held under finance leases

As at 31 December 2017, the fixed assets with a carrying amount of RMB11,915,446 thousand (a cost of RMB18,409,807 thousand) were held under a finance lease (31 December 2016: a carrying amount of RMB10,336,783 thousand and a cost of RMB14,235,658 thousand) (Note 11). The analysis is as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
31 December 2017				
Aircraft and engines	18,359,807	(6,024,611)	-	12,335,196
High-price spare parts	50,000	(33,127)	-	16,873
	18,409,807	(6,057,738)	-	12,352,069

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
31 December 2016				
Aircraft and engines	14,185,658	(3,869,915)	-	10,315,743
High-price spare parts	50,000	(28,960)	-	21,040
	14,235,658	(3,898,875)	-	10,336,783

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Fixed assets (Cont'd)

(b) Fixed assets with pending certificates of ownership

As at 31 December 2017, property certificates of certain buildings with net book value of RMB743,952 thousand and original cost of RMB807,947 thousand (31 December 2016: net book value of RMB653,584 thousand and original cost of RMB705,238 thousand) had not been obtained by the Group. The Company's management expected the above stated uncompleted property right issue posed no substantial obstacles, nor any significant adverse impact was imposed on the operation of the Company.

(14) Construction in progress

	31 December 2017			31 December 2016		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Advanced payments for aircraft acquisitions	13,067,000	-	13,067,000	10,274,344	-	10,274,344
Construction project for new base of Changshui Airport	362,420	-	362,420	282,722	-	282,722
Beijing base expansion project	438,774	-	438,774	424,165	-	424,165
Others	1,083,421	(2,307)	1,081,114	537,095	(2,307)	534,788
	14,951,615	(2,307)	14,949,308	11,518,326	(2,307)	11,516,019

As at 31 December 2017, construction in progress of RMB415,525 thousand (31 December 2016: RMB282,722 thousand) were pledged for long-term borrowings (Note 4(31)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(14) Construction in progress (Cont'd)

(a) Movement of major construction in progress

Project name	Budgeted amount	31 December 2016	Increase in current year	Increase in acquisition of Tianjin Airlines under non-common control	Transfer-in in current year Fixed assets	Transfer out in current year	31 December 2017	Proportion of investment in project to budget (%)	Progress	Accumulated borrowing costs capitalised	Capitalised amount during the current year: Interest expenses	Capitalised amount during the current year: Exchange gain or loss on special borrowings	Capitalisation rate	Source of funds
Advanced payments for aircraft acquisitions	71,387,081	10,274,344	10,733,382	1,396,385	(9,152,754)	(184,358)	13,066,999	18%	18%	1,354,740	364,631	(207,579)	3.12%	Bank borrowings
Construction project for new base of Changshui Airport	377,765	282,722	79,698	-	-	-	362,420	96%	96%	133,241	28,037	-	6.79%	Bank borrowings and own funds
Beijing base expansion project	483,896	424,165	59,403	-	-	(44,794)	438,774	91%	91%	140,473	-	-	-	Bank borrowings and own funds
Others		537,095	466,667	232,590	(152,930)	-	1,083,422			29,938	22,338	-	2.73%	Bank borrowings and own funds
		11,518,326	11,339,150	1,628,975	(9,305,684)	(229,152)	14,951,615			1,658,392	415,006	(207,579)		

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) Intangible assets

	Land use rights	Computer software	Total
Cost			
31 December 2016	665,321	1,766	667,087
Increase in current year	6,892	21,096	27,988
Increase in acquisition of Tianjin Airlines under non-common control	58,687	22,423	81,110
Decrease in current year	-	-	-
31 December 2017	730,900	45,285	776,185
Accumulated amortisation			
31 December 2016	(116,814)	(1,757)	(118,571)
Provision in current year	(18,939)	(3,090)	(22,029)
Increase in acquisition of Tianjin Airlines under non-common control	(3,327)	(6,579)	(9,906)
Decrease in current year	-	-	-
31 December 2017	(139,080)	(11,426)	(150,506)
Provision for impairment			
31 December 2016	-	-	-
Increase in current year	-	-	-
Decrease in current year	-	-	-
31 December 2017	-	-	-
Carrying amount			
31 December 2017	591,820	33,859	625,679
31 December 2016	548,507	9	548,516

For the year ended 31 December 2017, the total amortisations of intangible assets amounted to RMB 22,029 thousand (2016: RMB 12,719 thousand).

As at 31 December 2017, land use rights with a net book value of RMB49,600 thousand and a cost of RMB70,091 thousand (31 December 2016: net book value of RMB27,846 thousand and a cost of RMB40,421 thousand) were pledged for long-term borrowings (Note 4(31)) and related party borrowings (Note8(5)(d)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(16) Goodwill

	31 December 2017	31 December 2016
Cost of sales	328,865	328,865
Less: Provisions for impairment	-	-
	328,865	328,865

As at 31 December 2017, 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. The recoverable amount of the group of assets, i.e. The net value of assets' fair value less costs to sell, was determined based on the share price of the Company in open market as at 31 December 2017 and by reference to relevant trading restrictions and other factors. Based on the impairment testing result, there was no impairment indicator for the goodwill.

(17) Long-term prepaid expenses

	31 December 2016	Increase in current year	Increase in acquisition of Tianjin Airlines under non-common control	Decrease in current year	Amortisation charged in current year	31 December 2017
Deferred pilot recruitment costs	797,196	381,117	369,339	(13,937)	(325,976)	1,207,739
Pilot introduction fees (Note)	143,447	103,115	181,855	(10,907)	(35,818)	381,692
Others	13,570	32,042	98,398	(1,887)	(48,065)	94,058
	954,213	516,274	649,592	(26,731)	(409,859)	1,683,489

Note: Pilot introduction fees are compensation paid to the previous airlines where pilots work for the purpose of recruiting the pilots. Pursuant to labour contracts entered into between the Company and those pilots, pilots introduced have to service the Company for a specified period. In case any pilot leaves the Company within the service period specified by the labour contract, the pilot should bear corresponding liabilities and be obliged to compensate the Company in accordance with the Opinions on Standardising the Flow Management of Aircrew and Guaranteeing the Stability of Aircrew in Civil Aviation (CAAC (2005) No. 104) jointly issued by Civil Aviation Administration of China, Ministry of Human Resources, Ministry of Labour and Social Security, State-owned Assets Supervision and Administration Commission of the State Council and Legislative Affairs Office of the State Council. Pilot introduction fees are recorded at actual cost paid by the Company, and amortised on the straight-line basis over the estimated service years.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(18) Other non-current assets

	31 December 2017	31 December 2016
Beneficial right of trust property (a)	4,867,012	-
Investment prepayment (b)	-	5,553,700
Maintenance reserve for aircraft and engines	2,106,273	1,410,730
Security deposits for leased aircraft and engines	1,948,105	1,536,728
Deferred losses on sales and lease back transactions	86,596	107,138
Others	162,002	104,000
	9,169,988	8,712,296

(a) In July 2017, the Company acquired the beneficial right of assets in trust held by Grand China Air at the cost of RMB5,536,292 thousand. The underlying assets were the beneficial right of all future revenue from operating routes of Grand China Air. The fair value was determined based on fair value evaluated by independent valuer, and measured at fair value through profit or loss. As at 31 December 2017, fair value of the beneficial right of assets in trust was RMB5,414,882 thousand. Among those, the current portion due within 1 year of RMB547,870 thousand was recognised as financial assets at fair value through profit or loss, and the rest was recognised as other non-current assets. In 2017, accounts receivable from operating routes of Grand China Air recognised by the Group were RMB203,000 thousand, and changes in fair value amounting to RMB81,590 thousand were recognised in gains or losses arising from changes in fair value (Note 4(49)).

(b) As at 31 December 2016, investment fund prepaid was the consideration paid to Tianjin Airlines Holding for acquiring 48.21% of Tianjin Airlines' equity. In January 2017, the procedures of the equity transfer was completed, and the Company obtained the control of Tianjin Airlines.

(19) Deferred tax assets and deferred tax liabilities

(a) Deferred tax asset before offsetting

	31 December 2017		31 December 2016	
	Deductible temporary differences and tax losses	Deferred tax assets	Deductible temporary differences and tax losses	Deferred tax assets
Accrued aircraft and engines overhaul and maintenance cost	3,535,767	821,881	1,795,082	432,192
Difference in depreciation of fixed assets acquired under finance leases	351,754	87,938	-	-
Intra-group unrealised profit	650,417	162,604	299,504	71,099
Deductible losses	197,175	49,294	8,884	2,221
Others	10,176	2,111	4,236	635
	4,745,289	1,123,828	2,107,706	506,147
Including:				
Expected to be recovered within one year (inclusive)		55,798		5,065
Expected to be recovered after one year		1,068,030		501,082
		1,123,828		506,147

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Deferred tax assets and deferred tax liabilities (Cont'd)

(b) Deferred tax liabilities before offsetting

	31 December 2017		31 December 2016	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Depreciation of fixed assets	16,910,444	4,189,232	12,297,782	3,074,446
Differences between book value and tax base of investment properties	7,610,709	1,901,672	7,445,643	1,856,238
Changes in fair value of available-for-sale financial assets	348,065	77,263	948,246	231,417
Investment income of non-monetary assets	73,515	18,379	147,030	36,757
Others	470,745	71,793	356,185	64,553
	25,413,478	6,258,339	21,194,886	5,263,411
Including:				
Expected to be recovered within one year (inclusive)		90,171		82,933
Expected to be recovered after one year		6,168,168		5,180,478
		6,258,339		5,263,411

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

	31 December 2017	31 December 2016
Deductible temporary differences	-	-
Deductible losses	236,443	165,616
	236,443	165,616

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 2017	31 December 2016
2018	15,092	15,092
2019	44,650	70,177
2020	18,842	18,842
2021	61,505	61,505
2022	96,354	-
	236,443	165,616

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Deferred tax assets and deferred tax liabilities (Cont'd)

(e) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	31 December 2017		31 December 2016	
	Offsetting amount	Balance after offsetting	Offsetting amount	Balance after offsetting
Deferred tax assets	1,123,828	-	506,147	-
Deferred tax liabilities	1,123,828	5,134,511	506,147	4,757,264

(20) Provision for asset impairment

	31 December 2016	Increase in current year		Write-off in current year		31 December 2017
		Provision in current year	Acquisition of Tianjin Airlines under non-common control	Reversal	Write-off	
Provision for impairment of available-for-sale financial assets	86,104	-	-	-	(86,104)	-
Provision for bad debts	80,322	4,781	2,660	-	-	87,763
Including: Provision for bad debts of accounts receivable	31,828	4,781	2,660	-	-	39,269
Provision for bad debts of other receivables	48,494	-	-	-	-	48,494
Provision for impairment of fixed assets	16,378	-	-	-	-	16,378
Provision for impairment of construction in progress	2,307	-	-	-	-	2,307
	185,111	4,781	2,660	-	(86,104)	106,448

(21) Short-term borrowings

	Currency	31 December 2017	31 December 2016
Pledged, impawned and guaranteed borrowings (a)		9,885,514	2,810,000
	RMB	9,023,000	2,810,000
	USD	862,514	-
Guaranteed borrowings (b)		10,194,207	4,646,690
	RMB	8,924,000	4,646,690
	USD	1,106,359	-
	EUR	163,848	-
Unsecured borrowings		3,827,166	450,000
	RMB	3,827,166	450,000
Total		23,906,887	7,906,690

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(21) Short-term borrowings (Cont'd)

(a) As at 31 December 2017, the pledged, impawned and guaranteed borrowings amounting to RMB9,885,514 thousand were pledged with the following fixed assets, impawned with the term deposit of RMB270,000 thousand and certain equity of the Group, the Group's related parties and third parties were used as collateral; meanwhile, and guaranteed by the Group and the Group's related parties (Note 8(5)(c)).

As at 31 December 2016, the pledged, impawned and guaranteed borrowings totalling RMB2,810,000 thousand were pledged with the following fixed assets, impawned with the term deposit of RMB270,000 thousand and certain equity of the Group, the Group's related parties and third parties were used as collateral; meanwhile, and guaranteed by the Group and the Group's related parties (Note 7(5)(c)).

	31 December 2017		31 December 2016	
	Cost	Net book value	Cost	Net book value
Fixed assets – buildings	28,365	21,558	118,587	83,085
– aircraft	3,240,367	2,998,401	-	-
Total fixed assets (Note4(13))	3,268,732	3,019,959	118,587	83,085
Investment properties (Note 4(12))		2,253,364		-
		5,273,323		83,085

(b) As at 31 December 2017, the guaranteed borrowings comprised:

(i) Borrowings of RMB6,097,523 thousand were guaranteed by related parties of the Group (Note 8(5)(c)).

(ii) Borrowings of RMB4,096,684 thousand were guaranteed by the Company.

As at 31 December 2016, the guaranteed borrowings comprised:

(i) Borrowings of RMB1,278,000 thousand were guaranteed by related parties of the Group (Note 8(5)(c)).

(ii) Borrowings of RMB3,368,690 thousand were guaranteed by the Company.

(c) As at 31 December 2017, the interest rate range of short-term borrowings was 4.13% to 6.00% (31 December 2016: 2.65% to 5.00%).

(d) As at 31 December 2017, there were no short-term borrowings due but unpaid.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(22) Notes payable

	31 December 2017	31 December 2016
Bank acceptance notes	1,647,500	485,000
Trade acceptance notes	352,494	700,000
	1,999,994	1,185,000

As at 31 December 2017 and 31 December 2016, all notes payable would be due within one year.

(23) Accounts payable

	31 December 2017	31 December 2016
Provision for return condition check of aircraft and engines and overhaul and maintenance related payable	4,315,238	2,541,444
Taking-off and landing fees payable	2,064,215	725,873
Fuel cost payable	883,255	100,300
Catering fee payable	636,788	249,432
Flight equipment payable	432,066	125,452
Operating lease aircraft rental payable	450,659	310,328
Online seat reservation fees payable	306,087	231,693
Collected ticket fare payable	44,716	171,405
Others	206,527	247,318
	9,339,551	4,703,245

As at 31 December 2017, the accounts payable with ageing over 1 year amounted to RMB231,672 thousand (31 December 2016: RMB397,326 thousand), mainly comprised of payable of take-off and landing fees, catering fees, online seat reservation fees and overhaul and maintenance fees. Due to the long-term business relationship with these suppliers, such payable amounts had not been finally settled yet. As at 31 December 2017, the balance of accounts payable comprised the provision for checks and overhauls s for return conditions of aircraft and engines amounting to RMB3,254,081 thousand (31 December 2016: RMB2,038,585 thousand).

(24) Advances from customers

	31 December 2017	31 December 2016
Sales in advance of carriage	2,876,154	2,538,990
Other advances received	31,548	48,457
	2,907,702	2,587,447

As at 31 December 2017, advances from customers with ageing over 1 year amounted to RMB205,225 thousand (31 December 2016: RMB206,781 thousand), which mainly represented sales in advances of carriage. As the related services have not been rendered, the related balances had not yet been recognised as the revenue.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(25) Employee benefits payable

	31 December 2017	31 December 2016
Short-term employee benefits payable (a)	478,460	304,970
Defined contribution plans payable (b)	3,086	5,564
	481,546	310,534

(a) Short-term employee benefits

	31 December 2016	Increase in the current year: Increase in the current year	Increase in the current year: Acquisition of Tianjin Airlines under non-common control	Decrease in the current year	31 December 2017
Wages and salaries, bonus, allowances and subsidies	265,143	4,227,992	18,798	(4,116,535)	395,398
Social insurance contributions	2,196	335,765	338	(330,466)	7,833
Including: Medical insurance	1,612	253,562	299	(254,783)	690
Work injury insurance	177	22,753	15	(22,788)	157
Maternity insurance	131	19,325	24	(19,362)	118
Payment of annuity	276	40,125	-	(33,533)	6,868
Housing funds	9,001	335,280	430	(342,888)	1,823
Labour union funds and employee education funds	28,630	133,389	2	(88,615)	73,406
	304,970	5,032,426	19,568	(4,878,504)	478,460

(b) Defined contribution plans

	31 December 2016	Increase in the current year: Increase in the current year	Increase in the current year: Acquisition of Tianjin Airlines under non-common control	Decrease in the current year	31 December 2017
Basic pensions	5,100	548,510	599	(551,306)	2,903
Unemployment insurance	464	28,151	60	(28,492)	183
	5,564	576,661	659	(579,798)	3,086

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(26) Taxes payable

	31 December 2017	31 December 2016
Aviation development fund payable	1,115,332	308,745
Enterprise income tax payable	794,681	325,350
International tax payable	236,358	155,062
VAT payable	246,215	2,143
Others	72,904	41,579
	2,465,490	832,879

(27) Interests payable

	31 December 2017	31 December 2016
Interest payables on bonds	430,806	529,584
Interests payable on borrowings	347,184	119,032
	777,990	648,616

(28) Other payables

	31 December 2017	31 December 2016
Deposits payable and funds	1,226,356	600,497
Payables to related parties (Note 8(6))	227,375	104,517
Air base project expenses	52,423	56,337
Others	538,720	270,956
	2,044,874	1,032,307

As at 31 December 2017, other payables ageing over one year amounted to RMB 263,876 thousand (31 December 2016: RMB 411,828 thousand) and mainly comprised ticket deposits placed by ticket sales agents and other payables. As the Group has long-term relationships with these agents, such payable amounts have not yet been settled.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(29) Current portion of non-current liabilities

	31 December 2017	31 December 2016
Current portion of long-term borrowings (a)	8,906,912	5,830,860
Current portion of long-term payables (Note 4(33))	3,176,251	1,485,464
Current portion of bonds payable (Note 4(32))	5,132,215	6,192,923
	17,215,378	13,509,247

(a) Current portion of long-term borrowings

	Currency	31 December 2017	31 December 2016
Guaranteed and pledged or impawned borrowings (Note 4(31)(a))		7,675,622	3,298,118
	RMB	3,605,655	644,059
	USD	3,982,582	2,607,295
	EUR	87,385	46,764
Guaranteed borrowings (Note 4(31)(b))		1,231,290	2,532,742
	RMB	849,039	2,464,066
	USD	382,251	68,676
		8,906,912	5,830,860

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(30) Other current liabilities

	31 December 2016	Increase arising from acquisition of Tianjin Airlines under non-common control	Issued in the current year	Issuance cost	Amortisation of premium and discount	Repayment in the current year	31 December 2017
Short-term financing bonds	-	1,996,212	9,000,000	(23,000)	16,854	(4,000,000)	6,990,066

(a) Details of the short-term financing bonds are as follows:

Par value	Issuance date	Term	Issuance amount	Bond rate
500,000	7 March 2017	270 days	498,125	4.80%
500,000	1 June 2017	270 days	498,875	7.20%
500,000	30 November 2017	270 days	498,875	8.20%
1,000,000	19 July 2016	270 days	997,000	3.81%
1,000,000	14 October 2016	270 days	997,000	3.00%
500,000	24 April 2017	270 days	498,500	5.98%
500,000	11 May 2017	270 days	498,500	6.15%
1,000,000	17 July 2017	270 days	997,000	5.38%
1,000,000	22 November 2017	270 days	997,000	7.60%
1,000,000	11 December 2017	271 days	997,000	7.80%
1,000,000	10 April 2017	210 days	998,250	4.74%
500,000	4 May 2017	180 days	499,250	5.00%
500,000	18 May 2017	240 days	499,000	5.50%
500,000	2 November 2017	270 days	498,875	5.80%
1,000,000	13 November 2017	270 days	997,750	5.94%

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(31) Long-term borrowings

	Currency	31 December 2017	31 December 2016
Guaranteed and pledged or impawned borrowings (a)		28,247,445	24,090,841
	RMB	7,088,296	6,242,969
	USD	21,056,159	17,681,277
	EUR	102,990	166,595
Guaranteed borrowings (b)		737,234	1,245,696
	RMB	737,234	936,650
	USD	-	309,046
Unsecured borrowings		8,307	8,820
	USD	8,307	8,820
		28,992,986	25,345,357

(a) As at 31 December 2017, the pledged, impawned and guaranteed borrowings amounting to RMB35,923,067 thousand (including the current portion, specifically including RMB10,693,951 thousand; USD3,831,952 thousand, equivalent to RMB25,038,741 thousand; and EUR24,397 thousand, equivalent to RMB190,375 thousand), were pledged with the following long-term assets (fixed assets, investment properties, construction in progress and intangible assets) and purchase rights of certain aircraft for which the related mortgage procedures have not been completed, impawned with the fixed deposit of RMB200,000 thousand and certain equity of the Group, the Group's related parties and third parties, and guaranteed by the Group and the Group's related parties (Note 8(5)(c)).

As at 31 December 2016, the pledged, impawned and guaranteed borrowings amounting to RMB27,388,959 thousand (including the current portion, specifically including RMB6,887,028 thousand; USD2,924,678 thousand, equivalent to RMB20,288,572 thousand; and EUR29,200 thousand, equivalent to RMB213,359 thousand), were pledged with the following long-term assets (fixed assets, investment properties, construction in progress and intangible assets) and purchase rights of certain aircraft for which the related mortgage procedures have not been completed, impawned with the fixed deposit of RMB200,000 thousand and certain equity of the Group, the Group's related parties and third parties, and guaranteed by the Group and the Group's related parties (Note 8(5)(c)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(31) Long-term borrowings (Cont'd)

(a) Guaranteed and pledged or impawned borrowings (Cont'd)

	31 December 2017		31 December 2016	
	Cost	Net book value	Cost	Net book value
Fixed assets – aircraft	51,729,654	38,734,838	30,873,419	23,312,582
– buildings	554,442	328,258	546,419	343,966
Total fixed assets (Note4(13))	52,284,096	39,063,096	31,419,838	23,656,548
Investment properties (Note 4(12))		4,547,817		4,535,864
Construction in progress (Note 4(14))		415,525		282,722
Intangible assets (Note 4(15))	40,421	27,015	40,421	27,846
Total		44,053,453		28,502,980

(b) As at 31 December 2017, guaranteed borrowings of RMB1,968,524 thousand (including the current portion, specifically including RMB1,586,273 thousand; USD58,500 thousand, equivalent to RMB382,251 thousand) were guaranteed by related parties of the Group (Note 8(5)(c)) and the Company, among which, RMB1,942,376 thousand was guaranteed by related parties of the Group (including RMB1,560,125 thousand; USD58,500 thousand, equivalent to RMB382,251 thousand), and RMB26,148 thousand was guaranteed by the Company.

As at 31 December 2016, guaranteed borrowings of RMB3,778,438 thousand (including the current portion, specifically including RMB3,400,716 thousand; USD54,450 thousand, equivalent to RMB377,722 thousand) were guaranteed by related parties of the Group (Note 8(5)(c)) and the Company, among which, RMB3,086,137 thousand was guaranteed by related parties of the Group (including RMB2,709,415 thousand; USD54,450 thousand, equivalent to RMB377,722 thousand), and RMB692,301 thousand was guaranteed by the Company.

(c) As at 31 December 2017, the interest margin for long-term borrowings was 3.07% - 6.91% (31 December 2016: 0.10% - 6.89%).

(d) As at 31 December 2017, the Group held no outstanding long-term borrowings which were matured.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(32) Bonds payable

	31 December 2016	Issuance in the current year	Acquisition of Tianjin Airlines under non-common control	Exchange gains or losses	Issuance cost	Amortisation of premium and discount	Repayment in the current year	31 December 2017
Corporate bonds	2,121,921	600,000	-	-	(8,888)	4,264	-	2,717,297
USD bonds	3,439,681	4,157,412	-	(392,053)	(119,592)	67,855	-	7,153,303
Private placement bonds	3,192,923	-	-	-	-	7,077	(3,200,000)	-
Singapore bonds	2,996,984	-	-	-	-	3,016	(3,000,000)	-
Medium term notes	399,370	-	3,087,089	-	-	7,352	(2,000,000)	1,493,811
Private placement note	-	1,700,000	3,984,185	-	(12,300)	9,003	(2,000,000)	3,680,888
Direct financing instrument	-	-	890,295	-	-	3,870	-	894,165
Total amount	12,150,879	6,457,412	7,961,569	(392,053)	(140,780)	102,437	(10,200,000)	15,939,464
Less: The portion due within 1 year (Note 4(29)	(6,192,923)							(5,132,215)
	5,957,956							10,807,249

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(32) Bonds payable (Cont'd)

The related bond information is outlined as follows:

	Par value	Date of issuance	Term	Amount
Corporate bonds (i)	1,440,000	24 May 2011	10 years	1,416,960
	700,000	14 December 2012	7 years	693,000
Corporate bonds (ii)	600,000	20 June 2017	5 years	591,112
	USD 500 million	7 February 2013	7 years	2,961,280
	USD300 million	22 June 2017	1 year	2,045,910
USD bonds (iii)	USD300 million	1 November 2017	1 year	1,991,910
	400,000	9 May 2014	5 years	398,800
Medium term notes	600,000	5 September 2016	3 years	594,600
(iv)	500,000	23 September 2016	3 years	495,500
	500,000	30 December 2015	3 years	497,000
	500,000	7 January 2016	3 years	497,000
	1,000,000	19 October 2016	3 years	991,000
	200,000	26 June 2017	3 years	198,200
	1,000,000	20 July 2017	3 years	991,000
Private placement note (v)	500,000	26 October 2017	3 years	498,500
	300,000	20 October 2015	3 years	293,700
	100,000	10 November 2015	3 years	97,600
Direct financing	200,000	26 November 2015	3 years	198,200
instrument (vi)	300,000	22 March 2016	3 years	296,400

(i) On 24 May 2011, as approved by CSRC Approval [2011] No. 721, the Company issued five-year and ten-year corporate bonds with a total principle amount of RMB5 billion. The corporate bonds bear interest at fixed rate of 5.6% (five-year bond) and 6.2% (ten-year bond) per annum, respectively, and the interest will be paid annually. The bond was irrevocably, jointly and severally guaranteed by HNA Group, a related party of the Company (Note 8(5)(c)). The five-year bond amounting to RMB3.56 billion has been due and repaid in 2016, while the ten-year bond amounting to RMB1.44 billion will be due in May 2021.

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(32) Bonds payable (Cont'd)

The related bond information is outlined as follows (Cont'd):

(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 were listed in Shanghai Stock Exchange, with an unconditional and irrevocable guarantee provided by HNA Aviation Group, a related party of the Company (Notes 8(5)(c)).

In June 2017, the Company's subsidiary, Lucky Air, issued five-year corporate bonds of RMB600 million bearing interest at 7.98% per annum and payable annually. The bonds were listed in Shanghai Stock Exchange.

(iii) In February 2013, HNA (HK), a wholly-owned subsidiary of the Company, issued seven-year USD corporate bonds of USD500 million bearing interest at 3.625% per annum. The bonds are listed in Singapore and with an unconditional and irrevocable guarantee provided by the Company for a period of seven years.

HNA (HK), a wholly-owned subsidiary of the Company, issued 364-day USD corporate bonds of USD300 million in June 2017 and November 2017 respectively, bearing interest at 5.5% and 6.35% per annum. The bonds were listed in Singapore and with an unconditional and irrevocable guarantee provided by the Company for a period of 364 days.

(iv) In May 2014, the Company issued five-year medium term notes of RMB400 million at an issuing price of RMB400 million, bearing interest at 8% per annum. Such bond interest was paid annually and the principal payments were repaid in a lump sum upon maturity.

In September 2016, Tianjin Airlines, the Company's subsidiary, issued three-year medium term notes of RMB1.1 billion twice, at an issuing price of RMB1,090,100 thousand, bearing interest from 3.96% to 4.15% per annum. Such bond interest was paid annually and the principal payments were repaid in a lump sum upon maturity.

(v) Tianjin Airlines, the Company's subsidiary, issued three-year private placement bonds of RMB500 million, RMB500 million and RMB1 billion in December 2015, January 2016 and October 2016 respectively, bearing interest at 7.00%, 6.70% and 5.2% per annum.

Tianjin Airlines, the Company's subsidiary, issued three-year private placement bonds of RMB200 million, RMB1 billion and RMB500 million in June 2017, July 2017 and October 2017 respectively, bearing interest at 7.82%, 7.82% and 7.11% per annum.

(vi) In 2015 and 2016, Tianjin Airlines issued three-year short-term financing bonds for four times, with RMB900 million in total and bearing interest from 6.20% to 6.70% per annum. Such bond interest was paid annually and the principal payments were repaid in a lump sum upon maturity.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(33) Long-term payables

	31 December 2017	31 December 2016
Finance lease obligations	5,486,734	4,138,573
Securitisation (a)	6,671,753	7,549,776
	12,158,487	11,688,349
Less: Current portion payable within 1 year (Note 4(29))	(3,176,251)	(1,485,464)
	8,982,236	10,202,885

(a) Approved by the Shanghai Stock Exchange, the Company established the BSP finance ticket claims asset-backed special program in 2015 (hereinafter "Special Program"), aiming to finance RMB6.15 billion. As at 31 December 2017, the actual par value issued was RMB6 billion, with an issuance amount of RMB5.96 billion and maturity of 22 to 58 months hereafter. The interest was 4.30% - 7.55%. As at 31 December 2017, the balance of the Special Program was RMB5.5 billion.

Approved by the National Association of Financial Market Institutional Investors ("the NAFMII"), the subsidiary of the Company offered non-public asset-backed notes amounting to RMB2 billion in 2015 primarily based on the rights to yields from BSP tickets, with a term between 1 and 5 years and an annual interest of 6.80% - 8.20%, and unconditional and irrevocable joint liability guaranty security was provided by HNA Group, the Company's related party, for the shortfalls from the repayment (Note 8(5)(c)). As at 31 December 2017, the asset-backed note amounted to RMB1.2 billion.

(34) Deferred income

	1 January 2017	Increase in the current year	Decrease in the current year	31 December 2017	Reason
Unredeemed mileages under frequent flyer programme	884,728	608,078	(453,927)	1,038,879	Unredeemed

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(35) Share capital

	31 December 2016	Movements in the current year	31 December 2017
Shares with trading restrictions -	4,624,612	(4,623,938)	674
Shares without trading restriction -			
A shares	11,812,062	4,623,938	16,436,000
B shares	369,446	-	369,446
	12,181,508	4,623,938	16,805,446
	16,806,120	-	16,806,120

	31 December 2015	Movements in the current year	31 December 2016
Shares with trading restrictions -	674	4,623,938	4,624,612
Shares without trading restriction -			
A shares	11,812,062	-	11,812,062
B shares	369,446	-	369,446
	12,181,508	-	12,181,508
	12,182,182	4,623,938	16,806,120

Approved by *Reply on Approval of Private Placement by Hainan Airlines Co., Ltd.* (Zheng Jian Xu Ke [2016] No. 875) issued by CSRC, the Company privately issued 4,623,938 thousand of A-shares on 5 September 2016 at a price of RMB3.58 per share, with total RMB16,553,700 thousand raised. Net of the issuance cost of RMB150,116 thousand, the net fund raised amounted to RMB16,403,584 thousand. RMB 4,623,938 was attributed to share capital while RMB 11,779,646 was recorded in capital surplus. The shares under this private placement are restricted, with the period of 12 months from 6 September 2016 to 6 September 2017. As at 31 December 2017, the restricted conditions for such shares were removed.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(36) Other equity instruments - perpetual bonds

	Issuance date	Interest rate	Par value
Medium term notes (i)	October 2015	5.40%	2,500,000
	March 2016	5.40%	2,500,000
Medium term notes (ii)	March 2016	5.30%	1,000,000
	November 2016	5.30%	1,000,000
	April 2017	7.00%	1,300,000
Medium term notes (iii)	May 2017	7.72%	500,000
Renewable trust loans (iv)	September 2017	7.00%	300,000

(i) Approved by the NAFMII, the Company plans to issue medium term notes of RMB5,000,000 thousand in total in 2015. As at 31 December 2017, the notes issued by the Company had been RMB5,000,000 thousand. Net of the issuance cost of RMB37,500 thousand, the net fund raised amounted to RMB4,962,500 thousand. The medium term notes are in good standing prior to the agreed redemption of such notes by the Company as per the issuance terms, and become due at the actual redemption. The redemption rights to such notes are held by the Company, and the investors are not allowed for put-back. Except for forced interest payment condition, at each interest payment date of the notes, the Company can at its discretion opt to postpone the payment of the current interest and all interest and its yields already deferred under the terms until the next payment date, and such action is free from restriction by times. The medium term notes are recorded into shareholders' equity as they satisfy the conditions to recognise equity instruments.

(ii) Approved by the NAFMII, Tianjin Airlines, the Company's subsidiary, issued medium term notes of RMB2,000,000 thousand and RMB1,300,000 thousand in 2016 and in 2017 respectively. The medium term notes are in good standing prior to the agreed redemption of such notes by Tianjin Airlines as per the issuance terms, and become due at the actual redemption. The redemption rights to such notes are held by Tianjin Airlines, and the investors are not allowed for put-back. Except for forced interest payment condition, at each interest payment date of the notes, Tianjin Airlines can at its discretion opt to postpone the payment of the current interest and all interest and its yields already deferred under the terms until the next payment date, and such action is free from restriction by times. The medium term notes are recorded into shareholders' equity as they satisfy the conditions to recognise equity instruments.

(iii) Approved by the NAFMII, Lucky Air, the Company's subsidiary, issued medium term notes of RMB500,000 thousand in total in 2017. The medium term notes are in good standing prior to the agreed redemption of such notes by Lucky Air as per the issuance terms, and become due at the actual redemption. The redemption rights to such notes are held by Lucky Air, and the investors are not allowed for put-back. Except for forced interest payment condition, at each interest payment date of the notes, Lucky Air can at its discretion opt to postpone the payment of the current interest and all interest and its yields already deferred under the terms until the next payment date, and such action is free from restriction by times. The medium term notes are recorded into shareholders' equity as they satisfy the conditions to recognise equity instruments.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(36) Other equity instruments (Cont'd)

(iv) The renewable trust loans borrowed by Guangxi Beibu Gulf Airlines, a subsidiary of the Company, from a third-party asset management company amounted to RMB300,000 thousand in 2017. The renewable trust loans are in good standing prior to the agreed redemption of such loans by Guangxi Beibu Gulf Airlines as per the issuance terms, and become due at the actual redemption. The redemption rights to such loans are held by Guangxi Beibu Gulf Airlines, and the investors are not allowed for put-back. Except for forced interest payment condition, at each interest payment date of the notes, Guangxi Beibu Gulf Airlines can at its discretion opt to postpone the payment of the current interest and all interest and its yields already deferred under the terms until the next payment date, and such action is free from restriction by times. The renewable trust loans are recorded into shareholders' equity as they satisfy the conditions to recognise equity instruments.

(37) Capital surplus

	31 December 2016	Increase in the current year	Decrease in the current year	31 December 2017
Capital premium (Note)	17,146,626	-	(343,679)	16,802,947
Other capital surplus				
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Capital contribution by minority interests	874,143	69,668	-	943,811
- Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	109,132	-	-	109,132
- Others	(4,854)	-	-	(4,854)
	18,156,215	69,668	(343,679)	17,882,204

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Capital premium	5,366,980	11,779,646	-	17,146,626
Other capital surplus				
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Capital contribution by minority interests	380,212	493,931	-	874,143
- Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	-	109,132	-	109,132
- Others	(4,854)	-	-	(4,854)
	5,773,506	12,382,709	-	18,156,215

Note: The Company purchased some minority interests of subsidiaries including Xinhua Airlines, Chang'an Airlines, Shanxi Airlines, and Lucky Air in the current year at considerations of RMB1,354,611 thousand, RMB969,272 thousand, RMB1,228,508 thousand, RMB1,877,237 thousand respectively. The difference between the purchase price and the share of net assets of the subsidiaries calculated continuously from the acquisition date amounting to RMB343,679 thousand were recorded in capital surplus (capital premium).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(38) Other comprehensive income

	Other comprehensive income in balance sheet			Other comprehensive income in income statement for the year ended 31 December 2017				
	31 December 2016	Attributable to the Company after tax	31 December 2017	Amount before tax	Less: Amounts transferred to profit and loss in the year from other comprehensive income changed in the previous period	Less: Income taxes	Attributable to the Company after tax	Total comprehensive income attributable to minority shareholders after tax
Other comprehensive income items which will be reclassified subsequently to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method that may be reclassified subsequently to profit or loss	(24,515)	27,022	2,507	20,813	-	4,795	27,022	(1,414)
Profit or loss on changes in fair value of available-for-sale financial assets	704,657	(420,762)	283,895	(902,495)	310,176	148,079	(420,762)	(23,478)
Transfer from fixed assets into investment properties	38,114	-	38,114	-	-	-	-	-
	718,256	(393,740)	324,516	(881,682)	310,176	152,874	(393,740)	(24,892)

	Other comprehensive income in balance sheet			Other comprehensive income in income statement for the year ended 31 December 2016				
	31 December 2016	Attributable to the Company after tax	31 December 2017	Amount before tax	Less: Amounts transferred to profit and loss in the year from other comprehensive income changed in the previous period	Less: Income taxes	Attributable to the Company after tax	Total comprehensive income attributable to minority shareholders after tax
Other comprehensive income items which will be reclassified subsequently to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method that may be reclassified subsequently to profit or loss	-	(24,515)	(24,515)	(24,515)	-	-	(24,515)	-
Profit or loss on changes in fair value of available-for-sale financial assets	681,838	22,819	704,657	57,722	-	(13,497)	22,819	21,406
Transfer from fixed assets into investment properties	29,837	8,277	38,114	11,234	-	(1,685)	8,277	1,272
	711,675	6,581	718,256	44,441	-	(15,182)	6,581	22,678

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(39) Surplus reserve

	31 December 2016	Increase in the current year	Decrease in the current year	31 December 2017
Statutory surplus reserve	1,390,356	282,516	-	1,672,872

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Statutory surplus reserve	1,172,569	217,787	-	1,390,356

In accordance with the *Company Law of the PRC* and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. The Company appropriated 10% of net profit to statutory surplus reserve for the year ended 31 December 2017, which amounted to RMB282,516 thousand (2016: RMB217,787 thousand).

