山東航空股份有限公司

SHANDONG AIRLINES CO.,LTD

ANNUAL REPORT 2016

March 2017

Contents

Section I. Important Notice and Paraphrase

Board of Directors, Supervisory Committee, all directors, supervisors and senior executives of Shandong Airlines Co., Ltd. (hereinafter referred to as the Company) hereby confirm that there are no any fictitious statements, misleading statements, 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.

Sun Xiujiang, Principal of the Company, Xu Guojian, person in charger of accounting works and Sun Jingping, person in charge of accounting organ (accounting principal) hereby confirm that the Financial Report of 2016 Annual Report is authentic, accurate and complete.

Other directors attending the Meeting for annual report deliberation except for the followed:

Name of director absent	Title for absent director	Reasons for absent	Attorney
Wang Mingyuan	Director	Work causes	Xu Chuanyu

***China Securities Journal*, *Securities Times*, *Hong Kong Commercial Daily* and Juchao Website (www.cninfo.com.cn) are the media for information disclosure appointed by the Company, all information under the name of the Company disclosed on the above said media shall prevail, and Investors are advised to exercise caution of investment risks.**

The profit distribution plan that deliberated and approved by the Board is: based on total stock issued 400,000,000 shares, distributed 3.0 Yuan (tax included) bonus in cash for every 10-share hold by all shareholders, 0 shares bonus issued (tax included) and no capitalizing of common reserves carried out.

Paraphrase

Items	Refers to	Contents
The Company, Company	Refers to	Shandong Airlines Co., Ltd.
SDA	Refers to	Shandong Aviation Group; the first largest shareholder and controlling shareholder of the Company
Air China	Refers to	Air China Limited, the second largest shareholder of the Company

Section II Company Profile and Main Finnaical Indexes

I. Company information

Short form of the stock	Shanhang-B	Stock code	200152
Stock exchange for listing	Shenzhen Stock Exchange		
Name of the Company (in Chinese)	山东航空股份有限公司		
Short form of the Company (in Chinese)	山东航空		
Foreign name of the Company (if applicable)	SHANDONG AIRLINES CO.,LTD.		
Short form of foreign name of the Company (if applicable)	SDA		
Legal representative	Sun Xiujiang		
Registrations add.	Yaoqiang International Airport, Jinan, Shandong		
Code for registrations add	250107		
Offices add.	SDA Bldg., No. 5746, Er Huan East Road, Jinan, Shandong		
Codes for office add.	250014		
Company website	http://www.shandongair.com.cn		
Email	zqb@shandongair.com.cn		

II. Person/Way to contact

	Secretary of the Board	Rep. of security affairs
Name	Dong Qiantang	Fan Peng
Contacts add.	1/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	3/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong
Tel.	0531-82085939	0531-82085586
Fax.	0531-85698767 ext. 8679	0531-85698767 ext. 8679
Email	dongqt@shandongair.com.cn	fanp@shandongair.com.cn

III. Information disclosure and preparation place

Newspaper appointed for information disclosure	In China: *China Securities Journal*, *Securities Times* overseas: *Hong Kong Commercial Daily*
Website for annual report publish appointed by CSRC	http://www.cninfo.com.cn
Preparation place for annual report	Office of Board (3/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong)

IV. Registration changes of the Company

Organization code	91370000720721201F
Changes of main business since listing (if applicable)	No change.
Previous changes for controlling shareholders (if applicable)	No change.

V. Other relevant information

CPA engaged by the Company

Name of CPA	Ruihua Certified Public Accountants (LLP)
Offices add. for CPA	5-11/F, West Tower, China Oversea Property Plaza, NO. 7 Building of No. 8 West Binhe Rd., Dongcheng District, Beijing
Signing Accountants	Yang Yunhui, Guo Yuefeng

Sponsor engaged by the Company for performing continuous supervision duties in reporting period

□ Applicable √ Not applicable

Financial consultant engaged by the Company for performing continuous supervision duties in reporting period

□ Applicable √ Not applicable

VI. Main accounting data and financial indexes

Whether it has retroactive adjustment or re-statement on previous accounting data for accounting policy changed and accounting error correction or not

□ Yes √ No

	2016	2015	Changes over last year	2014
Operating income (RMB)	13,742,365,545.56	12,108,963,139.11	13.49%	11,570,296,757.48
Net profit attributable to shareholders of the listed company(RMB)	532,834,567.17	532,260,993.04	0.11%	287,851,542.09

Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses(RMB)	409,577,360.28	387,733,814.57	5.63%	146,403,043.43
Net cash flow arising from operating activities(RMB)	2,427,055,988.42	2,424,457,843.01	0.11%	1,459,828,215.31
Basic earnings per share (RMB/Share)	1.33	1.33	0.00%	0.72
Diluted earnings per share (RMB/Share)	1.33	1.33	0.00%	0.72
Weighted average ROE	14.88%	17.22%	2.34 percentage points down	10.33%
	End of 2016	End of 2015	Changes over end of last year	End of 2014
Total assets (RMB)	12,741,974,788.53	12,748,902,597.96	-0.05%	12,118,867,620.51
Net assets attributable to shareholder of listed company (RMB)	3,836,172,828.06	3,365,013,204.57	14.00%	2,878,120,380.35

VII. Difference of the accounting data under accounting rules in and out of China

1. Difference of the net profit and net assets disclosed in financial report, under both IAS (International Accounting Standards) and Chinese GAAP (Generally Accepted Accounting Principles)

The Company had no difference of the net profit or net assets disclosed in financial report, under either IAS (International Accounting Standards) or Chinese GAAP (Generally Accepted Accounting Principles) in the period.

2. Difference of the net profit and net assets disclosed in financial report, under both foreign accounting rules and Chinese GAAP (Generally Accepted Accounting Principles)

The Company had no difference of the net profit or net assets disclosed in financial report, under either foreign accounting rules or Chinese GAAP (Generally Accepted Accounting Principles) in the period.

VIII. Quarterly main financial index

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	3,219,038,263.72	3,090,711,026.50	4,281,345,876.23	3,151,270,379.11
Net profit attributable to shareholders of the listed company	245,104,203.92	38,585,284.73	561,083,160.10	-311,938,081.58
Net profit attributable to	211,053,323.68	-8,590,154.76	543,592,573.16	-336,478,381.80

shareholders of the listed company after deducting non-recurring gains and losses				
Net cash flow arising from operating activities	269,904,370.90	754,591,361.32	1,307,244,115.90	95,316,140.30

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

□Yes √ No

IX. Items and amounts of extraordinary profit (gains)/loss

√Applicable □Not applicable

In RMB

Item	Amount in 2016	Amount in 2015	Amount in 2014	Note
Gains/losses from the disposal of non-current asset (including the write-off that accrued for impairment of assets)	-3,391,225.20	44,170,859.84	-5,392,037.39	
Governmental subsidy reckoned into current gains/losses (not including the subsidy enjoyed in quota or ration according to national standards, which are closely relevant to enterprise's business)	149,937,201.77	113,608,585.59	161,105,606.12	
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	937,568.04	-5,042,991.37	-3,363,887.84	
Other non-operating income and expenditure except for the aforementioned items	17,172,191.25	25,300,508.74	36,398,186.39	
Less: impact on income tax	41,398,528.97	33,509,784.33	47,299,368.62	
Total	123,257,206.89	144,527,178.47	141,448,498.66	--

In reporting period, the Company has no particular about items defined as recurring profit (gain)/loss according to the lists of extraordinary profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public* --- *Extraordinary Profit/loss*

Section III Summary of Company Business

I. Main businesses of the company in the reporting period

Our Company and its subsidiaries are mainly engaged in provision of airline transportation service. The details of our operation scope are set out in the notes to financial statements.

For more than two decades, the Company has always been giving first priority to "ensure safety, pay close attention to efficiency, strive to punctuality and quality service". As of the end of 2016, the Company has 100 airplanes like Boeing B737 series, and enters into the ranks of large airlines. At present, the Company takes Jinan as the headquarters base, and sets up five branches (base) in Qingdao, Yantai, Xiamen, Chongqing, and Beijing, establishes four flight bases in Urumqi, Guiyang, Kunming, and Haikou, builds an airline network which cuts through south and north and connects east to west, and builds the triangle base pattern among Shandong, Xiamen, and Chongqing. The Company elaborately creates the "honest and kind" brand characteristics, which is increasingly blending in the enterprise blood along with the growth of fleet size and airline network.

The Company has been awarded the title of the “most valuable top 500 brands of China” for successive nine years. In 2016, the brand value of the Company increased by RMB 5.313 billion as compared to previous year to RMB 28.528 billion, making it rank No.101 among the most valuable top 500 brands of China, with 4 positions improved than last year.

Creating a solid foundation of safety management by reinforcing operation management, continous optimized the route network and fleet structure, continue to improve the level of marketing management, implemented refined cost control and focus on perfecting the HR construction, the sustainable grwoth ability achived a steady improvement in 2016

II. Major changes in main assets

1. Major changes in main assets

Major assets	Note of major changes
Monetary fund	The maturity loan are paid in the Period
Dividend receivable	Dividend payment for year of 2014 are collected in the Period from Sichuan Airlines
Advance payment	The prepaid rents growth due to the increase of lease aircrafts in the Year
Deferred tax assets	Deductable temporary difference increased due to the accrued expenses growth in the Period
Other non-current assets	Balance at period-end decline mainly because the operation leasing resulted from aircraft leaseback are have no income in the Period

2. Main overseas assets

□ Applicable √ Not applicable

III. Core competitive-ness analysis

No change

Section IV Discussion and Analysis of Operation

1. Introduction

The security sitation remained stable in year of 2016, operating quality continues to improve, main business maintain profitablity and service quality improved steadily, operation business are achieved the targets that predicted as a whole.

(I) Continue to deepen security management

In 2016, transportation segment, our principal business, has guaranteed 170,100 safe flights for 353,000 hours, representing increases of 12.5% and 9.5% respectively as compared to previous year. There is no civil aircraft incident or worse occurred due to the reason of the Company or external engagement. *Safety quality evaluation* indicator was 10.29. The Company continues to improve its security management policy, innovate a safety supervision mechanism, strengthen the safety production capacity and pay close attention to safety style rectification.

(II) Optimized and improve the operation control and decision-making mechanism

Our punctuation rate throughout the year was 80.09%, representing an increase of 6.95 percentage points over last year, ranking the 2nd position among the major airline companies. 42 flights for significant missions and special III (inclusive) were ensured, with punctuation rate of 98%. The Company reinforce management of flight normality, the normal rate for first flight in the whole year achived as 88%; optimized the operation decision-making mechanism, actively implement technological innovation. Implemented 143 times HUD LVTO in the whole year, and realized the effective support of technical factors to operation efficiency.

(III) Drive on structure optimization and cost control

In 2016, we completed a total turnover of 2.667 billion tons per kilometer, total passengers of 19.205 million and freights transportation of 155,600 tons, representing increases of 19.6%, 14.0% and 8.9% respectively. In addition, we realized operating income of RMB 13.742 billion, representing an increase of 13.49% year on year; total profit of RMB 709 million, representing a decrease of 0.23% year on year. The occupation rate of our passenger flights was 77.90%, with an increase of 2.02 percentage points year on year, the loading rate of freight flights was 40.94%, with an increase of 5.36 percentage points year on year. The Company strengthen organization of production resources, positively advancing construction of direct marketing channel, and digging deep into customer value, actively winning synergize, achieved cost advantage strategy, innovation development ability of the investment enterprise is enhanced.

(IV) Promoting service quality and brand building

The overall comment on passenger satisfaction investigation reached at 96.33, increasing 2.17 points year on year. Customer's effective complain rate was 0.165 per ten thousand people. We ranking fouth in aspect of services in the civil aviation authoritative media, and hornor the prize of Best Airline in Civil Aviation Service. The Company hornor the China's 500 Most Valuable Brands for nine consecutive years with brand value up to over 28.528 billion Yuan, a 5313 million Yuan grownt over last year, ranked 4 to enhance the ranking of the top 101st. Optimized the service management mechanism, continue to building the quality service brand-Lu Yan, and vigorously promote the construction of service team.

Operation data summary:

Index	2016	2015	Changes
Total t-km load rate (10 thousand t-km)	266710.41	222944.98	19.63%
Volume of passenger traffic (10 thousand passengers)	1920.52	1684.55	14.01%

Cargo & mail traffic volume (10 thousand tons)	15.56	14.29	8.89%
Flying km (one million km)	212.61	182.53	16.48%
Flying hours(10 thousand hours)	35.30	31.37	12.53%
Number of flight (10 thousand times)	17.01	15.54	9.46%
PLF(passenger load factor)	77.90%	75.88%	2.02 percentage points up
Cargo&Mail OLF (overall load factor)	40.94%	35.58%	5.36 percentage points up

In the Period, totally ten B737-800 aircrafts are introduced by the Company and five B737-300 aircrafts are out of services. Up to 31 December 2016, the Company operates 100 aircrafts in total and the fleet distribution below:

Model	Numbers	Average service age (Year)
737-700	3	4.7-year
737-800	95	
CRJ-700	2	

II. Main business analysis

1. Introduction

See "I. Introduction" in "Discussion and Analysis of Operation".

2. Revenue and cost

(1) Constitute of operation revenue

In RMB

	2016		2015		Increase/decrease y-o-y
	Amount	Ratio in operation revenue	Amount	Ratio in operation revenue	
Total of operation revenue	13,742,365,545.56	100%	12,108,963,139.11	100%	13.49%
Air transport service	13,301,825,036.11	96.80%	11,854,182,627.68	97.89%	12.21%
Logistics freight service	33,858,517.79	0.25%	29,091,047.84	0.24%	16.39%
Hotel & catering service	41,650,983.82	0.30%	42,367,728.65	0.35%	-1.69%
Training service	19,674,789.18	0.14%	22,786,226.72	0.19%	-13.65%

Other					

(2) About the industries, products, or regions accounting for over 10% of the company's operating income or operating profit

√Applicable □Not applicable

In RMB

	Operating revenue	Operating cost	Gross profit ratio	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating cost y-o-y	Increase/decrease of gross profit ratio y-o-y
According to industries						
Air transport service	13,301,825,036.11	11,811,194,516.30	11.21%	12.21%	16.60%	3.34 percentage points down
According to region						
Domestic	12,487,817,925.39	10,526,904,004.59	15.70%	11.90%	14.15%	1.66 percentage points down

(3) Whether income from physical sales larger than income from labors or not

□Yes √ No

(4) Fulfillment of the company's signed significant sales contracts up to this reporting period

□ Applicable √ Not applicable

(5) Constitute of operation cost

Industry classification

In RMB

Industry classification	Item	2016		2015		Y-o-y changes
		Amount	Ratio in operation cost	Amount	Ratio in operation cost	
Air transport service	Aviation fuel consumption	2,762,047,363.06	23.38%	2,735,386,308.86	27.00%	0.97%
Air transport service	Take-off & landing fees	1,733,798,086.35	14.68%	1,476,029,184.24	14.57%	17.46%
Air transport service	Employee's salary	1,688,090,330.49	14.29%	1,662,841,895.63	16.42%	1.52%
Air transport service	Depreciation of aircraft and engine	739,645,989.16	6.26%	638,271,294.26	6.30%	15.88%
Air transport service	Other	4,887,612,747.24	41.39%	3,616,894,892.24	35.71%	35.13%
Air transport service	Total	11,811,194,516.30	100.00%	10,129,423,575.23	100.00%	16.60%

Logistics freight service	Employee's salary	15,621,276.22	76.30%	16,413,087.85	88.55%	-4.82%
	Other	4,853,089.61	23.70%	2,121,421.06	11.45%	128.77%
	Total	20,474,365.83	100.00%	18,534,508.91	100.00%	10.47%
Hotel & catering service	Raw materials	26,422,465.79	73.68%	23,603,590.25	71.48%	11.94%
	Employee's salary	723,305.79	2.02%	732,820.39	2.22%	-1.30%
	Other	8,711,903.05	24.30%	8,686,472.97	26.30%	0.29%
	Total	35,857,674.63	100.00%	33,022,883.61	100.00%	8.58%
Training service	Depreciation	4,849,479.99	22.36%	4,849,479.99	36.29%	0.00%
	Other	16,837,587.39	77.64%	8,512,977.99	63.71%	97.79%
	Total	21,687,067.38	100.00%	13,362,457.98	100.00%	62.30%

(6) Whether the changes in the scope of consolidation in Reporting Period

□Yes √ No

(7)Major changes or adjustment in business, product or service of the Company in Reporting Period

□ Applicable √ Not applicable

(8) Major sales and main suppliers

Major sales of the Company

Total top five clients in sales (RMB)	401,390,768.92
Proportion in total annual sales volume for top five clients	2.94%
Ratio of related parties in annual total sales among the top five clients	2.14%

Information of top five clients of the Company

Serial	Name	Sales (RMB)	Proportion in total annual sales
1	Unit 1	291,593,333.84	2.14%
2	Unit 2	38,848,844.35	0.28%
3	Unit 3	25,389,335.00	0.19%
4	Unit 4	23,576,733.73	0.17%
5	Unit 5	21,982,522.00	0.16%
Total	--	401,390,768.92	2.94%

Other situation of main clients

□ Applicable √ Not applicable

Main suppliers of the Company

Total purchase amount from top five suppliers (RMB)	2,027,599,179.33
Proportion in total annual purchase amount for top five suppliers	29.60%
Ratio of related parties in annual total sales among the top five suppliers	3.90%

Information of top five suppliers of the Company

Serial	Name	Purchases (RMB)	Proportion in total annual purchase
1	Unit 1	997,579,442.73	14.56%
2	Unit 2	467,673,958.78	6.83%
3	Unit 3	266,883,899.60	3.90%
4	Unit 4	160,934,204.26	2.35%
5	Unit 5	134,527,673.96	1.96%
Total	--	2,027,599,179.33	29.60%

