

# HAINAN AIRLINES COMPANY LIMITED

## HAINAN AIRLINES COMPANY LIMITED 2014 ANNUAL REPORT SUMMARY

### 1. Important Notice

1.1 This summary is extracted from the full text of the 2014 annual report published on the website of the SSE (<http://www.sse.com.cn>). Investors who want to know the details of the report shall refer to the full text of it.

1.2 Company profile

A Share	Stock Name	海南航空
	Stock Code	600221
	Stock Listed at	Shanghai Stock Exchange
B Share	Stock Name	HH B share
	Stock Code	900945
	Stock Listed at	Shanghai Stock Exchange
Contact Method	Secretary of the BoD	Representative of the BoD on Security Affairs
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### 2. Brief of Financial Highlights and Shareholders

#### 2.1 Key fiscal data

Monetary Unit: In RMB1,000 yuan

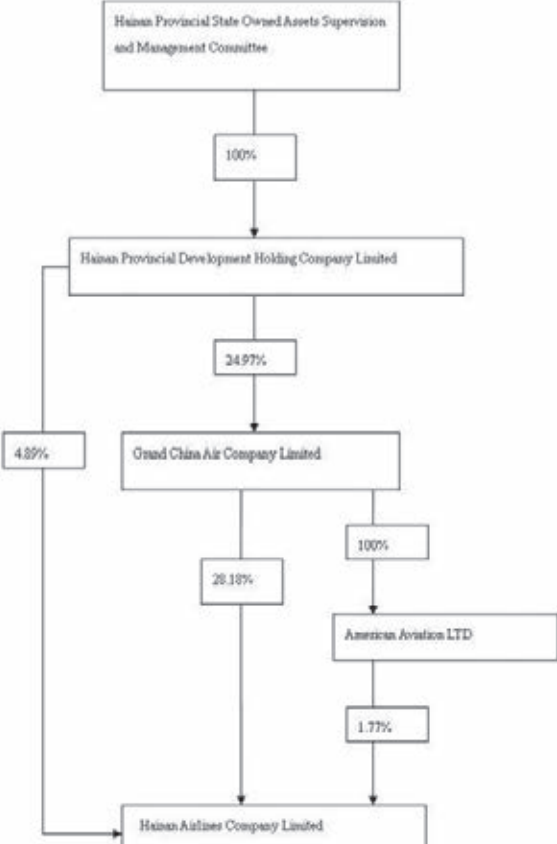
Item	End of 2014	End of 2013		Increase/Decrease (%)	End of 2012
		Before Adjustment	After Adjustment		
Total assets	121,982,041	112,617,088	103,281,911	8.32	92,719,144
Net assets belongs to shareholders of the listed enterprise	28,651,635	27,120,865	25,409,098	5.64	23,797,573
	2014	2013		Increase/Decrease (%)	2012
		Before Adjustment	After Adjustment		
Net cash flow from operating activities	6,004,642	10,747,616	7,835,163	-44.13	10,195,911
Operation income	36,043,771	33,276,254	30,231,362	8.32	28,867,585
Net profit belongs to shareholders of the listed enterprise	2,591,173	2,158,660	2,105,052	20.04	1,927,787
Net profit belongs to shareholders of the listed enterprise after non-recurring profit and loss	2,028,576	1,721,447	1,796,706	17.84	1,113,909
Weighted average ROE (%)	9	8	9	1	11
Basic earnings per share (yuan per share)	0.213	0.177	0.173	20.34	0.177
Diluted earnings per share (yuan per share)	0.213	0.177	0.173	20.34	0.177