(40) Undistributed profits

	2017	2016
Undistributed profits at the beginning of the year	13,803,342	11,141,624
Add: Net profit attributable to the Company for the year	3,322,947	3,138,255
Less: Interest payable to other equity (perpetual bonds) holders	(270,000)	(258,750)
Appropriation to surplus reserves	(282,516)	(217,787)
Ordinary share dividends payable	(864,213)	-
Undistributed profits at the end of the year	15,709,560	13,803,342

As at 31 December 2017, undistributed profits included surplus reserve of RMB211,741 thousand attributable to the Company's subsidiaries (31 December 2016: RMB417,861 thousand).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(41) Minority interests

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

	31 December 2017	31 December 2016
Xinhua Airlines	4,732,614	5,782,256
Lucky Air	2,138,038	1,444,853
Chang'an Airlines	1,916,678	2,708,763
Tianjin Airlines	1,541,130	-
Shanxi Airlines	-	1,103,391
Guangxi Beibu Gulf Airlines	935,191	-
Fuzhou Airlines	613,331	635,729
Beijing Kehang	128,129	123,582
Urumqi Airlines	102,761	111,062
Others	5,982	5,982
	12,113,854	11,915,618

(42) Revenue and cost of sales

	2017	2016
Revenue from main operations (a)	56,725,682	38,037,020
Revenue from other operations (b)	3,178,266	2,641,110
	59,903,948	40,678,130
Cost of sales (a)	(50,977,472)	(30,496,204)
Cost of sales from Other operations (b)	(815,231)	(864,322)
	(51,792,703)	(31,360,526)

(a) Revenue and cost of sales

	2017		2016	
	Revenue from main operations	Operating cost of main operations	Revenue from main operations	Operating cost of main operations
Passenger	55,207,406	(49,711,967)	37,033,179	(29,732,451)
Cargo and mail	1,403,604	(1,265,505)	951,291	(763,753)
Others	114,672	-	52,550	-
	56,725,682	(50,977,472)	38,037,020	(30,496,204)

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(42) Revenue and cost of sales (Cont'd)

(b) Revenue and cost of sales from other operations

	2017		2016	
	Revenue from other operations	Cost of sales from other operations	Revenue from other operations	Cost of sales from other operations
Processing fee for cancelled tickets	1,488,321	-	953,892	-
Aircraft leasing (Note 8(5)(b))	674,846	(623,097)	989,169	(720,569)
Property rental	483,857	(63,553)	403,126	(46,081)
Commission fee	55,005	-	86,121	-
Others	476,237	(128,581)	208,802	(97,672)
	3,178,266	(815,231)	2,641,110	(864,322)

(43) Taxes and surcharges

	2017	2016
City maintenance and construction tax	27,332	21,431
Educational surcharge	18,745	14,041
Business tax	-	22,108
Others	113,256	62,832
	159,333	120,412

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

(44) Selling and distribution expenses

	2017	2016
Commissions tickets sales	1,036,963	757,677
Tickets reservation fee	574,918	421,719
Salaries, bonuses and benefits	428,229	272,912
Sales branches expenses	156,837	119,956
Rental	61,599	46,742
Others	202,448	162,924
	2,460,994	1,781,930

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(45) General and administrative expenses

	2017	2016
Wages, bonuses and welfares	533,952	281,794
Depreciation	116,724	101,389
Others	767,021	543,517
	1,417,697	926,700

(46) Financial expenses – net

	2017	2016
Interest expenses	5,049,499	3,761,760
Less: Capitalised interest (Note 4(14)(a))	(415,006)	(613,819)
Less: Interest income	(805,803)	(602,811)
Net exchange (gains)/losses	(2,095,112)	2,141,975
Less: Capitalised exchange gains/(losses) (Note 4(14)(a))	207,579	(282,371)
Others	159,800	117,291
	2,100,957	4,522,025

Interest income includes interest receivable from related parties (Note 8(5)(a)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(47) Expenses by nature

The cost of sales, selling and distribution expenses and general and administrative expenses in the income statement are listed as follows by nature:

	2017	2016
Cost of aviation fuel	14,590,183	7,858,583
Rental expenses	8,676,669	4,395,547
Cost of take-off and landing	7,874,990	4,662,418
Maintenance and overhaul of aircraft and engines and consumption of aviation materials	5,887,766	3,988,983
Employee benefits	5,609,087	3,436,950
Depreciation and amortisation expenses	5,502,796	4,438,776
Cost of catering	1,522,598	1,096,028
Civil aviation development fund	1,321,653	903,829
Commissions tickets sales	1,036,963	757,677
Tickets reservation fee	574,918	421,719
Others	3,073,771	2,108,646
	55,671,394	34,069,156

(48) Asset impairment losses

	2017	2016
Provision for bad debts	4,781	2,011

(49) Gains/(Losses) on changes in fair value

	2017	2016
Gains on changes in fair value of the beneficial right of trust property (Note 4(18))	81,590	-
Gains/(Losses) on changes in fair value of investment properties (Note 4(12))	43,377	(25,537)
Changes in fair value of financial assets and liabilities at fair value through profit or loss (Note 4(2))	(42,178)	5,494
	82,789	(20,043)

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(50) Investment income

	2017	2016
Investment income from long-term equity investment under equity method (Note 4(11))	1,052,976	899,347
Dividend income from available-for-sale financial assets	234,977	102,328
Income from disposal of available-for-sale financial assets (Note 4(10)(a))	195,526	-
Investment income from financial products (Note 4(9))	37,190	39,692
Investment losses from investment revaluation of long-term equity investments of Tianjin Airlines acquired under non-common control and losses originally recorded in other comprehensive income using equity method	(213,935)	-
Net profit/loss from settlement of forward foreign exchange contracts and option foreign exchange contracts (Note 4(2))	(79,914)	18,946
Others	15,918	-
	1,242,738	1,060,313

There is no restriction on recovery of investment income.

(51) Other income

	2017	2016	Related to assets/ Related to income
Flight route subsidies	664,116	-	Income related
Tax refund	116,879	-	Income related
	780,995	-	

The Group recorded flight route subsidies and tax refund related to ordinary activities in other income.

(52) Gains on disposals of assets

	2017	2016	Amount recognised in non-recurring profit or loss in 2017
Gains on pilot transfer	143,584	101,881	143,584
Gains on disposal of fixed assets	78,765	7,972	78,765
	222,349	109,853	222,349

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(53) Non-operating income

	2017	2016	Amount recognised in non-recurring profit or loss in 2017
Subsidy income	128,252	865,385	128,252
Including: Flight route subsidies	-	526,355	-
Tax refund	-	19,174	-
Financial subsidies	128,252	319,856	128,252
Negative goodwill from acquisition of Tianjin Airlines under non-common control	303,627	-	303,627
Others	85,736	83,295	85,736
	517,615	948,680	517,615

(54) Income tax expenses

	2017	2016
Current income tax	637,898	321,918
Deferred income tax	290,792	330,309
	928,690	652,227

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

	2017	2016
Total profit	4,810,436	4,062,371
Income tax expenses calculated at applicable tax rates of 25%	1,202,608	1,015,592
Effect of different tax rates of subsidiaries	(39,700)	(68,270)
Income not subject to tax	(281,158)	(249,892)
Costs, expenses and losses not deductible for tax purposes	11,212	9,619
Tax losses for which no deferred tax asset was recognised	24,089	15,376
Adjustment of current income tax in accordance with tax clearance	11,639	(70,198)
Income tax expenses	928,690	652,227

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(55) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	2017	2016
Consolidated net profit attributable to ordinary shareholders of the Company	3,322,947	3,138,255
Less: Distribution to holders of equity instruments (Note)	(270,000)	(258,750)
	3,052,947	2,879,505
Weighted average number of outstanding ordinary shares	16,806,120	13,723,495
Basic earnings per share (RMB Yuan)	0.182	0.210

Note: In accordance with China Accounting Standards, the Company deducted the interest of equity instruments from the net profit attributable to the shareholders of the Company when calculating the basic earnings per share for 2017.

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2017 (2016: Nil), diluted earnings per share equal to basic earnings per share.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(56) Notes to the cash flow statement

(a) Cash received relating to other operating activities

	2017	2016
Receipts of notes and other security deposits	135,607	685,824
Receipts of subsidy income	942,490	846,211
Others	153,674	163,167
	1,231,771	1,695,202

(b) Cash paid relating to other operating activities

	2017	2016
Payments of notes and other security deposits	1,965,437	886,713
Payments of ticket sales commission	1,036,963	757,677
Payments of ticket reservation fees	500,524	421,719
Payments of bank charges	202,923	117,291
Payments of advertising and entertainment expenses	99,203	78,047
Payments of sales branches' expenses	156,837	119,956
Others	524,856	541,482
	4,486,743	2,922,885

(c) Cash received relating to other investing activities

	2017	2016
Receipts of term deposits upon maturity	470,000	2,058,560
Interests on deposits	771,006	576,198
Revenue from sale of option foreign exchange contracts	-	103,987
	1,241,006	2,738,745

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(56) Notes to the statement of cash flows (Cont'd)

(d) Cash paid relating to other investing activities

	2017	2016
Payment of term deposits	930,000	470,000

(e) Cash received relating to other financing activities

	2017	2016
Cash received from asset securitisation	-	1,988,000
Cash received from discounted notes payable	1,647,500	485,000
	1,647,500	2,473,000

(f) Cash paid relating to other financing activities

	2017	2016
Payments of finance leases	1,106,138	722,435
Payments of asset-backed notes	900,000	400,000
Payments of discounted notes	485,000	502,000
Interest on discounted notes	102,702	43,047
	2,593,840	1,667,482

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(57) Supplementary information to cash flow statement

(a) Supplementary information to the cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2017	2016
Net profit	3,881,746	3,410,144
Adjust for: Provision for asset impairment (Note 4(48))	4,781	2,011
Depreciation of fixed assets (Note 4(13))	5,036,262	4,126,268
Amortisation of intangible assets (Note 4(15))	22,029	12,719
Amortisation of long-term prepaid expenses (Note 4(17))	409,859	259,528
Amortisation of deferred loss on sales and leaseback transaction	34,646	34,767
Gains on disposals of assets	(222,349)	(5,596)
(Gains)/losses on changes in fair value (Note 4(49))	(82,789)	20,043
Financial expenses	1,885,308	4,509,079
Investment income (Note 4(50))	(1,242,738)	(1,060,313)
Increase in deferred tax liabilities	290,792	330,309
Increase in deferred income (Note 4(34))	154,151	85,177
(Increase)/decrease in inventories	(22,393)	14,896
Increase in operating receivables	(2,208,331)	(1,472,934)
Increase in operating payables	5,019,160	2,020,991
Net cash flows from operating activities	12,960,134	12,287,089

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

	2017	2016
Fixed assets acquired under finance leases	-	-

Net increase in cash and cash equivalents

	2017	2016
Cash and cash equivalents at the end of the year	31,888,207	20,203,911
Less: Cash and cash equivalents at the beginning of the year	(20,203,911)	(15,367,831)
Net increase in cash and cash equivalents	11,684,296	4,836,080

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(57) Supplementary information to the cash flow statement (Cont'd)

(b) Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	775	932
Cash at bank	31,887,432	20,202,979
Cash and cash equivalents at the end of the year	31,888,207	20,203,911

(58) Monetary items denominated in foreign currency

	31 December 2017		
	Balances denominated in foreign currency	Translation rate	Balances denominated in RMB
Cash at bank and on hand-			
USD	20,688	6.5342	135,182
EUR	1	7.8023	10
Others			4,414
Accounts receivable -			
USD	14,979	6.5342	97,873
Others			117,122
Advances to suppliers			
USD	23,331	6.5342	152,447
Others			5,298
Other receivables -			
USD	82,221	6.5342	537,249
EUR	775	7.8023	6,045
Others			
Other non-current assets -			
USD	254,914	6.5342	1,665,659
Accounts payable -			
USD	46,749	6.5342	305,467
EUR	1,543	7.8023	12,037
Others			130,082

(All amounts in RMB Thousand Yuan unless otherwise stated)

4. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(58) Monetary items dominated in foreign currency (Cont'd)

	31 December 2017		
	Balances denominated in foreign currency	Translation rate	Balances denominated in RMB
Other payables -			
USD	10,667	6.5342	69,702
Others	12	7.8023	442
Short-term borrowings			
USD	301,318	6.5342	1,968,873
EUR	21,000	7.8023	163,848
Long-term borrowings -			
USD	3,891,723	6.5342	25,429,298
EUR	24,400	7.8023	190,376
Long-term payables -			
USD	362,293	6.5342	2,367,298
Bonds payable -			
USD	1,094,748	6.5342	7,153,303

The above monetary items denominated in foreign currency refer to all currencies other than RMB (the scope of which is different from the foreign currency items in Note 13(1)(a)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

5. CHANGES OF CONSOLIDATION SCOPE

(1) Business combinations involving enterprises not under common control in the current year

Hainan Airlines signed an equity interest transfer agreement with Tianjin Airlines Holding on 19 June 2015. According to the agreement, the Company acquired 48.21% equity interests of Tianjin Airlines from Tianjin Airlines Holding with an amount of RMB5,553,700 thousand. In January 2017, the Company completed acquisition of 48.21% equity interests of Tianjin Airlines and other necessary processes related to property transfer in accordance with the equity transfer agreement signed with Tianjin Airlines Holding. The shareholding percentage of Tianjin Airlines held by the Company increased to 87.27%. The acquisition date of this transaction is in January 2017, on which the Company effectively obtained the power to control Tianjin Airlines.

(2) Details of the cost of combination and goodwill recognised are as follows:

	Tianjin Airlines
Costs of combination -	
Cash on hand	5,553,700
Add: Fair value of long-term equity investments previously held at the time when the Company's shareholding percentage was 39.06%	4,832,100
Total cost of combination	10,385,800
Less: Fair value of the identifiable net assets obtained	(10,689,427)
Negative goodwill	(303,627)

The Group employs independent valuers to determine the fair value of non-cash assets acquired from Tianjin Airlines and liabilities incurred or assumed.

(All amounts in RMB Thousand Yuan unless otherwise stated)

5. CHANGES OF CONSOLIDATION SCOPE (CONT'D)

(3) The assets and liabilities of Tianjin Airlines at the acquisition date are as follows:

	Fair value	Carrying amount
Cash at bank and on hand (Note)	9,063,283	9,063,283
Other current assets	3,245,828	3,227,815
Available-for-sale financial assets	9,859,527	9,890,013
Long-term equity investments	4,642,338	4,583,926
Fixed assets	10,461,286	10,155,609
Construction in progress	1,628,975	1,552,958
Intangible assets	71,204	54,593
Long-term prepaid expenses	649,592	649,592
Other non-current assets	370,368	370,368
Less: Borrowings	(9,097,252)	(9,097,252)
Payables	(4,016,993)	(4,016,993)
Other liabilities	(12,085,838)	(12,085,838)
Net assets	14,792,318	14,348,074
Less: Minority interests	(492,828)	(492,828)
Less: Other equity instruments	(2,050,803)	(2,050,803)
Net assets acquired	12,248,687	11,804,443

Note: The cash at bank and on hand increased by RMB9,063,283 thousand attributable to the Group's acquisition of Tianjin Airlines on the acquisition date, in which cash and cash equivalents amounting to RMB7,414,708 thousand and other cash balances accounting for RMB1,648,575 thousand. In 2017, net cash received from acquisition of Tianjin Airlines amounted to RMB7,414,708 thousand.

(All amounts in RMB Thousand Yuan unless otherwise stated)

6. EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

(a) Composition

Major subsidiaries	Location of major operation	Place of registration	Nature of business	Shareholding (%)		Acquisition method
				Direct	Indirect	
Xinhua Airlines (Note 1)	Beijing	Beijing	Transportation	61.74%	-	Business combinations involving enterprises under non-common control
Tianjin Airlines	Tianjin	Tianjin	Transportation	87.27%	-	Business combinations involving enterprises under non-common control
Shanxi Airlines (Note 2)	Taiyuan	Taiyuan	Transportation	72.83%	27.17%	Business combinations involving enterprises under non-common control
Lucky Air (Note 3 and Note 4)	Kunming	Kunming	Transportation	73.48%	-	Business combinations involving enterprises under common control
Chang'an Airlines (Note 5)	Xi'an	Xi'an	Transportation	71.34%	-	Business combinations involving enterprises under non-common control
Urumqi Airlines	Urumqi	Urumqi	Transportation	86.32%	-	Incorporation or investment
Fuzhou Airlines	Fuzhou	Fuzhou	Transportation	65.22%	-	Incorporation or investment
Beijing Kehang	Beijing	Beijing	Holding property	95.00%	-	Business combinations involving enterprises under non-common control
Guangxi Beibu Gulf Airlines (Note 6)	Guangxi	Guangxi	Transportation	70.00%	-	Business combinations involving enterprises under non-common control

As at 31 December 2017, the shareholding percentages of the above subsidiaries held by the Company are calculated at the actual paid-in capital of the subsidiaries.

(All amounts in RMB Thousand Yuan unless otherwise stated)

6. EQUITY IN OTHER ENTITIES (CONT'D)

(1) Equity in subsidiaries (Cont'd)

(a) Composition (Cont'd)

Note 1: In October 2017, the Company acquired 10.25% equity of Xinhua Airlines at a consideration of RMB1,354,611 thousand from Detong Investment. After the transaction, the Company's equity shares in Xinhua Airlines was increased to 61.74%.

Note 2: In October 2017, the Company acquired 26.12% and 23.27% equity of Shanxi Airlines at a consideration of RMB1,228,508 thousand from Hongrui Shengda and HNA Aviation Group respectively. After the transaction, the Company's equity shares in Shangxi Airlines rose to 72.83%.

Note 3: In January 2017, the Company, along with Yunnan Pengxia Yuanhao, Yunnan State-owned Capital Operation Company, Xiangpeng Investment, increased the capital with a cash injection of RMB511,520 thousand, RMB1,351,000 thousand, RMB539,740 thousand and RMB650,000 thousand into Yunnan Xiangpeng respectively.

Note 4: In December 2017, the Company acquired 20.14% equity in Lucky Air at a consideration of RMB1,877,237 thousand from Xiangpeng Investment. After the transaction, the Company's equity shares in Lucky Air increased to 73.48%.

Note 5: In October 2017, the Company acquired 11.91% equity of Chang'an Airlines at a consideration of RMB969,272 thousand from HNA Aviation Group. After the transaction, the Company's equity shares in Chang'an Airlines rose to 71.34%.

Note 6: In 2017, Tianjin Airlines and Beibu Gulf Investment injected RMB970,000 thousand and RMB430,000 thousand in cash to Guangxi Beibu Gulf Airlines. After the capital increase, Tianjin Airlines and Beibu Gulf Investment held 70% and 30% equity in Guangxi Beibu Gulf Airlines respectively.

(b) Subsidiaries with significant minority interests

Subsidiaries	Shareholding of minority shareholders	Profit or loss attributable to minority shareholders for the year ended 31 December 2017	Dividends paid to minority shareholders for the year ended 31 December 2017	Minority interests as at 31 December 2017
Xinhua Airlines	38.26%	170,890	-	4,732,614
Tianjin Airlines	12.73%	50,689	-	1,541,130
Lucky Air	26.52%	110,750	-	2,138,038
Chang'an Airlines	28.66%	170	-	1,916,678
Urumqi Airlines	13.68%	(8,299)	-	102,761
Fuzhou Airlines	34.78%	(22,348)	-	613,331
Beijing Kehang	5.00%	4,546	-	128,129
Guangxi Beibu Gulf Airlines	30.00%	12,362	-	935,191

(All amounts in RMB Thousand Yuan unless otherwise stated)

6. EQUITY IN OTHER ENTITIES (CONT'D)

(1) Equity in subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests (Cont'd)

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

	31 December 2017						31 December 2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Xinhua Airlines	2,384,675	13,146,205	15,530,880	2,567,309	593,957	3,161,266	2,403,094	12,140,497	14,543,591	2,004,478	620,029	2,624,507
Tianjin Airlines	13,454,417	28,844,531	42,298,948	15,865,467	10,129,724	25,995,191	—	—	—	—	—	—
Lucky Air	8,028,850	10,291,897	18,320,747	5,246,506	4,491,845	9,738,351	4,263,117	9,061,133	13,324,250	3,835,385	4,700,403	8,535,788
Chang'an Airlines	2,451,211	8,266,922	10,718,133	3,322,752	458,148	3,780,900	3,260,618	6,704,903	9,965,521	1,815,991	1,472,567	3,288,558
Urumqi Airlines	880,561	620,346	1,500,907	750,070	-	750,070	446,823	585,127	1,031,950	220,093	-	220,093
Fuzhou Airlines	1,258,205	906,124	2,164,329	400,872	-	400,872	1,258,500	791,171	2,049,671	221,958	-	221,958
Beijing Kehang	293,330	3,511,560	3,804,890	76,569	1,165,745	1,242,314	248,371	3,517,183	3,765,554	103,790	1,190,115	1,293,905

(All amounts in RMB Thousand Yuan unless otherwise stated)

6. EQUITY IN OTHER ENTITIES (CONT'D)

(1) Equity in subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests (Cont'd)

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

	2017				2016			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Xinhua Airlines	5,521,252	365,119	450,530	(243,883)	4,746,689	416,246	482,414	375,598
Tianjin Airlines (For the period from the acquisition date to 31 December 2017)	11,372,406	593,014	368,346	1,563,087	—	—	—	—
Lucky Air	6,405,312	241,672	241,672	595,530	4,973,067	457,457	467,006	645,638
Chang'an Airlines	1,195,403	23,781	34,020	477,356	1,157,604	26,131	34,067	698,144
Urumqi Airlines	1,297,978	(61,020)	(61,020)	(400,573)	970,788	66,061	66,061	(38,618)
Fuzhou Airlines	1,540,065	(64,255)	(64,255)	(3,456)	1,135,279	10,997	10,997	25,769
Beijing Kehang	161,258	90,928	90,928	(123,740)	187,792	62,934	62,934	129,445

(All amounts in RMB Thousand Yuan unless otherwise stated)

6. EQUITY IN OTHER ENTITIES (CONT'D)

(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	Shareholding (%)	
					Direct	Indirect
Azul Airlines	Barueri, São Paulo, Brazil	Barueri, São Paulo, Brazil	Goods and passengers transport	Yes	22.02%	-
HNA Finance	Beijing	Beijing	Warranty provision to member companies; assistance to member companies on receipt and payment of trading receivables and payables; absorption of member companies' deposits; borrowings and financing rental provision to member companies.	Yes	-	33.00%

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

(b) Summarised financial information of significant associates

	31 December 2017		31 December 2016	
	Azul Airlines	HNA Finance	Azul Airlines	HNA Finance
Current assets	6,517,813	2,272,196	3,533,583	10,388,841
Including: Cash and cash equivalents	1,503,674	1,428,487	1,015,804	1,653,880
Non-current assets	13,831,712	37,909,788	12,004,888	31,443,648
Total assets	20,349,525	40,181,984	15,538,471	41,832,489
Current liabilities	6,577,019	1,401,117	6,691,656	1,240,356
Non-current liabilities	8,183,210	27,395,917	6,993,413	29,229,025
Total liabilities	14,760,229	28,797,034	13,685,069	30,469,381
Shareholders' equity	5,589,296	11,384,950	1,853,402	11,363,108

(All amounts in RMB Thousand Yuan unless otherwise stated)

6. EQUITY IN OTHER ENTITIES (CONT'D)

(2) Equity in associates (Cont'd)

(b) Summarised financial information of significant associates (Cont'd)

	2017		2016	
	Azul Airlines	HNA Finance	Azul Airlines	HNA Finance
Revenue	16,394,554	1,043,363	12,337,484	936,896
Net profit	1,113,468	530,904	(233,647)	505,434
Other comprehensive income	47,552	(59,226)	109,104	(30,794)
Total comprehensive income	1,161,020	471,678	(124,543)	474,640
Dividends received from associates by the Group for the current year	-	148,446	-	-

The Group calculated the shares of assets in proportion of the shareholdings and based on the amount attributable to the parent company of the associates in their consolidated financial statements. The amount in the consolidated financial statements of associates considers the impacts of fair value of identifiable assets and liabilities of associates at the time of acquisition and the unification of accounting policies.

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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

7. SEGMENT INFORMATION (CONT'D)

(a) The revenue, total profit, assets and liabilities of reporting segments for the years ended 31 December 2017 and 2016 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue generated from external transactions	59,687,917	40,017,645	216,031	660,485	-	-	-	-	59,903,948	40,678,130
Interest income	792,876	490,339	12,927	112,472	-	-	-	-	805,803	602,811
Interest expenses	4,942,638	3,742,091	106,860	19,669	-	-	-	-	5,049,498	3,761,760
Asset impairment losses	4,781	2,011	-	-	-	-	-	-	4,781	2,011
Depreciation and amortisation expenses	5,431,571	4,388,781	71,225	49,995	-	-	-	-	5,502,796	4,438,776
Gains/(losses) on changes in fair value	(83,342)	(27,228)	553	47,271	-	-	-	-	(82,789)	20,043
Total profit	3,320,740	2,913,188	246,959	88,870	-	-	1,242,737	1,060,313	4,810,436	4,062,371
Income tax expenses	899,501	631,021	29,189	21,206	-	-	-	-	928,690	652,227
Net profit	2,421,239	2,282,167	217,770	67,664	-	-	1,242,737	1,060,313	3,881,746	3,410,144
Total assets	151,242,643	118,743,595	8,763,890	8,035,093	(6,924,759)	(11,281,850)	44,266,114	32,647,179	197,347,888	148,144,017
Total liabilities	127,744,414	79,266,792	8,138,720	7,415,111	(11,930,536)	(6,414,043)	(562,029)	-	123,390,569	80,267,860

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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

7. SEGMENT INFORMATION (CONT'D)

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

	2017	2016
Domestic	49,561,928	33,818,295
International and regional	10,342,020	6,859,835
	59,903,948	40,678,130

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 2016	Increase in the current year	Decrease in the current year	31 December 2017
Grand China Air	6,008,324	-	-	6,008,324

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2017		31 December 2016	
	Direct shareholding	Direct voting rights	Direct shareholding	Direct voting rights
Grand China Air	24.33%	24.33%	24.33%	24.33%

Except for the shares directly held by Grand China Air, American Aviation LDC, a wholly-owned subsidiary of Grand China Air, held 1.29% shares of the Company. As at 31 December 2017, Grand China Air directly and indirectly held 25.62% shares of the Company in total.

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(2) Subsidiaries

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

(3) Associates

Except for the major associates disclosed in Note 6(2), the following associates have related party transactions with the Group.

Abbreviation (full names are set out in Note 17)	Relationship with the Company	Social credit code
Suparna Airlines	Associate of the Group	913100007411858237
HNA Technology	Associate of the Group	91460100698900982D
West Airlines	Associate of the Group	91500112798046824G
HNA Import & Export	Associate of the Group	91460100MA5RD8Q76F
HNA Aviation Import & Export	Associate of the Group	91460000713859181Q
HNA Finance	Associate of the Group	911100001020543412
Tianjin Airlines Ground Services	Associate of the Group	91120116578300800U

(4) Other related parties

Abbreviation (full names are set out in Note 17)	Relationship with the Company	Social credit code
HNA Group	A shareholder with significant influence on the parent company of the Company	91460000708866504F
Xinhua Air Catering	Under HNA Group's control	91110000744712756N
HNA Air Catering	Under HNA Group's control	91460000620012387L
Xinjiang Airline Catering	Under HNA Group's control	91650100781752984T
Sanya Catering	Under HNA Group's control	91460200742598750Y
Inner Mongolia Airline Catering	Under HNA Group's control	91150105070107268A
HNA Infrastructure	Under control of Haikou Meilan	91460000721271724R
Sanya Phoenix Airport	Under HNA Group's control	914602002013608971
Haikou Meilan	A shareholder with over 5% voting rights of the Company	91460000708866571D
Bairuichen Culture	Under HNA Group's control	91110105551416141F
HNA Travel Management	Under HNA Group's control	91460000693161850B
Capital Airlines	Under HNA Group's control	91110113708872779K
HNA Aviation Sales	Under HNA Group's control	914690277088727603
HNA Cargo	Under HNA Group's control	914600005573684199
HNA Travel Group	Under HNA Group's control	91460000735810119T
HNA Hotel Group	Associate of HNA Group	91460000708864445J
HNA Airport Holding	Under HNA Group's control	914600007543602563
HNA Aviation Group	Under HNA Group's control	91460000681176537B
New payment	Under HNA Group's control	91460000671060987F

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(4) Other related parties (Cont'd)

Abbreviation (Full names are set out in Note 17)	Relationship with the Company	Social credit code
Changjiang Leasing	Participating shareholder of the Company	91120118721230316M
HNA Beverage	Under HNA Group's control	914600007477808422
HNA Information	Under HNA Group's control	914600007138591653
Weifang Airport	Under HNA Group's control	91370700727549715W
Tangshan Airport	Under HNA Group's control	91130293693460105Y
Yichang Airport	Under HNA Group's control	91420500735198636Y
CAISSA International Travel	Under HNA Group's control	91110101710926051X
HK Airlines Leasing	Under HNA Group's control	Not applicable
HKIAL	Under HNA Group's control	Not applicable
HNA Capital Group	Under HNA Group's control	91460000798722853N
New Generation Media	Under HNA Group's control	91460000698934891L
Tianjin Airlines Holding	Under HNA Group's control	911201185813136455
HNA Technology	Under HNA Group's control	91310000051222594H
Bohai Financial Holding	Under HNA Group's control	916500002285973682
eKing Technology	Under HNA Group's control	91460000708855514H
Gansu Airline Catering	Under HNA Group's control	916201006654454502
Hainan Island Cards Property	Controlled by the ultimate controlling person, together with HNA Group	91460000713864490B
Sky Plumage	Under HNA Group's control	91460000MA5RC58008
Hong Kong Airlines	Controlled by HKAGH	Not applicable
HK Express	Under control of Brighttime Global Ltd.	Not applicable
Easy Life	Under HNA Group's control	91110000571296706C
Xiangpeng Investment	Under HNA Group's control	9153010056317301XP
Chang'an Air Travel	Under HNA Group's control	91611101MA6TG5UC4D
Henghe Electronics	Under HNA Group's control	91460100552780025D
Junfu Investment	Under HNA Group's control	911101055585455603
Hainan Meiya	Under controll of Haikou Meilan	914600002937328964
Yisheng Payments	Under HNA Group's control	9112011668188834X4
HNA Cold Chain	Under HNA Group's control	91110115633636850W
Hainan Aviation Academy	Under HNA Group's control	914602006760922322
Air Travel Investment	Under HNA Group's control	91460100MA5RCFAM0N
Anqing Tianzhushan Airport	Under HNA Group's control	913408000031107584
Bohai Life	Associate of HNA Group	91120116300603276A
HNA Commerce Holding	Under HNA Group's control	911100006669025107
HNA Safe	Under HNA Group's control	91460000747799674Q
Gategroup Holding	Under HNA Group's control	Not applicable
Swissport Group	Under HNA Group's control	Not applicable

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(4) Other related parties (Cont'd)

Abbreviation (Full names are set out in Note 17)	Relationship with the Company	Social credit code
HNA General Aviation	Under HNA Group's control	91440400MA4UJTPK78
Sky Bird Airlines	Under HNA Group's control	91510112MA6CP2940R
HNA Skyline Media	Under HNA Group's control	91110105764222308D
Tianjin HNA Architectural Design	Under HNA Group's control	911201167863572541
Grand China Air (Hong Kong)	Controlled by the Company's parent company	Not applicable
Manzhouli Airport	Under HNA Group's control	9115078176788522XJ
Deer Jet (Beijing)	Under HNA Group's control	91110113351617993G
HNA Tourism	Under HNA Group's control	91460100MA5RD1Y860
HNA Wealth Bay Real Estate	Under HNA Group's control	91460000798726619N
Bohai Trust	Under HNA Group's control	911300001043237365

(5) Related party transactions

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

Nature of related party transactions	Pricing policies	Related parties	2017 Amount	2016 Amount
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	239,073	187,882
		Gategroup Holding	119,386	-
		HNA Air Catering	66,774	45,009
		Xinjiang Air Catering	64,450	44,681
		HNA Beverage	35,288	25,531
		Sanya Catering	32,429	27,945
		Junfu Investment	27,291	17,252
		Gansu Catering	17,227	16,098
		Inner Mongolia Airline Catering	16,133	-
			618,051	364,398
Take-off and landing	Government directed price and mutually agreed price	HNA Infrastructure	244,557	135,428
		Sanya Phoenix Airport	167,396	114,372
		Tianjin Airlines Ground Services	124,572	-
		Haikou Meilan	100,362	64,756
		Swissport Group	103,434	-
		Weifang Airport	23,892	19,141
		Yichang Airport	29,291	3,520
		Anqing Tianzhushan Airport	12,302	-
			805,806	337,217

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(a) Sales and purchase of goods, and provision and receipt of services (Cont'd)

Nature of related party transactions	Pricing policies	Related parties	2017 Amount	2016 Amount
Purchase of aviation fuel	Government directed price	Hainan Meiya	818,085	-
Royalties	Mutually agreed price	New Generation Media	15,900	12,100
Personnel training	Mutually agreed price	Sky Plumage	276,979	-
		Hainan Aviation Academy	41,082	3,216
			318,061	3,216
Infrastructure investment	Mutually agreed price	Tianjin HNA Architectural Design	361,448	-
		HNA Cold Chain	103,634	-
			465,082	-
Advertising services	Mutually agreed price	Bairuichen Culture	23,036	61,560
		HNA Skyline Media	96,805	-
			119,841	61,560
Information technology services from related parties	Mutually agreed price	eKing Technology	83,697	65,570
		HNA Information	5,143	-
			88,840	65,570
Import & export agency fees	0.3%~3% of purchase prices	HNA Aviation Import & Export	64,974	50,436
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	183,101	177,829
		Easy Pay	17,678	-
		HNA Travel Management	-	8,172
		New payment	-	981
			200,779	186,982
Shuttle bus services for employees	Mutually agreed price	HNA Safe	16,366	-
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	9,876	12,642
		Capital Airlines	1,761	981
		West Airlines	734	2,028
		Suparna Airlines	377	-
			12,748	15,651
Sales of New Gold Deer cards	Mutually agreed price	HNA Travel Management	8,943	9,173

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(a) Sales and purchase of goods, and provision and receipt of services (Cont'd)

Nature of related party transactions	Pricing policies	Related parties	2017 Amount	2016 Amount
Revenue from sales of mileages	Mutually agreed price	New Generation Media	87,288	-
Receipt of business travel services	Mutually agreed price	New Generation Media	20,559	-
Receipt of aircraft maintenance services	Mutually agreed price	HNA Technology	2,962,158	2,128,999
		Capital Airlines	242,289	43,975
		West Airlines	14,859	-
			3,219,306	2,172,974
Interest income	Market price	HNA Finance	102,687	121,916
Charter income from cargo	Mutually agreed price	HNA Cargo	1,351,932	955,921
Charter income from passenger transport	Mutually agreed price	Xiangpeng Investment	160,286	-
		Weifang Airport	111,524	130,159
		CAISSA International Travel	84,651	70,553
		Anqing Tianzhushan Airport	82,989	-
		Yichang Airport	63,156	-
		Air Travel Investment	49,160	-
		Tangshan Airport	12,000	15,000
		Manzhouli Airport	10,140	-
		HNA Group	9,457	-
			583,363	215,712
Frequent flyer mileages income	Mutually agreed price	Capital Airlines	26,256	5,627
		Hong Kong Airlines	22,307	14,082
		Suparna Airlines	2,235	-
			50,798	19,709
Property management expenses	Mutually agreed price	Hainan Island Cards Property	134,987	78,977

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(b) Leasing

(i) The Group as a lessor:

Name of lessee	Category of the leased asset	Leasing income in 2017	Leasing income in 2016
Capital Airlines	Aircraft	299,996	300,301
Suparna Airlines	Aircraft	120,214	114,947
Grand China Air	Aircraft	98,462	98,462
West Airlines	Aircraft	81,677	81,240
Sky Plumage	Flight simulators	74,497	34,175
		674,846	629,125
HNA Hotel Group	Properties	98,853	121,753
HNA Technology	Properties	94,265	45,848
Xinhua Air Catering	Properties	29,421	-
Capital Airlines	Properties	12,037	-
HNA Finance	Properties	10,163	-
Bohai Life	Properties	9,836	-
Deer Jet (Beijing)	Properties	9,236	-
HNA Capital Group	Properties	8,848	9,008
HNA Group	Properties	4,833	4,732
HNA Travel Group	Properties	1,601	14,736
		279,093	196,077

(ii) The Group as a lessee:

