



# Shandong Airlines Co., Ltd. Summary of Annual Report 2019

## I. Important Notice

The summary is abstract from full-text of annual report, for more details of operating results, financial condition and future development plan of the Company; investors should found in the full-text of annual report that published on media appointed by CSRC.

Prompt of non-standard audit opinion

Applicable     Not applicable

The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either Profit distribution pre-plan of preferred stock deliberated and approved by the Board in the reporting period

Applicable     Not applicable

## II. Basic information of the company

### 1. Company profile

Short form of the stock	Shanhang-B	Stock code	200152
Stock exchange for listing	Shenzhen Stock Exchange		
Person/Way to contact	Secretary of the Board	Rep. of security affairs	
Name	Dong Qiantang	Fan Peng	
Office add.	1/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	3/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	
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### 2. Main business or product introduction in the reporting period

The Company is mainly engaged in international and domestic air passenger and cargo transportation business; hotel catering; aircraft maintenance; civil aviation personnel training; insurance agency; airline agency business; ground services related to main business; sales of aviation materials, general merchandise, food, health foods, handicrafts, souvenirs, etc., and retail sales of tobacco; leasing of aviation materials; leasing of premises, rental of houses; business services; hotel accommodation agents and ticket agents; conference services; transport agency services, air cargo storage; and labor services. Among them, international and domestic air passenger and cargo transportation business is the Company's main business.

For more than 20 years, the Company has always been giving first priority to “ensure safety, pay close attention to efficiency, and strive to punctuality and quality service”. As of the end of 2019, the Company has 124 airplanes of Boeing B737 series, and striding into the ranks of large airlines. At present, the Company bases its headquarters in Jinan and has branch offices and flight bases in Qingdao, Yantai, Xiamen, Chongqing, Beijing, Urumqi and Guiyang. The Company operates more than 200 domestic, international



and regional air routes, every week more than 3,700 flights fly to more than 80 large and medium-sized cities across the country, as well as the regional routes to Taiwan region of China, and the international routes to South Korea, Japan, Thailand, Cambodia and India.

### 3. Main accounting data and financial indexes

#### (1) Main accounting data and financial indexes for recently three years

Whether the Company needs to retroactively adjust or restate the accounting data of previous years

Yes  No

In RMB

	2019	2018	Changes over last year	2017
Operating income	18,990,415,024.88	18,765,953,326.74	1.20%	16,484,713,152.23
Net profit attributable to shareholders of the listed company	361,005,776.31	347,379,314.89	3.92%	490,353,408.15
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	203,107,863.26	132,549,289.96	53.23%	388,452,214.55
Net cash flow arising from operating activities	2,629,812,252.38	2,450,017,519.48	7.34%	1,870,048,122.23
Basic earnings per share (RMB/Share)	0.9	0.87	3.45%	1.23
Diluted earnings per share (RMB/Share)	0.9	0.87	3.45%	1.23
Weighted average ROE	7.22%	7.94%	0.72 percentage points down	12.19%
	Year end of 2019	Year end of 2018	Changes over end of last year	Year end of 2017
Total assets	17,392,935,986.48	16,563,979,100.41	5.00%	13,351,422,839.91
Net assets attributable to shareholder of listed company	5,173,519,005.57	4,471,325,978.28	15.70%	4,253,141,013.93

#### (2) Quarterly main financial index

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	4,634,384,704.82	4,354,683,695.90	5,768,785,082.57	4,232,561,541.59
Net profit attributable to shareholders of the listed company	34,059,084.70	-61,423,090.11	721,449,719.97	-333,079,938.25



Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	22,988,496.10	-89,019,199.90	660,558,166.44	-391,412,611.70
Net cash flow arising from operating activities	72,679,453.91	471,397,201.77	1,652,901,573.57	432,834,023.13

Whether there are significant differences between the above-mentioned financial index or its total number and the relevant financial index disclosed in the company's quarterly report and semi-annual report

