# 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 v 1.2 Company profile	want to	know the de	tails of the report sha	ll refer to	the full tex	t of it.	
		S	ock Name			海南航空	
A Share		St	ock Code	600221	600221		
		S	ock Listed at	Shanghai Stock	Exchange		
		SI	ock Name			HH B share	
B Share		SI	ock Code			900945	
	Stock Listed at						Exchange
Contact Method S	Secretar	y of the BoD			Representati	ve of the BoD on Security A	ffairs
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2.1 Key fiscal data Monetary Unit: In RMF	B1,000	yuan	1				
Item	End of 2014			End of 2013	Increase/Decrease (%)	End of 2012	
nem		Lifu 01 2014	Before Adjustment After		Adjustment		
Total assets		121,982,041	112,617,088		103,281,911	8.32	92,719,144
Net assets belongs to sharehold the listed enterprise	lers of	28,651,635	27,120,865		25,409,098	5.64	23,797,573
		2014	2014		2013	Increase/Decrease (%)	2012
		2014	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 sharehold 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			1,721,447		1,796,706	17.84	1,113,909
Weighted average ROE (%)		9	8		9	1	11
Basic earnings per share (yuan share)	per	0.213	0.177		0.173	20.34	0.177
Diluted earnings per share (yua share)	in per	0.213	0.177		0.173	20.34	0.177

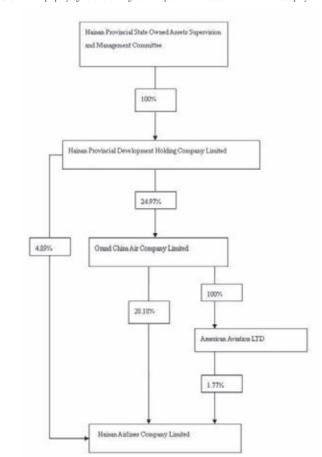
2.2 Particulars about Top 10 Shareholders

Unit: In Share

Total amount of shareholders				383,955			
Total amount of shareholders at t of the annual report	he closing of 5	efore the disclosing day			378,866		
Shareholding Status of Top Ten S	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	Others	4.84	589,700,000	0	Unknown		

Limited							
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 Bairui Mixed Securities Investment Fund	Others	0.41	49,999,993	0	Unknown		
Note to relationship or "action in among the top ten shareholders	o relationship or "action in concert" the top ten shareholders, there's connected relationship among the Grand China Ltd., Haikou Meilan International Airport Co., Ltd and HNA Group Co., Ltd. However no action in concert among them as described by the Administrative Rules on Informat Disclosure about Changing of Shareholding Status. The Changjiang Leasing Co., Ltd is 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



8,377,014 Total 3.1.1.3 Cost a. Cost Analysis

		(	Cost Analysis Cla	ssified by the Indus	try			
Industry	Cost Structure	Amount in Report Period	Percentage to Total Cost (%)		Period st Year	Percentage to Total Cost of Last Year (%)	Increase/Decrease (%)	
Aviation transportation business	Passenger transportation	25,019,620	90.31	24,2	94,306	92.92	2.99	
Aviation transportation business	Cargo & excess baggage transportation	710,632	2.57	7:	58,073	2.90	-6.26	
Aviation transportation business	Others	-	-		-	-	-	
Total		25,730,252	92.88	25,0	52,379	95.82	2.71	
b. Major	Suppliers							
Major Supplie	ers		Amount (In	RMB 1,000 yuan)		Percentage to the	Operation Cost (%)	
And the first first	1		1	( 755 502		27.		