Name of lessor	Category of the leased asset	Leasing cost in 2017	Leasing cost in 2016
Bohai Financial Holding	Aircraft	2,391,329	806,114
Hong Kong Airlines	Aircraft	641,448	708,356
Changjiang Leasing	Aircraft	140,167	25,916
HK Express	Aircraft	64,119	61,801
Tianjin Airlines Holding	Aircraft	42,306	-
HNA Technology	Hangars and vehicles	21,501	10,844
Capital Airlines	Aircraft	14,950	-
HNA Infrastructure	Terminals	4,637	7,454
Yangtze River Leasing	Aircraft engines	-	44,372
HK Airlines Leasing	Aircraft	-	33,023
		3,320,457	1,697,880

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

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

	Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2017
(i)	Short-term borrowings					
	HNA Aviation Group	Lucky Air	1,110,000	05/01/2017	04/12/2018	No
	HNA Aviation Group	Tianjin Airlines	1,143,848	18/01/2017	05/07/2018	No
	HNA Aviation Group	HNA Holding	3,590,000	22/03/2017	28/09/2018	No
	Haikou Meilan, HNA Aviation Group, Tianjin Airlines Holding and HNA Commerce Holding	HNA Holding	2,185,000	30/03/2017	27/05/2018	No
	HNA Aviation Group	Shanxi Airlines	350,000	31/03/2017	08/10/2018	No
	Haikou Meilan, HNA Aviation Group, HNA Group, HNA Commerce Holding	HNA Holding	920,462	28/06/2017	27/06/2018	No
	HNA Group	HNA Holding	678,000	30/06/2017	31/08/2018	No
	HNA Aviation Group	Guangxi Beibu Gulf Airlines	150,000	19/07/2017	28/10/2018	No
	Grand China Air	HNA Holding	975,675	31/07/2017	30/07/2018	No
	Grand China Air	Urumqi Airlines	300,000	04/08/2017	03/08/2018	No
	HNA Aviation Group	Urumqi Airlines	50,000	11/08/2017	10/08/2018	No
	Grand China Air and Haikou Meilan	HNA Holding	150,000	27/09/2017	17/09/2018	No
	Grand China Air	Guangxi Beibu Gulf Airlines	50,000	31/10/2017	31/10/2018	No
	HNA Aviation Group	Chang'an Airlines	492,052	15/12/2017	14/12/2018	No
	HNA Group and HNA Aviation Group	HNA Holding	300,000	21/12/2016	20/12/2017	No
	HNA Group and Haikou Meilan	HNA Holding	2,000,000	22/12/2017	21/12/2018	No
	HNA Aviation Group	Lucky Air	200,000	25/10/2016	27/10/2017	Yes
	HNA Aviation Group	HNA Holding	1,235,000	21/12/2016	20/12/2017	Yes
	HNA Group and HNA Aviation	HNA Holding	200,000	23/03/2016	22/03/2017	Yes
	HNA Aviation Group	Chang'an Airlines	300,000	01/06/2016	31/05/2017	Yes
	Haikou Meilan and HNA Group	HNA Holding	810,000	24/06/2016	25/03/2017	Yes
	Grand China Air	HNA Holding	678,000	28/06/2016	19/07/2017	Yes
	HNA Aviation Group and Grand China Air	HNA Holding	1,550,000	28/07/2016	20/11/2017	Yes
	Grand China Air	Lucky Air	70,000	29/07/2016	28/01/2017	Yes
	HNA Aviation Group	Shanxi Airlines	200,000	14/09/2016	13/09/2017	Yes
	HNA Aviation Group	Lucky Air	200,000	25/10/2016	27/10/2017	Yes
	HNA Aviation Group	HNA Holding	1,235,000	21/12/2016	20/12/2017	Yes

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

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

Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2017
(ii) Long-term borrowings					
HNA Group and HNA Airport Holding	HNA Holding	145,763	02/08/2002	02/08/2035	No
HNA Group and HNA Hotel Group	HNA Holding	24,500	30/06/2003	29/06/2018	No
HNA Group, HNA Hotel Group and HNA Aviation Group	HNA Holding	53,254	28/08/2003	07/07/2018	No
HNA Group	Chang'an Airlines	615,663	28/09/2007	28/08/2020	No
HNA Group	Tianjin Airlines	280,611	03/11/2009	12/01/2023	No
HNA Tourism	Tianjin Airlines	228,000	25/06/2010	25/06/2023	No
HNA Group	HNA Holding	225,517	19/06/2013	19/06/2023	No
HNA Aviation Group	Tianjin Airlines	1,692,531	27/06/2013	27/09/2022	No
HNA Group	Lucky Air	370,000	10/10/2013	28/11/2024	No
Grand China Air	HNA Holding	46,231	22/01/2014	15/01/2019	No
Changjiang Leasing	Lucky Air	563,248	12/05/2014	10/05/2024	No
HNA Group and Grand China Air	HNA Holding	188,500	06/01/2015	31/03/2018	No
HNA Group and Grand China Air	HNA Holding	188,500	06/01/2015	31/03/2018	No
HNA Aviation Group	HNA Holding	1,106,230	28/08/2015	07/11/2029	No
Haikou Meilan, HNA Aviation Group, Tianjin Airlines Holding	HNA Holding	2,000,000	31/03/2016	30/03/2019	No
HNA Aviation Group and Grand China Air	HNA Holding	1,450,000	13/05/2016	03/11/2020	No
HNA Group	Lucky Air	16,000	29/11/2012	10/11/2017	Yes
Grand China Air	HNA Holding	16,667	26/02/2014	15/02/2017	Yes
HNA Group	HNA Holding	1,090,000	18/03/2014	26/05/2017	Yes
HNA Aviation Group	Lucky Air	1,000,000	12/06/2014	05/07/2017	Yes
HNA Group and Grand China Air	HNA Holding	192,000	31/10/2014	31/10/2017	Yes
(iii) Bonds payable					
HNA Group	HNA Holding	1,440,000	24/05/2011	24/05/2021	No
HNA Aviation Group	Lucky Air	700,000	14/12/2012	14/12/2019	No
(iv) Long-term payables					
HNA Group	Lucky Air	1,600,000	26/03/2015	27/03/2020	No

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(d) Guarantees provided by the Group to related parties

	Guarantor	Guarantee	Guaranteed amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2017
(i)	Short-term borrowings					
	HNA Holding	HNA Aviation Group	100,000	05/09/2017	05/03/2018	No
	HNA Holding	HNA Aviation Group	300,000	07/09/2017	07/09/2018	No
	HNA Holding (Note)	HNA Aviation Group	278,130	28/09/2017	27/09/2018	No
	HNA Holding	Suparna Airlines	50,000	20/10/2017	17/09/2018	No
	HNA Holding	Suparna Airlines	20,000	13/11/2017	23/11/2018	No
	Shanxi Airlines	Grand China Air	300,000	12/12/2017	11/12/2018	No
	HNA Holding	HNA Cargo	160,000	27/02/2017	27/02/2018	No
	Lucky Air	HNA Wealth Bay Real Estate	350,000	05/05/2017	05/05/2018	No
	Tianjin Airlines	Tianjin Airlines Holding	95,000	04/07/2017	04/07/2018	No
	Tianjin Airlines	Tianjin Airlines Holding	240,000	15/09/2017	14/03/2018	No
	HNA Holding	HNA Technology	80,000	15/01/2016	15/01/2017	Yes
	HNA Holding	Grand China Air	2,120,846	15/03/2016	27/12/2017	Yes
	HNA Holding	Suparna Airlines	50,000	20/05/2016	19/05/2017	Yes
	HNA Holding	HNA Group	326,039	27/06/2016	27/06/2017	Yes
	Tianjin Airlines	Tianjin Airlines Holding	1,500,000	10/03/2016	09/11/2017	Yes
(ii)	Long-term borrowings					
	HNA Holding (Note)	HNA Aviation Group	400,000	13/03/2015	13/03/2018	No
	HNA Holding	Grand China Air (Hong Kong)	551,421	11/12/2015	10/12/2018	No
	HNA Holding	Grand China Air	210,000	31/03/2016	31/03/2019	No
	HNA Holding	Grand China Air	140,000	31/05/2016	31/05/2019	No
	HNA Holding	Grand China Air (Hong Kong)	120,425	27/08/2015	13/08/2018	No
	HNA Holding	Grand China Air	300,000	27/02/2017	26/02/2020	No
	HNA Holding	HNA Travel Group	500,000	30/06/2017	30/06/2019	No
	HNA Holding	Suparna Airlines	233,253	14/07/2014	13/07/2017	Yes
	HNA Holding	HNA Aviation Group	555,187	18/09/2012	17/09/2017	Yes
	HNA Holding	HNA Travel Group	304,002	23/06/2015	23/06/2017	Yes
(iii)	Long-term payables					
	HNA Holding	Suparna Airlines	69,294	31/10/2014	22/10/2018	No
	HNA Holding	Suparna Airlines	247,500	19/12/2014	19/12/2023	No

Note: The Company pledged 438,000 thousand shares in Xinhua Airlines and 500,000 thousand shares in Chang'an Airlines as a security for short-term and long-term borrowings of HNA Aviation Group.

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(d) Guarantees provided by the Group to related parties (Cont'd)

	Guarantor	Guarantee	Guaranteed amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2017
(iv)	Bonds payable					
	HNA Holding	Grand China Air	850,000	29/11/2017	28/11/2020	No

(e) Asset transfers

Related party	Nature of related party transactions	Pricing principle	2017 Amount	2016 Amount
Grand China Air	Acquisition of beneficial right of trust property	Valuation	5,536,292	-
Tianjin Airlines Holding	Acquisition of fund units	Mutually agreed price	2,427,973	-
Tianjin Airlines Holding (Note)	Transfer of aircraft and high-price spare parts	Valuation	1,296,916	106,148
Suparna Airlines	Transfer of aircraft	Valuation	781,461	-
Xinhua Air Catering	Transfer of equipment	Mutually agreed price	44,225	-
Sky Plumage	Transfer of flight simulators	Valuation	-	165,304
			10,086,867	271,452

Note: In September 2016, Tianjin Airlines signed an irrevocable transfer agreement with Tianjin Airlines Holding to transfer EMB145 aircraft and aviation materials. Such aircraft and aviation materials were disposed in 2017 with an income of RMB958,532 thousand. The trading volume of asset transfer in the current year included RMB338,384 thousand attributable to dispose of 3 E145 aircraft in May 2017 by HNA Holding.

(f) Capital increase

Related parties	Nature of related party transactions	Pricing principle	2017 Amount	2016 Amount
Chang'an Air Travel	Capital injection – Chang'an Airlines	Valuation	-	2,000,000
Suparna Airlines	Capital injection – Suparna Airlines	Valuation	-	915,200
Easy Life	Capital injection – Easy Life	Valuation	-	500,000
HNA General Aviation	Contribution for incorporation of HNA General Aviation	Valuation	1,500,000	-
Sky Bird Airlines	Contribution for incorporation of Sky Bird Airlines	Valuation	1,050,000	-
HNA Import & Export	Contribution for incorporation of HNA Import & Export	Valuation	750,000	150,000
Xiangpeng Investment	Capital injection - Xiangpeng Investment	Valuation	650,000	1,000,000
Henghe Electronics	Capital injection - Henghe Electronics	Valuation	-	48,742
			3,950,000	4,613,942

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(g) Acquisition of minority interests

Related parties	Nature of related party transactions	Pricing principle	2017 Amount	2016 Amount
Xiangpeng Investment	Acquisition of shares in Xiangpeng Investment	Valuation	1,877,237	-
HNA Aviation Group	Acquisition of shares in Chang'an Airlines	Valuation	969,272	-
HNA Aviation Group	Acquisition of shares in Shanxi Airlines	Valuation	578,816	-
			3,425,325	-

(h) Remuneration of key management personnel

	2017	2016
Remuneration of key management	35,413	14,106

(i) Other related party transactions

Related parties	Nature of related party transactions	2017 Amount	2016 Amount
Capital Airlines	Pilot transfer	11,496	-
Suparna Airlines	Pilot transfer	28,700	18,070
Tianjin Airlines	Pilot transfer	-	10,450
West Airlines	Pilot transfer	6,250	3,253

(6) Receivables from and payables to related parties

Item	Related parties	31 December 2017	31 December 2016
Cash at bank and on hand	HNA Finance	4,938,238	4,506,424
Interests receivable	HNA Finance	364,951	315,233
Dividends receivable	Bohai Trust	48,084	40,578
	West Airlines	25,447	-
	Others	18,568	16,755
		92,099	57,333

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(6) Receivables from and payables to related parties (Cont'd)

Item	Related parties	31 December 2017	31 December 2016
Accounts receivable	HNA Cargo	118,485	45,842
	Easy Pay	93,552	-
	HNA Aviation Sales	69,158	12,965
	New Generation Media	63,119	-
	Xiangpeng Investment	34,139	-
	Yichang Airport	28,768	-
	HNA Travel Management	20,021	67,988
	Weifang Airport	18,231	7,621
	Others	13,077	24,612
		458,550	159,028
Other receivables	Grand China Air	176,633	-
	Capital Airlines	103,921	72,776
	West Airlines	27,466	-
	Suparna Airlines	16,767	64,889
	Sky Plumage	-	37,248
	HNA Hotel Group	9,701	9,321
	Others	66,187	45,337
		400,675	229,571
Advances to suppliers	Bohai Financial Holding	259,658	-
	HNA Aviation Import & Export	54,676	19,319
	Hong Kong Airlines	40,469	-
		354,803	19,319
Other non-current assets	Tianjin Airlines Holding	-	5,553,700
	Bohai Financial Holding	431,830	346,895
	Tianjin Air Capital	283,758	-
	Changjiang Leasing	365,520	359,362
	Hong Kong Airlines	201,395	159,433
		1,282,503	6,419,390

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(6) Receivables from and payables to related parties (Cont'd)

Item	Related parties	31 December 2017	31 December 2016
Notes payable	HNA Aviation Import & Export	510,000	700,000
	HNA Technology	475,000	-
		985,000	700,000
Accounts payable	Bohai Financial Holding	183,258	-
	Tianjin HNA Architectural Design	172,645	-
	Tianjin Air Capital	161,382	-
	Hainan Meiya	140,530	-
	HNA Technology	118,848	230,418
	HNA Infrastructure	87,071	19,522
	HNA Air Catering	58,666	21,463
	Xinjiang Air Catering	53,909	18,797
	Sanya Phoenix Airport	36,679	24,402
	Xinhua Air Catering	28,213	43,283
	Sanya Catering	25,520	-
	eKing Technology	19,456	21,977
	HNA Beverage	16,484	-
	Gansu Catering	14,499	-
	Inner Mongolia Airline Catering	13,941	-
	HNA Information	3,662	3,661
	Hong Kong Airlines	-	162,382
	Tianjin Airlines	-	122,190
	Grand China Air	-	35,113
	West Airlines	-	144
	Others	6,281	4,936
		1,141,044	708,288
Other payables	HNA Cold Chain	103,686	-
	New Generation Media	41,837	44,219
	Sky Plumage	13,533	-
	Hainan Island Cards Property	8,957	16,885
	HNA Aviation Group	-	24,943
	HNA Group	-	4,968
	Others	59,362	13,502
		227,375	104,517
Long-term payables	Changjiang Leasing	2,359,486	1,783,490

(All amounts in RMB Thousand Yuan unless otherwise stated)

8. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(7) Commitments in relation to related parties

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

	31 December 2017	31 December 2016
Operating lease out		
- Capital Airlines	298,603	294,704
- Grand China Air	106,010	98,462
- Suparna Airlines	101,624	95,891
- West Airlines	87,576	81,229
- Sky Plumage	91,748	34,446
	685,561	604,732

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 2017	31 December 2016
Aircraft purchases	54,971,343	56,443,451
Equity investment	4,496,700	1,050,000
Other fixed assets	760,288	1,233,487
	60,228,331	58,726,938

(2) Operating lease commitments

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

	31 December 2017	31 December 2016
Within 1 year	9,200,424	5,196,901
1 to 2 years	8,680,830	5,028,109
2 to 3 years	8,217,470	4,773,392
Over 3 years	45,981,456	26,551,531
	72,080,180	41,549,933

(All amounts in RMB Thousand Yuan unless otherwise stated)

10 EVENTS AFTER THE BALANCE SHEET DATE

The Company suspended its stocks since 10 January 2018 for planning of substantial assets acquisition. The Company attempted to acquire certain underlying assets from HNA Group and its subsidiaries and the independent third parties. The acquisition could be made by transactions involving share issuance, cash payments to purchase assets and related financing. Specific plans are under communication, discussion and demonstration.

On 12 February 2018, Tianjin Airlines, a subsidiary of the Group, signed a “Framework Agreement on Capital Increase Entered into by and between Tianjin Port Free Trade Zone Investment Co., Ltd. And Tianjin Airlines Co., Ltd.” in Tianjin. According to the agreement, Tianjin Port Free Trade Zone Investment would inject RMB400 million in cash into Tianjin Airlines.

On 9 March 2018, Urumqi Airlines, a subsidiary of the Group, signed a “Framework Agreement on Capital Increase Entered into by and between Urumqi City Construction Investment Co., Ltd. and Urumqi Airlines Co., Ltd.”. According to the agreement, Urumqi City Construction Investment planed to inject no less than RMB450 million into Urumqi Airlines for one or more times by but not limited to contributing to land, buildings, physical assets, capital and equity.

Pursuant to the resolutions of Board of Directors adopted on 28 March 2017, the Board of Directors proposed to distribute cash dividends to all shareholders of the Company with RMB0.18 (tax inclusive) for every 10 shares. Based on the total 16,806,120 thousand shares issued, it was proposed to distribute cash dividends amounting to RMB302,510 thousand. The above proposal is still waiting for the approval of the General Meeting of the Company.

11 LEASE

The Group leases in certain fixed assets under finance leases (Note 4(33)). The future minimum lease payments of the finance leases are summarised as follows:

	31 December 2017	31 December 2016
Within 1 year	941,179	676,012
1 to 2 years	1,218,587	525,178
2 to 3 years	782,966	823,586
Over 3 years	3,662,281	3,084,078
	6,605,013	5,108,854

As at 31 December 2017, the unrecognised financing charge amounted to RMB1,118,279 thousand (31 December 2016: RMB970,281 thousand) (Note 4(33)).

12 CONTINGENCIES

Except for the collateral or 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

13 FINANCIAL RISKS

(1) Market risk

(a) Foreign exchange risk

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

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.

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the subsidiaries of the Group, whose recording currencies are RMB, are expressed in RMB as at 31 December 2017 and 31 December 2016 as follows:

	31 December 2017		
	USD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	135,182	4,424	139,606
Accounts receivable	97,873	117,122	214,995
Other receivables	537,249	6,045	543,294
Advances to suppliers	152,447	5,298	157,745
Other non-current assets	1,665,659	-	1,665,659
	2,588,410	132,889	2,721,299
Financial liabilities denominated in foreign currency -			
Accounts payable	305,467	142,119	447,586
Other payables	69,702	442	70,144
Short-term borrowings	1,968,873	163,848	2,132,721
Long-term borrowings	25,429,298	190,376	25,619,674
Bonds payable	7,153,303	-	7,153,303
Long-term payables	2,367,298	-	2,367,298
	37,293,941	496,785	37,790,726

(All amounts in RMB Thousand Yuan unless otherwise stated)

13 FINANCIAL RISKS (CONT'D)

(1) Market risk (Cont'd)

(a) Foreign exchange risk (Cont'd)

	31 December 2016		
	USD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	941,947	134,622	1,076,569
Accounts receivable	46,066	26,103	72,169
Advances to suppliers	152,447	-	152,447
Other receivables	47,304	5,174	52,478
Other non-current assets	1,490,740	-	1,490,740
	2,678,504	165,899	2,844,403
Financial liabilities denominated in foreign currency -			
Accounts payable	838,530	114,928	953,458
Other payables	1,104	1,260	2,364
Long-term borrowings	20,675,114	213,359	20,888,473
Bonds payable	3,439,681	-	3,439,681
Long-term payables	3,295,764	-	3,295,764
	28,250,193	329,547	28,579,740

As at 31 December 2017, if the RMB had strengthened/weakened by 5% against the USD while all other variables had been held constant, the Group’s net profit for the year would have been approximately RMB1,735,277 thousand (31 December 2016: approximately RMB1,114,223 thousand) lower/higher for financial assets and liabilities denominated in USD.

(All amounts in RMB Thousand Yuan unless otherwise stated)

13 FINANCIAL RISKS (CONT'D)

(1) Market risk (Cont'd)

(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 2017, the Group's long-term interest bearing liabilities mainly included:

	31 December 2017	31 December 2016
Short-term borrowings	23,906,887	7,906,690
Notes payable	1,999,994	1,185,000
Other non-current liabilities	6,990,066	-
Long-term borrowings	37,899,898	31,176,217
Long-term payables	12,158,487	11,688,349
Bonds payable	15,939,464	12,150,879
	98,894,796	64,107,135
Including: Liabilities at floating rates	43,283,396	32,202,271
Liabilities at fixed rates	55,611,400	31,904,864
	98,894,796	64,107,135

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. In 2017, the Group signed interest rate swap contracts with the third party commercial banks to migrate its exposure to interest rate risks.

For the year ended 31 December 2017, 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 RMB216,417 thousand (2016: approximately RMB161,011 thousand).

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank and on hand, available-for-sale financial assets, accounts receivable, other receivables, 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(9)) 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.

13 FINANCIAL RISKS (CONT'D)

(2) Credit risk (Cont'd)

In addition, part of the Group's deposits are placed in 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 the *Policy of Risk Prevention on Hainan Airlines Co., Ltd.'s Deposit Fund in HNA Group Finance Co., Ltd*. (the "Policy"). 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 and other receivables. 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 2017, the Group had no significant overdue receivables (31 December 2016: 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, aircraft 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 2017, the Group's current liabilities exceeded current assets by approximately RMB25.1 billion. For the year ended 31 December 2017, the net cash inflows from operating activities of the Group were approximately RMB13 billion; the net cash outflows from investment activities and financing activities were approximately RMB1.3 billion; and cash and cash equivalents increased by approximately RMB11.7 billion.

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

13 FINANCIAL RISKS (CONT'D)

(3) Liquidity risk (Cont'd)

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

	31 December 2017				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities -					
Short-term borrowings	24,983,742	-	-	-	24,983,742
Accounts payable	9,339,551	-	-	-	9,339,551
Notes payable	1,999,994	-	-	-	1,999,994
Other payables	2,044,874	-	-	-	2,044,874
Other non-current liabilities	7,353,321	-	-	-	7,353,321
Long-term borrowings	10,478,930	7,917,550	15,446,842	16,687,743	50,531,065
Bonds payable	5,866,727	4,527,293	7,351,226	-	17,745,246
Long-term payables	3,762,511	4,094,837	3,614,723	2,638,541	14,110,612
	65,829,650	16,539,680	26,412,791	19,326,284	128,108,405

	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities -					
Short-term borrowings	8,059,787	-	-	-	8,059,787
Accounts payable	4,703,245	-	-	-	4,703,245
Notes payable	1,185,000	-	-	-	1,185,000
Other payables	1,032,307	-	-	-	1,032,307
Long-term borrowings	7,213,751	10,352,106	9,607,390	8,710,720	35,883,967
Bonds payable	6,863,072	336,393	6,190,726	-	13,390,191
Long-term payables	2,042,286	3,328,003	6,118,928	2,449,233	13,938,450
	31,099,448	14,016,502	21,917,044	11,159,953	78,192,947

The Group's financial guarantees provided to external parties at the balance sheet date are analysed below based on the maximum amounts and the earliest periods in which the guarantees could be called:

	31 December 2017				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Guarantee	3,034,270	850,000	1,150,000	247,500	5,281,770

	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Guarantee	2,980,887	1,668,449	500,000	643,091	5,792,427

(All amounts in RMB Thousand Yuan unless otherwise stated)

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 is not based on observable market data (that is, unobservable inputs)

(1) Assets measured at fair value on a recurring basis

As at 31 December 2017, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets -				
Financial assets at fair value through profit or loss -	-	-	547,870	547,870
Other non-current assets	-	-	4,867,012	4,867,012
Available-for-sale financial assets	-	2,387,072	3,076,676	5,463,748
	-	2,387,072	8,491,558	10,878,630
Non-financial assets -				
Investment properties	-	-	10,079,876	10,079,876
	-	2,387,072	18,571,434	20,958,506
Financial liabilities -				
Financial liabilities at fair value through profit or loss	-	48,109	-	48,109

(All amounts in RMB Thousand Yuan unless otherwise stated)

14 Fair value estimates (Cont'd)

(1) Assets measured at fair value on a recurring basis (Cont'd)

As at 31 December 2016, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets -				
Financial assets at fair value through profit or loss -	-	8,472	-	8,472
Other current assets - Available-for-sale financial assets	-	1,100,000	-	1,100,000
Available-for-sale financial assets	-	1,841,443	336,192	2,177,635
	-	2,949,915	336,192	3,286,107
Non-financial assets -				
Investment properties	-	-	10,035,665	10,035,665
	-	2,949,915	10,371,857	13,321,772
Financial liabilities -				
Financial liabilities at fair value through profit or loss	-	103,987	-	103,987

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for 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, and interest rates or discount rates.

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

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, unit price, etc.

Financial assets and liabilities not measured at fair value mainly represent accounts receivable, other current assets, available-for-sale financial assets - the portion measured at cost, short-term borrowings, accounts payable, long-term borrowings, bonds payable 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

14 FAIR VALUE ESTIMATES (CONT'D)

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities -				
Long-term borrowings	37,899,898	40,669,107	31,176,217	30,825,532
Bonds payable	15,939,464	16,323,342	12,150,879	12,314,796
Long-term payables	12,158,487	11,640,460	11,688,349	10,590,966
	65,997,849	68,632,909	55,015,445	53,731,294

The fair value of long-term borrowings and long-term payables is the present value of the contractually determined future cash flows discounted at the rate of interest applied at that time by the market to instruments with 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 gearing ratio.

As at 31 December 2017 and 31 December 2016, the Group's gearing ratio was as follows:

	31 December 2017	31 December 2016
Gearing ratio	63%	54%

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2017	31 December 2016
Accounts receivable	1,210,046	962,962
Less: Provision for bad debts	(9,690)	(9,690)
	1,200,356	953,272

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

	31 December 2017	31 December 2016
Within 1 year	1,198,336	949,052
1 to 2 years	400	1,600
2 to 3 years	1,200	3,000
3 to 4 years	800	-
Over 6 years	9,310	9,310
	1,210,046	962,962

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

	31 December 2017				31 December 2016			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
Provision for bad debts on the grouping basis								
- Group by ageing analysis method	839,604	69%	(1,506)	0%	833,234	86%	(1,506)	0%
- Group by related parties	362,258	30%	-	-	121,544	13%	-	-
With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	8,184	1%	(8,184)	100%	8,184	1%	(8,184)	100%
	1,210,046	100%	(9,690)	1%	962,962	100%	(9,690)	1%

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(1) Accounts receivable (Cont'd)

(c) Accounts receivable that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2017			31 December 2016		
	Ending balance	Provision for bad debts		Ending balance	Provision for bad debts	
		Amount	Provision %		Amount	Provision %
Within 1 year	836,078	-	-	827,508	-	-
1 to 2 years	400	(20)	5%	1,600	(80)	5%
2 to 3 years	1,200	(120)	10%	3,000	(300)	10%
3 to 4 years	800	(240)	30%	-	-	-
Over 6 years	1,126	(1,126)	100%	1,126	(1,126)	100%
	839,604	(1,506)	0%	833,234	(1,506)	0%

(d) As at 31 December 2017, the five largest accounts receivable were analysed as follows:

	Balance	Provision for bad debts	% of total accounts receivable
Total balance of the five largest accounts receivable	598,696	-	49%

(2) Other receivables

	31 December 2017	31 December 2016
Receivables from related parties	489,503	211,672
Aircraft leasing security deposits and maintenance funds receivable	59,279	83,258
Others	86,783	42,758
	635,565	337,688
Less: Provision for bad debts	(6,301)	(6,301)
	629,264	331,387

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

	31 December 2017	31 December 2016
Within 1 year	602,222	315,799
1 to 2 years	26,420	11,234
2 to 3 years	1,406	2,717
3 to 4 years	38	891
4 to 5 years	503	3,651
5 to 6 years	2,000	107
Over 6 years	2,976	3,289
	635,565	337,688

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(2) Other receivables (Cont'd)

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

	31 December 2017				31 December 2016			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
Provision for bad debts on the grouping basis								
- Group by ageing analysis method	86,783	14%	(6,301)	7%	42,758	12%	(6,301)	15%
- Aircraft leasing security deposits and maintenance funds receivable	59,279	9%	-	-	83,258	25%	-	-
- Group by related parties	489,503	77%	-	-	211,672	63%	-	-
	635,565	100%	(6,301)	1%	337,688	100%	(6,301)	2%

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2017			31 December 2016		
	Ending balance	Provision for bad debts		Ending balance	Provision for bad debts	
		Amount	Provision %		Amount	Provision %
Within 1 year	53,440	-	-	20,869	-	-
1 to 2 years	26,420	(1,322)	5%	11,234	(561)	5%
2 to 3 years	1,406	(141)	10%	2,717	(272)	10%
3 to 4 years	38	(11)	30%	891	(267)	30%
4 to 5 years	503	(251)	50%	3,651	(1,826)	50%
5 to 6 years	2,000	(1,600)	80%	107	(86)	80%
Over 6 years	2,976	(2,976)	100%	3,289	(3,289)	100%
	86,783	(6,301)	7%	42,758	(6,301)	15%

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(2) Other receivables (Cont'd)

(d) As at 31 December 2017, other receivables from top five debtors in respect of outstanding balance are analysed as follows:

	Relationship with the Group	Balance	Ageing	% of total balance	Provision for bad debts
Grand China Air	Related party	176,633	Within 1 year	28%	-
Capital Airlines	Related party	103,921	Within 1 year	16%	-
West Airlines	Related party	27,466	Within 1 year	4%	-
Suparna Airlines	Related party	16,767	Within 1 year	3%	-
Company A	Third party	14,440	Within 1 year	2%	
		339,227		53%	-

(3) Long-term equity investments

	31 December 2017	31 December 2016
Subsidiaries (a)	31,328,772	14,828,245
Associates (b)	7,259,184	11,026,586
	38,587,956	25,854,831
Less: Provision for impairment of long-term equity investments	-	-
	38,587,956	25,854,831

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(3) Long-term equity investments (Cont'd)

(a) Subsidiaries

		Movements in the current year						
	31 December 2016	Increase in the current year	Decrease in investment	Provision for impairment loss	Others	31 December 2017	Provision for impairment	Cash dividends declared in the current year
Tianjin Airlines	-	10,559,379	-	-	-	10,559,379	-	-
Xinhua Airlines	3,746,107	1,354,611	-	-	-	5,100,718	-	-
Chang'an Airlines	2,811,908	969,272	-	-	-	3,781,180	-	-
Beijing Kehang	1,728,341	-	-	-	-	1,728,341	-	-
Shanxi Airlines	408,467	1,228,508	-	-	-	1,636,975	-	-
HNA (HK)	58,417	-	-	-	-	58,417	-	-
Golden-Deer Sales	7,600	-	-	-	-	7,600	-	-
Hainan Fushun	1,094,161	-	-	-	-	1,094,161	-	-
Brussels SODE	667,895	-	-	-	-	667,895	-	-
Urumqi Airlines	631,238	-	-	-	-	631,238	-	-
Fuzhou Airlines	1,200,000	-	-	-	-	1,200,000	-	-
Lucky Air	2,474,111	2,388,757	-	-	-	4,862,868	-	-
	14,828,245	16,500,527	-	-	-	31,328,772	-	-

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(3) Long-term equity investments (Cont'd)

(b) Associates

		Movements in the current year											
	31 December 2016	Transfer from available-for-sale financial assets	Increase in investment	Acquisition of Tianjin Airlines under non-common control	Decrease in investment	Share of net profit under equity method	Adjustments to other comprehensive income	Share of other changes in equity	Cash dividends or profits declared	Provision for impairment loss	Transfer to available-for-sale financial assets	31 December 2017	Provision for impairment
Azul Airlines	3,214,401	-	-	-	-	244,400	-	-	-	-	-	3,458,801	-
HNA Technology	1,370,565	-	-	-	-	114,466	-	-	-	-	-	1,485,031	-
West Airlines	1,253,363	-	-	-	-	142,985	-	-	(25,447)	-	-	1,370,901	-
HNA Import & Export	150,000	-	750,000	-	-	259	-	-	-	-	-	900,259	-
HNA Aviation Import & Export	32,579	-	-	-	-	11,613	-	-	-	-	-	44,192	-
Tianjin Airlines	5,005,678	-	-	(5,005,678)	-	-	-	-	-	-	-	-	-
	11,026,586	-	750,000	(5,005,678)	-	513,723	-	-	(25,447)	-	-	7,259,184	-

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(4) Revenue and cost of sales

	2017	2016
Revenue from main operations (a)	29,062,890	24,386,355
Revenue from other operations (b)	4,721,660	4,127,417
	33,784,550	28,513,772
Cost of sales (a)	(26,607,723)	(19,908,718)
Cost of sales from Other operations (b)	(2,026,084)	(1,809,130)
	(28,633,807)	(21,717,848)

(a) Revenue and cost of sales

	2017		2016	
	Revenue from main operations	Operating cost of main operations	Revenue from main operations	Operating cost of main operations
Passenger	27,848,247	(25,594,558)	23,578,438	(19,297,631)
Cargo and mail	1,099,971	(1,013,165)	755,367	(611,087)
Others	114,672	-	52,550	-
	29,062,890	(26,607,723)	24,386,355	(19,908,718)

(b) Revenue and cost of sales from other operations

	2017		2016	
	Revenue from other operations	Cost of sales from other operations	Revenue from other operations	Cost of sales from other operations
Aircraft leasing	3,359,641	(1,924,238)	3,000,089	(1,726,054)
Processing fee for cancelled tickets	739,789	-	654,721	-
Property rental	125,698	-	83,259	-
Commission fee	38,531	-	71,428	-
Aircraft advertising	8,769	-	12,848	-
Others	449,232	(101,846)	305,072	(83,076)
	4,721,660	(2,026,084)	4,127,417	(1,809,130)

(All amounts in RMB Thousand Yuan unless otherwise stated)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(5) Investment income

	2017	2016
Income from long-term equity investments under equity method	513,723	492,914
Investment income from disposal of available-for-sale financial assets	195,526	-
Income from settlement of forward foreign exchange contracts and option foreign exchange contracts (Note 4(2))	(66,766)	18,946
Dividend income from available-for-sale financial assets	24,325	59,614
Investment income from wealth management products	433	300
	667,241	571,774

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
Anqing Tianzhushan Airport Co., Ltd.	Anqing Tianzhushan Airport
Beijing CAISSA International Travel Service Co., Ltd.	CAISSA International Travel
Beijing Detongshunli Investment Consulting Co., Ltd.	Detong Investment
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Beijing HNA Junfu Investment Co., Ltd.	Junfu Investment
Beijing Kehang Investment Co., Ltd.	Beijing Kehang
Beijing Capital Airlines Holding Co., Ltd.	Capital Airlines Holding
Beijing Capital Airlines Co., Ltd.	Capital Airlines
Beijing Hongrui Shengda Commercial and Trading Co., Ltd.	Hongrui Shengda
Brussels SODE Hotel	Brussels SODE
Bohai Life Insurance Co., Ltd.	Bohai Life
Bohai International Trust Co., Ltd.	Bohai Trust
Bohai Financial Investment Holding Co., Ltd.	Bohai Financial Holding
Bairuichen Culture Media (Beijing) Co., Ltd.	Bairuichen Culture
Chengdu Sky Bird Airlines Co., Ltd.	Sky Bird Airlines
Chang'an Airlines Co., Ltd.	Chang'an Airlines
Changjiang Leasing Co., Ltd.	Changjiang Leasing
Grand China Air Co., Ltd.	Grand China Air
Fuzhou Airlines Co., Ltd.	Fuzhou Airlines
Flight Air Ground Services Co., Ltd.	Flight Air Ground Services
Gategroup Holding AG	Gategroup Holding
Guokai Jingcheng (Beijing) Investment Fund Co., Ltd.	Guokai Jingcheng Investment Fund
China Investment Bank Leasing Co., Ltd.	China Investment Bank Leasing
Guangxi Beibu Gulf Investment Group Co., Ltd.	Beibu Gulf Investment