Yes  No

#### 4. Shares and shareholders

##### (1) Particulars about common stock shareholders, preference shareholders with voting rights recovered and top ten shareholders

In Share

Total common stock shareholders in reporting period-end	14,699	Total common stock shareholders at end of last month before annual report disclosed	14,675	Total preference shareholders with voting rights recovered at end of reporting period	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed	0
Top ten shareholders							
Full name of Shareholders	Nature of shareholder	Proportion of shares held	Amount of shares held	Amount of restricted shares held	Number of shares pledged/frozen		
					State of share	Amount	
Shandong Aviation Group	State-owned legal person	42.00%	168,004,000	168,004,000			
Air China Limited	State-owned legal person	22.80%	91,200,000	91,200,000			
NORGES BANK	Foreign legal person	0.87%	3,498,479	0			
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.74%	2,960,917	0			
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	Foreign legal person	0.66%	2,658,100	0			
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.57%	2,268,651	0			

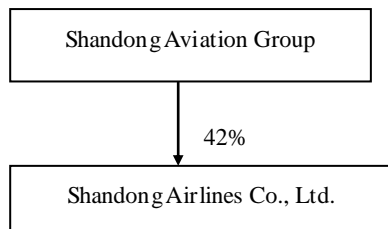


ISHARES CORE MSCI EMERGING MARKETS ETF	Foreign legal person	0.52%	2,063,918	0	
Hou Chunhu	Domestic nature person	0.44%	1,750,345	0	
Chen Jingjian	Domestic nature person	0.40%	1,595,200	0	
Wang Jingqing	Domestic nature person	0.33%	1,319,553	0	
Explanation on related relationship or concerted action among the above mentioned shareholders		<p>1. Shandong Aviation Group is the first largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares;</p> <p>2. Air China Limited is the second largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares;</p> <p>3. Among the above top ten shareholders, Air China Limited is the first largest shareholder of the Shandong Aviation Group, and there exists no associated relationship between Shandong Aviation Group and Air China and the other shareholders, and they don't belong to the persons acting in concert regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders.</p>			

## (2) Total preferred stock shareholders of the Company and shares held by top ten shareholders with preferred stock held

The Company had no shareholders with preferred stock held in the reporting.

## (3) Property right and controlling relationships between the actual controllers of the Company and the Company is as follows:



## 5. Corporate bonds

Whether or not the Company public offering corporation bonds in stock exchange, which undue or without payment in full at maturity on the approval date for annual report disclosed

No

## III. Discussion and analysis of business

### 1. Introduction of operation in the reporting period

The Company runs a steady and progress operation in 2019, and basically achieve the scheduled targets.

——Safety position is generally stable: In transpiration, we have ensured security flight of 434,200 hours with a 0.01% down from a



year earlier; and 206,100 vehicles, a y-o-y growth of 0.14%. The Company has achieved 4 million hours of continuous safe flight, and was awarded the *Four-Star Flight Safety Award* by Civil Aviation Administration.

— Operation efficiency is consolidated and improved: On-time performance was 85.28%, a 3.64 percentage points up from a year earlier, a 3.63 percentage points above the industry average, ranks No.1 within the industry. Guarantee 110 flights of important tasks smoothly.

— Successful completion of the benefit targets: we completed a RTK of 3628 million TK in the year, and passenger traffic volume came to 25,838,000 person-time, cargo and mail transport volume reached 182,200 tons, an increase of 2.53%, 1.48% and 7.07% on a y-o-y basis respectively; the operation revenue reached 18.99 billion Yuan, an increase of 1.20% from a year earlier; net profit has 361.01 million Yuan, an increase of 3.92% from a year earlier. The passenger load factor (PLF) comes to 84.03%, a 0.12 percentage points up on a y-o-y basis; freight rate goes to 40.29%, a 0.16 percentage points down from a year earlier.