Other notes of main suppliers of the Company

□ Applicable √ Not applicable

3. Expense

In RMB

	2016	2015	Y-o-y changes	Note
Sales expense	674,961,176.53	713,698,896.12	-5.43%	
Management expense	333,943,862.70	280,697,316.52	18.97%	
Financial expense	261,876,586.15	319,822,620.05	-18.12%	

4. R&D investment

□ Applicable √ Not applicable

5. Cash flow

In RMB

Item	2016	2015	Y-o-y changes
Subtotal of cash in-flow from operation activity	15,542,904,192.31	13,613,162,378.72	14.18%
Subtotal of cash out-flow from operation activity	13,115,848,203.89	11,188,704,535.71	17.22%
Net cash flow from operation activity	2,427,055,988.42	2,424,457,843.01	0.11%
Subtotal of cash in-flow from	24,837,956.42	301,916,234.92	-91.77%

investment activity			
Subtotal of cash out-flow from investment activity	2,171,501,481.76	2,184,886,379.68	-0.61%
Net cash flow from investment activity	-2,146,663,525.34	-1,882,970,144.76	-14.00%
Subtotal of cash in-flow from financing activity	1,517,674,080.70	2,724,719,889.03	-44.30%
Subtotal of cash out-flow from financing activity	2,463,873,917.37	2,337,973,289.47	5.39%
Net cash flow from financing activity	-946,199,836.67	386,746,599.56	-344.66%
Net increased amount of cash and cash equivalent	-624,143,943.95	954,658,294.25	-165.38%

Main factors of related data’s significant changes on a year-on-year basis

√Applicable □Not applicable

Item	2016	2015	+,-	Reason for changes
Cash received from other operating activities	250,348,958.09	162,874,095.46	53.71%	The route subsidy and intercourse funds increased over that of last year
Taxes paid	668,268,335.05	449,591,891.48	48.64%	The corporate income tax and VAT paid in the Period increased over same period of last year
Cash received from investment		200,800,000.00	-100.00%	Dispoes investment of Qingdao Airline Co., Ltd. at same period of last year
Cash received from investment income	23,018,666.90	8,790,345.41	161.86%	The dividend money received in the Period increased over that of last year from invested companies
Net cash received from disposal of fixed, intangible and other long-term assets	1,819,289.52	92,325,889.51	-98.03%	The revenue from dipsoal of non-current assets decreased over that of last year
Other cash paid concerning investment activities	1,277,063.78	2,693,748.52	-52.59%	The actually delivery costs for the trading financial asstes decreased from a year earlier
Cash received from loans	296,000,000.00	1,104,981,104.70	-73.21%	The loans received from financing activities declined from a year earlier
Impact on cash and cash equivalent from changes of exchange rate	41,663,429.64	26,423,996.44	57.67%	Exchange rate of RMB against foreign currency changed

III. Analysis of the non-main business

□Applicable √Not applicable

IV. Assets and liability

1. Major changes of assets composition

In RMB

	End of 2016		End of 2015		Ratio changes	Notes of major changes
	Amount	Ratio in total assets	Amount	Ratio in total assets		
Monetary fund	791,255,686.65	6.21%	1,415,399,630.60	11.10%	4.89 percentage points down	The maturity loan are paid in the Period
Account receivable	322,774,169.85	2.53%	255,782,921.88	2.01%	0.52 percentage points up	
Advance payment	249,136,244.95	1.96%	154,897,777.19	1.21%	0.75 percentage points up	The prepaid rents growth due to the increase of lease aircrafts in the Year
Dividend receivable	-	0.00%	4,381,900.00	0.03%	0.03 percentage points down	Dividend payment for year of 2014 are collected in the Period from Sichuan Airlines
Stock	120,965,243.56	0.95%	112,307,440.99	0.88%	0.07 percentage points up	
Fixed assets	7,093,233,151.79	55.67%	7,156,258,169.93	56.13%	0.46 percentage points down	
Construction in progress	2,250,500,462.35	17.66%	2,062,310,572.89	16.18%	1.48 percentage points up	
Deferred tax assets	641,785,173.89	5.04%	453,818,799.19	3.56%	1.48 percentage points up	Deductable temporary difference increased due to the accrued expenses growth in the Period

Other non-current assets	-	0.00%	23,794,314.90	0.19%	0.19 percentage points down	Balance at period-end decline mainly because the operation leasing resulted from aircraft leaseback are have no income in the Period
Financial liability measured by fair value and with variation reckoned into current gains/losses	1,155,815.80	0.01%	3,370,447.62	0.03%	0.02 percentage points down	Fair value variation of the interest swap contracts in the period
Note payable		0.00%	25,299,479.50	0.20%	0.2 percentage points down	The note is in due course in the Period
Accounts payable	1,688,094,861.09	13.25%	1,128,629,695.55	8.85%	4.40 percentage points up	Corresponding operation costs increased for the growth of process scale and production
Advance payment	699,319,553.05	5.49%	432,216,409.37	3.39%	2.10 percentage points up	The money for sales are increased for advance received in the period
Interest payable	2,430,456.90	0.02%	3,638,536.32	0.03%	0.01 percentage points down	Interest declined for some of the principal of long-term loans are paid in the period
Non current liabilities due within one year	987,644,012.02	7.75%	1,487,011,320.66	11.66%	3.91 percentage points down	The long-term loans due within one year declined
Long-term loan	1,799,601,767.54	14.12%	2,887,701,872.70	22.65%	8.53 percentage points down	Some of the principal of long-term loans are paid in the period
Deferred income	58,439,521.16	0.46%	15,795,524.10	0.12%	0.34 percentage points up	Balance at period-end increased mainly because the operation leasing resulted from aircraft leaseback are have no income in the Period
Deferred	45,880,020.58	0.36%	33,192,668.48	0.26%	0.10	The fair value of financial assets available

income tax liability					percentage points up	for sale increased at end of the Period
Other comprehensive income	131,880,061.76	1.04%	93,555,005.44	0.73%	0.31 percentage points up	The fair value of financial assets available for sale increased at end of the Period

2. Assets and liability measure by fair value

√Applicable □Not applicable

In RMB

Item	Opening amount	Gains/losses of changes in fair value	Accumulative changes in fair value reckoned into equity	Impairment accrual in this period	Amount purchased in this period	Sale amount	Closing amount
Financial assets							
3.Available-for-sale financial assets	139,460,673.92	50,749,408.42	183,520,082.34				190,210,082.34
Subtotal of financial assets	139,460,673.92	50,749,408.42	183,520,082.34				190,210,082.34
The above total	139,460,673.92	50,749,408.42	183,520,082.34				190,210,082.34
Financial liability	3,370,447.62	-2,214,631.82					1,155,815.80

Whether there have major changes on measurement attributes for main assets of the Company in report period or not

□ Yes √No

3. Assets right restriction till end of reporting period

Nil

V. Investment

1. Overall situation

□ Applicable √ Not applicable

2. The major equity investment obtained in Reporting Period

□ Applicable √ Not applicable

3. The major non-equity investment doing in Reporting Period

□ Applicable √ Not applicable

4. Financial assets investment

The company had no securities investment or derivative investment in the reporting period.

5. Application of raised proceeds

The company had no application of raised proceeds in the reporting period.

VI. Sales of major assets and equity

1. Sales of major assets

The Company had no sales of major assets in the reporting period.

2. Sales of major equity

□ Applicable √ Not applicable

VII. Analysis of main holding company and stock-jointly companies

In RMB

Company name	Type	Main business	Register capital	Total assets	Net Assets	Operating revenue	Operating profit	Net profit
Shandong Airlines Logistic Co., Ltd.	Subsidiary	Agency service of land service for the air cargo station, storage of goods and ground distribution service etc.	30,000,000.00	128,614,323.53	55,057,715.88	53,175,095.73	9,703,524.33	7,442,610.48
Qingdao Feisheng International Aviation Technology Development Training Co., Ltd.	Subsidiary	Pilot training	51,545,500.00	72,721,199.78	70,529,737.53	7,750,205.65	203,737.25	-40,955.37

Shandong Rainbow Corporate Aircraft Co., Ltd.	Stock-jointly company	Air transport	50,000,000.00	1,846,637.67	-165,919,175.66		-12,830.65	-12,830.65

Particular about subsidiaries obtained or disposed in report period

□ Applicable √ Not applicable

VIII. Structured vehicle controlled by the Company

□ Applicable √ Not applicable

IX. Prospect for future development of the Company

In 2017, with the continuous improvement of household consumption level and the increase of improving consumption proportion, tourism, leisure and other personalized emerging consumer demand will remain relatively vigorous. China has become the world's second largest air transport market, in 2016, Civil Aviation Administration of China issued "The 13th Five-Year Plan for China Civil Aviation", put forward the targets that the total turnover of transportation, volume of passenger traffic, and cargo and mail traffic should respectively have an annual average growth of 10.8%, 10.4% and 6.2% in the next five years. Driven by the country's strategies, such as "One Belt and One Road", the city cluster development, etc., the civil aviation industry still has good prospects for development. The central economic working conference has proposed to continue to revitalize the real economy, deepen the reform of state-owned enterprises and state-owned assets, and optimize the corporate governance structure and market-oriented management mechanism, which will add new power into the development of state-owned enterprises, it should be said that the Company's development will face favorable consumer demand and policy environment.

2017 is the key year to comprehensively implement the Company's "13th Five-Year Plan", but also the first year that the Company operates with an air fleet of 100 airplanes. The Company will continue to consolidate the safety base, build the security baseline; strengthen the system management and control capabilities, improve the running quality; optimize the revenue and expenditure control mechanism, and strive to achieve a better benefit level; make efforts to enhance the management level and innovation strength, enrich the "honest and kind" service connotation; comprehensively strengthen the party building, and create a good organizational atmosphere. In 2017, the Company will adhere to the development concept of "innovation, coordination, green, open, share", properly handle the dialectical relationship between development scale and speed, size and benefit, speed and quality, safety and benefit, actively implement innovation-driven, structural optimization, quality and efficiency improving and collaboration, create the relatively competitive advantages, and achieve sustained and healthy development of enterprises.

X. Reception of research, communication and interview

1. In the report period, reception of research, communication and interview

√Applicable □Not applicable

Time	Way	Type	Basic situation index of investigation
Jan.- Dec. 2016	Telephone communication	Individual	Operation of the Company and no material required
2016-03-25	Field research	Other	Receive corporate shareholders and individual investors, well-knowed operation of the Company without materials required

2016-06-24	Field research	Other	Reception of news media, legal person's shareholders and individual investor, operation of the Company and annual report required
2016-12-21	Field research	Other	Receive corporate shareholders, well-knowed operation of the Company without materials required
Reception (times)		42	
Number of hospitality		0	
Number of individual reception		47	
Number of other reception		5	
Disclosed, released or let out major undisclosed information		No	

Section V. Iimportant Events

I. Profit distribution plan of common stock and capitalizing of common reserves plan

Formulation, Implementation and Adjustment of common stock Profit Distribution Policy Especially Cash Dividend policy during the Reporting Period

√Applicable □Not applicable

The Company implemented a positive profit distribution plan, and also attaches importance to the reasonable return for investors as well as taking sustainable development of the Company into consideration.

The bonus distribution plan for year of 2015 was approved in 2015 Annual General Meeting dated 24 June 2016, that is, based on total stock issued 400,000,000 shares, distributed 2.5 Yuan (tax included) bonus in cash for every 10-share hold by all shareholders. Total dividend of RMB 100 million, and completed on 17 August 2016.

Specific statement of cash bonus	
Whether or not it corresponds to regulation of Article of Association or requirement of AGM:	Y
Whether or not the bonus standards and ratio are clear and well-defined:	Y
Whether or not relevant decision-making procedures and mechanism are perfect:	Y
Whether or not independent directors fulfill their duties and play corresponding roles:	Y
Whether or not minority shareholders have opportunity to express their views and demands, legal interest of minority has been protected or not:	Y
As for the cash bonus policy adjusted or changed, conditions and procedures whether exercise regulated and transparency or not:	Y

Profit distribution plan (pre-plan) of common stock and capitalizing of common reserves plan (pre-plan) in latest three years (including the reporting period)

2014: distributed 2.0 Yuan (tax included) bonus for every 10 shares in cash based on total stock issued 400,000,000 shares ended as 31 December 2014;

2015: distributed 2.5 Yuan (tax included) bonus for every 10 shares in cash based on total stock issued 400,000,000 shares ended as 31 December 2015;

2016: distributed 3.0 Yuan (tax included) bonus for every 10 shares in cash based on total stock issued 400,000,000 shares ended as 31 December 2014;

Cash dividend of common stock in latest three years (including the reporting period)

In RMB

Year for bonus shares	Amount for cash bonus (tax included)	Net profit attributable to common stock shareholders of listed company in consolidation statement for bonus year	Ratio in net profit attributable to common stock shareholders of listed company contained in consolidation	Amount for cash bonus by other ways	Proportion for cash bonus by other ways

			statement		
2016	120,000,000.00	532,834,567.17	22.52%	0.00	0.00%
2015	100,000,000.00	532,260,993.04	18.79%	0.00	0.00%
2014	80,000,000.00	287,851,542.09	27.79%	0.00	0.00%

The Company gains profits in reporting period and the retained profit of common stock shareholders provided by parent company is positive but no plan of cash dividend proposed of common stock

□ Applicable √ Not applicable

II. Profit distribution plan and capitalizing of common reserves plan for the Period

√Applicable □Not applicable

Bonus shares for every 10-share (Share)	0
Dividends for every 10-share (RMB) (Tax included)	3.00
Shares transferred from every 10 shares (Share)	0
Equity base of distribution plan (Share)	400,000,000
Total cash dividend(RMB) (Tax included)	120,000,000
Distributable profits (RMB)	2,831,810,326.96
Ratio of cash dividend in total profit distribution	100.00%
Cash dividend	
The Company is in a development stage and has the arrangement of major capital expenses, ratio of cash dividend in profit distribution should reach a minimum of 20% while the profit distributed.	

III. Implementation of commitment

1. Commitments completed in Period and those without completed till end of the Period from actual controller, shareholders, related parties, purchaser and companies

√Applicable □Not applicable

Commitments	Accepter	Type	Contents	Commitment time	Commitment period	Implementation
Commitments in report of acquisition or equity change	Air China	Commitment of horizontal competition, related transaction and capital occupying	In February 2004, China National Aviation Holding Company (CNAHC) entered into a equity transfer agreement with SDA , that is promise “to avoiding horizontal competition with the Company through reasonable business	2004-12-06	Long-term effective	Strictly implement timely

			arrangement"; in December, being approved, the equity assignee was replaced by Air China, and all rights and obligations under the agreement was transfer to Air China as the party who implemented the commitments			
Commitments make in initial public offering or re-financing	SDA	Commitment of horizontal competition, related transaction and capital occupying	Controlling shareholder—SDA provide a commitment letter of avoiding horizontal competition to the Company in year of 2000 when the Company initial public offering shares	2000-09-12	Long-term effective	Strictly implement timely
Completed on time (Y/N)	Y					

2. Concerning assts or project of the Company, which has profit forecast, and reporting period still in forecasting period, explain reasons of reaching the original profit forecast

□ Applicable √ Not applicable

IV. Non-operational fund occupation from controlling shareholders and its related party

No non-operational fund occupation from controlling shareholders and its related party in period.

V. Explanation from Board of Directors, Supervisory Committee and Independent Directors (if applicable) for "Qualified Opinion" that issued by CPA

□ Applicable √ Not applicable

VI. Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year

No particulars about the changes in aspect of accounting policy, estimates or calculation method in Period.

VII. Major accounting errors within reporting period that needs retrospective restatement

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

VIII. Compare with last year's financial report; explain changes in consolidation statement's scope

No changes in consolidation statement's scope for the Company in the period.

IX. Appointment and non-reappointment (dismissal) of CPA

Accounting firm appointed

Name of domestic accounting firm	Ruihua CPAs (LLP)
Remuneration for domestic accounting firm (in 10 thousand Yuan)	130
Continuous life of auditing service for domestic accounting firm	4
Name of domestic CPA	Yang Yunhui, Guo Yuefeng

Whether re-appointed accounting firms in this period or not

□ Yes √ No

Appointment of internal control auditing accounting firm, financial consultant or sponsor

√Applicable □Not applicable

Take consistency into consideration, the Company also engaged Ruihua CPAs (LLP) as the audit institution for internal control for year of 2016, and auditing efficiency of internal control and issued the audit report of internal control of 2016 for the Company. The auditing charge for internal control was RMB 0.4 million.

X. Particular about suspended and delisting after annual report disclosed

□ Applicable √ Not applicable

XI. Bankruptcy reorganization

No bankruptcy reorganization for the Company in reporting period

XII. Significant lawsuits and arbitrations of the Company

No significant lawsuits and arbitrations occurred in the reporting period

XIII. Penalty and rectification

No penalty and rectification for the Company in reporting period.

XIV Integrity of the company and its controlling shareholders and actual controllers

□ Applicable √ Not applicable

XV. Implementation of the company’s stock incentive plan, employee stock ownership plan or other employee incentives

During the reporting period, the company has no stock incentive plan, employee stock ownership plan or other employee incentives that have not been implemented.

