

山东航空股份有限公司

2011 年年度报告

SHANDONG AIRLINES CO., LTD. ANNUAL REPORT 2011

March / Year 2012

Jinan · P.R.C.

Contents and Important Notes

I. Company Profile -----	2
II. Summary of Financial Highlight and Business Highlight -----	2
III. Changes in Capital Shares and Particulars about Shareholders -----	5
IV. Particulars about Directors, Supervisors, Senior Executives and Employees-----	8
V. Corporate Governance -----	14
VI. Brief Introduction to the Shareholders' General Meeting -----	19
VII. Report of the Board of Directors -----	19
VIII. Report of the Supervisory Committee -----	30
IX. Significant Events -----	31
X. Audit report -----	35
XI. Documents for Reference -----	115

Important Notes:

The Board of Directors and the Supervisory Committee of Shandong Airlines Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives hereby confirm that there are no any fictitious statements, misleading information or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

Director Mr. Wang Mingyuan absent the Meeting due to business and authorized Deputy Chairman Mr. Ma Chonxian for voting; other directors attend the Meeting.

Reanda Certified Public Accountants issued the standard unqualified Auditors' Report for the Company.

Chairman of the Board Mr. Zhang Xingfu, Chief Accountant Mr. Xu Guojian, and GM of Finance Department Mr. Wang Wuping of the Company hereby confirm that the Financial Report of the Annual Report is true, accurate and complete.

The report is prepared in bilingual versions using Chinese and English respectively, in the event of any discrepancy in understanding the two aforementioned versions, the Chinese version shall prevail.

Paraphrases:

The Company: Shandong Airlines Co., Ltd.

SDA: Shandong Aviation Group; the first largest shareholder and controlling shareholder of the Company,

Air China: Air China Limited, the second largest shareholder of the Company

I. Company Profile

(I) Legal Chinese Name of the Company: 山东航空股份有限公司

Legal English Name of the Company: SHANDONG AIRLINES CO., LTD.

(II) Legal Representative: Zhang Xingfu

(III) Secretary of Board of Directors of the Company: Dong Qiantang

Contact Address: 12/F, SDA Bldg., No. 5746, Er Huan East Road, Jinan, Shandong

Tel.: (86) 531-85698229

E-mail: dongqt@shandongair.com.cn

Authorized Securities Affairs Representative: Fan Peng

Tel.: (86) 531-85698678

Fax: (86) 531-85698679

E-mail: fanp@shandongair.com.cn

(IV) Registered Address: Yaoqiang International Airport, Jinan, Shandong

Office Address: SDA Bldg., No. 5746, Er Huan East Road, Jinan, Shandong

Post Code: 250014

Company's Website: <http://www.shandongair.com.cn>

E-mail: zqb@shandongair.com.cn

(V) Newspapers for Disclosing the Information Designated by the Company:

Domestic: "China Securities Journal" and "Securities Times"

Overseas: "Hong Kong Commercial Daily"

Internet Website for Publishing the Annual Report: <http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: Office of the Board of the Company (8/F SDA Bldg.)

Liaison Tel: (86) 531-85698678

(VI) Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: SHANHANG B

Stock Code: 200152

(VII) Other Relevant Information of the Company

Initial registration date: Dec. 13, 1999

Registration date after change: Mar. 18, 2011

Registration address: Industrial and Commercial Administration Bureau of Shandong Province

Registered number for enterprise corporation business license: 370000400002351

Registered number for taxation: 370112720721201

Organization code: 72072120-1

Name of certified public accountants engaged by the Company:

Reanda Certified Public Accountants

Address: Room 2008, 20/F, East District of No.1 Building, No.100, Xili Street, Balizhuang, Chaoyang District, Beijing

Signature accountant's name: Yang Yunhui, Tao Liang

II. Summary of Financial Highlight and Business Highlight

(I) Main profit index of the Company as of the report year

Unit: RMB

Items	Amount
Operating profit(RMB)	993, 953, 929. 71
Total profit(RMB)	1, 031, 016, 217. 61
Net profit attributable to the shareholders of the listed company (RMB)	771, 225, 549. 05
Net profit attributable to the shareholders of the listed company after deducting non-recurring losses/gains (RMB)	751, 635, 820. 83

Net cash flow arising from operating activities (RMB)	2, 245, 050, 664. 90
---	----------------------

(II) Items of deducting non-recurring gains and losses and the involved amounts are as following:

Unit: RMB

Items of non-recurring gains and losses	Amount in 2011	Note	Amount in 2010	Amount in 2009
Net profit	770, 772, 472. 26		634, 575, 287. 43	302, 743, 202. 40
Add: (1) Gains and losses from the disposal of non-current asset, including the offsetting parts which was made accrual of provision for asset impairment	9, 599, 890. 07		7, 700, 920. 17	-2, 758, 500. 92
(2) Governmental subsidy calculated into current gains and losses, while closely related with the business of the Company, excluding the fixed-amount or fixed-proportion governmental subsidy according to the unified national standard	-21, 698, 008. 50	Government route subsidy and others	-16, 013, 518. 70	-135, 213, 761. 47
(3) Losses/gains from changes of fair values occurred in holding transaction financial assets and transaction financial liabilities, and investment income obtaining from the disposal of transaction financial assets and transaction financial liabilities and financial assets available for sales, excluded effective hedging business relevant with normal operations of the Company	10, 862, 464. 69		8, 872, 312. 71	10, 020, 739. 69
(4) Other non-operating income and expenditure except for the aforementioned items	-24, 964, 169. 47	Other non-operating income/expenditure	-12, 545, 837. 53	-3, 628, 053. 31
Subtotal	-26, 199, 823. 21		-11, 986, 123. 35	-131, 579, 576. 01
Less: Influenced number of income tax of non-recurring losses/gains	-6, 751, 319. 93		-3, 071, 587. 08	-32, 894, 894. 00
Net profit after deducting non-recurring gains and losses	751, 323, 968. 98		625, 660, 751. 16	204, 058, 520. 39
Less: Net profit deducted non-recurring losses/gains attributable to minority shareholder	-311, 851. 85		210, 789. 00	461, 214. 20
Net profit attributable to shareholder of listed company after deducting non-recurring losses/gains	751, 635, 820. 83		625, 449, 962. 16	203, 597, 306. 19

(III) Major accounting data and financial highlights over the previous three years as at the end of the report period

1. Main accounting data

	2011	2010	Increase/decrease in this year compared with that in last year (%)	2009
Total operating income (RMB)	9,666,969,745.20	7,292,615,957.10	32.56%	5,366,113,363.68
Operating profit (RMB)	993,953,929.71	823,686,010.62	20.67%	261,760,990.12
Total profit (RMB)	1,031,016,217.61	844,544,446.68	22.08%	403,361,305.82
Net profit attributable to shareholders of the listed company (RMB)	771,225,549.05	634,364,547.92	21.57%	302,282,325.68
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses (RMB)	751,635,820.83	625,449,962.16	20.18%	203,597,306.19
Net cash flow arising from operating activities (RMB)	2,245,050,664.90	1,675,078,629.81	34.03%	1,317,347,150.42
	At the end of 2011	At the end of 2010	Increase/decrease at the end of this year compared with that at the end of last year (%)	At the end of 2009
Total assets (RMB)	9,772,985,545.97	8,923,799,368.85	9.52%	8,096,403,730.75
Total liabilities(RMB)	7,723,740,626.16	7,503,677,927.17	2.93%	7,230,857,576.50
Owners' Equity attributable to shareholders of listed company (RMB)	2,049,244,919.81	1,406,659,169.90	45.68%	852,294,621.98
Total share capital (Share)	400,000,000.00	400,000,000.00	0.00%	400,000,000.00

2. Main financial indexes

	2011	2010	Increase/decrease in this year compared with that in last year (%)	2009
Basic earnings per share (RMB/Share)	1.93	1.59	21.57%	0.76
Diluted earnings per share (RMB/Share)	1.93	1.59	21.57%	0.76
Basic earnings per share after deducting non-recurring gains and losses (RMB/Share)	1.88	1.56	20.18%	0.51

Weighted average return on equity (%)	45.05%	56.84%	Down 11.79 percentage points	43.11%
Weighted average return on equity after deducting non-recurring gains and losses (%)	43.90%	56.04%	Down 12.14 percentage points	29.04%
Net cash flow per share arising from operating activities(RMB/Share)	5.61	4.19	34.03%	3.29
	At the end of 2011	At the end of 2010	Increase/decrease at the end of this year compared with that at the end of last year (%)	At the end of 2009
Net asset per share attributable to shareholders of listed company (RMB/Share)	5.12	3.52	45.68%	2.13
Asset-liability ratio (%)	79.03%	84.09%	Down 5.06 percentage points	89.31%

(IV) The Company's return on equity and earnings per share as of the year 2011 as calculated based on weighted average method taking Requirements on the Information Disclosure of Companies Publicly Issuing Shares No. 9 as the reference

Profit in the report Period	Weighted average ROE		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	Amount in this period	Amount in same period of last year	Amount in this period	Amount in same period of last year	Amount in this period	Amount in same period of last year
Net profit attributable to common shareholders	45.05%	56.84%	1.93	1.59	1.93	1.59
Net profit attributable to common shareholders after deducting the non-recurring losses and gains	43.90%	56.04%	1.88	1.56	1.88	1.56

III. Changes in Shares Capital and Particulars about the Shareholders

(I) Statement of changes in share

Unit: Share

	Before change	Increase/decrease in this time (+, -)						After change
		Ratio ed share	Bonu s share	Conversion of capital public reserve	Add itio nal insu ranc e	Others	Subtot al	
I. Unlisted shares	260,000,000							260,000,000

1. Sponsor's shares	168601,000							168,601,000
Including:								
State-owned shares	168,402,000							168,402,000
Domestic legal person's shares	199,000							199,000
Foreign legal person's shares								
Others								
2. Raised legal person's shares								
3. Inner employees' shares								
4. Preference shares or other	91,399,000							91,399,000
Total unlisted shares	260,000,000							260,000,000
II. Listed shares	140,000,000							140,000,000
1. RMB ordinary shares								
2. Domestically listed foreign shares	140,000,000							140,000,000
3. Overseas listed foreign shares								
4. Other								
Total listed shares	140,000,000							140,000,000
III. Total shares	400,000,000							400,000,000

(II) Particulars about issuance and listing of shares

1. Issuance and listing of shares

The previous three year ended by the period-end, the Company did not issue shares and derivative securities for trading.

2. During the report period, there were no changes in the number and structure of the Company's shares due to bonus share, capital public reserve transferring into share capital, rationed share, additional issuance, share merger, convertible company's bonds transferring shares, disinvestments, listing of inner employees' shares or company's employee's shares, etc. There were no inner employees' shares in the Company.

(III) About Shareholders

1. Total shareholders as at the end of the report period

(1) Up to one month-earlier of this annual report released, that is 29 February 2012, the Company owes 18,318 shareholders in total.

(2) Up to the final of this annual report Dec. 31, 2011, the Company had totally 18,512 shareholders, including 18,506 of domestically listed foreign shares. The top ten shareholders of the Company are as following:

Unit: Share

No.	Shareholders' name	Number of shares held at the year-end	Proportion (%)	Type	Number of shares pledged or frozen
1	SHANDONG AVIATION GROUP	168,004,000	42%	State-owned legal person's share	Naught
2	AIR CHINA LIMITED	91,200,000	22.8%	State-owned legal person's share	Naught
3	YAO MING	2288700	0.57%	Circulation share	Unknown
4	GUOTAI JUNAN SECURITIES(HONGKONG)	2250532	0.56%	Circulation share	Unknown

	NG) LIMITED				
5	CHEN TIAN MING	1590322	0.40%	Circulation share	Unknown
6	CHEN JING JIAN	1378200	0.34%	Circulation share	Unknown
7	HUANG LIU LIA	918917	0.23%	Circulation share	Unknown
8	OU YAN PING	903343	0.23%	Circulation share	Unknown
9	WANXIANG INTERNATIONAL INVESTMENT CORPORATION	833300	0.21%	Circulation share	Unknown
10	YE QU FA	809600	0.20%	Circulation share	Unknown

Note:

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.

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.

3. Among the above the top ten shareholders, Air China Limited, is the first largest shareholder of the SDA, and there exists no associated relationship between SDA and Air China and the other shareholders, and they don't belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders. The Company is not aware of their associated relationship among the other shareholders of circulation share, whether belongs to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.

2. The first largest shareholder of the Company

Name of the enterprise: Shandong Aviation Group

Place of SDA: No. 5746, Er Huan East Road, Lixia District, Jinan, Shandong

Legal representative: MA CHONG XIAN

Date of establishment: February 9, 1995

Organization Code: 61407164-7

Registered capital: RMB 580 million

Business scope: Investment and management on air transport industry; maintenance of aircraft that limit in maintenance license and ground equipments; service of conferences and exhibition; office service; sales of general merchandise, artworks and souvenirs; service of accommodation and dinning; retail of tobacco products as well as housing leasing (operated in sub-branch only).

3. The second largest shareholder of the Company

Name of the enterprise: Air China Limited.

Address: 9F/Sky Mansion, No.28 Building Tianzhu Road, Block A of Tianzhu Airport Industrial Zone, Shunyi District, Beijing.

Legal Representative: WANG CHANG SHUN

Date of establishment: September 30, 2004

Organization Code: 71787100-6

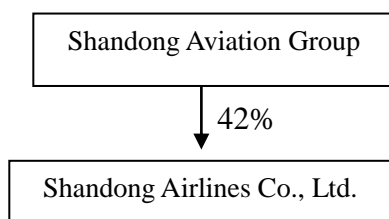
Registered capital: RMB12, 892 million

Business scope: It was engaged in the domestic and overseas transportation business such as periodic and un-periodic aviation passenger, cargo, letter and baggage; domestic and overseas official flight business; airplane management business; repairing of aerostat; business agent among

air companies; ground service and air courier services related with the main operations (excluding letter and articles with the nature of letters); tax-free commodities in airplane.

Main shareholders: China National Aviation Group Co., Ltd., which accounted for 39.76% in total shares; Cathay Pacific Airways Ltd., which accounted for 19.53% in total shares. HKSCC NOMINESS LIMITED, which accounted for 13.91% in total shares. China National Aviation Group Co., Ltd., which accounted for 12.08% in total shares.

4. Property rights and control diagram between the Company and its controlling shareholders and actual controller



5. The Company has no shareholders holding over 10% of shares of the Company except for the first largest shareholder SDA and second largest shareholder Air China Limited.

6. Particulars about the top ten shareholders of circulation share

No.	Name of shareholders	Number of shares held at the year-end (share)	Type of shares held
1	YAO MING	2288700	B-share
2	GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	2250532	B-share
3	CHEN TIAN MING	1590322	B-share
4	CHEN JING JIAN	1378200	B-share
5	HUANG LIU LIA	918917	B-share
6	OU YAN PING	903343	B-share
7	WANXIANG INTERNATIONAL INVESTMENT CORPORATION	833300	B-share
8	YE QU FA	809600	B-share
9	BAO XIU ZHEN	800000	B-share
10	JOHN POSS	748300	B-share

The Company is not aware of their associated relationship among the top ten shareholders of circulation share, and is unknown whether other circulation shareholders belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.

IV. Particulars about Directors, Supervisors, Senior Executives and Employees

(I) Directors, Supervisors and Senior Executives

Name	Sex	Date of birth	Title	Office term	Amounts at the year-begin	Amounts at the year-end
Zhang Xingfu	Male	Apr. 1955	Chairman	June 26, 2009 – June 25, 2012	0	0
Ma Chong	Male	June 1965	Vice Chairman	April 22, 2010—June 25, 2012	0	0

Xian						
Zeng Guoqiang	Male	Oct. 1953	Director	June 26, 2009—June 25, 2012	0	0
Su Zhongmin	Male	March 1954	Director, Standing Deputy General Manager	June 26, 2009—June 25, 2012	0	0
Xu Guojian	Male	Nov. 1964	Director, Deputy General Manager, General Accountant	Jan.29,2010-June 25, 2012	0	0
Wang Mingyuan	Male	Sept. 1965	Director	June 26,2009-June 25, 2012	0	0
Kou Zunxian	Male	Aug. 1955	Director	June 26, 2009 – June 25, 2012	0	0
Wang Jieming	Female	June 1958	Director	June 26, 2009 – June 25, 2012	0	0
Wei Jincai	Male	Feb. 1950	Independent Director	June 26, 2009 – June 25, 2012	0	0
Li Chun	male	March 1957	Independent Director	June 26, 2009 – June 25, 2012	0	0
Qu Wenzhou	Male	June 1972	Independent Director	June 26, 2009 – June 25, 2012	0	0
Wang Fuzhu	Male	June 1953	Chairman of the Supervisory Committee	June 26, 2009 – June 25, 2012	0	0
Xue Ruitao	Male	March 1961	Supervisor	June 26, 2009 – June 25, 2012	0	0
Zhang Kai	Male	May 1965	Supervisor	June 26, 2009 – June 25, 2012	0	0
Zhou Qiaoyan	Female	Jan. 1975	Employee Supervisor, Deputy GM of Cabin Service Department	June 26, 2009 – June 25, 2012	0	0
Yu Haitian	Male	Sept. 1969	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Li Qing'en	Male	Aug. 1955	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Qiu Feng	Male	Jan. 1967	Deputy General Manager	June 26, 2009 – June 25, 2012	0	0
Miao Liubin	Male	Feb. 1971	Deputy General Manager	March 25, 2011 – June 25, 2012	0	0
Jiang Chengda	Male	Nov. 1959	Deputy General Manager	April 28 2011 – June 25, 2012	0	0
Zhang Qingshe	Male	Oct. 1958	Chief Pilot	June 26, 2009 – June 25, 2012	0	0
Xiong Jianbo	Male	Jan. 1965	General Engineer	Dec. 1, 2009 – June 25, 2012	0	0
Wang Xianlin	Male	Nov. 1965	Safety Director	April 28 2011 – June 25, 2012	0	0
Dong Qiantang	Male	Jan. 1962	Secretary of the Board	June 26, 2009 – June 25, 2012	0	0

Note: 1. there was no change in the number of shares held by directors, supervisors and senior executives in the report period.

2. Particulars about directors, supervisors holding the post in Shareholding Company:

Name	Name of the Shareholding Company	Position in the Shareholding Company	Draw remuneration and allowance from the Shareholding Company (Yes or no)
Ma Chongxian	Air China	Member of Party Committee, vice President	Yes
	SDA	Chairman, President, Vice-Secretary of Party Committee	
Zhang Xingfu	SDA	Secretary of Party Committee, Vice-president	Yes
Wang Fuzhu	SDA	Chief Accountant	Yes
Xue Ruitao	SDA	General Manager of Financial Department	Yes
Wang Mingyuan	Air China	Member of Party Committee and Deputy President	Yes
Zhang Kai	Air China	Senior Management of Investment Enterprise Management of Assets Management Department	Yes

(II) Main work experiences in the near five years of the directors, supervisors and senior executives, as well as particulars of their full time or part time posts in other units other than the shareholding companies

Name	Main work experience	Full-time or part-time posts in other units other than the shareholding companies
Zhang Xingfu	01/2004-12/2005, Deputy Mayor in Yantai; 12/2005 till now, Party Secretary, Vice-president of SDA; 03/2006 till now, Chairman of the Board of the Company.	Chairman of Taikoo Shandong Aircraft Engineering Co., Ltd.
Ma Chongxian	09/2004-07/2006, Secretary of the Party Committee, Vice General Manager in China Airline Zhejiang Branch; 07/2006-06/2009, General Manager, Vice Secretary of the Party Committee in China Airline Zhejiang Branch; 06/2009-04/2010, General Manager, Vice Secretary of the Party Committee in China Airline Hubei Branch; 04/2010-now, Vice President of China International Airline Co., Ltd, Chairman, President and Vice Secretary of the Party Committee in Shangdong Airline Group; 04/2010-now, Vice Chairman of the Company	
Zeng Guoqiang	01/2004 -03/2011, Director and General Manager of the Company. 03/2011 till now, Director of the Company.	
Su Zhongmin	01/2004 till now, Director and Standing Deputy General Manager of the Company.	Chairman of the Board of Qingdao International Logistics Centre Co., Ltd.
Xu Guojian	09/2002-10/2007, Administrative and Financial Director in Macau International Airport Management Limited; 10/2007-01/2010, General Manager of Financial Dividend in Air China Engineer Technology Branch;	

	01/2010-now, Vice General Manager and Chief Accountant of the Company; 04/2010-now, director, vice general manager and chief accountant of the Company.	
Wang Mingyuan	01/2004-06/2005, Deputy General Manager of Sales & Marketing Department of Air China; 06/2005-07/2008, Commissary of Commerce Commission, General Manager of Network Proceedings Department of Air China ; 07/2008-02/2011, Director of Commerce Commission Air China; 02/2011 till now, member of Party Committee and vice president of Air China; 03/2006, Director of the Company.	
Kou Zunxian	01/2004-03/2007, Director of Asset Management Department of Shandong Economic Development and Investment Company; 03/2007 till now, Deputy General Manager of Shandong Economic Development and Investment Company; 04/2005 till now, Director of the Company.	
Wang Jieming	01/2004 till now, Director of Planning Financial Department of Shandong Economic Development and Investment Company; 03/2006 till now, Director of the Company.	
Wei Jincai	01/2004-10/2008, Party Secretary of Civil Aviation Management Institute of China; 10/2008 till now, President of Civil Aviation Management Institute of China; 03/2006 till now, Independent Director of the Company.	Independent director of China Southern Airlines and Xiamen International Airport Co., Ltd
Li Chun	He was Chairman of Shenzhen Lawyers Association; Now he is Vice-director of Development Strategy Committee of Chinese National Lawyers Association; Chief Researcher of Venture Investment Law Research Center; Chief Jurist and executive director of Grandall Institution; Executive Partner of Grandall Laws Firm. 06/2009 till now, Independent Director of the Company.	Independent director of Shenzhen Laibao Hi-Tech Co., Ltd. and Edan Instruments Inc.
Qu Wenzhou	Once served as Manager of Investment Bank Department of Xiamen Jianfa Investment Trust Corporation, GM of Xiamen Boyi Investment Consultancy Co., Ltd.; researcher of Shenzhen Stock Exchange. he is teaches in Xiamen University since 2005; taking the positions of professor of management institution, Xiamen University; doctoral tutor and vice director of financial dept.; vice dean of financial management and accounting institution and director of research center of Chinese capital market. 06/2009 till now, Independent Director of the Company.	Serves as Independent Director of Xiamen International Airport Co., Ltd, Shenzhen Laibao Hi-Tech Co., Ltd. and Xingye Leather Technology Co., Ltd.
Wang Fuzhu	01/2004-04/2005, Director of the Company; 01/2004 till now, Chief Accountant of SDA; 05/2005 till now, Chairman of Supervisory Committee of the Company.	
Xue Ruitao	2004-03/2009, Minister of the Finance Department of the Company; 03/2009 till now, General Manager of Finance Department of Shandong Aviation Group. 06/2009 till now, Supervisor of the Company.	

Zhang Kai	07/2004-12/2005, Enterprise Management Department of Air China Limited; 01/2006 till now, Senior Manager of Assets Management Department of Air China Limited; 06/2009 till now, Employee Supervisor of the Company.	
Zhou Qiaoyan	01/2004 till now, Deputy Head of Cabin Service Department of the Company; 03/2006 till now, Employee Supervisor of the Company.	
Yu Haitian	01/2004-03/2011, Deputy General Manager of the Company. 03/2011 till now, General Manager of the Company.	
Li Qing'en	01/2004-08/2005, Chief Accountant of the Company; 01/2005-03/2009, Secretary of Board of Directors of the Company; 01/2005 till now, Deputy General Manager of the Company.	
Qiu Feng	07/2005-03/2009, Deputy GM of Network Proceedings Department of Air China; 03/2009 till now, Deputy GM of the Company.	
Miao Liubin	04/2004-08/2007, Captain of the First Flying Brigade; 08/2007-03/2011, General Manager of the Flight Department of the Company; 06/2009-03/2011, Employee Supervisor of the Company. 03/2011 till now, Deputy GM of the Company	
Jiang Dacheng	05/2008-04/2011 Chief of Operation of the Company 04/2011 till now, Deputy GM of the Company	
Zhang Qingshe	01/2004 till now, Chief Pilot of the Company.	
Xiong Jianbo	10/2001-05/2008, Minister of Aircraft Engineering Department; 05/2008-12/2009, General Manager of Engineering Technology Company of the Company; 12/2009 till now, Chief Engineer of the Company.	
Wang Xianlin	02/2009 till now, Security Chief of the Company.	
Dong Qiantang	01/2004-02/2009, Minister of Enterprise Planning and Development Department of Shandong Aviation Group; 02/2009-03/2011, General Manager of Enterprise Management of the Company; 03/2011 till now, Director of the General Office of the Company; 06/2009 till now, Secretary of the Board of Directors.	

(III) Particulars about annual payment

The payments of the directors, supervisors and senior executives of the Company were determined according to the performances and results salary system. The allowance for each independent director was RMB 50,000 per year individually as the basic number plus an extra allowance of RMB 600 for every working day.

Name	Title	Total amount of annual remuneration in 2011 (RMB'0000, before tax)
Zeng Guoqiang	Director	112.78
Su Zhongmin	Director, Standing Deputy General Manager	90.01
Xu Guojian	Director, Deputy General Manager, Chief Accountant	75.31

Wei Jincai	Independent Director	5.90
Li Chun	Independent Director	5.90
Qu Wenzhou	Independent Director	5.90
Zhou Qiaoyan	Employee Supervisor, Deputy Head of Cabin Service Department	32.34
Yu Haitian	General Manager	94.21
Li Qing'en	Deputy General Manager	88.05
Qiu Feng	Deputy General Manager	77.31
Miao Liubin	Deputy General Manager	75.24
Jiang Chengda	Deputy General Manager	67.74
Zhang Qingshe	Chief Pilot	94.93
Xiong Jianbo	General Engineer	76.51
Wang Xianlin	Security Chief	71.37
Dong Qiantang	Secretary of Board of Directors	46.01
Total		1,020

Note: Director Mr. Zhang Xingfu, Supervisor Mr. Wang Fuzhu, together with Supervisor Mr. Xue Ruitao drew their remunerations from SDA, the controlling shareholder, not from the Company; Director Mr. Ma Chongxian, Mr. Wang Mingyuan and Supervisor Mr. Zhang Kai drew their remunerations from Air China, not from the Company; Director Mr. Kou Zunxian and Director Ms. Wang Jieming drew their remunerations from Shandong Economic Development and Investment Company, not from the Company.

(IV) Particulars about changes of directors, supervisors and senior executive

1. Mr. Zeng Guoqiang did not take post of GM of the Company due to work adjustments. On 25 March 2011, the 5th Meeting of 4th Session of the Board engaged Mr. Yu Haitian, the original Deputy GM of the Company, as GM of the Company; one deputy GM in charge of freight operation management was newly engaged for work requirements; Mr. Miao Liubin, the original GM of Freight Dept., was engaged as deputy GM (in charge of freight operation) of the Company by the Board. Mr. Miao Liubin resigned employee supervisor of the Company on 25 March 2011.

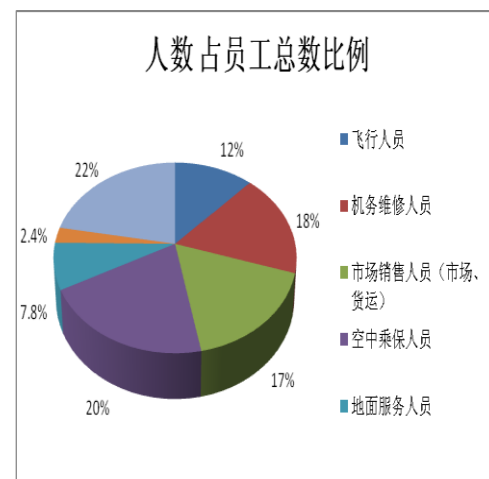
2. Mr. Jiang Chengda, original Chief Operation, was engaged as Deputy GM of the Company in 1st Extraordinary Shareholders' General Meeting of 2011 held by 4th Session of the Board dated 28 April 2011. Mr. Wang Xianlin was engaged as Security Chief of the Company.

(V) Personnel

By the end of the report period, the Company had 5,582 employees in total, including 135 persons of postgraduates (Master Degree and Doctor Degree) or above, 5,026 persons graduated from 3-years regular college or above.

The staff structure is as follows:

Type of employee	Number	Proportion to the total employees
Flight personnel	676	12%
Aircraft crew and maintenance personnel	992	18%
Marketing personnel (market and freight)	956	17%



Air host and hostess	1135	20%
Ground attendant	438	7.80%
Financial personnel	148	2.70%
Others	1237	22%

By the end of the report period, there were 66 retirees in the Company.

V. Corporate Governance

(I) The Situation of Corporate Governance

During the reporting period, according to the “Company Law”, “Securities Law”, and “Code of Corporate Governance for Listed Companies” in China and the principles and requirements of other relevant laws, regulations and normative documents strictly, the company perfects the structure of corporate governance, standardize the company operation and improve the level of management. Governance structure of the company is in accordance with CSRC relevant documental requirements on the management of listed company.

1. Shareholders and the Shareholders’ general meeting

During the reporting period, the company has organized to hold the 2010 annual shareholders’ general meeting. The calling, holding, bill consideration and decision making of shareholders’ meeting is strictly based on the procedure of Article of Association and the rule of procedure of shareholders’ meeting, in order to ensure all the shareholders, especially small and medium shareholders to enjoy equal status and exercise their rights fully. Connection transaction follows the principle of fairness and reasonableness strictly, pricing based on open and transparent and the vote to avoid connection shareholders. The meeting is recorded completely and is kept properly by designate personnel. Besides, the decision can be made the full disclosure in time based on the relevant requirements of CSRC and Shen Zhen stock exchange rules.

2. Directors and the Board of Directors

During the reporting period, the board of directors held four meetings, deliberation and decision making on the magnificent issues like profit distribution, daily associated trade, and the plane to introduce, issue medium-term notes, etc. The calling, holding, bill consideration and decision making of the board of directors is strictly based on the procedure of Article of Association and the board of directors rules. The strategy and the nomination committee, the audit commission, salary and appraisal committee three specials are included in the board of directors, and each has clear responsibilities with overall operating in good condition. According to the responsibility of Article of Association and the procedure and requirements of the board of directors’ rules, each director takes an active part in the board meeting, learning about the trends of production and management, holding the trends of company development and ensuring diligence and scientific decisions.

3. Supervisors and the Supervisory Committee

During the reporting period, the board of directors held four meetings, the calling, holding, bill consideration and decision making of the board of directors is strictly based on the procedure of Article of Association and the board of supervisors rules. The board of supervisors executed the Company Act, the Securities Act, and the Articles of Association strictly. Through the meeting of board, attending the board meeting, regularly checking finance, the company makes an effective supervision on authorities and obligations towards finance, directors, and senior management personnel.

4. Information Disclosure and System Construction

During the reporting period, according to the Company Act, the Securities Act, the Shen Zhen stock exchange listed on the stock exchange rules and the requirements of Articles of Association and Information Disclosure Management System, the company develops the information disclosure, ensuring that truth, accurate, complete and timely and fair disclosure report regularly and temporary

public announcement to protect the legitimate rights and interests of the company, its shareholders and other related personnel's benefits. In order to further standardize company insider information management behavior, to improve the secret of insider information, to put an end to relevant personnel use inside information to engage in insider trading, to strengthen the management of the external inside information submitted strength, to maintain the information disclosure with openness, fairness and justice, to protect the legal rights of the investors, and according to the requirements of "on the listed companies to establish the inside information management system of the registration insider provisions" issued by CRSC in Oct. 2011 and "Well further inside information about the registration and management supervision of insider form letter" issued by Shang Dong Securities Regulatory Commission in Nov. 2011 and combining the practical situation, the board makes a further revision on "insider information report for insider information management system and external submitted".

(II) Performance of independent directors

The company's independent director Mr. Wei Jincai, Mr. Li Chun, and Mr. Qu Wenzhou are strictly based on the requirements of the Company Law, the Securities Law, Code of Corporate Governance for Listed Companies in China, On Establishing the System of Independent Directors Guidance in Listed Companies, the Articles of Association, and the Independent Directors Work System. They also exercise their authority seriously; fulfill the duties of independent director; focus on the company's daily production management, financial status, corporate governance structure and normative operation and give full play to the important role of independent directors. Besides, they attend the meetings of board and shareholders on time; deliver the independent opinions towards deliberative major issues based on independent standpoint and maintain the legal rights and interests of the company and all the shareholders, especially small and medium-sized shareholders.