#### 2.2 Particulars about Top 10 Shareholders

Unit: In Share

Total amount of shareholders					383,955
Total amount of shareholders at the closing of 5th trading day before the disclosing day of the annual report					378,866
Shareholding Status of Top Ten Shareholders					
Shareholder	Nature of Shareholders	Shareholding Percentage (%)	Amount of Holding Shares	Amount of Holding Shares with Trading Restriction	Amount of Pledged or Frozen Shares
Grand China Air Co., Ltd.	Others	28.18	3,432,789,486	0	Pledged 3,422,000,000
Haikou Meilan International Airport Co., Ltd.	Others	7.08	862,848,902	0	Pledged 483,000,000
Hainan Provincial Development Holding Company Limited	State Legal Person	4.89	595,238,094	0	Unknown
HNA Group Company Limited	Others	4.89	595,238,094	0	Pledged 595,238,094
ICBC Ruixin Fund Corporation-ICBC-Zhonghai Trust Company Limited	Others	4.84	589,700,000	0	Unknown
Changjiang Leasing Co., Ltd.	Others	4.25	517,671,098	0	Pledged 394,125,818
Hua'an Fund Corporation-Xingye-Tianjin Trust Company Limited	Others	3.21	390,600,000	0	Unknown
AMERICAN AVIATION LDC.	Others	1.77	216,086,402	0	Unknown
Hua'an Property Insurance Company Limited (self-owned capital)	Others	0.51	62,546,196	0	Unknown
Bank of China Company Limited-Huatai Barui Mixed Securities Investment Fund	Others	0.41	49,999,993	0	Unknown
Note to relationship or "action in concert" among the top ten shareholders		Among the top ten shareholders, there's connected relationship among the Grand China Air Co., Ltd., Haikou Meilan International Airport Co., Ltd and HNA Group Co., Ltd. However, there's no action in concert among them as described by the Administrative Rules on Information Disclosure about Changing of Shareholding Status. The Changjiang Leasing Co., Ltd is the indirect subsidiary of the HNA Group Co., Ltd.			

#### 2.3 Chart of the property right and controlling relationship between the actual controller and the Company



### 3. Discussion and analysis of the managements

#### 3.1 Operation status in the report period

In 2014, the world economy was overall to maintain moderate growth. The trend of major economies differentiated. The pressure of the economic downturn continued to increase. The Chinese economy enters into New Normal. In the future, the steady growth and structure adjustment would co-exist. Influenced by the global economic environment, the civil aviation industry is entering into a new stage of more severe competition, slow-down market demand, impact of high-speed rail network and decline of high-end commercial demand. Therefore, the overall transportation volume kept rapid growth and income kept steady.

Facing such complicated economic and industry environment, the Company has been looking for new market opportunities, enhancing its advantages at the regional markets, exploring international market (opened several international air routes to north America and western Europe countries), strengthening safety examination and supervision. The enhanced comprehensive competitiveness of the Company finally brought forward satisfactory economic efficiency. Following is the 2014 work report of the board of directors of the Company:

In 2014, the Company realized total turnover for amount of RMB 32,415 million yuan, increased 4.66%, in which the income from passenger transportation business accounted for RMB 31,460 million yuan, 97.05% of the main business of the Company, cargo & mail and excess luggage for RMB 894 million yuan, 2.76% of the main business, other income for RMB 62 million yuan, 0.19% of the main business. The total net profit belongs to ten shareholders accounted for RMB 2,591 million yuan.

In 2014, the total passenger transportation volume reached 6,109,450,000 person\* times, increased by 14.27% comparing with the same period of last year. The total passenger transportation volume reached 35,600,000 persons, 15.10% increase. The average seating rate reached 86.80%, 1% increase.

In 2014, the Company introduced 24 aircraft and threw the lease of 8 aircraft. As of Dec. 31 of 2014, the Company operated a fleet of 169 aircraft. Following is the fleet details:

Aircraft Type	B737-700	B737-800	B767-300	B787	A320	A319	A330-200	A330-300	Total
Aircraft Quantity	16	119	3	8	4	3	8	8	169

#### Brief operation indexes

Index	2014	2013	Increase/Decrease (%)
ASK (Available Seat Kilometers)	6,826,028	5,975,405	14.24
Total Turnover of Transportation (In 10,000 ton*kilometers)	610,945	534,649	14.27
Total Turnover of Passenger Transportation (In 10,000 ton*kilometers)	523,529	453,665	15.40
Total Turnover of Cargo & Mail Transportation (In 10,000 ton*kilometers)	87,415	80,984	7.94
Total Flying Kilometers (In 10,000 kilometers)	38,268	34,046	12.40
Total Flying Hours (In hour)	594,341	531,039	11.92
Flying Flights (In flight)	260,499	234,457	11.11
Flight Using Rate per Day (In hour)	10.26	10.21	0.49
Volume of Passenger Transportation (In 10,000 person*times)	3,560	3,093	15.10
Volume of Cargo & Mail Transportation (In 10,000 tons)	36.07	34.47	4.64
Average Seating Rate (%)	86.8	85.8	1.1
Average Loading Rate (%)	83.6	81.6	2.4