17 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
Guangxi Beibu Gulf Airlines Co., Ltd.	Guangxi Beibu Gulf Airlines
Gansu HNA Hansha Air Catering Co., Ltd.	Gansu Catering
Hainan Island Cards Property Management Co., Ltd.	Hainan Island Cards Property
Hainan Sky Plumage Training Co., Ltd.	Sky Plumage
Hainan New Payment Co., Ltd.	New payment
Hainan New Generation Media Co., Ltd.	New Generation Media
Hainan eKing Technology Co., Ltd.	eKing Technology
Hainan HNA Aviation Information System Co., Ltd.	HNA Information
Hainan Air Aviation Import & Export Co., Ltd.	HNA Aviation Import & Export
Hainan HNA Aviation Sales Co., Ltd.	HNA Aviation Sales
Hainan HNA Beverage Co., Ltd.	HNA Beverage
Hainan Qixing Industrial Investment Co., Ltd.	Hainan Qixing
Hainan Development Holding Company	Hainan Development Holding
Hainan Meiya Co., Ltd.	Hainan Meiya
Hainan Air Travel Investment Holding Co., Ltd.	Air Travel Investment
HNA (Hong Kong) Commercial Co., Ltd.	HNA Commercial
Hainan Airlines (Hong Kong) Co., Ltd.	HNA (HK)
HNA Aviation Academy Co., Ltd.	Hainan Aviation Academy
HNA Air Catering Co., Ltd.	HNA Air Catering
Hainan Golden-Deer Aviation Sales Co. Ltd.	Golden-Deer Sales
Haikou Henghe Electronics Technology Co., Ltd.	Henghe Electronics
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
HNA Skyline Media Co., Ltd.	HNA Skyline Media
HNA Cold Chain Holding Co., Ltd.	HNA Cold Chain
HNA Commerce Holding Co., Ltd.	HNA Commerce Holding
HNA Infrastructure Co., Ltd.	HNA Infrastructure
HNA Safe Leasing Co., Ltd.	HNA Safe
HNA Tourism Group Co., Ltd.	HNA Tourism
HNA Travel Management Holding Co., Ltd.	HNA Travel Management
HNA Travel Group Co., Ltd.	HNA Travel Group
HNA Airport Holding (Group) Co., Ltd.	HNA Airport Holding
HNA Technology Group Co., Ltd.	HNA Technology
HNA Aviation Technology Co., Ltd.	HNA Aviation Technology
HNA Aviation Group Co., Ltd.	HNA Aviation Group
HNA Cargo Co., Ltd.	HNA Cargo
HNA Wealth Bay Real Estate Co., Ltd.	HNA Wealth Bay Real Estate
HNA Capital Group Co., Ltd.	HNA Capital Group

17 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
HNA Import & Export Co., Ltd.	HNA Import & Export
HNA General Aviation Construction and Development Co., Ltd.	HNA General Aviation
HNA General Aviation Investment Co., Ltd.	HNA General Aviation
HNA Hotel (Group) Co., Ltd.	HNA Hotel Group
HNA Group Co., Ltd.	HNA Group
HNA Finance Co., Ltd.	HNA Finance
Hunan Golden-Deer Investment Management Co., Ltd.	Hunan Golden-Deer
Suparna Airlines Co., Ltd.	Suparna Airlines
Deer Jet (Beijing) Co., Ltd.	Deer Jet (Beijing)
Manzhouli Xijiao International Airport Co., Ltd.	Manzhouli Airport
Inner Mongolia Airport Catering Co., Ltd.	Inner Mongolia Airline Catering
Swissport Group S.à r.I	Swissport Group
Sanya Phoenix International Airport Co., Ltd.	Sanya Phoenix Airport
Sanya Hansha Air Catering Co., Ltd.	Sanya Catering
Shanxi Airlines Co., Ltd.	Shanxi Airlines
Shenzhen Xinhang Venture Capital Investment Fund Partnership (L.P.)	Xinhang Venture Capital Investment Fund
Shaanxi Chang'an Air Travel Co., Ltd.	Chang'an Air Travel
TAP Portugal	TAP Air Portugal
Tangshan Sannvhe Airport Management Co., Ltd.	Tangshan Airport
Tianjin Port Free Trade Zone Investment Co., Ltd.	Tianjin Port Free Trade Zone Investment
Tianjin HNA Architectural Design Co., Ltd.	Tianjin HNA Architectural Design
Tianjin Binhai Rural Commercial Bank	Binhai Rural Commercial Bank
Tianjin Airlines Ground Services Co., Ltd.	Tianjin Airlines Ground Services
Tianjin Airlines Industry Co., Ltd.	Tianjin Airlines Industry
Tianjin Airlines Co., Ltd.	Tianjin Airlines
Tianjin Airlines Logistics Development Co., Ltd.	Tianjin Airlines Logistics
Tianjin Air Capital Co., Ltd.	Tianjin Air Capital
Tianjin Airlines Holding Co., Ltd.	Tianjin Airlines Holding
Urumqi City Construction Investment Group Co., Ltd.	Urumqi City Construction Investment
Urumqi Airlines Co., Ltd.	Urumqi Airlines
Weifang Nanyuan Airport Co., Ltd.	Weifang Airport
New payment Co., Ltd.	New payment
Xinjiang HNA Hansha Air Catering Co., Ltd.	Xinjiang Air Catering
West Airlines Co., Ltd.	West Airlines
Hong Kong International Aviation Leasing Co., Ltd.	HKIAL
Hong Kong Express Airways Limited	HK Express
Hong Kong Airlines Co., Ltd.	Hong Kong Airlines

17 FULL NAMES AND ABBREVIATION OF CERTAIN COMPANIES MENTIONED IN THE NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
Hong Kong Aviation Leasing Co., Ltd.	HK Airlines Leasing
HKA Group Holding Co., Ltd.	HKAGH
Yunnan State-owned Capital Operation Co., Ltd.	Yunnan State-owned Capital Operation
Yunnan Xiangpeng Investment Co., Ltd.	Xiangpeng Investment
Yunnan Lucky Air Co., Ltd.	Lucky Air
Yunnan Pengxia Yuanhao Investment Partnership (L.P.)	Pengxia Yuanhao
Yichang Sanxia Airport Co., Ltd.	Yichang Airport
Yangtze River International Leasing Co., Ltd.	Yangtze River Leasing
Yanghang Investment Co., Ltd	Yanghang Investment
Easy Pay Co. Ltd.	Easy Pay
Easy Life Holding Group Co., Ltd.	Easy Life
China Xinhua Airlines Co., Ltd.	Xinhua Airlines
TravelSky Technology, Co., Ltd.	TravelSky Tech
China Merchants Securities Co., Ltd.	China Merchants Securities
Hong Kong Aviation Leasing Co., Ltd.	HK Airlines Leasing

(All amounts in RMB Thousand Yuan unless otherwise stated)

18 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2017	2016
Gains on disposals of assets	222,349	109,853
Subsidy income unrelated to ordinary operating activities	128,252	865,385
Tax refund	116,879	-
Gains on changes in fair value of the beneficial right of trust property	81,590	-
Profit or loss arising from changes in fair value of investment properties measured using the fair value model	43,377	(25,537)
Changes in fair value of financial assets and liabilities at fair value through profit or loss	(42,178)	5,494
Income from investment in available-for-sale financial assets	234,977	102,328
Investment gains from disposal of available-for-sale financial assets	195,526	-
Net profit arising from acquisition of Tianjin Airlines not under common control	89,692	-
Income from settlement of forward foreign exchange contracts and option foreign exchange contracts	(79,914)	18,946
Investment income from wealth management products	37,190	39,692
Income from other investments	15,917	-
Non-operating income and expenses other than aforesaid items	82,203	82,337
	1,125,860	1,198,498
Effect of income tax	(281,465)	(299,625)
Effect of minority interest (after tax)	(88,920)	(64,507)
	755,475	834,366

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in *Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public - Non-recurring Profit or Loss [2008]* from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

19 RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%)		Basic and diluted earnings per share	
	2017	2016	2017	2016
Net profit attributable to ordinary shareholders of the Company	5.91%	7.60%	0.182	0.210
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	4.45%	5.40%	0.137	0.149

In accordance with China Accounting Standards for Business Enterprises, the Company deducted China Accounting Standards, the interest on other equity instruments - medium term note from the net profit attributable to the shareholders of the Company when calculating the basic earnings per share for 2017.

HAINAN AIRLINES CO., LTD.

FINANCIAL STATEMENTS AND
AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

Hainan Airlines Co., Ltd.

Financial Statements and Auditor's Report
For the Year Ended 31 December 2016
[English translation for reference only]

Content	**Page**

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2017) No. 10096
(Page 1 of 2)

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 2016, 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 consolidated 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.

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2017) No. 10096
(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 consolidated 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 consolidated 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 consolidated 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 2016, 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

28 March 2017

HAINAN AIRLINES CO., LTD.

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2016
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2016	31 December 2015
Current assets			
Cash at bank and on hand	4(1)	21,590,823	18,693,452
Financial assets at fair value through profit or loss	4(2)	8,472	-
Accounts receivable	4(3)	1,201,620	710,246
Prepayment	4(4)	980,050	485,604
Interest receivable	4(5)	480,761	454,148
Dividends receivable		102,659	5,857
Other receivables	4(6)	765,086	619,033
Inventories	4(7)	20,947	35,843
Assets classified as held for sale	4(8)	335,673	-
Other current assets	4(9)	4,053,149	2,546,602
Total current assets		**29,539,240**	**23,550,785**
Non-current assets			
Available-for-sale financial assets	4(10)	9,369,036	5,335,650
Long-term equity investments	4(11)	19,049,278	13,097,909
Investment properties	4(12)	10,035,665	9,578,169
Fixed assets	4(13)	58,090,889	57,876,536
Construction in progress	4(14)	11,516,019	11,993,844
Intangible assets	4(15)	548,516	331,953
Goodwill	4(16)	328,865	328,865
Long-term prepaid expenses	4(17)	954,213	697,448
Other non-current assets	4(18)	8,712,296	2,590,068
Total non-current assets		**118,604,777**	**101,830,442**
TOTAL ASSETS		**148,144,017**	**125,381,227**

HAINAN AIRLINES CO., LTD.

CONSOLIDATED BALANCE SHEETS (CONT'D)
AS AT 31 DECEMBER 2016
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

LIABILITIES AND OWNERS' EQUITY	Notes	31 December 2016	31 December 2015
Current liabilities			
Short-term borrowings	4(21)	7,906,690	10,918,192
Financial liabilities at fair value through profit or loss	4(2)	103,987	-
Notes payable	4(22)	1,185,000	1,242,352
Accounts payable	4(23)	4,703,245	4,219,148
Advances from customers	4(24)	2,587,447	1,845,435
Employee benefits payable	4(25)	310,534	324,141
Taxes payable	4(26)	832,879	676,079
Interest payable	4(27)	648,616	675,046
Dividends payable	4(39)	54,716	54,716
Other payables	4(28)	1,032,307	739,772
Current portion of non-current liabilities	4(29)	13,509,247	9,032,936
Total current liabilities		**32,874,668**	**29,727,817**
Non-current liabilities			
Long-term borrowings	4(30)	25,345,357	30,242,605
Bonds payable	4(31)	5,957,956	11,896,141
Long-term payables	4(32)	10,202,885	9,395,106
Deferred income	4(33)	884,728	799,551
Deferred tax liabilities	4(19)	4,757,264	4,411,773
Other non-current liabilities		245,002	343,792
Total non-current liabilities		**47,393,192**	**57,088,968**
Total liabilities		**80,267,860**	**86,816,785**
Shareholders' equity			
Share capital	4(34)	16,806,120	12,182,182
Other equity instruments	4(35)	5,086,250	2,500,000
Capital surplus	4(36)	18,156,215	5,773,506
Other comprehensive income	4(37)	718,256	711,675
Surplus reserve	4(38)	1,390,356	1,172,569
Undistributed profits	4(39)	13,803,342	11,141,624
Total equity attributable to shareholders of the Company		**55,960,539**	**33,481,556**
Minority interests	4(40)	11,915,618	5,082,886
Total shareholders' equity		**67,876,157**	**38,564,442**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**148,144,017**	**125,381,227**

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

Legal representative: Xie Haoming	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

HAINAN AIRLINES CO., LTD.

COMPANY'S BALANCE SHEET
AS AT 31 DECEMBER 2016
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2016	31 December 2015
Current assets			
Cash at bank and on hand		13,806,901	12,299,562
Financial assets at fair value through profit or loss		8,472	-
Accounts receivable	15(1)	953,272	674,612
Prepayment		816,929	843,088
Interest receivable		183,902	231,471
Dividends receivable		62,081	5,857
Other receivables	15(2)	331,387	344,094
Inventories		12,365	27,793
Assets classified as held for sale		335,673	-
Other current assets		1,154,114	405,645
Total current assets		**17,665,096**	**14,832,122**
Non-current assets			
Available-for-sale financial assets		5,104,933	2,563,299
Long-term equity investments	15(3)	25,854,831	21,162,822
Investment properties		1,050,776	1,010,194
Fixed assets		47,134,064	46,982,268
Construction in progress		7,298,926	10,850,365
Intangible assets		60,814	62,283
Long-term prepaid expenses		559,523	456,197
Other non-current assets		7,775,848	1,978,651
Total non-current assets		**94,839,715**	**85,066,079**
TOTAL ASSETS		**112,504,811**	**99,898,201**

COMPANY'S BALANCE SHEET (CONT'D)
AS AT 31 DECEMBER 2016
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2016	31 December 2015
Current liabilities		
Short-term borrowings	3,538,000	6,663,702
Financial liabilities at fair value through profit or loss	87,269	-
Notes payable	1,185,000	1,240,352
Accounts payable	9,391,947	11,517,774
Advances from customers	2,144,308	1,668,817
Employee benefits payable	107,718	116,117
Taxes payable	544,088	455,092
Interest payable	395,930	446,892
Dividends payable	54,716	54,716
Other payables	586,326	368,239
Current portion of non-current liabilities	8,499,369	7,703,080
Total current liabilities	**26,534,671**	**30,234,781**
Non-current liabilities		
Long-term borrowings	22,056,286	25,467,829
Bonds payable	1,824,622	5,005,435
Long-term payables	8,302,585	6,617,710
Deferred income	673,318	580,735
Deferred tax liabilities	2,926,326	2,579,163
Other non-current liabilities	245,002	309,269
Total non-current liabilities	**36,028,139**	**40,560,141**
Total liabilities	**62,562,810**	**70,794,922**
Shareholders' equity		
Share capital	16,806,120	12,182,182
Other equity instruments	5,086,250	2,500,000
Capital surplus	17,532,097	5,752,451
Other comprehensive income	450,784	521,020
Surplus reserve	1,390,356	1,172,569
Undistributed profits	8,676,394	6,975,057
Total shareholders' equity	**49,942,001**	**29,103,279**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**112,504,811**	**99,898,201**

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

Legal representative: Xie Haoming	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	2016 Consolidated	2015 Consolidated	2016 Company	2015 Company
Revenue	4(41), 15(4)	40,678,130	35,225,439	28,513,772	24,090,423
Less: Cost of sales	4(41), 15(4)	(31,360,526)	(25,756,170)	(21,717,848)	(17,493,347)
Taxes and surcharges	4(42)	(120,412)	(105,201)	(47,660)	(46,698)
Selling and distribution expenses	4(43)	(1,781,930)	(1,987,205)	(1,196,743)	(1,252,526)
General and administrative expenses	4(44)	(926,700)	(840,590)	(517,440)	(429,291)
Financial expenses - net	4(45)	(4,522,025)	(4,644,615)	(3,822,704)	(3,777,818)
Asset impairment losses	4(47)	(2,011)	(1,282)	-	-
Add: (Losses)/gains on changes in fair value	4(48)	(20,043)	166,184	46,076	21,856
Investment income	4(49), 15(5)	1,060,313	978,153	571,774	511,389
Including: Share of profit of associates		899,347	840,566	492,914	405,174
Operating profit		**3,004,796**	**3,034,713**	**1,829,227**	**1,623,988**
Add: Non-operating income	4(50)	1,060,909	883,940	773,141	877,188
Including: Gains on disposal of current assets		112,229	55,648	113,125	4,288
Less: Non-operating expenses		(3,334)	(4,834)	(2,174)	(3,162)
Including: Losses on disposal of non-current assets		(2,376)	(2,412)	(1,759)	(1,133)
Total profit		**4,062,371**	**3,913,819**	**2,600,194**	**2,498,014**
Less: Income taxes	4(51)	(652,227)	(656,568)	(422,320)	(470,811)
Net profit		**3,410,144**	**3,257,251**	**2,177,874**	**2,027,203**
- Attributable to shareholders of the Company		3,138,255	3,002,694		
- Minority interest		271,889	254,557		
Other comprehensive income, net of tax					
- Attributable to shareholders of the Company					
Share of the other comprehensive income of the investee accounted for using equity method that may be reclassified subsequently to profit or loss		(24,515)	-	(40,357)	-
Changes in fair value of available-for-sale financial assets		22,819	22,800	(29,879)	(54,757)
Transfer from fixed assets into investment properties		8,277	29,837	-	-
- Other comprehensive income attributable to minority interests, net of tax		22,678	27,032	-	-
Other comprehensive income, net of tax	4(37)	**29,259**	**79,669**	**(70,236)**	**(54,757)**
Total comprehensive income attributable to		**3,439,403**	**3,336,920**	**2,107,638**	**1,972,446**
- Attributable to shareholders of the Company		3,144,836	3,055,331		
- Minority interests		294,567	281,589		
Earnings per share (EPS)					
Basic earnings per share (RMB Thousand Yuan)	4(52)(a)	0.210	0.246		
Diluted earnings per share (RMB Thousand Yuan)	4(52)(b)	0.210	0.246		

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

Legal representative: Xie Haoming	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

HAINAN AIRLINES CO., LTD.

CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	2016 Consolidated	2015 Consolidated	2016 Company	2015 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		47,686,865	40,831,799	34,011,923	28,792,441
Cash received relating to other operating activities	4(53)(a)	1,695,202	2,966,500	1,074,963	2,540,164
Sub-total of cash inflows		49,382,067	43,798,299	35,086,886	31,332,605
Cash paid for goods and services		(26,483,697)	(20,973,022)	(19,277,647)	(13,507,076)
Cash paid to and on behalf of employees		(3,450,557)	(2,674,288)	(2,006,945)	(1,449,994)
Payments of taxes and surcharges		(4,237,839)	(3,738,054)	(3,329,179)	(2,174,643)
Cash paid relating to other operating activities	4(53)(b)	(2,922,885)	(3,876,468)	(1,506,248)	(2,090,129)
Sub-total of cash outflows		(37,094,978)	(31,261,832)	(26,120,019)	(19,221,842)
Net cash flows from operating activities	4(54)(a)	**12,287,089**	**12,536,467**	**8,966,867**	**12,110,763**
2. Cash flows from investing activities					
Cash received from disposal of investments		1,900,000	3,621,429	-	1,500,000
Cash received from returns on investments		120,862	129,523	38,758	27,119
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,217,005	63,935	7,632,682	4,717
Cash received relating to other investing activities	4(53)(c)	2,738,745	2,392,695	915,934	438,990
Sub-total of cash inflows		8,976,612	6,207,582	8,587,374	1,970,826
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(8,499,393)	(8,859,208)	(7,832,815)	(8,108,794)
Cash paid to acquire investments		(3,900,000)	(1,900,000)	(1,100,000)	-
Net cash paid to acquire equity investments		(14,450,745)	(1,657,758)	(11,914,155)	(1,657,758)
Cash paid relating to other investing activities	4(53)(d)	(470,000)	(1,598,560)	-	-
Sub-total of cash outflows		(27,320,138)	(14,015,526)	(20,846,970)	(9,766,552)
Net cash flows used in investing activities		**(18,343,526)**	**(7,807,944)**	**(12,259,596)**	**(7,795,726)**
3. Cash flows from financing activities					
Cash received from capital contributions		23,103,584	2,800,000	16,403,584	-
Cash received from borrowings		20,602,671	23,671,686	12,247,916	16,690,000
Cash received from issuance of other equity instruments		2,485,000	2,492,500	2,485,000	2,492,500
Cash received relating to other financing activities	4(53)(e)	2,473,000	6,438,000	2,473,000	5,065,000
Sub-total of cash inflows		48,664,255	35,402,186	33,609,500	24,247,500
Cash repayments of borrowings		(32,581,349)	(32,062,003)	(23,473,790)	(21,872,083)
Cash payments for interest expenses and distribution of dividends		(3,627,251)	(4,615,033)	(3,121,165)	(3,728,340)
Cash payments relating to other financing activities	4(53)(f)	(1,667,482)	(5,568,375)	(1,566,293)	(5,010,574)
Sub-total of cash outflows		(37,876,082)	(42,245,411)	(28,161,248)	(30,610,997)
Net cash flows from/(used in) financing activities		**10,788,173**	**(6,843,225)**	**5,448,252**	**(6,363,497)**
4. Effect of foreign exchange rate changes on cash and cash equivalents		**104,344**	**116,905**	**87,756**	**97,810**
5. Net increase/(decrease) in cash and cash equivalents	4(54)(a)	**4,836,080**	**(1,997,797)**	**2,243,279**	**(1,950,650)**
Add: Cash and cash equivalents at the beginning of the year	4(54)(a)	**15,367,831**	**17,365,628**	**11,008,689**	**12,959,339**
6. Cash and cash equivalent at the end of the year	4(54)(a)	**20,203,911**	**15,367,831**	**13,251,968**	**11,008,689**

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

Legal representative: Xie Haoming	Person in charge of accounting function: Sun Dong	Person in charge of accounting department: Lan Tian

HAINAN AIRLINES CO., LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	Attributable to shareholders of the Company: Share capital	Other equity instruments	Capital surplus	Other comprehensive income	Surplus reserve	Undistributed profits	Minority interest	Total shareholders' equity
Balance at 1 January 2015		12,182,182	-	5,688,139	692,592	969,849	9,118,873	3,073,110	31,724,745
Movements for the year ended 31 December 2015									
- Total comprehensive income									
Net profit		-	-	-	-	-	3,002,694	254,557	3,257,251
Other comprehensive income	4(37)	-	-	-	52,637	-	-	27,032	79,669
Total comprehensive income		-	-	-	52,637	-	3,002,694	281,589	3,336,920
- Issuance of other equity instruments	4(35)	-	2,500,000	(7,500)	-	-	-	-	2,492,500
- Capital contribution by minority interests		-	-	170,909	(33,554)	-	-	2,662,645	2,800,000
- Purchase of minority interests		-	-	(78,042)	-	-	-	(934,458)	(1,012,500)
- Profit distribution									
Ordinary share dividends payable	4(39)	-	-	-	-	-	(777,223)	-	(777,223)
Appropriation to surplus reserves	4(38)	-	-	-	-	202,720	(202,720)	-	-
Balance at 31 December 2015		12,182,182	2,500,000	5,773,506	711,675	1,172,569	11,141,624	5,082,886	38,564,442
Balance at 1 January 2016		12,182,182	2,500,000	5,773,506	711,675	1,172,569	11,141,624	5,082,886	38,564,442
Movements for the year ended 31 December 2016									
- Total comprehensive income									
Net profit		-	258,750	-	-	-	2,879,505	271,889	3,410,144
Other comprehensive income	4(37)	-	-	-	6,581	-	-	22,678	29,259
Total comprehensive income		-	258,750	-	6,581	-	2,879,505	294,567	3,439,403
- Capital contribution and withdrawal by shareholders									
Capital contribution by shareholders	4(34)	4,623,938	-	11,779,646	-	-	-	-	16,403,584
- Issuance of other equity instruments	4(35)	-	2,462,500	-	-	-	-	-	2,462,500
- Capital contribution by minority interests	5(1)	-	-	493,931	-	-	-	6,435,338	6,929,269
- Other changes in equity under equity method	4(11)	-	-	109,132	-	-	-	102,827	211,959
- Profit distribution									
Distribution to holders of other equity instruments	4(39)	-	(135,000)	-	-	-	-	-	(135,000)
Appropriation to surplus reserves	4(38)	-	-	-	-	217,787	(217,787)	-	-
Balance at 31 December 2016		16,806,120	5,086,250	18,156,215	718,256	1,390,356	13,803,342	11,915,618	67,876,157

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

Legal representative: Xie Haoming

Person in charge of accounting function: Sun Dong

Person in charge of accounting department: Lan Tian

COMPANY'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in RMB Thousand Yuan unless otherwise stated)
[English translation for reference only]

Item	Notes	Share capital	Other equity instruments	Capital surplus	Other comprehensive income	Surplus reserve	Undistributed profits	Total shareholders ' equity
Balance at 1 January 2015		12,182,182	-	5,759,951	575,777	969,849	5,927,797	25,415,556
Movements for the year ended 31 December 2015								
- Total comprehensive income								
Net profit		-	-	-	-	-	2,027,203	2,027,203
Other comprehensive income	4(37)	-	-	-	(54,757)	-	-	(54,757)
Total comprehensive income		-	-	-	(54,757)	-	2,027,203	1,972,446
- Issuance of other equity instruments		-	2,500,000	(7,500)	-	-	-	2,492,500
- Profit distribution								
Ordinary share dividends payable		-	-	-	-	-	(777,223)	(777,223)
Appropriation to surplus reserves	4(38)	-	-	-	-	202,720	(202,720)	-
Balance at 31 December 2015		12,182,182	2,500,000	5,752,451	521,020	1,172,569	6,975,057	29,103,279
Balance at 1 January 2016		12,182,182	2,500,000	5,752,451	521,020	1,172,569	6,975,057	29,103,279
Movements for the year ended 31 December 2016								
- Total comprehensive income								
Net profit		-	258,750	-	-	-	1,919,124	2,177,874
Other comprehensive income	4(37)	-	-	-	(70,236)	-	-	(70,236)
Total comprehensive income		-	258,750	-	(70,236)	-	1,919,124	2,107,638
- Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		4,623,938	-	11,779,646	-	-	-	16,403,584
- Issuance of other equity instruments		-	2,462,500	-	-	-	-	2,462,500
- Profit distribution								
Distribution to holders of other equity instruments		-	(135,000)	-	-	-	-	(135,000)
Appropriation to surplus reserves	4(38)	-	-	-	-	217,787	(217,787)	-
Balance at 31 December 2016		16,806,120	5,086,250	17,532,097	450,784	1,390,356	8,676,394	49,942,001

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

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xie Haoming	Sun Dong	Lan Tian

1 GENERAL INFORMATION

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 ("PRC"). The Company's registered capital was RMB250,100 thousand when it was initially established.

In March 1994, a bonus dividend for 1993 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 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 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 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 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 outstanding shares of the Company they held respectively. Thereafter, Grand China Air and its subsidiary, American Aviation LTD, held 1,716,395 thousand and 108,043 thousand shares of the Company respectively, which represent total 51.68% of the share capital of the Company.

On 29 September 2006, the Company implemented the share reform scheme, under which the non-circulating A-share 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 issued 297,619 thousand shares of A-share of the Company to Hainan Development Holding and HNA Group, respectively, with a lock-up period of 36 months. After completion of the above issuance, the Company's share capital was increased to RMB4,125,491 thousand, among which 1,716,395 thousand shares or 41.60% of the share capital were held by Grand China Air, the parent company.

On 3 May 2012, as approved by CSRC, the Company completed another non-public share offerings of 1,965,600 thousand shares of A-share with a lock-up period of 12 months. After completion of the above issuance, the Company's share capital was increased to RMB6,091,091 thousand, among which 1,716,395 thousand shares were held by Grand China Air, whose direct shareholding percentage in the Company was diluted to 28.18%.

1 GENERAL INFORMATION (CONT'D)

On 18 June 2013, the Company increased its shares by 10 shares for each 10 ordinary shares by transfer from its capital surplus, and 6,091,091 thousand shares were issued in total. After the transfer, the Company's total share capital was increased to RMB12,182,182 thousand.

On 5 September 2016, as approved by CSRC, the Company completed the non-public share offerings of 4,623,938 thousand shares of A-share with a lock-up period of 12 months. After completion of the above issuance, the Company's share capital was increased to RMB16,806,120 thousand, among which 4,089,167 thousand and 216,086 thousand shares were held by Grand China Air and its subsidiary American Aviation LDC, respectively. Accordingly, Grand China Air held 25.62% share capital of the Company and remained as the single largest shareholder.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the civil aviation business, and the approved scope of business covers 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 5.

These financial statements were authorised for issue by the Board of Directors of the Company on 28 March 2017.

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 inventories" (Note 2(11)), "measurement model of investment properties (Note 2 (13))", "depreciation of fixed assets and amortisation of intangible assets" (Notes 2(14), 2(17)), "criteria for determining equity instruments" (Note 2(23)) and "recognition time of revenue" (Note 2(24)).

For details of critical judgements adopted in the use of significant accounting policies by the Group, please refer to Note 2(31).

(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* issued by CSRC.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(1) Basis of preparation (Cont'd)

(ii) Going concern basis

As at 31 December 2016, the current liabilities of the Group exceed its current assets by approximately RMB3.335 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.

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 the Company and the Group fail to continue as a going concern.

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

The financial statements of the Company for the year ended 31 December 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and company financial position as at 31 December 2016 and the consolidated and company financial performance, cash flows and other information for the year then ended.

(3) Accounting year

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 combination

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(5) Business combinations (Cont'd)

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value 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.

(c) Purchase of minority interests of a subsidiary

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

(6) Preparation of consolidated financial statements

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

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

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

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 and comprehensive incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the parent company. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent company and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(6) Preparation of consolidated financial statements (Cont'd)

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.

(8) Foreign currency translation

(a) Foreign currency transactions

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

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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.

Held-to-maturity investments

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(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 is 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.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 the 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 the 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 cost of available-for-sale equity instrument using weighted average method.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(iii) Impairment of financial assets (Cont'd)

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

If an impairment loss on available-for-sale financial assets measured at fair value is 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 impairment losses incurred will not be reversed in subsequent periods.

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(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 comprise accounts payables and other payables and are recognised at fair value at initial recognition. Payables are measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(9) Financial instruments (Cont'd)

(b) Financial liabilities (Cont'd)

Other financial liabilities of which the period is within one year (including one year) are classified as the current liabilities; the period is over one year while will be due within one year (including one year) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

A financial liability (or a part of a financial liability) is derecognised when all or part of the obligation is extinguished. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(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. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

(d) Equity instruments

The equity instrument is a contract that is able to prove that the company has a residual interest in the assets after deducting all of its liabilities. The issue (including refinancing), repurchase, sale or cancellation of equity instruments by the Company are treated as changes in equity, and costs related to equity transactions are deducted from equity.

Various distributions (excluding stock dividends) by the Company to holders of equity instruments reduce the shareholders' equity. The Company does not recognise changes in fair value of equity instruments.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from rendering of services are initially recognised at fair value of the contractual payments from the service recipients.

(a) Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made at the difference between its carrying amount and the present value of its estimated future cash flows.

The criterion or amount for determining "individually significant" amount is that any individual amount is more than RMB 10,000 thousand.

The method of provision for bad debts of those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable lowering its carrying amount.

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(10) Receivables (Cont'd)

(b) Receivables that are subject to provision for bad debts on the grouping basis

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

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 receivables 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:

	Provision % of accounts receivable	Provision % of other receivables
Within 1 year	0%	0%
1 - 2 years	5%	5%
2 - 3 years	10%	10%
3 - 4 years	30%	30%
4 - 5 years	50%	50%
5 - 6 years	80%	80%
Over 6 years	100%	100%

(c) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

The reason for making separate assessment for provision for bad debts is that there is objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable lowering its carrying amount.

(d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(11) Inventories

(a) Classification

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

(b) Valuation method of delivered inventories

Costs of 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 decline in the value of inventories

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 combinations: 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(12) Long-term equity investments (Cont'd)

(b) Subsequent measurement and recognition of profit and 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.

For 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.

For long-term equity investments under the equity method, the Group recognises the investment income according to its share of net profit 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. Any change in shareholders' equity of the investee other than those arising from its net profit or loss, other comprehensive income and profit appropriation is recognised in the capital reserve with a corresponding adjustment to the carrying value of the long-term equity investment. 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 offset 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 for determining control and significant influence over investees

The term "control" refers to the power over 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 is the power to participate in the financial and operating decision-making of the investee, but not to control or jointly control the making of such decisions.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries and associates are reduced to the recoverable amounts when the recoverable amounts are less than their carrying amounts (Note 2 (19)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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, high-price spare parts, 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(14) Fixed assets (Cont'd)

(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 life	Estimated net residual values	Annual depreciation rate
Buildings	40 years	5%	2.375%
Aircraft and core engine components	20 years	5%	4.75%
Aircraft and core engine components	5 - 7 years	0%	14.29% - 20%
High-price spare parts	12 years	5%	7.9%
Motor vehicles	10 years	5%	9.5%
Machinery and equipment	8 - 14 years	5%	6.79% - 11.875%

The estimated useful life and 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) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is less than the carrying 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(27) (c)).

Fixed assets held under a finance lease is 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is less than the carrying 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 an 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 an 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 comprise land use rights and are measured at 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)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(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, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(20) Employee benefits (Cont'd)

(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; and 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.

<u>Basic pensions</u>

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) Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the 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.

The provisions expected to be settled within one year from the balance sheet date are classified as current liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(23) Equity instruments

The equity instrument is a contract that is able to prove that the Group has a residual interest in the assets after deducting all of its liabilities. Medium term notes and other financial instruments issued by the Company are recognized as equity instruments when the following conditions are satisfied simultaneously: (1) such financial instruments do not include contractual obligations of delivering cash or other financial assets to other parties or, under the potentially adverse conditions, exchanging with other parties for financial assets or liabilities; (2) where self-owned equity instruments of the enterprise shall or may be utilised to settle such financial instruments in the future. When it is a non-derivative instrument, such instrument does not include contractual obligations of delivering a variable amount of the self-owned equity instruments for settlement; otherwise, they can only be settled by the Group through exchanging a fixed number of self-owned equity instruments for a fixed amount of cash or other financial assets in the case of derivative instruments. Other financial instruments issued by the Group are classified as financial liabilities except for those classified as equity instruments as specified above.

The issue (including refinancing), repurchase, sale or cancellation of medium term notes and other financial instruments classified as equity instruments are treated by the Group as changes in equity, and relevant costs are deducted from equity. Distribution to the holders of the equity instruments is recognised by the Group as profit distribution.

No change in the fair value of equity instruments is recognised by the Company.

(24) 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: it's probable that 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 for each type of the Group's activities as described below have been met:

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(24) Revenue recognition (Cont'd)

(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 be rendered is recognised as liabilities and recorded as advances from customers – sales in advance of carriage.

(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 revenues

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 maintains a frequent flyer program named "Fortune Wings 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 the ticket fare is allocated between the revenue received in relation to rendering of services and the fair value of rewarding earned by the program member. The ticket fare net of fair value of rewarding is recognised as revenue, and the fair value of rewarding is recognised as deferred income. The value originally recognised in deferred income and attributed to the rewarding redeemed is recognised as revenue when the flyer redeems the rewarding and the Group has rendered the service or when the rewarding is expired.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(25) Government grants

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

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. Government grants in monetary assets are recognised at the amount of receipt or to be received. Government grants in non-monetary assets are recognised at the fair value. If the fair value cannot be measured reliably, it shall be measured at the nominal amount.

Government grants related to assets refer to government grants which are obtained by the Company for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

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.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.

(26) 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.

Deferred tax assets and liabilities are offset when:

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(27) Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. 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 is actually incurred.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(28) Held for sale

A non-current asset or a disposal group is classified as held for sale when all of the following conditions are satisfied: (1) the non-current asset or the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such non-current asset or disposal group; (2) the Group has made a resolution and obtained appropriate approval for disposal of the non-current asset or the disposal group; (3) the Group has signed an irrevocable transfer agreement with the transferee; and (4) the transfer is to be completed within one year.

Non-current assets (except for financial assets, investment properties measured at fair value and deferred tax assets) that meet the recognition criteria for held for sale are recognised at the lower of the carrying amount and the fair value less costs to sell. The difference at the fair value less costs to sell lowering than the original carrying amount is recognised as impairment losses on assets.

Such non-current assets classified as held for sale and assets and liabilities included in disposal groups are classified as current assets and liabilities and separately presented in the balance sheet.

(29) 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.

(30) 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 revenue 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(31) 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 can impact the recognition of the amounts of deferred tax assets.

(b) Impairment of accounts receivable and other receivables

Impairment of accounts receivable and other receivables is based on the evaluation of its recoverability. Judging the impairment of receivables and other receivables requires the management's judgement and estimation. The difference between the actual result and the original estimate impacts the book balance and bad debt's accrual or reversal in the estimated period.

(c) Depreciation of fixed assets

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.

(d) Impairment of long-term assets

The Group will find if there is any indication that the assets may be impaired at the balance sheet date. When there is any indication that it may be impaired, tested for impairment. When the recoverable amount of an asset group or group of asset groups is lower than its carrying amount, that is the higher between the fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset, indicates there is impairment. An asset's fair value less costs to sell, referring to selling price of similar assets in fair dealings or the observable market price, and subtracting direct additional cost of the impairment assets. In assessing the present value of future cash flows, the management should estimate the expected future cash flows of the assets (asset group), and choose appropriate discount rate. Different accounting estimates and judgement will impact the results of the impairment testing and then impact the income statement of the current period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONT'D)

(31) Critical accounting estimates and judgements (Cont'd)

(e) 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.

(f) 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 ticket price at the end of 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.

(g) Fair value of investment properties

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.

(h) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(24) to the financial statements. Unused tickets are recognised in traffic revenues when management believes that the uplift obligation ceases. Management evaluates the balance of SIAC periodically and records any adjustments, which can be material, in the period the evaluation is completed. These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognising revenue for any unused air tickets and the related sales price, which affect the timing and amount of revenue recognition.

3 TAXATION

(1) Corporate income tax

Pursuant to the *Notice on Deep Implementation of Corporate Income Tax Issues in West Development Strategy* (SAT Notice [2012] No.12) issued by the State Administration of Taxation ("SAT"), if an enterprise is located in the western region and engaged in the industrial activities as listed in the *Catalogue of Encouraged Industries in West Region*, and its main operation revenue accounts for over 70% of its total revenue, it will be entitled to, upon approval of tax authorities, a reduced income tax rate of 15% from 1 January 2011 to 31 December 2020. Accordingly, the Company's subsidiaries as Chang'an Airlines, Lucky Air and Urumqi Airlines are subject to a corporate income tax rate of 15% as the current year and previous year.