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 inted 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% owint 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 flied 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 networ 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 wheih 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 oper 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 business 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			

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

Other countries and regions	4,068,426	11.92
Total	32,415,023	4.66
3.1.3 Analysis on assets and liabili	ities	

3.1.3.1 Assets and liabilities analysis sheet

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	1,652,016	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

a. Accounts receivables: The decline of the accounts receivables was caused by the decline of the ticket accounts receivable b. Other accounts receivables: The decline of the other accounts receivables was caused by the decline fo the acc le from the related partie:

Third Party	Guarantee	500.000	Sept. 23,	Sept. 23,	Subject to the	4.55%			Yes	No	No	No	Third p
Bank	income	300,000	2014	2015	agreement	4.3370			105	INU	NO	140	Innu p
Third Party	Guarantee	400.000	Sept. 24,	Mar. 24,	Subject to the	4.55%			Yes	No	No	No	Third p
Bank	income	400,000	2014	2015	agreement	4.33%	-	-	ies	INO	INO	INO	1 nira p
Third Party	Guarantee	300.000	Sept.28,	Mar. 28,	Subject to the	4.55%			Yes	No	No	No	Third p
Bank	income	300,000	2014	2015	agreement	4.3370	-		105	INU	NU	IND	Timu p
Third Party	Fixed	50.000	April 3,	April 3,	Subject to the	5.70%			Yes	No	No	No	Third p
Bank	income	50,000	2014	2015	agreement	3.7070	-		105	140	140	140	Tiniu pe
Third Party	Fixed	100.000	Mar. 18,	Mar. 18,	Subject to the	5.70%			Yes	No	No	No	Third pa
Bank	income	100,000	2014	2015	agreement	5.70%	-		105	140	140	140	Timu pe
Third Party	Fixed	100.000	Nov.1,	May 1,	Subject to the	5.60%	100.000.00	2.831	Yes	No	No	No	Third pa
Bank	income	100,000	2013	2014	agreement	5.0070	100,000.00	2,031	105	140	140	140	1 minu pi
Total	/	4,300,000	/	1	/		1,650,000	58,496	/	/	/	/	/

In August and September of 2014, the Group purchased short-term fixed-income financial products from the third party commercial banks for amount of RMB 2.5 billion yuan. The yield rate is 4.35%-4.65%. Therefore the accrued investment income accounted for RMB 34,895 thousand yuan in the report year. In 2013, the Group purchased short-term floating income financial products for amount of RMB1.55 billion yuan. The recovered investment income accounted for RMB 55,669 thousand yuan.

Besides, the subsidiary of the Company, the Chang'an Airlines Company Limited purchased capital-guarantee financial products from the third party for amount of RMB 150 million yuan (In 2013, it purchased 100,000 thousand yuan). The yield rate is 5.70%. Therefore the accrued investment income accounted for RMB 6,713 thousand yuan in the report year. The recovered investment income accounted for RMB 2,594 thousand yuan.

- b. Entrusted loan: Not applicable
- c. Other entrusted financing and derivative investments: Not applicable
- 3.2.3 Use of raised capital: Not applicable 3.2.4 Analysis on major subsidiaries and share participation enti-

a. China Xinhua Airlines Group Co., Ltd: The registered capital of the China Xinhua Airlines Group Co., Ltd is of RMB 2.259 billion yuan.

Business scope: Approved air passenger and cargo transportation from Tianjin (Beijing) to certain cities

Ordinary business scope: assets management; sales of aviation equipment, wood, construction materials, decoration materials, chemical products (not including dangerous chemicals), electronic products, computer software; daily appliances, textiles, machinery, electronic equipment and ferrous metals; design and manufacture of printing advertisement; publishing advertisement at the Xinhua Magazine; import & export business

In the report period, the income from principal business is of RMB 5,007 million yuan and net profit RMB 390 million yuan The Company holds 100% equity interests of it

b. Chang'an Airlines Company Limited: The registered capital of the Chang'an Airlines Co., Ltd. is of RMB 2,618 millio vuan

Business scope: Air passenger and cargo transportation from Shan'xi Province to certain domestic cities (The validity of the public air transportation license is on Jan. 17 of 2016); aviation related services and ground vehicle transportation service; air catering; tourist; property; agency and self-operated import & export busines