#### 3.1.1 Main business analysis

##### 3.1.1.1 Changes in items of the income statement and cash flow statement

Monetary Unit: In RMB1,000 yuan

Item	Amount in the Report Period	Amount in Same Period of Last Year	Increase/Decrease (%)
Operation income	36,043,771	33,276,254	8.32
Operation cost	27,702,882	26,144,416	5.96
Sales expenses	2,166,136	2,077,680	4.26
Administrative expenses	768,210	699,370	9.84
Financial expenses	3,401,198	2,045,331	66.29
Net cash flow from operation activities	6,004,642	10,747,616	-44.13
Net cash flow from investment activities	-6,312,266	-16,832,642	-62.50
Net cash flow from financing activities	460,477	3,933,560	-88.29

#### 3.1.1.2 Income

##### a. Factors contributes to changes in the income:

In the report period, the Company realized operation income of RMB 36,043,771 thousand yuan, up 8.32% comparing with the same of last year, which included the income from transportation of RMB 32,415,023 thousand yuan, up 4.66%. The fleet enlarging in 2014 contributed to the increase.

##### b. Information of major sales customers:

Major Sellers	Amount (In RMB 1,000 yuan)	Percentage to the Operation Income
Seller 1	7,688,895	21.33
Seller 2	250,610	0.70
Seller 3	147,149	0.41
Seller 4	146,994	0.41
Seller 5	143,366	0.40

Total	8,377,014	23.24
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#### 3.1.1.3 Cost

##### a. Cost Analysis

Monetary Unit: In RMB 1,000 yuan

Cost Analysis Classified by the Industry						
Industry	Cost Structure	Amount in Report Period	Percentage to Total Cost (%)	Amount in Same Period of Last Year	Percentage to Total Cost of Last Year (%)	Increase/Decrease (%)
Aviation transportation business	Passenger transportation	25,019,620	90.31	24,294,306	92.92	2.99
Aviation transportation business	Cargo & excess baggage transportation	710,632	2.57	758,073	2.90	-6.26
Aviation transportation business	Others	-	-	-	-	-
Total		25,730,252	92.88	25,052,379	95.82	2.71

##### b. Major Suppliers

Major Suppliers	Amount (In RMB 1,000 yuan)	Percentage to the Operation Cost (%)
Aviation fuel supplier 1	6,755,503	27.67
Take-off and landing service supplier 2	2,200,620	9.01
Aviation fuel supplier 3	1,437,012	5.89
Aviation fuel supplier 4	722,058	2.96
Aviation fuel supplier 5	632,353	2.59
Total	11,747,546	48.12

#### 3.1.1.4 Expenses:

In the report period, the sales expenses accounted for RMB 2,166,136 thousand yuan, up 4.26%, which mainly caused by increase in agency commission and promotion fees. The administrative expenses accounted for RMB 768,210 thousand yuan, up 9.84%, which mainly caused by increase in insurance premium and property management charges. The financial expenses accounted for RMB 3,401,198 thousand yuan, up 66.29%, which mainly caused by increase in interest and exchange losses.

#### 3.1.1.5 Cash flow

In the report period, the net cash flow from operation activities accounted for RMB 6,004,642 thousand yuan, declined 44.13% owing to the shortened clearing cycle of the accounts payable. The net cash flow from investment activities accounted for -RMB 6,312,266 thousand yuan, declined 62.50% owing to the decline in outside investment of the Company. The net cash flow from financing activities accounted for RMB 460,477 thousand yuan, declined 88.29%, which was caused by the increase in the financial leasing accounts in report period.

#### 3.1.1.6 Progress of the development strategy and operation plan

3.1.1.6.1 On March of 2014, the Company accepted the stock right of the Yunnan Xiangpeng Airlines and became its controlling shareholder. As the second-largest base airlines enterprise at the Kunming Changshui Airport, the Yunnan Xiangpeng Airlines possesses rich experiences in operation management. Currently, it operates multiple domestic and provincial air-routes. In 2014, it opened the air-routes to Singapore, Thailand and Taiwan. In 2015, it would take Kunming as the center and stressed on the development of the South-east Asia region. It plans to open the regional and international air-routes to Hongkong, Macao, South Asia, West Asia to build up the international air-route network to help to promote the development of the Yunnan Province.