Except for the above mentioned Chang'an Airlines, Lucky Air and Urumqi Airlines, the Company's and the Group's other subsidiaries established in other regions are subject to a corporate income tax rate of 25%.

(2) Value-added tax ("VAT")

The Company and the Company's subsidiaries Lucky Air, Xinhua Airlines, Chang'an Airlines, Shanxi Airlines, Fuzhou Airlines and Urumqi Airlines are VAT general taxpayers. Pursuant to the *Circular on the Pilot Plan for Levying VAT in Place of Business Tax in the Railway Transportation Industry and Postal Industry* (Cai Shui [2013] No.106) and relevant regulations, the revenue of the Company and its subsidiaries arising from transportation and ground handling services are subject to the value added tax in the reporting period of the financial statements, with an VAT output tax rate of 11% applicable to domestic transportation revenue and a zero tax rate applicable to international and regional transportation revenue.

Pursuant to the *Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax* (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, and the Interim Measures for Administration of VAT Levying on Operating Leases of Real Estate by Taxpayers (SAT Notice [2016] No. 16) issued by SAT, commission fee income and other service income received by the Group is subject to VAT from 1 May 2016, and the applicable tax rate is 6%; the rental incomes are also subject to VAT, with a rate of 5% applicable to rental incomes obtained from properties acquired prior to 30 April 2016, and a rate of 11% applicable to those obtained from properties acquired after 30 April 2016. Prior to 1 May 2016, such businesses were subject to the business tax at a rate of 5%.

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 air planes) and aviation materials by the Company and the aforementioned subsidiaries can deduct VAT output. VAT payable is the net difference between output and deductible input VAT.

3 TAXATION (CONT'D)

(2) Value-added tax ("VAT") (Cont'd)

As stipulated by relevant national laws and regulations, the imported air planes 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), imported air planes with an empty weight over 25t are subject to the import VAT at a rate of 5% from 30 August 2013.

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

(3) City maintenance and construction tax and educational surcharges

In accordance with *Notice on Alignment of the System of City Maintenance and Construction Tax and Educational Surcharges of Foreign and Domestic Enterprises and Individuals* (Guo Fa [2010] No.35) issued by the State Council on 18 October 2010, 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 rates of the Group with regard to the city maintenance and construction tax and educational surcharges are 7% and 5%, respectively.

(4) Customs duties

In accordance with the *Notice on the Tariff Classification of Aircraft and Related Parts and Issues on Tax Rates Applicable to Leased Aircraft after Adjustment of Import Duty Rate* (Shu Shui [1998] No. 472) issued by General Administration of Customs ("GAC") on 12 August 1998, the aircraft leased and airframe imported are subject to customs duty at a rate of 1%. The aircraft equipment, cabin equipment and spare parts are subject to customs duties at rates specified in the *Notice on the Adjustment of Import and Export Duty Rates at Several Categories of Goods* (Shui Wei Hui [1999] No. 1).

According to *Announcement on Adjustment of Import Tariff Rates at Lignite and Other Goods* (Shu Shui [2013] No. 49) issued by GAC on 29 August 2013, effective from 30 August 2013, the provisional import tariff rate of 1% for passenger air planes with an empty weight greater than 25t but less than 45t was cancelled and the most favoured nation tariff rate of 5% was resumed. The Company's leased aircraft and imported aircraft equipment are subject to the tax rate of 5%.

(5) Aviation Development Fund

According to the *Interim Measures for Administration of Collection, Use and Management of the Civil Aviation Development Fund* (Cai Zong [2012] No. 17) issued by MoF, effective from 1 April 2012, the passengers are required to pay Civil Aviation Development Fund at a rate of RMB50 per passenger for domestic route, and RMB90 per passenger (including RMB 20 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2016	31 December 2015
Cash on hand	932	1,157
Cash at bank	20,202,979	15,366,674
Other cash balances (a) and (b)	1,386,912	3,325,621
Including: Total offshore cash balances	1,007,581	426,388
	21,590,823	18,693,452

(a) As at 31 December 2016, the cash at bank and on hand included deposits of RMB4,506,424 thousand (31 December 2015: RMB4,207,649 thousand) placed in HNA Finance, a related party of the Group (Note 7(6)), among which, RMB3,730,027 thousand (31 December 2015: RMB2,487,398 thousand) was recorded in cash at banks and financial institutions, and RMB776,397 thousand (31 December 2015: RMB1,720,251 thousand) was recorded in other cash balances.

(b) Other cash balances comprise:

	31 December 2016	31 December 2015
Term deposits (Note)	470,000	2,058,560
Security deposits for notes payable	146,362	172,134
Other restricted deposits	770,550	1,094,927
	1,386,912	3,325,621

Note: As at 31 December 2016, RMB470,000 thousand of the above term deposit was pledged to the bank for short-term and long-term borrowings (Note 4(21) & (30)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Financial assets and liabilities at fair value through profit or loss

	31 December 2016	31 December 2015
Financial assets at fair value through profit or loss		
- Forward foreign exchange contracts (a)	8,472	-
Financial liabilities at fair value through profit or loss		
- Option foreign exchange contracts (b)	103,987	-

(a) The Group reduces the foreign exchange risks relating to foreign currency settlement by signing forward foreign exchange contracts (Note 12(1)). Forward foreign exchange contracts are recognised at fair value in the financial assets at fair value through profit or loss in the balance sheet. In 2016, the net income arising from changes in fair value of forward foreign exchange contracts amounting to RMB8,472 thousand was recorded into the income statement - "gains on changes in fair value" (Note 4(48)).

In 2016, the net income arising from settlement of forward foreign exchange contracts amounting to RMB4,624 thousand was recorded into the income statements - "investment income" (Note 4(49)). As at 31 December 2016, the Group held unsettled forward foreign exchange contracts with a nominal amount of USD24,000 thousand (equivalent to RMB166,488 thousand), which will be due within one year.

(b) The Group reduces the foreign exchange risks related to foreign currency settlement by signing option foreign exchange contracts (Note 12(1)). Option foreign exchange contracts are recognised at fair value in the financial liabilities at fair value through profit or loss in the balance sheet. In 2016, the net losses arising from changes in fair value of option foreign exchange contracts amounting to RMB2,978 thousand were recorded into the income statements - "losses on changes in fair value" (Note 4(48)).

In 2016, the net income arising from settlement of option foreign exchange contracts amounting to RMB14,322 thousand was recorded into the income statements - "investment income" (Note 4(49)). As at 31 December 2016, the Group held unsettled option foreign exchange contracts with a nominal amount of USD184,080 thousand (equivalent to RMB1,276,963 thousand), and which will be due and settled during the period from 2017 to February 2018.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Accounts receivable

	31 December 2016	31 December 2015
Accounts receivable	1,233,448	740,231
Less: Provision for bad debts	(31,828)	(29,985)
	1,201,620	710,246

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

	31 December 2016	31 December 2015
Within 1 year	1,158,718	655,711
1 - 2 years	26,580	36,781
2 - 3 years	9,474	17,096
3 - 4 years	8,033	160
4 - 5 years	160	2,045
5 - 6 years	2,045	15
Over 6 years	28,438	28,423
	1,233,448	740,231

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

	31 December 2016				31 December 2015			
	Amount	% of total balance	Provision for bad debts	Provision for bad debts as a percentage of receivables	Amount	% of total balance	Provision for bad debts	% of total provision for bad debts
Provisions for bad debts by group								
- Group by ageing analysis method	1,047,123	85%	(4,531)	0%	630,119	85%	(2,688)	0%
- Group by related parties(Note 7(6))	159,028	13%	-	-	82,815	11%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually	27,297	2%	(27,297)	100%	27,297	4%	(27,297)	100%
	1,233,448	100%	(31,828)	3%	740,231	100%	(29,985)	4%

(c) As at 31 December 2016, there is no accounts receivable which was individually significant and with specific provision for bad debts (31 December 2015: Nil).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Accounts receivable (Cont'd)

(d) Accounts receivable that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2016				31 December 2015			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
Within 1 year	1,016,973	96%	-	-	609,918	97%	-	-
1 - 2 years	16,259	2%	(813)	5%	7,120	1%	(356)	5%
2 - 3 years	6,240	1%	(624)	10%	11,940	2%	(1,194)	10%
3 - 4 years	6,510	1%	(1,953)	30%	-	-	-	-
4 - 5 years	-	-	-	-	-	-	-	-
5 - 6 years	-	-	-	-	15	0%	(12)	80%
Over 6 years	1,141	0%	(1,141)	100%	1,126	0%	(1,126)	100%
	1,047,123	100%	(4,531)	0%	630,119	100%	(2,688)	0%

(e) As at 31 December 2016, accounts receivable not individually significant but with specific provisions for bad debts were analysed as follows:

	Book balance	Provision for bad debts	Provision %
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%
	27,297	(27,297)	

As at 31 December 2016, 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 2016, the five largest accounts receivable were analysed as follows:

	Balance	Provision for bad debts	% of total accounts receivable
Total balance of the five largest accounts receivable	471,899	-	38%

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Advances to suppliers

(a) The ageing of advances to suppliers is analysed below:

	31 December 2016		31 December 2015	
Ageing	Amount	% of total balance	Amount	% of total balance
Within 1 year	919,228	93%	441,080	91%
1 - 2 years	18,319	2%	7,128	1%
2 - 3 years	6,345	1%	17,000	4%
Over 3 years	36,158	4%	20,396	4%
	980,050	100%	485,604	100%

As at 31 December 2016, the advance to suppliers amounting to RMB60,822 thousand (31 December 2015: RMB44,524 thousand) with the ageing longer than 1 year was not settled because the related suppliers had not rendered the relevant services.

(b) As at 31 December 2016, the five largest advances to suppliers were analysed as follows:

	Amount	% of total balance
Total balance of the five largest advances to suppliers	450,100	46%

(5) Interest receivable

	31 December 2016	31 December 2015
HNA Finance (Note 7(6))	315,233	293,502
Others	165,528	160,646
	480,761	454,148

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Other receivables

	31 December 2016	31 December 2015
Receivables from related parties (Note 7(6))	229,571	29,054
Aircraft leasing security deposits and maintenance funds receivable	170,579	159,155
Subsidies receivable	40,582	56,197
Housing refund receivables from Guirui City (Note)	-	200,000
Others	372,848	222,953
	813,580	667,359
Less: Provision for bad debts	(48,494)	(48,326)
	765,086	619,033

Note: As at 31 December 2015, housing refund receivables from Guirui City were the receivables from disposal of investment properties in 2014 and such receivables had been recovered in 2016.

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

	31 December 2016	31 December 2015
Within 1 year	681,306	398,697
1 - 2 years	78,596	246,670
2 - 3 years	32,391	3,628
3 - 4 years	3,274	6,195
4 - 5 years	6,006	1,243
5 - 6 years	1,081	6,766
Over 6 years	10,926	4,160
	813,580	667,359

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Other receivables (Cont'd)

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

	31 December 2016				31 December 2015			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Provision for bad debts	Provision %	Amount	% of total balance	Provision for bad debts	Provision %
Amounts that are individually significant and with specific provision for bad debts (c)	11,799	1%	(11,799)	100%	11,799	2%	(11,799)	100%
Provisions for bad debts by group								
- Group by ageing analysis method (d)	372,361	46%	(7,425)	2%	438,581	66%	(7,757)	2%
- Aircraft leasing security deposits and maintenance funds receivable	170,579	21%	-	-	159,155	24%	-	-
- Group by related parties	229,571	28%	-	-	29,054	4%	-	-
Amounts that are not individually significant but with provisions for bad debts assessed individually (e)	29,270	4%	(29,270)	100%	28,770	4%	(28,770)	100%
	813,580	100%	(48,494)	6%	667,359	100%	(48,326)	7%

(c) As at 31 December 2016, other receivables that were individually significant and with specific provisions for bad debts were analysed as follows:

	Book balance	Provision for bad debts	Provision%
Other receivables 1	11,799	(11,799)	100%

As at 31 December 2016, as these other 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.

(d) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2016				31 December 2015			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
Within 1 year	348,178	94%	-	-	206,662	47%	-	-
1 - 2 years	11,574	3%	(578)	5%	218,256	50%	(912)	0%
2 - 3 years	3,391	1%	(339)	10%	2,071	1%	(207)	10%
3 - 4 years	1,069	0%	(321)	30%	6,195	1%	(1,859)	30%
4 - 5 years	3,882	1%	(1,941)	50%	1,237	0%	(619)	50%
5 - 6 years	107	0%	(86)	80%	-	-	-	-
Over 6 years	4,160	1%	(4,160)	100%	4,160	1%	(4,160)	100%
	372,361	100%	(7,425)	2%	438,581	100%	(7,757)	2%

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Other receivables (Cont'd)

(e) As at 31 December 2016, other receivables that are not individually significant but with provisions for bad debts were analysed as follows:

	Book balance	Provision for bad debts	Provision %
Debtor 2	5,876	(5,876)	100%
Debtor 3	5,280	(5,280)	100%
Debtor 4	3,186	(3,186)	100%
Debtor 5	2,500	(2,500)	100%
Others	12,428	(12,428)	100%
	29,270	(29,270)	

As at 31 December 2016, as these other 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 other 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 2016, the five largest other receivables were analysed as follows:

	Relationship with the Group	Balance	Ageing	% of total balance	Provision for bad debts
Beijing Capital Airlines	Related party	72,776	Within 1 year	9%	-
Yangtze River Airlines	Related party	64,889	Within 1 year	8%	-
Company A	Third party	53,523	Within 1 year	7%	-
Company B	Third party	41,903	Within 1 year	5%	-
Sky Plumage	Related party	37,248	Within 1 year	4%	-
		270,339		33%	-

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(7) Inventories

	31 December 2016			31 December 2015		
	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount
Cabin supplies	8,668	-	8,668	12,869	-	12,869
Others	12,279	-	12,279	22,974	-	22,974
	20,947	-	20,947	35,843	-	35,843

(8) Assets classified as held for sale

	31 December 2016			
	Carrying amount	Fair value	Estimated costs to sell	Estimated disposal date
Fixed assets	335,673	338,384	-	2017

As at 26 November 2016, with approval of the Board of Directors of the Company, the Company signed an irrevocable transfer agreement for disposal of relevant air planes in 2017. The disposal price was slightly higher than the corresponding carrying amount. Accordingly, the Company classified these air planes as held-for-sale assets.

(9) Other current assets

	31 December 2016	31 December 2015
Financial products with guaranteed principal and returns (a)	2,800,000	1,900,000
Available-for-sale financial assets (b)	1,100,000	-
VAT input to be deducted	153,149	646,602
	4,053,149	2,546,602

(a) As at 31 December 2016, the financial products with guaranteed principal and returns represented such financial products purchased by the Company and its subsidiaries from third party commercial banks, with an annual return of 2.24% - 2.90% (31 December 2015: 3.5%).

(b) As at 31 December 2016, available-for-sale financial assets represented the short-term financial products with guaranteed principal and floating returns purchased by the Company from the third party commercial banks, with an expected annual return of 1.7% - 2.80%.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets

	31 December 2016	31 December 2015
Measured at fair value		
Available-for-sale equity instruments (a)	2,177,635	2,119,913
Financial products with guaranteed principal and floating returns	1,100,000	-
	3,277,635	2,119,913
Measured at cost (b)		
Available-for-sale equity instruments (c)	3,177,505	3,101,841
Others (d)	4,100,000	200,000
	7,277,505	3,301,841
Less: Provision for impairment	(86,104)	(86,104)
	(86,104)	(86,104)
Less: Available-for-sale financial assets included in other current assets (Note 4(9))	(1,100,000)	-
	9,369,036	5,335,650

(a) Available-for-sale equity instruments measured at fair value:

	31 December 2016	31 December 2015
Available-for-sale equity instruments		
- Fair value	2,177,635	2,119,913
- Cost of sales	1,142,625	1,142,625
- Accumulated amount in other comprehensive income	782,064	737,839
- Accumulated provision for impairment	(86,104)	(86,104)

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets (Cont'd)

(a) Available-for-sale equity instruments measured at fair value (Cont'd):

	31 December 2016	31 December 2015
TravelSky Tech (Note)	849,000	622,481
China Merchants Securities (Note)	645,575	829,552
HKIAL	336,192	336,192
New Generation Media (Note)	310,446	288,271
HNA Infrastructure (Note)	36,422	43,417
	2,177,635	2,119,913

Note: The fair value of these shares as at 31 December 2016 was determined based on the closing price of the trading shares at 31 December 2016.

(b) Financial assets measured at cost

Most of available-for-sale financial assets measured at cost hold by the Group are investment in non-listed companies, which do not have active market quotation. Thus the fair value estimate has a large range of variation, and different probabilities of fair value estimates cannot be determined rationally. Because the fair value cannot be reliably measured, the investment is measured at cost. As at 31 December 2016, the Group did not plan to dispose these investments.

(c) Available-for-sale equity instruments

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016	Shareholding of investee as at 31 December 2016	Cash dividends in the current year
HNA Finance	946,996	-	-	946,996	8.00%	25,279
Capital Airlines	508,620	-	-	508,620	19.60%	-
Easy Life	-	500,000	-	500,000	7.22%	-
Haikou Meilan	304,765	-	-	304,765	12.08%	-
Brighttime Global Ltd. (Note 4(11)(ii))	-	219,496	-	219,496	18.26%	-
Inflection Energy LLC	123,825	-	-	123,825	8.11%	-
TAP Portugal	-	117,531	-	117,531	9.94%	-
Yangtze River Airlines (Note)	810,000	-	(810,000)	-	-	-
Others	407,635	48,742	(105)	456,272		12,951
Total	3,101,841	885,769	(810,105)	3,177,505		38,230

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Available-for-sale financial assets (Cont'd)

(c) Available-for-sale equity instruments (Cont'd)

Note: In September 2016, the Company increased contribution of RMB915,200 thousand to Yangtze River Airlines. After the increase, the Company and its subsidiary Lucky Air together held 21.53% equity in Yangtze River Airlines and had significant influence over it. Accordingly, Yangtze River Airlines was treated as an associate and relevant amount was transferred into long-term equity investment.

(d) In 2012, together with a number of investors, the Company founded the Fund Guokai Jingcheng with RMB200,000 thousand. The duration of the Fund is 10 years. As a limited partner, the Company does not participate in the daily management and decision-making of the Fund. The Company had no control, joint control or significant influence over the Fund, so it was accounted for in available-for-sale financial assets.

In November 2016, together with a number of investors, the Company and its subsidiary Chang'an Airlines jointly founded the Haikou Chuangyuan Cabin Services Investment Fund with RMB3,000,000 thousand. The duration of the Fund is 5 years. As a limited partner, the Company does not participate in the daily management and decision-making of the Fund. The Company had no control, joint control or significant influence over the Fund, so it was accounted for in available-for-sale financial assets.

In February 2016, together with a number of investors, the Company's subsidiary HNA Hong Kong founded the HNA (Cayman) Ground Services Investment Fund with RMB900,000 thousand. The duration of the Fund is 10 years. As a limited partner, the Company does not participate in the daily management and decision-making of the Fund. The Company had no control, joint control or significant influence over the Fund, so it was accounted for in available-for-sale financial assets.

(11) Long-term equity investments

	31 December 2016	31 December 2015
Associates	19,049,278	13,097,909
Less: Provision for impairment of long-term equity investments	-	-
	19,049,278	13,097,909

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(11) Long-term equity investments (Cont'd)

		Movements in the current year										
	31 December 2015	Transfer from available-for-sale financial assets	Increase in investment	Decrease in investment	Share of net profit /(loss) under equity method	Adjustment for other comprehensive income	Share of other changes in equity	Dividends or profits declared by associates	Provision for impairment loss	Transfer to available-for-sale financial assets	31 December 2016	Provision for impairment loss
Tianjin Airlines	4,838,362	-	-	-	207,673	(40,357)	-	-	-	-	5,005,678	-
Bohai Trust (i)	3,417,080	-	-	-	268,181	-	211,959	(40,578)	-	-	3,856,642	-
HKAGH (ii)	2,041,035	-	-	-	69,076	-	-	-	-	(219,496)	1,890,615	-
HNA Technology	1,231,304	-	-	-	139,261	-	-	-	-	-	1,370,565	-
West Air	1,085,952	-	-	-	167,411	-	-	-	-	-	1,253,363	-
Hunan Golden-Deer	450,000	-	-	-	-	-	-	-	-	-	450,000	-
Yangtze River Airlines (Note 4(10)(c))	-	810,000	915,200	-	69,177	15,842	-	-	-	-	1,810,219	-
Azul Airlines (iii)	-	-	3,265,572	-	(51,171)	-	-	-	-	-	3,214,401	-
HNA Import & Export Co., Ltd. (iv)	-	-	150,000	-	-	-	-	-	-	-	150,000	-
Others	34,176	-	-	-	29,739	-	-	(16,120)	-	-	47,795	-
	13,097,909	810,000	4,330,772	-	899,347	(24,515)	211,959	(56,698)	-	(219,496)	19,049,278	-

(i) In December 2016, HNA Capital Group, the controlling party of Bohai Trust, increased its contribution to Bohai Trust by RMB2,240,000 thousand. Accordingly, the shares the Group held in Bohai Trust was diluted from 39.78% to 30.14%. Based on the difference between the amount of equity the Group held in Bohai Trust after the increase and the original carrying amount of relevant long-term equity investment item, the Group increased the long-term equity investments by RMB211,959 thousand, and also recorded the same amount in capital surplus.

(ii) In 2016, Brighttime Global Ltd. offered 18.26% of its shares to the Group as consideration for acquisition of one non-wholly owned subsidiary of HKAGH, the associate of the Group. After the transaction, the Group still held 27.02% equity in HKAGH and held 18.26% equity in Brighttime Global Ltd. The Group had no control, joint control or significant influence over Brighttime Global Ltd., so Brighttime Global Ltd. was accounted for as the available-for-sale financial assets. The Group recored RMB 219,496 thousand as the initial investment cost of Brighttime, based on the amount of equity the Group indirectly held in this non-wholly owned subsidiary on the above mentioned transaction date.

(iii) In September 2016, the Company contributed RMB3,265,572 thousand in cash to Azul Airlines. After the increase, the Company held 27.22% equity in Azul Airlines and has significant influence over it. Accordingly, Azul Airlines is accounted for as an associate.

(iv) In September 2016, the Company contributed RMB150,000 thousand to incorporate HNA Import & Export Co., Ltd. together with other investors. The Company held 30% equity in the new company and significant influence over it. Accordingly, HNA Import & Export Co., Ltd. is accounted for as an associate.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Investment properties

	Buildings and relevant land use rights	Land use rights	Total
31 December 2015	5,566,495	4,011,674	9,578,169
Increase in current year	262,143	-	262,143
Transfer from fixed assets in current year	220,890	-	220,890
Changes in fair value	(25,537)	-	(25,537)
31 December 2016	6,023,991	4,011,674	10,035,665

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 2016, the net book value of the investment properties held by the Group was RMB10,035,665 thousand (31 December 2015: RMB9,578,169 thousand). The fair value was determined based on the valuation conducted by an independent appraiser at the valuation date of 31 December 2016.

In 2016, the evaluated impairment in the fair value of the investment properties of the Group amounted to RMB25,537 thousand (2015: RMB166,184 thousand), and was fully recognised gains/losses on changes in fair value in profit or loss for the year (Note 4(48)).

As at 31 December 2016, investment properties with the book value of RMB4,535,864 thousand (31 December 2015: RMB1,010,194 thousand) were pledged for long-term borrowings (Note 4(30)).

As at 31 December 2016, the title certificates of certain buildings and land use rights with carrying amount of RMB523,792 thousand (31 December 2015: RMB79,016 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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Fixed assets

	Buildings	Aircraft and engines	High-price spare parts	Motor vehicles	Machinery and equipment	Total
Cost						
31 December 2015	4,302,384	69,006,763	2,540,318	278,063	703,357	76,830,885
Increase in the current year						
Purchase	-	439,480	620,980	34,687	72,691	1,167,838
Transfers from construction in progress	467,162	3,380,287	-	-	66,345	3,913,794
Decrease in the current year						
Disposal or scrapping	(2,292)	(459,898)	(3,068)	(210,639)	(67,694)	(743,591)
Transfer to assets classified as held for sale	-	(514,867)	-	-	-	(514,867)
Transfer to investment properties	(213,902)	-	-	-	-	(213,902)
31 December 2016	4,553,352	71,851,765	3,158,230	102,111	774,699	80,440,157
Accumulated depreciation						
31 December 2015	(630,002)	(16,054,794)	(1,652,008)	(168,274)	(432,893)	(18,937,971)
Increase in the current year						
Provision	(111,588)	(3,811,130)	(142,928)	(16,084)	(44,538)	(4,126,268)
Decrease in the current year						
Disposal or scrapping	1,269	350,811	1,394	127,371	67,064	547,909
Transfer to assets classified as held for sale	-	179,194	-	-	-	179,194
Transfer to investment properties	4,246	-	-	-	-	4,246
31 December 2016	(736,075)	(19,335,919)	(1,793,542)	(56,987)	(410,367)	(22,332,890)
Provision for impairment loss						
31 December 2015	-	-	(16,378)	-	-	(16,378)
Increase in the current year	-	-	-	-	-	-
Decrease in the current year	-	-	-	-	-	-
31 December 2016	-	-	(16,378)	-	-	(16,378)
Carrying amount						
31 December 2016	3,817,277	52,515,846	1,348,310	45,124	364,332	58,090,889
31 December 2015	3,672,382	52,951,969	871,932	109,789	270,464	57,876,536

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Fixed assets (Cont'd)

As at 31 December 2016, the fixed assets with the net book value of RMB23,739,633 thousand (31 December 2015: RMB34,393,996 thousand) and cost of RMB31,538,425 thousand (31 December 2015: RMB43,056,679 thousand) were pledged for short-term and long-term borrowings (Note 4(21) and 4(30)).

In 2016, the provision for depreciation of fixed assets amounted to RMB4,126,268 thousand (2015: RMB3,743,161 thousand), of which RMB3,381,515 thousand, RMB637,960 thousand, RMB5,404 thousand and RMB101,389 thousand (2015: RMB3,063,691 thousand, RMB589,053 thousand, RMB4,857 thousand and RMB 85,560 thousand) were charged into cost of sales, other operating cost, operating expenses and general and administrative expenses, respectively.

In 2016, the costs of fixed assets transferred from construction in progress amounted to RMB3,913,794 thousand (2015: RMB10,021,311 thousand).

(a) Fixed assets held under finance leases

As at 31 December 2016, the fixed assets with a carrying amount of RMB10,336,783 thousand (a cost of RMB14,235,658 thousand) were held under finance leases (31 December 2015: a carrying amount of RMB11,176,661 thousand and a cost of RMB14,184,922 thousand) (Note 10). The analysis is as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
31 December 2016				
Aircraft and engines	14,185,658	(3,869,915)	-	10,315,743
High-price spare parts	50,000	(28,960)	-	21,040
	14,235,658	(3,898,875)	-	10,336,783

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount
31 December 2015				
Aircraft and engines	14,134,922	(2,983,468)	-	11,151,454
High-price spare parts	50,000	(24,793)	-	25,207
	14,184,922	(3,008,261)	-	11,176,661

(b) Fixed assets with pending certificates of ownership

As at 31 December 2016, the title certificates of buildings with the net book value of RMB653,584 thousand (cost of RMB705,238 thousand) (31 December 2015: net book value of RMB783,989 thousand and cost of RMB822,202 thousand) were under the progress of application. The Company's management expected the above stated uncompleted property right issue posed no substantial obstacles, nor any significant adverse impact was imposed on the operation of the Company.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(14) Construction in progress

	31 December 2016			31 December 2015		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Advanced payments for aircraft acquisitions	10,274,344	-	10,274,344	10,606,719	-	10,606,719
Construction project for new base of Changshui Airport	282,722	-	282,722	170,113	-	170,113
Beijing base expansion project	424,165	-	424,165	637,605	-	637,605
Others	537,095	(2,307)	534,788	581,714	(2,307)	579,407
	11,518,326	(2,307)	11,516,019	11,996,151	(2,307)	11,993,844

As at 31 December 2016, construction in progress of RMB282,722 thousand (31 December 2015: RMB170,113 thousand) was pledged for long-term borrowings (Note 4(30)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(14) Construction in progress (Cont'd)

(a) Movement of major construction in progress

Name	Budgeted amount	31 December 2015	Increase in the current year	Transfer to fixed assets during the current year	Transfer to investment property during the current year	Transfer to other items during the current year (Note)	31 December 2016	Proportion of investment in project to budget (%)	Progress	Accumulated borrowing costs capitalised	Capitalised amount during the current year: Interest expenses	Capitalised amount during the current year: Exchange gain or loss on special borrowings	Capitalisation rate	Source of funds
Advanced payments for aircraft acquisitions	66,717,794	10,606,719	7,055,342	(3,380,288)	-	(4,007,429)	10,274,344	15%	15%	1,879,581	523,186	282,371	5.01%	Bank borrowings
Construction project for new base of Changshui Airport	351,828	170,113	173,272	(60,663)	-	-	282,722	80%	80%	106,775	75,808	-	6.22%	Bank borrowings and self-generated funds
Beijing base expansion project	474,045	637,605	66,848	(19,211)	(261,077)	-	424,165	89%	89%	140,473	-	-	-	Bank borrowings and self-generated funds
Others		581,714	414,666	(453,632)	(1,066)	(4,587)	537,095			14,825	14,825	-		Bank borrowings and self-generated funds
		11,996,151	7,710,128	(3,913,794)	(262,143)	(4,012,016)	11,518,326			2,141,654	613,819	282,371		

Note: In 2016, the Company and Bohai Capital signed an agreement, which was confirmed by Airbus SAS and the Boeing Company, and under which the Group transferred the aircraft purchase right with respect to A330 and 787-9, respectively, to Bohai Capital; the Group received the paid aircraft prepayments and interests amounting to RMB3,690,642 thousand. In addition, the Company sold some simulating models, with the income amounting RMB316,787 thousand in 2016.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) Intangible assets

	Land use rights	Software	Total
Cost			
31 December 2015	436,051	1,754	437,805
Increase in the current year	229,270	12	229,282
Decrease in the current year	-	-	-
31 December 2016	665,321	1,766	667,087
Accumulated amortisation			
31 December 2015	(104,098)	(1,754)	(105,852)
Provision in the current year	(12,716)	(3)	(12,719)
Decrease in the current year	-	-	-
31 December 2016	(116,814)	(1,757)	(118,571)
Provision for impairment			
31 December 2015	-	-	-
Increase in the current year	-	-	-
Decrease in the current year	-	-	-
31 December 2016	-	-	-
Carrying amount			
31 December 2016	548,507	9	548,516
31 December 2015	331,953	-	331,953

For the year ended 31 December 2016, total amortisations of the intangible assets amounted to RMB12,719 thousand (2015: RMB9,512 thousand).

As at 31 December 2016, land use rights with a net book value of RMB27,846 thousand and a cost of RMB40,421 thousand (31 December 2015: net book value of RMB28,746 thousand and a cost of RMB40,421 thousand) were pledged for long-term borrowings (Note 4(30)).

(16) Goodwill

As at 31 December 2016, 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.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Long-term prepaid expenses

	31 December 2015	Increase in the current year	Decrease in the current year	Amortisation in the current year	31 December 2016
Deferred pilot recruitment and training costs	681,485	510,816	-	(251,658)	940,643
Others	15,963	7,856	(2,379)	(7,870)	13,570
	697,448	518,672	(2,379)	(259,528)	954,213

(18) Other non-current assets

	31 December 2016	31 December 2015
Prepayments for investment (Note)	5,553,700	-
Security deposits for leased aircraft and engines	1,536,728	1,218,540
Maintenance reserve fund for aircraft and engines	1,410,730	1,161,623
Deferred losses on sales and lease back under finance leases	107,138	141,905
Others	104,000	68,000
	8,712,296	2,590,068

Note: As at 31 December 2016, the prepayments for investment represented the concerning 48.21% equity of Tianjin Airlines investment prepayment to Tianjin Airlines Holding. In January 2017, the Company completed the relevant share transfer procedures and obtained the control over Tianjin Airlines.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2016		31 December 2015	
	Deductible temporary differences and tax losses	Deferred tax assets	Deductible temporary differences and tax losses	Deferred tax assets
Accrued aircraft and engines overhaul and maintenance cost	1,795,082	432,192	1,486,064	354,984
Deductible losses	8,884	2,221	361,534	90,383
Intra-group unrealised profit	299,504	71,099	293,530	69,444
Others	4,236	635	2,225	334
	2,107,706	506,147	2,143,353	515,145
Including:				
Expected to be recovered within one year (inclusive)		5,065		93,161
Expected to be recovered after one year		501,082		421,984
		506,147		515,145

(b) Deferred tax liabilities before offsetting

	31 December 2016		31 December 2015	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Depreciation of fixed assets	12,297,782	3,074,446	10,998,408	2,749,602
Differences between book value and tax base of investment properties	7,445,643	1,856,238	7,419,388	1,850,797
Changes in fair value of available-for-sale financial assets	948,246	231,417	890,524	217,920
Investment income of non-monetary assets	147,030	36,757	220,544	55,136
Others	356,185	64,553	282,240	53,463
	21,194,886	5,263,411	19,811,104	4,926,918
Including:				
Expected to be recovered within one year (inclusive)		82,933		71,841
Expected to be recovered after one year		5,180,478		4,855,077
		5,263,411		4,926,918

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Deferred tax assets and deferred tax liabilities (Cont'd)

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

	31 December 2016	31 December 2015
Deductible temporary differences	-	-
Deductible losses	165,616	104,111
	165,616	104,111

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 2016	31 December 2015
2018	15,092	15,092
2019	70,177	70,177
2020	18,842	18,842
2021	61,505	-
	165,616	104,111

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

	31 December 2016		31 December 2015	
	Offsetting amount	Balance after offsetting	Offsetting amount	Balance after offsetting
Deferred tax assets	506,147	-	515,145	-
Deferred income tax liabilities	506,147	4,757,264	515,145	4,411,773

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(20) Provision for asset impairment

	31 December 2015	Increase in the current year	Write-off in the current year		31 December 2016
			Reversal	Write-off	
Provision for impairment of available-for-sale financial assets	86,104	-	-	-	86,104
Provision for bad debts	78,311	2,011	-	-	80,322
Including: Provision for bad debts of accounts receivable	29,985	1,843	-	-	31,828
Provision for bad debts of other receivables	48,326	168	-	-	48,494
Provision for impairment of fixed assets	16,378	-	-	-	16,378
Provision for impairment of construction in progress	2,307	-	-	-	2,307
	183,100	2,011	-	-	185,111

(21) Short-term borrowings

	Currency	31 December 2016	31 December 2015
Pledged, impawned and guaranteed borrowings (a)		2,810,000	5,288,390
	RMB	2,810,000	5,265,000
	USD	-	23,390
Guaranteed borrowings (b)		4,646,690	5,486,100
	RMB	4,646,690	5,010,000
	USD	-	476,100
Unsecured borrowings		450,000	143,702
	RMB	450,000	100,000
	USD	-	43,702
Total		7,906,690	10,918,192

(a) As at 31 December 2016, the pledged, impawned and guaranteed borrowings totalling RMB2,810,000 thousand were pledged with the following fixed assets, impawned with the fixed deposit of RMB270,000 thousand and certain equity of the Group, the Group's related parties and third parties were used as collateral; meanwhile, and guaranteed by the Group and the Group's related parties (Note 7(5)(c)).

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(21) Short-term borrowings (Cont'd)

(a) As at 31 December 2015, the pledged, impawned and guaranteed borrowings totalling RMB5,288,390 thousand (including RMB5,265,000 thousand; RMB3,602 thousand, equivalent to RMB23,390 thousand) were pledged with the following fixed assets, impawned with the fixed deposit of RMB1,498,560 thousand and certain equity of the Group, the Group's related parties and third parties, and guaranteed by the Group and the Group's related parties (Note 7(5)(c)).

	31 December 2016		31 December 2015	
	Cost	Net book value	Cost	Net book value
Fixed assets - buildings (Note 4(13))	118,587	83,085	150,136	111,467

(b) As at 31 December 2016, guaranteed borrowings comprised:

(i) Borrowings of RMB1,278,000 thousand were guaranteed by related parties of the Group (Note 7(5)).

(ii) Borrowings of RMB3,368,690 thousand were guaranteed by the Company.

As at 31 December 2015, guaranteed borrowings comprised:

(i) Borrowings of RMB1,960,000 thousand are guaranteed by related parties of the Group (Note 7(5)(c)).

(ii) Borrowings of RMB3,526,100 thousand (including: RMB3,050,000 thousand; USD73,318 thousand, equivalent to RMB476,100 thousand) were guaranteed by the Company.

(c) As at 31 December 2016, the interest margin for short-term borrowings was 2.65% - 5.00% (31 December 2015: 2.65% - 6.44%).

(d) As at 31 December 2016, the Group had no short-term borrowings due but unpaid.