1. Particulars about Independent Directors' Attending the Board of Directors

Name of independent directors	Present times for the Board of Directors this year	Presenting in person (Times)	Entrusted presence (Times)	Absent (Times)	2010 Annual Shareholders' General Meeting
Wei Jincai	4	4	0	0	Attendance
Li Chun	4	4	0	0	Attendance
Qu Wenzhou	4	4	0	0	Attendance

During report period, 4 meetings (on-site and communication ways included) and one shareholders' general meeting were held by the Company. All independent directors are attend the Meetings in person in line with regulations and requirements, no absent situation been found.

2. Objections on the related terms of the Company offered by the independent directors:

In the report period, there was no objection made by independent directors on related matters.

3. The performance of independent directors' formation in 2011 annual report

During the 2011 annual formation report, before conducting auditing, year careful accounting has reported and communicated the year of careful work team personnel structure, audit plan, risk judgment, the testing and evaluation method of risk and fraud and the annual audit key, etc. The independent directors subedited the annual financial and accounting reports after hearing a year of careful accounting of the annual financial reports of the initial audit opinion. On March 21, 2012, the independent directors reviewed the company's 2011 annual report.

(III) Separate situation of the company and controlling shareholders in the business, personnel, assets and the financial institutions

The company and Shang Hang controlling shareholders group has been separated totally in business, personnel, assets, institution and finance, possessing independent complete business and independent operation ability.

1. In business aspect: The company currently engaging in business and the actual controlling shareholders does not exist in the case of the cross. The company engaged in manufacturing management independently and the controlling shareholders and other related enterprise does not have dependencies.

2. In personnel aspect: The company is totally independent of the controlling shareholders in labor, personnel and salary management. The directors, supervisors and senior management personnel in accordance with the Articles of Association and relevant laws and regulations, and through the legal procedures of election or employment, there is not the situation of the controlling shareholders in accordance with legal procedures intervention company personnel appointment and removing. The senior management personnel is not in double office performance in the listed company and the controlling shareholders and they all get salaries from the company.

3. In asset aspect: The relationship between the company and controlling shareholders is clear and the assets of a corporation are totally independent of the controlling shareholders. This company has full control and domination and there also are not the situations of possessing the assets and funds by controlling shareholders and of injuring the interests of the company.

4. In institution aspect: The company established a completely independent from the organization of the controlling shareholders, the board of directors and the board of supervisors and so on and these internal institutions operated independently. Besides, there is no line between the company and controlling shareholders and its association with institutions subordinate and the controlling shareholders don't interfere the situation of the production and business operation activities in the company.

5. In finance aspect: The company has independent financial departments and independent financial accounting system and possesses the standard, the independent financial and accounting system and financial management system, independent bank account, and independent tax payment in accordance with law.

(IV) Evaluation and incentive mechanism of the company to the senior management personnel

According to the Performance Appraisal Interim Measures inside the company, the finishing condition of individual performance contract is evaluated and results are the foundation of the cash performance-based pay in order to improve the effect of inspiration.

(V) Management of investor relations

The company always adheres to the standard operation; constantly improve the level of management; attaches great importance to the protection of the legal rights and interests among medium and small shareholders; and pays great attention to maintain the relationship among investors. During the reporting period, through answering investors' hotline and receiving investors, the company communicated many times with investors that are interested in it. In Shenzhen investor relations interactive platform, lots of investors' consulting is replied and it enhanced the understanding of investors to the company and the transparency of the operation and established a good public image in the capital market. Furthermore, the company also accepted humbly the precious opinions and suggestions on production management, strategic development and etc. from the investors and played a positive role in company's healthy, stable and sustainable development.

(VI) The internal control work and implement plan

According to the requirements of "Basic Rules of Internal Control for Enterprise" and its supporting guidance issued jointly by five ministries and in order to promote the level of insider control constantly, the company has already officially started the construction project of internal control

system in the foundation of consolidating early work. The third party intermediary agency, Compile Horwath Certified Public Accountants Co. LTD. Shang Dong branch offices is invited to refer and guide the design and construction work of internal system.

1. Project objective

(1)To evaluate the integrity, rationality and implementation effectiveness of the internal control system and to form “Internal Control Evaluation Report”.

(2)On the basis of the previous aspects and according to “Internal Control Standard Application Guidelines”, the company combed functions and flow; plan the design of internal control architecture; establish the internal control operation system based on the process. In close connection with the information system applications, “Shang Hang Shares Internal Control Management Manual” and all the subsidiary company manuals are published in system and manual operation to achieve the internal control system, reasonable design and effective implement and to meet the requirements of regulations on the listed company internal control system operation and annual audit.

2. Project main work stage

The project is implemented in gradual process surrounding the organization chart, development strategy, human resource, social responsibility, enterprise culture, fund activities, purchasing practices, assets management, selling operation, research and development, construction project, guarantee business, outsourcing, financial statement, comprehensive budget, contract management, internal information transfer, information system, etc.

(1)Internal control evaluation stage: Reviewing internal control files, executing pass test, executing control test, reporting exchange final text.

(2)Internal control manual design stage: Internal control system construction survey, internal control system architecture design, internal control manual design, confirm of manual communication, internal control manual training, operation guidance of system implementation and improvement optimization.

3. The specific work plan detailed in “Internal Control to Standardize the Implementation of Work Plan in Shandong Airlines Co., Ltd.”.

(VII)The construction and Implement system of financial report control system

Good and effective accounting system ensures the safety and integrity of the assets; can regulate the financial and accounting management behavior and strengthen the financial and accounting. Therefore, we have done a large amount of work in the system standard construction, financial personnel, each major accounting procedure and other aspects. Firstly, in the system standard construction aspect and on the precondition of implementing ASBE and other provisions of state, our company formulated the financial management system and a series of specific provision; gave the effective implementation and execution in the practical work and perfected strengthened the functions and authorities of accounting and financial control in system. Secondly, in the post setting, personnel and major accounting process aspects, the company set up the independent accounting offices and accounting agency personnel implement stated financial policies and all laws and regulations and handled relevant accounting matters based on “Accounting Law”, ASBE and other relevant regulations. Within the year, there are not material defects in the internal control of financial reports.

(VIII)Establishment and implementation of “Information Disclosure of Fundamental Errors Responsibility Systems”

According to the provision of “Company Act”, “Accounting Act”, “The Listed Company Information Disclosure Management Approach” and other relevant laws and regulations, the company has formulated “Information Disclosure of These Huge Responsibility Systems” and has explicated the regular reports and the identification and pursuit of information disclosure and information disclosure omissions, etc. and handled it seriously to duty officer according to regulations. It is implemented strictly by the company, and the company didn’t produce the

correction of big accounting errors, major omission of information supplement and correction performance forecast, etc.

(IX) Appraisal conclusion on this year's internal control system implementation effectiveness from each agency

1. Self assessment conclusion on the board of directors of the company's internal control system implement this year

The board of directors of the company through the internal control of the company own estimation and confirmation, the company set up a perfect government structure. The internal control system is sound and reasonable and internal control system has been covering the basic business activities and internal management and all aspects that comply with the relevant laws, regulations and the securities regulatory requirements. Details are in "Internal Control Self Evaluation Report in Shandong Airlines Co., Ltd." (Year of 2011).

2. Independent opinions of independent director towards the internal control self assessment

The company independent director thinks that what the company has established the internal control system during the report is sound and complies with the requirements of the relevant state laws, regulations and administrative rules. The internal control system has covered all aspects of business and the company implemented the business activities according to the regulations strictly. The strict, full and effective internal control accords with the practical situation towards manufacturing management, finance control, related transaction, external guarantee, major investment, information disclosure and etc. in order to make it sure on the rail in operating management. "Internal Control Self Evaluation Report" has reflected the practical situation of current internal control system construction, operation and the system implementation and supervision comprehensively, objectively and truly.

During the report, there isn't violation of laws and regulations, CSOX and supporting guidance, "Shen Zhen Stock Exchange Listing Company Standard Operation Guide", "Articles of Associations" and internal control regime.

3. Self evaluation opinions of the board of supervisors to internal control

The board of supervisors thinks that according to CSOX and supporting guidance and the relevant regulations of securities regulators to the listed company's internal control construction, and combination with the current practical situation of production operation, the company has set up the internal control system basically which covered every link of operating management and fitted the management requirements and development needs. The current internal control system

Is standard and complete and internal control organization is complete and is designed reasonably making sure the business operation is developed in an order and protecting the fundamental profits of all the shareholders. "Internal Control Self Evaluation Report" has reflected the practical situation of current internal control system construction, operation and the system implementation and supervision comprehensively, objectively and truly.

During the report, there isn't violation of laws and regulations, CSOX and supporting guidance, "Shen Zhen Stock Exchange Listing Company Standard Operation Guide", "Articles of Associations" and internal control regime.

4. Verification report issued by the audit institution

According to the relevant requirements of "Enterprise Internal Control Audit Guidelines" and professional standards of accountant registered in China, Reanda Certified Public Accountants has audited the effectiveness of ICFR on Dec. 31, 2011 and delivered the following advice. Reanda Certified Public Accountants thought according to CSOX issued by the financial department, Shandong Airlines Co., Ltd. has maintained the relevant effective internal control with financial statement in major aspects on Dec. 31, 2011.

VI. Brief introduction to the Shareholders' General Meeting

In the report period, the Company held one Shareholders' General Meeting, which is the Annual Shareholders' General Meeting of 2010.

(I) Notification, convening and holding of the Shareholders' General Meeting

On 28 April 2011, at time of 9:00, the Company held 2010 Annual Shareholders' General Meeting on 31/F conference room of SDA Building. The notification of the meeting was published in "China Securities Journal", "Securities Times" and "Hong Kong Commercial Daily" dated Mar. 29 of 2011. Totally 12 shareholders and shareholder's proxies with authorization from shareholders representing 264,087,618 shares of the Company presented at the meeting, taking 66.02 % of total shares with voting right; including 259,801,000 shares of state-owned corporate shares took 64.95% of total shares; 199,000 shares of domestic corporate share took 0.05% of total shares; 4,087,618 shares of domestically listed foreign shares (B stock) took 1.02 % of total shares of the Company.

Chairman of the Board, Mr. Zhang Xingfu presided the meeting. The directors, supervisors and senior executives of the Company attended the meeting. The convening and holding of the Meeting accorded with the regulations of Company Law, Rules for Shareholders' General Meeting of Listed Company and Articles of Association of the Company.

(II) The resolutions passed by the Shareholders' General Meeting and the disclosure of public notice on resolutions

Following proposals were examined item-by-item and approved by means of roll call vote in the meeting:

- (1) Work Report of 2010 Board of Directors of Shandong Airline Co., Ltd;
- (2) Work Report of 2010 Independent Directors of Shandong Airline Co., Ltd;
- (3) Work Report of 2010 Board of Supervisors of Shandong Airline Co., Ltd;
- (4) 2010 Annual Report and Summary of Shandong Airline Co., Ltd;
- (5) 2010 Annual Financial Statement of Shandong Airline Co., Ltd;
- (6) 2010 Annual Profit Distribution Plan of Shandong Airline Co., Ltd;
- (7) Proposal of 2010 Annual Daily Related Transaction;
- (8) Proposal of Bring in Airplanes Plan of 2011 of Shandong Airline Co., Ltd;
- (9) Proposal of Issuance of Medium-Term Note of Shandong Airline Co., Ltd;
- (10) Proposal of Rectification of Article of Association of Shandong Airline Co., Ltd;
- (11) Proposal of Re-engagement of Certified Public Accountants and its Remuneration of Shandong Airline Co., Ltd;
- (12) Proposal of Purchasing 15 Airplanes of B737-800 during year of 2014 to year of 2015

Resolution notice of the meeting was published in "China Securities Journal", "Securities Times" and "Hong Kong Commercial Daily" on 29 April 2011.

VII. Report of the Board of Directors

(I) Discussion and analysis on the operation of the Company

The year 2011 represented a key period for the Company, during which, the Company was dedicated to consolidating its foundation and fostering its new advantage in scientific development. During the reporting period, with extensive supports from its shareholders, the Company adopted adequate measures to reflect both changes in internal and external environment when managing the implementation of its eight strategies, focusing on upgrade of abilities in five aspects. Particularly, the Company made overall planning with layout on a systematic basis, conducted coordinative progresses, carried out each of its strategies in full, maintained stable safety production, continued to improve operation quality, realized a new record as to its efficiency, achieved positive service

development, and strengthened infrastructure management steadily, representing a good opening for its developing strategy capitalizing the opportunities brought by the 12th Five-Year Plan.

1. Executed the safety management system and kept flat safety production

In 2011, the safety flight amounted to 199,000 hours and 107,200 flights, representing increases of 15.8% and 13.2% respectively as compared to the same period of last year. The Company continued to maintain the overall safety on a stable basis, without any safety threat arising from transportation accident due to the carelessness of the Company. In addition, the Company also reinforced application of SMS platform, improved data process procedure on such platform, and expressly standardized data category and process procedure thereof. Supervision and review on data feedback were also stressed, making the data feedback rate reaching 96.4%. The Company focused on management over core segments and safety monitor, so as to strengthen monitor on flight quality. The flight legs under monitor were 107,000 in aggregate, with monitor rate of 99.8%, representing an increase of 0.51 percentage points. Besides, the Company completed the supplementary review (CCAR-121-R4) conducted by Civil Aviation Administration of China, the 3rd IOSA review and the safety audit on wet lease operation of Air China.

2. Reinforced system management and continued to improve operation quality

The Company conducted further special reform on flight delay, aiming to improve management of flight punctuality. In specific, it was clearly determined on the classification for major airports and relevant reforming standards, and on establishment of flight alarming system and coordination working mechanism. Moreover, the Company even prepared the rehearsal scheme in case of vast flight delay, so as to get more capable of dealing with delay issues. In 2011, the average flight punctuality rate was 79.68%, ranking the second among all civil aviation operators. Dedicated efforts were also made in increasing operational foundation security and improving management on operation control. By application of new technologies, the Company successfully commenced construction for nine operation control projects. By application of remote release system, the Company increased 22 new remote release airports, making the coverage of such kind of airports amounting to 82%. The Company increased guarantee on flight intelligence by upgrading the service system for flight intelligence.

3. Optimized allocation for core assets and achieved a new record as to its efficiency

In 2011, the transportation turnover volume provided by the Company totaled to 1,444,000,000 ton-kilometer, carrying passengers of 11,186,000 people and freights of 114,300 tons in total, representing increases of 22.6%, 19.7% and 14.5% as compared to the same period of last year. The Company recorded operation income of RMB 9.667 billion (representing an increase of 32.56% as compared to the same period of last year), total profit of RMB 1.031 billion (representing an increase of 22.08% as compared to the same period of last year), net profit of RMB 0.771 billion (representing an increase of 21.46% as compared to the same period of last year) and total assets of RMB 9.773 billion (representing an increase of 9.52% as compared to the same period of last year), respectively.

4. Established healthy service management system, bringing normal operation for service development

Through improving service management system and upgrading service management capability, the Company realized stable operation of each of its service indexes and obvious improvement in several key service indexes. In addition, the Company stressed on construction of service standard system, under which, it prepared the service standards in respect of 11 aspects on customer level and conducted overall business management procedure on its management level. It issued 15 detailed provisions on inter-group procedures and 5 procedure documents such as Supervision and

Review on Service Quality. The Company also emphasized on brand building and brand connotation. Particularly, the Company made a painting aircraft under the name of “Air Asian Beach” by virtue of the cooperation platform provided by the material partner Asian Beach Games, so as to carry out its sports marketing. Besides, the Company also participated in shooting the film Recovery of Beichuan, successfully making the brand of Shandong Airlines being familiar by TV audiences. The Company was awarded again as the Top 500 Most Valued Brands in China by virtue of its brand value of RMB 8655 million, ranking 147 of such 500 brands (representing 3 positions upward as compared to the last ranking and an increase of RMB 2617 million in brand value).

(II) Operation in the report period

1. Scope of main operations and their status

Operation scope approved of the Company: domestic and international business of passenger and cargo civil aviation transportation; hotel and food service (only applicable for branch institutions); air craft maintenance; civil aviation personnel training; insurance industry agent (Limited to insurance for unexpected bodily injury and term of validity of permit for insurance and agent business lasts to Sept. 3 of 2010); agent business among airline companies; ground service relevant to main business; sales of aviation materials, general merchandise (food excluded), artworks, souvenirs and other merchandise; retail of tobacco products (limit to Qingdao Red Crowned Crane Hotel); leasing of aviation materials; business service; reference service; transport agency service; air cargo storage and labor supporting(offering pilot's services for other Airlines in China)(merchandise within state trading excluding in the business scope)

2. Constitution of main business of the Company

(1) Main business classified by industries

Unit: RMB'0000

Main business classified by industries						
Industry or products	Operation income	Operation cost	Gross profit (%)	Operation income increased or decreased compared to same period of last year (%)	Operation cost increased or decreased compared to same period of last year (%)	Gross profit increased or decreased compared to same period of last year (%)
Aviation transportation service	952,367.52	722,898.47	24.09%	32.77%	32.41%	Up 0.2 percentage point
Logistics transportation service	801.19	277.32	65.39%	-40.11%	12.49%	Down 16.18 percentage point
Hotel and food service	2,308.14	2,185.00	5.33%	-9.18%	4.97%	Down 12.76percentage point
Training service	1,733.33	703.24	59.43%	277.47%	343.13%	Down 6.01percentage point

(2) Main business classified by areas

Unit: RMB' 0000

Area	Operating income	Operating income increased or decreased comparing to same period of last year (%)
Domestic	929,203.75	33.74%

Overseas	13, 282. 64	2. 63%
Region	14, 723. 79	5. 50%

3. Operations and achievements of holding and share-join companies

(1) Qingdao Feisheng International Aviation Technology Development Training Co., Ltd.

In reporting period, controlled subsidiary Qingdao Feisheng International Aviation Technology Development Training Co., Ltd. realized operation income of RMB 16,778,300, net profit RMB 5,267,900. Till period-end total assets amounting to RMB 70,968,400, net profit RMB 62,609,000.

(2) Qingdao International Airlines Logistics Center Co., Ltd.

In reporting period controlled subsidiary Qingdao International Airlines Logistics Center Co., Ltd. realized operation income of RMB 8,011,900, net profit of RMB -1,284,200. Till period-end total assets amounting to RMB 61,169,300 and net assets of RMB 42,857,600

(3) Sichuan Airlines Co., Ltd.

Sichuan Airlines Co., Ltd., which the Company joined shares in, has not finished the 2011 audit work till now.

(4) China Travelsky Holding Company

China Travelsky Holding Company, which the Company joined shares in, has not finished the 2011 audit work till now.

(5) Jinan International Airport Co., Ltd.

Jinan International Airport Co., Ltd., which the Company joined shares in, has not finished the 2011 audit work till now.

4. Main suppliers and customers

The total amount of purchases to the top five suppliers took up 40.83% (mainly were purchase of jet fuel, aircraft and aircraft catering) of the total annual amount of sales of the Company. The total amount of sales to the top five customers took up 7.65% of the total annual amount of sales of the Company.

(III) Investment of the Company

1. In the report period, there was no proceeds raised or application of proceeds raised in the previous period but lasted to this report period in the Company.

2. In the report period, the Company had no investment with non-raised proceeds.

(IV) Financial status of the Company in the report period

1. There was no change of accounting policy and accounting estimation, and correction of accounting error in reporting period.

2. Assets constitution and reasons for the changes

(1) Significant change in assets constitution of the Company compared to that of the same period of last year during the report period

Unit: RMB

Items	2011-12-31		2010-12-31		Increase or decrease scope in amount compared to that of last year (%)	Scope of change in proportion
	Amount	Proportion	Amount	Proportion		

Transactional financial assets	0.00	0.00%	9,290,846.62	0.10%	-100.00%	Down 0.1 percentage points
Interest receivable	0.00	0.00%	1,409,528.13	0.02%	-100.00%	Down 0.02 percentage points
Account paid in advance	41,348,446.65	0.42%	28,353,455.80	0.32%	45.83%	Up 0.1 percentage points
Inventory	116,270,780.19	1.19%	77,787,249.46	0.87%	49.47%	Up 0.32 percentage points
Construction in progress	1,644,924,919.38	16.83%	937,253,250.34	10.50%	75.50%	Up 6.33 percentage points
Intangible assets	79,187,122.04	0.81%	47,146,366.53	0.53%	67.96%	Up 0.28 percentage points
Deferred income tax assets	230,402,218.41	2.36%	126,735,195.78	1.42%	81.80%	Up 0.94 percentage points
Transactional financial liability	2,145,521.10	0.02%	3,865,809.52	0.04%	-44.50%	Down 0.02 percentage points
Account payable	1,373,857,875.23	14.06%	1,008,600,051.49	11.30%	36.21%	Up 2.76 percentage points
Accounts received in advance	292,846,652.42	3.00%	202,453,668.78	2.27%	44.65%	Up 0.73 percentage points
Other un-current liability	160,261,661.59	1.64%	73,390,628.74	0.82%	118.37%	Up 0.82 percentage points
Deferred income liability	0.00	0.00%	2,322,711.66	0.03%	-100.00%	Down 0.03 percentage points

(2) Reasons for changes

Item	Explanations
Transactional financial assets	Fair value of transactional financial assets held decrease over that of held by year-begin
Interest receivable	Caused by the interest actually received in this year
Account paid in advance	Rents paid in advance increased due to the increase of airplane leasing
Inventory	Expansion of plane teams, and materials purchase for end-of-lease check and inspection on 6C class
Construction in progress	Due to the progress payment for airplane purchased
Intangible assets	Land acquisition paid in Xiamen
Deferred income tax assets	Due to impairment provision for fixed assets has been accrual in this year
Transactional financial liability	Reasons: actual delivery of Unitex contract and variation of fair value for contract of interest rate swap
Account payable	Due to the soaring air fuel and cost and expense correspondingly increased for development of the Company
Accounts received in advance	Due to transport ability increased for earlier Chinese New Year coming
Other un-current liability	Due to the gains of bonus points for frequency passengers
Deferred income liability	Due to the fair value of transactional financial assets held by the Company was less than that of held at year-begin

3. Changes on the main financial data of the Company occurred in the report period

Unit: RMB

Item	2011	2010	Increase or decrease scope (%)	Reason for change
Operating income	9,666,969,745.20	7,292,615,957.10	32.56%	Expansion of airplane team, average price and carrier ability increased
Operating cost	7,263,251,881.75	5,487,590,890.83	32.36%	Cost correspondingly increase due to higher air fuel and expansion of the Company
Business tax and surcharge	319,511,430.44	205,209,128.98	55.70%	Business tax increased correspondingly due to the more income in business; city construction tax and educational surcharge increase
Administration expense	188,365,620.87	136,465,813.62	38.03%	Vary expenses increased due to the expansion of the Company
Financial expense	86,035,967.94	150,515,922.36	-42.84%	Exchange income from RMB appreciation and cutting expenditures in financial
Loss from assets devaluation	195,263,653.67	1,163,320.01	16685.03%	I Depreciation reserves that withdrawal in this year for some planes and high-value turnover pieces
Investment income(loss is listed with“-“)	8,549,475.93	-1,720,112.18	597.03%	Caused by the dividend plan of Sichuan Airlines was confirmed in this year
Non-revenue receipt	55,609,548.52	29,012,243.89	91.68%	Caused by airport route subsidy and government subsidy increase
Non-revenue expense	18,547,260.62	8,153,807.83	127.47%	Engine maintenance was capitalized, terminated recognition of book value of aged engines

4. Measurement attributes adopted for the main assets

The Company started to implement the new Accounting Standard for Enterprise since Jan. 1st of 2007. In the report period, no significant change had happened to the measurement attributes adopted for the main assets of the Company. Details of the measurement attributes are available in Notes to Financial Report.

5. Constitution of cash flow of the Company, and particulars about the items which received significant changes compared to those of last year and reasons for the changes

(1) Constitution of the cash flow

Unit: RMB

Item	2011	2010	Increase or decrease occurred in this year compared to that of last year (%)
Net cash flow arising from operating activities	2,245,050,664.90	1,675,078,629.81	34.03%
Net cash flow arising from investment activities	-1,466,961,929.05	-1,141,365,886.06	28.53%
Net cash flow arising from	-686,291,999.63	-434,317,159.48	58.02%

financing activities			
Influence on cash and cash equivalents from change of exchange rate	-217,273.25	-122,729.57	77.03%
Net increase in cash and cash equivalents	91,579,462.97	99,272,854.70	-7.75%

(2) Particulars about the significant changes in cash flow compared to that of last year and reasons for the changes during the report period

Unit: RMB

Items	2011	2010	Increase or decrease occurred in this year compared to that of last year (%)	Reason for change
Cash received form selling goods and offering labors	9,862,481,548.80	7,352,842,476.95	34.13%	Operation income of the Company increased
Cash paid for purchasing goods and accepting labors	5,788,881,664.53	4,295,519,127.79	34.77%	Cost correspondingly increase due to higher air fuel and expansion of the Company
Cash paid to and for staffs	1,090,515,615.99	827,331,854.08	31.81%	More new employees and the growth of remuneration
Various paid taxes	655,361,409.83	497,696,065.27	31.68%	Taxes payable increased due to more income and benefits gained
Cash from earnings of investment	11,841,382.42	2,853,033.15	315.05%	Bonus received from the enterprise invested from the Company
Net amount of cash from disposal of fixed assets, intangible assets and other long-term assets	26,638,335.14	26,880.00	99000.95%	Income from disposal of relevant assets of Yantai Red Crowned Crane
Cash paid from purchasing fixed assets, intangible assets and other long-term assets	1,495,212,313.66	1,085,247,694.21	37.78%	Increase of progress payment paid in this year
Net amount of cash paid for purchase of subsidiary and other operating units	6,937,426.46	43,095,223.17	-83.90%	Equity acquisition amount of Feisheng have paid in last year
Cash paid for other investment activities	3,291,906.49	15,902,881.83	-79.30%	Advance deposit of airplane purchase was paid in last year

Cash received from borrows	1, 092, 744, 152. 40	1, 619, 256, 428. 26	-32. 52%	The Company owes sufficient self fund in this year
Cash paid for other financing activities	180, 327, 369. 12	11, 459, 417. 00	1473. 62%	Pledge margin of borrows was received in this year

(V) Convene of Meeting of the Board

Totally four Meetings were held by the Board in 2011, consisting 2 Meetings held on-site and 2 Meetings held by communication. More details as:

Serial	Date for opening	Session of the Meeting	Proposals approved	Disclosure dated
1	2011.3.25	The 5 th Meeting of 4 th Session of the Board	1. "Work Report for General Manager of 2010 of Shandong Airlines Co., Ltd."; 2. "Work Report for Board of Directors of 2010 of Shandong Airlines Co., Ltd."; 3. "Annual Report 2010 of Shandong Airlines Co., Ltd" and its Summary; 4. "Final Financial Report 2010 of Shandong Airlines Co., Ltd" 5. "Annual Profit Distribution Plan 2010 of Shandong Airlines Co., Ltd" 6. "Self-Assessment on Internal Control System of Shandong Airlines Co., Ltd(year of 2010)" ; 7. "Out-of-Limit of Daily Related Transaction for year of 2010"; 8. "Daily Related Transaction for year of 2011"; 9. "Plan of Airplane Introduction for year of 2011"; 10. "Plans to Issuing Medium-Term Note"; 11. "Amendment of Article of Association"; 12. "Changes of GM"; 13. "Changes of Deputy GM"; 14. "Re-engagement of CPAs and Remunerations"; 15. "Convene of Shareholders' General Meeting of 2010"	2011.3.29
2	2011.4.28	the 1 st Extraordinary Meeting of 4 th Session of the Board for 2011	1. "First Quarterly Report 2011 of Shandong Airlines Co., Ltd."; 2. "Engagement of Security Chief"; 3. "Engagement of Deputy GM"	2011.4.29
3	2011.8.18	the 2 nd Extraordinary Meeting of 4 th Session of the Board for 2011	"Semi-annual Report 2011 of Shandong Airlines Co., Ltd." and its Summary	2011.8.19
4	2011.10.24	the 3 rd Extraordinary Meeting of 4 th Session of the Board for 2011	"Third Quarterly Report 2011 of Shandong Airlines Co., Ltd.";	2011.10.26

(VI) Duty performance of the audit committee of the Board

The audit committee of the Board earnestly performed its obligation under rules and regulations

issued by CSRC, the Shenzhen Stock Exchange, and the Articles of Association and Working Procedures for Annual Report for the Audit Committee of the Company. When conducting audit on the financial statements for this year, they carried out thorough supervision and maintained independence of audit with full performance of their obligations:

1. Conducted careful review on the financial statements prepared by the Company before the official audit conducted by the certified public accountants;
2. Negotiated with Reanda CPA firm, which was appointed by the Company for its annual audit, on the time schedule for auditing the annual financial reports of the Company 2011, and made complete negotiation with the certified public accountants, urging them to carry out annual audit as scheduled;
3. Re-review the Company's financial statements after the issuance of initial audit opinions from the aforementioned CPA firm, and checked the relevant accounting books and vouchers of the Company;
4. Gave objective valuation in respect of the annual audit provided by the CPA firm upon the issuance of the audit report for 2011;
5. Recommend on reappointment of CPA firm based on the valuation for the existing CPA firm.

(VII) Duty implementation of the Remuneration and Evaluation Committee of the Board of Directors

Policy and plan of remuneration for directors and senior executives of the Company have been audited by remuneration and evaluation committee of the Board. Evaluating annual performance on directors and senior executives in line with relevant assessment criteria; In accordance with appraisal results, concerning the remuneration of senior executives disclosed, opinions are: issuing standards of remuneration for senior executives are regularized, the remuneration of relevant personnel disclosed in the 2011 Annual Report of the Company was real and accurate.

(VIII) The implementation of the resolutions of Shareholders' General Meeting by the Board of Directors

In the report period, according to the requirements of the relevant laws and regulations of Company Law, Securities Law and Articles of Association, the Board of Directors of the Company seriously implemented various resolutions approved by Shareholders' General Meeting strictly in compliance with the resolutions and authorization of Shareholders' General Meeting.

(1) The implementation of profit distribution of the Company of 2010

The Shareholders' General Meeting 2010 was held on April 28, 2011 for approved the Pay-out Plan for Bonus and Dividend of 2010: Based on total share capital of the Company 400,000,000 shares, distributed RMB 3.00 (tax included) in cash for each 10 shares to all shareholders of the Company. Total dividend amounting to RMB 120 million and completed on June 27, 2011.

Particulars about the cash bonus of the Company in previous three years

Unit: RMB

	Amount of cash bonus (tax included)	Net profit attributable to shareholders of listed company in consolidated statement of bonus year	Ratio of net profit attributable to shareholders of listed company in consolidated statement	Profit available for distribution in the year
2010	120, 000, 000. 00	634, 364, 547. 92	18. 92%	795, 050, 939. 95

2009	80,000,000.00	302,282,325.68	26.47%	304,732,767.23
2008	0	80,981,442.68	0.00%	33,964,695.93

(2) The Board of Directors of the Company strictly implemented other various resolutions approved by Shareholders' General Meeting, actively arranged the production and operation, investment disposal, fundamental construction and aircraft introduce etc..

(IX) Opinion on Audit Report from the Board

Reanda CPAs auditing the annual financial statement 2011 of the Company and issued an Auditing Report with qualified opinions.

(X) Plan of Profit Distribution for year of 2011

Audited by Reanda Certified Public Accountants accordance with Accounting Standards for Business Enterprise, the Company realized net profit of RMB 0.76 billion in 2011. Till end of the December 31, 2011, profit of RMB 1.43 billion was available for distribution for parent company. The Board plans to submit the 2011 profit distribution plan to the shareholders' general meeting, as follows:

1. Withdrawal of current surplus reserve amounts to RMB 0.076 billion.
2. Plans to distribute cash bonus amounting to RMB 0.16billion, taking the total shares 400,000,000 of the Company ended as Dec. 31, 2011 as the base, the cash bonus for each 10 share is RMB 4.00 (Tax included).