3.1.1.6.2 On August 29 of 2014, the Urumqi Airlines starts its first flight. Since then, it had been opened 8 air-routes to Xi'an, Chengdu, Zhengzhou, Taiyuan, Kashgar, Hotan, Yining, Korla. It filed over 2,700 flights and transported passengers for 430,000 person times.

The Urumqi Airlines has been taken positive measures to carry out the policies and guidances to expand its air-route network to all directions and form an air silk road. The first phase of the network building (2015-2017) is to form the air-route network covering the South-west China which shall start from Urumqi and take Chengdu and Kunming as the center; the air-route network covering the Middle & East China which shall start from Urumqi and take Xi'an & Zhengzhou as the center; the air-route network covering the Middle & South China which shall start from Urumqi and take Haikou & Guangzhou as the center. In 2015, the Urumqi Airlines plans to import 3 aircraft to expand its fleet to six aircraft. In 2016, it plans to import 4 aircraft to expand its fleet to ten aircraft. In 2017, its fleet would expand to 15 aircraft.

3.1.1.6.3 On October of 2014, the Fuzhou Airlines starts formal operation. It mainly operates domestic air-routes and open the air-routes between Fuzhou and Pudong, Haikou, Kunming, Taiyuan, Chongqing, Xi'an, Tianjin and Hefei. It would grasp the opportunity of developing the West Bank Economic Zone of the Strait and development of the Free-trade Zone and Planning of the New District of Fuzhou, to explore its international and regional passenger & cargo & mail transportation business to Hongkong, Macao and Taiwan.

#### 3.1.2 Status of the principal businesses classified by the industry, product or region

##### a. Status of the principal businesses classified by the industry or product

Monetary Unit: In RMB 1,000 yuan

Status of the principal business classified by the industry						
Industry	Income from Principal Business	Cost on Principal Business	Gross Profit Percentage (%)	Increase/Decrease of the Income from Principal Business (%)	Increase/Decrease of the Cost on Principal Business (%)	Increase/Decrease of the Gross Profit Percentage (%)
Passenger transportation	31,459,572	25,019,620	20.47	5.22	2.99	1.72
Cargo and excess baggage	893,546	710,632	20.47	-4.23	-6.26	1.72
Others	61,905	-	100	-55.64	-	-
Total	32,415,023	25,730,252	20.62	4.66	2.71	1.51

##### b. Status of the principal businesses classified by the region

Monetary Unit: In RMB 1,000 yuan

Region	Income from Operation	Increase/Decrease (%)
Mainland of PRC	28,346,597	3.69
Other countries and regions	4,068,426	11.92
Total	32,415,023	4.66

#### 3.1.3 Analysis on assets and liabilities

##### 3.1.3.1 Assets and liabilities analysis sheet

Monetary Unit: In RMB 1,000 yuan

Item	End of 2014	Percentage to Total Assets at End of 2014	End of 2013	Percentage to Total Assets at End of 2013	Increase/Decrease (%)
Accounts receivables	733,906	0.60	905,626	0.80	-18.96
Other receivable	1,682,016	1.35	1,320,188	1.17	25.13
Financial assets available for sale	4,421,499	3.62	2,764,581	2.45	59.93
Fixed assets	50,295,563	41.25	42,856,409	38.05	17.36
Other non-current assets	2,033,434	1.67	3,892,577	3.46	-47.76
Notes payable	5,528,136	4.53	4,668,804	4.15	18.41
Accounts payable	3,790,588	3.11	5,149,797	4.57	-26.39
Interest payable	473,503	0.39	374,075	0.33	26.58
Dividend payable	29,746	0.02	59,381	0.05	-49.91
Other accounts payable	763,207	0.63	1,446,372	1.28	-47.23
Bonds payable	15,244,001	12.50	8,637,955	7.67	76.48
Long-term payable	3,844,207	3.15	2,656,236	2.36	44.72
Undistributed profit	9,118,873	7.48	7,229,735	6.42	26.13
Minority interest	3,073,110	2.52	490,938	0.44	525.97