In the report period, the income from principal business is of RMB 2,408 million yuan and net profit RMB 148 million yuan The Company holds 67.01% equity interests of it.

c. Shanxi Airlines Company Limited: The registered capital of the Shanxi Airlines Co., Ltd. is of RMB 1,302 million yuan Business scope:Sub-route air passenger and cargo transportation from Shanxi province to neighboring provinces; agency for air passenger and cargo transportation; domestic air passenger and cargo transportation to certain cities from nxi Provinc

Ordinary business scope: agency for ticket purchase; agency for customs declaration; maintenance of mechanical equipment ration design; manufacture of geomorphic model; retail and wholesale of building materials, commodities and coke

In the report period, the income from principal business accounted for RMB 1,693 million yuan and net profit RMB 108 ion yuan. The Company holds 50.60% equity interests of it.

d. Yunnan Xiangpeng Airlines Company Limited: The registered capital of the Yunnan Xiangpeng Airlines Company Limited is of RMB 1.61 billion yuan.

Business scope: Domestic passenger and cargo transportation (including Hongkong, Marco and Taiwan); inter passenger and cargo transportation to and fro neighboring countries; import & export of goods; insurance agency; gift sales; ticket sales for scenic spots and shows; hotel booking; car leasing and advertisem

In the report period, the income from principal business accounted for RMB 3,972 million yuan and net profit RMB 121 million yuan. The Company holds 86.68% equity interests of it.

- e. Xinjiang Urumqi Airlines Company Limited
- Registered capital: RMB 3 billion yuan
- Legal representative: Zhang Jingsheng

Business scope: Domestic passenger and cargo transportation; passenger and cargo transportation to Hongkong, Marco and Taiwan from Urumqi; international passenger and cargo transportation from Urumqi; machinery; hardware and electrical ent; sales of art & craft, cosmetics; import & export of commodities and technologies; advertise

The Company holds its 86.32% stock equity. In the report period, the income from principal business accounted for RMB 137 million yuan and net profit -RMB 13 million yuan.

f. Fuzhou Airlines Company Limited

The registered capital of the Fuzhou Airlines Company Limited is for RMB 2 billion yuan. The Company holds its 60% stock equity. Its legal representative is Liu Kaihong.

Business scope: Domestic passenger and cargo (mail) transportation; passenger and cargo (mail) transportation to Hongkong Marco and Taiwan; aviation related services; aviation equipment maintenance; terminal building service and operation; self-agent import & export of various commodities and technology (except for commodities and technologies prohibited); sales of electronic products, art & craft and cosmetics; design, print and publish advertisement.

In the report period, the income from principal business accounted for RMB 45 million yuan and net profit -RMB 38 million vuan.

g. Bejing Kehang Investment Company Limited

The registered capital of the Bejing Kehang Investment Company Limited is of RMB 150 million yuan, including 95% equity of the Company

Business scope: Project investment and management; real estate development; sales of self-developed properties; property management; hotel management; information consultation; commodity import & export and technology; import & export. Its branches mainly deal with accommodation; commodities; conference services; commercial services, public parking services and preparation & sales of Western & Chinese foods.

In the report period, the income from principal business accounted for RMB 209 million yuan and net profit RMB 78 million

3.3 Prospect of the future development

3.3.1 Industry competition and future developing trend

The global economy is on the road of moderate recovering and growth in 2015. Meanwhile there's still uncertainty exists Chinese economic development has entered a "new normal". The economic growth has steady slowed down, but will continue to maintain a rapid growth in the future. It would still take the pulling effect on the development of the domestic aviation industry Along with the transformation of production society to consumption society and the improvement of income, the aviation industry would obviously benefit from the rapid growth of domestic and international passenger transportation market. Meanwhile, the outside factors of oil price and exchange rate bring new opportunities to the civil aviation industry. It would definitely stimulate the consuming demand of the aviation market. However, the establish of enormous low-cost airlines and sub-route airlines and speedup of high-speed rail would take certain impact on the traditional airlines enterprises