The profit distribution preplan would be handed into the 2011 Shareholders' General Meeting of the Company for deliberation and discussion.

(XI) Risk exposures and challenges in future operation

1. The excellent aviation right resources are in increasing shortage. It is predicted that the global economy will witness slow recovery and the downside risks are increasing. The macro economic control adopted by our country focuses on stable growth. Slow down of economic growth will definitely bring negative affects on market demand, particularly bringing down seat kilometer utilization and average ticket price. As to civil aviation, performance of domestic flights continues to be better than that of international flights. It is very likely for the Company to allocate part of its international capacity for domestic needs. In addition, due to the great increase of transport power among the entire industry, the tension in respect of air space resources, major flight track and large airport resources will continue, which makes more difficult to capitalize excellent aviation right resources. Besides, normal operation and perfect network for the high railway system will challenge the construction of high value flight network.

2. Supply of core human resources is insufficient. During the 12th Five-year Plan, the civil aviation industry of China maintains an average growth of 14.5%. Taking account of the training period, it is not possible to substantially improve the supply of professional matured personnel concerning flight, airplane-shipping affair and navigation affair in a short time. It is necessary for the Company to address how to facilitate the fast growth for professional personnel and how to maximize the utilization of limited resources through upgrade in organization structure and management system.

(XII) The working plan of the Board for 2012

1. Continue to improve corporate governance structure and strengthen internal control

The Principle Rules on Corporate Internal Control jointly issued by the five ministries, together with the Guidelines thereof, has been implemented by the main board listing companies since 2012. in order to enhance the internal control management, the Company has already commenced

construction of internal control system for listed companies according to relevant regulatory requirements based on its actual situation. By such construction, the Company will further determine relevant procedures and obligations to strengthen its internal control and accordingly further improve its corporate governance structure based on risk prevention management. Therefore, the decision-making, management and operation of the Company can be conducted on a more standardized and systematic basis.

2. Make thorough use of independent directors and each of the special committees

The Board of the Company continues to support, and create conditions for, the function of independent directors and each of the special committees which are more involved in operating and improving internal control system and material decision-making issues, helping them know more about the actual operation of the Company. through issuing independent and objective judgment opinions, independent directors and the special committees are likely to conduct thorough supervision and direction.

3. Continue to assist operational management to manage operation

2012 is the year when the Company will accelerate development during the 12th Five-year Plan. While the overall market remains uncertain, the Board shall continue to give extensive supports for the operational management to capitalize any development opportunity and effectively solve major problems during the implementation of the Company's strategies. In case of any negative condition, the operational management will manage to turn it to be positive, making every challenge become opportunity for the Company. Thus, the Company realizes sustainable, balanced and steady development since development power is strengthened, direction is clear and development rhyme is determined.

- (1) Perform safety obligations, implement supervision by region and expand sustainable safety;
- (2) Improve operation management, upgrade operation standards and increase production efficiency;
- (3) Optimize resources management, strictly control costs and consolidate the unique profit making pattern of Shandong Airline;
- (4) Strengthen services, upgrade brand value and realize Four-Star services in general.

(XIII) Capital requirements for the Company's operation plan, and the application plan and financing resources thereof

In 2012, the capital requirements required for normal operation of the Company is substantially satisfied by funds from the existing financial structure and loans arrangements with banks.

(XIV) Establishment and implementation of management system for insider information

To further standardize the management of insider information, strengthen the confidentiality of insider information, completely eradicate the relevant personnel to use insider information for insider trading, enhance the management to external submission of insider information, maintain the principle of openness, fairness and justice to information disclosure, protect legitimate rights and interests of investors, according to the requirement of the rules of listed company to establish the registration management system for insider information issued by China Securities Regulatory Commission in Oct., 2011 and the supervision circular letter about further completing the registration management for insider information issued by Shandong Securities Regulatory Bureau in Nov., 2011, and combining with the actual situation of the Company, the board of directors of the Company further completed and revised the management system of filing insider information and submitting external information.

The system specifies the range of insider information, relevant personnel's duty of confidentiality and liability for breach of contract, and makes mandatory restraints to behaviour causing insider

information disclosure. At the same time, the Company organizes relevant staff to participate in special training and case study of preventing and controlling insider transactions, and strengthens the recognition and understanding of relevant people about the serious legal consequence caused by insider transaction. During the report period, the company has registered the names and personal information of the personnel knowing insider information of the Company in time, there was no insider information insider utilizing insider information to deal shares of the Company before disclosing the significant and sensitive information which can affect the Company's share price, also there was no insider information insider got supervision and control or administrative penalty from the supervision department because of being suspected of being involved in insider transactions.

(XV) No illegal transactions of stock existing in directors, supervisors and senior management of the Company

VIII. Report of the Supervisory Committee

(I) Particulars about the work of Supervisory Committee

In 2011, The Supervisory Committee had hold four meetings of the Supervisory Committee and attended all Shareholders' General Meetings and meetings of the Board in 2011.

1. The 3rd meeting of the 4th session of Supervisory Committee was held by the Company on March 25, 2011. The meeting examined and approved the following proposals:

(1) The 2010 Working Report of Supervisory Committee of Shandong Airlines Co., Ltd.;

(2) The 2010 Annual Report and Summary of Shandong Airlines Co., Ltd.;

(3) Self-Evaluation Report on Internal Control of the Company (2010)

2. The meeting of Supervisory Committee was held by the Company on April 28, 2011, and deliberated and approved the 1st Quarterly Report 2011 of Shandong Airlines Co., Ltd.

3. The meeting of Supervisory Committee was held by the Company on August 18, 2011, and deliberated and approved the Semi-Annual Report 2011 of Shandong Airlines Co., Ltd and its Summary.

4. The meeting of Supervisory Committee was held by the Company on October 24, 2011, and approved the 3rd Quarterly Report 2011 of Shandong Airlines Co., Ltd.

(II) Independent opinions of the board of supervisors on relevant matters of 2011

1. Evaluation of duties performance of the board of directors and managers in 2011

The board of supervisor of the Company supervised the board of directors and senior management of the Company and thought that the board of directors of the Company has operated by strictly following the requirements of the law of cooperation, the articles of incorporation, and other relevant laws and regulations and systems, the major operating decision of the Company is reasonable and its procedures are legal and effective; the directors and senior management of the Company could earnestly implement relevant laws and regulations, the articles of incorporation, general meeting of stockholders and resolution of the board of directors, devote to their duties, cautiously and conscientiously forge ahead, and there was no violation of laws, regulations, articles of incorporation about directors and senior management of the Company in performing their duties, or impairment of benefits to the Company and shareholders has been found.

2. Check the financial status of the Company

The board of supervisors of the Company has checked the financial status of the Company and thought that the financial statement of the Company truly has reported the financial situation and business performance of the Company, the true and reasonable audit report has helped the shareholders to correctly comprehend the financial situation and business performance of the Company.

3. Check the related party transaction of the Company

The related party transactions of the Company in 2011 strictly followed the agreement of related party transactions with fair and just prices, fair and reasonable exchanges, performed the legal

approval procedure, and no impairment of benefits to the Company and shareholders has been found.

4. Check the external guarantee and fund occupation of the Company

In 2011, the Company has no external guarantee, no non-operating fund occupation of major shareholders or other impairment of benefits to shareholders of the Company has been found.

5. Examinations opinions on 2011 annual report of the Company

The board of supervisors of the Company examined the 2011 annual report of the Company and thought that the formation and consideration procedures of 2011 annual report comply with relevant rules of the laws and regulations and the articles of incorporation, and the contents and format comply with the rules of China Securities Regulatory Commission and Shenzhen Stock Exchange, truly, legally and completely reflected operating management and financial situation of the Company, there was no false record, misleading statement or major omissions, or personnel participating in formulation and consideration of the annual report disclosed insider information.

6. Evaluation opinions on the establishment and implementation of management system of the Company for insider information insider

During the report period, the board of supervisors of the Company seriously examined and verified the establishment and implementation of the Company's management system of filing insider information insider and submitting external information and thought that the Company has established and further completed the management system of filing insider information insider and submitting external information according to the requirements of the supervision department, strictly controlled the range of insider information insider in accordance with this system, registered the names and personal information of the personnel knowing insider information of the Company in time, strengthened the management for submitting external information, maintained the Company's principle of openness and fairness and justice for information disclosure, protected the legitimate rights and interests of investors, and no insider transaction behavior has been found.

IX. Significant Events

(I) The Company has not been involved in significant lawsuits or arbitrations in the report period.

(II) The Company has no bankruptcy and reforming in the report period.

(III) In report period, no fund occupied for non-operation purpose by controlling shareholders and its related parties.

(IV) The Company holds 13,045,500 shares of Chinese Information Network Incorporation of Civil Aviation which is listed in Hong Kong Exchanges and Clearing Limited. The nature of these shares is non-circulating domestic shares.

The Company holds no share equity of other listed companies, or equity of financial enterprises such as joint stock commercial banks, securities companies, insurance companies, trust companies and futures companies.

(V) Purchase and sale of assets and merger of the Company in the report period

On 29 September 2010, the "proposal of purchasing 30% equity of Qingdao Feisheng International Logistics Center Co., Ltd." was deliberated and approved in 6th Meeting of 4th Session of the Board 2010. Proposal agrees that purchased 30% equity of Qingdao Feisheng International Logistics Center Co., Ltd. ("Qingdao Logistics") held by Fuji International Investment Co., Ltd. with price of RMB 24.51 million, and authorized management of the Company for handling equity ownership transfer and materials submission. (more details found in Notice: 2010-27)

On 21 October 2011, equity changes of Industrial & Commercial registration procedures concerning Qingdao Logistics have been completed in Industrial & Commercial Bureau of Chengyang Distric, Qingdao City. After this transaction, Qingdao Logistics became a wholly-owned subsidiary of the Company for 100% equity held by the Company.

(VI) There is no implementation of stock option incentive plan of the Company in the report

period.

(VII) Significant related transaction

The Company has some related transactions with its major shareholders and their subordinate companies at present. These related transactions are necessity for the Company and are unavoidable. Before the transactions, the Company has already fully considered the quality, price and efficiency of the services and goods provided by the related parties and also made analysis and comparison on the market environment. The independent directors of the Company presented opinions on the related transactions which believed that the Company and the related parties made the deals with market principles of open, equality and justice, the transaction price was fair and there was no behavior hurting profit of other shareholders.

1. The related transactions about the routine operations in the report period

Unit: RMB'0000

Classification of the related transactions	Related parties	Content	Amount occurred	Proportion in same business (%)
Labor providing to related parties	Air China Limited	Labor charges	1257	88.26%
	Subtotal		1257	
Labor receiving from related parties	Shandong Aviation Group	Rents of Office and board & lodging expenses	1883	38.77%
	Taikoo (Shandong) Aircraft Engineering Co., Ltd	Maintenance fee for airplane	9524	17.94%
	Shandong Xiangyu Aero Technical Services Co., Ltd.	Maintenance fee	3365	6.34%
	Air China Limited	Ground service expenditure	1137	1.37%
	Air China Limited	Maintenance fee	53	0.10%
	Air China Limited	Ground service expenditure	250	0.30%
	Shenzhen Airlines	Pilot's training fee	133	7.77%
	Beijing Aircraft maintenance Engine Co., ltd.	Maintenance fee for airplane	1402	2.64%
	Sichuan International Aero-Engine Maintenance Co., ltd.	Maintenance fee	4912	9.25%
	Subtotal		22659	
Other related transactions	Shandong Xiangyu Aero Technical Services Co., Ltd.	Air materials sales	460	100%
	Shandong Xiangyu Aero Technical Services Co., Ltd.	Maintenance of air materials	237	100%
	Air China Limited	Rent charge of engine	1042	31.42%

	Air China Limited	Rent charge of simulator	329	100%
	Air China Limited	Routes associated	1117	100%
	Air China Limited	Wet-lease business	65933	100%
	Air China Cargo Co., Ltd.	Cargo associated	301	100%
	Subtotal		69419	
	Total		93335	

2. The Company and its controlling shareholder's cooperative investment

The Company had no cooperative investment with its controlling shareholders in the report period.

3. Credits and liabilities between the Company and related parties

There are no newly increased credits and liabilities between the Company and related parties in the report period.

(VIII) Significant contracts and implementation

1. There are no assets entrustment, contract and lease in the report period.

2. In the report period, the Company had no external significant guarantee.

3. In the report period, the Company had no entrusted financing.

4. Other significant contracts

Up to the end of the report period, the accumulated amount of long-term and short-term borrowings of the Company amounted to RMB 4033 million.

The Company had no other significant contracts which were not disclosed.

(IX) The Company had not entrusted anyone to manage its cash assets in the report period

(X) Significant commitment in the report period

Concerning the competing bid for 100% equity of Qingdao Feisheng, first largest shareholder of the Company—Shandong Aviation Group made the compensation commitment of profit forecast based on the Evaluation Report: calculated based on the profit method, net profit of Qingdao Feisheng predicted respectively as RMB 4.8049 million, RMB 5.3614 million and RMB 5.7784 million in future 3 year. The Company will suffer from losses if the future operation performance of Qingdao Feisheng does not reach the profit forecast under the premise of evaluation basis sustained, Shandong Aviation Group promise cash compensation due to the above losses.

Influenced by earthquake in Japan, Japan clients, the one occupied majority proportion in international business in Qingdao Feisheng, gains a sharply down in training volume. Training volume of international clients gains a y-o-y down of 886 hours with a 72% down y-o-y. Compared with the profitability of Qingdao Feisheng, during second year of committeemen, Qingdao Feisheng gains no profit targets with difference of RMB 2.86 million between actual realized net profits and promised net profit; Shandong Aviation Group agrees to compensate the differences to the Company in cash.

(XI) Engagement of Certified Public Accountants

In the report period, the Company continued to engage Reanda Certified Public Accountants as Auditing Organization of the Company. 2010 Annual Shareholders' General Meeting examined and approved the Proposal on Renewal of Engaging CPA and its Remunerations, the Company engaged Reanda Certified Public Accountants as 2011 Auditing Organization of the Company. In the report period, the Company should pay the annual auditing fee of RMB 600,000. The aforesaid auditing organization has provided auditing services to the Company for the 8th year.

(XII) In the report period, the Company and the Board of Directors have not received check, administrative punishment and notice of criticism from the CSRC, and public criticism from the securities exchange.

(XIII) In the report period, the received research and interview of the Company

In accordance with the relevant regulations of Shenzhen Stock Exchange and pursuit to the principles of justice, fair-ness and publicity, the Company regulated its behaviors of research and media interviews. In the report period, there occurred no such situations as selectively and privately reveal or leak non-public significant information to specific parties; and all these assure the fairness of information disclosure of the Company.

Activities of Receiving Research,
Communication and Interview in the Report Period

The received date	The received place	The received way	The received parties	Contents discussed and materials supplied
2011-4-28	Jinan	Face-to-face talks	News media, shareholders with legal person shares and individual investor	Operation situation of the Company, Annual Report 2010 of the Company provided
January-December of 2011	Jinan	Telephone communication	Individual investor	Operation situation of the Company, no information provided

(XIII) Other significant events

Significant events and announcements were published at China Securities Journal, Securities Times, Hong Kong Commercial Daily and Juchao Website([http://www. cninfo.com.cn](http://www.cninfo.com.cn)), found i the above mentioned medias for more details.

X. Auditors' Report

To the Shareholders of Shandong Airlines Co., Ltd.:

We have audited the accompanying financial statements of Shandong Airlines Co., Ltd. ("the Company"), including balance sheet as of 31st December 2011 and the related consolidated balance sheet, profit statement of 2011 and related consolidated profit statement, cash flow statement and related consolidated cash flow statement, statement on changes of shareholders' equity and related consolidated statement on changes of shareholders' equity and other explanatory notes.

I. Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, performing and maintaining internal control related to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to frauds or errors; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. Auditor's responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We performed our audit in accordance with the Standards on Accounting for Certified Public Accountants. Those standards require that we comply with ethical requirements, and to plan and perform our audit so as to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to frauds or errors. In making those risk assessments, the auditor consider internal control related to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriated in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies adopted and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

III. Auditing opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

Reanda CPA Co., Ltd.
Beijing China

Chinese CPA: Yan Yunhui
Tao Liang
21 March 2012

Balance Sheet

Prepared by: Shandong Airlines Co., Ltd.

2011-12-31

Unit: RMB

Items	Amount at period-end		Amount at year-begin	
	Merger	Parent Company	Merger	Parent Company
Current assets:				
Monetary funds	248,185,747.48	243,921,301.34	333,572,647.76	328,897,146.25
Settlement provisions				
Capital lent				
Transaction finance asset			9,290,846.62	9,290,846.62
Notes receivable				
Accounts receivable	185,700,185.84	179,188,885.98	192,444,914.49	185,873,337.88
Accounts paid in advance	41,348,446.65	40,940,314.17	28,353,455.80	28,201,391.84
Insurance receivable				
Reinsurance receivables				
Contract reserve of reinsurance receivable				
Interest receivable			1,409,528.13	1,409,528.13
Dividend receivable				
Other receivables	189,156,268.92	203,763,094.81	224,905,440.68	225,345,428.46
Purchase restituted finance asset				
Inventories	116,270,780.19	116,270,780.19	77,787,249.46	77,787,249.46
Non-current asset due within one year				
Other current assets				
Total current assets	780,661,429.08	784,084,376.49	867,764,082.94	856,804,928.64
Non-current assets:				
Granted loans and advances				
Finance asset available for sales				
Held-to-maturity investment				
Long-term account receivable				
Long-term equity investment	88,352,100.00	194,352,785.43	88,352,100.00	169,842,785.43
Investment property				
Fixed assets	6,683,456,551.61	6,623,652,373.64	6,616,497,360.85	6,551,672,655.53
Construction in progress	1,644,924,919.38	1,621,968,762.03	937,253,250.34	925,773,327.54
Engineering material				
Disposal of fixed asset				
Productive biological asset				
Oil and gas asset				
Intangible assets	79,187,122.04	64,374,922.89	47,146,366.53	32,299,511.53
Expense on Research and Development				
Goodwill	10,220,816.22		10,220,816.22	
Long-term expenses to be apportioned	255,780,389.23	255,600,868.72	229,830,196.19	229,493,082.25
Deferred income tax asset	230,402,218.41	230,083,720.58	126,735,195.78	126,425,389.96

Other non-current asset				
Total non-current asset	8,992,324,116.89	8,990,033,433.29	8,056,035,285.91	8,035,506,752.24
Total assets	9,772,985,545.97	9,774,117,809.78	8,923,799,368.85	8,892,311,680.88
Current liabilities:				
Short-term loans	767,636,239.20	767,636,239.20	1,001,269,036.73	1,001,269,036.73
Loan from central bank				
Absorbing deposit and interbank deposit				
Capital borrowed				
Transaction financial liabilities	2,145,521.10	2,145,521.10	3,865,809.52	3,865,809.52
Notes payable	129,547,193.34	129,547,193.34	135,042,835.33	135,042,835.33
Accounts payable	1,373,857,875.23	1,372,067,599.53	1,008,600,051.49	1,009,216,769.85
Accounts received in advance	292,846,652.42	291,086,272.00	202,453,668.78	200,972,965.98
Selling financial asset of repurchase				
Commission charge and commission payable				
Wage payable	263,739,110.65	263,558,230.63	236,150,660.44	236,130,188.66
Taxes payable	168,132,279.57	166,980,287.94	170,115,170.97	169,899,177.32
Interest payable	8,048,176.38	8,048,176.38	9,656,528.23	9,569,756.23
Dividend payable	11,940.00	11,940.00	11,940.00	11,940.00
Other accounts payable	161,746,628.41	168,068,512.20	140,733,981.14	141,469,803.57
Reinsurance payables				
Insurance contract reserve				
Security trading of agency				
Security sales of agency				
Non-current liabilities due within 1 year	384,557,360.39	384,557,360.39	476,767,879.05	464,467,879.05
Other current liabilities				
Total current liabilities	3,552,268,976.69	3,553,707,332.71	3,384,667,561.68	3,371,916,162.24
Non-current liabilities:				
Long-term loans	3,007,009,638.54	3,007,009,638.54	3,180,283,177.55	3,180,283,177.55
Bonds payable				
Long-term account payable	1,004,200,349.34	1,004,200,349.34	863,013,847.54	863,013,847.54
Special accounts payable				
Projected liabilities				
Deferred income tax liabilities			2,322,711.66	2,322,711.66
Other non-current liabilities	160,261,661.59	160,261,661.59	73,390,628.74	73,390,628.74
Total non-current liabilities	4,171,471,649.47	4,171,471,649.47	4,119,010,365.49	4,119,010,365.49
Total liabilities	7,723,740,626.16	7,725,178,982.18	7,503,677,927.17	7,490,926,527.73
Owner's equity (or shareholders' equity):				
Paid-in capital (or share capital)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Capital public reserve	75,410,363.70	86,911,168.71	84,050,162.84	84,050,162.84
Less: Inventory shares				
Reasonable reserve				
Surplus public reserve	199,414,021.75	198,753,317.22	122,944,754.89	122,284,050.36

Provision of general risk				
Retained profit	1,374,420,534.36	1,363,274,341.67	799,664,252.17	795,050,939.95
Balance difference of foreign currency translation				
Total owner's equity attributable to parent company	2,049,244,919.81	2,048,938,827.60	1,406,659,169.90	1,401,385,153.15
Minority interests			13,462,271.78	
Total owner's equity	2,049,244,919.81	2,048,938,827.60	1,420,121,441.68	1,401,385,153.15
Total liabilities and owner's equity	9,772,985,545.97	9,774,117,809.78	8,923,799,368.85	8,892,311,680.88

Profit Statement

Prepared by: Shandong Airlines Co., Ltd.

January-December, 2011

Unit: RMB

Items	Amount in this period		Amount in last period	
	Merger	Parent Company	Merger	Parent Company
I. Total operating income	9,666,969,745.20	9,646,749,445.02	7,292,615,957.10	7,284,474,069.23
Including: Operating income	9,666,969,745.20	9,646,749,445.02	7,292,615,957.10	7,284,474,069.23
Interest income				
Insurance gained				
Commission charge and commission income				
II. Total operating cost	8,673,994,733.22	8,662,218,936.93	6,461,293,024.92	6,454,275,861.75
Including: Operating cost	7,263,251,881.75	7,258,022,848.04	5,487,590,890.83	5,484,462,677.17
Interest expense				
Commission charge and commission expense				
Cash surrender value				
Net amount of expense of compensation				
Net amount of withdrawal of insurance contract reserve				
Bonus expense of guarantee slip				
Reinsurance expense				
Operating tax and extras	319,511,430.44	318,499,180.24	205,209,128.98	204,810,196.58
Sales expenses	621,566,178.55	621,566,178.55	480,347,949.12	480,347,949.12
Administration expenses	188,365,620.87	182,797,444.37	136,465,813.62	133,056,074.42
Financial expenses	86,035,967.94	85,320,836.52	150,515,922.36	150,659,261.66
Losses of devaluation of asset	195,263,653.67	196,012,449.21	1,163,320.01	939,702.80
Add: Changing income of fair value(Loss is listed with "-")	-7,570,558.20	-7,570,558.20	-5,916,809.38	-5,916,809.38
Investment income (Loss is listed with "-")	8,549,475.93	8,549,475.93	-1,720,112.18	-1,720,112.18
Including: Investment income on affiliated company and joint venture				
Exchange income (Loss is listed with "-")				
III. Operating profit (Loss is listed with "-")	993,953,929.71	985,509,425.82	823,686,010.62	822,561,285.92

Add: Non-operating income	55,609,548.52	55,609,548.52	29,012,243.89	29,012,243.84
Less: Non-operating expense	18,547,260.62	18,076,510.82	8,153,807.83	8,068,071.01
Including: Disposal loss of non-current asset	17,320,987.51	17,320,987.51	7,708,562.86	7,622,991.01
IV. Total Profit (Loss is listed with "-")	1,031,016,217.61	1,023,042,463.52	844,544,446.68	843,505,458.75
Less: Income tax expense	260,243,745.35	258,349,794.94	209,969,159.25	209,818,600.17
V. Net profit (Net loss is listed with "-")	770,772,472.26	764,692,668.58	634,575,287.43	633,686,858.58
Net profit attributable to owner's of parent company	771,225,549.05	764,692,668.58	634,364,547.92	633,686,858.58
Minority shareholders' gains and losses	-453,076.79	0.00	210,739.51	0.00
VI. Earnings per share				
i. Basic earnings per share	1.93		1.59	
ii. Diluted earnings per share	1.93		1.59	
VII. Other consolidated income				
VIII. Total consolidated income	770,772,472.26	764,692,668.58	634,575,287.43	633,686,858.58
Total consolidated income attributable to owners of parent company	771,225,549.05	764,692,668.58	634,364,547.92	633,686,858.58
Total consolidated income attributable to minority shareholders	-453,076.79	0.00	210,739.51	0.00

Cash Flow Statement

Prepared by: Shandong Airlines Co., Ltd.

January- December, 2011

Unit: RMB

Items	Amount in this period		Amount in last period	
	Merger	Parent Company	Merger	Parent Company
I. Cash flows arising from operating activities:				
Cash received from selling commodities and providing labor services	9,862,481,548.80	9,841,918,121.78	7,352,842,476.95	7,338,125,353.04
Net increase of customer deposit and interbank deposit				
Net increase of loan from central bank				
Net increase of capital borrowed from other financial institution				
Cash received from original insurance contract fee				
Net cash received from reinsurance business				
Net increase of insured savings and investment				
Net increase of disposal of transaction financial asset				
Cash received from interest, commission charge and commission				

Net increase of capital borrowed				
Net increase of returned business capital				
Write-back of tax received				
Other cash received concerning operating activities	100,218,711.14	105,768,674.93	97,024,882.28	100,423,221.27
Subtotal of cash inflow arising from operating activities	9,962,700,259.94	9,947,686,796.71	7,449,867,359.23	7,438,548,574.31
Cash paid for purchasing commodities and receiving labor service	5,788,881,664.53	5,792,830,488.54	4,295,519,127.79	4,291,454,969.98
Net increase of customer loans and advances				
Net increase of deposits in central bank and interbank				
Cash paid for original insurance contract compensation				
Cash paid for interest, commission charge and commission				
Cash paid for bonus of guarantee slip				
Cash paid to/for staff and workers	1,090,515,615.99	1,086,926,998.30	827,331,854.08	824,315,034.77
Taxes paid	655,361,409.83	650,829,922.59	497,696,065.27	496,457,992.65
Other cash paid concerning operating activities	182,890,904.69	196,797,149.55	154,241,682.28	154,456,869.48
Subtotal of cash outflow arising from operating activities	7,717,649,595.04	7,727,384,558.98	5,774,788,729.42	5,766,684,866.88
Net cash flows arising from operating activities	2,245,050,664.90	2,220,302,237.73	1,675,078,629.81	1,671,863,707.43
II. Cash flows arising from investing activities:				
Cash received from recovering investment				
Cash received from investment income	11,841,382.42	11,841,382.42	2,853,033.15	2,853,033.15
Net cash received from disposal of fixed, intangible and other long-term assets	26,638,335.14	26,638,335.14	26,880.00	26,880.00
Net cash received from disposal of subsidiaries and other units				
Other cash received concerning investing activities				
Subtotal of cash inflow from investing activities	38,479,717.56	38,479,717.56	2,879,913.15	2,879,913.15
Cash paid for	1,495,212,313.66	1,483,183,573.11	1,085,247,694.21	1,073,446,055.08

purchasing fixed, intangible and other long-term assets				
Cash paid for investment		24,510,000.00		
Net increase of mortgaged loans				
Net cash received from subsidiaries and other units	6,937,426.46	6,937,426.46	43,095,223.17	50,740,053.00
Other cash paid concerning investing activities	3,291,906.49	3,291,906.49	15,902,881.83	15,902,881.83
Subtotal of cash outflow from investing activities	1,505,441,646.61	1,517,922,906.06	1,144,245,799.21	1,140,088,989.91
Net cash flows arising from investing activities	-1,466,961,929.05	-1,479,443,188.50	-1,141,365,886.06	-1,137,209,076.76
III. Cash flows arising from financing activities				
Cash received from absorbing investment				
Including: Cash received from absorbing minority shareholders' investment by subsidiaries				
Cash received from loans	1,092,744,152.40	1,092,744,152.40	1,619,256,428.26	1,619,256,428.26
Cash received from issuing bonds				
Other cash received concerning financing activities	180,327,369.12	180,327,369.12	11,459,417.00	11,459,417.00
Subtotal of cash inflow from financing activities	1,273,071,521.52	1,273,071,521.52	1,630,715,845.26	1,630,715,845.26
Cash paid for settling debts	1,482,346,801.17	1,470,046,801.17	1,543,956,930.32	1,535,656,930.32
Cash paid for dividend and profit distributing or interest paying	269,449,515.31	268,618,773.32	228,396,529.91	228,062,165.48
Including: Dividend and profit of minority shareholder paid by subsidiaries				
Other cash paid concerning financing activities	207,567,204.67	183,057,204.67	292,679,544.51	292,679,544.51
Subtotal of cash outflow from financing activities	1,959,363,521.15	1,921,722,779.16	2,065,033,004.74	2,056,398,640.31
Net cash flows arising from financing activities	-686,291,999.63	-648,651,257.64	-434,317,159.48	-425,682,795.05
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-217,273.25	-217,273.25	-122,729.57	-122,729.57
V. Net increase of cash and cash equivalents	91,579,462.97	91,990,518.34	99,272,854.70	108,849,106.05
Add: Balance of cash and cash equivalents at the period -begin	148,606,284.51	143,930,783.00	49,333,429.81	35,081,676.95
VI. Balance of cash and cash equivalents at the period -end	240,185,747.48	235,921,301.34	148,606,284.51	143,930,783.00

Statement of Change in Owners' Equity (Consolidated)

Prepared by: Shandong Airlines Co., Ltd.

Year of 2011

Unit: RMB

Items	Amount of the Current Term										Amount of Last Year									
	Owners' equity attributable to parent company								Minor shareholders' equity	Total owners' equity	Owners' equity attributable to parent company								Minor shareholders' equity	Total owners' equity
	Paid-up capital(or share capital)	Capital reserves	Less: inventory shares	Reasonable reserve	Surplus reserves	Provision of general risk	Retained profit	Others			Paid-up capital(or share capital)	Capital reserves	Less: inventory shares	Reasonable reserve	Surplus reserves	Provision of general risk	Retained profit	Others		
I. Balance at the end of last year	400,000,000.00	84,050,162.84			122,944,754.89		799,664,252.17		13,462,271.78	1,420,121,441.68	400,000,000.00	84,050,162.84			59,576,069.03		308,668,390.11		13,251,532.27	865,546,154.25
Plus: Change of accounting policy																				
Correcting of previous errors																				
Others																				
II. Balance at the beginning of current year	400,000,000.00	84,050,162.84			122,944,754.89		799,664,252.17		13,462,271.78	1,420,121,441.68	400,000,000.00	84,050,162.84			59,576,069.03		308,668,390.11		13,251,532.27	865,546,154.25
III. Changed in current term(Loss is listed with “-”)		-8,639,799.14			76,469,266.86		574,756,282.19		-13,462,271.78	629,123,478.13					63,368,685.86		490,995,862.06		210,739.51	554,575,287.43
(I) Net profit							771,225,549.05		-453,076.79	770,772,472.26							634,364,547.92		210,739.51	634,575,287.43
(II) Other consolidated income																				
Subtotal of (I) and (II)							771,225,549.05		-453,076.79	770,772,472.26							634,364,547.92		210,739.51	634,575,287.43
(III) Owners' input and withdraw of share capital		-8,639,799.14							-13,009,194.99	-21,648,994.13										

1. Capital input by owners																				
2. Share payment accounted into owners' equity																				
3. Others		-8,639,799.14							-13,009,194.99	-21,648,994.13										
(IV) Profit distribution					76,469,266.86		-196,469,266.86			-120,000,000.00					63,368,685.86		-143,368,685.86			-80,000,000.00
1. Providing of surplus reserves					76,469,266.86		-76,469,266.86								63,368,685.86		-63,368,685.86			
2. Common risk provision																				
3. Dividend to owners'(or shareholders)							-120,000,000.00			-120,000,000.00							-80,000,000.00			-80,000,000.00
4. Others																				
(V) Internal settlement of owners' equity																				
1. Capital reserves transferred to share capital																				
2. Surplus reserves transferred to share capital																				
3. Making up losses by surplus reserves																				
4. Others																				
(VI) Reasonable reserve																				
1. Withdrawal in the report period																				
2. Usage in the report period																				
(VII) Other																				
IV. Balance at the end of this term	400,000,000.00	75,410,363.70			199,414,021.7		1,374,420,534.			2,049,244,919.	400,000,000.00	84,050,162.84			122,944,754.8		799,664,252.1		13,462,271.78	1,420,121,441.