#### Note:

- Accounts receivables: The decline of the accounts receivables was caused by the decline of the ticket accounts receivable
- Other accounts receivables: The decline of the other accounts receivables was caused by the decline of the accounts receivable from the related parties.
- Financial assets available for sale: The increase was caused by the transfer-in from the long-term equity investment subject to the new Accounting Standards.
- Fixed assets: The increase was caused by the increase in aircraft.
- Other non-current assets: The decline was caused by the confirmation of the investment payment in advance as the long-term equity investment.
- Notes payable: The increase was caused by the increase in the bank's acceptance bill.
- Accounts payable: The decline was caused by the shortened settlement cycle of the operation accounts payable.
- Interest payable: The increase was caused by the increase in the bond interest payable.
- Other account payable: The decline was caused by the decline in accounts payable to the related party.
- Bond payable: The increase was caused by the issuance of bond in the report period.
- Long-term payable: The increase was caused by the increase in financial leasing aircraft.
- Undistributed profit: The increase was caused by the transfer-in net profit in the report period.
- Minority interest: The increase was caused by the capital contribution increase of the subsidiary by the outside shareholder in the report period.

#### 3.1.4 Core competitiveness analysis

The Company started its business in Hainan Province, the largest special economic zone of China. It now possesses a young luxury fleet which mainly composing of Boeing series aircraft suitable for passenger and cargo transportation. It ranks into the line of the most vigorous and fastest growing airlines enterprises of China. It endeavors to provide passengers with seamless aviation services. Following are its core competitiveness:

3.1.4.1 Management: The Company owns an outstanding management team composing of professionals on operation control, marketing and sales and management elite. They establishes a unique modern enterprise management system on the basis of traditional Chinese management theory. They adopted the advanced western management technology and revenue management method to realize the achievement of maximum revenue. Meanwhile they use the platform of IT network technology.

3.1.4.2 Brand service: The Company wins good reputation for its customer-oriented service in the global aviation industry. In 2014, it was honored as the Leading Airline Economy Class by WTA, appraised as the SKYTRAX Five Star airlines enterprise for the fourth time and the Chinese Most Appreciated Companies by the Fortune magazine, granted the title of the Best Airlines Enterprise in China by the Premier Traveler, and selected into the Top100 Most Valuable Chinese Brands by the BrandZ.

3.1.4.3 Safe operation: The Company keeps safe operation record continuously for 21 years. It had been rewarded with safety production titles "Golden Eagle Cup" and "Jingpeng Award" for many years. It enhanced the core risk management and established management system accordingly. It also set up multi-layer fire-proof system and trains the pilot and crew members with various skills to improve the anti-risk ability.

3.1.4.4 Resource of aviation bases and air routes: The Company established 9 operation bases (Beijing, Haikou, Guangzhou, Shenzhen, Dalian, Lanzhou, Urumqi, Xi'an and Taiyuan) and scores of aviation operation stations, which form a flexible and reasonable air-route network and would avoid the impact of high-speed railroad on the operation of short-distance air transportation. It would help to improve the profit margin.

3.1.4.5 Innovation ability: The flexible management system, vigorous and young professional teams with various advanced concepts and appliance of advanced technologies are the inner energy of the Company to keep its management, safety and service abilities.

3.1.4.6 Opportunity of building the international tourist destination: Obviously, the Company takes advantages in the regional aviation market of Hainan province. The plan of Building Hainan Island into an International Destination and development & construction of Sanya city would definitely promote the tourist economy of Hainan. Meanwhile it would bring up new developing opportunities for the transportation industry of Hainan Province.

#### 3.2 Investment analysis

##### 3.2.1 General analysis on equity investment

As of Dec. 31 of 2014, the outside equity investment of the Group accounted for RMB 17,791,631 thousand yuan, including financial assets available for sale for amount of RMB 4,966,499 thousand yuan and equity investment in the joint-venture enterprises for RMB 12,825,132 thousand yuan.

##### a. Equity investment in other listed enterprises

Monetary Unit: In RMB 1,000 yuan

Stock Code	Stock Abbreviation	Initial Investment	Equity Holding Percentage (%)	Book Value at Period End	Gains and Losses in Report Period	Changes of Owner's Equity	Accounting Items
0096	China Civil Information	29,860	1.99	384,940	8,152	34,707	Financial assets available for sale
600999	China Merchants Securities	508,756	0.74	1,054,642	-	534,118	Financial assets available for sale
60357	Huiliang Infrastructure	6,906	1.12	26,571	-	-5,357	Financial