3.3.2 Enterprise developing strategy

In order to comply with the high speed growth trend of the domestic civil industry, the Company confirms its overall strategy To improve the comprehensive competitiveness, To build the platform for core business of civil aviation, To establish a worldclass knowledge-intensive civil aviation enterprise of leading technology, excellent management, abundant fund and strong competitivenes

It would speed up its strategic layout to build the air route network with international and domestic regional advantage and take all measures to realize global multi-bases operation so to become one of the world leading airlines enterprises in respects of operation scale, capacity, service and safety. It would stress to open more international air routes and global air-route network promotion

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Monetary Unit: In RMB 1.000 yuar

## 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 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 volumn 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, increased4.66%, in which the incom 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 teh 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				201	4	2013	Increase/I	Decrease (%)	
ASK (Available Seat	Kilometers)				6,826,02	8 5,	975,405		14.24
Total Turnover of Tra	nsportation (In	10,000 ton*kilom	eters)		610,94	5	534,649	14.27	
Total Turnover of Pas	senger Transpo	ortation (In 10,000	ton*kilometers	)	523,52	Ð	453,665	15.40	
Total Turnover of Car	go & Mail Tra	nsportation (In 10,0	000 ton*kilome	ters)	87,41	5	80,984	7.94	
Total Flying Kilomete	ers (In 10,000 l	cilometers)			38,26	8	34,046	12.40	
Total Flying Hours (In	n hour)				594,34	1	531,039		11.92
Flying Flights (In flig	ht)				260,49	Ð	234,457		11.11
Flight Using Rate per	Day (In hour)				10.2	5	10.21		0.49
Volume of Passenger	Transportation	(In 10,000 person <sup>3</sup>	*times)		3,56	0	3,093		15.10
Volume of Cargo & Mail Transportation (In 10,000 tons)						7	34.47		4.64
Average Seating Rate	(%)				86.	8	85.8		1
Average Loading Rate (%)					83.	5	81.6		2

3.1.1 Main business analysis

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

Monetary Unit: in RMB 1.000 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 Incom

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 cu

Major Sellers	Amount (In RMB 1,000 yuan)	Percentage to the Operation Income
Seller 1	7,688,895	21.3
Seller 2	250,610	0.70
Seller 3	147,149	0.4
Seller 4	146,994	0.4
Seller 5	143,366	0.40

c. 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

d. Fixed assets: The increase was caused by the increase in aircraft.

e. Other non-current assets: The decline was caused by the confirmation of the investment payment in advance as the longterm equity investment.

f. Notes payable: The increase was caused by the increase in the bank's acceptance bill

g. Accounts payable: The decline was caused by the shortened settlement cycle of the operation accounts payable.

h. Interest payable: The increase was caused by the the increase in the bond interest payable

i. Other account payable: The decline was caused by the decline in accounts payable to the related party

- j. Bond payable: The increase was caused by the issuance of bond in the report period.
- k. Long-term payable: The increase was caused by the increase in financial leasing aircraft
- 1. Undistributed profit: The increase was caused by the transfer-in net profit in the report period.

m. Minority interest: The increase was caused by the capital contribuion 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 narketing 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 nethod 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 megazine, 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 "Jinpeng 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 ation. 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

3.1.4.6 Opportunity of building the international tourist destination: Obviously, the Company takes advantages in the regional viation market of Hainan province. The plan of Building Hainan Island into an International Destination and development & construction of Sansha 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-ventur enterprises for RMB12,825,132 thousand yuan.