	0			5		36			81	0				9		7		68
--	---	--	--	---	--	----	--	--	----	---	--	--	--	---	--	---	--	----

Statement of Change in Owners' Equity (Parent Company)

Prepared by: Shandong Airlines Co., Ltd.

Year of 2011

Unit: RMB

Items	Amount of the Current Term								Amount of Last Year							
	Paid-up capital(or share capital)	Capital reserves	Less: inventory shares	Reasonable reserve	Surplus reserves	Provision of general risk	Retained profit	Total owners' equity	Paid-up capital(or share capital)	Capital reserves	Less: inventory shares	Reasonable reserve	Surplus reserves	Provision of general risk	Retained profit	Total owners' equity
I. Balance at the end of last year	400,000,000.00	84,050,162.84			122,284,050.36		795,050,939.95	1,401,385,153.15	400,000,000.00	84,050,162.84			58,915,364.50		304,732,767.23	847,698,294.57
Plus: Change of accounting policy																
Correcting of previous errors																
Others																
II. Balance at the beginning of current year	400,000,000.00	84,050,162.84			122,284,050.36		795,050,939.95	1,401,385,153.15	400,000,000.00	84,050,162.84			58,915,364.50		304,732,767.23	847,698,294.57
III. Changed in current term(Loss is listed with "-")		2,861,005.87			76,469,266.86		568,223,401.72	647,553,674.45					63,368,685.86		490,318,172.72	553,686,858.58
(I) Net profit							764,692,668.58	764,692,668.58							633,686,858.58	633,686,858.58
(II) Other consolidated income																
Subtotal of (I) and (II)							764,692,668.58	764,692,668.58							633,686,858.58	633,686,858.58
(III) Owners' input and withdraw of share capital		2,861,005.87						2,861,005.87								
1. Capital input by owners																
2. Share payment accounted into owners' equity																

3. Others		2,861,005.87						2,861,005.87								
(IV) Profit distribution					76,469,266.86		-196,469,266.86	-120,000,000.00					63,368,685.86		-143,368,685.86	-80,000,000.00
1. Providing of surplus reserves					76,469,266.86		-76,469,266.86						63,368,685.86		-63,368,685.86	
2. Common risk provision																
3. Dividend to owners'(or shareholders)							-120,000,000.00	-120,000,000.00							-80,000,000.00	-80,000,000.00
4. Others																
(V) Internal settlement of owners' equity																
1. Capital reserves transferred to share capital																
2. Surplus reserves transferred to share capital																
3. Making up losses by surplus reserves																
4. Others																
(VI) Reasonable reserve																
1. Withdrawal in the report period																
2. Usage in the report period																
(VII) Other																
IV. Balance at the end of this term	400,000,000.00	86,911,168.71			198,753,317.22		1,363,274,341.67	2,048,938,827.60	400,000,000.00	84,050,162.84			122,284,050.36		795,050,939.95	1,401,385,153.15

Shandong Airlines Co., Ltd.

Notes to the Financial Statements

As at 31st December 2011

(All amounts are expressed in CNY unless otherwise stated)

(English version for reference only)

Note 1. Corporation profile

1.1. Company's history

Shandong Airlines Co., Ltd. (hereafter, the Company) is a foreign-invested limited liability company incorporated in the People's Republic of China. The Company was incorporated through the restructuring project jointly initiated by Shandong Airlines Group Co., Ltd. (hereafter, SDA Group), Inspur Co., Ltd. (previously known as Inspur Electronic Information Industry Group Company (浪潮电子信息产业集团公司)), Shandong Hualu Group Co., Ltd, Shandong Group Corp. of Fisheries Enterprises and Luyin Investment Group (鲁银投资集团股份有限公司) following the approval (LuTiGaiQiZi(1999)No.88 (鲁体改企字(1999)第 88 号)) granted by the Economic Reform Commission of Shandong Province (山东省经济体制改革委员会) on July 29th, 1999.

Shandong Airlines Group Co., Ltd. acquired 259,204,000 state-owned corporate shares (国有法人股), with CNY 1.00 at par, of the Company by transferring its air transportation operation and the related assets and liabilities to the Company on November 25th, 1999. Inspur Co., Ltd., Shandong Hualu Group Co., Ltd. and Shandong Group Corp. of Fisheries Enterprises each acquired 199,000 state-owned corporate shares, with CNY 1.00 at par, by cash investment of CNY 200,000.00 each on November 26th, 1999. Luyin Investment Group acquired 199,000 domestic corporate shares (国内法人股), with CNY 1.00 at par, by cash investment of CNY 200,000.00 on November 26th, 1999.

The Company issued 140,000,000 domestically listed shares denominated in foreign currency (境内上市外资股) (hereafter, B share(s)), with par value at CNY 1.00 each and issue price at HKD 1.58 each, on August 28th, 2000 upon the approval (ZhengJianFaXingZi[2000]No.116 (证监发行字[2000]116 号)) granted by the China Securities Regulatory Commission on August 22nd, 2000; and, the Company was listed on the Shenzhen Stock Exchange on September 12th, 2000. Immediately after the issuance of the B shares, the capital of the Company increased to CNY 400,000,000.00.

The Agreement of Share Transfer (《股份转让协议》) signed by SDA Group and China National Aviation Holding Company (hereafter, China Aviation Group) on February 28th, 2004 authorised the transfer of 91,200,000 shares of the Company, equal to 22.8% shareholding, from SDA Group to China Aviation Group. Immediately after the share transfer, SDA Group's shareholding in the Company was 42.00%. In November 2004, the Board of Directors of the Company, in accordance with the approval (GuoZiChanQuan[2004]No.956 (国资产权[2004]956 号: 《关于中国航空集团公司将受让山东航空股份有限公司国有股的合同实施转让有关问题的批复》)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, authorised China Aviation Group to transfer the state-owned corporate shares received from SDA Group to Air China Co., Ltd. (hereafter, Air China). As so provided in GuoZiChanQuan[2004]No.956, the rights and obligation

attributable to China Aviation Group as specified in the Agreement of Share Transfer shall be afforded by Air China. The change of share ownership was registered at the China Securities Depository and Clearing Corporation Limited Shenzhen Office by SDA Group and Air China on December 3rd, 2004; And, 91,200,000 shares of the Company then became held by Air China.

Legal representative of the Company: ZHANG, Xingfu

Place of registration: Shandong Jinan Yaoqiang International Airport

Address of headquarter: Shandong Airlines Centre, 5746 – East 2nd Ring Road, Jinan, Shandong

1.2. Industry of operation

The Company operates in the industry of transportation.

1.3. Operating capacity

The Company is permitted to undertake international and domestic passenger and cargo transportation, hotel and beverage related operation (limited to operation through branch); provision of aircraft maintenance, training of civil aviation pilots and air crew, insurance brokerage (limited to air accident insurance, with period of operation valid until September 3rd, 2012); inter-airline agenting, and principal operation related ground services; sales of airborne material and equipments, non-food grocery, art work, souvenir, etc.; retailing of tobacco products (limited to Qingdao Red-Crowned Crane Hotel); lease of airborne material and equipments; business services; conference services; transportation agency; air cargo storage; and aviation pilot provision (for other domestic airlines). The operating activities listed herein does not involve operation related to commodity that are subject to State Administered Trading (国营贸易管理).

1.4. Principal products (and/or services)

The principal service supplied by the Company is domestic air transportation.

Note 2. Summary of significant accounting policies and estimates, and correction of errors

2.1. Bases for preparation of the financial statements

The financial statements of the Company have been prepared on the going concern basis with reference to the actual occurrence of transactions and events and in accordance with the China Enterprise Accounting Standards (CAS) issued by the Ministry of Finance on 15th February 2006 and the significant accounting policies and estimates as set out in Note 2.

2.2. Declaration of Compliance with the Enterprise Accounting Standards

The financial statements of the Company have been prepared in accordance with the Enterprise Accounting Standards to present truly and completely the financial position, result of operation and cash flow and the relevant information of the Company.

2.3. Accounting year

The Company's accounting year is the calendar year, ie. from 1 January to 31 December each year.

2.4. Presentation (functional) currency

The presentation (functional) currency of the Company is Chinese Yuan (hereafter, CNY).

2.5. Business acquisitions

2.5.1. Acquiring business under common control

The Company measures the identifiable assets acquired and liabilities assumed at their acquisition-date book values in the accounts of the acquiree. The excess of the consideration transferred in the form of book value or shares issued over the acquisition-date book values in the acquiree's accounts of the identifiable net assets acquired is debited to Capital reserves and to Undistributed profits where the total value of Capital reserves is insufficient.

2.5.2. Acquiring business not under common control

The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date measured as the excess of the amount of the total consideration paid for the acquisition measured in accordance with s11, Ch. 3, CAS 20 over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with s14, Ch.3, CAS 20 is recognised by the Company, if the later exceeds the former (ie. negative excess), the Company recognises the resulting gain in profit or loss on the acquisition date after reviewing their fair values and confirming the negative excess.

2.6. Consolidated financial statements

2.6.1. Scope of consolidated financial statements

Consolidated financial statements are prepared on the basis of control existence in accordance with CAS 33 issued by the Ministry of Finance in February 2006. The consolidated financial statements of the Company include all subsidiaries and the entities, which are established for specified purposes, either directly or indirectly controlled by the Company and the Company itself. The Company has control over an entity where the Company has the power to govern the financial and operating policies of the entity under a statute or an agreement and is able to obtain economic benefit from the entity's operation by virtue of that power. Where it is clearly demonstrated that the Company's investment in an entity does not constitute control over the entity, the Company excludes the entity from consolidation.

2.6.2. Purchase and sales of ordinary shares of subsidiaries

The Company determines the date of purchase and sales of the ordinary shares of subsidiaries on the basis of the actual occurrence of transfer of the risks attached to and proceeds associated with the shares respectively. The respective post- or pre-transaction-date operation results and cash flows of the subsidiary acquired or disposed in the course of the combination of businesses not under common control are accounted for in the consolidated income statement and cash flow statement. The operation results and cash flows of the subsidiary, which occur after the start date of the accounting period in which the subsidiary is acquired and prior to the disposal date, acquired in the course of the combination of businesses under common control are accounted for and separately presented in the consolidated income statement and cash flow statement with comparables adjusted accordingly.

The excess of the value of a long-term equity investment, recognised and measured in accordance with CAS 2, in a subsidiary arising from the purchase of small amount of the ordinary shares of the subsidiary over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities as from the purchase date is debited to Capital reserves, and to Undistributed profits where the total value of Capital reserves is

insufficient.

2.6.3. Uniform accounting policies

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements; the adjustments are conducted also with reference to the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed from the subsidiary measured in accordance with s14, Ch.3, CAS 20 where the subsidiary is acquired in the course of the combination of businesses not under common control.

2.6.4. Consolidation procedures

Intragroup balances and transactions are eliminated in full in the preparation of consolidated financial statements. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's ownership interests in them. Non-controlling interests are debited by the excess, if any, of the loss attributable to non-controlling shareholders over their share of the net fair value of the subsidiary's identifiable assets and liabilities where they are able and obliged to contribute to the excess; the excess is otherwise attributable to the Company.

2.7. Cash equivalents

Cash equivalents are short-term (usually with a maturity date within three months from the date of acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8. Foreign currency transactions and foreign currency translation

2.8.1. Foreign currency transactions

The Company's foreign currency transactions are recorded, on initial recognition in the reporting (functional) currency, by applying to the foreign currency amount the middle exchange rate quoted by the People's Bank of China (hereafter, the (spot) exchange rate) between the reporting (functional) currency and the foreign currency at the date of the transaction.

Foreign currency monetary items as at the balance sheet date are translated using the balance-sheet-date spot exchange rate; non-monetary items as at the balance sheet date that are measured in terms of historical cost in foreign currencies are translated using the transaction-date exchange rates with no adjustment made to the recorded amounts on initial recognition in the reporting (functional) currency; non-monetary items as at the balance sheet date that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values were determined. Exchange differences arising on translating monetary or non-monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised directly or as fair value adjustments in profit or loss in the period in which they arise except for monetary items that satisfy the criteria for borrowing costs capitalisation.

2.8.2. Foreign currency translation

- ① Assets, liabilities and all Shareholders' equity items as at the balance sheet date except undistributed profits are translated using the balance-sheet-date spot exchange rates.
- ② Income and expenses are translated using the transaction-date exchange rates.

Exchange differences arising from the translation methods specified in paragraph 2.8.2① and ② are separately presented in Shareholders' equity.

③ The cash flows of a foreign subsidiary are translated at the exchange rates at the dates of the cash flows. The effect of exchange rate changes on cash and cash equivalents held or due in foreign currencies is reported in the cash flow statement by presenting separately the amount of the unrealised exchange differences arising from changes in foreign currency exchange rates

2.9. Financial instruments

2.9.1. Categorisation of financial assets and financial liabilities

The Company categorises its financial assets and financial liabilities, with reference to their objectives of investments and economic nature, as financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities.

① Financial assets or financial liabilities at fair value through profit or loss include the financial assets or financial liabilities classified as held for trading and the financial assets or financial liabilities designated by the Company as at fair value through profit or loss on their initial recognition.

A financial asset or financial liability is classified as held for trading if it meets either of the following conditions:

- a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- c. it is a derivative (except for a derivative that is a designated and effective hedging instrument, a financial guarantee contract, or linked to and only settled by delivery of an equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured).

A financial asset or financial liability is designated by the Company as at fair value through profit or loss if it meets either of the following conditions:

- a. the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- b. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with an officially documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel.

② Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, which include principally fixed-rate treasury bonds and floating-rate corporate bonds that the Company has the positive intention and ability to hold to maturity.

③ Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, which include principally accounts receivables arising from sales of products and provisions of services by the Company and other receivables.

④ Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale on their initial recognition or are not categorised as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

⑤ Other financial liabilities are financial liabilities that are not categorised as financial liabilities at fair value through profit or loss.

2.9.2. Measurement of financial assets and financial liabilities

When a financial asset or financial liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability; transaction costs attributable to the acquisition or issue of the financial asset or financial liability at fair value through profit or loss are accounted for through profit or loss for the current period.

The Company subsequently measures financial assets and financial liabilities according to the following procedures:

① Financial assets or financial liabilities are subsequently measured at fair value through profit or loss at their fair value, with gains or losses arising from changes in fair value or de-recognition accounted for through profit or loss for the current period.

② Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from de-recognition, impairment or amortisation accounted for through profit or loss for the current period.

③ Receivables are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from de-recognition, impairment or amortisation accounted for through profit or loss for the current period.

④ Available-for-sale financial assets are subsequently measured at their fair value, with gains or losses arising from changes in fair value recognised in Capital reserves. The difference between the disposal proceeds and carrying value of an available-for-sale financial asset on its disposal is recognised as investment gain or loss, with the cumulative gains or losses recognised in Capital reserves de-recognised from Capital reserves and re-recognised as investment gains or losses. Impairment losses and exchange differences of available-for-sale financial assets, if any, are accounted for through profit or loss for the current period. Interests and dividends arising from the possession of available-for-sale financial assets, if any, are recognised as investment gains.

⑤ Other financial liabilities and a instrument that is linked to and only settled by delivery of an equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently measured at cost.

A financial guarantee contract or a loan that bears an off-market interest rate, which are not designated by the Company as at fair value through profit or loss, are subsequently measured at the higher of:

- a. the value specified by CAS 13 Contingencies; and
- b. the residual value after deducting the cumulative amortisation determined in accordance with CAS 14 Revenue from the value recognised on its initial recognition.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with

gains or losses arising from de-recognition, impairment or amortisation accounted for through profit or loss for the current period.

⑥ Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The parties to an arm's length transaction shall be going concerns, not subject to or intended to enter the procedures of liquidation or significant reduction in operating capacity, or forced to enter the transaction. The fair value of a financial asset or financial liability for which there is an active market shall be measured at the quoted market price in the active market; the fair value of a financial asset or financial liability for which there is not an active market shall be established by the Company using a valuation technique.

The Company measures initially and subsequently the fair value of an interest rate swap at the value of a competitor's interest rate swap quoted by a recognised financial institution as at the Company's balance sheet date in accordance with the principle of consistency.

⑦ The residual cost of a financial asset is the residual value after deducting the sum of impairment losses and the principal amount that has been repaid from the sum of its value measured on its initial recognition and the cumulative amortisation of the difference between its value measured on its initial recognition and its value on its maturity determined using the effective interest method. The residual cost of a financial liability is the residual value after deducting the sum of the principal amount that has been repaid and the cumulative amortisation of the difference between its value measured on its initial recognition and its value on its maturity determined using the effective interest method from its value measured on its initial recognition.

⑧ The effective interest rate method is a valuation method for determining the residual value and interest income or/and expense of a financial instrument (or a group of financial instruments) using the effective interest rate. An effective interest rate is the interest rate used to discount the cash flows of a financial instrument (or a group of financial instruments) over its expected life, or a shorter period if it is relevant, to determine its current carrying value. The effective interest rate applicable to a financial instrument (or a group of financial instruments) shall be determined with reference to its future cash flows estimated by taking into account the whole of its contract terms (including but not limited to early repayment rights, call options and option equivalents, but excluding future credit losses).

2.9.3. Transfer and de-recognition of financial assets

① The Company de-recognises a financial asset if it meets either of the following conditions:

- a. the contractual rights to the cash flows from the financial asset expire;
- b. the financial asset has been transferred and all the risks and rewards of ownership of the financial asset have been substantially transferred to the transferee; or
- c. the financial asset has been transferred and the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset and not retained control of the financial asset.

② Where the transfer of the whole of a financial asset satisfies the conditions for de-recognition set out in paragraph 2.9.3①, the Company recognises through profit or loss for the current period the difference between:

- a. the carrying value of the financial asset; and
- b. the sum of the proceeds from the transfer and the cumulative gains or losses recognised in Shareholders'

equity.

③ Where the transfer of a part of a financial asset satisfies the conditions for de-recognition set out in paragraph 2.9.3①, the fair value of the whole of the financial asset is apportioned accordingly to the transferred part and the part not transferred; and, the Company recognizes through profit or loss for the current period the difference between:

- a. the carrying value of the transferred part of the financial asset; and
- b. the sum of the proceeds from the transfer and the cumulative gains or losses attributable to the transferred part of the financial asset recognised in Shareholders' equity.

④ If a transfer of a financial asset does not satisfy the conditions for de-recognition set out in paragraph 2.9.3①, the Company continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. Where the Company is in continuing involvement in a transferred financial asset, the Company continues to recognise the financial asset to the extent of its continuing involvement, and recognises an associated financial liability.

2.9.4. Impairment assessment and impairment allowance

① The company recognises impairment of a financial asset if either of the following is objectively evidential:

- a. significant financial difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments, by the obligor;
- c. the lender, for economic or legal reasons relating to the obligor's financial difficulty, granting to the obligor a concession that the lender would not otherwise consider;
- d. it becoming probable that the obligor will enter bankruptcy or other financial reorganization;
- e. the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer;
- f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group;
- g. significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the obligor operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- h. a significant or prolonged decline in the fair value of an investment in an equity instrument; or
- i. other events of impairment.

② The Company assesses the occurrence of impairment of different categories of financial assets and recognises and measures impairment on the balance sheet date using different criteria.

- a. If there is objective evidence that an impairment loss on a held-to-maturity investments has been incurred as at the balance sheet date, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows.

b. If there is objective evidence that the fair value of an available-for-sale financial asset has experienced a significant decline and the decline is not temporary after considering all relevant information as at the balance sheet date, impairment loss on the available-for-sale financial asset is recognised and the cumulative loss recognised in Shareholders' equity is reclassified from equity to profit or loss as impairment loss.

2.10. Receivables

2.10.1. Receivables of individual significance

Receivables of individual significance	Individual receivables equal to or higher than 5% of total receivables are classified as receivables of individual significance.
Method of recognition of provision for bad debts for receivables of individual significance	Receivables of individual significance are individually assessed for impairment. If it is objectively evidential that a receivable of individual significance is subject to impairment, the excess of the carrying amount over the net present value of the estimated future cash flows is recognised as impairment loss and a provision for bad debts is recognised at the same amount.

2.10.2. Credit-risk-categorised receivables

Basis for categorisation:

<u>Category</u>	<u>Basis</u>
Categorisation by nature of receivables	Receivables not individually assessed for impairment are categorised on the basis of credit risk. Provision for bad debts for each category of receivables is recognised at the actual rate of loss for the previous year of the same or similar category bearing similar credit risk characteristics after adjustment for the current year circumstances.

Method of recognition of provision for bad debts for categorised receivables:

<u>Category</u>	<u>Method of recognition</u>
-----------------	------------------------------

Categorisation by nature of receivables

Percentage of carrying amount

Categories of receivables subject to provision for bad debts by percentage of carrying amount:

<u>Category</u>	<u>Percentage of carrying</u>	<u>Percentage of carrying</u>
	<u>amount for recognition</u>	<u>amount for recognition</u>
	<u>of provision for bad</u>	<u>of provision for bad</u>
	<u>debts applicable to</u>	<u>debts applicable to other</u>
	<u>accounts receivable</u>	<u>receivables</u>
Categorisation by nature of receivables	5%	5%

2.10.3 . Receivables of individual insignificance subject to individual assessment for impairment

Justification for individual assessment for impairment	If it is objectively evidential that a receivable of individual insignificance bears differing credit risk characteristics to other receivables of individual insignificance, the receivable is subject to individual assessment for impairment.
Method of recognition of provision for bad debts for receivables of individual insignificance subject to individual assessment for impairment	The provision for bad debts for an receivable of individual insignificance subject to individual assessment for impairment is recognised as the excess of the carrying amount over the net present value of the estimated future cash flows; an impairment loss is recognised at the same amount.

2.11. Inventories

2.11.1. Categorisation of inventories

The Company's inventories include materials or supplies to be consumed by the Company in the rendering of services during the Company's ordinary operating activities. The Company categorises its inventories as air materials and low-value consumables.

2.11.2. Cost of inventories

The cost of inventories at their acquisition is measured at their actual cost of purchase. The cost of inventories at their issue is determined using the first-in, first-out (FIFO) cost formula.

2.11.3. Net realisable value and impairment of inventories

① Determination of net realisable value of inventories

The net realisable value of finished goods, products and sellable materials is measured as the residual value after deducting the estimated sales expense and related taxes and fees from the estimated selling price. The net realisable value of an item of inventories subject to further processing is measured as the residual value after deducting the sum of the estimated costs of completion, sales expense and related taxes and fees from the estimated selling price of the sellable item. The net realisable value of the quantity of inventories held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices.

② Impairment of inventories

The Company measures inventories at the lower of historical costs and net realisable values as at the balance sheet date. If the net realisable value is lower than the historical cost of an item of inventories as at the balance sheet date, an impairment allowance is recognised. An impairment allowance, if any, is generally individually recognised for each type of inventories except:

- a. an individual impairment allowance, if any, is recognised for the whole category of inventories of low value and large quantities; and
- b. an individual impairment allowance, if any, is recognised for a group of inventories, which are held for the production and sales of products of a single territory and for identical or similar usages or purposes, and which are indistinguishable from other types of inventories within the group.

When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed and the associated impairment allowance de-recognised and re-recognised through profit or loss for the period in which the reversal occurs.

2.11.4. Stocktaking

The Company adopts the perpetual stocktaking system.

2.11.5. Amortisation of low-value consumables and packaging materials

The Company amortises consumables in full when they are issued for use.

2.12. Long-term equity investments

The Company's long-term equity investments include the Company's equity investments in an investee which constitute the Company's control, joint control or significant influence over the investee and the Company's equity investments in an investee which do not constitute the Company's control, joint control or significant influence over the investee and of which the fair value is not quoted in an active market.

2.12.1. Initial measurement of long-term equity investments

Long-term equity investments are initially measured using the following two methods:

① Initial measurement of long-term equity investments acquired through business combination

- a. The cost of a business under common control acquired by the Company by payment in cash, non-monetary asset transfer, or assuming the acquiree's liabilities is initially measured at the carrying value of the equity instruments acquired as at the acquisition date, with the excess of the (carrying) value of cash paid, assets transferred, or liabilities assumed over the initially measured cost debited to Capital reserves, and to Undistributed profits where the total value of Capital reserves is insufficient. The cost of a business under common control acquired by the Company by share issues is initially measured at the carrying value of the equity instruments acquired as at the acquisition date, with the excess of the total value at par of shares issued over the initially measured cost debited to Capital reserves, and to Undistributed profits where the total value of Capital reserves is insufficient. Expenses incurred directly for the acquisition, including but not limited to audit fees, valuation fees and legal fees, are recognised through profit or loss for the period in which the expenses are incurred.
- b. The cost of a business not under common control acquired by the Company is initially measured at the fair value of assets transferred, liabilities incurred or assumed, or shares issued for the acquisition as at the transaction

date. The excess of the initially measured cost over the net of the carrying values of the identifiable assets acquired and the liabilities assumed as at the acquisition date is recognised as goodwill. The excess of the net of the carrying values of the identifiable assets acquired and the liabilities assumed as at the acquisition date over the initially measured cost is recognised through profit or loss for the current period in Non-operating revenue. Fees paid to advisers including auditors, solicitors, valuers, consultants, etc. and other related administrative expenses are accounted for through profit or loss for the reporting period during which they are incurred; transaction costs incurred by the acquirer directly attributable to the issuance of equity instruments or debt instruments, which are consideration for the acquisition, are capitalised as part of the initial measurement of the relevant equity instruments or debt instruments.

Differing accounting treatments shall be applied to the consolidated financial statements and the acquirer's separate financial statements for a business combination not under common control achieved in stages:

(I) In the acquirer's separate financial statements, the cost of investment of a business combination not under common control achieved in stages is initially measured as the sum of the carrying amount of the investment immediately before the addition investment and the cost of the additional investment; if the carrying amount of the investment immediately before the additional investment includes other comprehensive income, the related other comprehensive income (such as changes in fair value of available-for-sale financial assets accounted for in capital reserves, hereafter the same applied) is transferred to investment income for the reporting period during which the investment is disposed.

(II) In the consolidated financial statements, the carrying amount of the investment immediately before the additional investment is adjusted to the fair value of the existing investment as at the acquisition date of the additional investment and the difference between the carrying amount of the investment immediately before the addition investment and the fair value of the existing investment as at the acquisition date of the additional investment is accounted for in investment income for the reporting period during which the additional investment is acquired; if the carrying amount of the investment immediately before the additional investment includes other comprehensive income, the related other comprehensive income is transferred to investment income for the reporting period during which the additional investment is acquired. The fair value of the existing investment as at the acquisition date of the additional investment and the gain or loss arising from the fair value adjustment are disclosed in the notes to the financial statements.

② Initial measurement of long-term equity investments acquired not through business combination

a. The cost of a long-term equity investment acquired by the Company by payments in cash is initially measured at the sum of the consideration transferred and the fees, taxes and necessary expenses directly attributable to the acquisition, with the value of declared-but-unpaid cash dividends included in the consideration separately recognised as receivables.

b. The cost of a long-term equity investment acquired by the Company by share issues is initially measured at the fair value of shares issued for the acquisition as at the issuance date.

c. The cost of a long-term equity investment acquired by the Company by direct shareholder contribution is initially measured at the value agreed upon the investment contract or agreement, excluding a contract value or agreement value that is inconsistent with the definition of fair value.

d. The cost of a long-term equity investment acquired by the Company by non-monetary asset transfer is initially measured at the sum of the fair values of the assets transferred to the transferee and the taxes directly

attributable to the asset transfer, with the difference between the fair values of the assets transferred to the transferee and their carrying values as at the transaction date recognised through profit or loss for the current period, where the exchange of non-monetary assets for equity instruments is transacted on a commercial basis and the fair values of the assets transferred and equity instruments acquired can be reliably measured; or, at the sum of the carrying values of the assets transferred to the transferee and the taxes directly attributable to the asset transfer, where the exchange of non-monetary assets for equity is not on a commercial basis or the fair values of the assets transferred or equity instruments acquired can not be reliably measured.

e. The cost of a long-term equity investment acquired by the Company through the investee's debt restructuring is initially measured at the fair values of the equity instruments acquired, with the difference between the initially measured cost and the carrying value of the original loans to the investee as at the restructuring date recognised through profit or loss for the current period.

2.12.2. Subsequent measurement and recognition and measurement of gains or losses

Long-term equity investments in subsidiaries are subsequently measured at cost. In preparing consolidated financial statements, the long-term equity investments in subsidiaries are adjusted using the equity method.

Long-term equity investments which do not constitute the Company's joint control or significant influence over the investee, of which the fair value of equity instruments is not quoted in an active market and can not be measured reliably, are subsequently measured at cost.

Long-term equity investments which constitute the Company's joint control or significant influence over the investee are subsequently measured by the equity method.

a. If a long-term equity investment is subsequently measured at cost, further acquisition or disposal of the investment increases or reduces the cost of the investment accordingly; dividends or share of profits, except those included in the consideration which has been declared but not received, are recognised through profit or loss for the current period.

b. If a long-term equity investment is subsequently measured by the equity method, its carrying value is adjusted by the share of the investee's net profit or loss.

Gain or loss for the current period is measured at the share of the net profit or loss of the investee for the current period. When determining the net profit or loss of the investee, where the investee adopts different accounting policies, the net profit or loss reported by the investee is adjusted by the depreciation or amortisation calculated on the basis of the fair value of the investee's fixed assets or intangible assets as at acquisition and the impairment provisions determined on the basis of the fair value of the relevant assets of the investee as at acquisition; transactions between the Company and associates or joint ventures are also eliminated. The losses arising from transactions between the Company and associates or joint ventures are wholly recognised as asset impairment if the losses meet the conditions set by CAS 8 – Asset Impairment.

Losses of a long-term equity investment reduce the carrying value of the investment to zero as the furthest. If the cumulative value of subsequent profits of the investee becomes higher than the cumulative value of unrecognised losses, the excess of the cumulative profits over the cumulative unrecognised losses is recognised in the carrying value of the investment.

Where a long-term equity investment existed prior to the first adoption of CAS, the excess of consideration over acquired net assets of the investee as at the adoption date, if any, is amortised over the remaining life determined

at the acquisition using the straight line method; the amortisation is recognised through profit or loss for the current period.

2.12.3. Joint control and significant influence

① The Company has joint control over an investee if the investment meets one of the following conditions:

- a. neither of the investors can individually influence the operation of the investee;
- b. decisions of the investee's must be approved by the general consensus of the investors; or
- c. an individual investor is authorised by an agreement of contract signed by each investor to manage the investee's operation in accordance with the accounting and operation policies agreed by each investor.

Investors may lose joint controls over an investee where the investee is in the procedures of legal administration or bankruptcy, or where the investee's ability to transfer economic resource to investors is severely limited for a substantial length of time; however, if it is objectively evidential that the joint control exists, the investors shall continue to recognise and measure the investment using the equity method.

② The Company has significant influence over an investee if:

- a. the Company has delegates in the investee's Board of Directors or similar body;
- b. the Company participates in the investee's policy making process, including the policy making process for declaration of dividends;
- c. the Company has significant transactions with the investee;
- d. the Company has delegated personnel to the investee's management; or
- e. the Company has provided key technology to the investee.

2.12.4. Impairment of long-term equity investments

The Company assesses the operation policies, legal environment, market and industry conditions, and profitability each long-term equity investment individually on the balance sheet date to determine whether an investment is subject to impairment. If the net recoverable value of an investment is lower than its carrying value as at the balance sheet date, an impairment provision is recognised at the excess of its carrying value over the net recoverable value as at the balance sheet date. A recognised impairment loss of an investment is not recoverable in subsequent periods.