XVI. Material related transactions

1. Related transaction with daily operation concerned

√Applicable □Not applicable

Related transaction parties	Related relationship	Related transaction type	Related transaction content	Pricing principle	Dealing price	Trading amount (in 10 thousand Yuan)	Proportion in the amount of the same transaction	Approved transaction amount (in 10 thousand Yuan)	Whether to exceed the approved amount	Means of payments	Market price of similar transaction available	Date of disclosure	Index of disclosure
SDA	Controlling shareholder	Labor service received	Rent of office and board & lodging expenses	Market price	29,933,839.56	2,993.38	7.11%	3,200	No	Cash settlement	29,933,839.56	2016-03-25	2016-11
Shandong Xiangyu Air Technology Service Co., ltd	Subsidiary of controlling shareholder	Labor service received	Maintenance charge	Market price	62,803,828.70	6,280.38	3.94%	7,000	No	Cash settlement	62,803,828.70	2016-03-25	2016-11
Shandong Taikoo Aircraft Engineering Co., Ltd.	Subsidiary of controlling shareholder	Labor service received	Airplane maintenance charge	Market price	53,489,045.18	5,348.9	3.36%	7,600	No	Cash settlement	53,489,045.18	2016-03-25	2016-11
Air China	2nd largest shareholder	Labor service received	Ground service expenses	Market price	27,902,903.35	2,790.29	1.58%	2,800	No	Cash settlement	27,902,903.35	2016-03-25	2016-11
Sichuan International Airlines Engine maintena	Subsidiary of 2nd largest sharehol	Labor service received	Maintenance charge	Market price	266,883,899.60	26,688.39	16.75%	20,000	Yes	Cash settlement	266,883,899.60	2016-03-25	2016-11

nce Co., Ltd.	der												
Beijing Aircraft Maintenance Engine Co., Ltd	Subsidiary of 2nd largest shareholder	Labor service received	Maintenance charge	Market price	46,912,099.74	4,691.21	2.95%	4,100	Yes	Cash settlement	46,912,099.74	2016-03-25	2016-11
Beijing Aircraft Maintenance Engine Co., Ltd	Subsidiary of 2nd largest shareholder	Labor service received	Ground service expenses	Market price	28,354,445.95	2,835.44	1.64%	2,100	Yes	Cash settlement	28,354,445.95	2016-03-25	2016-11
Shandong Airline NewAir Media Co., Ltd.	Subsidiary of controlling shareholder	Provide labor service	Charge for use of media resources	Market price	17,193,467.69	1,719.35	100.00%	1,200	Yes	Cash settlement	17,193,467.69	2016-03-25	2016-11
Air China	2nd largest shareholder	Other related transaction	Wet lease	Agreement price	282,331,884.00	28,233.19	100.00%	37,886	No	Cash settlement	282,331,884.00	2016-03-25	2016-11
Air China	2nd largest shareholder	Other related transaction	Frequent passenger cooperation	Agreement price	130,718,573.22	13,071.86	100.00%	7,000	Yes	Cash settlement	130,718,573.22	2016-03-25	2016-11
Total				--	--	94,652.39	--	92,886	--	--	--	--	--
Details of return of sales in significant amount				N/A									
Report the actual implementation of the normal related transactions which were projected about their total amount by types during the reporting period (if any)				Implemented by the agreement									
Reasons for major difference between trading price and market reference price (if applicable)				N/A									

2. Related transactions by assets acquisition and sold

No related transactions by assets acquisition and sold for the Company in reporting period

3. Main related transactions of mutual investment outside

No main related transactions of mutual investment outside for the Company in reporting period

4. Contact of related credit and debt

No contact of related credit and debt for the Company in reporting period

5. Other related transactions

No other related transaction for the Company in reporting period

XVII. Major contract and implantation

1. Trusteeship, contract and leasing

No trusteeship, contract or leasing for the Company in reporting period

2. Major guarantee

No guarantee for the Company in reporting period

3. Entrust others to cash asset management

No trust financing or entrusted loans for the Company in reporting period

4. Other material contracts

No other material contracts for the Company in reporting period

XVIII. Social responsibility

1. Execution of social responsibility of targeted poverty alleviation

□ Applicable √ Not applicable

2. Execution of other social responsibility

The Company attaches great importance to the construction of corporate social responsibility and the corporate mission to be shouldered, adheres to the organic unity of "three responsibilities"- economy, politics, and society, blends the social responsibility into the Company's development strategy and management process. Standing on the height of promoting the Company's sustainable development, the Company positively takes social responsibilities, gives full play to the role of state-owned enterprises, actively takes the initiative to assume and fulfill social responsibilities, tirelessly creates profits to return shareholders; creates value to return to the society; creates services to return passengers; creates opportunities to return employees. The Company also actively carries out the action of "caring the earth, green flight", vigorously implements the energy-saving emission reduction work, constantly pursues the high unity of commercial profits and social responsibilities, and achieves the simultaneous increase of economic benefits and social benefits.

As a listed company, it is the most basic social responsibility for the Company to protect interests of shareholders, especially minority shareholders. Pursuant to the Company Law, Securities Law and Governance Rules of Listed Companies, the Company continues to improve its corporate governance structure and establish wholesome internal control system, forming the decision-making and operation system with the general meeting, board of directors, board of supervisors and senior management as the principals, thus to protect the legal interests of all the shareholders, especially minority shareholders.
In 2016, the Company further implemented the arrangements and instruction relating to energy saving and emission reduction issued by the CAAC and local governments. It continued to explore its potential in saving energy in terms of production and operation, promote implementation of various related policies and reduce carbon emission by aircrafts. Shandong Airline has established assessment and incentive rules in respect of the works relating to energy saving and emission reduction, continued to amend the relevant working manual, strengthened procedure management, and carried out numbers of relevant works including optimization of routes, application of ground power source and bridge loading equipments, aircraft slimming and selection of energy-oriented aircrafts, which recorded good achievements. We report energy consumption data to municipal government and the CAAC on a monthly basis, and regularly monitor completion of energy consumption index.
In 2017, the Company will continue to uphold the business philosophy of "people first" , and strive to create the core value of "security, responsibility, integrity and harmony". Attach importance to the implementation of social responsibility, create value for shareholders, meanwhile, actively assume social responsibility, establish the green low-carbon concept and strengthen energy conservation awareness in the process of production and operation and business development, and achieve the healthy and harmonious development between Company and employees, Company and society, and Company and environment.

Listed company and its subsidiary belongs to the key pollution enterprise listed by Department of Environmental Protection

No

Whether the social responsibility report released

□Yes √ No

XIX. Explanation on other significant events

Significant events of the Company and announcement are published on *China Securities Journal*, *Securities Times*, *Hong Kong Commercial Daily* and Juchao Website (http: //www.cninfo.com.cn) , more details can be found in the above said media.

XX. Significant event of subsidiary of the Company

□ Applicable √ Not applicable

Section VI. Changes in Shares and Particulars about Shareholders

I. Changes in shares

1. Changes in shares

In Share

	Before changes		(+,-)					After changes	
	Amount	Ratio	New issue	Bonus	Capitalization of public reserve	Other	Subtotal	Amount	Ratio
I. Unlisted shares	260,000,000	65.00%						260,000,000	65.00%
1. Sponsor shares	168,601,000	42.15%						168,601,000	42.15%
Including: State-owned shares	168,402,000	42.10%						168,402,000	42.10%
Domestic corporate shares	199,000	0.05%						199,000	0.05%
4. Preferred stock or other	91,399,000	22.85%						91,399,000	22.85%
II. Listed shares	140,000,000	35.00%						140,000,000	35.00%
2. Domestically listed foreign shares	140,000,000	35.00%						140,000,000	35.00%
III. Total shares	400,000,000	100.00%						400,000,000	100.00%

2. Changes of restricted shares

□ Applicable √ Not applicable

II. Securities issue and listing

1. Security offering (without preferred stock) in Reporting Period

□ Applicable √ Not applicable

2. Changes of total shares and shareholders structure as well as explanation on changes of assets and liability structure

□ Applicable √ Not applicable

3. Existing internal staff shares

□ Applicable √ Not applicable

III. Shareholders and actual controller

1. Number of shareholders of the Company and share-holding

In Share

Total common stock shareholders in reporting period-end	15,801	Total common stock shareholders at end of last month before annual report disclosed	15,759	Total preference shareholders with voting rights recovered at end of reporting period (if applicable) (found in note8)	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed (if applicable) (found in note8)	0

Particulars about shares held above 5% by shareholders or top ten shareholders								
Full name of Shareholders	Nature of shareholder	Proportion of shares held	Total shareholders at the end of report period	Changes in report period	Amount of unlisted outstanding shares held	Amount of listed outstanding shares held	Number of shares pledged/frozen	
							State of share	Amount
Shandong Aviation Group	State-owned legal person	42.00%	168,004,000	0	168,004,000	0		
Air China Limited	State-owned legal person	22.80%	91,200,000	0	91,200,000	0		
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.74%	2,960,917	2,271,396	0	2,960,917		
NORGES BANK	Foreign legal person	0.63%	2,520,800	2,520,800	0	2,520,800		
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	Foreign legal person	0.62%	2,490,000	10,000	0	2,490,000		
侯春虎	Domestic nature person	0.41%	1,651,345	1,651,345	0	1,651,345		
VANGUARD TOTAL INTERNATIONAL STOCK INDEX	Foreign legal person	0.40%	1,582,720	105,900	0	1,582,720		

FUND								
陈经建	Domestic nature person	0.38%	1,519,400	24,600	0	1,519,400		
姚明	Domestic nature person	0.33%	1,300,000	1,300,000	0	1,300,000		
叶渠发	Domestic nature person	0.30%	1,180,169	45,619	0	1,180,169		
Explanation on related relationship or concerted action among the abovementioned shareholders		1. Shandong Aviation Group(SDA) 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 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.						

Shareholding of top 10 circulated shareholders			
Shareholders	Amount of listed shares held at end of the Period	Type of shares	
		Type	Amount
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	2,960,917	Domestically listed foreign shares	2,960,917
NORGES BANK	2,520,800	Domestically listed foreign shares	2,520,800
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	2,490,000	Domestically listed foreign shares	2,490,000
侯春虎	1,651,345	Domestically listed foreign shares	1,651,345
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,582,720	Domestically listed foreign shares	1,582,720
陈经建	1,519,400	Domestically listed foreign shares	1,519,400

姚明	1,300,000	Domestically listed foreign shares	1,300,000
叶渠发	1,180,169	Domestically listed foreign shares	1,180,169
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	1,008,665	Domestically listed foreign shares	1,008,665
邓红伟	880,000	Domestically listed foreign shares	880,000
Expiation on associated relationship or consistent actors within the top 10 un-restrict shareholders and between top 10 un-restrict shareholders and top 10 shareholders	The Company is not aware of their associated relationship among the top ten shareholders circulation share, and is unknown whether other circulation shareholders belong to the consiste actionist regulated by the Management Regulation of Information Disclosure on Change Shareholding for Listed Companies.		

The top ten common stock shareholders or top ten common stock shareholders with un-restrict shares held of the Company have no buy-back agreement dealing in reporting period.

2. Controlling shareholders

Nature of controlling shareholders: local state-owned holding

Type of controlling shareholders: legal person

Controlling shareholders	Legal person/person in charge of the unit	Date of foundation	Organization code	Main operation business
Shandong Aviation Group	Xu Chuanyu	1995-02-09	91370000614071647W	Investment and management of air transport industry and aviation maintenance industry; conference and exhibition services; office services; daily necessities, handicrafts, sales of souvenirs, rental housing; lodging, food and beverage services, retail of tobacco products (restricted to be operated only by the branches)
Equity of other domestic/oversea listed company control by	N/A			

controlling shareholder as well as stock-joint in report period	

No changes of controlling shareholder for the Company in reporting period.

3. Actual controller

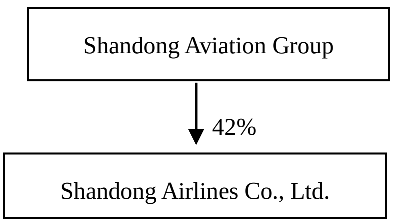
Nature of actual controller: local state-owned assets management

Type of actual controller: legal person

Actual controller	Legal person/person in charge of the unit	Date of foundation	Organization code	Main operation business
Shandong Aviation Group	Xu Chuanyu	1995-02-09	91370000614071647W	Investment and management of air transport industry and aviation maintenance industry; conference and exhibition services; office services; daily necessities, handicrafts, sales of souvenirs, rental housing; lodging, food and beverage services, retail of tobacco products (restricted to be operated only by the branches)
Equity of other foreign/domestic listed company that controlled by actual controller in reporting period	N/A			

No changes of actual controllers for the Company in reporting period

Property right and controlling relationship between the actual controller and the Company is as follow:



4. Particulars about other legal person shareholders with over 10% shares held

√Applicable □Not applicable

Legal person shareholder	Legal person/person in charge of the unit	Date of foundation	Register capital	Main operation business or management activities

Air China Limited	Cai Jianjiang	2006-03-27	RMB 13,084,751,000	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; retail business of the aircraft goods; selling agent of aviation accident insurance

5. Limitation and reducing the holdings of shares of controlling shareholders, actual controllers, restructuring side and other commitment subjects

□ Applicable √ Not applicable

Section VII. Preferred Stock

The Company had no preferred stock in the reporting.

Section VIII. Particulars about Directors, Supervisors and Senior Executives and Employees

I. Changes of shares held by directors, supervisors and senior executives

Name	Title	Working status	Sex	Age	Start dated of office term	End date of office term	Shares held at period-begin (Share)	Increasing shares held in this period (Share)	Decreasing shares held in this period (Share)	Other changes (Share)	Shares held at period-end(Share)
Sun Xiujiang	Chairman	Currently in office	M	55	2016-01-18	2019-03-23	0	0	0	0	0
Xu Chuanyu	Deputy Chairman	Currently in office	M	53	2016-12-20	2019-03-23	0	0	0	0	0
Miao Liubin	Director, GM	Currently in office	M	46	2016-03-24	2019-03-23	0	0	0	0	0
Jiang Chengda	Director	Currently in office	M	58	2016-03-24	2019-03-23	0	0	0	0	0
Xu Guojian	Director, deputy GM & Chief accountant	Currently in office	M	53	2012-06-28	2019-03-23	0	0	0	0	0
Wang Mingyuan	Director	Currently in office	M	52	2012-06-28	2019-03-23	0	0	0	0	0
Li Xiuqin	Director	Currently in office	F	54	2012-06-28	2019-03-23	0	0	0	0	0
Wang Jieming	Director	Currently in office	F	59	2012-06-28	2019-03-23	0	0	0	0	0
Lv Hongbing	Independent director	Currently in office	M	51	2016-03-24	2019-03-23	0	0	0	0	0
Duan Yalin	Independent director	Currently in office	M	45	2016-03-24	2019-03-23	0	0	0	0	0
Wu Chaopen	Independent	Currently in office	M	38	2016-03-24	2019-03-23	0	0	0	0	0

g	director										
Wang Wuping	Chairman of Supervisory Committee	Currently in office	M	52	2013-10-28	2019-03-23	0	0	0	0	0
Xue Ruitao	Supervisor	Currently in office	M	56	2012-06-28	2019-03-23	0	0	0	0	0
Dong Hong	Supervisor	Currently in office	M	45	2016-03-24	2019-03-23	0	0	0	0	0
Zhou Qiaoyan	Supervisor	Currently in office	F	42	2012-06-28	2019-03-23	0	0	0	0	0
Zhang Qingshe	Deputy GM, chief pilot	Currently in office	M	59	2013-10-28	2019-03-23	0	0	0	0	0
Wang Xianlin	Deputy GM	Currently in office	M	52	2014-03-20	2019-03-23	0	0	0	0	0
Zhou Lixin	Deputy GM	Currently in office	M	53	2013-07-31	2019-03-23	0	0	0	0	0
Dong Qiantang	Secretary of the Board	Currently in office	M	55	2012-06-28	2019-03-23	0	0	0	0	0
Yu Bo	Deputy GM	Currently in office	M	44	2016-02-04	2019-03-23	0	0	0	0	0
Dong Jianmin	Deputy GM	Currently in office	M	48	2016-09-30	2019-03-23	0	0	0	0	0
Zhou Ning	Safety Director	Currently in office	M	55	2016-09-30	2019-03-23	0	0	0	0	0
Ma Xiaoli	Deputy GM	Currently in office	F	42	2016-09-30	2019-03-23	0	0	0	0	0
Wang Kaiyuan	Independent director	Office leaving	M	74	2012-06-28	2016-03-24	0	0	0	0	0
Ping Xiaofeng	Independent director	Office leaving	M	68	2012-06-28	2016-03-24	0	0	0	0	0
Li Chun	Independent director	Office leaving	M	60	2012-06-28	2016-03-24	0	0	0	0	0

Qu Wenzhou	Independent director	Office leaving	M	45	2012-06-28	2016-03-24	0	0	0	0	0
Zhang Kai	Supervisor	Office leaving	M	52	2012-06-28	2016-03-24	0	0	0	0	0
Ma Chong Xian	Deputy Chairman	Office leaving	M	52	2012-06-28	2016-11-26	0	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0	0

II. Changes of directors, supervisors and senior executives

Name	Title	Type	Date	Reasons
Sun Xiujiang	Chairman	Appointment and dismissal	2016-01-18	Election
Yu Bo	Deputy GM	Appointment and dismissal	2016-02-04	Work adjustment
Miao Liubin	Director, GM	Appointment and dismissal	2016-03-24	Former GM, and elected as new Director and GM after general election
Jiang Chengda	Director	Appointment and dismissal	2016-03-24	Elected as new director on general election
Lv Hongbing	Independent director	Appointment and dismissal	2016-03-24	Elected as new independent director on general election
Duan Yalin	Independent director	Appointment and dismissal	2016-03-24	Elected as new independent director on general election
Wu Chaopeng	Independent director	Appointment and dismissal	2016-03-24	Elected as new independent director on general election
Wang Kaiyuan	N/A	Stepped down	2016-03-24	Former independent director, no longer serves as independent director after change the term of office
Ping Xiaofeng	N/A	Stepped down	2016-03-24	Former independent director, no longer serves as independent director after change the term of office
Li Chun	N/A	Stepped down	2016-03-24	Former independent director, no longer serves as independent director after change the term of office
Qu Wenzhou	N/A	Stepped down	2016-03-24	Former independent director, no longer serves as independent director after change the term of office
Dong Hong	Supervisor	Appointment and dismissal	2016-03-24	Elected as new supervisor on general election
Zhang Kai	N/A	Stepped down	2016-03-24	Former supervisor, no longer serves as supervisor after change the term of office

Dong Jianmin	Deputy GM	Appointment and dismissal	2016-09-30	Work adjustment
Zhou Ning	Safety Director	Appointment and dismissal	2016-09-30	Work adjustment
Ma Xiaoli	Deputy GM	Appointment and dismissal	2016-09-30	Work adjustment
Xu Chuanyu	Deputy Chairman	Appointment and dismissal	2016-12-20	Election