# a. Equity investment in other listed enterprise

Monetary Unit: In RMB 1,000 yuan

Stock Code	Stock Abbreviation	Initial Investment	Equity Holding Percentage (%)		Gains and Losses in Report Period	Changes of Owner's Equity	Accounting Items
0696	China Civil Information Network	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
00357	Haihang Infrastructure	6,906	1.12	26,571	-	-5,357	Financial assets available for sale
Total		545,522	/	1,466,153	8,152	563,468	/

b. Equity investment in other un-listed financial enterprises

Name	•	Initial Investment	Shareholding Amount (In Share)			Gains and Losses in Report Period		Accounting Items
Bohai	i Trust	2,760,906	795,600	39.78	3,198,555	235,286	-	Long-term equity investment
HNA Finan	Group ce	865,578	639,900	23.7	938,662	78,379	-	Long-term equity investment
Total		3,626,484	/	/	4,137,217	313,665		1

3.2.2 Entrusted financing and derivative investment in non-financial enterprises

Monetary Unit: In RMB1,000 vuan

Cooperation Party	Product Type	Amount	Term	Due Date	Payment	Estimated Income	Actually Recovered Capital	Actual Income	Performed to Legal Procedures (Yes/No)	Provision for Impairment Withdrawn	Connected Transaction (Yes/No)	Lawsuit (Yes/No)	Resource of Capital-Raised Capital or Not (Yes/No)	Relationship
Third Party	Floating	1,550,000	Dec.11,	Aug. 11,	Subject to the	5.5%	1,550,000	55.665	Yes		No	No	No	Third party
Bank	income	1,550,000	2013	2013 2014 agreement	3.370 1,330	1,550,000 55,000	55,005	105		110	140	140	riniu party	
Third Party	Guarantee	500.000	Aug. 19,	Feb.19,	Subject to the	4.55%			Yes		No	No	No	Third party
Bank	income	300,000	2014	2015	agreement		4.3370 -			105		110	110	INU
Third Party	Guarantee	500.000	Aug. 21,	Feb. 21,	Subject to the	4,55%			Yes		No	No	No	Third party
Bank	income	300,000	2014	2015	agreement	4.33%			105		NU	140	INO	Thiru party
Third Party	Guarantee	e 200 000 Sept. 22, Mar. 22, Subject to the	4,55%			Yes		N	No					
Bank	income	300,000	2014	2015	agreement	4.33%	•		ICS		No	NO	No	Third party

a. To accelerate the internationalization process and improve market share The Company would take the opportunity to open more intercontinental air-routes and aviation bases.

b. To promote the E-commerce marketing and strictly control the production cost

The Company would up-grade its domestic and overseas official web-site to improve its direct sale ability. It would build a cost control system to perform strict cost & expense control on its operation.

c. To innovate new safety management and reduce critical risk

The Company would borrow the advanced concepts of safety performance management to provide objective basis for safety decisions through quantizing critical risk. It would take the measures of performance monitoring and safety accountability to promote special management on critical risks. It would improve the quality examination level through application of E-IOSA and professional training of auditors with IATA.

d. To improve internal control management and operation participation of bases/subsidiaries

The Company would clearly position the bases/subsidiaries and development planning in the future. It would increase the setting of process capability indexes involving management efficiency, operation level and labor productivity, so to enhance the internal control and improve the cost control awareness and participation of the bases/subsidiaries in the routine production operation on the basis of overall evaluation index system.

e. To improve the service quality through enriching the oriental charm

The Company would continue to research the application of oriental culture and charms in its service to improve the cabin and ground services. Its' target is to provide the customer with international standardized service through enhancing the input in product design and development

# 3.3.4 Capital demand

The major capital needs for the foreseeable future of the Company are aircraft introduction and buying the asset injections promised by related shareholders. In 2015, the Company would evaluate and use various financing tools of domestic & overseas equity financing, bond financing, bank loan and inter-bank financial products to secure the normal operation on the basis of ation cash flow status

3.3.5 Possible risks

a. Macro-economy fluctuation

The prosperity of the civil aviation could reflect the domestic and international macro economy status. The prosperity of the macro economy takes direct influence on the demand for aviation passenger and cargo transportation. While the geopolitics conflicts and local natural disasters bring new uncertainty on the world economy. The Chinese economy development is entering into a "New Normal" era. It's necessary to push forward the overall reform and structure adjustment. These factors increases the nty on the operation of the airlines enterpr

b. Currency exchange rate fluctuation

The major leasing debt and partial loan of the Company are settled down in foreign currency (mainly in USD and Eurodollar). Since the foreign currency expense of the issuer's operation is higher than the income from foreign currency, the exchange rate fluctuation of renminbi would influence the achievement of the issuer. The exchange gain and loss of the issuer would show large uncertainty in the future.