2.13. Fixed Assets

2.13.1. Recognition

A fixed asset is a tangible asset the Company holds for the purpose of production, service rendering, leasing and operation, of which the useful life is longer than one year and which has a relatively higher value. A fixed asset is measured at the cost of acquisition if it meets both of the following conditions:

- ① it is probable that the economic benefits associated with the asset will flow to the Company; and
- ② the cost of the asset can be measured reliably.

Subsequent expense associated with the asset, which meets the above conditions, is recognised as parts of its cost;

otherwise, through profit or loss for the period in which the expense is accrued.

2.13.2. Depreciation

Fixed assets are depreciated using the straight line method. The useful life, residual value percentage and annual depreciation are listed below.

<u>Types</u>	<u>Residual value percentage(%)</u>	<u>Expected useful life(years)</u>	<u>Annual depreciation rate(%)</u>
Houses and building	5.00	27-33	2.88-3.52
Key components and power supports of aircraft engine	5.00	15-20	4.75-6.33
Replacement parts of aircraft body	0.00	6-8	12.5-16.67
Replacement parts of engine	0.00	3-5	20-33.33
Equipments, electronic devices and furniture	0-5.00	4-10	9.5-23.75
High value rotables	0.00	15-18	5.56-6.67
Transportation vehicles	5.00	5-10	9.5-19.00

2.13.3. Impairment

The Company assesses each non-current asset for impairment on the balance sheet date. If it is objectively evidential that the net recoverable value of a non-current asset is lower than its carrying value as at the balance sheet date, its carrying value is reduced to the net recoverable value and the reduction accounted for through profit for the current period and recognised as impairment provision. A recognised impairment loss of a non-current asset is not recoverable in subsequent periods. A non-current asset is impaired if one of the following is evidential:

- ① its fair value decreased significantly during the current period with a decrease rate significantly higher than the rate estimated on the basis of time or normal usage;
- ② the economic, technological or legal environment, in which the Company operates or in which the asset is located, changed during the current period or is going to change in the near future; and, the change caused or is going to cause significant disadvantage to the Company;
- ③ the rate for discounting future cash flows, which has been affected by the increased interest rate or investment return rate, has led to a significant decrease of the asset's recoverable value;
- ④ the asset is either obsolete or physically damaged;
- ⑤ the asset has been or is going to be retired, terminated for usage or disposed prior to the end of its use life;
- ⑥ the Company recognised internally that the asset's associated economic benefit has been or is going to be below expectation, eg. the net cash flows or net profit or loss significantly lower than the expected value; or
- ⑦ there is other evidence which suggests the asset has been impaired.

2.13.4. Leased fixed assets

If the Company acquired substantially the risks attached to and the economic benefits associated with a leased non-current asset, the asset is recognised. The asset is measured at the lower of the asset's fair value as at the

lease-commence date and the net present value of the minimum lease payment. The depreciation policies for owned non-current assets are applicable to leased non-current assets. The expected useful life of a leased asset, of which the ownership is reasonably transferrable to the Company after the expiry of the lease, is the asset's own expected useful life; the expected useful life of a leased asset, of which the ownership is not reasonably transferrable to the Company, is the shorter of the lease life and the asset's own expected useful life.

2.14. Construction-in-progress

2.14.1. Categorisation

The Company categorises construction-in-progress on the basis of project approval.

2.14.2. Conversion of construction -in-progress to fixed assets

A construction-in-progress is recognised as a fixed asset when it satisfied the predetermined usable state. A converted construction-in-progress is initially measured at its full construction cost. A converted construction-in-progress of which the construction cost is not fully recognised is initially measured at a reasonable estimate; and, the initial measured cost is adjusted to its full construction cost when the construction is fully recognised; but, its recognised depreciation as at the full recognition is not adjusted.

2.14.3. Impairment

The Company assesses each construction-in-progress for impairment on the balance sheet date. If it is objectively evidential that the net recoverable value of a construction-in-progress is lower than its carrying value as at the balance sheet date, its carrying value is reduced to the net recoverable value and the reduction accounted for through profit for the current period and recognised as impairment provision. A recognised impairment loss of a construction-in-progress is not recoverable in subsequent periods. A construction-in-progress is impaired if one or more of the following are evidential:

- ① the project has been suspended for a substantially long period of time and of which the construction is not to be re-activated within three years;
- ② either the capability or the technology of the project is obsolete and the economic benefit associated with the project is highly indeterminable; or
- ③ there is other evidence which suggests the project has been impaired.

2.15. Borrowing costs

2.15.1. Capitalisation of borrowing costs

The borrowing costs directly attributable to asset construction or production are capitalised into cost of asset when they meet the following conditions:

- ① the asset construction or production expense has been incurred;
- ② the borrowing costs have been incurred; and
- ③ the construction or production which directly contributes to the usable state of the asset has been activated.

Other borrowing costs, discounts, premiums and exchange differences are accounted for through profit or loss of the period in which they are incurred.

If the construction or production of an asset eligible for capitalisation has suspended not in accordance with schedule, where the suspension has lasted continuously for a period longer than three months, the capitalisation of relevant borrowing costs is suspended.

The capitalisation of relevant borrowing costs is terminated when a constructed or produced asset reaches its usable or sellable state. Any subsequent borrowing cost associated with the asset is accounted for through profit or loss for the period in which it is incurred.

2.15.2. Measurement of capitalised borrowing costs

The capitalised borrowing costs of a finance specifically raised for an asset construction or production are measured at the excess of the borrowing costs over the interests arising from the deposit of the unused part of the finance or the gains arising from the investment using the unused part of the finance for the relevant period.

Where the value of an asset construction or product is higher than the finance specifically raised for the construction or production, the capitalised borrowing costs of the part of general finance used by the construction or production are measured by multiplying the weighted average of the excess of the asset value over the specific-raised finance with the capitalisation rate of general finance.

2.16. Intangible assets

2.16.1. Measurement

Intangible assets are initially measured at actual cost.

2.16.2. Useful life and amortization

The period during which an intangible asset is reasonably capable of generating economic benefits for the Company with reference to its contractual rights and other legal rights, industry practice, historical experience, and professional evidence is determined as the asset's useful life. If a period during which an intangible asset is reasonably capable of generating economic benefits for the Company is not determinable, the asset is categorised as with undeterminable useful life.

① The useful life of an intangible asset with useful life is determined on the basis of:

- a. the general useful life of products produced by the asset and the obtainable information in relation to the useful life of a similar asset;
- b. the current condition and estimated future trends of technology and techniques;
- c. the market demand for products produced or service rendered by the asset;
- d. the expected reaction of existing and potential competitors;
- e. the estimated maintenance expense for the continuance of the asset's ability in generating economic benefits and the Company's estimated ability in maintaining the expense;
- f. the relevant law and regulation which regulate the ownership period of the asset, eg. chartered usage rights and lease rights; and
- g. the connection between the useful life of the asset and the useful life of the Company's other assets.

② An intangible asset with undeterminable useful life is amortised using a reasonable method determined by

the realisation process of the asset's expected economic benefit. Where a reasonable amortisation method is undeterminable, the asset is amortised using the straight line method.

2.16.3. Impairment of intangible assets with undeterminable useful life

① The Company assesses the useful life of each intangible asset with undeterminable useful life on the balance sheet date. If the useful life of an asset remains undeterminable, the asset is assessed for impairment on the balance sheet date. If it is objectively evidential that the net recoverable value of an intangible asset with undeterminable useful life is lower than its carrying value as at the balance sheet date, its carrying value is reduced to the net recoverable value and the reduction accounted for through profit for the current period and recognised as impairment provision. A recognised impairment loss of an intangible asset with undeterminable useful life is not recoverable in subsequent periods. An intangible asset with undeterminable useful life is assessed for impairment if one or more of the following are evidential:

- a. the asset has been replaced by another new technology which renders its ability to generate economic benefit for the Company being significantly devastated;
- b. the asset's fair value has decreased significantly during the period and it may not increase during the remaining life of the asset; or
- c. there is there is other evidence which suggests the asset has been impaired.

2.16.4. Research and development

Research expenses associated with an internal development project are accounted for through profit or loss for the period in which they are incurred. Development expenses associated with an internal development project are recognised as intangible assets if the project meets all of the following:

assets arising from the project are either for sale or for internal use and it is technically viable to complete the project;

- ② the Company has clear intention to complete the intangible asset and to use or sell the asset;
- ③ it is objectively evidential that products produced by the intangible or the intangible asset itself are marketable or that the intangible asset is employable if used internally;
- ④ it is practical, in terms of technology, finance and other resources, to complete the development of the intangible asset and to use or sell the intangible asset; and
- ⑤ development expenses of the development of the intangible asset can be measured reliably.

2.17. Regular repair and substantial repair

Regular repair expenditure of own aircrafts and aircrafts acquired under a financial lease is accounted for through profit or loss for the period in which it is incurred. Substantial repair expenditure eligible for capitalisation is capitalised when incurred and recognised as replacement cost of non-current assets and depreciated over a reasonable length of time. Substantial repair expenditure of aircrafts under an operating lease incurred before the lease expiry date is amortised using the straight line method or on the basis of air hours over the lease period.

2.18. Long-term deferred expenses

The Company's long-term deferred expenses refer to expense which has been incurred but which generates

economic benefit for the Company for a period of longer than one year, such as expenses for pilots' initial trainings. Those expenses are amortized at 10 years according to their benefit period respectively. When a pilot is transferred from the Company, the cost of transfer is the unamortized part of the original expenditure.

2.19. Accrued liabilities

2.19.1. Recognition of accrued liabilities

The obligations related to some items that meet the following conditions at the same time will be confirmed as the liabilities:

- ① This obligation is the current obligation of the company;
- ② The performance of this obligation will probably cause the economic benefits to flow out of the company;
- ③ The amount of this obligation can be reliably calculated.

The Company should recognize accrued liabilities, when the Company's loss contract and restructuring liabilities undertaken satisfied above conditions.

2.19.2. The measurement of accrued liabilities

The accrued liabilities are initially measured in accordance with the best estimated outflow of economic benefits to fulfill the current obligation as well as related risks regarding the contingencies, uncertainties and time value of money. Significant impact on the time value of money the best estimation is determined through the related discounted future cash outflows. The increase of book value of accrued liability caused due to the passage of time is recognized as interest.

2.19.3. Optimum evaluation of accrued liabilities

If the necessary payments have scopes, the optimum evaluation shall be determined based on the average amount between the upper and lower limit amount of scope ; if the necessary payments do not have such scopes, the optimum evaluation shall be determined in the following method:

- ① If the contingent event is involved in an individual project, the optimum evaluation amount will be determined based on the possible amount;
- ② If the contingent event is involved in some projects, the optimum evaluation amount shall be determined based on possible amount and occurrence probability. In case of all or part of payments about the confirmed liquidation liabilities are expected to be compensated by the third parties or other parties, and the compensation amounts are surely received, then such amounts shall be separately recognized. The confirmed compensation amounts shall not exceed book values of confirmed liabilities

2.20. Revenue

2.20.1. Service rendering

- ① The Company recognise revenue from rendering of air service for carriage of passengers when the service is rendered or when an unused ticket expires. The sale of a ticket does not constitute revenue. An unused ticket expires on the annual anniversary of its sale. Tickets sold but of which the service is not yet rendered are recognised in current liabilities as Advances from customers. If service is rendered through code sharing, revenue arising from the service provision is apportioned amongst parties to the code sharing agreement. The revenue

arising from code sharing is also recognised when the service is rendered.

② If the service is rendered in conjunction with reward points, the amount arising from ticket sales and of receivables shall be apportioned between revenue and reward points. The amount apportioned to reward points is initially recognised as deferred income and subsequently accounted for through profit or loss for the period in which the reward points expire or are exchanged.

Revenue arising from other air service rendering is recognised when the service rendering is completed.

2.20.2. Transfer of asset use rights

Revenue is recognised when the inflow of the economic benefit associated with the transfer is probable and when the amount of the inflow can be measured reliably. Revenue arising from transfer of asset use rights is recognised according to the income category:

- ① interest income is recognised on the basis of the length of time for which the Company's monetary asset is used by other parties using the effective interest rates;
- ② use right income is recognised in accordance with the payment schedules and means agreed in the relevant contracts or agreements.

2.21. Government grants

2.21.1. Recognition

- ① The Company meets the conditions attached to the grant; and
- ② The Company is probable to receive the grant.

2.21.2. Types of government grants and accounting for government grants

- ① A grant associated with an asset is recognised as deferred income when the grant is received. The grant is subsequently averaged over the useful life of the asset and the average is accounted for through profit or loss for subsequent periods during the asset's useful life after the asset reaches its usable state. If the asset is disposed, transferred, scrapped or damaged prior to the end of its useful life, the whole of the remaining deferred income is accounted for through profit or loss for the period in which the asset is disposed, transferred, scrapped or damaged.
- ② A grant compensating expenditure or loss in subsequent periods is initially recognised as deferred income and subsequently accounted for through profit or loss for the period in which the relevant expenditure or loss is incurred. A grant compensating expenditure or loss already incurred is accounted for through profit or loss for the period in which the grant is received.

2.21.3. Measurement

A grant that is in the form of monetary asset is measured at the amount of actual receipt or actual receivable. A grant that is in the form of non-monetary asset is measured at fair value or at notional value if fair value can not be obtained.

2.21.4. Repayment of government grants

- ① If there is deferred income associated with the grant, the carrying value of the deferred income is reduced by the repayment. The excess of the repayment over the carrying value of the deferred income is accounted for

through profit or loss for the period in which the repayment is incurred.

- ② If there is not deferred income associated with the grant, the repayment is accounted for through profit or loss for the period in which the repayment is incurred.

2.22. Deferred income tax assets and deferred income tax liabilities

The Company accounts for income taxes by the balance sheet approach.

The Company calculates the value of a deferred income tax asset or deferred income tax liability on the basis of the difference between the carrying value of an asset or liability and its tax base and the income tax rates applicable to the period through which the asset or liability is recovered or settled.

2.22.1. Recognition of deferred income tax assets

- ① A deferred income tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that:

- a. is not a business combination; and
- b. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

- ② A deferred income tax asset is recognised for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:

- a. the temporary difference will reverse in the foreseeable future; and
- b. taxable profit will be available against which the temporary difference can be utilised.

- ③ A deferred income tax asset is recognised for all tax losses and tax credits eligible for being carried forward to the extent that it is probable that taxable profit will be available against which the tax losses and tax credits can be utilised.

2.22.2. Recognition of deferred income tax liabilities

A deferred income tax liability is recognised for all taxable temporary differences, except to the extent that the deferred income tax liability arises from:

- ① the initial recognition of goodwill; or
- ② the initial recognition of an asset or liability in a transaction which:

- a. is not a business combination; and
- b. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

- ③ A deferred income tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- a. the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- b. it is probable that the temporary difference will not reverse in the foreseeable future.

2.22.3. The carrying value of a deferred income tax asset is assessed on the balance sheet date. It is probable that there is not enough taxable profit in the future against which the deferred income tax asset can be utilised, the carrying value of the deferred income tax asset is written off; when it becomes probable again that there is enough taxable profit in the future against which the deferred income tax asset can be utilised, the write-off is reversed.

2.23. Financial leases and operating leases

2.23.1. Operating leases

① When the Company is the lessee to a operating lease, the total lease expenditure is apportioned over the lease life using the straight line method or on the basis of the leased asset usage. The apportioned amount is recognised through profit or loss for the relevant period. Initial expenditure directly attributable to the acquisition of the lease is recognised in administrative expenses for the period in which the expenditure is incurred or recognised through profit of loss for the period in which the first lease payment is incurred. If a rent holiday is offered by the lessor, the total expenditure is apportioned over the whole life of the lease using the straight line method or on a reasonable basis; the lease expense during the rent holiday is accounted for through profit or loss for the relevant period and recognised as a liability on the balance sheet. If a part of the total lease expenditure is compensated by the lessor, the residual amount after deducting the compensation from the total lease expenditure is apportioned over the lease life.

② When the Company is the lessor to a operating lease, the total lease revenue is apportioned over the lease life. The apportioned amount is recognised through profit or loss for each year of the lease life. Initial expenditure directly attributable to the grant of the lease is recognised through profit or loss for the period in which it is incurred. If the initial expenditure is of significant value, it is capitalised and apportioned over the lease life using the same method adopted for the apportionment of lease revenue; the apportioned amount is recognised through profit or loss for each year of the lease life. The initial expenditure of significant value is recognised in full through profit or loss for the period in which the first lease income is accrued if the recognition is so provided by an agreement. If a rent holiday is offered, the total lease revenue is apportioned over the whole life of the lease using the straight line method or on a reasonable basis. The apportioned amount is recognised as lease income for each year of the lease life, including the years within the rent holiday. If a part the total lease expenditure is compensated by the lessor, the residual amount after deducting the compensation from the total lease revenue is apportioned over the lease life.

2.23.2. Financial leases

① When the Company is the lessee to a financial lease, the Company recognises on the lease start date the leased asset at the lower of its fair value as at the lease start date and the minimum total lease payments; the minimum total lease payments is recognised as long-term payables; and, the excess of the minimum total lease payments over the leased asset's fair value as at the lease start date is accounted for as unrecognised financing cost and amortised over the life of the lease using the effective interest rate method with the amortised amount recognised in financial costs for the relevant period. Initial expenditure directly attributable to the acquisition of the lease is recognised as a part of the leased asset's carrying value.

The depreciation policies for owned depreciable assets are applicable to an asset leased under a financial lease. The expected useful life of a leased asset, of which the ownership is reasonably transferrable to the Company after the expiry of the lease, is the asset's own expected useful life; the expected useful life of a leased asset, of which the ownership is not reasonably transferrable to the Company, is the shorter of the lease life and the asset's own expected useful life.

② When the Company the lessor to a financial lease, the Company recognises on the lease start date the sum of initial expenditure directly attributable to the grant of the lease and the minimum total lease revenue as long-term receivables; and, the unguaranteed residual value is recorded. The excess of the sum of the minimum total lease revenue, initial expenditure directly attributable to the grant of the lease and unguaranteed residual value over the leased asset's fair value as at the least start date is accounted for as unrealised financing income and amortised over the lease life using the effective interest rate method with the amortised amount recognised as rental income for the relevant period.

2.24. Significant changes of accounting policies and accounting estimates

There is no significant change of accounting policies and accounting estimates for the Company during the reporting period.

Note 3. Taxation

3.1. Major taxes and tax rates

The major taxes and tax rates applicable to the Company are listed below:

<u>Tax</u>	<u>Tax base</u>	<u>Tax rate</u>
Operating tax	Revenue from air service for carriage of goods and passengers and from commission or rental service	3%, 5%
Enterprise income tax	Taxable profit	25%

Other taxes applicable to the Company are calculated in accordance with the relevant law and regulation.

3.2. Infrastructure fund for civil aviation

Infrastructure fund for civil aviation is calculated in accordance with the guidance set out in CaiZong[2004] No.38 (财政部 关于印发民航基础设施建设基金征收使用管理暂行办法) issued by the Ministry of Finance. CaiZong[2004] No.38 provides that infrastructure fund and civil aviation shall be calculated using the rates set out within applicable to the relevant category of flight routes, maximum departure weight and flight distance adopted by the civil aviation industry.

3.3. Tax incentives

3.3.1. Revenue earned by domestic individuals and incorporation domiciled in the PRC for the provision of international transportation services is exempted for operating tax purposes as from January 1st, 2010 as provided by Caishui[2010]No.8 (财政部国家税务总局关于国际运输劳务免征营业税的通知)

3.3.2. As provided by CaiShui[2011]No.48 (财税[2011]48 号《关于跨境设备租赁合同继续实行过渡性营业税免税政策的通知》) jointly issued by the Ministry of Finance and the State Administration of Taxation on June 30th, 2011 and approved by the State Council, the transitional operating tax exemption applicable to revenue received by overseas lessor(s) to lease contracts (applicable to both financing lease and operating lease) of machinery and equipment import leasing involving domestic lessee(s) and overseas lessor(s) entered into prior to and remaining in force as at December 31st, 2008 continues to apply from January 1st, 2010 to the expiry date of the relevant contract. Operating tax over-payment in relation to the subject of the operating tax exemption paid by either the tax payer or the withholding agent during the period from January 1st, 2010 to the issue date of

CaiShui[2011]No.48 (here after, the OTO) shall be utilised against the operating tax payable by the tax payer or the withholding agent calculated from the issue date of CaiShui[2011]No.48. The OTO remaining utilised as at December 31st, 2011 shall become repayable to the tax payer or the withholding agent.

Note 4. Business combination and consolidated financial statements

4.1. Subsidiaries acquired through incorporation or investment

<u>Name of subsidiary</u>	<u>Type of subsidiary</u>	<u>Place of registration</u>	<u>Nature of business</u>	<u>Registered capital</u>	<u>Business scope</u>
Qingdao International Air Logistics Centre Co., Ltd (hereafter, Qingdao Logistics)	Holding subsidiary	Shandong Qingdao	Transportation warehousing	CNY 30,000,000.00	Warehousing and distribution of air cargo, E-commerce, etc

(Continued)

<u>Name of subsidiary</u>	<u>Actual investment value as at December 31, 2011</u>	<u>Ending balances of projects constituting net investment in the subsidiary</u>	<u>Shareholding proportion (%)</u>	<u>Voting right (%)</u>
Qingdao Logistics	48,323,205.97	0.00	100.00	100.00

(Continued)

<u>Name of subsidiary</u>	<u>Financial statement consolidation</u>	<u>Minority interest</u>	<u>Value of minority interest that utilized to write off the profits or losses attributed to minority shareholders</u>	<u>The balance of parent company's equity, that is equal to the parent shareholders' equity less the subsidiary's current loss undertaken by the minority shareholders according to their share quotient at the beginning of the period</u>
Qingdao Logistics	Yes	0.00	0.00	0.00

4.2. Subsidiaries acquired through business combination not under common control

<u>Name of subsidiary</u>	<u>Type of subsidiary</u>	<u>Place of registration</u>	<u>Nature of business</u>	<u>Registered capital</u>	<u>Business scope</u>
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd (hereafter, Qingdao Feisheng)	Wholly-owned subsidiary	Shandong Qingdao	Pilot training	CNY 51,545,500.00	Development and application of civil aviation technology; pilot training and related activities and consultancy

(Continued)

<u>Name of subsidiary</u>	<u>Actual investment value as at December 31, 2011</u>	<u>Ending balances of projects constituting net investment</u>	<u>Shareholding proportion (%)</u>	<u>Voting right (%)</u>
---------------------------	--	--	------------------------------------	-------------------------

		<u>in the subsidiary</u>		
Qingdao Feisheng	57,677,479.46	0.00	100.00	100.00
(Continued)				
<u>Name of subsidiary</u>	<u>Financial statement consolidation</u>	<u>Minority interest</u>	<u>The balance of parent company's equity, that is equal to the parent shareholders' equity less the subsidiary's current loss undertaken by the minority shareholders according to their share quotient at the beginning of the period</u>	
			<u>Value of minority interest that utilized to write off the profits or losses attributed to minority shareholders</u>	
Qingdao Feisheng	Yes	0.00	0.00	0.00

4.3. Change of the scope of consolidation

The scope of consolidation for the year ended December 31st, 2011 remained unchanged from the scope of consolidation as at December 31st, 2010.

Note 5. Main elements of the consolidated financial statements

5.1. Monetary funds

		<u>2011.12.31</u>			<u>2010.12.31</u>	
	<u>Original</u>	<u>Exchange</u>	<u>Presentation</u>	<u>Original</u>	<u>Exchange</u>	<u>Presentation</u>
	<u>currency</u>	<u>rate</u>	<u>currency</u>	<u>currency</u>	<u>rate</u>	<u>currency</u>
Cash in hand						
CNY	444,053.27	1.000000	444,053.27	351,682.13	1.000000	351,682.13
HKD	106.60	0.810700	86.42	4,386.60	0.850930	3,732.69
USD	1,534.07	6.300900	9,666.02	21,819.25	6.622700	144,502.35
GBP	58.55	9.711600	568.61	1,377.70	10.218200	14,077.61
CAD	10.00	6.177700	61.78	10.00	6.603100	66.03
JPY	130,000.00	0.081100	10,543.00	582,000.00	0.081260	47,293.32
EUR	0.00	8.162500	0.00	514.00	8.806500	4,526.54
TWD	29.00	0.208355	6.04	1,680.00	0.226180	379.98
Subtotal			<u>464,985.14</u>			<u>566,260.65</u>
Demand deposit						
CNY	236,879,354.17	1.000000	236,879,354.17	143,126,509.59	1.000000	143,126,509.59
USD	315,249.24	6.300900	1,986,353.94	627,267.34	6.622700	4,154,203.41
KRW	10,003,126.00	0.005476	54,777.12	40,902,359.18	0.005823	238,174.43
TWD	3,840,930.00	0.208355	800,277.11	1,038,562.00	0.226180	234,901.82
JPY	0.00	0.081100	0.00	3,522,454.00	0.081260	286,234.61

	<u>Original</u>	<u>2011.12.31</u>	<u>Presentation</u>	<u>Original</u>	<u>2010.12.31</u>	<u>Presentation</u>
	<u>currency</u>	<u>Exchange</u>	<u>currency</u>	<u>currency</u>	<u>Exchange</u>	<u>currency</u>
		<u>rate</u>			<u>rate</u>	
Subtotal			<u>239,720,762.34</u>			<u>148,040,023.86</u>
Other monetary funds						
CNY	8,000,000.00	1.000000	8,000,000.00	184,966,363.25	1.000000	184,966,363.25
Subtotal			<u>8,000,000.00</u>			<u>184,966,363.25</u>
Total			<u>248,185,747.48</u>			<u>333,572,647.76</u>

5.1.1. Restricted other monetary funds amounting to 8 million as at December 31st, 2011 included security deposit amounting to 7.5 million for banker's acceptance.

5.2. Financial assets held for trading

	<u>Fair value as at 2011.12.31</u>	<u>Fair value as at 2010.12.31</u>
Interest rate swaps	<u>0.00</u>	<u>9,290,846.62</u>
Total	<u>0.00</u>	<u>9,290,846.62</u>

5.2.1. The balance of financial assets held for trading as at December 31st, 2011 decreased for 100.00% from that as at December 31st, 2010, mainly due to decrease in fair value of financial assets held for trading held by the Company.

5.3. Accounts receivable

5.3.1. Disclosure by classification

<u>Classification</u>	<u>2011.12.31</u>		<u>Provision for bad debts</u>	
	<u>Book value</u>		<u>Amount</u>	<u>Proportion(%)</u>
	<u>Amount</u>	<u>Proportion(%)</u>		
Accounts receivable of individual significance	133,831,501.87	70.68	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	54,598,614.70	28.84	2,729,930.73	5.00
Subtotal of category	54,598,614.70	28.84	2,729,930.73	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>916,508.05</u>	<u>0.48</u>	<u>916,508.05</u>	<u>100.00</u>
Total	<u>189,346,624.62</u>	<u>100.00</u>	<u>3,646,438.78</u>	<u>1.93</u>

(continued)

<u>Classification</u>	<u>2010.12.31</u>		<u>Provision for bad debts</u>	
	<u>Book value</u>		<u>Amount</u>	<u>Proportion(%)</u>
	<u>Amount</u>	<u>Proportion(%)</u>		
Accounts receivable of individual significance	159,361,519.11	81.68	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	34,824,626.72	17.85	1,741,231.34	5.00
Subtotal of category	34,824,626.72	17.85	1,741,231.34	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>916,508.05</u>	<u>0.47</u>	<u>916,508.05</u>	<u>100.00</u>
Total	<u>195,102,653.88</u>	<u>100.00</u>	<u>2,657,739.39</u>	<u>1.36</u>

① Classification of accounts receivable: See Note 2.10 for criteria for classification of accounts receivable of individual significance, categorised accounts receivable and accounts receivable of individual insignificance subject to individual assessment for impairment.

② Categories of accounts receivable subject to provision for bad debts by percentage of carrying amount

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
Categorisation by nature of receivables	<u>54,598,614.70</u>	<u>5.00</u>	<u>2,729,930.73</u>
Total	<u>54,598,614.70</u>	<u>5.00</u>	<u>2,729,930.73</u>

5.3.2. Accounts receivable of individual significance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Air China	54,247,936.00	0.00	0.00	Individually assessed as non-impaired
BSP	49,694,136.64	0.00	0.00	Individually assessed as non-impaired

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
CAAC Settlement Centre	<u>29,889,429.23</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as non-impaired
Total	<u>133,831,501.87</u>	<u>0.00</u>	<u>0.00</u>	

5.3.3. Accounts receivable of individual significance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
CR Airways	<u>916,508.05</u>	<u>916,508.05</u>	<u>100.00</u>	Individually assessed as uncollectable
Total	<u>916,508.05</u>	<u>916,508.05</u>	<u>100.00</u>	

5.3.4. Accounts receivables owed by shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Provision for bad debts</u>
Air China	<u>54,247,936.00</u>	<u>0.00</u>	<u>66,366,844.88</u>	<u>0.00</u>
Total	<u>54,247,936.00</u>	<u>0.00</u>	<u>66,366,844.88</u>	<u>0.00</u>

5.3.5. Top five accounts receivable

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Age</u>	<u>% of total accounts receivable</u>
Air China	Related party	54,247,936.00	Within 1 year	28.65
BSP	Non-related party	49,694,136.64	Within 1 year	26.24
CAAC Settlement Centre	Non-related party	29,889,429.23	Within 1 year	15.79
China Post, Jinan	Non-related party	4,380,569.48	Within 1 year	2.31
Air China Cargo Co., Ltd.	Related party	<u>3,762,274.92</u>	Within 1 year	<u>1.99</u>
Total		<u>141,974,346.27</u>		<u>74.98</u>

5.3.6. Accounts receivables owed by related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>% of total accounts receivable</u>
Air China	Principal investor of the Company	54,247,936.00	28.65
Shenzhen Airlines Co., Ltd.	Controlled by principal investors of the Company	1,849,400.00	0.97
Air China Cargo Co., Ltd.	Controlled by principal investors of the Company	<u>3,762,274.92</u>	<u>1.99</u>
Total		<u>59,859,610.92</u>	<u>31.61</u>

5.4. Advances to suppliers

5.4.1. Disclosure by age

<u>Age</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Within 1 year	40,518,175.85	97.99	27,837,071.95	98.18
1 to 2 years	343,276.80	0.83	479,793.30	1.69
2 to 3 years	476,994.00	1.15	27,706.35	0.10
3 to 4 years	<u>10,000.00</u>	<u>0.03</u>	<u>8,884.20</u>	<u>0.03</u>

<u>Age</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Total	<u>41,348,446.65</u>	<u>100.00</u>	<u>28,353,455.80</u>	<u>100.00</u>

5.4.2. Top five advances to suppliers

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Age</u>	<u>Reason for unsettlement</u>
RBS AEROSPACE LTD	Non-related party	8,261,354.97	Within 1 year	Prepayment for aircraft rental
Shandong XiangYu Air Technology Co., Ltd.	Related party	4,511,590.60	Within 1 year	Prepayment for purchase
Inishcrean Leasing Limited	Non-related party	4,411,120.00	Within 1 year	Prepayment for aircraft rental
ACG ACQUISITION IRELAND III LIMITED	Non-related party	3,864,970.30	Within 1 year	Prepayment for aircraft rental
AerDragon Aviation Partners Limited	Non-related party	<u>2,773,022.14</u>	Within 1 year	Prepayment for aircraft rental
Total		<u>23,822,058.01</u>		

5.4.3. No advance to supplier was paid to shareholders who own 5% or more voting rights as at December 31st, 2011.

5.4.4. Advances to suppliers paid to related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>% of total accounts receivables</u>
Shandong XiangYu Air Technology Co., Ltd.	Controlled by principal investors of the Company	<u>4,511,590.60</u>	<u>10.91</u>
Total		<u>4,511,590.60</u>	<u>10.91</u>

5.4.5. The balance of advances to suppliers as at December 31st, 2011 increased for 45.83% from that as at December 31st, 2010, mainly due to increased prepayment for aircraft rental resulted from the increased number of leased aircraft.

5.5. Interests receivable

<u>Item</u>	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
Interests on bank deposits	<u>1,409,528.13</u>	<u>0.00</u>	<u>1,409,528.13</u>	<u>0.00</u>
Total	<u>1,409,528.13</u>	<u>0.00</u>	<u>1,409,528.13</u>	<u>0.00</u>

5.5.1. The balance of interests receivable as at December 31st, 2011 decreased for 100.00% from that as at December 31st, 2010, mainly due receipt of interest during the current reporting period.