III. Post-holding

Professional background, major working experience and present main responsibilities in Company of directors, supervisors and senior executive at the present in latest five years

Name	Main working experience
Sun Xiujiang	2014.12-2013.08 Director of Hualu Holdings Co., Ltd, Deputy GM and Member of CPC Committee of Hualu Holdings Co., Ltd. 2013.08-2015.05 Deputy Party Secretary and Secretary of Committee for Discipline Inspection of SDA 2013.10-2016.01 Director of the Company 2015.05-present Party Secretary of SDA 2015.09-present Deputy Chairman of SDA 2016.01-present Chairman of the Company
Xu Chuanyu	2012.03-present Chief Safety Officer of Air China 2012.12-present Chief flight engineer of China National Aviation Holding 2016.11-present President, Chariman and deputy Secretary of the Party of Shandong Airlines 2016.12-present Deputy Chairman of the Company
Miao Liubin	2007.08-2012.05 GM of Flight Dept. of the Company 2011.03-2014.03 Deputy GM of the Company 2013.10-2014.03 Safety Director of the Company 2014.03-present GM of the Company 2006.03-present Director of the Company
Jiang Chengda	2008.05-2013.09 Operate Director of th Company 2011.04-2013.09 Deputy GM of the Company 2013.09-2016.01 Deputy secretary of the Company 2013.09-present Member of Party Committee, deputy president of Shandong Airlines, the Secretary of Committee for Discipline Inspection and Labor Union Chairment 2016.01-present Party Secretary of the Company 2016.03-present Director of the Company
Xu Guojian	2007.10-2010.01 General Manager of Financial Dividend in Engineer Technology Branch of Air China 2010.01-present Deputy GM and Chief Accountant of the Company 2010.04-present Director of the Company
Wang Mingyuan	2011.02-present Member of the Party Committee and Deputy Chairman of Air China 2006.03-present Director of the Company

Li Xiuqing	2010.03-present Director of Assets Management Department of Shandong Economic Development and Investment Company 2016.05-present Deputy GM of Shandong Economic Development & Investment Company 2012.06-present Director of the Company
Wang Jieming	2003.02-present Director of Planning Financial Department of Shandong Economic Development and Investment Company 2016.05-present CFO of the Shandong Economic Development & Investment Company 2006.03-present Director of the Company
Lv Hongbing	He has worked as director of the Shanghai Wanguo Law Firm, president of Shanghai Bar Association and member of the 6th Issuance Examination Committee of CSRC. Now he serves as chief executive partnert of Grandall Law Firm. And also works as party members and deputy director of the All-China Lawyers Association, member of the 12th Committee of Shanghai, the Chinese People’s Political Consultative Conference, deputy chief of Committee for Social and Legal Affairs, Shanghai International Economic and Trade Arbitration Commission, Shanghai International Arbitration Center, Shanghai Arbitration Commission, arbitrator of Shanghai Arbitration Court, advisor of Restructuring Committee of CSRC, the member of Listing Committee of SSE. He holds the Chinese Lawyer Qualification Certificate. 2016.03-present Independent director of the Company
Duan Yalin	He has worked as VP of the management dept. in Shenzhen Stock Exchange, deputy president of Donghai Securities Co., Ltd., and president of Donghai Innovation Product Investment Co., Ltd. and he also worked as the frst member of China Securiteis Regulatory Commission and Fixed Return Specialized Committee of the SAC, the standing director of National Debt Association of China and CNIBA. Now he serves as president of Shanghai Fortune Investment Management Center and independent director of Shanghai Jingjiang International Industrial Investment Co., Ltd. 2016.03-present Independent director of the Company
Wu Chaopeng	He serves as the professor and doctoral supervisor in School of Managemetn Accounting and Finance of the Xiamen University. And serves as menber of the Chinerse Accounting Association Professional Committee of International Academic Exchanges, associate editor of the International journals － China Accounting and Finance Review, the member of a Chinese Research Council of Modern Management and chief expert of the key issues of philosophy & social science research of Ministry of Education. 2016.03-present Independent director of the Company
Wang Wuping	2009.02-2013.09 GM of Financial Dept. of the Company 2013.09-present Chief Accountant and GM of Financial Dept of SDA 2013.10-present Chairman of Supervisory Committee of the Company
Xue Ruitao	2009.03-2013.09 GM of Financial Dept of SDA 2013.09-present GM of Planning & Investment Management Dept. of SDA 2009.06-present Supervisor of the Company
Dong Hong	2007.01-present Senior manager of the assets management dept. of Air China 2016.03-present Supervisor of the Company
Zhou Qiaoyan	2003.03-2012.05 Deputy GM of Cabin Service Dept. of the Company 2012.05-present Secretary of Party General Branch of Cabin Dept. of the Company 2006.03-present Employee supervisor of the Company
Zhang Qingshe	2001.10-present Chief Pilot of the Company 2013.10-present Deputy GM of the Company

Wang Xianlin	2009.02-2016.09 2013.10-present	Safety Director of the Company Deputy GM of the Company
Zhou Lixin	2007.11-2013.07 2013.07-present	Deputy GM of Centralized Purchasing Dept. of Air China and Member of the Party Committee Deputy GM of the Company
Dong Qiantang	2009.02-2011.03 2011.03-present 2009.06-present	General Manager of Enterprise Management of the Company Director of the General Office of the Company Secretary of the Board of the Company
Yu Bo	2013.09-2014.10 2010.01-2015.07 2014.10-2016.02 2016.02-present	Vice chief engineer GM of Engineering Technology enterprise of the Company Chief engineer of the Company Deputy GM of the Company
Dong Jianmin	2007.08-2012.05 2012.06-2016.09 2012.05-present 2016.09-present	Deputy GM of Flight Dept. of the Company Employee supervisor of the Company GM of Flight Dept. of the Company Deputy GM of the Company
Zhou Ning	2007.08-2014.05 2013.03-present 2016.09-present	GM of the Operation Standards Dept. of the Company GM of the Aviation Safety Management Dept. of the Company Chief Safety Officer of the Company
Ma Xiaoli	2010.01-present 2016.09-present	GM of the Marketing Commission of the Company Deputy GM of the Company

Post-holding in shareholder's unit

√Applicable □Not applicable

Name	Name of shareholder's units	Position	Start dated of office term	End date of office term	Whether receiving remuneration from shareholder's units or not
Sun Xiujiang	SDA	Party Secretary, Deputy President	2015-05-01		Y
Xu Chuanyu	SDA	Chairman, President and Deputy Party Secretary	2016-11-01		N
	Air China	Safety Director	2012-12-01		Y
Jiang Chengda	SDA	Member of the Party Committee, Deputy President	2013-09-01		N
Wang Mingyuan	Air China	Member of the Party Committee, Deputy President	2011-12-01		Y
Wang Wuping	SDA	Member of the Party Committee, Chief Accountant	2013-09-01		Y
Xue Ruitao	SDA	GM of Planning & Investment Management Dept.	2013-09-01		Y

Dong Hong	Air China	Senior manager of Assets management dept.	2007-01-01		Y

Post-holding in other unit

√Applicable □Not applicable

Name	Name of other units	Position	Start dated of office term	End date of office term	Whether receiving remuneration from other units or not
Xu Chuanyu	Air China Inner Mongolia	Chairman	2015-06-01		N
Wang Mingyuan	Shenzhen Airlines	Director	2010-04-01		N
	Air Macau	Director	2007-03-01		N
	Air China Hong Kong Development Co., Ltd.	Chairman	2011-04-01		N
Li Xiuqin	Shandong Economic Development & Investment Company	GM	2016-05-01		Y
Wang Jieming	Shandong Economic Development & Investment Company	CFO	2016-05-01		Y
Dong Hong	Air Macau	Supervisor	2015-09-01		N
	Zhejiang Aviation Services Co., Ltd.	Director	2007-04-01		N
	Shanghai Air China Aviation Services Co., Ltd.	Director	2015-06-01		N
	China National Aviation Finance Co., Ltd.	Supervisor	2015-12-01		N

Punishment of securities regulatory authority in recent three years to the company’s current and outgoing directors, supervisors and senior management during the reporting period

□ Applicable √ Not applicable

IV. Remuneration for directors, supervisors and senior executives

Decision-making procedures, recognition basis and payment for directors, supervisors and senior executives

The remuneration for directors, supervisors and senior management is paid according to relevant rules on time, and the remuneration of directors and supervisors holding a post in shareholder units or other units is paid by relevant units; allowances standard for independent directors is deliberated and approved by shareholders’ general meeting and will determine based on actual working days; Remuneration of the senior management is approved by the remuneration and appraisal committee of the board, the Company will pay to senior management with their owned working situation and performance appraisal results based on the evaluation on individual performance from internal “temporary method of performance appraisal” of the Company.

Director Mr. Zhang Xingfu, Chairman of Supervisory Committee Mr. Wang Wuping together with Supervisor Mr. Xue Ruitao drew their remunerations from Shandong Aviation Group (SDA), the controlling shareholder of the Company, not from the Company;

Deputy Chairman Mr. Xu Chuanyu, Director Mr. Wang Mingyuan and Supervisor Mr. Dong Hong received remuneration from Air China instead of the Company; Director Ms. Li Xiuqing, Ms. Wang Jieming drew their remunerations from Shandong Caijin Investment Company instead of the Company.

Remuneration for directors, supervisors and senior executives in reporting period

In 10 thousand Yuan

Name	Title	Sex	Age	Post-holding status	Total remuneration obtained from the Company	Whether remuneration obtained from related party of the Company
Miao Liubin	Director, GM	M	46	Currently in office	125.1	N
Jiang Chengda	Director, secretary of the party committee and labor union chairman	M	58	Currently in office	104.91	N
Xu Guojian	Director, Deputy GM and Chief Accountant	M	53	Currently in office	95.41	N
Lv Hongbing	Independent director	M	51	Currently in office	5.85	N
Duan Yalin	Independent director	M	45	Currently in office	5.85	N
Wu Chaopeng	Independent director	M	38	Currently in office	5.85	N
Zhou Qiaoyan	Supervisor	F	42	Currently in office	53.63	N
Zhang Qingshe	Deputy GM, Chief Pilot	M	59	Currently in office	123.54	N
Wamh Xianlin	Deputy GM	M	52	Currently in office	107.77	N
Zhou Lixin	Deputy GM	M	53	Currently in office	91.44	N
Dong Qiantang	Secretary of the Board	M	55	Currently in office	94.23	N
Yu Bo	Deputy GM	M	44	Currently in office	91.33	N
Dong Jianmin	Deputy GM	M	48	Currently in office	77.65	N
Zhou Ning	Safety Director	M	55	Currently in	69.16	N

				office		
Ma Xiaoli	Deputy GM	F	42	Currently in office	63.31	N
Li Chun	Independent director	M	60	Office leaving	1.79	N
Qu Wenzhou	Independent director	M	45	Office leaving	1.79	N
Total	--	--	--	--	1,118.61	--

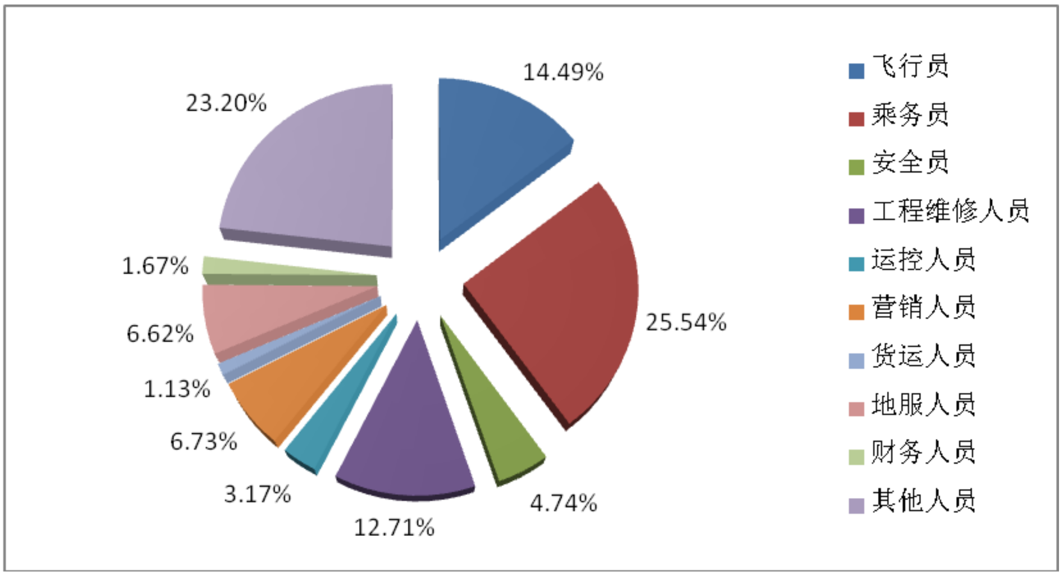
Delegated equity incentive for directors, supervisors and senior executives in reporting period

□ Applicable √ Not applicable

V. Employees of the Company

1. Numbers of the employee, professional constitution and education background

Total serving staff (person)	9,467
Retired staff with charges paid by the parent company and main subsidiaries (person)	161
Professional constitution	
Type	Number
Flight personnel	1,372
Steward	2,418
Security guard	449
Maintenance personnel	1,203
Transport control personnel	300
Salesman	637
Freight personnel	107
Ground attendant	627
Financial personnel	158
Others	2,196
Total	9,467
Education background	
Type	Number
Graduate (Master, doctor) and above	345
Bachelor degree	5,906
Junior college and below	3,216
Total	9,467



2. Remuneration policy

In order to meet the needs of the development strategy of the Company, establish the income distribution system which is compatible with the modern enterprise system, establish effective incentive and restraint mechanisms, improve the internal fairness of income distribution, gradually improve the market competitiveness, further stimulate the enthusiasm of staff, and promote the Company’s sustainable development, the Company has developed a pay policy which is suitable for the Company’s development status by combining with the actual situation of the Company.

The pay policy follows three basic principles: adhere to the principle of unity of incentives and constraints; adhere to the principle of efficiency growth matching with wage growth; insist on taking post value as the basis, reflect the principle of "pay the post value, pay the individual ability, and pay the performance contribution".

Combining with the industry characteristics and taking the employee on ground positions, pilots, and stewards (security) as the basis, the Company has respectively set up pay policies suitable for these three types of personnel, and established the job performance wage system with performance contribution as the core on the basis of respecting the post value.

3. Training plan

In 2016, the Company implemented a total of 310 training projects, reaching the annual training completion rate of 98.41%. Staff education expenses reached 11,882,300 yuan. As of the end of 2016, the Company employed 406 lecturers, including 40 full-time lecturers, 366 part-time lecturers, and internally developed 34 courses (excluding qualification) in total. The lecturers taught 11380 hours in a full year, 39.24 hours per person.

Concerning source, sharing resource, exploring potential, and reinforcing leadership have run through the training of 2016, and started the energized engine for the Company’s talent growth. First, concern source, build talent base. Complete the preach into the school, acceptance into the Company,summer internship and other work for the order-based students who are going to take joint training, continue to expand the school-enterprise cooperation control mode, improve the training quality of order-based students. Second, share resources, release learning boundaries. Develop the Company's excellent courses and promote, and continuously enhance the staff ‘s professional ability and professional quality. Optimize the lecturer management, optimize the lecturer control mode, promote the cadres to go to the platform, hold condolences on the Teacher's Day, establish lecturer database to share with various departments. Third, explore potential, help professional talents to grow. Organize training camps for new employees, and accelerate the transformation of new employees to professionals and Shanhang people. Organize EF English learning activities, and promote international personnel training. Fourth, reinforce leadership, train core talents. Develop leadership learning map according to the Company's development strategy, establish the "training - retraining" training mechanism, and organize the first training class 1 and retraining classes 3 to reserve core talents for the Company’s development. Fifth, optimize management and control mode, improve the training system. Revise the Company’s training management manual, and ensure the efficiency of training management practices.

In 2017, the Company will continue to optimize the training management system. Refine the training needs analysis, share resources, reduce costs and increase benefits, and speed up the transformation of training results. Continue to carry out re-training classes for employed managers and upgrade classes for reserve cadres to improve the cadres leadership by multiple channels. Establish international personnel training mechanism, help the Company to do international personnel training from multiple dimensions, including professional quality, foreign language ability, cultural integration, and foreign exchange. Revise and improve the lecturer system and activate the lecturer team so as to make them become the inheritor, passers and leaders of wisdom for the Company. Innovate the presentation form of curriculum, promote the applications of new media and new methods, such as micro class, flipped class, etc., and constantly enrich the course contents.

4. Labor outsourcing

□ Applicable √ Not applicable

Section IX. Corporate Governance

I. Basic state of corporate governance

During the report period, the Company constantly completes the corporate governance structure, standardize the company operation in accordance with “Corporation Law”, “Security Law”, “Governance Principles of Listed Company”, “Listing Rules of Shenzhen Stock Exchange”, “Basic Norms of Enterprise internal control” and requirements of other related laws and regulations, feasibly gives play to guidance and supervisory role of “Three meetings” in corporate governance and information disclosure so as to further improve the corporate governance level.

(I) Shareholders and general meeting

During the reporting period, the Company convened the AGM of 2015 and two extraordinary meeting, all proposals are deliberated and approved. The Company strictly follows the procedures ruled by the Articles of Association and Rules of Procedure for General Meeting to convene the general meeting of stockholders, deliberate the motion and make policy, and ensure all shareholders, especially the medium and small shareholders, can enjoy equal status and fully exercise their rights. And attorney was appointed by general meeting to witness the meeting and issued legal opinion for its validity.