(22) Notes payable

	31 December 2016	31 December 2015
Bank acceptance notes	485,000	502,000
Trade acceptance notes	700,000	740,352
	1,185,000	1,242,352

As at 31 December 2016 and 31 December 2015, all notes payable would be due within one year.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(23) Accounts payable

	31 December 2016	31 December 2015
Aircraft and engines maintenance fees payable	2,541,444	2,230,346
Taking-off and landing fees payable	725,873	655,092
Operating lease aircraft rental payable	310,328	125,026
Catering fee payable	249,432	226,666
Ticket reservation fees payable	231,693	234,186
Collected ticket fare payable	171,405	94,170
Air material costs payable	125,452	78,073
Fuel cost payable	100,300	192,491
Others	247,318	383,098
	4,703,245	4,219,148

As at 31 December 2016, the accounts payable with ageing over 1 year amounted to RMB397,326 thousand (31 December 2015: RMB238,226 thousand), mainly including payables related to take-off and landing fees, in-flight catering, ticket reservation fees and maintenance fees. Considering the long-term business relationship with these suppliers, such amounts payable had not been finally settled yet.

(24) Advances from customers

	31 December 2016	31 December 2015
Sales in advance of carriage	2,538,990	1,778,962
Other advances received	48,457	66,473
	2,587,447	1,845,435

As at 31 December 2016, the advances from customers with ageing over 1 year amounted to RMB206,781 thousand, which mainly represented sales in advances of carriage (31 December 2015: RMB106,127 thousand). As the related services had not been rendered, the related balances had not yet been recognised as revenue.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(25) Employee benefits payable

	31 December 2016	31 December 2015
Short-term employee benefits payable (a)	304,970	316,476
Defined contribution plans payable (b)	5,564	7,665
	310,534	324,141

(a) Short-term employee benefits

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Wages and salaries, bonus, allowances and subsidies	266,551	2,594,306	(2,595,714)	265,143
Social security contributions	3,894	194,448	(196,146)	2,196
Including: Medical insurance	3,124	146,702	(148,214)	1,612
Work injury insurance	354	16,661	(16,838)	177
Maternity insurance	209	8,601	(8,679)	131
Annuity	207	22,484	(22,415)	276
Housing funds	5,121	164,402	(160,522)	9,001
Labour union funds and employee education funds	40,910	191,698	(203,978)	28,630
	316,476	3,144,854	(3,156,360)	304,970

(b) Defined contribution plans payable

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Basic pensions	6,967	267,753	(269,620)	5,100
Unemployment insurance	698	24,343	(24,577)	464
	7,665	292,096	(294,197)	5,564

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(26) Taxes payable

	31 December 2016	31 December 2015
Aviation development fund payable	308,745	337,042
Corporate income tax payable	325,350	181,165
International tax payable	155,062	107,027
Others	43,722	50,845
	832,879	676,079

(27) Interest payable

	31 December 2016	31 December 2015
Interest payable on bonds	529,584	616,294
Interests on borrowings	119,032	58,752
	648,616	675,046

(28) Other payables

	31 December 2016	31 December 2015
Security deposits and various funds	600,497	354,841
Amount due to related parties	104,517	58,210
Air base project expenses	56,337	94,082
Pilot training fees	28,112	14,440
Others	242,844	218,199
	1,032,307	739,772

As at 31 December 2016, other payables ageing over one year amounted to RMB411,828 thousand (31 December 2015: RMB320,310 thousand) and mainly comprised ticket deposits placed by ticket sales agents and other payables. Considering the continuing business relationships between the Group and these agents, such payable amounts had not yet been settled.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(29) Current portion of non-current liabilities

	31 December 2016	31 December 2015
Current portion of long-term borrowings (a)	5,830,860	4,501,090
Current portion of long-term payables (Note 4(32))	1,485,464	976,309
Bonds payable due within one year(Note 4(31))	6,192,923	3,555,537
	13,509,247	9,032,936

(a) Current portion of long-term borrowings

	Currency	31 December 2016	31 December 2015
Guaranteed and pledged or impawned borrowings (Note 4(30)(a))		3,298,118	3,852,291
	RMB	644,059	1,266,294
	USD	2,607,295	2,540,588
	EUR	46,764	45,409
Guaranteed borrowings (Note 4(30)(b))		2,532,742	621,775
	RMB	2,464,066	621,775
	USD	68,676	-
Unsecured borrowings		-	27,024
	RMB	-	20,000
	EUR	-	7,024
		5,830,860	4,501,090

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(30) Long-term borrowings

	Currency	31 December 2016	31 December 2015
Guaranteed and pledged or impawned borrowings (a)		24,090,841	26,632,785
	RMB	6,242,969	3,642,153
	USD	17,681,277	22,783,452
	EUR	166,595	207,180
Guaranteed borrowings (b)		1,245,696	3,470,588
	RMB	936,650	3,470,588
	USD	309,046	-
Unsecured borrowings		8,820	139,232
	USD	8,820	8,255
	EUR	-	130,977
		25,345,357	30,242,605

(a) As at 31 December 2016, the pledged, impawned and guaranteed borrowings amounting to RMB27,388,959 thousand (including the current portion, specifically including RMB6,887,028 thousand; USD2,924,678 thousand, equivalent to RMB20,288,572 thousand; and EUR29,200 thousand, equivalent to RMB213,359 thousand), were pledged with the following long-term assets (fixed assets, investment properties, construction in progress and intangible assets) and purchase rights of certain aircraft for which the related mortgage procedures have not been completed, impawned with the fixed deposit of RMB200,000 thousand and certain equity of the Group, the Group's related parties and third parties, and guaranteed by the Group and the Group's related parties (Note 7(5)(c)).

As at 31 December 2015, the pledged, impawned and guaranteed borrowings amounting to RMB30,485,076 thousand (including the current portion, specifically including RMB4,908,447 thousand; USD3,899,846 thousand, equivalent to RMB25,324,040 thousand; and EUR35,600 thousand, equivalent to RMB252,589 thousand) were pledge with the following long-term assets (fixed assets, investment properties, construction in progress and intangible assets) and purchase rights of certain aircraft for which the related mortgage procedures have not been completed, impawned with the fixed deposit of RMB200,000 thousand and certain equity of the Group, the Group's related parties and third parties, and guaranteed by the Group and the Group's related parties (Note 7(5)(c)).

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(30) Long-term borrowings (Cont'd)

(a) Guaranteed and pledged or impawned borrowings (Cont'd)

	31 December 2016		31 December 2015	
	Cost	Net book value	Cost	Net book value
Fixed assets - aircraft	30,873,419	23,312,582	41,755,854	33,334,127
- buildings	546,419	343,966	1,150,689	948,402
Total fixed assets (Note4(13))	31,419,838	23,656,548	42,906,543	34,282,529
Investment properties (Note 4(12))		4,535,864		1,010,194
Construction in progress (Note 4(14))		282,722		170,113
Intangible assets (Note 4(15))	40,421	27,846	40,421	28,746
Total		28,502,980		35,491,582

(b) As at 31 December 2016, guaranteed borrowings of RMB3,778,438 thousand (including the current portion, specifically including RMB3,400,716 thousand; USD54,450 thousand, equivalent to RMB377,722 thousand) were guaranteed by related parties of the Group (Note 7(5)(c)) and the Company, among which, RMB3,086,137 thousand was guaranteed by related parties of the Group (including RMB2,709,415 thousand; USD54,450 thousand, equivalent to RMB377,722 thousand), and RMB692,301 thousand was guaranteed by the Company.

As at 31 December 2015, guaranteed borrowings of RMB4,092,363 thousand (including the current portion) were guaranteed by related parties of the Group (Note 7(5)(c)) and the Company, among which, RMB3,135,192 thousand was guaranteed by related parties of the Group, and RMB957,171 thousand was guaranteed by the Company.

(c) As at 31 December 2016, the interest margin for long-term borrowings was 0.10% - 6.89% (31 December 2015: 0.10% - 6.89%).

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(31) Bonds payable

	31 December 2015	Issuance in the current year	Exchange gains or losses	Issuance cost	Amortisation of premium and discount	Repayment in the current year	31 December 2016
Corporate bonds	5,673,735	-	-	-	8,186	(3,560,000)	2,121,921
USD bonds	3,205,702	-	223,346	-	10,633	-	3,439,681
Private placement notes	3,183,120	-	-	-	9,803	-	3,192,923
Medium term notes	399,147	-	-	-	223	-	399,370
Singapore bonds	2,989,974	-	-	-	7,010	-	2,996,984
Total amount	15,451,678	-	223,346	-	35,855	(3,560,000)	12,150,879
Less: The portion due within 1 year (Note 4(29))	(3,555,537)						(6,192,923)
	11,896,141						5,957,956

The related bond information is outlined as follows:

	Par value	Date of issuance	Term	Amount
Corporate bonds (i)	1,440,000	24 May 2011	10 years	1,416,960
Corporate bonds (ii)	700,000	14 December 2012	7 years	693,000
USD bonds (iii)	USD500 million	7 February 2013	7 years	2,961,280
	1,170,000	1 August 2014	3 years	1,166,525
Private placement	1,200,000	17 September 2014	3 years	1,196,436
notes (iv)	830,000	14 October 2014	3 years	827,535
Medium term notes (v)	400,000	9 May 2014	5 years	398,800
Singapore bonds (vi)	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 Approval [2001] No. 721, the Company issued five-year and ten-year corporate bonds with a total principle amount of RMB5 billion. The corporate bonds bear interest at fixed rate of 5.6% (five-year bond) and 6.2% (ten-year bond) per annum, respectively, and the interest will be paid annually. The bond was irrevocably, jointly and severally guaranteed by HNA Group, a related party of the Company (Note 7(5)(c)). The five-year bond amounting to RMB3.56 billion has been due and repaid in the current year, while the ten-year bond amounting to RMB1.44 billion will be due in May 2021.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(31) Bonds payable (Cont'd)

The related bond information is outlined as follows (Cont'd):

(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 were listed in Shanghai Stock Exchange, with an unconditional and irrevocable guarantee provided by HNA Aviation Group, a related party of the Company (Notes 7(5)(c)).

(iii) In February 2013, HNA (HK) Hong Kong, a wholly-owned subsidiary of the Company, issued seven-year USD corporate bonds of USD500 million, with interest at 3.625% per annum. The bonds were listed in Singapore and guaranteed by the Company for a period of seven years.

(iv) 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.

(v) In May 2014, the Company issued five-year medium term note of RMB400 million bearing interest at 8.00% per annum and payable monthly.

(vi) From May to June 2014, HNA (HK), 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 were listed in Singapore, with an unconditional and irrevocable guarantee provided by the Company for a period of three years.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(32) Long-term payables

	31 December 2016	31 December 2015
Finance lease obligations	4,138,573	4,427,685
Securitisation (a)	7,549,776	5,943,730
	11,688,349	10,371,415
Less: Current portion payable within 1 year (Note 4(29))	(1,485,464)	(976,309)
	10,202,885	9,395,106

(a) Approved by the Shanghai Stock Exchange, the Company established the BSP finance ticket claims asset-backed special program in 2015 (hereinafter "Special Program"), aiming to finance RMB6.15 billion. As at 31 December 2016, the actual par value issued was RMB6,000,000 thousand, with an issuance amount of RMB5.96 billion and maturity of 22 - 58 months hereafter. The interest was 4.30% - 7.55%.

Approved by the National Association of Financial Market Institutional Investors ("the NAFMII"), the subsidiary of the Company offered non-public asset-backed notes amounting to RMB2 billion in 2015 primarily based on the rights to yields from BSP tickets, with a term between 1 - 5 years and an annual interest of 6.80% - 8.20%, and unconditional and irrevocable joint liability guaranty security was provided by HNA Group, the Company's related party, for the shortfalls from the repayment (Note 7(5)(c)). As at 31 December 2016, the asset-backed note amounted to RMB1.6 billion.

(33) Deferred income

	1 January 2016	Increase in the current year	Decrease in the current year	31 December 2016	Reason
Unredeemed mileages under frequent flyer programme	799,551	426,395	(341,218)	884,728	Unredeemed

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(34) Share capital

	December 2015	Movements in the current year	31 December 2016
Shares with trading restrictions -	674	4,623,938	4,624,612
Shares without trading restrictions -			
A shares	11,812,062	-	11,812,062
B shares	369,446	-	369,446
	12,181,508	-	12,181,508
	12,182,182	4,623,938	16,806,120

	31 December 2014	Movements in the current year	31 December 2015
Shares with trading restrictions -	674	-	674
Shares without trading restrictions -			
A shares	11,812,062	-	11,812,062
B shares	369,446	-	369,446
	12,181,508	-	12,181,508
	12,182,182	-	12,182,182

Approved by *Reply on Approval of Private Placement by Hainan Airlines Co., Ltd.* (Zheng Jian Xu Ke [2016] No. 875) issued by CSRC, the Company privately issued 4,623,938 thousand of A-shares on 5 September 2016 at a price of RMB3.58 per share, with total RMB16,553,700 thousand raised. Net of the issuance cost of RMB150,116 thousand, the net fund raised amounted to RMB16,403,584 thousand. RMB 4,623,938 was attributed to share capital while RMB 11,779,646 was recorded in capital surplus. The shares under this private placement are restricted, with the period of 12 months from 6 September 2016 to 6 September 2017.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(35) Other equity instruments

Approved by the NAFMII, the Company plans to issue medium term notes of RMB5,000,000 thousand in total in 2015. As at 31 December 2016, the notes issued by the Company had been RMB5,000,000 thousand. Net of the issuance cost of RMB37,500 thousand, the net fund raised amounted to RMB 4,962,500 thousand. The medium term notes are in good standing prior to the agreed redemption of such notes by the Company as per the issuance terms, and become due at the actual redemption. The redemption rights to such notes are held by the Company, and the investors are not allowed for put-back. Except for forced interest payment conditon, at each interest payment date of the notes, the Company can at its discretion opt to postpone the payment of the current interest and all interest and its yields already deferred under the terms until the next payment date, and such action is free from restriction by times. The medium term notes are recorded into shareholders' equity as they satisfy the conditions to recognise equity instruments.

(36) Capital surplus

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Share premium	5,366,980	11,779,646	-	17,146,626
Other capital surplus				
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Capital contribution by minority interests	380,212	493,931	-	874,143
- Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	-	109,132	-	109,132
- Others	(4,854)	-	-	(4,854)
	5,773,506	12,382,709	-	18,156,215

	31 December 2014	Increase in the current year	Decrease in the current year	31 December 2015
Share premium	5,445,022	-	(78,042)	5,366,980
Other capital surplus				
- Investment properties transferred from self-used properties	31,168	-	-	31,168
- Capital contribution by minority interests	209,303	170,909	-	380,212
- Others	2,646	-	(7,500)	(4,854)
	5,688,139	170,909	(85,542)	5,773,506

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(37) Other comprehensive income

	Other comprehensive income in balance sheet				Other comprehensive income in income statement in 2016				
	31 December 2015	Attributable to the Company after tax	Capital contribution by minority interests	31 December 2016	Amount before tax	Less: Amounts transferred to profit and loss in the year from other comprehensive income changed in the previous period	Less: Income taxes	Attributable to the Company after tax	Total comprehensive income attributable to minority shareholders after tax
Other comprehensive income items which will be reclassified subsequently to profit or loss									
Share of the other comprehensive income of the investee accounted for using equity method that may be reclassified subsequently to profit or loss	-	(24,515)	-	(24,515)	(24,515)	-	-	(24,515)	-
Profit or loss on changes in fair value of available-for-sale financial assets	681,838	22,819	-	704,657	57,722	-	(13,497)	22,819	21,406
Transfer from fixed assets into investment properties	29,837	8,277	-	38,114	11,234	-	(1,685)	8,277	1,272
	711,675	6,581	-	718,256	44,441	-	(15,182)	6,581	22,678

	Other comprehensive income in balance sheet				Other comprehensive income in income statement in 2015				
	31 December 2014	Attributable to the Company after tax	Capital contribution by minority interests	31 December 2015	Amount before tax	Less: Amounts transferred to profit and loss in the year from other comprehensive income changed in the previous period	Less: Income taxes	Attributable to the Company after tax	Total comprehensive income attributable to minority shareholders after tax
Other comprehensive income items which will be reclassified subsequently to profit or loss									
Profit or loss on changes in fair value of available-for-sale financial assets	692,592	22,800	(33,554)	681,838	55,999	-	(10,752)	22,800	22,447
Transfer from fixed assets into investment properties	-	29,837	-	29,837	40,496	-	(6,074)	29,837	4,585
	692,592	52,637	(33,554)	711,675	96,495	-	(16,826)	52,637	27,032

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(38) Surplus reserve

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Statutory surplus reserve	1,172,569	217,787	-	1,390,356

	31 December 2014	Increase in the current year	Adjustment in the current year	31 December 2015
Statutory surplus reserve	969,849	202,720	-	1,172,569

In accordance with the *Company Law* and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities. The Company appropriated 10% of net profit to statutory surplus reserve for the year ended 31 December 2016, which amounted to RMB217,787 thousand (2015: RMB202,720 thousand).

(39) Undistributed profits

	2016	2015
Undistributed profits at the beginning of the year	11,141,624	9,118,873
Add: Net profit attributable to the Company for the year	3,138,255	3,002,694
Less: Interest payable to other equity holders	(258,750)	-
Appropriation to surplus reserves	(217,787)	(202,720)
Ordinary share dividends payable	-	(777,223)
Undistributed profits at the end of the year	13,803,342	11,141,624

(a) As at 31 December 2016, undistributed profits included surplus reserve of RMB417,861 thousand attributable to the Company's subsidiaries (31 December 2015: RMB419,214 thousand).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(40) Minority interests

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

	31 December 2016	31 December 2015
Xinhua Airlines	5,782,256	2,405,149
Chang'an Airlines	2,708,763	736,677
Lucky Air	1,444,853	442,418
Shanxi Airlines	1,103,391	1,039,513
Fuzhou Airlines	635,729	230,686
Beijing Airlines	123,582	120,436
Urumqi Airlines	111,062	102,025
Others	5,982	5,982
	11,915,618	5,082,886

(41) Revenue and cost of sales

	2016	2015
Revenue from main operations (a)	38,037,020	33,077,255
Revenue from other operations (b)	2,641,110	2,148,184
	40,678,130	35,225,439
Cost of sales (a)	(30,496,204)	(25,048,837)
Operating cost of other operations (b)	(864,322)	(707,333)
	(31,360,526)	(25,756,170)

(a) Revenue and cost of sales

	2016		2015	
	Revenue from main operations	Operating cost of main operations	Revenue from main operations	Operating cost of main operations
Passenger	37,033,179	(29,732,451)	32,067,033	(24,312,724)
Cargo and mail	951,291	(763,753)	970,890	(736,113)
Others	52,550	-	39,332	-
	38,037,020	(30,496,204)	33,077,255	(25,048,837)

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(41) Revenue and cost of sales (Cont'd)

(b) Revenue and cost of sales from other operations

	2016		2015	
	Revenue from other operations	Cost of sales from other operations	Revenue from other operations	Cost of sales from other operations
Aircraft leasing (Note 7(5)(b))	989,169	(720,569)	820,196	(606,127)
Processing fee for cancelled tickets	953,892	-	711,669	-
Property rental	403,126	(46,081)	410,365	(20,833)
Commission fee	86,121	-	36,814	-
Others	208,802	(97,672)	169,140	(80,373)
	2,641,110	(864,322)	2,148,184	(707,333)

The costs of aircraft leasing did not include interest charge of RMB184,319 thousand (2015: RMB131,230 thousand incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(42) Taxes and surcharges

	2016	2015
Business tax	22,108	68,178
City maintenance and construction tax	21,431	17,284
Educational surcharge	14,041	12,061
Others	62,832	7,678
	120,412	105,201

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

(43) Selling and distribution expenses

	2016	2015
Commissions tickets sales	757,677	1,168,842
Tickets reservation fee	421,719	325,745
Wages, bonuses and welfares	272,912	235,575
Sales branches expenses	119,956	81,087
Rental	46,742	48,978
Others	162,924	126,978
	1,781,930	1,987,205

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(44) General and administrative expenses

	2016	2015
Wages, bonuses and welfares	281,794	223,043
Depreciation	101,389	85,560
Others	543,517	531,987
	926,700	840,590

(45) Financial expenses - net

	2016	2015
Interest expenses	3,761,760	4,230,027
Less: capitalised interest (Note 4(14)(a))	(613,819)	(621,537)
Less: interest income	(602,811)	(599,513)
Net exchange losses	2,141,975	1,870,132
Less: capitalised exchange losses (Note 4(14)(a))	(282,371)	(343,213)
Others	117,291	108,719
	4,522,025	4,644,615

Interest income includes interest receivable from related parties (Note 7(5)(a)).

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(46) Expenses by nature

The cost of sales, selling and distribution expenses and general and administrative expenses in the income statement are listed as follows by nature:

	2016	2015
Cost of aviation fuel	7,858,583	7,451,780
Cost of take-off and landing	4,662,418	3,616,840
Depreciation and amortisation expenses	4,438,776	3,999,797
Rental expenses	4,395,547	2,833,844
Maintenance of aircraft and consumption of aviation materials	3,988,983	3,205,412
Employee benefits	3,436,950	2,711,421
Cost of catering	1,096,028	816,003
Civil Aviation Development Fund	903,829	812,770
Commissions tickets sales	757,677	1,168,842
Tickets reservation fee	421,719	325,745
Others	2,108,646	1,641,511
	34,069,156	28,583,965

(47) Asset impairment losses

	2016	2015
Provision for bad debts	2,011	1,282

(48) (Losses)/gains on changes in fair value

	2016	2015
Changes in fair value of investment properties (Note 4(12))	(25,537)	166,184
Changes in fair value of financial assets and liabilities at fair value through profit or loss (Note 4(2))	5,494	-
	(20,043)	166,184

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(49) Investment income

	2016	2015
Investment income from long-term equity investment under equity method (Note 4(11))	899,347	840,566
Investment income from financial products (Note 4(9))	39,692	27,214
Dividend income from available-for-sale financial assets	102,328	32,972
Income from disposal of long-term equity investment	-	77,401
Income from settlement of forward foreign exchange contracts and option foreign exchange contracts (Note 4(2))	18,946	-
	1,060,313	978,153

There is no restriction on recovery of investment income.

(50) Non-operating income

	2016	2015	Amount recognised in non-recurring profit or loss in 2016
Subsidy income	865,385	756,424	865,385
Including: Flight route subsidies	526,355	417,138	526,355
Tax refund	19,174	30,276	19,174
Other financial subsidies	319,856	309,010	319,856
Gains on disposal of non-current assets	112,229	55,648	112,229
Others	83,295	71,868	83,295
	1,060,909	883,940	1,060,909

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

(51) Income tax expenses

	2016	2015
Current income tax	321,918	123,182
Deferred income tax	330,309	533,386
	652,227	656,568

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(51) Income tax expenses (Cont'd)

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 as follows:

	2016	2015
Total profit	4,062,371	3,913,819
Income tax expenses calculated at applicable tax rate of 25% (2015: 25%)	1,015,592	978,455
Effect of different tax rates of subsidiaries	(68,270)	(50,231)
Income not subject to tax	(249,892)	(245,050)
Costs, expenses and losses not deductible for tax purposes	9,619	16,380
Unrecognised deductible tax losses	15,376	5,112
Utilisation of deductible loss of previously unrecognised deferred tax assets	-	(5,004)
Confirmation of deductible loss of previously unrecognised deferred tax assets	-	(6,382)
Adjustment of current income tax in accordance of tax clearance	(70,198)	(36,712)
Tax expense	652,227	656,568

(52) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	2016	2015
Consolidated net profit attributable to ordinary shareholders of the Company	3,138,255	3,002,694
Less: Distribution to holders of equity instruments (Note)	(258,750)	-
	2,879,505	3,002,694
Weighted average number of ordinary shares outstanding	13,723,495	12,182,182
Basic earnings per share (RMB Yuan)	0.210	0.246

Note: In accordance with China Accounting Standards, the Company deducted the interest on other equity instruments - medium term note from the net profit attributable to the shareholders of the Company when calculating the basic earnings per share for 2016.

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2016 (2015: Nil), diluted earnings per share equal to basic earnings per share.

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(53) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	2016	2015
Receipt of notes payable and other security deposits	685,824	2,116,385
Receipts of subsidy income	846,211	700,227
Others	163,167	149,888
	1,695,202	2,966,500

(b) Cash paid relating to other operating activities

	2016	2015
Payments of notes and other security deposits	886,713	1,528,994
Payments of ticket sales commission	757,677	1,168,842
Payments of ticket reservation fees	421,719	325,745
Payments of bank charges	117,291	108,719
Payments of advertising and entertainment expenses	78,047	44,593
Payments of sales branches expenses	119,956	81,087
Others	541,482	618,488
	2,922,885	3,876,468

(c) Cash received relating to other investing activities

	2016	2015
Receipts of term deposits upon maturity	2,058,560	1,773,577
Interests on deposits	576,198	619,118
Revenue from sale of option foreign exchange contracts	103,987	-
	2,738,745	2,392,695

(d) Cash paid relating to other investing activities

	2016	2015
Payment of term deposits	470,000	1,598,560

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(53) Notes to the consolidated cash flow statement (Cont'd)

(e) Cash received relating to other financing activities

	2016	2015
Cash received from asset securitisation	1,988,000	5,936,000
Cash received from discounted notes payable	485,000	502,000
	2,473,000	6,438,000

(f) Cash paid relating to other financing activities

	2016	2015
Payments of finance leases	722,435	860,115
Payments of discounted notes payable	502,000	4,602,450
Payments of asset-backed notes	400,000	-
Interest on discounting notes	43,047	105,810
	1,667,482	5,568,375

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(54) Supplementary information to the cash flow statement

(a) Supplementary information to the cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2016	2015
Net profit	3,410,144	3,257,251
Adjust for: Provision for asset impairment (Note 4(47))	2,011	1,282
Depreciation of fixed assets (Note 4(13))	4,126,268	3,743,161
Amortisation of intangible assets (Note 4(15)	12,719	9,512
Amortisation of long-term prepaid expenses (Note 4(17))	259,528	189,600
Amortisation of deferred loss on sales and leaseback transaction	34,767	39,652
Gains on disposals of fixed assets	(5,596)	(53,236)
Loss (income) on changes in fair value (Note 4(48))	20,043	(166,184)
Financial expenses	4,509,079	4,535,896
Investment income (Note 4(49))	(1,060,313)	(978,153)
Increase in deferred tax liabilities	330,309	589,666
Increase/(decrease) in deferred income (Note 4(33))	85,177	(12,284)
Decrease in inventories	14,896	27,070
(Increase)/decrease in operating receivables	(1,472,934)	1,053,147
Increase in operating payables	2,020,991	300,087
Net cash flows from operating activities	12,287,089	12,536,467

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

	2016	2015
Fixed assets held under finance leases	-	821,666

Net increase/(decrease) in cash and cash equivalents

	2016	2015
Cash and cash equivalents at the end of the year	20,203,911	15,367,831
Less: Cash and cash equivalents at the beginning of the year	(15,367,831)	(17,365,628)
Net increase/(decrease) in cash and cash equivalents	4,836,080	(1,997,797)

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(54) Supplementary information to the cash flow statement (Cont'd)

(b) Cash and cash equivalents

	31 December 2016	31 December 2015
Cash on hand	932	1,157
Cash at bank	20,202,979	15,366,674
Cash and cash equivalents at the end of the year	20,203,911	15,367,831

(All amounts in RMB Thousand Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(55) Monetary items denominated in foreign currencies

	31 December 2016		
	Balances denominated in foreign currency	Translation rate	Balances denominated in RMB
Cash at bank and on hand -			
USD	135,786	6.9370	941,947
EUR	14,174	7.3068	103,567
Others			31,055
Accounts receivable -			
USD	6,641	6.9370	46,066
EUR	2,681	7.3068	19,590
Others			6,513
Advances to suppliers -			
USD	13,928	6.9370	96,616
Others			4,581
Other receivables -			
USD	6,819	6.9370	47,304
Others			5,174
Other non-current assets -			
USD	214,897	6.9370	1,490,740
Accounts payable -			
USD	120,878	6.9370	838,530
Others			114,928
Other payables -			
USD	159	6.9370	1,104
Others			1,260
Long-term borrowings -			
USD	2,980,400	6.9370	20,675,114
EUR	29,200	7.3068	213,359
Long-term payables -			
USD	475,099	6.9370	3,295,764
Bonds payable -			
USD	495,846	6.9370	3,439,681

(All amounts in RMB Thousand Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

(a) Composition

Subsidiaries	Location of major operation	Place of registration	Nature of business	Shareholding		Acquisition method
				Direct	Indirect	
Xinhua Airlines (Note 1)	Beijing	Beijing	Transportation	51.49%	-	Business combinations involving enterprises not under common control
Shanxi Airlines	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	59.43%	-	Business combinations involving enterprises not under common control
Beijing Kehang	Beijing	Beijing	Holding property	95%	-	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 (HK)	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	65.22%	-	Incorporation or investment
Urumqi Airlines	Urumqi	Urumqi	Transportation	86.32%	-	Incorporation or investment
HNA Commercial	Hong Kong	Hong Kong	Investment	100%	-	Incorporation or investment
Tiantong Hechuang	Shenzhen	Shenzhen	Investment	100%	-	Incorporation or investment
Lucky Air (Note 4)	Kunming	Kunming	Transportation	69.82%	-	Business combinations involving enterprises under common control

(All amounts in RMB Thousand Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONT'D)

(1) Equity in subsidiaries (Cont'd)

(a) Composition (Cont'd)

Note 1: In December 2016, other shareholders increased investment of RMB3,300,000 thousand in Xinhua Airlines. After the increase, the Company's equity shares in Xinhua Airlines was diluted to 51.49%.

Note 2: In December 2016, Chang'an Air Travel and other shareholders increased investment of RMB2,229,269 thousand in the Company's subsidiary Chang'an Airlines. After the increase, the Company's equity shares in Chang'an Airlines was diluted to 59.43%.

Note 3: In October 2016, the Company and other shareholders increased investment in Fuzhou Airlines. After the increase, the Company's equity shares in Chang'an Airlines was diluted to 65.22%.

Note 4: In December 2016, Yunnan Lucky Investment increased investment of RMB 1,000,000 thousand in the Company's subsidiary Lucky Air (Note 7(5)(f)). After the increase, the Company's equity shares in Lucky Air was diluted to 69.82%.

(b) Subsidiaries with significant minority interests

Subsidiaries	Shareholding of minority shareholders	Profit or loss attributable to minority shareholders for the year ended 31 December 2016	Dividends paid to minority interests for the year ended 31 December 2016	Minority interests as at 31 December 2016
Xinhua Airlines	48.51%	126,331	-	5,782,256
Shanxi Airlines	49.40%	63,878	-	1,103,391
Lucky Air	30.18%	60,827	-	1,444,853
Chang'an Airlines	40.57%	4,362	-	2,708,763
Urumqi Airlines	13.68%	9,037	-	111,062
Beijing Kehang	5.00%	3,147	-	123,582
Fuzhou Airlines	34.78%	4,307	-	635,729

(All amounts in RMB Thousand Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONT'D)

(1) Equity in subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests (Cont'd)

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

	31 December 2016						31 December 2015					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current liabilities	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Xinhua Airlines	2,403,094	12,140,497	14,543,591	2,004,478	620,029	2,624,507	2,107,535	8,308,600	10,416,135	1,729,875	761,549	2,491,424
Chang'an Airlines	3,260,618	6,704,903	9,965,521	1,815,991	1,472,567	3,288,558	4,061,648	4,593,929	8,655,577	2,330,040	1,911,662	4,241,702
Shanxi Airlines	1,953,497	1,257,184	3,210,681	676,117	300,978	977,095	2,141,273	971,331	3,112,604	694,210	314,116	1,008,326
Lucky Air	4,263,117	9,061,133	13,324,250	3,835,385	4,700,403	8,535,788	2,952,665	8,824,433	11,777,098	2,311,647	6,143,994	8,455,641
Fuzhou Airlines	1,258,500	791,171	2,049,671	221,958	-	221,958	435,774	262,017	697,791	121,075	-	121,075
Beijing Kehang	248,371	3,517,183	3,765,554	103,790	1,190,115	1,293,905	65,080	3,576,545	3,641,625	576,079	656,832	1,232,911
Urumqi Airlines	446,823	585,127	1,031,950	220,093	-	220,093	601,159	530,846	1,132,005	386,209	-	386,209

(All amounts in RMB Thousand Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONT'D)

(1) Equity in subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests (Cont'd)

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

	2016				2015			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Xinhua Airlines	4,746,689	416,246	482,414	375,598	4,452,184	492,823	562,207	71,052
Chang'an Airlines	1,157,604	26,131	34,067	698,144	2,254,448	205,674	213,996	447,419
Shanxi Airlines	1,821,300	129,308	129,308	5,595	1,640,532	110,962	110,962	974,093
Lucky Air	4,973,067	457,457	467,006	645,638	4,148,278	342,153	376,574	(514,284)
Fuzhou Airlines	1,135,279	10,997	10,997	25,769	561,360	14,317	14,317	(68,399)
Beijing Kehang	187,792	62,934	62,934	129,445	213,362	140,386	140,386	177,910
Urumqi Airlines	970,788	66,061	66,061	(38,618)	591,392	27,864	27,864	236,469

5 EQUITY IN OTHER ENTITIES (CONT'D)

(2) Equity in associates

(a) Basic information of major associates

	Location of major operation	Place of registration	Nature of business	Whether strategic to the Group's activities	Shareholding	
					Direct	Indirect
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 reorganisation, 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	-	30.14%
Azul Airlines	Barueri, São Paulo, Brazil	Barueri, São Paulo, Brazil	Goods and passengers transport	Yes	27.22%	-
HKAGH	Hong Kong	British Virgin Islands	Goods and passengers transport	Yes	-	27.02%

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONT'D)

(2) Equity in associates (Cont'd)

(b) Main financial information of major associates

	31 December 2016				31 December 2015			
	Tianjin Airlines	Bohai Trust	Azul Airlines	HKAGH	Tianjin Airlines	Bohai Trust	Azul Airlines	HKAGH
Current liabilities	12,291,027	8,467,406	3,533,583	8,239,174	6,556,779	4,785,616	3,793,131	5,501,364
Including: Cash and cash equivalents	9,063,283	2,693,927	1,015,804	3,869,945	4,581,216	555,980	1,301,462	1,260,479
Non-current assets	27,257,059	94,505	12,004,888	20,320,040	28,217,790	62,587	12,235,607	19,500,517
Total assets	39,548,086	8,561,911	15,538,471	28,559,214	34,774,569	4,848,203	16,028,738	25,001,881
Current liabilities	14,000,256	1,515,670	6,691,656	6,979,684	11,770,081	614,481	8,301,124	7,960,896
Non-current liabilities	11,201,657	-	6,993,413	14,582,431	11,301,602	-	8,529,482	9,487,192
Total liabilities	25,201,913	1,515,670	13,685,069	21,562,115	23,071,683	614,481	16,830,606	17,448,088
Non-controlling interests	489,887	-	-	-	269,059	-	-	-
Attributable to shareholders of the Company	13,856,286	7,046,241	1,853,403	6,997,099	11,433,827	4,233,722	(801,868)	7,553,793

(All amounts in RMB Thousand Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONT'D)

(2) Equity in associates (Cont'd)

(b) Main financial information of major associates (Cont'd)

	2016				2015			
	Tianjin Airlines	Bohai Trust	Azul Airlines	HKAGH	Tianjin Airlines	Bohai Trust	Azul Airlines	HKAGH
Revenue	9,092,248	1,252,357	12,337,484	11,473,376	7,893,611	1,069,942	12,795,459	9,966,115
Net profit	531,677	674,160	(233,647)	299,605	474,462	549,334	(2,197,858)	512,175
Other comprehensive income	(103,320)	-	109,104	-	-	-	(115,697)	-
Total comprehensive income	428,357	674,160	(124,543)	299,605	474,462	549,334	(2,313,555)	512,175
Dividends received from associated in the year	-	40,578	-	-	-	-	-	-

5 EQUITY IN OTHER ENTITIES (CONT'D)

(2) Equity in associates (Cont'd)

(b) Main financial information of major associates (Cont'd)

(i) The Group calculated the share of net assets by the shareholding based on the amount attributable to the Company in the consolidated financial statements of the associates. The fair value of net identifiable assets and liabilities of the associates at the acquisition of the investments and effects of the unified accounting policies have been taken into account for the amount in the consolidated financial statements of the associates.

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

6 SEGMENT INFORMATION

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

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

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

6 SEGMENT INFORMATION (CONT'D)

(a) The revenue, total profit, assets and liabilities of reporting segments for the years ended 31 December 2016 and 2015 are as follows:

	Airline operation segment		Other segments		Elimination between segments		Unallocated items (Note)		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenue generated from external transactions	40,017,645	34,990,370	660,485	235,069	-	-	-	-	40,678,130	35,225,439
Interest income	490,339	581,304	112,472	18,209	-	-	-	-	602,811	599,513
Interest expenses	3,742,091	4,177,745	19,669	52,282	-	-	-	-	3,761,760	4,230,027
Asset impairment losses	2,011	1,282	-	-	-	-	-	-	2,011	1,282
Depreciation and amortisation expenses	4,388,781	3,965,274	49,995	34,523	-	-	-	-	4,438,776	3,999,797
Gain/(loss) on changes in fair value	(27,228)	(102,304)	47,271	(63,880)	-	-	-	-	20,043	(166,184)
Total profit	2,913,188	2,766,756	88,870	168,910	-	-	1,060,313	978,153	4,062,371	3,913,819
Tax expense	631,021	609,610	21,206	46,958	-	-	-	-	652,227	656,568
Net profit	2,282,167	2,157,146	67,664	121,952	-	-	1,060,313	978,153	3,410,144	3,257,251
Total assets	118,743,595	101,101,781	8,035,093	11,986,757	(11,281,850)	(8,369,735)	32,647,179	20,662,424	148,144,017	125,381,227
Total liabilities	79,266,792	77,433,142	7,415,111	10,056,766	(6,414,043)	(673,123)	-	-	80,267,860	86,816,785

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.