5.6. Other receivables

5.6.1. Disclosure by classification

<u>Classification</u>	<u>2011.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Other receivables of individual significance	168,048,800.93	55.87	109,051,717.65	64.89
Categorised other receivables:				
Categorisation by nature of receivables	51,848,032.27	17.23	2,592,401.60	5.00
Subtotal of category	51,848,032.27	17.23	2,592,401.60	5.00

<u>Classification</u>	<u>2011.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Other receivables of individual insignificance subject to individual assessment for impairment	<u>80,903,554.97</u>	<u>26.90</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>300,800,388.17</u>	<u>100.00</u>	<u>111,644,119.25</u>	<u>37.12</u>

(continued)

<u>Classification</u>	<u>2010.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Other receivables of individual significance	228,578,538.56	68.01	109,051,717.65	47.71
Categorised other receivables:				
Categorisation by nature of receivables	42,550,559.86	12.66	2,127,527.99	5.00
Subtotal of category	42,550,559.86	12.66	2,127,527.99	5.00
Other receivables of individual insignificance subject to individual assessment for impairment	<u>64,955,587.90</u>	<u>19.33</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>336,084,686.32</u>	<u>100.00</u>	<u>111,179,245.64</u>	<u>33.08</u>

① Classification of other receivables: See Note 2.10 for criteria for classification of other receivables of individual significance, categorised other receivables and other receivables of individual insignificance subject to individual assessment for impairment.

② Categories of other receivables subject to provision for bad debts by percentage of carrying amount

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
Categorisation by nature of receivables	<u>51,848,032.27</u>	<u>5.00</u>	<u>2,592,401.60</u>
Total	<u>51,848,032.27</u>	<u>5.00</u>	<u>2,592,401.60</u>

5.6.2. Other receivables of individual significance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Shandong Rainbow Commercial Jet Co., Ltd.	109,051,717.65	109,051,717.65	100.00	Individually assessed as uncollectable
CBD-leasing Co., Ltd.	41,354,563.28	0.00	0.00	Individually assessed as non-impaired
Singapore Aircraft Leasing Enterprise	<u>17,642,520.00</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as non-impaired
Total	<u>168,048,800.93</u>	<u>109,051,717.65</u>	<u>64.89</u>	

5.6.3. Other receivables of individual insignificance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Air China	13,859,769.26	0.00	0.00	Individually assessed as non-impaired
Beijing FuLaiTe Technology	12,658,829.43	0.00	0.00	Individually assessed as

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Development Co., Ltd.				non-impaired
Aviation Capital Group Corporation	11,426,518.83	0.00	0.00	Individually assessed as non-impaired
Babcock & Brown Aircraft Management LLC	9,325,332.00	0.00	0.00	Individually assessed as non-impaired
Rainier Aircraft Leasing(Ireland) Limited	8,411,701.50	0.00	0.00	Individually assessed as non-impaired
KuaiQian Telephone Payment	7,681,177.00	0.00	0.00	Individually assessed as non-impaired
Aerdragon Aviation Partners Limited	4,322,417.40	0.00	0.00	Individually assessed as non-impaired
Rainier Aircraft Leasing(Ireland) Limited	4,245,297.00	0.00	0.00	Individually assessed as non-impaired
Pacific Brihar Corporation Limited	3,326,875.20	0.00	0.00	Individually assessed as non-impaired
China Merchants Bank Phone Payment	2,094,297.00	0.00	0.00	Individually assessed as non-impaired
HuiFuTianXia Phone Payment	1,273,565.00	0.00	0.00	Individually assessed as non-impaired
Shannon Engine Support LTD	787,612.50	0.00	0.00	Individually assessed as non-impaired
GSI Engine Beta Limited Partnership	689,948.55	0.00	0.00	Individually assessed as non-impaired
MTU Maintenance Berlin-Brandenburg GmbH	630,090.00	0.00	0.00	Individually assessed as non-impaired
WEST ENGINE FUNDING LLC	<u>170,124.30</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as non-impaired
Total	<u>80,903,554.97</u>	<u>0.00</u>	<u>0.00</u>	

5.6.4. Other receivables owed by shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Provision for bad debts</u>
Air China	<u>13,859,769.26</u>	<u>0.00</u>	<u>40,503,711.76</u>	<u>0.00</u>
Total	<u>13,859,769.26</u>	<u>0.00</u>	<u>40,503,711.76</u>	<u>0.00</u>

5.6.5. Top five other receivables

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Age</u>	<u>% of total other receivables</u>
Shandong Rainbow Commercial Jet Co., Ltd.	Related party	109,051,717.65	4 to 8 years	36.25

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Age</u>	<u>% of total other receivables</u>
CBD-leasing Co., Ltd.	Non-related party	41,354,563.28	Over 5 years	13.75
Singapore Aircraft Leasing Enterprise	Non-related party	17,642,520.00	Over 4 years	5.87
Rockwell Collins	Non-related party	14,368,919.81	Within 1 year	4.77
Air China	Related party	<u>13,859,769.26</u>	Within 1 year	<u>4.61</u>
Total		<u>196,277,490.00</u>		<u>65.25</u>

5.6.6. Other receivables owed by related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>% of total other receivables</u>
Air China	Principal investor of the Company	13,859,769.26	4.61
Shandong Rainbow Commercial Jet Co., Ltd.	Associate	<u>109,051,717.65</u>	<u>36.25</u>
Total		<u>122,911,486.91</u>	<u>40.86</u>

5.7. Inventories

5.7.1. Disclosure by classification

<u>Classification</u>	<u>2011.12.31</u>			<u>2010.12.31</u>		
	<u>Book value</u>	<u>Impairment provision</u>	<u>Carrying amount</u>	<u>Book value</u>	<u>Impairment provision</u>	<u>Carrying amount</u>
Consumable air equipments	111,200,001.62	0.00	111,200,001.62	73,805,475.19	0.00	73,805,475.19
Low-value consumables	4,283,702.66	0.00	4,283,702.66	3,066,637.08	0.00	3,066,637.08
Materials	<u>787,075.91</u>	<u>0.00</u>	<u>787,075.91</u>	<u>915,137.19</u>	<u>0.00</u>	<u>915,137.19</u>
Total	<u>116,270,780.19</u>	<u>0.00</u>	<u>116,270,780.19</u>	<u>77,787,249.46</u>	<u>0.00</u>	<u>77,787,249.46</u>

5.7.2. The balance of inventories as at December 31st, 2011 increased for 49.47% from that as at December 31st, 2010, mainly due to fleet expansion and airborne materials purchased for aircraft redelivery inspection and aircraft 6C inspection.

5.8. Investment in associate

<u>Investee</u>	<u>Type of incorporation</u>	<u>Place of registration</u>	<u>Legal representative</u>	<u>Scope of business</u>	<u>Registered capital</u>	<u>Shareholding (%)</u>	<u>Voting right (%)</u>
Shandong Rainbow Commercial Jet Co., Ltd.	Limited liability company	Jinan, Shandong	ZHAO, Hong	Air transportation	50 million	45.00	45.00

(continued)

<u>Investee</u>	<u>Total assets as at 2011.12.31</u>	<u>Total liabilities as at 2011.12.31</u>	<u>Net Assets as at 2011.12.31</u>	<u>Total revenue for the year</u>	<u>Net profit for the year</u>
Shandong Rainbow Commercial Jet Co., Ltd.	11,569,427.94	175,265,154.52	-163,695,726.58	0.00	-370,092.48

5.9. Long-term equity investments

5.9.1. Disclosure by classification

<u>Investee</u>	<u>2010.12.31</u>	<u>Movement in year</u>	<u>2011.12.31</u>	<u>Impairment provision</u>	<u>Impairment provision recognised in year</u>
A. Long-term equity investments measured by the historical cost convention					
China Travelsky Technology Co., Ltd.	6,690,000.00	0.00	6,690,000.00	0.00	0.00
Sichuan Airlines Co., Ltd.	35,000,000.00	0.00	35,000,000.00	0.00	0.00
Jinan International Airport Co., Ltd.	46,662,100.00	0.00	46,662,100.00	0.00	0.00
Subtotal	<u>88,352,100.00</u>	<u>0.00</u>	<u>88,352,100.00</u>	<u>0.00</u>	<u>0.00</u>
Long-term equity investments measured by the equity method					
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	0.00	22,500,000.00	22,500,000.00	0.00
Subtotal	<u>22,500,000.00</u>	<u>0.00</u>	<u>22,500,000.00</u>	<u>22,500,000.00</u>	<u>0.00</u>
Total	<u>110,852,100.00</u>	<u>0.00</u>	<u>110,852,100.00</u>	<u>22,500,000.00</u>	<u>0.00</u>

(continued)

<u>Investee</u>	<u>Cost of investment</u>	<u>Shareholding</u>	<u>Voting right</u>	<u>Reason for disagreement between shareholding and voting right</u>	<u>Cash dividend in year</u>
A. Long-term equity investments measured by the historical cost convention					
China Travelsky Technology Co., Ltd.	6,690,000.00	0.45%	0.45%	No disagreement	1,365,429.00
Sichuan Airlines Co., Ltd.	35,000,000.00	10.00%	10.00%	No disagreement	10,000,000.00
Jinan International Airport Co., Ltd.	46,662,100.00	2.53%	2.53%	No disagreement	475,953.42
Subtotal	<u>88,352,100.00</u>				<u>11,841,382.42</u>
Long-term equity investments measured by the equity method					
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	45.00%	45.00%	No disagreement	0.00
Subtotal	<u>22,500,000.00</u>				<u>0.00</u>
Total	<u>110,852,100.00</u>				<u>11,841,382.42</u>

5.9.2. No long-term equity investment was imposed with limitation on disposal as at December 31st, 2011.

5.10. Fixed assets and cumulative depreciation

5.10.1. Disclosure by classification

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
① Total historical cost	<u>9,441,571,584.73</u>	<u>957,810,951.36</u>	<u>125,280,343.04</u>	<u>10,274,102,193.05</u>
Houses and building	220,973,772.50	92,691.60	4,531,679.20	216,534,784.90
Aircrafts and engines	8,634,686,536.61	849,881,572.10	94,682,774.09	9,389,885,334.62
High-value rotables	454,825,178.55	77,859,740.58	18,564,687.34	514,120,231.79
Transportation vehicles	39,730,267.30	11,331,232.00	2,248,087.00	48,813,412.30

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
Machinery, equipments and other	91,355,829.77	18,645,715.08	5,253,115.41	104,748,429.44
② Cumulative depreciation	<u>2,825,074,223.88</u>	<u>669,156,553.70</u>	<u>97,395,216.81</u>	<u>3,396,835,560.77</u>
Houses and building	33,521,100.29	6,240,479.88	368,019.18	39,393,560.99
Aircrafts and engines	2,560,983,059.34	621,717,729.76	84,932,336.58	3,097,768,452.52
High-value rotables	160,762,852.44	29,173,120.36	6,752,888.63	183,183,084.17
Transportation vehicles	20,234,367.71	3,571,410.18	1,991,735.12	21,814,042.77
Machinery, equipments and other	49,572,844.10	8,453,813.52	3,350,237.30	54,676,420.32
③ Impairment provision	<u>0.00</u>	<u>193,810,080.67</u>	<u>0.00</u>	<u>193,810,080.67</u>
Houses and building	0.00	0.00	0.00	0.00
Aircrafts and engines	0.00	178,336,555.41	0.00	178,336,555.41
High-value rotables	0.00	15,473,525.26	0.00	15,473,525.26
Transportation vehicles	0.00	0.00	0.00	0.00
Machinery, equipments and other	0.00	0.00	0.00	0.00
④ Carrying amount	<u>6,616,497,360.85</u>			<u>6,683,456,551.61</u>
Houses and building	187,452,672.21			177,141,223.91
Aircrafts and engines	6,073,703,477.27			6,113,780,326.72
High-value rotables	294,062,326.11			315,463,622.33
Transportation vehicles	19,495,899.59			26,999,369.53
Machinery, equipments and other	41,782,985.67			50,072,009.12

Note: ① Included in the cumulative depreciation increase in year, 669,156,553.70 was recognised during the current reporting period; cost of fixed assets transferred from construction in progress during the current reporting period amounting to 359,417,624.59;

② The carrying amount of aircrafts and engines pledged as security for bank loans and financial lease amounting to 5,189,323,390.34.

5.10.2. Fixed assets acquired under financial lease

	<u>Historical cost</u>	<u>Cumulative depreciation</u>	<u>Impairment allowance</u>	<u>Carrying amount</u>
Aircrafts and engines	<u>1,685,994,438.14</u>	<u>455,927,267.36</u>	<u>0.00</u>	<u>1,230,067,170.78</u>
Total	<u>1,685,994,438.14</u>	<u>455,927,267.36</u>	<u>0.00</u>	<u>1,230,067,170.78</u>

5.10.3. Fixed assets pending ownership registration

<u>Carrying amount</u>	<u>Reason for pending ownership registration</u>
------------------------	--

	<u>Carrying amount</u>	<u>Reason for pending ownership registration</u>
Jinan cargo arrival and departure warehouses	15,172,683.04	Land rented from Jinan Air Control, no eligible for ownership registration
Qingdao aircraft maintenance workshops	39,891,174.40	Ownership registration in process
Yantai terminal building	<u>19,240,557.20</u>	Ownership registration in process
Total	<u>74,304,414.64</u>	

5.10.4. Impairment provision for fixed assets

Impairment provision recognised for aircrafts and engines and high-value rotables as at December 31st, 2011 amounting to 178,336,555.41 and 15,473,525.26 respectively. The amount of impairment estimated by Assets Appraisal Report LuZhengXinPingBaoZi[2012]No.0001 (鲁正信评报字[2012]第 0001 号资产评估报告) that issued by Shandong Zhengyuan Hexin Assets Appraisal Co., Ltd. (山东正源和信资产评估有限公司).

5.11. Construction in progress

5.11.1. Disclosure by project

<u>Project</u>	<u>2011.12.31</u>			<u>2010.12.31</u>		
	<u>Book value</u>	<u>Impairment provision</u>	<u>Carrying amount</u>	<u>Book value</u>	<u>Impairment provision</u>	<u>Carrying amount</u>
B737-800 aircrafts	1,559,456,551.45	0.00	1,559,456,551.45	863,452,904.96	0.00	863,452,904.96
ARJ21-700 aircrafts	60,778,195.00	0.00	60,778,195.00	60,778,195.00	0.00	60,778,195.00
B737NG simulator	100,000.00	0.00	100,000.00	0.00	0.00	0.00
Terminal building	22,956,157.35	0.00	22,956,157.35	11,479,922.80	0.00	11,479,922.80
Other projects	<u>1,634,015.58</u>	<u>0.00</u>	<u>1,634,015.58</u>	<u>1,542,227.58</u>	<u>0.00</u>	<u>1,542,227.58</u>
Total	<u>1,644,924,919.38</u>	<u>0.00</u>	<u>1,644,924,919.38</u>	<u>937,253,250.34</u>	<u>0.00</u>	<u>937,253,250.34</u>

5.11.2. Movement of significant construction projects

<u>Project</u>	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Transferred to fixed assets in year</u>	<u>Other decrease in year</u>	<u>2011.12.31</u>
B737-800 aircrafts	863,452,904.96	1,055,421,271.08	359,417,624.59	0.00	1,559,456,551.45
ARJ21-700 aircrafts	60,778,195.00	0.00	0.00	0.00	60,778,195.00
B737NG simulator	0.00	100,000.00	0.00	0.00	100,000.00
Terminal building	11,479,922.80	11,476,234.55	0.00	0.00	22,956,157.35
Other projects	<u>1,542,227.58</u>	<u>5,051,550.19</u>	<u>0.00</u>	<u>4,959,762.19</u>	<u>1,634,015.58</u>
Total	<u>937,253,250.34</u>	<u>1,072,049,055.82</u>	<u>359,417,624.59</u>	<u>4,959,762.19</u>	<u>1,644,924,919.38</u>

5.11.3. Capitalisation of borrowing costs included in construction in progress

<u>Project</u>	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Transferred to fixed assets in year</u>	<u>Other decrease in year</u>	<u>2011.12.31</u>	<u>Funding source</u>
B737-800 aircrafts	-6,630,973.04	-13,228,789.50	-3,097,109.77	0.00	-16,762,652.77	Financial institution lending
ARJ21-700 aircrafts	<u>487,587.70</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>487,587.70</u>	Financial institution lending

Project	2010.12.31	Increase in year	Transferred to fixed assets in year	Other decrease in year	2011.12.31	Funding source
Total	<u>-6,143,385.34</u>	<u>-13,228,789.50</u>	<u>-3,097,109.77</u>	<u>0.00</u>	<u>-16,275,065.07</u>	

5.11.4. The balance of aircraft purchase right pledge as security for bank loans amounted to 1,472,293,822.60 as at December 31st, 2011.

5.11.5. No impairment provision shall be recognised for construction in progress as at December 31st, 2011.

5.11.6. The balance of construction in progress as at December 31st, 2011 increased for 75.50% from that as at December 31st, 2010, mainly due to progress payment for aircraft purchase.

5.12. Intangible assets

5.12.1. Disclosure

	2010.12.31	Increase in year	Decrease in year	2011.12.31
Total historical cost	<u>50,808,133.13</u>	<u>35,400,000.00</u>	<u>2,606,200.00</u>	<u>83,601,933.13</u>
Land use rights	50,808,133.13	35,400,000.00	2,606,200.00	83,601,933.13
Total cumulative amortisation	<u>3,661,766.60</u>	<u>934,030.49</u>	<u>180,986.00</u>	<u>4,414,811.09</u>
Land use rights	3,661,766.60	934,030.49	180,986.00	4,414,811.09
Total book value	<u>47,146,366.53</u>			<u>79,187,122.04</u>
Land use rights	47,146,366.53			79,187,122.04
Total impairment provision	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Land use rights	0.00	0.00	0.00	0.00
Total carrying amount	<u>47,146,366.53</u>			<u>79,187,122.04</u>
Land use rights	47,146,366.53			79,187,122.04

5.12.2. No impairment provision shall be recognised for construction in progress as at December 31st, 2011.

5.12.3. The balance of intangible assets as at December 31st, 2011 increased for 67.96% from that as at December 31st, 2010, mainly due to payment for Xiamen land use rights.

5.13. Goodwill

Investee	Type of combination	2010.12.31	Increase in year	Decrease in year	2011.12.31	Impairment provision as at 2011.12.31
Qingdao Feisheng	Business combination not under common control	<u>10,220,816.22</u>	<u>0.00</u>	<u>0.00</u>	<u>10,220,816.22</u>	<u>0.00</u>

Total	<u>10,220,816.22</u>	<u>0.00</u>	<u>0.00</u>	<u>10,220,816.22</u>	<u>0.00</u>
-------	----------------------	-------------	-------------	----------------------	-------------

With respect to the operating assets and the audit of financial performance of Qingdao Feisheng and the assets appraisal report as at December 31st, 2011, the management believes that no impairment shall be recognised for the respective goodwill as at December 31st, 2011.

5.14. Long-term deferred expenses

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Amortisation in year</u>	<u>Other decrease in year</u>	<u>2011.12.31</u>	<u>Reason for other decrease</u>
Pilot recruitment and training expenditure	229,830,196.19	64,655,783.14	45,381,878.21	0.00	249,104,101.12	
Jinan Operation Building Decoration expenditure	<u>0.00</u>	<u>7,027,671.70</u>	<u>351,383.59</u>	<u>0.00</u>	<u>6,676,288.11</u>	
Total	<u>229,830,196.19</u>	<u>71,683,454.84</u>	<u>45,733,261.80</u>	<u>0.00</u>	<u>255,780,389.23</u>	

5.15. Deferred income tax assets and deferred income tax liabilities

5.15.1. Recognised deferred income tax assets and deferred income tax liabilities

	<u>2011.12.31</u>	<u>2010.12.31</u>
Deferred income tax assets		
Provision for bad debts	28,822,639.51	28,459,246.26
Impairment provision for fixed assets	48,452,520.17	0.00
Accrued substantial maintenance expenditure	135,006,662.91	90,795,645.87
Undue wages and salaries	17,388,124.64	6,513,851.27
Unutilised loss	195,890.90	0.00
Changes of fair value of financial liabilities held for trading	<u>536,380.28</u>	<u>966,452.38</u>
Subtotal	<u>230,402,218.41</u>	<u>126,735,195.78</u>
Deferred income tax liabilities		
Changes of fair value of financial assets held for trading	<u>0.00</u>	<u>2,322,711.66</u>
Subtotal	<u>0.00</u>	<u>2,322,711.66</u>

5.15.2. Temporary differences

2011.12.31

Temporary differences resulted in deferred tax assets

Provision for bad debts	115,290,558.03
Impairment provision for fixed assets	193,810,080.67
Accrued substantial maintenance expenditure	540,026,651.65
Undue wages and salaries	69,552,498.55
Unutilised loss	783,563.60

	<u>2011.12.31</u>
Changes of fair value of financial liabilities held for trading	<u>2,145,521.10</u>
Subtotal	<u>921,608,873.60</u>
Temporary differences resulted in deferred tax liabilities	
Changes of fair value of financial assets held for trading	<u>0.00</u>
Subtotal	<u>0.00</u>

5.15.3. The balance of deferred income tax assets as at December 31st, 2011 increased for 81.80% from that as at December 31st, 2010, mainly due to recognition of impairment provision for fixed assets and substantial maintenance expenditure during the current reporting period.

5.15.4. The balance of deferred income tax liabilities as at December 31st, 2011 decreased for 100.00% from that as at December 31st, 2010, mainly due to decrease in fair value of financial assets held for trading held by the Company.

5.16. Impairment provision

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>		<u>2011.12.31</u>
			<u>Reverse</u>	<u>Derecognised</u>	
(1) Provision for bad debts for accounts receivable	2,657,739.39	988,699.39	0.00	0.00	3,646,438.78
(2) Provision for bad debts for other receivables	111,179,245.64	464,873.61	0.00	0.00	111,644,119.25
(3) Impairment provision for fixed assets	0.00	193,810,080.67	0.00	0.00	193,810,080.67
(4) Impairment provision for long-term equity investments	<u>22,500,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>22,500,000.00</u>
Total	<u>136,336,985.03</u>	<u>195,263,653.67</u>	<u>0.00</u>	<u>0.00</u>	<u>331,600,638.70</u>

5.17. Short-term borrowings

	<u>2011.12.31</u>	<u>2010.12.31</u>
Secured loans (rights on assets pledged)	0.00	93,173,692.10
Unsecured loans	450,000,000.00	399,412,917.40
Guaranteed loans	<u>317,636,239.20</u>	<u>508,682,427.23</u>
Total	<u>767,636,239.20</u>	<u>1,001,269,036.73</u>

5.18. Financial liabilities held for trading

	<u>Fair value as at 2011.12.31</u>	<u>Fair value as at 2010.12.31</u>
Interest rate swaps	2,145,521.10	0.00
HuiLiDa contracts	<u>0.00</u>	<u>3,865,809.52</u>
Total	<u>2,145,521.10</u>	<u>3,865,809.52</u>

5.18.1. The principal of immature interest rate swaps amounting to USD 157,283,026.20 as at December 31st, 2011. The bank-quoted fair value of the immature interest rate swaps as at December 31st, 2011 amounting to CNY-2,145,521.10 (USD -340,510.26).

5.18.2. The balance of financial liabilities held for trading as at December 31st, 2011 decreased for 44.50% from that as at December 31st, 2010, mainly due to HuiLiDa contract settlement and changes in fair value of interest rate swaps.

5.19. Notes payable

	<u>2011.12.31</u>	<u>2010.12.31</u>
Trade acceptance	104,587,852.86	19,042,835.33
Bankers' acceptance	<u>24,959,340.48</u>	<u>116,000,000.00</u>
Total	<u>129,547,193.34</u>	<u>135,042,835.33</u>

5.20. Accounts payable

5.20.1. Disclosure by age

<u>Age</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Within 1 year	1,342,854,460.06	1,007,699,961.12
Over 1 year	<u>31,003,415.17</u>	<u>900,090.37</u>
Total	<u>1,373,857,875.23</u>	<u>1,008,600,051.49</u>

5.20.2. Accounts payable owed to shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>Nature of account</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Air China	Ground services, delayed flights, indemnity for bagages, etc.	7,735,879.32	3,437,689.95
Taikoo (Shandong) Aircraft Engineering Company Limited	Substantial maintenance fee and routine maintenance fee	23,072,537.89	27,829,926.58
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	Maintenance fee and landing fee	3,825,794.45	0.00
Sichuan International Aero Engine Maintenance Co., Ltd.	Engine maintenance fee	8,835,970.40	0.00
Air China Cargo Co., Ltd.	Airport landing fee	<u>417,427.64</u>	<u>414,307.39</u>
Total		<u>43,887,609.70</u>	<u>31,681,923.92</u>

5.20.3. Significant accounts payable aged over 1 year

<u>Name of company</u>	<u>Amount</u>	<u>Age</u>	<u>Reason for unsettlement</u>	<u>Post balance sheet date payment</u>
China Travelsky Technology Co., Ltd.	<u>22,311,672.50</u>	1 to 2 years	Pending settlement	10,000,000.00
Total	<u>22,311,672.50</u>			

5.20.4. The balance of accounts payable as at December 31st, 2011 increased for 36.21% from that as at December 31st, 2010, mainly due to risen air fuel price and increased unsettled balance resuted from increased operating costs following operation expansion.

5.21. Advances from customers

5.21.1. Disclosure by age

<u>Age</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Within 1 year	292,567,049.69	202,271,352.58

<u>Age</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Over 1 year	<u>279,602.73</u>	<u>182,316.20</u>
Total	<u>292,846,652.42</u>	<u>202,453,668.78</u>

5.21.2. The balance of advances from customers as at December 31st, 2011 increased for 44.65% from that as at December 31st, 2010, mainly due to earlier spring festival, improved transportation capacity, etc.

5.21.3. No advance from customer was received from shareholders who own 5% or more voting rights as at December 31st, 2011.

5.22. Employment benefits payable

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
(1) Wages and salaries, bonuses, subsidies and allowances	208,426,962.08	911,776,076.12	892,958,193.91	227,244,844.29
(2) Employee benefits	0.00	31,756,622.52	31,756,622.52	0.00
(3) Social insurance	1,647,821.49	122,930,745.62	121,966,460.39	2,612,106.72
Within: ①Medical insurance	1,647,821.49	23,073,910.21	24,721,731.70	0.00
②Basic retirement insurance	0.00	58,276,819.67	58,276,819.67	0.00
③Annuity fee	0.00	30,749,588.46	28,137,481.74	2,612,106.72
④Unemployment fee	0.00	5,334,800.40	5,334,800.40	0.00
⑤Work injury insurance	0.00	1,481,809.31	1,481,809.31	0.00
⑥Pregnancy insurance	0.00	2,374,591.93	2,374,591.93	0.00
⑦Reserved funds for disable jobseekers	0.00	1,639,225.64	1,639,225.64	0.00
(4) Housing provident fund	15,784.00	36,146,587.47	36,147,081.07	15,290.40
(5) Labor union fee and employee education fee	26,060,092.87	14,948,711.98	7,141,935.61	33,866,869.24
(6) Non-monetary benefits	0.00	0.00	0.00	0.00
(7) Redemption of termination of labor contract	0.00	9,170.00	9,170.00	0.00
(8) Others	0.00	0.00	0.00	0.00
Within: Share-based payments settled by cash	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>236,150,660.44</u>	<u>1,117,567,913.71</u>	<u>1,089,979,463.50</u>	<u>263,739,110.65</u>

5.23. Taxes payable

	<u>2011.12.31</u>	<u>2010.12.31</u>
VAT and customs	2,889.52	1,240.40
Operating tax	19,366,568.31	14,137,448.21
Urban maintenance and construction surcharge	1,116,189.38	1,128,615.52

	<u>2011.12.31</u>	<u>2010.12.31</u>
Education surcharge	1,456,370.22	816,312.29
Corporate income tax	66,816,641.91	55,944,404.35
Property tax	1,191,811.73	1,474,989.82
Tenure tax	135,237.68	111,187.74
Personal income tax	4,111,680.70	4,647,833.69
Stamp duty	3,679,689.12	5,349,980.35
Infrastructure fund for civil aviation	16,027,672.27	14,415,017.73
Construction fund for civil airports	36,262,303.33	44,049,512.00
Withholding income tax	17,237,385.96	17,811,520.19
Withholding operating Tax	715,315.42	10,218,405.79
Others	<u>12,524.02</u>	<u>8,702.89</u>
Total	<u>168,132,279.57</u>	<u>170,115,170.97</u>

5.24. Interests payable

	<u>2011.12.31</u>	<u>2010.12.31</u>
Interests on borrowings	<u>8,048,176.38</u>	<u>9,656,528.23</u>
Total	<u>8,048,176.38</u>	<u>9,656,528.23</u>

5.25. Other payables**5.25.1. Disclosure by age**

<u>Age</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Within 1 year	93,969,022.74	74,998,768.73
Over 1 year	<u>67,777,605.67</u>	<u>65,735,212.41</u>
Total	<u>161,746,628.41</u>	<u>140,733,981.14</u>

5.25.2. Other payables owed to shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>Nature of account</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
SDA Group	Operating balance	1,008,583.74	12,192,570.48
Air China	Quality margin	20,000,000.00	20,000,000.00
Taikoo (Shandong) Aircraft Engineering Company Limited	Operating balance	245,400.00	245,400.00
Shenzhen Airlines Co., Ltd.	Operating balance	<u>1,850,144.00</u>	<u>1,083,308.00</u>
Total		<u>23,104,127.74</u>	<u>33,521,278.48</u>

5.25.3. Significant other payables aged over 1 year

<u>Name of company</u>	<u>Amount</u>	<u>Age</u>	<u>Reason for unsettlement</u>
------------------------	---------------	------------	--------------------------------

Air China	<u>20,000,000.00</u>	4 to 5 years	Wet lease agreement in force, quality margin pending settlement
Total	<u>20,000,000.00</u>		

5.26. Non-current liabilities due within one year

5.26.1. Disclosure

	<u>2011.12.31</u>	<u>2010.12.31</u>
Long-term borrowings due within one year	258,278,648.16	371,061,574.72
Long-term payables due within one year	207,290,340.48	165,039,834.26
Total	415,568,988.64	536,101,408.98
Less: Unrecognised financial lease expenditure	<u>81,011,628.25</u>	<u>59,333,529.93</u>
Total	<u>384,557,360.39</u>	<u>476,767,879.05</u>

5.26.2. Long-term borrowings due within one year

① Disclosure

	<u>2011.12.31</u>	<u>2010.12.31</u>
Secured loans (assets pledged)	258,278,648.16	304,786,981.68
Secured loans (rights on assets pledged)	0.00	53,667,049.45
Guaranteed loans	<u>0.00</u>	<u>12,607,543.59</u>
Total	<u>258,278,648.16</u>	<u>371,061,574.72</u>

② Top five long-term borrowings due within one year

<u>Lender</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Currency</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
				<u>Original currency</u>	<u>Presentation currency</u>	<u>Original currency</u>	<u>Presentation currency</u>
BOC, Jinan Branch	15 Jul 2005	Step repayment	USD	11,200,000.00	70,570,080.00	0.00	0.00
Minsheng Bank, Jinan Branch	7 Apr 2005	Step repayment	CNY	50,000,000.00	50,000,000.00	0.00	0.00
China Development Bank, Shandong Branch	11 Jul 2008	Step repayment	USD	6,600,000.00	41,585,940.00	0.00	0.00
ICBC, Jinan Dongjiao Branch	30 Jun 2009	Step repayment	USD	4,000,000.00	25,203,600.00	0.00	0.00
Bank of Communications, Jinan Tianqiao Branch	30 May 2006	Step repayment	CNY	17,700,000.00	<u>17,700,000.00</u>	0.00	<u>0.00</u>
Total					<u>205,059,620.00</u>		<u>0.00</u>

Note: Interest rates applicable to the borrowings listed above ranged from 1.4945% to 7.0500% as at December 31st, 2011.