(II) Directors and the board of directors (BOD)

During the report period, BOD convoked regular and interim meetings to deliberate the company’s major issues by taking the principles of being responsible for the stockholders' meeting and actively maintaining the shareholders’ benefits and strictly following the relevant laws and regulations and the procedures ruled by the Articles of Association and Rules of Procedure for Board of Directors. The Company have 11 Board Meetings in the year of 2016, deliberated proposals as periodic report, profit distribution and election at expiration of office terms, Meeting convening and voting procedures are legally effective, and the resolution notice are being released on time in order to guarantee the right-to-kown and supervise of the shareholders, promote the standard operation for the Company.

(III) Supervisors and board of supervisors

During the report period, the board of supervisors of the Company convoked six meetings and attended all the general meetings of stockholders and board meetings the Company convoked in 2016. The convening, convoking and motion consideration and decision-making of the supervisor meeting were implemented in strict accordance with the procedures ruled by the Articles of Association and Rules of Procedure for Board of Supervisors, all supervisors attended the board of supervisors as required, seriously performed their duties, supervised and made opinions on the major events, related transaction and financial situation of the Company, and maintained the legitimate rights and interests of the Company and the shareholders.

(IV) Information disclosure management

The Company attached great importance to the information disclosure, strictly supervised all layers to disclose information timely and fairly as required so as to ensure that the disclosure is true, accurate and complete, the Company totally disclosed 4 regular reports and 31 interim announcements in 2016. The Company is the first train units for information disclosure of Shenzhen Stock Exchange, continued to maintain the good information disclosure quality, and got evaluation of “excellent” in the Shenzhen Stock Exchange listing corporation information disclosure in 2015-2016.

(V) Registration and management for inside information insider

In accordance with the “Rules about establishing registration and management system for inside information insider in listed companies” issued by the China Securities Regulatory Commission in October 2011 and the requirements of “Regulatory circulars about further accomplishing the registration and management system for inside information insider" issued by Shandong Securities Regulatory Bureau in November 2011, and combining with actual situation of the Company, the Company formulated "Management system for report of inside information insider and submission of external information". The board of directors of the Company fully realized the seriousness and complexity of preventing insider trading, took various measures to implement the regulatory requirement, comprehensively strengthened the management to inside information, completed the registration and management system for inside information, and feasibly and effectively prevented relevant personnel from insider trading at the very beginning. In reporting period, the Company recording lists of person with knowledge of inside information completely as it stands and relevant file of the time for knowing inside information etc., relevant lists of person with knowledge of inside information are reported to Shandong Security Regulatory Bureau of CSRC and Shenzhen Stock Exchange for the record. No person with knowledge of inside information conduct insider trading with such information or advise others conduct such insider trading; no inside information being disclosed and caused the Company and investor a bad influence or damage; and no situation of a regulatory approach by supervision department being found.

There are no differences between the actual condition of corporate governance and relevant regulations about corporate governance for listed company from CSRC.

II. Independency of the Company relative to controlling shareholders' in aspect of businesses, personnel, assets, institution and finance

The company and its controlling shareholders Shandong Aviation Group has been separated totally in business, personnel, assets, institution and finance, possessing independent complete business and independent operation ability.

(I) In business aspect: The Company's business has difference with its controlling shareholder's. The Company engaged in manufacturing management independently without dependency with controlling shareholders and other related enterprise.

(II) In personnel aspect: The Company is totally independent with its controlling shareholders in labor, personnel and salary management. Directors, supervisors and senior management in accordance with the Articles of Association and relevant laws and regulations, and through the legal procedures of election or employment, no situation of the controlling shareholders in accordance with legal procedures intervention Company's personnel appointment and removing. The senior management is not in double office performance in the listed company and the controlling shareholders and they all get salaries from the Company.

(III) In asset aspect: The property right relationship between the Company and controlling shareholders is clear and the assets of a corporation are totally independent of the controlling shareholders. The Company has full control and domination without assets and funds occupied by controlling shareholders and interests of the Company being damaged.

(IV) In institution aspect: The Company established an organization independent with the controlling shareholders, the board of directors and the supervisory committee operated independently without superior and subordinate relationship with the organization established in controlling shareholders and affiliate enterprises.

(V) In finance aspect: The Company has an independent financial department and independent financial accounting system. Owns standard and independent accounting mechanism and financial management system as well as independent bank account, furthermore, paying tax in accordance with the law.

III. Horizontal Competition

□ Applicable √ Not applicable

IV. In the report period, the Company held annual shareholders' general meeting and extraordinary shareholders' general meeting

1. Annual Shareholders' General Meeting in the report period

Session of meeting	Type	Ratio of investor participation	Date	Date of disclosure	Index of disclosure

First Extraordinary Shareholders Meeting of 2016	Extraordinary shareholders meeting	65.25%	2016-03-24	2016-03-25	No.: 2016-13
Annual General Meeting 2015	Annual General Meeting	65.86%	2016-06-23	2016-06-24	No.: 2016-21
Second Extraordinary Shareholders Meeting of 2016	Extraordinary shareholders meeting	67.17%	2016-12-20	2016-12-21	No.: 2016-30

2. Request for extraordinary general meeting by preferred stockholders whose voting rights restore

□ Applicable √ Not applicable

V. Responsibility performance of independent directors in report period

1. The attending of independent directors to Board meetings and shareholders' general meeting

The attending of independent directors						
Name of independent director	Times of Board meeting supposed to attend in the report period	Times of present in person	Times of attending by communication	Times of entrusted presence	Times of Absence	Whether absent the Meeting for the second time in a row or not
Wang Kaiyuan	3	0	0	0	3	Y
Ping Xiaofeng	3	1	2	0	0	N
Li Chun	3	1	2	0	0	N
Qu Wenzhou	8	2	6	0	0	N
Lv Hongbing	8	1	6	1	0	N
Duan Yalin	8	2	6	0	0	N
Wu Chaopeng	8	2	6	0	0	N
Times presented in shareholders' general meeting by independent directors		3				

Explanation of absent the Board Meeting for the second time in a row

Independent director Mr. Wang Kaiyuan has applied for his resignation in March 2014.

2. Objection for relevant events from independent directors

Independent directors has no objections for relevant events in reporting period

3. Other explanation about responsibility performance of independent directors

Whether the opinions from independent directors have been adopted or not

√ Yes □ No

Explanation on advice that accepted/not accepted from independent directors

During the reporting period, four independent directors of the company conscientiously fulfilled the responsibilities given by the laws and regulations, "Articles of Association" and the " Working System of the Independent Directors", checked and guided the company's production and operation, attended the board meetings the general meeting of stockholders, made independent opinion on the relevant motions such as the related transactions, changes in accounting policies, and the impairment of assets, diligently fulfilled their duties in the daily work and important decision-making of the board of directors, dutifully and earnestly maintained the interests of the company and all shareholders.

VI. Responsibility performance of subordinate special committee of the Board in report period

The Board set up three specialized committees: the Audit Committee, the Remuneration and Appraisal Committee, and the Strategy and Nomination Committee. In 2016, all specialized committees held 6 meetings, thereinto, 4 meetings of the Audit Committee and 2 meeting of the Remuneration and Appraisal Committee. The specialized committees of the board of directors performed their duties by strictly following the requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange, the "Articles of Association", and the rules of procedure of the committees, and played an important role in the scientific decision-making of the board of directors.

(I) Duty performing of the audit committee of the board

During the reporting period, the audit committee of the board paid close attention to the internal control system construction and the related transaction; made opinion on changing and reappointing the accounting firm; regularly checked the financial report of the company; the audit committee of the board of directors effectively performed the responsibilities, diligently did their duties in the annual financial report audit work, gave full play to the supervisory role, and maintained the independence of audit in auditing of the 2016 annual financial report.

(II) Duty performing of the remuneration and appraisal committee of the board

During the reporting period, the remuneration and appraisal committee of the board investigated the remuneration policy and program for the directors and senior management, did annual performance appraisal to the duty performing of directors and senior management according to related assessment criterion; checked and approved the 2016 annual report about the remuneration disclosure of the directors and the senior management, and thought the remuneration amount of relevant personnel disclosed in the 2016 annual report was true and accurate.

(III) Duty performing of the strategy and nomination committee of the board

During the reporting period, the strategy and nomination committee of the board made opinions on changes of the directors and senior executive members, verified the qualification of related personnel, and did not find directors or senior management whose qualifications don't comply with laws, regulations or requirements of the Articles of Association.

VII. Works from Supervisory Committee

Supervisory committee has no objection about supervision events in reporting period

VIII. Appraisal and incentive mechanism for senior executives

In accordance with the "temporary method of performance appraisal", the Company checks and evaluated the individual performance, and paid merit based on appraisal results to enhance the incentive efficiency.

IX. Internal Control

1. Details of major defects in IC appraisal report that found in reporting period

□Yes √ No

2. Appraisal Report of Internal Control

Disclosure date of full internal control evaluation report	2017-03-29	
Disclosure index of full internal control evaluation report	Published on Juchao Website (http://www.cninfo.com.cn) dated on 29 March 2017.	
The ratio of the total assets of units included in the scope of evaluation accounting for the total assets on the company's consolidated financial statements		100.00%
The ratio of the operating income of units included in the scope of evaluation accounting for the operating income on the company's consolidated financial statements		100.00%
Defects Evaluation Standards		
Category	Financial Reports	Non-financial Reports
Qualitative criteria	Material defect: defect that, severally or jointly with other defects, will lead to material wrong reporting in financial reports being not able to prevented or found or rectified in a timely manner. Occurrence of the followings will be deemed as material defect: (1) inefficiency of environment control; (2) fraud of directors, supervisors and senior management; (3) The external auditor finds material wrong reporting in current financial statement, while the Company has not found such reporting during its operation; (4) The material defect identified and reported to the management fails to be rectified in a reasonable time period; (5) The audit committee and audit department of the Company exercise invalid supervision upon internal control; (6) Other defects which may affect financial statement users to make correct judgment.	Occurrence of the followings shall be deemed as material defect, otherwise as major defect or general defect subject to the level of influence. (1) breach of national laws, regulations or regulatory documents; (2) procedure for making significant decisions is not scientific; (3) absence of system may lead to invalid system; (4) Material or major defects are not likely to rectify; (5) Other issues that materially affect the Company.

	Major defect: defect that, severally or jointly with other defects, will lead to wrong reporting in financial reports being not able to prevented or found or rectified in a timely manner which still needs attention from the management though it doesn't reach or exceed material defect as described above. General defect: other internal control related defects that do not constitute material defects or major defect	
Quantitative criteria	(1)potential wrong reporting in operating income: Material defect: 0.5% of the total operating income ≤ wrong reporting; Major defect: 0.2% of the total operating income ≤ wrong reporting＜0.5% of the total operating income; General defect: wrong reporting＜0.2% of the total operating income. (2) potential wrong reporting in total profit: Material defect: 5% of the total profit≤ wrong reporting; Major defect: 2% of the total profit≤ wrong reporting＜5% of the total profit; General defect: wrong reporting＜2% of the total profit. (3) potential wrong reporting in total assets: Material defect: 0.5% of the total assets ≤ wrong reporting; Major defect: 0.2% of the total assets ≤ wrong reporting＜0.5% of the total assets; General defect: wrong reporting＜0.2% of the total assets. (4) potential wrong reporting in owners' equity: Material defect: 0.5% of the total owners' equity ≤ wrong reporting; Major defect: 0.2% of the total owners' equity ≤ wrong reporting ＜ 0.5% of the total owners' equity; General defect: wrong reporting＜0.2% of the total owners' equity.	(1)direct property loss: Material defect: over RMB10 million; Major defect: RMB1 million-RMB10 million (inclusive); General defect: RMB1 million or below (2)negative influences: Material defect: materially and adversely affect the Company, and disclosed to the public via announcement; Major defect: receive punishment from national authorities, while has no material negative influence over the Company; General defect: receive punishment from provincial or below authorities, while has no negative influence over the Company.
Amount of significant defects in financial reports	0	
Amount of significant defects in non-financial reports	0	

Amount of important defects in financial reports	0
Amount of important defects in non-financial reports	0

X. Auditing report of internal control

√Applicable □Not applicable

<table>
<tr><th colspan="2">Deliberation section of auditing report of IC</th></tr>
<tr><td colspan="2">To the Shareholders of Shandong Airlines Co., Ltd.:
We have audited the effectiveness of internal control of financial report under the name of Shandong Airlines Co., Ltd. (“the Company”) dated 31 December 2016 in accordance with relevant requirements of “Internal Control Audit Guideline for Enterprises” and China Standards on Auditing and Quality Control

I. Company's responsibility for internal control
The Company is responsible for the establishment & perfection and efficiency implementation of internal control as well as evaluated its effectiveness, regulated by “Basic Standard of Internal Control for Enterprises”, “Application Guidelines of Internal Control for Enterprises” and “Evaluation Guidelines of Internal Control for Enterprises”.

II. Auditor's responsibility
Our responsibility is to express an audit opinion on effectiveness of internal control of financial report based on our audit. And disclosed the major defects noted in internal control of non-financial report.

III. Inherent limitations of internal control
Internal control has an inherent limitations, and there is possibility of in-prevention and false reported. Furthermore, internal control will comes to inappropriate due to the changes of circumstances, or the controlling policy and procedure maintenance will fail in implementation; there has a certain risk in presuming the efficiency of future internal control based on internal control’s audit results.

IV. Audit opinions on internal control of financial report
In our opinion, Shandong Airlines Co., Ltd. maintain an efficiency of internal control of financial report, in all major aspects, as of 31 December 2016 based on relevant regulations and “Basic Standard of Internal Control for Enterprises”.
Ruihua CPAs (LLP) Chinese CPA: Yang Yunhui
Beijing China Chinese CPA:Guo Yuefeng
28 March 2017</td></tr>
<tr><td>Disclosure details of audit report of internal control</td><td>Disclosed</td></tr>
<tr><td>Disclosure date of audit report of internal control (full-text)</td><td>2017-03-29</td></tr>
<tr><td>Index of audit report of internal control (full-text)</td><td>Published on Juchao Website (http://www.cninfo.com.cn) dated 29 March 2017</td></tr>
</table>

Opinion type of auditing report of IC	Standard unqualified
whether the non-financial report had major defects	No

Issued a modified audit opinions for internal control

□Yes √ No

Auditing report of internal control issued by CPA shows the same opinion as self-evaluation report issued by the Board

√ Yes □ No

Section X. Corporation bonds

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

No

Section XI. Financial Report

I. Audit report

Type of audit opinion	Standard unqualified
Date for audited report signed	2017-03-28
Name of audit institution	Ruihua Certified Public Accountants (LLP)
Auditors' Report No.	Ruihua Shen Zi [2017] No.4845002
CPA	YangYunhui, Guo Yuefeng

Auditor’s Report

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

We have audited the effectiveness of internal control of financial report under the name of Shandong Airlines Co., Ltd. (“the Company”) dated 31 December 2016 in accordance with relevant requirements of “Internal Control Audit Guideline for Enterprises” and China Standards on Auditing and Quality Control

I. Company's responsibility for internal control

The Company is responsible for the establishment & perfection and efficiency implementation of internal control as well as evaluated its effectiveness, regulated by “Basic Standard of Internal Control for Enterprises”, “Application Guidelines of Internal Control for Enterprises” and “Evaluation Guidelines of Internal Control for Enterprises”.

II. Auditor's responsibility

Our responsibility is to express an audit opinion on effectiveness of internal control of financial report based on our audit. And disclosed the major defects noted in internal control of non-financial report.

III. Inherent limitations of internal control

Internal control has an inherent limitations, and there is possibility of in-prevention and false reported. Furthermore, internal control will comes to inappropriate due to the changes of circumstances, or the controlling policy and procedure maintenance will fail in implementation; there has a certain risk in presuming the efficiency of future internal control based on internal control’s audit results.

IV. Audit opinions on internal control of financial report

In our opinion, Shandong Airlines Co., Ltd. maintain an efficiency of internal control of financial report, in all major aspects, as of 31 December 2016 based on relevant regulations and “Basic Standard of Internal Control for Enterprises”.