### c.Price fluctuation of aviation fuel

The aviation fuels is the major element of the production cost of airlines enterprises. Its price often influenced by the international economic status, geopolitics and accidents. In the second half of 2014, the oil price fell owing the geopolitical elements. In consideration of unpredictable international political situation, the fluctuation of cruel oil and aviation fuels might be the probability of large events

#### d. Market competition

The rapid growth of domestic civil aviation capacity would further enhance the market competition. At the domestic market, the Company is facing the competition of both low-cost airlines enterprise and other base-airlines enterprises in the respect of price and flight schedule. At the international market, the Company has to face the competition of air-route network and services with the world class giants

#### e. Diversion of Customers

The emerging and development of high speed railroad shares certain passengers from the domestic civil aviation market. It's obvious that the further opening of more high speed rails would take certain impact on the operation of short & middle-distance air

In order to reduce the risk arising thereof, the Company would endeavor to research the international and domestic economic changes and grasp the opportunities to improve the safety control ability, management level and operation efficiency step by step in

#### 3.4 Profit distribution preplan

Profit distribution plan or preplan/Plan or preplan of transfer capital reserves into stock capital in the latest 3-years (including the report period):

# Monetary Unit: In RMB 1.000 yuan

Distribution Year	Bonus Share per 10 Shares	Dividend per 10 Shares (tax included) in RMB yuan			Net Profit Belongs to Shareholders of Listed Enterprise in the Consolidated Statements	Percentage to the Net Profit Belongs to Shareholders (%)
2014	-	0.638	-	777,223	2,591,173	30.00
2013	-	-	-	-	2,158,600	-
2012	-	1	10	609,109	1,927,787	31.60

4. Related Items Concerning the Financial Report

4.1 Specifications on changes in accounting policies & estimates comparing with last year's financial report

On Sept. 29 of 2014, the 29th session of the seventh board of directors deliberated and passed through the Report on Changes ting Policies. The Ministry of Finance revised the Accounting Standards for Enterprises No. 2- Long Term Equ Investment, the Accounting Standards for Enterprises No. 9-Employ Compensation, the Accounting Standards for Enterprises No. 30-Presentation of Financial Statements, the Accounting Standards for Enterprises No. 33-Consolidated Financial Statements, the Accounting Standards for Enterprises No. 39-Fair Value Measurements, the Accounting Standards for Enterprises No. 40-Joint Venture Arrangement, the Accounting Standards for Enterprises No. 41-Disclosure of Equity in Other Subjects, etc. According to the regulation of the Ministry of Finance, the revised Accounting Standards for Enterprises shall be enforced from July 1, 2014. The board of directors agreed to adopt the above revised Accounting Standards for Enterprises accordingly.

4.2 Specifications on changes in consolidation scope of the financial statements comparing with last year's financial report

In the report period, the Company completed the stock right acceptance of the Yunnan Xiangpeng Airlines Company Limited and actually controlled over it. It also invested to establish the Urumqi Airlines Company Limited, Fuzhou Airlines Company Limited. It holds 70% and 60% stock right of the above two airlines enterprises. Therefore, the financial statements shall consolidate the Yunnan Xiangpeng Airlines Company, Urumqi Airlines Company Limited and Fuzhou Airlines Company Limited Chairman: Xin Di

Hainan Airlines Company Limited March 26, 2015

Monetary Unit: In RMB 1,000 yuan								
Name	Initial Investment	Shareholding Amount (In Share)	Equity Holding Percentage (%)					