(All amounts in RMB Thousand Yuan unless otherwise stated)

6 SEGMENT INFORMATION (CONT'D)

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

	2016	2015
Domestic	33,818,295	30,019,114
International and regional	6,859,835	5,206,325
	40,678,130	35,225,439

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.

7 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 2015	Increase in the current year	Decrease in the current year	31 December 2016
Grand China Air s	6,008,324	-	-	6,008,324

(c) The percentages of shareholding and voting rights held by the parent company in the Company

	31 December 2016		31 December 2015	
	Direct shareholding	Voting rights	Direct shareholding	Voting rights
Grand China Air	24.33%	24.33%	33.07%	33.07%

Except for the shares directly held by Grand China Air, American Aviation LDC, a wholly-owned subsidiary of Grand China Air, held 1.29% shares of the Company. As at 31 December 2016, Grand China Air directly and indirectly held 25.62% shares of the Company in total.

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(2) Subsidiaries

The general information and other related information of the subsidiaries is set out in Note 5(1).

(3) Associates

Except for the major associates disclosed in Note 5(2), the following associated have related party transactions with the Group.

Abbreviations (full names are set out in Note 16)	Relationship with the Company	Social credit code
Yangtze River Airlines	Associate of the Group	913100007411858237
HNA Technology	Associate of the Group	91460100698900982D
West Air	Associate of the Group	91500112798046824G
HNA Import & Export	Associate of the Group	91460100MA5RD8Q76F
HNA Aviation Import & Export	Associate of the Group	91460000713859181Q

(4) Other related parties

Abbreviations (full names are set out in Note 16)	Relationship with the Company	Social credit code
HNA Group	A shareholder with significant influence on the parent company of the Company	91460000708866504F
Xinhua Air Catering	Under HNA Group’s control	91110000744712756N
HNA Air Catering	Under HNA Group’s control	91460000620012387L
Xinjiang Catering	Under HNA Group’s control	91650100781752984T
Sanya Catering	Under HNA Group’s control	91460200742598750Y
HNA Infrastructure	Controlled by Haikou Meilan	91460000721271724R
Sanya Phoenix Airport	Under HNA Group’s control	914602002013608971
Haikou Meilan	A shareholder with over 5% voting rights of the Company	91460000708866571D
Bairuichen Culture	Under HNA Group’s control	91110105551416141F
HNA Travel Management	Under HNA Group’s control	91460000693161850B
Beijing Capital Airlines	Under HNA Group’s control	91110113708872779K
HNA Aviation Sales	Under HNA Group’s control	914690277088727603
HNA Cargo	Under HNA Group’s control	914600005573684199
HNA Travel Group	Under HNA Group’s control	91460000735810119T
HNA Hotel Group	Associate of HNA Group	460000000014299
Yangtze River Leasing	Under HNA Group’s control	913100006219043440
HNA Airport Holding	Under HNA Group’s control	914600007543602563
HNA Aviation Group	Under HNA Group’s control	91460000681176537B
Xinsheng Info Tech	Under HNA Group’s control	91460000671060987F
Changjiang Leasing	Participating shareholder of the Company	91120118721230316M

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(4) Other related parties (Cont'd)

Abbreviations (full names are set out in Note 16)	Relationship with the Company	Social credit code
HNA Beverage	Under HNA Group's control	914600007477808422
HNA Information	Under HNA Group's control	914600007138591653
Weifang Airport	Under HNA Group's control	91370700727549715W
Tangshan Airport	Under HNA Group's control	91130293693460105Y
Yichang Airport	Under HNA Group's control	91420500735198636Y
CAISSA International Travel	Under HNA Group's control	91110101710926051X
HK Airlines Leasing	Under HNA Group's control	Not applicable
HKIAL	Associate of HNA Group	Not applicable
HNA Capital Group	Under HNA Group's control	91460000798722853N
HNA Finance	Under HNA Group's control	911100001020543412
New Generation Media	Under HNA Group's control	91460000698934891L
Tianjin Airlines Holding	Controlling shareholder of HNA Group's associate	911201185813136455
Logistics Group	Under HNA Group's control	91310000051222594H
Bohai Financial Holdings	Under HNA Group's control	916500002285973682
eKing Technology	Under HNA Group's control	91460000708855514H
Gansu Catering	Under HNA Group's control	916201006654454502
Hainan Island Cards Property	Under HNA Group's control	91460000713864490B
Sky Plumage	Under HNA Group's control	91460000MA5RC58008
HK Airlines	Controlled by HKAGH	Not applicable
HK Express	Under control of Brighttime Global Ltd.	Not applicable
Easy Life	Under HNA Group's control	91110000571296706C
Yunnan Lucky Investment	Under HNA Group's control	9153010056317301XP
Chang'an Air Travel	Under HNA Group's control	91611101MA6TG5UC4D
Henghe Electronics	Under HNA Group's control	91460100552780025D

(5) Related party transactions

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

Nature of the transaction	Pricing policies	Related party	2016 Amount	2015 Amount
In-flight meal purchase	Mutually agreed price	Xinhua Air Catering	187,882	153,410
		HNA Air Catering	45,009	43,067
		Xinjiang Catering	44,681	38,257
		Sanya Catering	27,945	23,239
		HNA Beverage	25,531	21,259
		Gansu Catering	16,098	9,849
			347,146	289,081

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

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

Nature of the transaction	Pricing policies	Related party	2016 Amount	2015 Amount
Take-off and landing	Government directed price	HNA Infrastructure	135,428	128,873
		Sanya Phoenix Airport	114,372	118,708
		Haikou Meilan	64,756	39,878
		Weifang Airport	19,141	16,159
			333,697	303,618
Royalties	Mutually agreed price	New Generation Media	12,100	12,100
Receiving advertising services	Mutually agreed price	Bairuichen Culture	61,560	33,638
Receiving information technology services from related parties	Mutually agreed price	eKing Technology	65,570	53,003
Import & export agency fee	0.3% - 3% of purchase prices	HNA Aviation Import & Export	50,436	39,858
Ticket sales commissions to related parties	Mutually agreed price	HNA Aviation Sales	177,829	261,222
		HNA Travel Management	8,172	7,094
		Xinsheng Info Tech	981	998
			186,982	269,314
Ticket sales commissions from related parties	Mutually agreed price	Grand China Air	12,642	11,877
		West Air	2,028	255
		Tianjin Airlines	1,826	1,772
		Beijing Capital Airlines	981	502
			17,477	14,406
Sales of New Gold Deer cards	Mutually agreed price	HNA Travel Management	9,173	11,267
Receipt of aircraft maintenance services	Mutually agreed price	HNA Technology	2,128,999	1,165,188
		Beijing Capital Airlines	43,975	40,487
			2,172,974	1,205,675
Interest income	Market rate	HNA Finance	121,916	123,828
Charter income from cargo transport	Mutually agreed price	HNA Cargo	955,921	892,254

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

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

Nature of the transaction	Pricing policies	Related party	2016 Amount	2015 Amount
Charter income from passenger transport	Mutually agreed price	Weifang Airport	130,159	111,293
		CAISSA International Travel	70,553	207,619
		Tangshan Airport	15,000	16,020
		Yichang Airport	-	8,880
			215,712	343,812
Frequent flyer mileages income	Mutually agreed price	HK Airlines	14,082	8,500
		Tianjin Airlines	13,433	4,527
		Beijing Capital Airlines	5,627	2,559
			33,142	15,586
Payment of property management expenses	Mutually agreed price	Hainan Island Cards Property	78,977	53,668

(b) Leasing

(i) The Group as a lessor:

Name of lessee	Category of the leased asset	Lease income in 2016	Lease income in 2015
Tianjin Airlines	Aircraft	360,044	303,950
Beijing Capital Airlines	Aircraft	300,301	309,998
Yangtze River Airlines	Aircraft	114,947	28,582
Grand China Air	Aircraft	98,462	98,462
West Air	Aircraft	81,240	79,204
Sky Plumage	Simulating model	34,175	-
		989,169	820,196

Name of lessee	Category of the leased asset	Lease income in 2016	Lease income in 2015
HNA Hotel Group	Properties	121,753	137,779
HNA Technology	Properties	45,848	58,689
HNA Travel Group	Properties	14,736	15,429
HNA Capital Group	Properties	9,008	8,139
HNA Group	Properties	4,732	4,606
		196,077	224,642

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(b) Leasing (Cont'd)

(ii) The Group as a lessee:

Name of lessor	Category of the leased asset	Lease rentals in 2016	Lease rentals in 2015
Bohai Financial Holdings	Aircraft	806,114	105,969
HK Airlines	Aircraft	708,356	712,126
HK Express	Aircraft	61,801	57,197
Yangtze River Leasing	Aircraft engines	44,372	31,387
HK Airlines Leasing	Aircraft	33,023	117,368
Changjiang Leasing	Aircraft	25,916	-
HNA Technology	Vehicles	10,844	10,844
HNA Infrastructure	Terminals	7,454	7,092
		1,697,880	1,041,983

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

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

Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2016
(i) Short-term borrowings					
HNA Group and HNA Aviation	Shares of the Company	200,000	2016/03/23	2017/03/22	No
HNA Aviation Group	Chang'an Airlines	300,000	2016/06/01	2017/05/31	No
Haikou Meilan and HNA Group	Shares of the Company	810,000	2016/06/24	2017/03/25	No
Grand China Air	Shares of the Company	678,000	2016/06/28	2017/07/19	No
HNA Aviation Group and Grand China Air	Shares of the Company	1,550,000	2016/07/28	2017/11/20	No
Grand China Air	Lucky Air	70,000	2016/07/29	2017/01/28	No
HNA Aviation Group	Shanxi Airlines	200,000	2016/09/14	2017/09/13	No
HNA Aviation Group	Lucky Air	200,000	2016/10/25	2017/10/27	No
HNA Aviation Group	Shares of the Company	1,235,000	2016/12/21	2017/12/20	No
Grand China Air	Shares of the Company	400,000	2015/03/27	2016/03/26	Yes
Tianjin Airlines Holding and HNA Group	Shares of the Company	900,000	2015/03/27	2016/04/28	Yes
HNA Group and Grand China Air	Shares of the Company	3,640,000	2015/04/03	2016/11/08	Yes
HNA Group	Shares of the Company	660,000	2015/03/31	2016/12/30	Yes
HNA Group	Urumqi Airlines	20,000	2015/12/22	2016/12/21	Yes
HNA Aviation Group	Shares of the Company	500,000	2016/05/20	2016/12/22	Yes
HNA Aviation Group and Grand China Air	Shares of the Company	2,250,000	2016/03/30	2016/12/23	Yes
HNA Group	Shares of the Company	500,000	2016/03/15	2016/12/27	Yes
HNA Group	Xinhua Airlines	300,000	2016/03/24	2016/12/22	Yes

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

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

	Guarantor	Guarantee	Guaranteed and pledged amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2016
(ii)	Long-term borrowings					
	HNA Group and HNA Airport Holding	Shares of the Company	154,748	2002/08/02	2035/08/02	No
	HAN Group and HNA Hotel Group	Shares of the Company	234,500	2003/06/30	2018/06/29	No
	HAN Group, HNA Hotel Group and HNA Aviation Group	Shares of the Company	278,521	2003/08/28	2018/07/07	No
	HNA Group	Shares of the Company	2,101,310	2007/04/11	2027/08/28	No
	HNA Group	Chang'an Airlines	868,966	2007/09/29	2020/08/31	No
	Grand China Air	Shares of the Company	442,110	2013/01/15	2019/03/24	No
	HNA Group and Grand China Air	Shares of the Company	618,500	2013/06/18	2018/03/31	No
	Changjiang Leasing	Lucky Air	677,699	2014/05/12	2024/05/12	No
	HNA Aviation Group	Lucky Air	1,000,000	2014/06/12	2017/07/24	No
	HNA Group	Lucky Air	398,000	2014/06/30	2024/11/28	No
	HNA Aviation Group	Shares of the Company	741,519	2015/08/28	2018/08/26	No
	HNA Group and HNA Meilan	Shares of the Company	2,000,000	2016/03/31	2019/03/30	No
	HNA Aviation Group and Grand China Air	Shares of the Company	1,350,000	2016/04/01	2019/04/01	No
	HNA Group and HNA Meilan	Shanxi Airlines	100,000	2005/12/20	2016/10/17	Yes
	HNA Group	Shares of the Company	2,905,181	2008/09/22	2016/12/22	Yes
	Grand China Air	Shares of the Company	70,000	2013/05/15	2016/06/16	Yes
	HNA Group and Grand China Air	Shares of the Company	90,000	2013/06/18	2016/12/29	Yes
	HNA Aviation Group	Shares of the Company	1,012,815	2015/01/23	2016/12/09	Yes
	HNA Group	HNA Commercial	700,221	2015/10/28	2016/12/09	Yes
	HNA Aviation Group and Grand China Air	Shares of the Company	830,000	2016/04/01	2016/04/18	Yes
(iii)	Bonds payable					
	HNA Group	Shares of the Company	1,440,000	2011/05/24	2021/05/24	No
	HNA Aviation Group	Lucky Air	700,000	2012/12/14	2019/12/14	No
	HNA Group	Shares of the Company	3,560,000	2011/05/24	2016/05/24	Yes
(iv)	Long-term payables					
	HNA Group	Lucky Air	1,600,000	2015/03/26	2020/03/27	No
	HNA Group	Lucky Air	400,000	2015/03/26	2016/03/27	Yes

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(d) Guarantees provided by the Group to related parties

	Guarantor	Guarantee	Guaranteed amount	Starting date	Ending date	Whether guarantee ends as at 31 December 2016
(i)	Short-term borrowings					
	Shares of the Company	Logistics Group	80,000	2016/01/15	2017/01/15	No
	Shares of the Company	Grand China Air	2,120,846	2016/03/15	2017/12/27	No
	Shares of the Company	Tianjin Airlines	100,000	2016/03/17	2017/03/16	No
	Shares of the Company	Yangtze River Airlines	50,000	2016/05/20	2017/05/19	No
	Shares of the Company	HNA Group	326,039	2016/06/27	2017/06/27	No
	Shares of the Company	Logistics Group	124,850	2015/02/12	2016/01/12	Yes
	Shares of the Company	Tianjin Airlines	100,000	2015/03/24	2016/03/23	Yes
	Shares of the Company	HNA Aviation Group	600,000	2015/09/08	2016/09/16	Yes
	Shares of the Company	Grand China Air	1,000,000	2015/03/11	2016/12/30	Yes
(ii)	Long-term borrowings					
	Shares of the Company	HNA Aviation Group	955,187	2012/09/18	2018/03/13	No
	Shares of the Company	Yangtze River Airlines	643,091	2014/07/14	2023/12/19	No
	Shares of the Company	HNA Travel Group	304,002	2015/06/23	2017/06/23	No
	Shares of the Company	Grand China Air	713,262	2015/08/27	2018/12/10	No
	Shares of the Company	Grand China Air	500,000	2016/03/31	2019/05/31	No
	Shares of the Company	Yangtze River Airlines	86,878	2014/07/14	2016/12/31	Yes
	Shares of the Company	HNA Aviation Group	1,109,467	2012/09/18	2016/12/31	Yes
	Shares of the Company	Grand China Air	1,000,000	2015/03/11	2016/09/11	Yes

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(5) Related party transactions (Cont'd)

(e) Asset transfers

Related party	Nature of the transaction	Pricing policies	2016 Amount	2015 Amount
Tianjin Airlines Holding	Transfer of aircraft	Valuation	106,148	-
Sky Plumage	Transfer of simulating model	Valuation	165,304	-
			271,452	-

(f) Capital injections

Related party	Nature of the transaction	Pricing policies	2016 Amount	2015 Amount
Chang'an Air Travel (Note 5)	Capital injection - Chang'an Airlines	Valuation	2,000,000	-
Yunnan Lucky Investment (Note 5)	Capital rejection - Yunnan Lucky	Valuation	1,000,000	-
Yangtze River Airlines (Note (10)(c))	Capital rejection - Yangtze River Airlines	Valuation	915,200	-
Easy Life	Capital injection - Easy Life	Valuation	500,000	-
HNA Import & Export (Note 4(11))	Contribution for incorporation of HNA Import & Export	Valuation	150,000	-
Henghe Electronics	Capital injection - Henghe Electronics	Valuation	48,742	-
West Air	Capital injection - West Air	Valuation	-	538,987
HNA Aviation Group	Capital injection - Chang'an Airlines	Valuation	-	400,000
New Generation Media	Capital injection - New Generation Media	Valuation	-	120,064
			4,613,942	1,059,051

(g) Remuneration of key management

	2016	2015
Remuneration of key management personnel	14,106	12,583

(h) Related party transactions

Related party	Nature of the transaction	2016 Amount	2015 Amount
Yangtze River Airlines	Pilot transfer	18,070	-
Tianjin Airlines	Pilot transfer	10,450	39,200
West Air	Pilot transfer	3,253	7,061
Beijing Capital Airlines	Pilot transfer	-	34,100

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(6) Receivables from and payables to related parties (Cont'd)

Account	Related party	31 December 2016	31 December 2015
Cash at bank and on hand	HNA Finance	4,506,424	4,207,649
Interest receivable	HNA Finance	315,233	293,502
Dividends receivable	Bohai Trust	40,578	-
	HNA Aviation Import & Export	16,120	-
	HNA Infrastructure	635	481
	Haikou Meilan	-	966
		57,333	1,447
Accounts receivable	HNA Travel Management	67,988	1,723
	HNA Cargo	45,842	45,412
	HNA Aviation Sales	12,965	-
	Weifang Airport	7,621	20,621
	Others	24,612	15,059
		159,028	82,815
Other receivables	Beijing Capital Airlines	72,776	-
	Yangtze River Airlines	64,889	-
	Sky Plumage	37,248	-
	HNA Hotel Group	9,321	13,756
	Others	45,337	15,298
		229,571	29,054
Prepayment	HNA Aviation Import & Export	19,319	-
Other non-current assets	Tianjin Airlines Holding	5,553,700	-
	Changjiang Leasing	359,362	359,362
	Bohai Financial Holdings	346,895	79,542
	HK Airlines	159,433	166,491
	HK Airlines Leasing	-	32,199
		6,419,390	637,594

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(6) Receivables from and payables to related parties (Cont'd)

Account	Related party	31 December 2016	31 December 2015
Notes payable	HNA Aviation Import & Export	700,000	605,000
Accounts payable	HNA Technology	230,418	208,050
	HK Airlines	162,382	21,956
	Tianjin Airlines	122,190	29,298
	Xinhua Air Catering	43,283	67,241
	Grand China Air	35,113	50,075
	Sanya Phoenix Airport	24,402	23,460
	eKing Technology	21,977	27,508
	HNA Air Catering	21,463	16,690
	HNA Infrastructure	19,522	18,480
	Xinjiang Catering	18,797	14,692
	HNA Information	3,661	2,966
	West Air	144	11,140
	HNA Aviation Sales	-	75,486
	HNA Aviation Import & Export	-	30,491
	Beijing Capital Airlines	-	21,491
	Others	4,936	5,114
		708,288	624,138
Advances from customers	Yangtze River Airlines	-	11,392
	New Generation Media	-	3,025
		-	14,417
Other payables	New Generation Media	44,219	-
	HNA Aviation Group	24,943	801
	Hainan Island Cards Property	16,885	14,468
	HNA Group	4,968	7,337
	Others	13,502	35,604
		104,517	58,210
Long-term payables	Changjiang Leasing	1,783,490	1,565,999
	Yangtze River Leasing	706,533	775,710
		2,490,023	2,341,709

(All amounts in RMB Thousand Yuan unless otherwise stated)

7 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONT'D)

(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 2016	31 December 2015
Operating lease out		
- Beijing Capital Airlines	294,704	279,811
- Tianjin Airlines	135,863	119,041
- Grand China Air	98,462	98,462
- Yangtze River Airlines	95,891	28,582
- West Air	81,229	79,205
- Sky Plumage	34,446	-
	740,595	605,101

8 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 2016	31 December 2015
Aircraft purchases	56,443,451	47,543,814
Other fixed assets	1,233,487	933,100
Equity investment in Sky Bird Airlines	1,050,000	-
	58,726,938	48,476,914

(2) Operating lease commitments

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

	31 December 2016	31 December 2015
Within 1 year	5,196,901	2,781,728
1-2 years	5,028,109	2,644,537
2-3 years	4,773,392	2,501,531
More than 3 years	26,551,531	12,424,605
	41,549,933	20,352,401

(All amounts in RMB Thousand Yuan unless otherwise stated)

9 EVENTS AFTER THE BALANCE SHEET DATE

In January 2017, under the *Equity Transfer Agreement* with Tianjin Airlines Holding, the Company completed the acquisition of 48.21% equity of Tianjin Airlines and finished other necessary property transfer procedures, with the total amount of RMB5,553,700 thousand paid as consideration. Tianjin Airlines had completed the industrial and commercial registration of changes and obtained the renewed business licensed.

Pursuant to the resolutions of Board of Directors adopted on 28 March 2017, the Board of Directors proposed to distribute cash dividends to all shareholders of the Company with RMB 0.514 (tax inclusive) for every 10 shares. Based on the total 16,806,120 thousand shares issued, it was proposed to distribute cash dividends amounting to RMB863,835 thousand. The above proposal is still waiting for the approval of the General Meeting of the Company.

10 LEASE

The Group leases in certain fixed assets under finance leases (Note 4(32)). The future minimum lease payments of the finance leases are summarised as follows:

	31 December 2016	31 December 2015
Within 1 year	676,012	706,439
1 to 2 years	525,178	687,022
2 to 3 years	823,586	513,658
Over 3 years	3,084,078	3,535,515
	5,108,854	5,442,634

As at 31 December 2016, the unrecognised financing charge amounted to RMB970,281 thousand (31 December 2015: RMB1,014,949 thousand) (Note 4(32)).

11 CONTINGENCIES

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

12 FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management 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 2016 and 2015, the amounts in RMB equivalent to the Group’s assets and liabilities denominated in foreign currencies were summarised as follows:

(All amounts in RMB Thousand Yuan unless otherwise stated)

12 FINANCIAL RISKS (CONT'D)

(1) Market risk

(a) Foreign exchange risk

	31 December 2016		
	USD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	941,947	134,622	1,076,569
Accounts receivable	46,066	26,103	72,169
Other receivables	47,304	5,174	52,478
Other non-current assets	1,490,740	-	1,490,740
	2,526,057	165,899	2,691,956
Financial liabilities denominated in foreign currency -			
Accounts payable	838,530	114,928	953,458
Other payables	1,104	1,260	2,364
Long-term borrowings	20,675,114	213,359	20,888,473
Bonds payable	3,439,681	-	3,439,681
Long-term payables	3,295,764	-	3,295,764
	28,250,193	329,547	28,579,740

	31 December 2015		
	USD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	2,036,899	26,305	2,063,204
Accounts receivable	11,953	15,851	27,804
Other receivables	47,529	4,971	52,500
Other non-current assets	1,303,181	-	1,303,181
	3,399,562	47,127	3,446,689
Financial liabilities denominated in foreign currency -			
Short-term borrowings	543,192	-	543,192
Accounts payable	664,719	62,231	726,950
Other payables	61,347	3,412	64,759
Long-term borrowings	25,332,295	390,590	25,722,885
Bonds payable	3,205,702	-	3,205,702
Long-term payables	2,978,738	-	2,978,738
	32,785,993	456,233	33,242,226

As at 31 December 2016, if the RMB had strengthened/weakened by 5% against the USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB 1,114,223 thousand (31 December 2015: approximately RMB 1,469,322 thousand) lower/higher for financial assets and liabilities denominated in USD.

(All amounts in RMB Thousand Yuan unless otherwise stated)

12 FINANCIAL RISKS (CONT'D)

(1) Market risk (Cont'd)

(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 2016, the Group's long-term interest bearing liabilities mainly included:

	31 December 2016	31 December 2015
Short-term borrowings	7,906,690	10,918,192
Notes payable	1,185,000	1,242,352
Long-term borrowings	31,176,217	34,743,695
Long-term payables	11,688,349	10,371,415
Bonds payable	12,150,879	15,451,678
	64,107,135	72,727,332
Including: Liabilities at floating rates	32,202,271	35,100,504
Liabilities at fixed rates	31,904,864	37,626,828
	64,107,135	72,727,332

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 2016 and 2015, the Group did not enter into any interest rate swap agreements.

For the year ended 31 December 2016, 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 RMB161,011 thousand (2015: approximately RMB175,503 thousand).

(2) Credit risk

Credit risk is managed on the grouping 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(9)) 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.

12 FINANCIAL RISKS (CONT'D)

(2) Credit risk (Cont'd)

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 the *Policy of Risk Prevention on Hainan Airlines Co., Ltd.'s Deposit Fund in HNA Group Finance Co., Ltd* (the "Policy"). 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 2016, the Group had no significant overdue accounts receivable (31 December 2015: 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 institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The Group's 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 2016, the Group's current liabilities exceeded current assets by approximately RMB3,335 million. For the year ended 31 December 2016, the net cash inflows from operating activities of the Group were approximately RMB12,287 million; the net cash outflows from investment activities and financing activities were approximately RMB7,555 million; and cash and cash equivalents increased by approximately RMB4,836 million.

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

12 FINANCIAL RISKS (CONT'D)

(3) Liquidity risk (Cont'd)

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

	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities -					
Short-term borrowings	8,059,787	-	-	-	8,059,787
Accounts payable	4,703,245	-	-	-	4,703,245
Other payables	1,032,307	-	-	-	1,032,307
Long-term borrowings	7,213,751	10,352,106	9,607,390	8,710,720	35,883,967
Bonds payable	6,863,072	336,393	6,190,726	-	13,390,191
Long-term payables	2,042,286	3,328,003	6,118,928	2,449,233	13,938,450
	29,914,448	14,016,502	21,917,044	11,159,953	77,007,947

	31 December 2015				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities -					
Short-term borrowings	11,110,016	-	-	-	11,110,016
Accounts payable	4,219,148	-	-	-	4,219,148
Other payables	739,772	-	-	-	739,772
Long-term borrowings	6,001,890	6,015,067	14,959,268	13,350,943	40,327,168
Bonds payable	3,560,000	6,200,000	1,100,000	4,686,800	15,546,800
Long-term payables	1,100,977	1,582,644	6,321,027	2,417,311	11,421,959
	26,731,803	13,797,711	22,380,295	20,455,054	83,364,863

13 FAIR VALUE ESTIMATES

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

13 FAIR VALUE ESTIMATES (CONT'D)

(1) Assets measured at fair value on recurring basis

As at 31 December 2016, the assets measured at fair value on recurring basis by the above three levels are analysed as follows:

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	-	8,472	-	8,472
Other current assets - available-for-sale financial assets	-	1,100,000	-	1,100,000
Available-for-sale financial assets	-	1,841,443	336,192	2,177,635
	-	2,949,915	336,192	3,286,107
Non-financial assets - Investment properties	-	-	10,035,665	10,035,665
	-	2,949,915	10,371,857	13,321,772
Financial liabilities - Financial liabilities at fair value through profit or loss	-	103,987	-	103,987

As at 31 December 2015, the assets measured at fair value on recurring basis by the above three levels are analysed as follows:

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	-	1,783,721	336,192	2,119,913
Non-financial assets - Investment properties	-	-	9,578,169	9,578,169
	-	1,783,721	9,914,361	11,698,082

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for 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, and interest rates or discount rates.

(All amounts in RMB Thousand Yuan unless otherwise stated)

13 FAIR VALUE ESTIMATES (CONT'D)

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

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.

Financial assets and liabilities not measured at fair value mainly represent receivables, other current assets, available-for-sale financial assets - the portion measured at cost, short-term borrowings, payables, long-term borrowings, bonds payable 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 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities -				
Long-term borrowings	31,176,217	30,825,532	34,743,695	37,325,805
Bonds payable	12,150,879	12,314,796	15,451,678	15,362,639
Long-term payables	11,688,349	10,590,966	10,371,415	9,301,162
	55,015,445	53,731,294	60,566,788	61,989,606

The fair value of long-term borrowings and long-term payables is the present value of the contractually determined future cash flows discounted at the rate of interest applied at that time by the market to instruments with comparable credit status and providing substantially the same cash flows on the same terms.

14 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners 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 Company 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 it monitors capital on the basis of gearing ratio.

As at 31 December 2016 and 31 December 2015, the gearing ratios of the Group were as follows:

	31 December 2016	31 December 2015
Gearing ratio	54%	69%

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2016	31 December 2015
Accounts receivable	962,962	684,302
Less: Provision for bad debts	(9,690)	(9,690)
	953,272	674,612

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

	31 December 2016	31 December 2015
Within 1 year	949,052	667,392
1 to 2 years	1,600	7,600
2 to 3 years	3,000	-
Over 6 years	9,310	9,310
	962,962	684,302

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

	31 December 2016				31 December 2015			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
That the related provision for bad debts is provided on the grouping basis								
- Group by ageing analysis method	833,234	86%	(1,506)	0%	469,393	69%	(1,506)	0%
- Group by related parties	121,544	13%	-	-	206,725	30%	-	-
With amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	8,184	1%	(8,184)	100%	8,184	1%	(8,184)	100%
	962,962	100%	(9,690)	1%	684,302	100%	(9,690)	1%

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(1) Accounts receivable (Cont'd)

(c) Accounts receivable that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2016			31 December 2015		
	Ending balance	Provision for bad debts		Ending balance	Provision for bad debts	
		Amount	Provision %		Amount	Provision %
Within 1 year	827,508	-	-	460,667	-	-
1 - 2 years	1,600	(80)	5%	7,600	(380)	5%
2 - 3 years	3,000	(300)	10%	-	-	-
3 - 4 years	-	-	-	-	-	-
4 - 5 years	-	-	-	-	-	-
Over 5 years	1,126	(1,126)	100%	1,126	(1,126)	100%
	833,234	(1,506)	0%	469,393	(1,506)	0%

(d) As at 31 December 2016, the five largest accounts receivable were analysed as follows:

	Balance	Provision for bad debts	% of total accounts receivable
Total balance of the five largest accounts receivable	417,141	-	43%

(2) Other receivables

	31 December 2016	31 December 2015
Receivables from related parties	211,672	31,421
Aircraft leasing security deposits and maintenance funds receivable	83,258	58,778
Others	42,758	260,196
	337,688	350,395
Less: Provision for bad debts	(6,301)	(6,301)
	331,387	344,094

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(2) Other receivables (Cont'd)

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

	31 December 2016	31 December 2015
Within 1 year	315,799	315,019
1 - 2 years	11,234	24,914
2 - 3 years	2,717	1,965
3 - 4 years	891	5,101
4 - 5 years	3,651	107
5 - 6 years	107	-
Over 6 years	3,289	3,289
	337,688	350,395

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

	31 December 2016				31 December 2015			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Provision %	Amount	% of total balance	Amount	Provision %
That the related provision for bad debts is provided on the grouping basis								
- Group by ageing analysis method	42,758	12%	(6,301)	15%	260,196	74%	(6,301)	2%
- Aircraft leasing security deposits and maintenance funds receivable	83,258	25%	-	-	58,778	17%	-	-
- Group by related parties	211,672	63%	-	-	31,421	9%	-	-
	337,688	100%	(6,301)	2%	350,395	100%	(6,301)	2%

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(2) Other receivables (Cont'd)

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the ageing analysis method are analysed as follows:

	31 December 2016			31 December 2015		
	Ending balance	Provision for bad debts		Ending balance	Provision for bad debts	
		Amount	Provision %		Amount	Provision %
Within 1 year	20,869	-	-	25,042	-	-
1 - 2 years	11,234	(561)	5%	224,747	(1,237)	1%
2 - 3 years	2,717	(272)	10%	1,910	(191)	10%
3 - 4 years	891	(267)	30%	5,101	(1,530)	30%
4 - 5 years	3,651	(1,826)	50%	107	(54)	50%
5 - 6 years	107	(86)	80%	-	-	-
Over 6 years	3,289	(3,289)	100%	3,289	(3,289)	100%
	42,758	(6,301)	15%	260,196	(6,301)	2%

(d) As at 31 December 2016, the five largest other receivables were analysed as follows:

	Relationship with the Group	Balance	Ageing	% of total balance	Provision for bad debts
Beijing Capital Airlines	Related party	72,776	Within 1 year	22%	-
Yangtze River Airlines	Related party	64,889	Within 1 year	19%	-
Sky Plumage	Related party	37,248	Within 1 year	11%	-
Company A	Third party	10,147	Within 1 year	3%	-
HNA Hotel Group	Related party	9,321	Within 1 year	3%	-
		194,381		58%	-

(3) Long-term equity investments

	31 December 2016	31 December 2015
Subsidiaries (a)	14,828,245	13,988,245
Associates (b)	11,026,586	7,174,577
	25,854,831	21,162,822
Less: Provision for impairment of long-term equity investments	-	-
	25,854,831	21,162,822

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

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(3) Long-term equity investments (Cont'd)

(a) Subsidiaries

		Movement in the current year						
	31 December 2015	Increase in investment	Decrease in investment	Provision for impairment loss	Others	31 December 2016	Provision for impairment loss	Cash dividends declared in the current year
Xinhua Airlines	3,746,107	-	-	-	-	3,746,107	-	-
Chang'an Airlines	2,811,908	-	-	-	-	2,811,908	-	-
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 SODE	667,895	-	-	-	-	667,895	-	-
Urumqi Airlines	631,238	-	-	-	-	631,238	-	-
Fuzhou Airlines	360,000	840,000	-	-	-	1,200,000	-	-
Lucky Air	2,474,111	-	-	-	-	2,474,111	-	-
	13,988,245	840,000	-	-	-	14,828,245	-	-

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(3) Long-term equity investments (Cont'd)

(b) Associates

		Movement in the current year										
	31 December 2015	Transfer from available-for-sale financial assets	Increase in investment	Decrease in investment	Share of net profit /(loss) under equity method	Adjustment for other comprehensive income	Other changes in equity	Dividends or profits declared by associates	Provision for impairment loss	Transfer to available-for-sale financial assets	31 December 2016	Provision for impairment loss
Tianjin Airlines	4,838,362	-	-	-	207,673	(40,357)	-	-	-	-	5,005,678	-
HNA Technology	1,231,304	-	-	-	139,261	-	-	-	-	-	1,370,565	-
West Air	1,085,952	-	-	-	167,411	-	-	-	-	-	1,253,363	-
Azul Airlines	-	-	3,265,572	-	(51,171)	-	-	-	-	-	3,214,401	-
HNA Import & Export	-	-	150,000	-	-	-	-	-	-	-	150,000	-
HNA Aviation Import & Export	18,959	-	-	-	29,740	-	-	(16,120)	-	-	32,579	-
	7,174,577	-	3,415,572	-	492,914	(40,357)	-	(16,120)	-	-	11,026,586	-

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(4) Revenue and cost of sales

	2016	2015
Revenue from main operations (a)	24,386,355	20,377,298
Revenue from other operations (b)	4,127,417	3,713,125
	28,513,772	24,090,423
Cost of sales (a)	(19,908,718)	(15,805,277)
Operating cost of other operations (b)	(1,809,130)	(1,688,070)
	(21,717,848)	(17,493,347)

(a) Revenue and cost of sales

	2016		2015	
	Revenue from main operations	Operating cost of main operations	Revenue from main operations	Operating cost of main operations
Passenger	23,578,438	(19,297,631)	19,553,239	(15,195,441)
Cargo and mail	755,367	(611,087)	784,727	(609,836)
Others	52,550	-	39,332	-
	24,386,355	(19,908,718)	20,377,298	(15,805,277)

(b) Revenue and cost of sales from other operations

	2016		2015	
	Revenue from other operations	Cost of sales from other operations	Revenue from other operations	Cost of sales from other operations
Aircraft leasing	3,000,089	(1,726,054)	2,865,962	(1,620,324)
Processing fee for cancelled tickets	654,721	-	443,662	-
Property rental	83,259	-	102,413	-
Commission fee	71,428	-	26,793	-
Aircraft advertising	12,848	-	8,075	-
Others	305,072	(83,076)	266,220	(67,746)
	4,127,417	(1,809,130)	3,713,125	(1,688,070)

Costs of aircraft leasing did not include interests charge of RMB149,677 thousand (2015: RMB112,582 thousand) incurred for the loans and finance leases of the relevant aircraft. Such interest charges are included in the finance expenses.