Ruihua CPAs (LLP) Chinese CPA: Yang Yunhui

Beijing China Chinese CPA:Guo Yuefeng

28 March 2017

II. Financial Statement

Statement in Financial Notes are carried in RMB/CNY

1. Consolidated Balance Sheet

Prepared by Shandong Airlines Co., Ltd

2016-12-31

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	791,255,686.65	1,415,399,630.60
Settlement provisions		
Capital lent		
Financial liability measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable		
Accounts receivable	322,774,169.85	255,782,921.88
Accounts paid in advance	249,136,244.95	154,897,777.19
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Interest receivable		
Dividend receivable		4,381,900.00
Other receivables	351,000,324.78	280,489,032.02
Purchase restituted finance asset		
Inventories	120,965,243.56	112,307,440.99
Divided into assets held for sale		
Non-current asset due within one year		
Other current assets	59,685,735.09	46,425,506.53
Total current assets	1,894,817,404.88	2,269,684,209.21
Non-current assets:		
Loans and payments on behalf		

Finance asset available for sales	271,872,182.34	221,122,773.92
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment property		
Fixed assets	7,093,233,151.79	7,156,258,169.93
Construction in progress	2,250,500,462.35	2,062,310,572.89
Engineering material		
Disposal of fixed asset		
Productive biological asset		
Oil and gas asset		
Intangible assets	114,203,753.20	115,405,609.56
Expense on Research and Development		
Goodwill		
Long-term expenses to be apportioned	475,562,660.08	446,508,148.36
Deferred income tax asset	641,785,173.89	453,818,799.19
Other non-current asset		23,794,314.90
Total non-current asset	10,847,157,383.65	10,479,218,388.75
Total assets	12,741,974,788.53	12,748,902,597.96
Current liabilities:		
Short-term loans		
Loan from central bank		
Absorbing deposit and interbank deposit		
Capital borrowed		
Financial liability measured by fair value and with variation reckoned into current gains/losses	1,155,815.80	3,370,447.62
Derivative financial liability		
Notes payable		25,299,479.50
Accounts payable	1,688,094,861.09	1,128,629,695.55
Accounts received in advance	699,319,553.05	432,216,409.37
Selling financial asset of repurchase		
Commission charge and commission payable		

Wage payable	454,375,029.19	455,788,600.48
Taxes payable	138,661,805.16	105,147,871.19
Interest payable	2,430,456.90	3,638,536.32
Dividend payable	11,940.00	11,940.00
Other accounts payable	401,854,436.21	355,629,762.77
Reinsurance payables		
Insurance contract reserve		
Security trading of agency		
Security sales of agency		
Divided into liability held for sale		
Non-current liabilities due within 1 year	987,644,012.02	1,487,011,320.66
Other current liabilities		
Total current liabilities	4,373,547,909.42	3,996,744,063.46
Non-current liabilities:		
Long-term loans	1,799,601,767.54	2,887,701,872.70
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	2,534,202,090.26	2,366,241,176.93
Long-term wages payable	94,130,651.51	84,214,087.72
Special accounts payable		
Projected liabilities		
Deferred income	58,439,521.16	15,795,524.10
Deferred income tax liabilities	45,880,020.58	33,192,668.48
Other non-current liabilities		
Total non-current liabilities	4,532,254,051.05	5,387,145,329.93
Total liabilities	8,905,801,960.47	9,383,889,393.39
Owner's equity:		
Share capital	400,000,000.00	400,000,000.00
Other equity instrument		
Including: preferred stock		
Perpetual capital securities		
Capital public reserve	75,410,363.70	75,410,363.70

Less: Inventory shares		
Other comprehensive income	131,880,061.76	93,555,005.44
Reasonable reserve		
Surplus public reserve	423,424,327.64	370,981,095.40
Provision of general risk		
Retained profit	2,805,458,074.96	2,425,066,740.03
Total owner's equity attributable to parent company	3,836,172,828.06	3,365,013,204.57
Minority interests		
Total owner's equity	3,836,172,828.06	3,365,013,204.57
Total liabilities and owner's equity	12,741,974,788.53	12,748,902,597.96

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian Person in charge of Accounting Institution: Sun Jingping

2. Balance Sheet of Parent Company

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	761,645,065.66	1,401,853,786.39
Financial liability measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable		
Accounts receivable	322,884,254.40	251,589,118.43
Account paid in advance	248,747,945.46	153,733,245.51
Interest receivable		
Dividends receivable		4,381,900.00
Other receivables	394,481,947.14	323,753,261.30
Inventories	120,965,243.56	112,307,440.99
Divided into assets held for sale		
Non-current assets maturing within one year		
Other current assets	59,685,735.09	46,425,506.53
Total current assets	1,908,410,191.31	2,294,044,259.15

Non-current assets:		
Available-for-sale financial assets	271,872,182.34	221,122,773.92
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	106,000,685.43	106,000,685.43
Investment property		
Fixed assets	7,000,694,540.06	7,055,065,593.26
Construction in progress	2,250,424,462.35	2,062,234,572.89
Project materials		
Disposal of fixed assets		
Productive biological assets		
Oil and natural gas assets		
Intangible assets	100,261,260.93	101,074,925.84
Research and development costs		
Goodwill		
Long-term deferred expenses	475,562,660.08	446,508,148.36
Deferred income tax assets	641,017,982.18	453,010,410.16
Other non-current assets		23,794,314.90
Total non-current assets	10,845,833,773.37	10,468,811,424.76
Total assets	12,754,243,964.68	12,762,855,683.91
Current liabilities:		
Short-term borrowings		
Financial liability measured by fair value and with variation reckoned into current gains/losses	1,155,815.80	3,370,447.62
Derivative financial liability		
Notes payable		25,299,479.50
Accounts payable	1,702,743,063.11	1,139,113,395.22
Accounts received in advance	693,918,823.76	425,229,854.14
Wage payable	450,079,741.59	449,749,937.20
Taxes payable	137,221,799.65	103,940,014.68
Interest payable	2,430,456.90	3,638,536.32
Dividend payable	11,940.00	11,940.00
Other accounts payable	425,862,312.50	380,180,859.11

Divided into liability held for sale		
Non-current liabilities due within 1 year	987,644,012.02	1,487,011,320.66
Other current liabilities		
Total current liabilities	4,401,067,965.33	4,017,545,784.45
Non-current liabilities:		
Long-term loans	1,799,601,767.54	2,887,701,872.70
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	2,534,202,090.26	2,366,241,176.93
Long-term wages payable	94,130,651.51	84,214,087.72
Special accounts payable		
Projected liabilities		
Deferred income	58,439,521.16	15,795,524.10
Deferred income tax liabilities	45,880,020.58	33,192,668.48
Other non-current liabilities		
Total non-current liabilities	4,532,254,051.05	5,387,145,329.93
Total liabilities	8,933,322,016.38	9,404,691,114.38
Owners' equity:		
Share capita	400,000,000.00	400,000,000.00
Other equity instrument		
Including: preferred stock		
Perpetual capital securities		
Capital public reserve	86,911,168.71	86,911,168.71
Less: Inventory shares		
Other comprehensive income	131,880,061.76	93,555,005.44
Reasonable reserve		
Surplus reserve	422,763,623.11	370,320,390.87
Retained profit	2,779,367,094.72	2,407,378,004.51
Total owner's equity	3,820,921,948.30	3,358,164,569.53
Total liabilities and owner's equity	12,754,243,964.68	12,762,855,683.91

Legal Representative: Sun Xiujiang　　　　Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Sun Jingping

3. Consolidated Profit Statement

In RMB

Item	Current Period	Last Period
I. Total operating income	13,742,365,545.56	12,108,963,139.11
Including: Operating income	13,742,365,545.56	12,108,963,139.11
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	13,216,283,996.73	11,569,608,100.59
Including: Operating cost	11,890,173,404.59	10,199,586,342.94
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	46,017,200.74	50,222,475.22
Sales expenses	674,961,176.53	713,698,896.12
Administration expenses	333,943,862.70	280,697,316.52
Financial expenses	261,876,586.15	319,822,620.05
Losses of devaluation of asset	9,311,766.02	5,580,449.74
Add: Changing income of fair value(Loss is listed with “-”)	2,214,631.82	-1,810,736.85
Investment income (Loss is listed with “-”)	17,359,703.12	35,503,600.77
Including: Investment income on affiliated company and joint venture		-17,729,201.91
Exchange income (Loss is listed with “-”)		

III. Operating profit (Loss is listed with "-")	545,655,883.77	573,047,902.44
Add: Non-operating income	168,716,626.89	139,759,804.28
Including: Disposal gains of non-current asset	68,054.80	454,266.84
Less: Non-operating expense	4,998,459.07	1,799,031.90
Including: Disposal loss of non-current asset	3,459,280.00	1,402,588.79
IV. Total Profit (Loss is listed with "-")	709,374,051.59	711,008,674.82
Less: Income tax expense	176,539,484.42	178,747,681.78
V. Net profit (Net loss is listed with "-")	532,834,567.17	532,260,993.04
Net profit attributable to owner's of parent company	532,834,567.17	532,260,993.04
Minority shareholders' gains and losses		
VI. Net after-tax of other comprehensive income	38,325,056.32	34,631,831.18
Net after-tax of other comprehensive income attributable to owners of parent company	38,325,056.32	34,631,831.18
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	263,000.00	-5,281,000.00
1. Changes as a result of re-measurement of net defined benefit plan liability or asset	263,000.00	-5,281,000.00
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		
(II) Other comprehensive income items which will be reclassified subsequently to profit or loss	38,062,056.32	39,912,831.18
1. Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit or loss		
2. Gains or losses arising	38,062,056.32	39,912,831.18

from changes in fair value of available-for-sale financial assets		
3. Gains or losses arising from reclassification of held-to-maturity investment as available-for-sale financial assets		
4. The effect hedging portion of gains or losses arising from cash flow hedging instruments		
5. Translation differences arising on translation of foreign currency financial statements		
6. Other		
Net after-tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	571,159,623.49	566,892,824.22
Total comprehensive income attributable to owners of parent Company	571,159,623.49	566,892,824.22
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	1.33	1.33
(ii) Diluted earnings per share	1.33	1.33

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian
Person in charge of Accounting Institution: Sun Jingping

4. Profit Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Operating income	13,715,153,317.42	12,088,523,588.18
Less: Operating cost	11,883,288,895.95	10,195,787,859.35
Operating tax and extras	44,130,493.73	49,894,195.77
Sales expenses	674,961,176.53	713,698,896.12
Administration expenses	326,189,363.91	272,307,927.95
Financial expenses	261,933,134.34	319,882,738.89
Losses of devaluation of asset	9,476,555.32	5,517,603.31

Add: Changing income of fair value(Loss is listed with "-")	2,214,631.82	-1,810,736.85
Investment income (Loss is listed with "-")	17,359,703.12	35,503,600.77
Including: Investment income on affiliated company and joint venture		-17,729,201.91
II. Operating profit (Loss is listed with "-")	534,748,032.58	565,127,230.71
Add: Non-operating income	168,710,639.01	139,759,441.46
Including: Disposal gains of non-current asset	64,854.80	453,904.02
Less: Non-operating expense	4,994,421.07	1,663,627.60
Including: Disposal loss of non-current asset	3,455,242.00	1,388,386.05
III. Total Profit (Loss is listed with "-")	698,464,250.52	703,223,044.57
Less: Income tax expense	174,031,928.07	175,920,664.61
IV. Net profit (Net loss is listed with "-")	524,432,322.45	527,302,379.96
V. Net after-tax of other comprehensive income	38,325,056.32	34,631,831.18
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	263,000.00	-5,281,000.00
1. Changes as a result of re-measurement of net defined benefit plan liability or asset	263,000.00	-5,281,000.00
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		
(II) Other comprehensive income items which will be reclassified subsequently to profit or loss	38,062,056.32	39,912,831.18
1. Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified subsequently to profit or loss		

2. Gains or losses arising from changes in fair value of available-for-sale financial assets	38,062,056.32	39,912,831.18
3. Gains or losses arising from reclassification of held-to-maturity investment as available-for-sale financial assets		
4. The effect hedging portion of gains or losses arising from cash flow hedging instruments		
5. Translation differences arising on translation of foreign currency financial statements		
6. Other		
VI. Total comprehensive income	562,757,378.77	561,934,211.14
VII. Earnings per share:		
(i) Basic earnings per share		
(ii) Diluted earnings per share		

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian Person in charge of Accounting Institution: Sun Jingping

5. Consolidated Cash Flow Statement

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	15,292,555,234.22	13,450,288,283.26
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 amount from disposal financial assets that measured by fair value and with variation reckoned into current gains/losses		
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	250,348,958.09	162,874,095.46
Subtotal of cash inflow arising from operating activities	15,542,904,192.31	13,613,162,378.72
Cash paid for purchasing commodities and receiving labor service	9,817,458,407.43	8,591,292,349.65
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	2,335,621,670.49	1,917,771,707.59
Taxes paid	668,268,335.05	449,591,891.48
Other cash paid concerning operating activities	294,499,790.92	230,048,586.99
Subtotal of cash outflow arising from operating activities	13,115,848,203.89	11,188,704,535.71
Net cash flows arising from operating activities	2,427,055,988.42	2,424,457,843.01
II. Cash flows arising from investing		

activities:		
Cash received from recovering investment		200,800,000.00
Cash received from investment income	23,018,666.90	8,790,345.41
Net cash received from disposal of fixed, intangible and other long-term assets	1,819,289.52	92,325,889.51
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	24,837,956.42	301,916,234.92
Cash paid for purchasing fixed, intangible and other long-term assets	2,170,224,417.98	2,182,192,631.16
Cash paid for investment		
Net increase of mortgaged loans		
Net cash received from subsidiaries and other units obtained		
Other cash paid concerning investing activities	1,277,063.78	2,693,748.52
Subtotal of cash outflow from investing activities	2,171,501,481.76	2,184,886,379.68
Net cash flows arising from investing activities	-2,146,663,525.34	-1,882,970,144.76
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	296,000,000.00	1,104,981,104.70
Cash received from issuing bonds		
Other cash received concerning financing activities	1,221,674,080.70	1,619,738,784.33
Subtotal of cash inflow from financing	1,517,674,080.70	2,724,719,889.03

activities		
Cash paid for settling debts	2,074,680,400.72	1,940,752,605.33
Cash paid for dividend and profit distributing or interest paying	200,798,539.33	222,540,239.21
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities	188,394,977.32	174,680,444.93
Subtotal of cash outflow from financing activities	2,463,873,917.37	2,337,973,289.47
Net cash flows arising from financing activities	-946,199,836.67	386,746,599.56
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	41,663,429.64	26,423,996.44
V. Net increase of cash and cash equivalents	-624,143,943.95	954,658,294.25
Add: Balance of cash and cash equivalents at the period -begin	1,415,399,630.60	460,741,336.35
VI. Balance of cash and cash equivalents at the period -end	791,255,686.65	1,415,399,630.60

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian Person in charge of Accounting Institution: Sun Jingping

6. Cash Flow Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	15,258,749,693.82	13,429,749,687.19
Write-back of tax received		
Other cash received concerning operating activities	249,661,725.51	162,801,165.42
Subtotal of cash inflow arising from	15,508,411,419.33	13,592,550,852.61

operating activities		
Cash paid for purchasing commodities and receiving labor service	9,826,140,303.09	8,600,632,282.93
Cash paid to/for staff and workers	2,315,580,568.87	1,901,307,673.50
Taxes paid	661,815,142.14	443,278,621.72
Other cash paid concerning operating activities	294,240,359.26	220,894,486.70
Subtotal of cash outflow arising from operating activities	13,097,776,373.36	11,166,113,064.85
Net cash flows arising from operating activities	2,410,635,045.97	2,426,437,787.76
II. Cash flows arising from investing activities:		
Cash received from recovering investment		200,800,000.00
Cash received from investment income	23,018,666.90	8,790,345.41
Net cash received from disposal of fixed, intangible and other long-term assets	1,816,869.52	92,325,246.19
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	24,835,536.42	301,915,591.60
Cash paid for purchasing fixed, intangible and other long-term assets	2,169,865,832.31	2,181,604,686.27
Cash paid for investment		
Net cash received from subsidiaries and other units		
Other cash paid concerning investing activities	1,277,063.78	2,693,748.52
Subtotal of cash outflow from investing activities	2,171,142,896.09	2,184,298,434.79
Net cash flows arising from investing activities	-2,146,307,359.67	-1,882,382,843.19

III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	296,000,000.00	1,104,981,104.70
Cash received from issuing bonds		
Other cash received concerning financing activities	1,221,674,080.70	1,619,738,784.33
Subtotal of cash inflow from financing activities	1,517,674,080.70	2,724,719,889.03
Cash paid for settling debts	2,074,680,400.72	1,940,752,605.33
Cash paid for dividend and profit distributing or interest paying	200,798,539.33	222,540,239.21
Other cash paid concerning financing activities	188,394,977.32	174,680,444.93
Subtotal of cash outflow from financing activities	2,463,873,917.37	2,337,973,289.47
Net cash flows arising from financing activities	-946,199,836.67	386,746,599.56
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	41,663,429.64	26,423,996.44
V. Net increase of cash and cash equivalents	-640,208,720.73	957,225,540.57
Add: Balance of cash and cash equivalents at the period -begin	1,401,853,786.39	444,628,245.82
VI. Balance of cash and cash equivalents at the period -end	761,645,065.66	1,401,853,786.39

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian Person in charge of Accounting Institution: Sun Jingping

7. Statement of Changes in Owners' Equity (Consolidated)

This Period

In RMB

Item	This Period										
	Owners' equity attributable to parent company									Minorit y	Total owners'
	Share	Other	Capital	Less:	Other	Reason	Surplus	Provisio	Retaine		

	capital	equity instrument			reserve	Inventory shares	comprehensive income	able reserve	reserve	n of general risk	d profit	interests	equity
		Preferred stock	Perpetual capital securities	Other									
I. Balance at the end of the last year	400,000,000.00				75,410,363.70		93,555,005.44		370,981,095.40		2,425,066,740.03		3,365,013,204.57
Add: Changes of accounting policy													
Error correction of the last period													
Enterprise combine under the same control													
Other													
II. Balance at the beginning of this year	400,000,000.00				75,410,363.70		93,555,005.44		370,981,095.40		2,425,066,740.03		3,365,013,204.57
III. Increase/ Decrease in this year (Decrease is listed with "-")							38,325,056.32		52,443,232.24		380,391,334.93		471,159,623.49
(i) Total comprehensive income							38,325,056.32				532,834,567.17		571,159,623.49
(ii) Owners' devoted and decreased capital													
1.Common shares invested by shareholders													
2. Capital invested by holders of other equity instruments													
3. Amount reckoned into owners equity with share-based payment													
4. Other													
(III) Profit distribution									52,443,232.24		-152,443,232.2		-100,000,000.0

											4		0
1. Withdrawal of surplus reserves									52,443,232.24		-52,443,232.24		
2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)											-100,000,000.00		-100,000,000.00
4. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves conversed to capital (share capital)													
2. Surplus reserves conversed to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Other													
(V) Reasonable reserve													
1. Withdrawal in the report period													
2. Usage in the report period													
(VI)Others													
IV. Balance at the end of the report period	400,000,000.00				75,410,363.70		131,880,061.76		423,424,327.64		2,805,458,074.96		3,836,172,828.06