— Steady improvement in service quality: Passenger satisfaction achieved 93.89 scores, risen by 1.19 score on a year-on-year basis; passenger complaint rate was 0.643 times/ 10 thousand person, a 0.049 times/10 thousand person down; the acceptance of passenger complaint rate ranks No. 2 (ranks in order of preference) in main airlines; won the title of “Best Airlines for Civil Aviation Service” for continuous six years; awarded as the “Top 500 Most Valuable Brand in China” for twelve years in a row with brand value up to 51,292 million Yuan, which ranking increased to ninety-eight.

The Company mainly carried out the following work:

(1) Improve the safety management efficiency to ensure continuous safety

The first was to strengthen the implementation of political responsibility to ensure security. Conscientiously implemented the spirit of General Secretary Xi Jinping’s important instructions on civil aviation work, and went all out to do a good job in safety. The second was to continuously improve the safety management system. The safety management organization system was optimized, the safety management responsibility interface was clearer, the collaboration was smoother, and the regional management and control capabilities were enhanced. The third was to strengthen the construction of “three basics”. Carried out an investigation on the pilots’ technical capabilities, seriously investigated and dealt with the discipline issues of simulator training, improved the qualification management and control mechanism of aircraft maintenance team, and improved the efficiency of regional maintenance support. The fourth was to deepen the prevention and control of security risks. Paid close attention to the key and difficult issues affecting safety quality in recent years, and implemented rolling tracking control. The fifth was to solidly carry out the aviation security work. The company continuously improved the security management system, carried out special work to strictly control the safety order on board, and implemented two rounds of special inspections on security work. We have successfully completed the security work tasks during important periods such as the spring festival transport, the two sessions, and the 70<sup>th</sup> anniversary of the founding of the People’s Republic of China.

(2) Inspired the synergy of operation system and maintained the high-level flights normality

The first was to continuously optimize the working mechanism of flights normality management. Further implemented the operational management and control responsibilities, and promoted the formation of organizational synergy. Deepened the flight scheduling, adjusted and optimized the coordination mechanism, strengthened the flight early warning management and special rectification. The second was to improve the flights operation decision-making and support capabilities. The construction of the operation quality management system was vigorously promoted, and the efficiency and application level of statistical analysis of operation data were improved. Improved the effectiveness of AOC collaborative decision-making and effectively controlled operational risks. Improved the meteorological information system and wind control system alarm function, and further improved the accuracy of release control. The rapid transit success rate was 78.50%, reducing the transit time by 1309 hours and reducing flight delays by 11,292 all year round. The third was to focus on the key and difficult points, and pay close attention to promoting and improving. We deepened the supervision and inspection of flight operation guarantees and rolled over the supervision month by month; effectively solved the problems such as the aircraft pre-deicing and the cargo counterweighting of connecting flights. The rectification of the terminals was carried out steadily, and the on-site guarantee quality of relevant terminals was improved.

(3) Coordinated the organization’s response to risks, and increased revenue and reduced expenditures and achieved results

The first was to continuously improve the competitiveness of the airline network. The hub airports’ time resources achieved growth,



and the international regions have made breakthroughs in time resources. In response to the impact of the grounding of B737MAX, deployed the transport capacity of outside stations and increased the investment in main base markets, and the control of Jinan and Qingdao was consolidated. The second was to effectively improve the production efficiency. Improved the passenger source matching ability, scientifically grasped the rhythm of transport capacity investment, and improved the level of resource allocation and the operation efficiency. The third was to vigorously improve revenue management capabilities. The efficiency monitoring mechanism of the sales department was improved, and the proportion of disadvantaged flights decreased. We actively created value-added service products such as "business trip" and "Luyan trip" so as to increase the company revenue. The market share of the main base of the freight business was consolidated, and the revenue from the international transit business increased. The fourth was to focus on risks and strengthen cost control. We actively responded to internal and external operating risks, improved resource planning efficiency, implemented rigid budget management, and promoted accurate control to fuel efficiency.