(All amounts in RMB Thousand Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONT'D)

(5) Investment income

	2016	2015
Investment income from long-term equity investment under equity method	492,914	405,174
Dividend income from available-for-sale financial assets	59,614	18,014
Income from settlement of forward foreign exchange contracts and option foreign exchange contracts (Note 4(2))	18,946	-
Investment income from financial products	300	10,800
Income from disposal of long-term equity investment	-	77,401
	571,774	511,389

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

Full company name (in Alphabetic order)	Abbreviation used in the financial statements
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 Capital Airlines Co., Ltd.	Beijing Capital Airlines
Beijing Xinhua Air Catering Co., Ltd.	Xinhua Air Catering
Bohai International Trust Co., Ltd.	Bohai Trust
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
Guokai Jingcheng (Beijing) Investment Fund Limited	Guokai Jingcheng Investment Fund
HNA Aviation Group Co., Ltd	HNA Aviation Group
HNA Aviation Technology Co., Ltd.	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 Finance Co., Ltd.	HNA Finance

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

Full company name	Abbreviation used in the financial statements
HNA Group Co., Ltd.	HNA Group
HNA Hotel (Group) Company Limited	HNA Hotel Group
HNA Travel Group Co., Ltd.	HNA Travel Group
HNA Travel Management Holding Co., Ltd.	HNA Travel Management
Haikou Meilan International Airport Co., Ltd.	Haikou Meilan
Hainan Fushun Investment and Development Co., Ltd.	Hainan Fushun
Hainan Air Aviation Import & Export Co., Ltd.	HNA Aviation 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
Hainan Airlines (Hong Kong) Co., Ltd.	HNA (HK)
HNA Air Catering Co., Ltd.	HNA Air Catering
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.	New Generation Media
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
Tangshan Sannvhe Airport Management Co., Ltd.	Tangshan Airport
Tianjin Airlines Co. Ltd.	Tianjin Airlines
Weifang Nanyuan Airport Co., Ltd.	Weifang Airport
Urumqi Airlines Co., Ltd.	Urumqi Airlines
West Air Co., Ltd.	West Air
Hong Kong International Aviation Leasing Co., Ltd.	HKIAL
HKA Group Holdings Co., Ltd.	HKAGH
Hong Kong Airlines Co., Ltd.	HK Airlines

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

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 Airlines Co., Ltd.	Yangtze River Airlines
Yichang Sanxia Airport Company Limited	Yichang Airport
Yunnan Lucky 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
HNA Capital Group Co., Ltd.	HNA Capital Group
Tianjin Airlines Holding Co., Ltd.	Tianjin Airlines Holding
HNA Logistics Group Co., Ltd.	Logistics Group
Hainan eKing Technology Co., Ltd.	eKing Technology
HNA (Hong Kong) Commercial Co., Ltd.	HNA Commercial
Bohai Financial Holdings Investment Co., Ltd.	Bohai Financial Holdings
Shaanxi Chang'an Air Travel Co., Ltd.	Chang'an Air Travel
HNA Import & Export Co., Ltd.	HNA Import & Export
Beijing Capital Airlines Holding Co., Ltd.	Capital Airlines
Hainan Sky Plumage Training Co., Ltd.	Sky Plumage
Easy Life Holding (Group) Co., Ltd.	Easy Life
TAP Portugal	TAP Portugal
Shenzhen Tiantong Hechuang Equity Investment Fund Management Co., Ltd.	Tiantong Hechuang
Yunnan Lucky Investment Co., Ltd.	Yunnan Lucky Investment
Haikou Henghe Electronics Technology Co., Ltd.	Henghe Electronics
Hainan Island Cards Property Management Co., Ltd.	Hainan Island Cards Property
Chengdu Sky Bird Airlines Co., Ltd.	Sky Bird Airlines

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB Yuan unless otherwise stated)
[English translation for reference only]

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2016	2015
Subsidy income	865,385	756,424
Net income from transfer of assets	109,853	53,236
Income from settlement of forward foreign exchange contracts and option foreign exchange contracts	18,946	-
Income from disposal of long-term equity investment	-	77,401
Investment income from financial products	39,692	27,214
Income from investment in available-for-sale financial assets	102,328	32,972
Profit or loss from changes in fair value of investment properties subsequently measured using fair value model	(25,537)	166,184
Changes in fair value of financial assets and liabilities at fair value through profit or loss	5,494	-
Non-operating income and expenses other than aforesaid items	82,337	69,446
	1,198,498	1,182,877
Effect of income tax	(299,625)	(295,719)
Effect of minority interests (after tax)	(64,507)	(91,313)
	834,366	795,845

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in *Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public - Non-recurring Profit or Loss [2008]* from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%)		Basic and diluted earnings per share	
	2016	2015	2016	2015
Net profit attributable to ordinary shareholders of the Company	7%	10%	0.210	0.246
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	5%	7%	0.149	0.181

In accordance with China Accounting Standards for Business Enterprises, the Company deducted China Accounting Standards, the interest on other equity instruments - medium term note from the net profit attributable to the shareholders of the Company when calculating the basic earnings per share for 2016.

HAINAN AIRLINES (HONG KONG) CO., LIMITED
(Incorporated in Hong Kong with Limited Liability)

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

HAINAN AIRLINES (HONG KONG) CO., LIMITED

REPORT OF THE DIRECTORS

The directors submit the report together with the audited financial statements of Hainan Airlines (Hong Kong) Co., Limited (the "Company") and its subsidiary (together, the "Group") for the year ended 31 December 2017.

Principal activity and geographical analysis of operations

The principal activity of the Company is investment holding and bond issuance for the year ended 31 December 2017. The activities of the subsidiary are set out in Note 13 to the financial statements.

Results and appropriation

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 8.

The directors do not recommend the payment of a dividend.

Debentures issued in the year

The Group issued US$ 300,000,000.00 debentures and US$ 300,000,000.00 debentures at a par value of HK$2,340,054,901.06 and HK$2,339,899,915.42 respectively on 22 June 2017 and 1 November 2017.After deducting the issuance costs, the group received the consideration of HK$2,324,647,901.80 and HK$2,324,144,979.31 from the issuance.

Directors of the Company

The directors of the Company during the year were:

Dong Sun	(appointed on 14 June 2017)
Fei Wang	(appointed on 14 June 2017)
Long Chen	(appointed on 14 June 2017)
Tian Lan	(appointed on 14 June 2017)
Jianfeng Sun	(appointed on 14 June 2017)

There being no provisions in the Company's articles of association for retirement of director, all directors continue in office.

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in the shares and debentures of the company or any specified undertaking of the Company

At no time during the year was the Company, its fellow subsidiaries, or its parent company a party to any arrangement to enable the directors of the Company to hold any interests in the shares or debentures of the Company or its specified undertakings.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Business review

No business review is presented for the year as the Company has been able to claim an exemption under section 388(3) of the Company Ordinance Cap. 622 since it is a wholly owned subsidiary of Hainan Airlines Holding Co., Ltd. ("HNA Holding"), a Company incorporated in the People's Republic of China.

Permitted indemnity provisions

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Director

Hong Kong, 29 June 2018

Independent Auditor's Report

TO THE MEMBERS OF HAINAN AIRLINES (HONG KONG) CO., LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hainan Airlines (Hong Kong) Co., Limited (the "Company") and its subsidiaries (the "Group") set out on pages 8 to 36, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit as follows:

- Recoverability of receivables due from the immediate holding company

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of receivables due from the immediate holding company	
Refer to Note 15 to the financial statements. As at 31 December 2017, the balance of receivables due from the immediate holding company is amounted to HKD 5,266 million. Management reviewed the recoverability of the receivable balance at the balance sheet date. Based on management's assessment, the receivables due from the immediately holding company is recoverable with no significant uncertainties. Our audit focused on the recoverability of the receivables due to the significance of the balance and any recoverability issue may have a significant impact on the Group's ability to repay the bonds payable in due course.	We performed the following audit procedures to address the recoverability of receivables due from immediate holding company: • reconciled the balance of amount due from the immediate holding company with the balance on the financial statements of the immediate holding company as at 31 December 2017; • evaluated management's assessment on the recoverability of the receivables due from the immediate holding company by examination of the supporting evidence including past settlement history; • assessed management's analysis of the financial position of the immediate holding company with reference to latest available financial information to assess its ability to repay the amount; We found that management's assessment of the recoverability of receivables due from the immediate holding company is supportable by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jack Li.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Hong Kong Dollar ("HK$") unless otherwise stated)

	Note	2017 HK$	2016 HK$
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(2,476,468.48)	(403,050.93)
Operating loss		(2,476,468.48)	(403,050.93)
Finance income	4	13,716,653.55	50,489,404.47
Finance costs	4	(149,897,599.09)	(635,530,625.67)
Finance costs – net		(136,180,945.54)	(585,041,221.20)
Share of profit/(loss) of investments accounted for using the equity method	5	(40,194,069.61)	122,220,573.49
Loss before income tax		(178,851,483.63)	(463,223,698.64)
Income tax expense		-	-
Loss for the year		(178,851,483.63)	(463,223,698.64)
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets	7	(8,813,975.57)	9,096,599.71
Currency translation differences		47,717,825.95	(165,836,502.30)
Share of other comprehensive income of investments accounted for using the equity method		22,789,992.05	-
Other comprehensive income/(loss) for the year, net of tax		61,693,842.43	(156,739,902.59)
Total comprehensive loss for the year		(117,157,641.20)	(619,963,601.23)

The notes on pages 13 to 36 are an integral part of the consolidated financial statements.

Director Director

CONSOLIDATED BALANCE SHEET
AS AT 31 December 2017
(All amounts in Hong Kong Dollar ("HK$") unless otherwise stated)

	Note	31 December 2017 HK$	31 December 2016 HK$
ASSETS			
Non-current assets			
Investment in an associate	5	2,243,715,588.26	2,113,600,821.69
Available-for-sale financial asset	7	2,045,289,759.32	1,921,553,516.76
		4,289,005,347.58	4,035,154,338.45
Current assets			
Amount due from the immediate holding company	8, 15	5,265,794,381.26	1,677,209,024.04
Amount due from a related party	15	6,332,877.75	5,918,006.33
Prepayments, deposits and other receivables		8,128,588.58	7,596,078.84
Interest receivable		1,135,667.16	1,061,268.77
Cash and cash equivalents	9	61,826,885.84	2,143,999,061.68
		5,343,218,400.59	3,835,783,439.66
Total assets		9,632,223,748.17	7,870,937,778.11
EQUITY			
Share capital	10	70,200,000.00	70,200,000.00
Other reserve	11	2,547,364,062.68	2,030,043,798.55
Accumulated losses		(1,753,766,226.59)	(1,574,914,742.96)
Total equity		863,797,836.09	525,329,055.59

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 December 2017
(All amounts in Hong Kong Dollar ("HK$") unless otherwise stated)

	Note	31 December 2017 HK$	31 December 2016 HK$
LIABILITES			
Non-current liabilities			
Bonds payable	12	3,885,983,919.33	3,841,952,735.15
Current liabilities			
Interest payable		205,618,122.68	143,219,382.00
Deferred tax liability		5,303,902.93	6,645,144.12
Current portion of non-current liabilities	12	4,671,519,967.14	3,353,791,461.25
		4,882,441,992.75	3,503,655,987.37
Total liabilities		8,768,425,912.08	7,345,608,722.52
Total equity and liabilities		9,632,223,748.17	7,870,937,778.11
Net current assets		460,776,407.84	332,127,452.29
Total assets less current liabilities		4,749,781,755.42	4,367,281,790.74

The notes on pages 13 to 36 are an integral part of the consolidated financial statements.

Director　　　　Director

HAINAN AIRLINES (HONG KONG) CO., LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Hong Kong Dollar ("HK$") unless otherwise stated)

	Share capital HK$	Other reserve HK$	Accumulated losses HK$	Total HK$
Balance at 1 January 2016	**70,200,000.00**	**1,605,237,904.17**	**(1,111,691,044.32)**	**563,746,859.85**
Loss for the year	-	-	(463,223,698.64)	(463,223,698.64)
Other comprehensive income for the year				
Change in fair value of available-for-sale financial assets	-	9,096,599.71	-	9,096,599.71
Currency translation differences	-	(165,836,502.30)	-	(165,836,502.30)
Total other comprehensive income, net of tax	-	(156,739,902.59)	-	(156,739,902.59)
Transactions with owners in their capacity as owners:				
Interests expenses reimbursed by the immediate holding company	-	581,545,796.97	-	581,545,796.97
At 31 December 2016	**70,200,000.00**	**2,030,043,798.55**	**(1,574,914,742.96)**	**525,329,055.59**
Balance at 1 January 2017	**70,200,000.00**	**2,030,043,798.55**	**(1,574,914,742.96)**	**525,329,055.59**
Loss for the year	-	-	(178,851,483.63)	(178,851,483.63)
Other comprehensive income for the year				
Change in fair value of available-for-sale financial assets	-	(8,813,975.57)	-	(8,813,975.57)
Currency translation differences	-	47,717,825.95	-	47,717,825.95
Other comprehensive income	-	22,789,992.05	-	22,789,992.05
Total other comprehensive income, net of tax	-	61,693,842.43	-	61,693,842.43ws
Transactions with owners in their capacity as owners:				
Interests expenses reimbursed by the immediate holding company	-	455,626,421.70	-	455,626,421.70
At 31 December 2017	**70,200,000.00**	**2,547,364,062.68**	**(1,753,766,226.59)**	**863,797,836.09**

The notes on pages 13 to 36 are an integral part of the consolidated financial statements.

Director　　　　Director

HAINAN AIRLINES (HONG KONG) CO., LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in Hong Kong Dollar ("HK$") unless otherwise stated)

	2017 HK$	2016 HK$
Cash flows from operating activities		
Loss before income tax	(178,851,483.63)	(463,223,698.64)
Adjustments for:		
- Finance expenses	136,180,945.54	585,041,221.20
- Share of loss/(profit) of investments accounted for using the equity method	40,194,069.61	(122,220,573.49)
Operating loss before working capital changes	(2,476,468.48)	(403,050.93)
Decrease in amount due from the immediate holding company	-	2,026,840,596.00
Decrease in amount due to immediate holding company	-	(3,338,491.15)
Decrease in amounts due to related parties	-	(5,714,155.55)
Net cash (used in)/generated from operating activities	(2,476,468.48)	2,017,384,898.37
Cash flow from investing activities		
Purchase of available-for-sale financial assets	-	(1,051,820,593.57)
Increase in amount due from the immediate holding company	(3,034,399,293.37)	-
Net cash used in investing activities	(3,034,399,293.37)	(1,051,820,593.57)
Cash flow from financing activities		
Repayment of bond	(3,459,121,170.35)	-
Cash received from newly issued bond	4,711,520,152.42	-
Cash received relating to other financing activities	14,167,223.26	50,690,962.85
Interests paid to bond holders	(379,645,848.36)	(397,503,913.03)
Net cash received/(used) in financing activities	886,920,356.97	(346,812,950.18)
Net (decrease)/increase in cash and cash equivalents	(2,149,955,404.88)	618,751,354.62
Cash and cash equivalents at beginning of the year	2,143,999,061.68	1,592,735,600.80
Effect of foreign exchange rate changes on cash and cash equivalents	67,783,229.04	(67,487,893.74)
Cash and cash equivalents at end of the year	61,826,885.84	2,143,999,061.68

The notes on pages 13 to 36 are an integral part of the consolidated financial statements.

1 General information

Hainan Airlines (Hong Kong) Co., Limited (the "Company") is a limited liability company incorporated in Hong Kong on 2 June 2011. The Company and its subsidiary (together the "Group") are principally engaged in investment, bond issuance activities and aircraft leasing. The address of the Company's registered office is 11/F Nan Fung Tower, No.173 Des Voeux Road Central, Hong Kong.

The financial statements have been approved for issue by the Board of Directors on 29 June 2018.

These financial statements are presented in HK dollars, unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.3.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	Disclosure of interest in other entities

The adoption of the above new amendments starting from 1 January 2017 did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2017.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 31 December 2017 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available
- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9, and

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not expect a significant impact on the accounting for its hedging relationships.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it is anticipated that the adoption of the new impairment model may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

2.2 Subsidiary

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of significant accounting policies (continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of investments accounted for using equity method' in the income statement.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Renminbi ("RMB"), which is the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in HK$, which is the Group's and the Company's presentation currency.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss for the year.

(c) Translation to the presentation currency

The results and financial position of the Group whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of that statement of financial position;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised as “currency translation differences”, a separate component of other comprehensive income.

2.5 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise ‘trade and other receivables' and ‘cash and cash equivalents' in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as ‘gains and losses from investment securities’.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks and deposits held at call with banks.

2.7 Share capital

Ordinary shares are classified as equity.

2.8 Current and deferred income tax

Tax expense comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity, in which case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Group operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (continued)

2.8 Current and deferred income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.9 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.10 Interest expense

Interest expense is recognised within ‘finance expenses’ in profit or loss using the effective interest rate method.

3 Financial risk management

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks, including market 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.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group’s market risks arise from open positions in (i) foreign currencies and (ii) interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

The Group is principally engaged in bond issuance activities denominated in RMB, which is the Group's functional currency, and also in United State Dollars ("US$"). Major foreign exchange risk of the Group arises from the bond in US$ and the amount due from the immediate holding company which is denominated in US$. The Group is exposed to foreign exchange risk primarily with respect to US$.

The table below summarises the Group's net exposure to US$ at the statement of financial position date.

	31 December 2017 HK$	**31 December 2016** HK$
Cash and cash equivalents	55,894,415.16	935,517,231.44
Amount due from the immediate holding company	5,079,144,215.40	1,123,760,045.74
Prepayments, deposits and other receivables	8,128,588.58	7,596,078.84
Bonds payable	(8,557,503,886.47)	(3,841,952,735.15)
Interest payable	(205,618,122.68)	(129,593,750.00)
	(3,619,954,790.01)	(1,904,673,129.13)

At 31 December 2017, if RMB had weakened/strengthened by 5% against US$ with all other variables held constant, profit post-tax of the year would have been HK$ 151,133,112.48 higher/higher, mainly as a result of foreign exchange gains/losses on translation of US$ denominated balances.

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of the changes in market interest rates.

The Group's interest-rate risk arises from the bonds payable issued at fixed rate, which exposes the Group to fair value interest-rate risk. Bonds payable is denominated in US$.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Group assesses the credit quality of the customers, taking into account its financial position, past experience and other factors. The receivables of the Group are mainly from related parties and management does not expect any losses from non-performance by these counterparties.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The Group is an investment holding company primarily set up for bond issuance and investing in available-for-sale financial asset. The only significant financial liability of the Group is the bonds payable. The financial and capital needs of the Group will be provided by Hainan Airlines Holding Co., Ltd. (“HNA Holding”), the Company’s the immediate holding company.

The table below analyses the Group’s financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The maturity analysis of financial instruments as at the end of the reporting period is as follows:

	Within 1 year	Between 1 and 2 years	More than 2 years	Total
	HK$	HK$	HK$	HK$
As at 31 December 2017				
Bonds payable	4,671,519,967.14	-	3,908,435,118.61	8,579,955,085.75
Interest payable	355,081,330.53	141,680,773.05	70,840,386.52	567,602,490.10
	5,026,601,297.67	141,680,773.05	3,979,275,505.13	9,147,557,575.85
As at 31 December 2016				
Bonds payable	3,353,791,461.25	-	3,877,541,894.45	7,231,333,355.70
Interest payable	345,236,783.83	240,430,800.67	310,711,247.50	896,378,832.00
	3,699,028,245.08	240,430,800.67	4,188,253,141.95	8,127,712,187.70

3 Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders 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, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents and restricted cash deposits pledged for borrowings. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	31 December 2017 HK$	31 December 2016 HK$
Borrowings	8,557,503,886.47	7,195,744,196.40
Less: Cash and cash equivalents	(61,826,885.84)	(2,143,999,061.68)
Net debt	8,495,677,000.63	5,051,745,134.72
Total equity	863,797,836.09	525,329,055.59
Total capital	9,359,474,836.72	5,577,074,190.31
Gearing ratio (%)	91%	91%

3.3 Fair value estimation

The carrying value of the Group's financial assets and liabilities is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The tables below analyse the Group's financial instruments carried at fair value as at 31 December 2016 and 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

Available-for-sale financial assets

	Level 1 HK$	**Level 2** HK$	**Level 3** HK$	**Total** HK$
31 December 2017	-	-	2,045,289,759.31	2,045,289,759.31
31 December 2016	-	-	1,921,553,516.76	1,921,553,516.76

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange and the price represents actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the years ended 31 December 2017.

	Available-for-sale financial assets
	2017
	HK$
Opening balance	1,921,553,516.76
Changes in fair value	(10,555,659.37)
Currency translation differences	134,291,901.93
Ending balance	2,045,289,759.32

4 Finance costs - net

	2017	**2016**
	HK$	HK$
Interest expense		
- Bonds	(455,626,421.70)	(477,523,159.58)
Exchange gain/(loss), net	305,728,822.61	(158,007,466.09)
Finance costs	(149,897,599.09)	(635,530,625.67)
Less: interest capitalised	-	-
	(149,897,599.09)	(635,530,625.67)
Finance income		
- Interest income on bank deposits	13,716,653.55	50,489,404.47
Net finance costs	(136,180,945.54)	(585,041,221.20)

5 Investment accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	31 December 2017 HK$	31 December 2016 HK$
Associate - HKA Group Holding Company Limited ("HKAGH")	2,243,715,588.26	2,113,600,821.69

The amounts recognised in the comprehensive income statement are as follows:

	2017 HK$	2016 HK$
Associate - HKAGH	(17,404,077.56)	122,220,573.49

Movements of investment in an associate during the year are as follows:

	2017 HK$
Opening balance	2,113,600,821.69
Share of loss	(40,194,069.61)
Share of Other comprehensive income	22,789,992.05
Currency translation differences	147,518,844.13
Ending balance	2,243,715,588.26

Set out below is the associate as at 31 December 2017, which, in the opinion of the directors, is material to the Group. The associate as listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

Particulars of the associate as at 31 December 2017:

Name of entity	Place of business /country of incorporation	% of ownership interest	Measurement method
HKAGH	British Virgin Islands	27.02%	Equity method

The principal activity of HKAGH and its subsidiaries is provision of air transportation services.

5 Investment accounted for using the equity method (continued)

Set out below are summarised financial information of the associate, which is accounted for using the equity method.

	Year ended 31 December 2017 HK$	2016 HK$
Current		
Cash and cash equivalents	2,566,175,421.36	4,326,377,908.04
Other current assets	17,130,776,178.54	4,919,093,801.60
Total current assets	19,696,951,599.90	9,245,471,709.64
Total current liabilities	(12,947,651,558.72)	(8,384,044,574.84)
Non-current		
Total non-current assets	26,497,234,882.70	23,260,573,591.73
Total non-current liabilities	(14,853,923,183.60)	(16,299,643,873.50)
Net assets	18,392,611,740.28	7,822,356,853.03

Summarised income statement

	Year ended 31 December 2017 HK$	2016 HK$
Revenue and other income	12,369,608,130.43	10,845,586,362.98
Net (loss)/profit Attributable to owners of the Company	(148,756,734.30)	452,333,728.69

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its investment in the associate is set out below.

	Year ended 31 December 2017 HK$	2016 HK$
Opening net assets	7,822,356,853.03	9,403,561,441.67
Issuance of perpetual bonds	10,643,938,742.51	-
Profit for the year	314,181,022.30	452,333,728.69
Deduct：Profit attribute to Perpetual bond holders	(472,209,776.69)	-
Other comprehensive income	84,344,899.13	-
Disposal in the year	-	(2,033,538,317.33)
Closing net assets	18,392,611,740.28	7,822,356,853.03

There are no contingent liabilities relating to the Group’s interest in the associate.

6 Financial instruments by category

The group holds the following financial instruments:

Financial assets	Assets at FVOCI	Financial assets at amortised cost	Total
2017	**HK$**	**HK$**	**HK$**
Amount due from the immediate holding company	-	5,265,794,381.26	5,265,794,381.26
Amount due from a related party	-	6,332,877.75	6,332,877.75
Prepayments, deposits and other receivables (excluding prepayments)	-	8,128,588.58	8,128,588.58
Interest receivable	-	1,135,667.16	1,135,667.16
Available-for-sale financial assets	2,045,289,759.32	-	2,045,289,759.32
Cash and cash equivalents	-	61,826,885.84	61,826,885.84
Total	**2,045,289,759.32**	**5,343,218,400.59**	**7,388,508,159.91**
2016			
Amount due from the immediate holding company	-	1,677,209,024.04	1,677,209,024.04
Amount due from a related party	-	5,918,006.33	5,918,006.33
Prepayments, deposits and other receivables (excluding prepayments)	-	7,596,078.84	7,596,078.84
Interest receivable	-	1,061,268.77	1,061,268.77
Available-for-sale financial assets	1,921,553,516.76	-	1,921,553,516.76
Cash and cash equivalents	-	2,143,999,061.68	2,143,999,061.68
Total	**1,921,553,516.76**	**3,835,783,439.66**	**5,757,336,956.42**

Financial liabilities	Liabilities at amortised cost	Total
2017	**HK$**	**HK$**
Interest payables	205,618,122.68	205,618,122.68
Bonds payable	8,557,503,886.47	8,557,503,886.47
Total	**8,763,122,009.15**	**8,763,122,009.15**
2016		
Interest payables	143,219,382.00	143,219,382.00
Bonds payable	7,195,744,196.40	7,195,744,196.40
Total	**7,338,963,578.40**	**7,338,963,578.40**

The group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

7 Available-for-sale financial asset

	31 December 2017 HK$	31 December 2016 HK$
HNA Aviation (Cayman) Ground Services Investment Limited Partnership ("Partnership") (a)	1,076,670,933.47	1,006,148,686.42
Hong Kong International Aviation Leasing Co., Ltd. ("HKIAL") (b)	402,388,038.02	386,266,191.43
Brighttime Global Ltd. ("Brighttime") (c)	306,621,046.37	286,534,078.85
Inflection Energy LLC ("Inflection Energy") (d)	148,132,334.82	138,428,954.72
Brussels SODE Hotel ("Brussels SODE") (e)	111,477,406.64	104,175,605.34
Unlisted equity investment, at fair value	2,045,289,759.32	1,921,553,516.76

(a) In February 2016, the Group invested capital of CNY 900,000,000.00 (equivalent to HK$ 1,069,061,364.12) in Partnership and held 20% equity interest with no control or significant influence.

(b) In June 2013, the Group injected capital of USD 50,000,000.00 (equivalent to HK$ 385,000,000.00) in HKIAL. After the capital injection, the Group held 9.87% equity interest in HKIAL. As at 31 December 2017, the Group held 6.85% equity interest in HKIAL due to new capital injected.

(c) In November 2016, Brighttime Global Ltd. ("Brighttme") issued ordinary shares to the Company at a consideration in exchange of shares of HKAGH's one of the subsidiaries held by the Group. Upon completion of share transfer, the Group held 27.02% equity in HKAGH and 18.26% equity in Brighttime.

(d) In December 2013, the Group injected capital of USD 20,250,000.00 (equivalent to HK$ 154,993,991.74) in Inflection Energy. After the capital injection, the Group held 8.11% equity interest in Inflection Energy.

(e) In June 2013, the Group injected capital of EUR 11,420,000.00 (equivalent to HK$ 116,641,731.10) in Brussels SODE, a subsidiary of HNA Holding. After the capital injection, the Group held 5.82% equity interest in Brussels SODE, and the remaining equity interest is held by HNA Holding.

8 Amount due from the immediate holding company

	31 December 2017 HK$	31 December 2016 HK$
HNA Holding	5,265,794,381.26	1,677,209,024.04

The amount due from the immediate holding company primarily represents the operating lease rental expense, fuel cost and procurement of rotables paid on behalf of HNA Holding as well as interest expenses incurred by the Company which were absorbed and reimbursed by HNA Holding (Note 15(b)(ii)). The amount is unsecured, interest-free and with no fixed term of repayments.

9 Cash and cash equivalents

	31 December 2017 HK$	31 December 2016 HK$
RMB	2,313,617.57	1,149,547,775.26
USD	55,894,415.16	935,517,231.44
EUR	3,618,853.11	58,934,054.98
	61,826,885.84	2,143,999,061.68

10 Share capital

	31 December 2017 HK$	31 December 2016 HK$
Issued and paid		
Ordinary shares of HK$1 each	70,200,000.00	70,200,000.00

The share capital of the Company is 70,200,000 shares of HK$1 each, which has been issued and fully paid.

11 Other reserves

As the Company acts as a bond issue vehicle at oversea for its immediate holding company, HNA Holding. In 2016 and 2017, the Company entered into agreements with HNA Holding, pursuant to which the interest expenses incurred by the Company's bonds payable are fully absorbed and reimbursed by HNA Holding. The reimbursed amount is treated as capital contribution by shareholder and recorded in "other reserve" account.

12 Bonds payable

	2017 HK$	2016 HK$
At 1 January	7,195,744,196.40	7,395,349,211.02
Current year addition	4,711,520,152.42	-
Current year issuance expense amortisation	25,965,108.58	20,618,280.94
Exchange (gain)/loss	(452,077,992.41)	261,010,185.81
Current year repayment (c)	(3,459,121,170.35)	-
Currency translation difference	535,473,591.83	(481,233,481.37)
At 31 December	8,557,503,886.47	7,195,744,196.40
Less: current portion	(4,671,519,967.14)	(3,353,791,461.25)
Bonds Payable	3,885,983,919.33	3,841,952,735.15

12 Bonds payable (continued)

Note: The related information of bonds is outlined as follows:

	Face value	Issuing date	Term	Issuing amount
USD bonds (a)	USD 500,000,000.00	07/02/2013	7 years	USD 489,137,424.21
HK$ equivalent	HK$ 3,877,448,486.39			HK$ 3,706,696,560.27

	Face value	Issuing date	Term	Issuing amount
USD bonds (b)	USD 300,000,000.00	22/06/2017	364 days	USD 298,044,530.00
HK$ equivalent	HK$ 2,340,054,901.06			HK$ 2,324,647,901.80

	Face value	Issuing date	Term	Issuing amount
USD bonds (b)	USD 300,000,000.00	01/11/2017	364 days	RMB 297,980,050.00
HK$ equivalent	HK$ 2,339,899,915.42			HK$ 2,324,144,979.31

(a) In February 2013, the Group issued seven year USD corporate bonds of USD0.5 billion (equivalent to HK$ 3,877,448,486.39) with final maturity in 2020 and interest bearing 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 HNA Holding.

(b) In June and November 2017, the Group issued 364-day USD corporate bonds of USD600 million (equivalent to HK$ 2,340,054,901.06 and HK$ 2,339,899,915.42 respectively), bearing interest at 5.5% and 6.35% per annum. The bonds are listed in Singapore and with an unconditional and irrevocable guarantee provided by HNA Holding.

(c) In May and June 2014, the Group issued three-year Singapore bonds of RMB 1.7 billion and 1.3 billion (equivalent to HK$ 2,146,735,698.95 and HK HK$ 1,641,621,416.85 respectively) by instalments, bearing 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. The bonds were repaid in May 2017.

13 Investment in a subsidiary

The following is the information of the Company's subsidiary at 31 December 2017:

Name	Place of Incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Percentage of ordinary shares directly held by parent (%)	Percentage of ordinary shares held by the Group (%)	Percentage of ordinary shares held by non-controlling interests (%)
HNA Investment Holding Co.,Ltd.	British Virgin Islands, Limited Liability company	Investment holding	1 Ordinary share at par value of 1 HK$	100	100	-

14 Cash flow information

(a) Net debt reconciliation

Net debt	2017 HK$	2016 HK$
Cash and cash equivalents	61,826,885.84	2,143,999,061.68
Bonds– repayable within one year	(4,671,519,967.14)	(3,353,791,461.25)
Bonds – repayable after one year	(3,885,983,919.33)	(3,841,952,735.15)
Interest payable	(205,618,122.68)	(143,219,382.00)
Net debt	**(8,701,295,123.31)**	**(5,194,964,516.72)**
Cash and liquid investments	61,826,885.84	2,143,999,061.68
Gross debt – fixed interest rates	(8,557,503,886.47)	(7,195,744,196.40)
Gross debt – variable interest rates	-	-
Interest payable	(205,618,122.68)	(143,219,382.00)
Net debt	**(8,701,295,123.31)**	**(5,194,964,516.72)**

	Other assets Cash & Cash Equivalents HK$	Total HK$
Balance as at 31 Dec 2016	2,143,999,061.68	2,143,999,061.68
Cash flows	(2,149,955,404.88)	(2,149,955,404.88)
Foreign exchange adjustments	67,783,229.04	67,783,229.04
Balance as at 31 Dec 2017	**61,826,885.84**	**61,826,885.84**

	Liabilities from financing activities			
	Interest payable HK$	Bonds due within 1 year HK$	Bonds due after 1 year HK$	Total HK$
Balance as at 31 Dec 2016	(143,219,382.00)	(3,353,791,461.25)	(3,841,952,735.15)	(7,338,963,578.40)
Cash flows	379,645,848.36	(1,252,398,982.07)	-	(872,753,133.71)
Foreign exchange adjustments	(21,051,184.80)	(52,748,193.97)	(21,979,496.57)	(95,778,875.34)
Other non-cash movements	(420,993,404.24)	(12,581,329.85)	(22,051,687.61)	(455,626,421.70)
Balance as at 31 Dec 2017	**(205,618,122.68)**	**(4,671,519,967.14)**	**(3,885,983,919.33)**	**(8,763,122,009.15)**

15 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Names of related parties

Name of related party	Relationship with the Company
HNA Holding	Immediate holding company
China Xinhua Airlines Co., Ltd.	Subsidiary of HNA

(b) Related party transactions

Same as disclosed elsewhere in this financial statements, the Group had the following significant transactions with related parties during the year ended 31 December 2017.

	2017 HK$	**2016** HK$
(i) Expenses paid on behalf of the immediate holding company		
HNA Holding	3,517,378,987.00	803,658,940.52
(ii) Interest expenses borne and reimbursed by the immediate holding company		
HNA Holding	455,626,421.70	581,545,796.97

15 Related party transactions (continued)

(b) Related party transactions (continued)

	2017 HK$	2015 HK$
(iii) Cash received by the Group on behalf of the immediate holding company		
HNA Holding	-	2,821,446,889.81
(iv) Guaranteed by immediate holding company		
HNA Holding	8,557,503,886.47	7,195,744,196.40

(c) Related party balances

	31 December 2017 HK$	31 December 2016 HK$
(i) Amount due from the immediate holding company		
HNA Holding	5,265,794,381.26	1,677,209,024.04
(ii) Amount due from a related party		
China Xinhua Airlines Co., Ltd.	6,332,877.75	5,918,006.33

16 Non-cash transactions

For the year ended 31 December 2016 and 2017, the interest expenses of HK$ 455,626,421.70 and HK$ 581,545,796.97 respectively incurred on the Company's issued bonds are to be borne and reimbursed by HNA Holding (Note 11). These reimbursements are not yet settled and have been recorded in "amount due from the immediate holding company".

17 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	31 December 2017 HK$	31 December 2016 HK$
ASSETS			
Non-current assets			
Available-for-sale financial asset		1,642,901,721.30	1,535,287,325.33
Investment in a subsidiary		1.00	1.00
		1,642,901,722.30	1,535,287,326.33
Current assets			
Amount due from a subsidiary		2,381,560,871.74	2,144,392,034.88
Amount due from immediate holding company		5,265,794,381.26	1,677,209,024.04
Amount due from a related party		6,332,877.75	5,918,006.33
Prepayments, deposits and other receivables		8,128,588.58	7,596,078.84
Interest receivable		1,135,667.16	1,061,268.77
Cash and cash equivalents		61,826,885.84	2,143,999,061.68
		7,724,779,272.33	5,980,175,474.54
Total assets		9,367,680,994.63	7,515,462,800.87
EQUITY			
Share capital		70,200,000.00	70,200,000.00
Other reserve		2,518,505,898.91	2,001,468,258.91
Accumulated losses		(1,984,146,913.43)	(1,895,169,036.44)
Total equity		604,558,985.48	176,499,222.47

17 Balance sheet and reserve movement of the Company (continued)

Balance sheet of the Company (continued)

	Note	31 December 2017 HK$	31 December 2016 HK$
LIABILITES			
Non-current liabilities			
Bonds payable		3,885,983,919.33	3,841,952,735.15
Current liabilities			
Interest payable		205,618,122.68	143,219,382.00
Current portion of non-current liabilities		4,671,519,967.14	3,353,791,461.25
		4,877,138,089.82	3,497,010,843.25
Total liabilities		8,763,122,009.15	7,338,963,578.40
Total equity and liabilities		9,367,680,994.63	7,515,462,800.87
Net current assets		2,847,641,182.51	2,483,164,631.29
Total assets less current liabilities		4,490,542,904.81	4,018,451,957.62

17 Balance sheet and reserve movement of the Company (continued)

Reserve movement of the Company

	Other reserve HK$	Accumulated losses HK$
At 1 January 2016	1,576,662,364.53	(1,350,875,015.32)
Loss for the year	-	(544,294,021.12)
Interests expenses reimbursed by immediate holding company	581,545,796.97	-
Currency translation differences	(156,739,902.59)	-
At 31 December 2016	**2,001,468,258.91**	**(1,895,169,036.44)**
At 1 January 2017	2,001,468,258.91	(1,895,169,036.44)
Loss for the year	-	(88,977,876.99)
Interests expenses reimbursed by immediate holding company	455,626,421.70	-
Currency translation differences	61,411,218.30	-
At 31 December 2017	**2,518,505,898.91**	**(1,984,146,913.43)**

18 Benefits and interests of directors (disclosures required by section 393 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G)

The directors of the Company did not receive any fees or other emoluments in respect of their services rendered to the Company during the year.

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