Last Period

In RMB

Item	Last Period												
	Owners' equity attributable to the parent Company											Minority interests	Total owners' equity
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit		
		Preferred stock	Perpetual capital	Other									

			l securities										
I. Balance at the end of the last year	400,000,000.00				75,410,363.70		58,923,174.26		318,250,857.40		2,025,535,984.99		2,878,120,380.35
Add: Changes of accounting policy													
Error correction of the last period													
Enterprise combine under the same control													
Other													
II. Balance at the beginning of this year	400,000,000.00				75,410,363.70		58,923,174.26		318,250,857.40		2,025,535,984.99		2,878,120,380.35
III. Increase/ Decrease in this year (Decrease is listed with "-")							34,631,831.18		52,730,238.00		399,530,755.04		486,892,824.22
(i) Total comprehensive income							34,631,831.18				532,260,993.04		566,892,824.22
(ii) Owners' devoted and decreased capital													
1.Common shares invested by shareholders													
2. Capital invested by holders of other equity instruments													
3. Amount reckoned into owners equity with share-based payment													
4 Other													
(III) Profit distribution									52,730,238.00		-132,730,238.00		-80,000,000.00
1. Withdrawal of surplus reserves									52,730,238.00		-52,730,238.00		
2. Withdrawal of													

general risk provisions													
3. Distribution for owners (or shareholders)											-80,000,000.00		-80,000,000.00
4. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves conversed to capital (share capital)													
2. Surplus reserves conversed to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Other													
(V) Reasonable reserve													
1. Withdrawal in the report period													
2. Usage in the report period													
(VI)Others													
IV. Balance at the end of the report period	400,000,000.00				75,410,363.70		93,555,005.44		370,981,095.40		2,425,066,740.03		3,365,013,204.57

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian Person in charge of Accounting Institution: Sun Jingping

8. Statement of Changes in Owners' Equity (Parent Company)

This Period

In RMB

Item	This Period										
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred stock	Perpetual capital	Other							

			securities								
I. Balance at the end of the last year	400,000,000.00				86,911,168.71		93,555,005.44		370,320,390.87	2,407,378,004.51	3,358,164,569.53
Add: Changes of accounting policy											
Error correction of the last period											
Other											
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		93,555,005.44		370,320,390.87	2,407,378,004.51	3,358,164,569.53
III. Increase/ Decrease in this year (Decrease is listed with “-”)							38,325,056.32		52,443,232.24	371,989,090.21	462,757,378.77
(i) Total comprehensive income							38,325,056.32			524,432,322.45	562,757,378.77
(ii) Owners’ devoted and decreased capital											
1.Common shares invested by shareholders											
2. Capital invested by holders of other equity instruments											
3. Amount reckoned into owners equity with share-based payment											
4. Other											
(III) Profit distribution									52,443,232.24	-152,443,232.24	-100,000,000.00
1. Withdrawal of surplus reserves									52,443,232.24	-52,443,232.24	
2. Distribution for owners (or shareholders)										-100,000,000.00	-100,000,000.00
3. Other											

(IV) Carrying forward internal owners' equity											
1. Capital reserves conversed to capital (share capital)											
2. Surplus reserves conversed to capital (share capital)											
3. Remedying loss with surplus reserve											
4. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI)Others											
IV. Balance at the end of the report period	400,000,000.00				86,911,168.71		131,880,061.76		422,763,623.11	2,779,367,094.72	3,820,921,948.30

Last period

In RMB

Item	Last period										
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred stock	Perpetual capital securities	Other							
I. Balance at the end of the last year	400,000,000.00				86,911,168.71		58,923,174.26		317,590,152.87	2,012,805,862.55	2,876,230,358.39
Add: Changes of accounting policy											
Error correction of the last period											
Other											

II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		58,923,174.26		317,590,152.87	2,012,805,862.55	2,876,230,358.39
III. Increase/ Decrease in this year (Decrease is listed with "-")							34,631,831.18		52,730,238.00	394,572,141.96	481,934,211.14
(i) Total comprehensive income							34,631,831.18			527,302,379.96	561,934,211.14
(ii) Owners' devoted and decreased capital											
1.Common shares invested by shareholders											
2. Capital invested by holders of other equity instruments											
3. Amount reckoned into owners equity with share-based payment											
4. Other											
(III) Profit distribution									52,730,238.00	-132,730,238.00	-80,000,000.00
1. Withdrawal of surplus reserves									52,730,238.00	-52,730,238.00	
2. Distribution for owners (or shareholders)										-80,000,000.00	-80,000,000.00
3. Other											
(IV) Carrying forward internal owners' equity											
1. Capital reserves conversed to capital (share capital)											
2. Surplus reserves conversed to capital (share capital)											
3. Remedying loss with surplus reserve											

4. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI)Others											
IV. Balance at the end of the report period	400,000,000.00				86,911,168.71		93,555,005.44		370,320,390.87	2,407,378,004.51	3,358,164,569.53

Legal Representative: Sun Xiujiang Person in charge of Accounting Works: Xu Guojian Person in charge of Accounting Institution: Sun Jingping

Shandong Airlines Co., Ltd.

Notes to the Financial Statements

for the Year Ended 31 December 2016

(All amounts are expressed in CNY unless otherwise stated)

Note 1 Corporation profile

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: SUN, Xiujiang

Place of registration: Shandong Jinan Yaoqiang International Airport

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

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; inter-airline agenting, and principal operation related ground services; sales of airborne material and equipments, grocery, food, health food, art work, souvenir, etc.; retailing of tobacco products (limited to Qingdao Red-Crowned Crane Hotel); lease of airborne material and equipments; venue rental, private house rental, business services, hotel accommodation agents and ticket agents; 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),but involve operation related to commodity that are subject to quotas , licence requirements, which are restricted to obtain permission before the operation)(the project that subjects to the approval in accordance with the law, can carry out business activities only after the approval of the relevant departments to carry out business activities).

The financial statements of the Company has been approved by the board of directors on 28 Mar 2017. 2 subsidiaries of the Company are included in the consolidated financial statements in 2016, see Note 8 "The equity in other main entities". No change of scope of consolidation from last year.

The Company operates in the industry of transportation.

Note 2 Basis for preparation of the financial statements

The financial statements of company have been prepared on basis of going concern in conformity with Chinese Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises issued by the Ministry of Finance of People's Republic of China (Ministry of Finance issued order No.33, the Ministry of Finance revised order No.76) on15 February 2006, and revised Accounting Standards (order 41 of the Ministry of Finance) and Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reports (2014 Revision) issued by the China Securities Regulatory Commission (CSRC).

According to the relevant accounting regulations in Chinese Accounting Standards for Business Enterprises, the company has adopted the accrual basis of accounting. Held-for-sale non-current assets are measured at the lower of its book value at its classification date and fair value minus expected disposal costs. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

Note 3 Statement of Compliance with Enterprise Accounting Standards

The financial statements of the company are recognized and measured in accordance with the regulations in the Chinese Accounting Standards for Business Enterprises and they give a true and fair view of the financial position, business result and cash flow of the Company as of 31 December 2016. In addition, the financial statements of the company comply, in all material respects, with the revised disclosing requirements for financial statements and the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15—General Provisions on Financial Reports (2014 Revision) issued by China Securities Regulatory Commission (CSRC) in 2014.

Note 4 Important Accounting Principles and Accounting Estimates

The Company and subsidiaries are principally engaged in air transportation. The Company and subsidiaries in accordance with the actual production and management features, according to the relevant provisions of Accounting Standards, to make a number of specific accounting policies and accounting estimates for other transactions and events of revenue recognition, see Note 4.21 “Revenue” for the description. For description of significant accounting judgments and estimates made by management, see Note 4.28 “Significant accounting judgments and estimates”.

4.1 Accounting period

The accounting period of the Company is classified as interim period and annual period. Interim period refers to the reporting period shorter than a complete annual period. The accounting period of the Company is the calendar year from January 1 to December 31.

4.2 Operating cycle

Normal business cycle is realized by the Company in cash or cash equivalents from the purchase of assets for processing until. The company has a 12 -month operating cycle, and its assets and liabilities as liquidity criteria for the classification.

4.3 Monetary Unit

Yuan (CNY) is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose CNY as their functional currency. The Company adopts CNY to prepare its functional statements.

4.4 Business combination

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

4.4.1 Business combination involving entities under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

For a business combination involving enterprises under common control, the party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to the capital premium (or share premium) in the capital reserve. If the balance of the capital premium (or share premium) is insufficient, any excess is adjusted to retained earnings.

The cost of a combination incurred by the absorbing party includes any costs directly attributable to the combination shall be recognized as an expense through profit or loss for the current period when incurred.

4.4.2 Business combination involving entities not under common control

A business combination involving enterprises not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination.

For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For a business combination not involving enterprise under common control, the combination cost including the sum of fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services etc and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred.

The transaction cost arose from issuing of equity securities or liability securities shall be initially recognized as equity securities or liability securities.

The contingent consideration related to the combination shall be booked as combination cost at the fair value at the acquisition date. If, within the 12 months after acquisition, additional information can prove the existence of related information at acquisition date and the contingent consideration need to be adjusted, goodwill can be adjusted.

Combination cost of the acquirer's interest and identifiable net assets of the acquirer acquired through the business combination shall be measured by the fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be accounted for according to the following requirements: (i) the acquirer shall reassess the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination; (ii) if after that reassessment, the cost of combination is still less than the acquirer's interest in the fair values of the acquiree's identifiable net assets, the acquirer shall recognize the remaining difference immediately in profit or loss for the current period.

Where the temporary difference obtained by the acquirer was not recognized due to inconformity with the conditions applied for recognition of deferred income tax, if, within the 12 months after acquisition, additional information can prove the existence of related information at acquisition date and the expected economic benefits on the acquisition date arose from deductible temporary difference by the acquiree can be achieved, relevant income tax assets can be recognized, and goodwill offset. If the goodwill is not sufficient, the difference shall be recognized as profit of the current period.

Apart from above, the differences shall be taken into profit or loss of the current period if the recognition of deferred income tax assets is related to the combination.

For a business combination not involving enterprise under common control, which achieved in stages that involves multiple exchange transactions, according to "The notice of the Ministry of Finance on the issuance of Accounting Standards Interpretation No. 5" (CaiKuai [2012] No. 19) and Article55 of "Accounting Standards for Business Enterprises No.33 - Consolidated Financial Statements" on the "package deal" criterion (see Note 4.5.2), to judge the multiple exchange transations whether they are the"package deal". If it belong to the "package deal" in reference to the preceding paragraphs of this section and the Notes described in 4.13 "long-term investment" accounting treatment, if it does not belong to the "package deal" to distinguish the individual financial statements and the consolidated financial statements related to the accounting treatment:

In the individual financial statements, the total value of the book valueoftheacquiree's equity investment before the acquisition date and the cost of new investment at the acquisition date, as the initial cost of the investment, the acquiree's equity investment before the acquisition date involved in other comprehensive income, in the disposal of the investment will be in other comprehensive income associated with the use of infrastructure and the acquiree directly related to the disposal of assets or liabilities of the same accounting treatment (that is, except in accordance with the equity method of accounting in the defined benefit plan acquiree is remeasured net changes in net assets or liabilities other than in the corresponding share of the lead, and the rest into the current investment income).

In the combination financial statements, the equity interest in the acquiree previously held before the acquisition date re-assessed at the fair value at the acquisition date, with any difference between its fair value and its carrying amount is recorded as investment income.The previously-held equity interest in the acquiree involved in other comprehensive income and other comprehensive income associated with the purchase of the foundation should be used party directly related to the disposal of assets or liabilities of the same accounting treatment (that is, except in accordance with the equity method of accounting in the acquiree is remeasured defined benefit plans other than changes in net liabilities or net assets due to a corresponding share of the rest of the acquisition date into current investment income).

4.5 Preparation of the consolidated financial statements

4.5.1 The scope of consolidation

The scope of consolidation for the consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. The scope of consolidation includes the Company and all of the subsidiaries. Subsidiary is an enterprise or entity under the control of the Company.

Once the change in the relevant facts and circumstances leading to the definition of the relevant elements involved in the control of the change, the company will be re-evaluated.

4.5.2 Preparation of the consolidated financial statements

The subsidiary of the Company is included in the consolidated financial statements from the date when the control over the net assets and business decisions of the subsidiary is effectively obtained, and excluded from the date when the control ceases.

For a subsidiary disposed of by the Company, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate. For a subsidiary disposed during the period, no adjustment is made to the opening balance of the consolidated financial statements.

For a subsidiary acquired through a business combination not under common control, the operating results and cash flows from the acquisition (the date when the control is obtained) are included in the consolidated income statement and consolidated statement of cash flows, as appropriated; no adjustment is made to the opening balance and comparative figures in the consolidated financial statements.

Where a subsidiary and a party being absorbed in a merger by absorption was acquired during the reporting period, through a business combination involving enterprises under common control, the financial statements of the subsidiary are included in the consolidated financial statements. The results of operations and cash flow are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts, from the date that common control was established, and the opening balances and the comparative figures of the consolidated financial statements are restated.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Where a subsidiary was acquired during the reporting period through a business combination not under common control, the financial statements was reconciliated on the basis of the fair value of identifiable net assets at the date of acquisition. Intra-Group balances and transactions, and any unrealized profit or loss arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Minority interest and the portion in the net profit or loss not attributable to the Company are presented separately in the consolidated balance sheet within shareholders'/ owners' equity and net profit. Net profit or loss attributable to minority shareholders in the subsidiaries is presented separately as minority interest in the consolidated income statement below the net profit line item.

When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders'/equity of the subsidiary, the excess is allocated against the minority interests.

When the Company loses control of a subsidiary due to the disposal of a portion of an equity investment or other reasons, the remaining equity investment is re-measured at its fair value at the date when control is lost. The difference between 1) the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and 2) the carrying amounts of the interest in the former subsidiary's net assets immediately before the loss of the control is recognized as investment income for the current period when control is lost. Other comprehensive income related to the former subsidiary's equity investment, using the foundation and the acquiree directly related to the disposal of the same assets or liabilities are accounted when the control is lost(ie, in addition to the former subsidiary is remeasured at the net defined benefit plan or changes in net assets and liabilities resulting from, the rest are transferred to the current investment income). The retained interest is subsequently measured according to the rules stipulated in the - "Chinese Accounting Standards for Business Enterprises No.2 - Long-term equity investment" or "Chinese Accounting Standards for Business Enterprises No.22 - Determination and measurement of financial instruments". See Note 4.13 Long-term equity investments and Note 4.9 Financial instruments for details.

The company through multiple transactions step deal with disposal of the subsidiary's equity investment until the loss of control, need to distinguish between equity until the disposal of a subsidiary's loss of control over whether the transaction is package deal. Terms of the transaction disposition of equity investment in a subsidiary, subject to the following conditions and the economic impact of one or more of cases, usually indicates that several transactions should be accounted for as a package deal:①these transactions are considered simultaneously, or in the case of mutual influence made, ②these transactions as a whole in order to achieve a complete business results; ③the occurrence of a transaction depends on occurs at least one other transaction; ④a transaction look alone is not economical, but when considered together with other transaction is economical. If they does not belong to the package deal, each of them separately, as the case of a transaction in accordance with "without losing control over the disposal of a subsidiary part of a long-term equity investments" (see Note 4.10.2, 4)) and "due to the disposal of certain equity investments or other reasons lost control of a subsidiary of the original" (see previous paragraph) principles applicable accounting treatment. Until the disposal of the equity investment loss of control of a subsidiary of the transactions belonging to the package deal, the transaction will be used as a disposal of a subsidiary and the loss of control of the transaction. However, before losing control of the price of each disposal entitled to share in the net assets of the subsidiary 's investment corresponding to the difference between the disposal, recognized in the consolidated financial statements as other comprehensive income, loss of control over the transferred together with the loss of control or loss in the period.

4.6 Joint arrangement

A joint arrangement is an arrangement of which two or more partieshave joint control.A joint arrangement is either a joint operation or a joint venture, depending of the rights and obligation of the Company in the joint arrangement. A joint operation is a joint arrangement whereby the Company has rights to the assets, andobligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the Company has rights to the net assets of thearrangement.

The Company accounts for joint ventures using the equity method, see Note 4.13.2.2 for details.

The company, a joint operator, recognises in relation to its interest in a jointoperation:(a)its assets, including its share of any assets held jointly;(b)its liabilities, including its share of any liabilities incurred jointly;(c)its revenue from the sale of its share of the output arising from thejoint operation;(d)its share of the revenue from the sale of the output by the jointoperation; and (e)its expenses, including its share of any expenses incurred jointly.

When the Company enters into a transaction with a joint operation in which it is ajoint operator, such as a sale or contribution of assets, the Company, prior to disposal of the assets to a third party by the joint operation,recognises gains and losses resulting from such a transaction onlyto the extent of the other parties's interests in the joint operation.When there is evidence of a reduction in the net realisablevalue of the assets to be sold or contributed to the joint operation, or of animpairment loss of those assets which is in line with provision stipulated by CAS 8, those losses arerecognised fully by the Company.When there is evidence of a reduction in the net realisablevalue of the assets to be purchased or of an impairment loss of those assets, the Company shall recognise its share of those losses.

4.7 Cash equivalent

Cash and cash equivalents of the Company include cash on hand, ready usable deposits and investments having short holding term (normally will be due within three months from the day of purchase), with strong liquidity and easy to be exchanged into certain amount of cash that can be measured reliably and have low risks of change.

4.8 Foreign exchange

4.8.1 Translation in foreign exchange transactions

The foreign currency transactions are recorded, on initial recognition in the functional currency, by applying [the spot exchange rate on the date of the transaction / an exchange rate that approximates the actual spot exchange rate on the date of transaction]. The exchange of foreign currency and transactions related to the foreign exchange are translated at the spot exchange rate.

4.8.2 Translation of monetary foreign currency and non-monetary foreign currency

At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. All the exchange differences thus resulted are taken to profit or loss, except for ①those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalized in accordance with the principle of capitalization of borrowing costs, ②hedging accounting, the exchange difference related to hedging instruments for the purpose of net oversea operating investment is recorded in the comprehensive income till the date of disposal and recognized in profit or loss of the period; exchange difference from changes of other account balance of foreign currency monetary items, ③available-for-trade is recorded into profit or loss except for amortized cost.

Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date when the fair values are determined. The exchange difference thus resulted are recognized in profit or loss for the current period or as capital reserve.

4.8.3 The translation of financial statement in foreign currency

When the consolidated financial statements include foreign operation(s), if there is a foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as “exchange differences arising on translation of financial statements denominated in foreign currencies” in owner’s equity, and in profit or loss for the period upon disposal of the foreign operation.