(4) Consolidated and improved service quality, and enriched brand image

The first was to improve the service quality evaluation index system. In response to the requirements of the Civil Aviation Administration, we actively organized the assessment of the capacity of transport services for the disabled, and comprehensively implemented the information transmission mechanism for late baggage. The second was to comprehensively enrich the online self-service check-in functions. Vigorously implemented "paperless" travel, simplified handling procedures, and the ticket policy complaints decreased significantly, vigorously expanded the transit business around the main base and got good reputation from travelers. The third was to actively participate in the industry service and innovation competition platform. Continued to promote brand carrier innovation, launched the first brand image promotional video and a new generation of air crew uniforms, and built a "Luyan" brand product system covering the complete service chain of open spaces.

(5) Consummated the operation management mechanism and improved the comprehensive management level

The first was to actively promote deepening reform and optimization of organizational structure. The second was to promote the healthy development of investment enterprises. The third was to steadily advance infrastructure planning and construction. Focusing on the relocation of Jinan Airport, the company carried out the office area demand calculation. Promoted the implementation of the annual infrastructure project, and the major projects of the Qingdao Jiaozhou Airport Base Project were basically completed, laying a foundation for the smooth transition on schedule.

## 2. Whether the main business had major change in the reporting period

Yes  No

## 3. About the industries, products, or regions accounting for over 10% of the company's operating income or operating profit

In RMB

Name	Operating revenue	Operating cost	Gross profit ratio	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating cost y-o-y	Increase/decrease of gross profit ratio y-o-y
Air transport service	18,256,980,628.88	1,139,576,427.54	6.24%	1.08%	18.59%	0.92 percentage points up

## 4. Whether the characteristics of management seasonal or cyclical need special attention

Yes  No



**5. In the reporting period, note of major changes in operating income, operating cost, total net profit attributable to common stock shareholders of listed company or composing the previous reporting period**

Applicable  Not applicable

**6. Particular about suspension of listing and terminate listing of stocks**

Applicable  Not applicable

**7. Relevant items involving financial report**

**(1) Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year**

The Proposal on Accounting policy Changes was deliberated and approved by 4<sup>th</sup> session of 6<sup>th</sup> BOD held on 21 March 2019. Change of the accounting policy as:

The *Notice on Revising and Printing the Format of Financial Statements for General Enterprise in 2018* [Cai Kuai(2018) No.15] was issued by the Ministry of Finance on 15 June 2018, financial statement's format for general enterprise are being revised. The revised *Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments* [Cai Kuai(2017) No.7], *Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets* [Cai Kuai(2017) No.8], *Accounting Standards for Business Enterprises No. 24 - Hedge Accounting* [Cai Kuai(2017) No.9], and the *Accounting Standards for Business Enterprises No. 37 - Financial Instruments Presentation* [Cai Kuai(2017) No.14] issued by Ministry of Finance in 2017 are required all the enterprise listed in China should implemented the new financial instrument standards since 1 Jan. 2019.

The Company prepared the financial statement for the year of 2018 and beyond according to the relevant requirement of *Notice on Revising and Printing the Format of Financial Statements for General Enterprise in 2018* issued by Ministry of Finance and implemented the new financial instrument standards. For the rest unchanged parts, the specific accounting standards, application guide of accounting standards, the interpretation announcement of accounting standards for business enterprise and relevant regulations issued by the Ministry of Finance in the early stage shall still be implemented.

**(2) Major accounting errors within reporting period that needs retrospective restatement**

No major accounting errors within reporting period that needs retrospective restatement for the Company in the period.

**(3) Compare with last year's financial report; explain changes in consolidation statement's scope**

No changes in consolidation statement scope in the reporting period

Shandong Airlines Co., Ltd.

Legal representative: Sun Xiujiang  
28 March 2020