5.26.3. No overdue borrowing remained unpaid as at December 31st, 2011.

5.26.4. Long-term payables due within one year

<u>Leasor</u>	<u>Term</u>	<u>Initial amount</u>	<u>Interest rate (%)</u>	<u>Interest</u>	<u>2011.12.31</u>	<u>Condition for landing</u>
CBD-lease Co., Ltd.	June 2005 to June 2020	1,440,000,000.00	7.473	62,342,379.93	112,186,557.02	Asset pledged
CALC Jian Zhao Limited	August 2011 to August 2026	<u>284,290,146.39</u>	7.050	<u>18,669,248.32</u>	<u>14,092,155.21</u>	Asset pledged
Total		<u>1,724,290,146.39</u>		<u>81,011,628.25</u>	<u>126,278,712.23</u>	

5.27. Long-term borrowings

5.27.1. Disclosure

	<u>2011.12.31</u>	<u>2010.12.31</u>
Secured loans (assets pledged)	161,774,914.40	141,288,880.48
Secured loans (rights on assets pledged)	2,301,107,100.91	2,013,807,266.59
Guaranteed loans	<u>544,127,623.23</u>	<u>1,025,187,030.48</u>
Total	<u>3,007,009,638.54</u>	<u>3,180,283,177.55</u>

5.27.2. Top five long-term borrowings

<u>Lender</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Currency</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
				<u>Original currency</u>	<u>Presentation currency</u>	<u>Original currency</u>	<u>Presentation currency</u>
ICBC, Jinan Dongjiao Branch	30 Jun 2009	Step repayment	USD	26,491,654.64	166,921,266.72	30,491,654.64	201,937,081.18
BOC, Jinan Branch	21 Dec 2005	Step repayment	USD	26,213,260.00	165,167,129.93	26,213,260.00	173,602,557.00
BOC, Jinan Branch	19 Oct 2005	Step repayment	USD	24,315,798.60	153,211,415.40	26,071,798.00	172,665,696.62
Minsheng Bank, Jinan Branch	7 Apr 2005	Step repayment	CNY	150,000,000.00	150,000,000.00	200,000,000.00	200,000,000.00
China Development Bank, Shandong Branch	9 Mar 2009	Step repayment	USD	19,845,450.00	<u>125,044,195.91</u>	19,845,450.00	<u>131,430,461.72</u>
Total					<u>760,344,007.96</u>		<u>879,635,796.52</u>

Note: Interest rates applicable to the borrowings listed above ranged from 1.4945% to 7.0500% as at December 31st, 2011.

5.28. Long-term payables

5.28.1. Top five long-term payables

<u>Leasor</u>	<u>Term</u>	<u>Initial amount</u>	<u>Interest rate (%)</u>	<u>Interest</u>	<u>2011.12.31</u>	<u>Condition for landing</u>
CBD-lease Co., Ltd.	June 2005 to June 2020	1,440,000,000.00	7.473	250,546,565.19	751,002,964.49	Asset pledged
CALC Jian Zhao Limited	August 2011 to August 2026	<u>284,290,146.39</u>	7.050	<u>134,578,500.59</u>	<u>253,197,384.85</u>	Asset pledged
Total		<u>1,724,290,146.39</u>		<u>385,125,065.78</u>	<u>1,004,200,349.34</u>	

5.28.2. Long-term payables as at December 31st, 2011 were financial lease rentals payable.

5.29. Other non-current liabilities

	<u>2011.12.31</u>	<u>2010.12.31</u>
CRJ700 post-sale buy-back	0.00	695,774.11
Designated subsidy for snow disaster	3,987,958.34	4,374,958.34
SMS fund	1,000,000.00	1,000,000.00
PhoenixMiles Program	127,562,137.01	53,304,246.55
Designated subsidy for IT construction	10,000,000.00	0.00
Designated subsidy for civil aviation energy-saving program	<u>17,711,566.24</u>	<u>14,015,649.74</u>
Total	<u>160,261,661.59</u>	<u>73,390,628.74</u>

5.29.1. Asset-related government grants

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
Designated subsidy for snow disaster	4,374,958.34	0.00	387,000.00	3,987,958.34
SMS fund	1,000,000.00	0.00	0.00	1,000,000.00
Designated subsidy for IT construction	0.00	10,000,000.00	0.00	10,000,000.00
Designated subsidy for civil aviation energy-saving program	<u>14,015,649.74</u>	<u>4,540,000.00</u>	<u>844,083.50</u>	<u>17,711,566.24</u>
Total	<u>19,390,608.08</u>	<u>14,540,000.00</u>	<u>1,231,083.50</u>	<u>32,699,524.58</u>

5.29.2. PhoenixMiles Program

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
PhoenixMiles Program	<u>53,304,246.55</u>	<u>80,542,474.93</u>	<u>6,284,584.46</u>	<u>127,562,137.01</u>
Total	<u>53,304,246.55</u>	<u>80,542,474.93</u>	<u>6,284,584.46</u>	<u>127,562,137.01</u>

5.29.3. The balance of other non-current liabilities as at December 31st, 2011 increased for 1.18 times from that as at December 31st, 2010, mainly due to increased airmiles accrued within the PhoenixMiles Program.

5.30. Share capital

	<u>2010.12.31</u>	<u>Share allotment</u>	<u>Bonus issue</u>	<u>Movement in year</u> <u>Shares converted from accumulated fund</u>	<u>Others</u>	<u>Subtotal</u>	Unit: Shares <u>2011.12.31</u>
(1) Unlisted floating shares							
① Promoter's shares	260,000,000.00	0.00	0.00	0.00	0.00	0.00	260,000,000.00
Including:							
State-owned shares	259,801,000.00	0.00	0.00	0.00	0.00	0.00	259,801,000.00
Shares held by domestic legal persons	199,000.00	0.00	0.00	0.00	0.00	0.00	199,000.00
Shares held by foreign legal persons	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	<u>2010.12.31</u>	<u>Share allotment</u>	<u>Bonus issue</u>	<u>Movement in year</u> <u>Shares converted from accumulated fund</u>	<u>Others</u>	<u>Subtotal</u>	Unit: Shares <u>2011.12.31</u>
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
② Private placement of legal person's shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
③ Staff shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
④ Preferred shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Within: Transferred allotted shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total unlisted floating shares	<u>260,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>260,000,000.00</u>
(2) Listed floating shares							
① Domestic shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Within: shares held by the management	0.00	0.00	0.00	0.00	0.00	0.00	0.00
② Domestic shares in foreign currency	140,000,000.00	0.00	0.00	0.00	0.00	0.00	140,000,000.00
Total listed floating shares	140,000,000.00	0.00	0.00	0.00	0.00	0.00	140,000,000.00
(3) Floating shares with imposed limitation on sales	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
(4) Total	<u>400,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>400,000,000.00</u>

Note: ① Shares listed above has the face value of 1.00 per share.

②The above shares have been verified by the Report on the Verification of Capital (YanQianZi[2000]No.27) issued by Shandong Yantai QianJu Certified Public Accountants Co., Ltd.

5.31. Capital reserves

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
Share premium	76,258,081.68	2,861,005.87	11,500,805.01	67,618,282.54
Other capital reserves	<u>7,792,081.16</u>	<u>0.00</u>	<u>0.00</u>	<u>7,792,081.16</u>
Total	<u>84,050,162.84</u>	<u>2,861,005.87</u>	<u>11,500,805.01</u>	<u>75,410,363.70</u>

Note: ① Capital reserves increase in year amounted to 2,861,005.87, mainly due to receipt compensation from SDA Group for below-expectation performance of Qingdao Feisheng. ② Capital reserves decrease in year amounted to 11,500,805.01, mainly due to the difference between the consideration paid to acquire minority interest of Qingdao Logistics and share of movement of the post-acquisition net assets of Qingdao Logistics.

5.32. Surplus reserves

	<u>2010.12.31</u>	<u>Increase in year</u>	<u>Decrease in year</u>	<u>2011.12.31</u>
Statutory surplus reserves	<u>122,944,754.89</u>	<u>76,469,266.86</u>	<u>0.00</u>	<u>199,414,021.75</u>
Total	<u>122,944,754.89</u>	<u>76,469,266.86</u>	<u>0.00</u>	<u>199,414,021.75</u>

5.33. Undistributed profit

	<u>2011.12.31</u>	<u>2010.12.31</u>
Balance brought forward	799,664,252.17	308,668,390.11
Add: Profits for the year	771,225,549.05	634,364,547.92
Add: Other transfers	0.00	0.00
Less: Statutory surplus reserve	76,469,266.86	63,368,685.86
Less: Employee bonus and benefit fund	0.00	0.00
Less: Reserve fund	0.00	0.00
Less: Enterprise development fund	0.00	0.00
Less: Repaid investments	0.00	0.00
Less: Preferred dividends	0.00	0.00
Less: Discretionary surplus reserve	0.00	0.00
Less: Ordinary dividends	120,000,000.00	80,000,000.00
Less: Ordinary dividends converted to capital	<u>0.00</u>	<u>0.00</u>
Balance carried forward	<u>1,374,420,534.36</u>	<u>799,664,252.17</u>

5.34. Operating revenue and operating costs

5.34.1. Disclosure by classification

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Principle operating revenue	9,562,851,733.23	7,210,784,560.38
Other operating revenue	<u>104,118,011.97</u>	<u>81,831,396.72</u>
Total	<u>9,666,969,745.20</u>	<u>7,292,615,957.10</u>
Principle operating costs	7,256,886,850.82	5,482,183,711.49
Other operating costs	<u>6,365,030.93</u>	<u>5,407,179.34</u>
Total	<u>7,263,251,881.75</u>	<u>5,487,590,890.83</u>

5.34.2. Disclosure by operation

<u>Operation</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
	<u>Operating revenue</u>	<u>Operating costs</u>	<u>Operating revenue</u>	<u>Operating costs</u>
Air transportation	9,523,675,225.67	7,228,984,657.23	7,173,305,400.49	5,459,720,041.47
Cargo and logistics	8,011,904.01	2,773,224.10	13,378,807.87	2,465,292.18
Hospitality	23,081,379.95	21,850,046.48	25,414,051.87	20,815,817.17
Training	17,333,253.52	7,032,351.04	4,592,028.00	1,586,953.63
Rental	607,750.00	117,469.97	88,110.26	0.00
Other	<u>94,260,232.05</u>	<u>2,494,132.93</u>	<u>75,837,558.61</u>	<u>3,002,786.38</u>

<u>Operation</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
	<u>Operating revenue</u>	<u>Operating costs</u>	<u>Operating revenue</u>	<u>Operating costs</u>
Total	<u>9,666,969,745.20</u>	<u>7,263,251,881.75</u>	<u>7,292,615,957.10</u>	<u>5,487,590,890.83</u>

5.34.3. Operating revenue from top five customers

<u>Customer</u>	<u>Operating revenue</u>	<u>% of total operating revenue</u>
Customer 1	683,070,133.01	7.07
Customer 2	31,680,000.00	0.33
Customer 3	9,739,110.00	0.10
Customer 4	7,800,000.00	0.08
Customer 5	<u>7,260,000.00</u>	<u>0.07</u>
Total	<u>739,549,243.01</u>	<u>7.65</u>

5.34.4. Operating revenue for the current year increased for 32.56% from that for the previous year, mainly due to fleet expansion, risen average ticket price, and increased number of onboard passengers.

5.34.5. Operating costs for the current year increased for 32.36% from that for the previous year, mainly due to risen air fuel price and increased costs resulted from business expansion.

5.35. Operating tax and surcharges

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>	<u>Tax rate</u>
Operating tax	285,290,624.53	203,287,379.43	3%, 5%
Urban maintenance and construction surcharge	19,969,488.56	1,121,020.57	7%
Education surcharge	<u>14,251,317.35</u>	<u>800,728.98</u>	3%, 2%
Total	<u>319,511,430.44</u>	<u>205,209,128.98</u>	

5.35.1. Operating tax and surcharges for the current year increased for 55.70% from that for the previous year, mainly due to increased tax liability recognised resulted from increased revenue.

5.36. Sales expenses

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Employment benefits payable	124,727,615.68	79,594,030.14
Depreciation	1,921,967.96	1,892,392.40
Travel expense	3,409,904.23	3,301,618.46
Advertisement	14,123,544.57	9,955,763.45
Brokerage fee	337,884,885.04	290,417,787.76
Electronic booking fee	61,405,065.12	55,399,914.32
Online payment charge	16,886,185.15	9,043,151.60
Ticket printing cost	568,807.44	417,667.00

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Rentals	10,792,458.84	8,738,843.59
System and network subscription	3,040,272.70	3,742,452.53
BSP data processing fee	1,669,314.66	1,559,369.18
Accommodation and catering expenses for transit passengers	2,632,475.90	1,451,783.60
General expenses	4,404,781.53	3,869,607.58
Uniforms	1,582,735.70	1,223,500.75
Sales expense for annual subscription	21,224,600.00	3,891,500.00
Others	<u>15,291,564.03</u>	<u>5,848,566.76</u>
Total	<u>621,566,178.55</u>	<u>480,347,949.12</u>

5.37. General and administrative expenses

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Employment benefits payable	98,767,664.24	72,979,360.47
Depreciation	6,191,904.84	6,423,636.57
General expenses	4,861,667.01	4,179,326.89
Amortisation of intangible assets	804,633.81	360,516.64
Amortisation of long-term deferred expenses	0.00	424,335.24
Taxes and surcharges	8,179,272.10	6,835,211.03
Entertainment expense	13,820,381.31	10,423,957.05
Pollution treatment cost	1,099,701.05	1,146,850.00
Rentals	9,961,104.37	7,390,683.99
Research expense	7,183,485.10	2,054,276.20
Clearing system subscription	3,973,561.94	3,079,512.95
System and network subscription	954,799.89	1,629,499.60
Heating expense	6,320,986.85	2,768,846.57
Consultation fee	2,120,237.43	677,560.42
Others	<u>24,126,220.93</u>	<u>16,092,240.00</u>
Total	<u>188,365,620.87</u>	<u>136,465,813.62</u>

5.37.1. General and administrative expenses for the current year increased for 38.03% from that for the previous year, mainly due to increased expenditure resulted from business expansion.

5.38. Financial costs

<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
-----------------------	-----------------------

Interest expenses	190,069,387.42	209,880,622.29
Less: Interest income	10,138,950.37	5,012,267.84
Exchange differences	-97,589,600.65	-61,316,996.38
Bank charges and others	<u>3,695,131.54</u>	<u>6,964,564.29</u>
Total	<u>86,035,967.94</u>	<u>150,515,922.36</u>

5.38.1. Financial costs for the current year decreased for 42.84% from that for the previous year, mainly due to financial cost control and increased exchange differences resulted Yuan appreciation.

5.39. Impairment loss on assets

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Impairment provision for fixed assets	193,810,080.67	0.00
Provision for bad debts	<u>1,453,573.00</u>	<u>1,163,320.01</u>
Total	<u>195,263,653.67</u>	<u>1,163,320.01</u>

5.39.1. Impairment loss on assets for the current year increased for 166.85 times from that for the previous year, mainly due to impairment provision for aircrafts and high-value rotatables recognised during the current year.

5.40. Gain from changes in fair value

<u>Source of fair value change</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Interest rate swaps	-11,436,367.72	-2,050,999.86
HuiLiDa Contracts	<u>3,865,809.52</u>	<u>-3,865,809.52</u>
Total	<u>-7,570,558.20</u>	<u>-5,916,809.38</u>

5.41. Investment income

5.41.1. Disclosure by classification

<u>Classification</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Investment arising from long-term equity investments measure using the historical cost convention	11,841,382.42	1,235,391.15
Investment arising from holding of financial assets held for trading	<u>-3,291,906.49</u>	<u>-2,955,503.33</u>
Total	<u>8,549,475.93</u>	<u>-1,720,112.18</u>

5.41.2. Investment arising from long-term equity investments measured using the historical cost convention

<u>Investee</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>	<u>Reason for change from the previous year</u>
China Travelsky Technology Co., Ltd.	1,365,429.00	1,165,398.00	Change of profit distribution
Sichuan Airlines Co., Ltd.	10,000,000.00	0.00	Change of profit distribution
Jinan International Airport Co., Ltd.	<u>475,953.42</u>	<u>69,993.15</u>	Change of profit distribution
Total	<u>11,841,382.42</u>	<u>1,235,391.15</u>	

5.41.3. No investment income was imposed with limitation on remittance as at December 31st, 2011.

5.41.4. Investment income for the current year increased for 5.97 times from that for the previous year, mainly due to profit distribution by investess.

5.42. Non-operating income

5.42.1. Disclosure by classification

<u>Classification</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>	<u>Recognised in profit or loss for the current year</u>
Gains from disposals of non-current assets	7,721,097.44	7,642.69	7,721,097.44
Including: Gains from disposals of fixed assets	7,721,097.44	7,642.69	7,721,097.44
Government grants	21,698,008.50	16,013,518.70	21,698,008.50
Airport-funded flight-route subsidy	17,933,800.00	10,118,467.00	17,933,800.00
Others	<u>8,256,642.58</u>	<u>2,872,615.50</u>	<u>8,256,642.58</u>
Total	<u>55,609,548.52</u>	<u>29,012,243.89</u>	<u>55,609,548.52</u>

5.42.2. Government grants

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>	<u>Note</u>
Subsidies for branch route aviation	7,690,000.00	9,500,000.00	Subsidy granted by the CAAC regional office for branch route aviation
Designated subsidy for snow disaster	387,000.00	364,500.00	Amortisation of utilised subsidy
Designated subsidy for civil aviation energy-saving program	844,083.50	974,350.26	Amortisation of utilised subsidy
Others	<u>12,776,925.00</u>	<u>5,174,668.44</u>	Air route subsidies granted by local governments
Total	<u>21,698,008.50</u>	<u>16,013,518.70</u>	

5.42.3. Non-operating income for the current year increased for 91.68% from that for the previous year, mainly due to increased government grants and airport-funded flight route subsidy.

5.43. Non-operating expenses

<u>Classification</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>	<u>Recognised in profit or loss for the current year</u>
Total losses from disposals of non-current assets	17,320,987.51	7,708,562.86	17,320,987.51
Including: Losses from disposals of fixed assets	17,320,987.51	7,708,562.86	17,320,987.51
Charitable donations	17,000.00	61,175.00	17,000.00
Fines	805,456.51	300,224.97	805,456.51
Others	<u>403,816.60</u>	<u>83,845.00</u>	<u>403,816.60</u>
Total	<u>18,547,260.62</u>	<u>8,153,807.83</u>	<u>18,547,260.62</u>

5.43.1. Non-operating expenses for the current year increased for 1.27 times from that for the previous year, mainly due to derecognition of the carrying amount of replaced engines upon completion of engine substantial maintenance..

5.44. Corporate income tax expenses

<u>Classification</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Current corporate income tax liability duly recognised	366,233,479.64	245,151,066.64
Adjustment of deferred corporate income tax assets/liabilities	<u>-105,989,734.29</u>	<u>-35,181,907.39</u>
Total	<u>260,243,745.35</u>	<u>209,969,159.25</u>

5.45. Computation of basic earnings per share and diluted earnings per share

	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
<u>Profit for the reporting period</u>	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>
	<u>earnings per share</u>	<u>earnings per share</u>	<u>earnings per share</u>	<u>earnings per share</u>
Profit attributable to ordinary shareholders of the Company	1.93	1.93	1.59	1.59
Profit after adjustment for non-operating gain/loss attributable to ordinary shareholders of the Company	1.88	1.88	1.56	1.56

Basic earnings per share = $P_0 \div S$

$S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

P_0 : net profits attributable to ordinary shareholders or net profits attributable to ordinary shareholders after deducting extraordinary gains or losses

S : weighted average of number of listed ordinary shares

S_0 : number of ordinary shares brought forward

S_1 : number of shares increased in the reporting period resulting from conversion of accumulated fund or dividends

S_i : number of shares increased in the reporting period resulting from share issues or convertible bond issues

S_j : number of shares decreased in the reporting period resulting from share buy-backs

S_k : number of shares decreased in the reporting period resulting from share contraction

M_0 : number of months in the reporting period

M_i : cumulative number of months from the second month of the share number increase month to the last month of the reporting period

M_j : cumulative number of months from the second month of the share number decrease month to the last month of the reporting period

Diluted earnings per share = $P_1 / (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{the weighted average of number of ordinary shares increased by share warrants, share options and convertible bonds})$

P_1 : net profits attributable to ordinary shareholders or net profits attributable to ordinary shareholders after deducting extraordinary gains or losses adjusted for dilutive impact in accordance with CAS and relevant regulations

5.46. Notes to the consolidated statement of cash flows**5.46.1. Other cash receipts in relation to operating activities**

<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
-----------------------	-----------------------

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Government grants received	27,316,925.00	29,664,668.44
Interest income on bank deposits received	11,548,478.50	3,602,739.71
Cash receipt from non-operating income	26,190,442.58	12,991,082.50
Back letter deposit received	0.00	26,935,875.00
Cash receipt from operating balances	<u>35,162,865.06</u>	<u>23,830,516.63</u>
Total	<u>100,218,711.14</u>	<u>97,024,882.28</u>

5.46.2. Other cash payments in relation to operating activities

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Cash payment for bank charges	20,581,316.69	16,007,715.89
Cash payment for non-operating expenses	1,226,273.11	445,244.97
Cash payment to operating balances	7,611,441.52	44,345,294.85
Cash payment for sales expenses and general and administrative expenses	152,971,873.37	93,443,426.57
Security deposits paid	<u>500,000.00</u>	<u>0.00</u>
Total	<u>182,890,904.69</u>	<u>154,241,682.28</u>

5.46.3. Other cash payments in relation to investing activities

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Deposit for aircraft purchase	0.00	12,947,378.50
Cash payment upon settlement of interest rate swaps	<u>3,291,906.49</u>	<u>2,955,503.33</u>
Total	<u>3,291,906.49</u>	<u>15,902,881.83</u>

5.46.4. Other cash proceeds in relation to financing activities

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Deposit for banker's acceptance received	27,300,000.00	11,459,417.00
Security deposit for borrowings received	150,166,363.25	0.00
Compensation for below-expectation performance received	<u>2,861,005.87</u>	<u>0.00</u>
Total	<u>180,327,369.12</u>	<u>11,459,417.00</u>

5.46.5. Other cash payments in relation to financing activities

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Security deposit for borrowings paid	0.00	78,629,342.37
Cash payment for aircraft lease rental	183,057,204.67	214,050,202.14
Cash payment for acquisition of minority interest of subsidiary	<u>24,510,000.00</u>	<u>0.00</u>
Total	<u>207,567,204.67</u>	<u>292,679,544.51</u>

5.47. Supplementary information to the consolidated statement of cash flows

5.47.1. Supplementary information to the consolidated statement of cash flows

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
<u>(1) Cash flows adjusted from net profits</u>		
Net profits	770,772,472.26	634,575,287.43
Add: Impairment losses	195,263,653.67	1,163,320.01
Add: Depreciation of non-current assets and productive biological assets and losses of fuel	669,156,553.70	563,013,991.59
Add: Amortisation of intangible assets	934,030.49	748,706.68
Add: Amortisation of long-term deferred expenses	45,733,261.80	42,636,918.25
Add: Losses on disposals of non-current assets, intangible assets and long-term assets (minus sign representing gains)	-7,721,097.44	-4,106.42
Add: Losses arising from scrapping non-current assets (minus sign representing gains)	17,320,987.51	7,705,026.59
Add: Losses arising from fair value changes (minus sign representing gains)	7,570,558.20	5,916,809.38
Add: Financial costs (minus sign representing income)	92,697,060.02	148,686,355.48
Add: Investment losses (minus sign representing income)	-8,549,475.93	1,720,112.18
Add: Decrease of deferred income tax assets (minus sign representing increase)	-103,667,022.63	-34,669,157.43
Add: Increase of deferred income tax liabilities (minus sign representing decrease)	-2,322,711.66	-512,749.96
Add: Decrease of inventories (minus sign representing increase)	-38,483,530.73	-12,165,928.57
Add: Decrease of operating accounts receivables (minus sign representing increase)	9,169,602.80	-68,957,632.45
Add: Increase of operating accounts payables (minus sign representing decrease)	597,176,322.84	385,221,677.05
Add: Others	<u>0.00</u>	<u>0.00</u>
Net cash flows from operating activities	<u>2,245,050,664.90</u>	<u>1,675,078,629.81</u>
<u>(2) Non-cash-flow related significant investing and financing activities</u>		
Conversion of debt to equity	0.00	0.00
Conversion debt instruction of maturity less than 1 year	0.00	0.00
Non-current assets under financial leases	267,289,540.06	0.00
<u>(3) Net change of cash and cash equivalents</u>		
Cash carried forward	240,185,747.48	148,606,284.51
Less: Cash brought forward	148,606,284.51	49,333,429.81
Add: Cash equivalents carried forward	0.00	0.00
Less: Cash equivalents brought forward	<u>0.00</u>	<u>0.00</u>
Net increase of cash and cash equivalents	<u>91,579,462.97</u>	<u>99,272,854.70</u>

5.47.2. Composition of cash and cash equivalents

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
I . Cash	240,185,747.48	148,606,284.51
Including: Cash on hand	464,985.14	566,260.65
Bank deposit capable of immediate payments	239,720,762.34	148,040,023.86
Other monetary assets capable of immediate payments	0.00	0.00
II . Cash equivalents	0.00	0.00
Including: Debt instruments matured with three months	0.00	0.00
III. Balance of cash and cash equivalents	240,185,747.48	148,606,284.51
Including: Cash and cash equivalents with imposed usage limitation	0.00	0.00

Note 6: Related parties and related party transaction

6.1. Principle investor of the Company

<u>Investor</u>	<u>Relationship</u>	<u>Type of incorporation</u>	<u>Place of registration</u>	<u>Legal representative</u>	<u>Nature of business</u>	<u>Shareholding in the Company</u>	<u>Voting right in the Company</u>	<u>Institution code</u>
SDA Group	Largest shareholder	Limited liability company	Jinan	MA, Chongxian	Investment and management of air transportation	42.00%	42.00%	61407164-7
Air China	Second largest shareholder	Joint stock company	Beijing	WANG, Changshun	Air transportation	22.80%	22.80%	71787100-6

Note: SDA Group and Air China is the first and second largest shareholder of the Company respectively. Air China is the largest shareholder of SDA Group; Air China's shareholding and voting right in SDA Group is 49.406% and 49.406% respectively. Both SDA Group and Air China exercise significant influence over the Company.

6.2. Subsidiaries of the Company

See Note 4 for details.

6.3. Associates of the Company

See Note 5.9 for details.

6.4. Other related parties

<u>Related party</u>	<u>Relationship</u>	<u>Institution Code</u>
Taikoo (Shandong) Aircraft Engineering Company Limited	Controlled by principal investors of the Company	70588297-1
Shandong XiangYu Air Technology Co., Ltd.	Controlled by principal investors of the Company	720736454
Shandong Rainbow Commercial Jet Co., Ltd.	Associate	72497146

<u>Related party</u>	<u>Relationship</u>	<u>Institution Code</u>
Shenzhen Airlines Co., Ltd.	Controlled by principal investors of the Company	19221129-0
Air China Cargo Co., Ltd.	Controlled by principal investors of the Company	71093205-6
China National Aviation Finance Co., Ltd.	Controlled by principal investors of the Company	10113699
Sichuan International Aero Engine Maintenance Co., Ltd.	Controlled by principal investors of the Company	71188088-4
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	Controlled by principal investors of the Company	62591162-1

6.5. Related party transaction

6.5.1. Purchase of goods and services from related parties

<u>Related party</u>	<u>Type of transaction</u>	<u>Subject of transaction</u>	<u>Pricing method and procedure</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
				<u>Amount</u>	<u>% of trasaction of the same type</u>	<u>Amount</u>	<u>% of trasaction of the same type</u>
Taikoo (Shandong) Aircraft Engineering Company Limited	Purchase of services	Aircraft maintenance	Market price	95,242,721.31	17.94	78,337,964.62	16.75
SDA Group	Purchase of services	Office rental, food and housing	Market price	18,831,262.82	38.77	11,804,053.41	28.98
Shandong XiangYu Air Technology Co., Ltd.	Purchase of services	Repair	Market price	33,646,853.93	6.34	29,942,894.08	6.40
Qingdao Feisheng	Purchase of services	Training	Market price	0.00	0.00	4,211,763.00	5.56
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	Purchase of services	Maintenance	Market price	14,016,265.65	2.64	0.00	0.00
Shenzhen Airlines Co., Ltd.	Purchase of services	Training	Market price	1,332,744.00	7.77	3,408,580.00	4.50
Air China	Purchase of services	Ground service	Market price	11,365,926.74	1.37	14,118,424.93	2.14
Air China	Purchase of services	Maintenance	Market price	534,348.24	0.10	0.00	0.00
Air China Cargo Co., Ltd.	Purchase of services	Ground service	Market price	2,502,943.35	0.30	2,193,175.76	0.33
Sichuan International Aero Engine Maintenance Co., Ltd.	Purchase of services	Maintenance	Market price	<u>49,122,192.42</u>	9.25	<u>27,036,322.41</u>	5.78
Total				<u>226,595,258.46</u>		<u>171,053,178.21</u>	

6.5.2. Sales goods and services to related parties

<u>Related party</u>	<u>Type of transaction</u>	<u>Subject of transaction</u>	<u>Pricing method and procedure</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
				<u>Amount</u>	<u>% of trasaction of the same type</u>	<u>Amount</u>	<u>% of trasaction of the same type</u>
Air China	Rendering of services	Services	By agreement	<u>12,565,524.20</u>	88.26	<u>13,000,000.00</u>	76.70
Total				<u>12,565,524.20</u>		<u>13,000,000.00</u>	

6.5.3. Guarantee among related parties

<u>Guarantor</u>	<u>Guarantee</u>	<u>Guaranteed balance</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Performance completion</u>
------------------	------------------	---------------------------	-------------------	--------------------	-------------------------------

<u>Guarantor</u>	<u>Guarantee</u>	<u>Guaranteed balance</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Performance completion</u>
SDA Group	The Company	42,629,495.06	31 May 2007	28 Mar 2022	No
SDA Group	The Company	113,131,525.34	2 Jul 2007	28 Mar 2022	No
SDA Group	The Company	23,627,114.82	1 Aug 2007	28 Mar 2022	No
SDA Group	The Company	93,939,488.01	28 Sep 2007	28 Mar 2022	No
SDA Group	The Company	100,000,000.00	18 Dec 2006	17 Dec 2018	No
SDA Group	The Company	2,200,000.00	5 Jun 2008	17 Dec 2018	No
SDA Group	The Company	2,100,000.00	18 Jun 2008	17 Dec 2018	No
SDA Group	The Company	123,000,000.00	19 Jun 2008	17 Dec 2018	No
SDA Group	The Company	13,500,000.00	1 Jul 2008	17 Dec 2018	No
SDA Group	The Company	30,000,000.00	19 Aug 2008	17 Dec 2018	No
SDA Group	The Company	2,268,893.85	10 Feb 2011	10 Feb 2012	No
SDA Group	The Company	1,101,397.32	10 Feb 2011	10 Feb 2012	No
SDA Group	The Company	2,331,333.00	14 Feb 2011	14 Feb 2012	No
SDA Group	The Company	1,101,397.32	16 Feb 2011	16 Feb 2012	No
SDA Group	The Company	1,984,783.50	16 Feb 2011	16 Feb 2012	No
SDA Group	The Company	1,984,783.50	17 Feb 2011	16 Feb 2012	No
SDA Group	The Company	76,710,622.10	22 Feb 2011	22 Feb 2012	No
SDA Group	The Company	2,201,915.03	22 Feb 2011	22 Feb 2012	No
SDA Group	The Company	1,101,397.32	23 Feb 2011	23 Feb 2012	No
SDA Group	The Company	2,268,893.85	24 Feb 2011	24 Feb 2012	No
SDA Group	The Company	2,296,476.23	24 Feb 2011	24 Feb 2012	No
SDA Group	The Company	2,453,337.33	24 Feb 2011	24 Feb 2012	No
SDA Group	The Company	2,161,492.68	28 Feb 2011	28 Feb 2012	No
SDA Group	The Company	2,331,333.00	28 Feb 2011	28 Feb 2012	No
SDA Group	The Company	1,108,958.40	28 Feb 2011	28 Feb 2012	No
SDA Group	The Company	2,201,915.03	28 Feb 2011	28 Feb 2012	No
SDA Group	The Company	51,775,755.48	1 Mar 2011	29 Feb 2012	No
SDA Group	The Company	2,205,315.00	1 Mar 2011	29 Feb 2012	No
SDA Group	The Company	1,101,397.32	1 Mar 2011	29 Feb 2012	No

<u>Guarantor</u>	<u>Guarantee</u>	<u>Guaranteed balance</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Performance completion</u>
SDA Group	The Company	2,205,315.00	1 Mar 2011	29 Feb 2012	No
SDA Group	The Company	2,449,570.65	1 Mar 2011	29 Feb 2012	No
SDA Group	The Company	2,455,797.20	1 Mar 2011	29 Feb 2012	No
SDA Group	The Company	1,101,397.32	7 Mar 2011	6 Mar 2012	No
SDA Group	The Company	2,268,893.85	9 Mar 2011	8 Mar 2012	No
SDA Group	The Company	2,247,299.79	9 Mar 2011	8 Mar 2012	No
SDA Group	The Company	45,350,910.48	21 Jul 2011	20 Jul 2012	No
SDA Group	The Company	<u>98,865,657.65</u>	3 Aug 2011	2 Aug 2012	No
Total		<u>861,763,862.43</u>			

6.5.4. Lending among related parties

<u>Related party</u>	<u>Amount</u>	<u>Start date</u>	<u>Expiry date</u>	<u>Note</u>
Lender				
China National Aviation Finance Co., Ltd.	50,000,000.00	25.7.2011	20.7.2012	
China National Aviation Finance Co., Ltd.	50,000,000.00	27.7.2011	27.7.2012	
China National Aviation Finance Co., Ltd.	50,000,000.00	16.8.2011	16.8.2012	
China National Aviation Finance Co., Ltd.	50,000,000.00	23.8.2011	23.8.2012	
China National Aviation Finance Co., Ltd.	<u>50,000,000.00</u>	30.8.2011	30.8.2012	
Total	<u>250,000,000.00</u>			

6.5.5. Asset transferred among related parties

<u>Related party</u>	<u>Subject of transaction</u>	<u>Type of transaction</u>	<u>Pricing method</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
				<u>Amount</u>	<u>% of transaction of the same type</u>	<u>Amount</u>	<u>% of transaction of the same type</u>
Shandong XiangYu Air Technology Co., Ltd.	Airborne materials and equipments	Sales of goods	By agreement	<u>4,598,783.00</u>	100.00	<u>3,851,850.53</u>	100.00
Total				<u>4,598,783.00</u>		<u>3,851,850.53</u>	

6.5.6. Lease among related parties

<u>Related party</u>	<u>Subject of transaction</u>	<u>Type of transaction</u>	<u>Pricing method</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
				<u>Amount</u>	<u>% of transaction of the same type</u>	<u>Amount</u>	<u>% of transaction of the same type</u>
Air China	Engine	Lease	By agreement	10,418,918.18	31.42	0.00	0.00

<u>Related party</u>	<u>Subject of transaction</u>	<u>Type of transaction</u>	<u>Pricing method</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
				<u>Amount</u>	<u>% of transaction of the same type</u>	<u>Amount</u>	<u>% of transaction of the same type</u>
Air China	Simulator	Lease	By agreement	<u>3,286,500.00</u>	100.00	<u>0.00</u>	0.00
Total				<u>13,705,418.18</u>		<u>0.00</u>	

6.5.7. Other related party transaction

<u>Related party</u>	<u>Pricing method</u>	<u>Subject of transaction</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
			<u>Amount</u>	<u>% of transaction of the same type</u>	<u>Amount</u>	<u>% of transaction of the same type</u>
Air China	By agreement	Wet lease	659,331,863.00	100.00	637,573,253.00	100.00
SDA Group	By agreement	Guarantee	240,000.00	100.00	1,445,100.00	100.00
SDA Group	By agreement	Purchase of assets	1,482,899.66	0.15	0.00	0.00
Shandong XiangYu Air Technology Co., Ltd.	By agreement	Airborne materials and equipments repair agenting	2,369,193.93	100.00	0.00	0.00
Air China	By agreement	Code-share	11,172,745.81	100.00	14,985,479.03	100.00
Air China Cargo Co., Ltd.	By agreement	Code-share	<u>3,006,710.77</u>	100.00	<u>4,489,317.15</u>	100.00
Total			<u>677,603,413.17</u>		<u>658,493,149.18</u>	

6.6. Accounts balance due from and to related parties

6.6.1. Accounts balance due from and to related parties

<u>Account</u>	<u>Related party</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Accounts receivable			
	Air China	54,247,936.00	66,366,844.88
	Shenzhen Airlines Co., Ltd.	1,849,400.00	1,849,400.00
	Air China Cargo Co., Ltd.	<u>3,762,274.92</u>	<u>3,275,079.39</u>
Total		<u>59,859,610.92</u>	<u>71,491,324.27</u>
Advances to suppliers			
	Shandong XiangYu Air Technology Co., Ltd.	<u>4,511,590.60</u>	<u>1,918,266.76</u>
Total		<u>4,511,590.60</u>	<u>1,918,266.76</u>
Other receivables			
	Air China	13,859,769.26	40,503,711.76
	Shandong XiangYu Air Technology Co., Ltd.	0.00	3,864,597.95
	Shandong Rainbow Commercial Jet Co., Ltd.	<u>109,051,717.65</u>	<u>109,051,717.65</u>

<u>Account</u>	<u>Related party</u>	<u>2011.12.31</u>	<u>2010.12.31</u>
Total		<u>122,911,486.91</u>	<u>153,420,027.36</u>
Accounts payable			
	Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	3,825,794.45	0.00
	Sichuan International Aero Engine Maintenance Co., Ltd.	8,835,970.40	000
	Air China	7,735,879.32	3,437,689.95
	Taikoo (Shandong) Aircraft Engineering Company Limited	23,072,537.89	27,829,926.58
	Air China Cargo Co., Ltd.	<u>417,427.64</u>	<u>414,307.39</u>
Total		<u>43,887,609.70</u>	<u>31,681,923.92</u>
Other payables			
	Air China	20,000,000.00	20,000,000.00
	SDA Group	1,008,583.74	12,192,570.48
	Taikoo (Shandong) Aircraft Engineering Company Limited	245,400.00	245,400.00
	Shenzhen Airlines Co., Ltd.	<u>1,850,144.00</u>	<u>1,083,308.00</u>
Total		<u>23,104,127.74</u>	<u>33,521,278.48</u>

Note 7: Contingencies

No contingency was subject to disclosure as at December 31st, 2011.

Note 8: Commitments

8.1. Commitments of which performance in progress as at December 31st, 2011

	<u>2011.12.31</u> <u>'000</u>				<u>Total</u>
	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>Over 3 years</u>	
Operating lease	597,506.81	552,070.63	535,458.93	2,474,462.01	4,159,498.38
Capital commitments	<u>1,239,617.71</u>	<u>2,161,284.87</u>	<u>1,767,028.90</u>	<u>2,736,488.53</u>	<u>7,904,420.01</u>
Total	<u>1,837,124.52</u>	<u>2,713,355.50</u>	<u>2,302,487.83</u>	<u>5,210,950.54</u>	<u>12,063,918.39</u>

Note 9: Post-balance-sheet-date events

As provided by the Profit Distribution Proposal (利润分配预案) approved by the 6th Meeting of the 4th Term of Board of Directors on March 21st, 2012, a cash dividend of CNY4.00 (including tax) per 10 shares for the 400 million shares as at December 31st, 2011 was declared.

Note 10: Other significant issues**10.1. Assets and liabilities measured by fair value**

	<u>2010.12.31</u>	<u>Gain or loss from change in fair value during the current year</u>	<u>Cumulative change in fair value recognised in capital reserve</u>	<u>Impairment provision recognised during the current year</u>	<u>2011.12.31</u>
Financial assets					
Financial derivatives	<u>9,290,846.62</u>	<u>-9,290,846.62</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Subtotal	<u>9,290,846.62</u>	<u>-9,290,846.62</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Financial liabilities					
Financial derivative	<u>3,865,809.52</u>	<u>-1,720,288.42</u>	<u>0.00</u>	<u>0.00</u>	<u>2,145,521.10</u>
Subtotal	<u>3,865,809.52</u>	<u>-1,720,288.42</u>	<u>0.00</u>	<u>0.00</u>	<u>2,145,521.10</u>

10.2. Financial assets and financial liabilities denominated in foreign currency

	<u>2010.12.31</u>	<u>Gain or loss from change in fair value during the current year</u>	<u>Cumulative change in fair value recognised in capital reserve</u>	<u>Impairment provision recognised during the current year</u>	<u>2011.12.31</u>
Financial assets					
Financial derivatives	<u>9,290,846.62</u>	<u>-9,290,846.62</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Subtotal	<u>9,290,846.62</u>	<u>-9,290,846.62</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Financial liabilities					
Financial derivative	<u>3,865,809.52</u>	<u>-1,720,288.42</u>	<u>0.00</u>	<u>0.00</u>	<u>2,145,521.10</u>
Subtotal	<u>3,865,809.52</u>	<u>-1,720,288.42</u>	<u>0.00</u>	<u>0.00</u>	<u>2,145,521.10</u>

Note 11: Notes to the main elements of the separate financial statements**11.1. Accounts receivable****11.1.1. Disclosure by classification**

<u>Classification</u>	<u>2011.12.31</u>		<u>Provision for bad debts</u>	
	<u>Book value</u>		<u>Amount</u>	<u>Proportion(%)</u>
	<u>Amount</u>	<u>Proportion(%)</u>		
Accounts receivable of individual significance	133,831,501.87	73.71	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	47,744,614.85	26.29	2,387,230.74	5.00

<u>Classification</u>	<u>2011.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Subtotal of category	47,744,614.85	26.29	2,387,230.74	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>181,576,116.72</u>	<u>100.00</u>	<u>2,387,230.74</u>	<u>1.31</u>

(continued)

<u>Classification</u>	<u>2010.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Accounts receivable of individual significance	159,361,519.11	85.10	0.00	0.00
Categorised accounts receivable:				
Categorisation by nature of receivables	27,907,177.65	14.90	1,395,358.88	5.00
Subtotal of category	27,907,177.65	14.90	1,395,358.88	5.00
Accounts receivable of individual insignificance subject to individual assessment for impairment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>187,268,696.76</u>	<u>100.00</u>	<u>1,395,358.88</u>	<u>0.75</u>

① Classification of accounts receivable: See Note 2.10 for criteria for classification of accounts receivable of individual significance, categorised accounts receivable and accounts receivable of individual insignificance subject to individual assessment for impairment.

② Categories of accounts receivable subject to provision for bad debts by percentage of carrying amount

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
Categorisation by nature of receivables	<u>47,744,614.85</u>	5.00	<u>2,387,230.74</u>
Total	<u>47,744,614.85</u>	5.00	<u>2,387,230.74</u>

11.1.2. Accounts receivable of individual significance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Air China	54,247,936.00	0.00	0.00	Individually assessed as non-impaired
BSP	49,694,136.64	0.00	0.00	Individually assessed as non-impaired
CAAC Settlement Centre	<u>29,889,429.23</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as non-impaired
Total	<u>133,831,501.87</u>	<u>0.00</u>	<u>0.00</u>	

11.1.3. Accounts receivables owed by shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Provision for bad debts</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion (%)</u>	<u>Amount</u>	<u>Proportion (%)</u>
Air China	<u>54,247,936.00</u>	<u>0.00</u>	<u>66,366,844.88</u>	<u>0.00</u>

<u>Shareholder</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Amount</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Provision for bad debts</u>
Total	<u>54,247,936.00</u>	<u>0.00</u>	<u>66,366,844.88</u>	<u>0.00</u>

11.1.4. Top five accounts receivable

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Age</u>	<u>Nature of account</u>	<u>% of total accounts receivable</u>
Air China	Related party	54,247,936.00	Within 1 year	Mixed lease, Code-share	29.88
BSP	Non-related party	49,694,136.64	Within 1 year	Settlement	27.37
CAAC Settlement Centre	Non-related party	29,889,429.23	Within 1 year	Difference settlement	16.46
China Post, Jinan	Non-related party	4,380,569.48	Within 1 year	Cabin charter	2.41
Air China Cargo Co., Ltd.	Related party	<u>3,762,274.92</u>	Within 1 year	Code-share	<u>2.07</u>
Total		<u>141,974,346.27</u>			<u>78.19</u>

11.1.5. Accounts receivables owed by related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>% of total accounts receivable</u>
Air China	Principal investor of the Company	54,247,936.00	29.88
Air China Cargo Co., Ltd.	Controlled by principal investors of the Company	3,762,274.92	2.07
Qingdao Logistics	Wholly-owned subsidiary	<u>1,494,350.00</u>	<u>0.82</u>
Total		<u>59,504,560.92</u>	<u>32.77</u>

11.2. Other receivables

11.2.1. Disclosure by classification

<u>Classification</u>	<u>2011.12.31</u>		<u>2010.12.31</u>	
	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Book value</u>	<u>Provision for bad debts</u>
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Other receivables of individual significance	168,048,800.93	53.15	109,051,717.65	64.89
Categorised other receivables:				
Categorisation by nature of receivables	67,223,638.48	21.26	3,361,181.92	5.00
Subtotal of category	67,223,638.48	21.26	3,361,181.92	5.00
Other receivables of individual insignificance subject to individual assessment for impairment	<u>80,903,554.97</u>	<u>25.59</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>316,175,994.38</u>	<u>100.00</u>	<u>112,412,899.57</u>	<u>35.55</u>

(continued)

<u>Classification</u>	<u>2010.12.31</u>		<u>2010.12.31</u>	
	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Book value</u>	<u>Provision for bad debts</u>
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Other receivables of individual significance	228,578,538.56	67.92	109,051,717.65	47.71

<u>Classification</u>	<u>2010.12.31</u>			
	<u>Book value</u>		<u>Provision for bad debts</u>	
	<u>Amount</u>	<u>Proportion(%)</u>	<u>Amount</u>	<u>Proportion(%)</u>
Categorised other receivables:				
Categorisation by nature of receivables	43,013,704.89	12.78	2,150,685.24	5.00
Subtotal of category	43,013,704.89	12.78	2,150,685.24	5.00
Other receivables of individual insignificance subject to individual assessment for impairment	<u>64,955,587.90</u>	<u>19.30</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>336,547,831.35</u>	<u>100.00</u>	<u>111,202,402.89</u>	<u>33.04</u>

① Classification of other receivables: See Note 2.10 for criteria for classification of other receivables of individual significance, categorised other receivables and other receivables of individual insignificance subject to individual assessment for impairment.

② Categories of other receivables subject to provision for bad debts by percentage of carrying amount

<u>Category</u>	<u>Book value</u>	<u>Proportion (%)</u>	<u>Provision for bad debts</u>
Categorisation by nature of receivables	<u>67,223,638.48</u>	<u>5.00</u>	<u>3,361,181.92</u>
Total	<u>67,223,638.48</u>	<u>5.00</u>	<u>3,361,181.92</u>

11.2.2. Other receivables of individual significance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Shandong Rainbow Commercial Jet Co., Ltd.	109,051,717.65	109,051,717.65	100.00	Individually assessed as uncollectable
CBD-leasing Co., Ltd.	41,354,563.28	0.00	0.00	Individually assessed as non-impaired
Singapore Aircraft Leasing Enterprise	<u>17,642,520.00</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as non-impaired
Total	<u>168,048,800.93</u>	<u>109,051,717.65</u>	<u>64.89</u>	

11.2.3. Other receivables of individual insignificance subject to individual assessment for impairment:

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
Air China	13,859,769.26	0.00	0.00	Individually assessed as non-impaired
Beijing LaiFuTe Technology Development Co., Ltd.	12,658,829.43	0.00	0.00	Individually assessed as non-impaired
Aviation Capital Group Corporation	11,426,518.83	0.00	0.00	Individually assessed as non-impaired
Babcock & Brown Aircraft Management LLC	9,325,332.00	0.00	0.00	Individually assessed as non-impaired
Rainier Aircraft Leasing(Ireland) Limited	8,411,701.50	0.00	0.00	Individually assessed as non-impaired

<u>Content</u>	<u>Book value</u>	<u>Provision for bad debts</u>	<u>Proportion (%)</u>	<u>Reason for provision</u>
KuqiQian Telephone Payment	7,681,177.00	0.00	0.00	Individually assessed as non-impaired
Aerdragon Aviation Partners Limited	4,322,417.40	0.00	0.00	Individually assessed as non-impaired
Rainier Aircraft Leasing(Ireland) Limited	4,245,297.00	0.00	0.00	Individually assessed as non-impaired
Pacific Brihar Corporation Limited	3,326,875.20	0.00	0.00	Individually assessed as non-impaired
China Merchants Bank Phone Payment	2,094,297.00	0.00	0.00	Individually assessed as non-impaired
HuiFuTianXia Phone Payment	1,273,565.00	0.00	0.00	Individually assessed as non-impaired
Shannon Engine Support LTD	787,612.50	0.00	0.00	Individually assessed as non-impaired
GSI Engine Beta Limited Partnership	689,948.55	0.00	0.00	Individually assessed as non-impaired
MTU Maintenance Berlin-Brandenburg Gmbh	630,090.00	0.00	0.00	Individually assessed as non-impaired
WEST ENGINE FUNDING LLC	<u>170,124.30</u>	<u>0.00</u>	<u>0.00</u>	Individually assessed as non-impaired
Total	<u>80,903,554.97</u>	<u>0.00</u>	<u>0.00</u>	

11.2.4. Other receivables owed by shareholders with 5% or more voting right during the reporting period

<u>Shareholder</u>	<u>2011.12.31</u>	<u>Provision for bad debts</u>	<u>2010.12.31</u>	<u>Provision for bad debts</u>
	<u>Amount</u>		<u>Amount</u>	
Air China	<u>13,859,769.26</u>	<u>0.00</u>	<u>40,503,711.76</u>	<u>0.00</u>
Total	<u>13,859,769.26</u>	<u>0.00</u>	<u>40,503,711.76</u>	<u>0.00</u>

11.2.5. Top five other receivables

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Nature of account</u>	<u>Age</u>	<u>% of total other receivables</u>
Shandong Rainbow Commercial Jet Co., Ltd.	Related party	109,051,717.65	Operating balance	4 to 8 years	34.49
CBD-leasing Co., Ltd.	Non-related party	41,354,563.28	Deposit	Over 5 years	13.08
Singapore Aircraft Leasing Enterprise	Non-related party	17,642,520.00	Deposit	Over 4 years	5.58
Rockwell Collins	Non-related party	14,368,919.81	Deposit	Within 1 year	4.55
Air China	Related party	<u>13,859,769.26</u>	Deposit	Within 1 year	<u>4.38</u>
Total		<u>196,277,490.00</u>			<u>62.08</u>

11.2.6. Other receivables owed by related parties

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>% of total other receivables</u>
Air China	Principal investor of the Company	13,859,769.26	4.38
Qingdao Logistics	Wholly-owned subsidiary	11,816,152.60	3.74

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>% of total other receivables</u>
Qingdao Feisheng	Wholly-owned subsidiary	3,717,575.10	1.18
Shandong Rainbow Commercial Jet Co., Ltd.	Associate	<u>109,051,717.65</u>	<u>34.49</u>
Total		<u>138,445,214.61</u>	<u>43.79</u>

11.3. Long-term equity investments

11.3.1. Disclosure by classification

<u>Investee</u>	<u>Measurement</u>	<u>Cost of investment</u>	<u>Shareholding (%)</u>	<u>Voting right (%)</u>	<u>Reason for disagreement between shareholding and voting right</u>
Qingdao Logistics	Historical cost convention	48,323,205.97	100.00	100.00	No disagreement
China Travelsky Technology Co., Ltd.	Historical cost convention	6,690,000.00	0.45	0.45	No disagreement
Sichuan Airlines Co., Ltd.	Historical cost convention	35,000,000.00	10.00	10.00	No disagreement
Jinan International Airport Co., Ltd.	Historical cost convention	46,662,100.00	2.53	2.53	No disagreement
Qingdao Feisheng	Historical cost convention	57,677,479.46	100.00	100.00	No disagreement
Shandong Rainbow Commercial Jet Co., Ltd.	Equity method	<u>22,500,000.00</u>	45.00	45.00	No disagreement
Total		<u>216,852,785.43</u>			

(continued)

<u>Investee</u>	<u>2010.12.31</u>	<u>Movement in year</u>	<u>2011.12.31</u>	<u>Impairment provision</u>	<u>Impairment provision recognised in year</u>	<u>Cash dividend</u>
Qingdao Logistics	23,813,205.97	24,510,000.00	48,323,205.97	0.00	0.00	0.00
China Travelsky Technology Co., Ltd.	6,690,000.00	0.00	6,690,000.00	0.00	0.00	1,365,429.00
Sichuan Airlines Co., Ltd.	35,000,000.00	0.00	35,000,000.00	0.00	0.00	10,000,000.00
Jinan International Airport Co., Ltd.	46,662,100.00	0.00	46,662,100.00	0.00	0.00	475,953.42
Qingdao Feisheng	57,677,479.46	0.00	57,677,479.46	0.00	0.00	0.00
Shandong Rainbow Commercial Jet Co., Ltd.	<u>22,500,000.00</u>	<u>0.00</u>	<u>22,500,000.00</u>	<u>22,500,000.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>192,342,785.43</u>	<u>24,510,000.00</u>	<u>216,852,785.43</u>	<u>22,500,000.00</u>	<u>0.00</u>	<u>11,841,382.42</u>

11.4. Operating revenue and operating costs

11.4.1. Disclosure by classification

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Principle operating revenue	9,542,640,118.55	7,202,653,930.01
Other operating revenue	<u>104,109,326.47</u>	<u>81,820,139.22</u>
Total	<u>9,646,749,445.02</u>	<u>7,284,474,069.23</u>

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Principle operating costs	7,251,657,817.11	5,479,055,497.83
Other operating costs	<u>6,365,030.93</u>	<u>5,407,179.34</u>
Total	<u>7,258,022,848.04</u>	<u>5,484,462,677.17</u>

11.4.2. Disclosure by operation

<u>Operation</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
	<u>Operating revenue</u>	<u>Operating costs</u>	<u>Operating revenue</u>	<u>Operating costs</u>
Air transportation	9,523,675,225.67	7,228,984,657.23	7,179,220,348.49	5,459,720,041.47
Hospitality	23,081,379.95	21,850,046.48	25,414,051.87	20,815,817.17
Training	5,124,857.35	4,576,541.43	3,914,000.00	924,032.15
Rental	607,750.00	117,469.97	88,110.26	0.00
Other	<u>94,260,232.05</u>	<u>2,494,132.93</u>	<u>75,837,558.61</u>	<u>3,002,786.38</u>
Total	<u>9,646,749,445.02</u>	<u>7,258,022,848.04</u>	<u>7,284,474,069.23</u>	<u>5,484,462,677.17</u>

11.4.3. Operating revenue from top five customers

<u>Customer</u>	<u>Operating revenue</u>	<u>% of total operating revenue</u>
Customer 1	683,070,133.01	7.08
Customer 2	31,680,000.00	0.33
Customer 3	9,739,110.00	0.10
Customer 4	7,800,000.00	0.08
Customer 5	<u>7,260,000.00</u>	<u>0.08</u>
Total	<u>739,549,243.01</u>	<u>7.67</u>

11.5. Investment income

11.5.1. Disclosure by classification

<u>Classification</u>	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Investment arising from long-term equity investments measure using the historical cost convention	11,841,382.42	1,235,391.15
Investment arising from holding of financial assets held for trading	<u>-3,291,906.49</u>	<u>-2,955,503.33</u>
Total	<u>8,549,475.93</u>	<u>-1,720,112.18</u>

11.5.2. Investment arising from long-term equity investments measured using the historical cost convention

<u>Investee</u>	<u>Y/e2011.12.31</u>	<u>Y/e2010.12.31</u>	<u>Reason for change from the previous year</u>
China Travelsky Technology Co., Ltd.	1,365,429.00	1,165,398.00	Change of profit distribution

Sichuan Airlines Co., Ltd.	10,000,000.00	0.00	Change of profit distribution
Jinan International Airport Co., Ltd.	<u>475,953.42</u>	<u>69,993.15</u>	Change of profit distribution
Total	<u>11,841,382.42</u>	<u>1,235,391.15</u>	

11.5.3. No investment income was imposed with limitation on remittance as at December 31st, 2011.

11.6. Supplementary information to the separate statement of cash flows

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
<u>(1) Cash flows adjusted from net profits</u>		
Net profits	764,692,668.58	633,686,858.58
Add: Impairment losses	196,012,449.21	939,702.80
Add: Depreciation of non-current assets and productive biological assets and losses of fuel	663,583,520.35	561,748,970.27
Add: Amortisation of intangible assets	899,374.64	714,050.73
Add: Amortisation of long-term deferred expenses	45,575,668.37	42,512,979.36
Add: Losses on disposals of non-current assets, intangible assets and long-term assets (minus sign representing gains)	-7,721,097.44	-4,106.42
Add: Losses arising from scrapping non-current assets (minus sign representing gains)	17,320,987.51	7,619,454.74
Add: Losses arising from fair value changes (minus sign representing gains)	7,570,558.20	5,916,809.38
Add: Financial costs (minus sign representing income)	91,953,090.03	148,529,818.13
Add: Investment losses (minus sign representing income)	-8,549,475.93	1,720,112.18
Add: Decrease of deferred income tax assets (minus sign representing increase)	-103,658,330.62	-34,613,253.12
Add: Increase of deferred income tax liabilities (minus sign representing decrease)	-2,322,711.66	-512,749.96
Add: Decrease of inventories (minus sign representing increase)	-38,483,530.73	-12,165,928.57
Add: Decrease of operating accounts receivables (minus sign representing increase)	-5,550,239.08	-76,890,676.84
Add: Increase of operating accounts payables (minus sign representing decrease)	598,979,306.30	392,661,666.17
Add: Others	<u>0.00</u>	<u>0.00</u>
Net cash flows from operating activities	<u>2,220,302,237.73</u>	<u>1,671,863,707.43</u>
<u>(2) Non-cash-flow related significant investing and financing activities</u>		
Conversion of debt to equity	0.00	0.00
Conversion debt instruction of maturity less than 1 year	0.00	0.00
Non-current assets under financial leases	267,289,540.06	0.00
<u>(3) Net change of cash and cash equivalents</u>		
Cash carried forward	235,921,301.34	143,930,783.00

	<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
Less: Cash brought forward	143,930,783.00	35,081,676.95
Add: Cash equivalents carried forward	0.00	0.00
Less: Cash equivalents brought forward	<u>0.00</u>	<u>0.00</u>
Net increase of cash and cash equivalents	<u>91,990,518.34</u>	<u>108,849,106.05</u>

Note 12: Supplementary information

12.1. Details of non-operating gain or loss for the current reporting period

	<u>Amount</u>	<u>Note</u>
Gains from disposals of non-current assets after expending impairment provisions	-9,599,890.07	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief	0.00	
Government grants recognised through profit or loss for the current reporting period, excluding grants which are closely related to the Company's operating activities and of which the quota or approval is eligible for automatic renewal in accordance with relevant regulations	21,698,008.50	Flight route subsidy by government
Financial resource usage fees charged on non-financial institution recognised through profit or loss for the current reporting period	0.00	
Gains arising from bargain purchase in business combination and investments in associates and joint ventures	0.00	
Non-monetary asset exchange	0.00	
Consigned investment and asset management	0.00	
Impairment provision resulting from force majeure, eg. natural disasters	0.00	
Reorganisation	0.00	
Reorganisation expenditure	0.00	
Unfair transactions	0.00	
Net profits or losses achieved by an acquired under-common-control entity during the period from the start of the period to the acquisition date	0.00	
Gains or losses arising from contingent events unconnected with the Company's daily operating activities	0.00	
Fair value changes of tradable financial assets and tradable financial liabilities held and gains or losses arising from disposals of tradable financial assets, tradable financial liabilities and available-for-sale financial assets, excluding hedging contracts relevant to the Company's daily operating activities	-10,862,464.69	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment	0.00	
Gains or losses arising from consigned borrowings	0.00	
Fair value changes of property investments subsequently measured at fair value	0.00	
One-off adjustment of profit or loss for the current reporting period in accordance with tax and accounting laws and regulations	0.00	
Consignment income arising from consigned operations	0.00	

	<u>Amount</u>	<u>Note</u>
Income and expenses other than items listed above	24,964,169.47	Other non-operating income and expenses
Other gains or losses satisfying the definition of extraordinary gains or losses	0.00	
Subtotal	26,199,823.21	
Less: Impact of income tax	6,751,319.93	
Less: Impact on non-controlling interest	<u>-141,224.94</u>	
Total	<u>19,589,728.22</u>	

12.2. Rate of return on net assets and earnings per share

<u>Profit for the reporting period</u>	<u>Weighted average rate of return on net assets</u>	<u>Earnings per share</u> <u>Basic</u>	<u>Diluted</u>
Profit attributable to ordinary shareholders of the Company	45.05%	1.93	1.93
Profit after adjustment for non-operating gain/loss attributable to ordinary shareholders of the Company	43.90%	1.88	1.88

Computation of earnings per share

12.2.1. Basic earnings per share

		<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
	<u>Computation</u>	<u>Amount</u>	<u>Amount</u>
		<u>Amount after adjustment for non-operating gain/loss</u>	<u>Amount after adjustment for non-operating gain/loss</u>
Profit for the reporting period attributable to ordinary shareholders of the Company	(1)	771,225,549.05	634,364,547.92
Number of ordinary shares outstanding as at January 1 st , 2011	(2)	400,000,000.00	400,000,000.00
Weighted average number of ordinary shares increased in year	(3)	0.00	0.00
Weighted average number of ordinary shares decreased in year	(4)	0.00	0.00
Weighted average number of ordinary shares outstanding	(5)=(2)+(3)-(4)	400,000,000.00	400,000,000.00
Basic earnings per share	(6)=(1)÷(5)	1.93	1.59

12.2.2. Diluted earnings per share

		<u>Y/e 2011.12.31</u>	<u>Y/e 2010.12.31</u>
	<u>Computation</u>	<u>Amount</u>	<u>Amount</u>
		<u>Amount after adjustment for non-operating gain/loss</u>	<u>Amount after adjustment for non-operating gain/loss</u>
Profit for the reporting period attributable to ordinary shareholders of the Company	(1)	771,225,549.05	634,364,547.92
Dilutive potential dividend on ordinary share recognised as expense	(2)	0.00	0.00
Conversion cost applicable to dilutive potential ordinary shares	(3)	0.00	0.00
Income tax rate	(4)	25.00%	25.00%

	<u>Computation</u>	<u>Y/e 2011.12.31</u>		<u>Y/e 2010.12.31</u>	
		<u>Amount</u>	<u>Amount after adjustment for non-operating gain/loss</u>	<u>Amount</u>	<u>Amount after adjustment for non-operating gain/loss</u>
Post-adjustment Profit for the reporting period attributable to ordinary shareholders of the Company	(5)=(1)+[(2)-(3)]×[1-(4)]	771,225,549.05	751,635,820.83	634,364,547.92	625,449,962.16
Number of shares employed in the computation of basic earnings per share	(6)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Weighted average number of ordinary shares outstanding increased adjustment for dilutive effect	(7)	0.00	0.00	0.00	0.00
Weighted average number of ordinary shares outstanding for the computation of diluted earnings per share	(8)=(6)+(7)	400,000,000.00	400,000,000.00	400,000,000.00	400,000,000.00
Diluted earnings per share	(9)=(5)÷(8)	1.93	1.88	1.59	1.56

Note 13: Approval of Financial Statement

The financial statement was approved for disclosed by the Board of Directors dated 21 March 2012.

XI. Documents Available for Reference

1. Financial statements carrying the personal signatures and seals of Chairman of the Board, Chief Accountant and Person in Charge of Accounting Department;
2. Original of Auditors' Report carrying the seals of Certified Public Accountants as well as personal signatures and seals of certified public accountants;
3. Originals of all documents and notices publicly disclosed on newspapers designated by CSRC in the report period in 2011;
4. The Company will offer above documents for reference timely provided that CSRC or Stock Exchange demands or shareholders requires according to the regulations and Articles of Association.

Board of Directors of
Shandong Airlines Co., Ltd.
March 21, 2012