The Group translates the financial statements of its foreign operations into CNY by following rules. Assets and liabilities in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; all equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items occur; income and expenses in income statement are translated at the spot exchange rates at the date of transaction; the opening retained earnings is the closing retained earnings of the last period after translation; the closing balance of retained earnings is calculates and presented in the basis of each translated income statements and profit distribution item; the difference arising between the assets and liabilities and shareholders' equity shall be booked as translation difference of foreign currency statements, and shall be presented as a separate component of equity in the balance sheet. On a loss of control over Group's oversea operation due to disposal, the Company transfers the accumulated or proportionate share of the accumulated exchange difference arising on translation of financial statements of this oversea operation attributable to the owners' equity of the Company and presented under shareholders' equity, to profit or loss in the period in which the disposal occurs.

Foreign currency cash flows and cash flow of oversea subsidiaries are translated at the spot exchange rates on the date of cash flows.The effect of exchange rate changes on cash is separately presented as an adjustment item in the cash flow statement.

The opening and actual amount of last year are presented in the financial statement after translation

At the disposal of all of the company's ownership interest in a foreign operation, or due to the disposal of part of the equity investment or other reasons, the loss of control over a foreign operation, the project owner's equity in the balance sheet listed under the relevant overseas operations attributable to statements of the parent company 's shareholders' equity of foreign currency translation differences, all transferred to the disposal of the income statement.

At the disposal of part of the equity investment or other causes lower hold percentage overseas business interests, but does not lose control over a foreign operation, and disposal of the foreign operation section related to foreign currency translation differences attributable to minority interests, is not transferred to the income statement. At the disposal of a foreign operation as part of the equity joint venture or joint ventures, foreign currency financial statements of the foreign operation and the associated translation difference in proportion to dispose of the foreign operation into the disposal of the income statement.

4.9 Financial instruments

4.9.1 Determination of financial assets and liabilities' fair value

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. For a financial instrument which has an active market, the Company uses quoted price in the active market to establish its fair value. The quoted price in the active market refers to the price that can be regularly obtained from exchange market, agencies, industry associations, pricing authorities; it represents the fair market trading price in the actual transaction.

For a financial instrument which does not have an active market, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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.

4.9.2 Classification, recognition and measurement of financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. On initial recognition, the Company's financial assets are classified into one of the four categories, including financial assets at fair value though profit or loss, held-to maturity investments, loans and receivables and available-for-trade financial assets. A financial asset is recognized initially at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are immediately charged to the profit and loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognized.

1) Financial assets at fair value through profit or loss:

Including financial assets held-for-trade and financial assets designated at fair value through profit or loss.

Financial asset held-for-trade is the financial asset that meets one of the following conditions:

A. the financial asset is acquired for the purpose of selling it in a short term;

B. the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits;

C. the financial asset is a derivative, except for a derivative that is designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured. For such kind of financial assets, fair values are adopted for subsequent measurement.

Financial asset is designated on initial recognition as at fair value through profit or loss only when it meets one of the following conditions:

A. the designation eliminates or significantly reduces the inconsistency in the measurement or recognition of relevant gains or losses that would otherwise arise from measuring the financial instruments on different bases.

B. a Group of financial instruments is managed and its performance is evaluated on a fair value basis, and is reported to the enterprise's key management personnels. Formal documentation regarding risk management or investment strategy has prepared.

Financial assets at fair value through profit or loss are subsequently measured at the fair value. Any gains or losses arising from changes in the fair value and any dividends or interest income earned on the financial assets are recognized in the profit or loss.

2) Investment held-to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Such kind of financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in profit or loss for the current period.

Effective interest rate is the rate that exactly discounted estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company shall estimate future cash flow considering all contractual terms of the financial asset or financial liability without considering future credit losses, and also consider all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed determinable payment that are not quoted in an active market. Financial assets classified as loans and receivables by the Company include note receivables, account receivables, interest receivable dividends receivable and other receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

4) Financial assets available-for-trade

Financial assets available-for-trade include non-derivative financial assets that are designated on initial recognition as available for trade, and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or investment held-to-maturity.

Financial assets available-for-trade are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and dividends declared by the investee during the period in which the financial assets available-for-trade are held, are recognized in investment gains.

4.9.3 Impairment of financial assets

The Group assesses at the balance sheet date the carrying amount of every financial asset except for the financial assets that measured by the fair value. If there is objective evidence indicating a financial asset may be impaired, a provision is provided for the impairment.

1) Impairment on held-to maturity investment, loans and receivables

The financial assets measured by cost or amortized cost write down their carrying value by the estimated present value of future cash flow. The difference is recorded as impairment loss. If there is objective evidence to indicate the recovery of value of financial assets after impairment, and it is related with subsequent event after recognition of loss, the impairment loss recorded originally can be reversed. The carrying value of financial assets after impairment loss reversed shall not exceed the amortized cost of the financial assets without provisions of impairment loss on the reserving date.

2) Impairment loss on available-for-trade financial assets

Where the fair value of the equity instrument investment drops significantly or not contemporarily according to the integrated relevant factors, an available-for-trade financial asset is impaired.

When an available-for-trade financial asset is impaired, the cumulative loss arising from declining in fair value that had been recognized in capital reserve shall be removed and recognized in profit or loss. The amount of the cumulative loss that is removed shall be difference between the acquisition cost with deduction of recoverable amount less amortized cost, current fair value and any impairment loss on that financial asset previously recognized in profit or loss.

If, after an impairment loss has been recognized, there is objective evidence that the value of the financial asset is recovered, and it is objectively related to an event occurring after the impairment loss was recognized, the initial impairment loss can be reversed and the reserved impairment loss on available-for-trade equity instrument is recorded in the profit or loss, the reserved impairment loss on available-for-trade debt instrument is recorded in the current profit or loss.

The equity instrument where there is no quoted price in an active market, and whose fair value cannot be reliably measured, or impairment loss on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument shall not be reversed.

4.9.4 Recognition and measurement of financial assets transfer

The Group derecognizes a financial asset when one of the following conditions is met:

1) the rights to receive cash flows from the asset have expired;

2) the enterprise has transferred its rights to receive cash flows from the asset to a third party under a pass-through arrangement; or

3) the enterprise has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred norretained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the enterprise has neither retained all the risks and rewards from the financial asset nor control over the asset, the asset is recognized according to the extent it exists as financial asset, and correspondent liability is recognized. The extent of existence refers the level of risk by the financial asset changes the enterprise is facing.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, (a). the carrying amount of the financial asset transferred; and (b) the sum of the consideration received from the transfer and any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair value of those parts. The difference between (a) the carrying amount allocated to the part derecognized; and (b) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

4.9.5 Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, relevant transaction costs are immediately recognized in profit or loss for the current period, and transaction costs relating to other financial liabilities are included in the initial recognition amounts.

1) Financial liabilities measured by the fair value and the changes recorded in profit or loss

The classification by which financial liabilities held-for-trade and financial liabilities designed at the initial recognition to be measured by the fair value follows the same criteria as the classification by which financial assets held-for-trade and financial assets designed at the initial recognition to be measured by the fair value and their changes are recorded in the current profit or loss.

For the financial liabilities measured by the fair value and changes recorded in the profit or loss, fair values are adopted for subsequent measurement. All the gains or losses on the change of fair value and the expenses on dividends or interests related to these financial liabilities are recognized in profit or loss for the current period.

2) Other financial liabilities

Derivative financial liabilities that linked with equity instruments, which do not have a quoted price in an active market and their fair value cannot be measured reliably, is subsequently measured by cost Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition or amortization is recognized in profit or loss for the current period.

3) Financial guarantee contracts

For financial guarantee contracts that are not designated as at fair value through profit or loss,they are, after initial recognition, subsequently measured at the higher of: (i) the amount determined according to the principles of Accounting Standards for Business Enterprises No. 13 - Contingencies, and (ii) the amount initially recognized less the accumulated amortization determined according to the principles of Accounting Standards for Business Enterprises No. 14 - Revenue.

4.9.6 Derecognition of financial liabilities

The Group derecognizes a financial liability (or part of it) when the underlying present obligation (or part of it) is discharged or cancelled or has expired. An agreement between the Company (an existing borrower) and existing lender to replace original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new liability.

When the Company derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

4.9.7 Derivatives and embedded derivatives

Derivative financial instruments include derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are substantially re-measured at fair value. The resulting gain and loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value though profit or loss, and the treated as a standalone derivative if (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Company is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

4.9.8 Offsetting financial assets and financial liabilities

When the Company has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

4.9.9 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity. All types of distribution (excluding stock dividends) made by the Company to holders of equity instruments are deducted from shareholders' equity. The Group does not recognize any changes in the fair value of equity instruments.

4.10 Receivables

The receivables by the Company include account receivables, and other receivables.

4.10.1 Criteria for recognition of bad debts:

The Company carries out an inspection on the balance sheet date. Where there is any objective evidence proving that the receivables have been impaired, an impairment provision shall be made:

1) A serious financial difficulty occurs to the issuer or debtor;

2) The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.;

3) The debtor will probably become bankrupt or carry out other financial reorganizations;

4) Other objective evidences showing the impairment of the receivables.

4.10.2 Method for bad debts provision

1) Provisions of bad debts in account receivables that is individually significant.

Individual receivables equal to or higher than 5% of total receivables are classified as receivables of individual significance.

For an account receivable that is individually significant, the asset is individually assessed for impairment, the impairment loss is recognized at the difference between the present value of future cash flow less the carrying amount, and provision is made accordingly.

2) Provisions of bad debts in account receivables that individually insignificant items with similar credit risk characteristics that have significant risk:

A.Evidence of credit risk characteristics

Whether the financial asset is individually significant or not individually significant, it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Such credit risk reflects the repayment of all due amount under the contract, and is related to the estimation of future cash flow expected to be derived from the assets.

Evidence of portfolios:

Item	Basis
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.

B.Provision by credit risk characteristics

During the Company impairment test, the amount of bad debts provisions is determined by the assessed result from the experience of historical loss and current economic status and the existing loss in the estimated account receivables according to the set of account receivables and credit risk characteristic.

Provisions for difference portfolios:

Item	Provision
Categorisation by nature of receivables	Percentage of carrying amount

a. Portfolio 1 by Aging analysis

Category	Percentage of carrying amount for recognition of allowance for bad debt applicable to accounts receivable	Percentage of carrying amount for recognition of allowance for bad debt applicable to other receivables
Categorisation by nature of receivables	5%	5%

3) Provisions of bad debts that is individually insignificant.

For the account receivables not individually significant, the Company assesses the account receivables individually for impairment when are of following characteristics: if there is objective evidence indicating the impairment, the impairment loss is recognized at the difference between the present value of future cash flow less the carrying amount, and provision is made accordingly. For examples: receivables of individual insignificance bears differing credit risk characteristics to other receivables of individual insignificance account receivables with related parties; account receivables under litigations or arbitrations, or account receivables with obvious indication that debtor cannot fulfill the obligation of repayment.

4.10.3 The reversal of bad debts provision

If there is objective evidence of recovery in value of account receivables, and the recovery can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. However, the reversal shall not result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized at the date the impairment is reversed.

4.11 Inventories

4.11.1 Classification of inventory

The Company's inventory mainly include air materials and low-value consumables.。

4.11.2 Valuation method of inventories upon delivery

Inventories are initially carried at the actual cost. The actual cost of inventories transferred out is assigned by using first-in, first out (FIFO) method.

4.11.3 Basis for determining net realizable value of inventories and provision methods for decline in value of inventories

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purpose of holding inventories and effect of post balance sheet events.

At the balance sheet date, inventories are measured at the lower of the cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. The provision for inventories decline in value is determined normally by the difference of the cost of individual item less its realizable value. For large quantity and low value items of inventories, provision for decline in value is made based on categories of inventories. For items of inventories relating to a product line that are produced and marketed in the same geographical area, have the same or similar end users or purposes, and cannot be practicably evaluated separately from other items in that product line provision for decline in value is determined on an aggregate basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

4.11.4 The perpetual inventory system is maintained for stock system.

4.11.5 Amortization method for low cost and short-lived consumable items and packaging materials.

Low cost and short-lived consumable items are amortized using immediate write-off method; packaging materials are amortized using immediate write-off method.

4.12 Held-for-sale assets

A non-current asset is classified as held-for-sale if all of the following conditions are satisfied:

a. the asset is immediately sellable at its current condition per usual sales term applicable to the type of assets to which it belongs;

b. the Company's has completed official decision to dispose the asset;

c. the Company has entered into irrevokable sales contract with the purchaser; and

d. the sales will be completed within one year.

Amortization or depreciation of the held-for-sale asset ceases at the time of classification. The asset is measured at the lower of its book value and its classification date fair value minus disposal costs upon classification. Held-for-sale non-current assets include individual assets and disposal groups. If a disposal group satisfy the conditions of the asset group defined by CAS 8 - Asset Impairment and includes goodwill arising from business combination allocated in accordance with CAS 8 or the disposal group is an operation with an asset group, the disposal group include goodwill arising from business combination.

Individual non-current assets held for sale and assets of disposal groups held for sale are collectively presented on the (consolidated) statement of financial position as a line item of current assets. Liabilities of disposal groups held for sale are collectively presented on the (consolidated) statement of financial position as a line item of current liabilities.

A held-for-sale asset or held-for-sale disposal group is reclassified from held-for-sale when the conditions for classification of the asset (disposal group) as held-for-sale are no longer satisfied and is measured at the lower of its classification date book value minus cumulative depreciation, amortization and impairment as if it has not been reclassified as held-for-sale and it recoverable amount as of the date on which the conditions for classification of the asset (disposal group) as held-for-sale are no longer satisfied.

4.13 Long-term equity investments

Long-term equity investments referred to in this section refer to the Company invested entity has control, joint control or significant influence over the long-term equity investments. The Company invested does not have control, joint control or significant influence over the long-term equity investments as financial assets available for sale or at fair value and the changes included financial assets through profit or loss, which refer to the accounting policies in Note 4. 9 “financial Instruments”.

Joint control is the Company control over an arrangement in accordance with the relevant stipulations are common, related activities and the arrangement must be after sharing control participants agreed to the decision-making. Significant influence is the Company s financial and operating policies of the entity has the right to participate in decision-making, but can not control or with other parties joint control over those policies.

4.13.1 Determination of Investment cost

The cost of a long-term equity investment acquired through business combination under common control is measured at the acquirer's share of the combination date book value of the acquiree's net equity in the ultimate controller's consolidated financial statements. The difference between the cost and book value of cash paid, non-monetary assets transferred and liabilities assumed is adjusted to capital reserves, and to retained earnings if capital reserves is insufficient. If the consideration is transferred by way of issuing equity instruments, the face value of the equity instruments issued is recognised in share capital and the difference between the cost of the face value of the equity instruments issued is adjusted to capital reserves, and to retained earnings if capital reserves is insufficient.

The cost of a long-term equity investment acquired through business combination not under common control is the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued.

All expenses incurred directly associated with the acquisition by the acquirer, including expenditure of audit, legal services, valuation and consultancy and other administrative expenses, are recognised in profit or loss for the period during which the acquisition occurs.

Long-term equity investments acquired not through business combination are measured at cost on initial recognition. Depending on the way of acquisition, the cost of acquisition can be the total cash paid, the fair value of equity instrument issued, the contract price, the fair value or book value of the assets given away in the case of non-monetary asset exchange, or the fair value of the relevant long-term equity investments. The cost of acquisition of a long-term equity investment acquired not through business combination also includes all directly associated expenses, applicable taxes and fees, and other necessary expenses.

4.13.2 Subsequent Measurement

To be invested joint control (except constitute common operator) or long-term equity investments significant influence are accounted for using the equity method. In addition, the Company's financial statements using the cost method of accounting for long-term equity can exercise control over the investee.

1) Cost method of accounting for long-term equity investments

Under the cost method, a long-term equity investment is measured at initial investment cost. Except for cash dividends or profits declared but not yet paid that are included in the price or consideration actually paid upon acquisition of the long-term equity investment, investment income is recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

2) Equity method of accounting for long-term equity investments

Where the initial investment cost of a long-term equity investment exceeds the investing enterprise's interest in the fair values of the investee's identifiable net assets at the time of acquisition, no adjustment shall be made to the initial investment cost.

The carrying amount of an long-term equity investment measured using the equity method is adjusted by the Company's share of the investee's net profit and other comprehensive income, which is recognised as investment income and other comprehensive income respectively. The carrying amount of an long-term equity investment measured using the equity method is reduced by profit distribution or cash dividends announced by the investee. The carrying amount of an long-term equity investment measured using the equity method is also adjusted by the investee's equity movement other than net profit, other comprehensive income and profit distribution, which is adjusted to capital reserves. The net profit of the investee is adjusted by the fair value of the investee's identifiable assets as at acquistion. The financial statements and hence the net profit and other comprehensive income of an investee which does not adopt accounting policies or accounting period uniform with the Company is adjusted by the Company's accounting policies and accounting period. The Company's share of unrealised profit or loss arising from related party transactions between the Company and an associate or joint venture is deducted from investment income. Unrealised loss arising from related party transactions between the Company and an associate or joint venture which is associated with asset impairment is not adjusted. Where assets transferred to an associate or joint venture which form part of the Company's investment in the investee but which does not enable the Company obtain control over the investee, the cost of the additional investment acquired is measured at the fair value of assets transferred and the difference between the cost of the additional investment and the book value of the assets transferred is recognised in profit or loss. Where assets transferred to an associate or joint venture form an operation, the difference between the consideration received and the book value of the assets transferred in recognised in profit or loss. Where assets transferred from an associate or joint venture form an operation, the transaction is accounted for in accordance with CAS 20 - Business Combination, any gain or loss is reocgnised in profit or loss.

The Company's share of an investee's net loss is limited by the sum of the book value of the long-term equity investment and other net long-term investments in the investees. Where the Company has obligation to share additional net loss of the investee, the estimated share of loss recognised as accrued liabilities and investment loss. Where the Company has unrecognised share of loss of the investee when the investee generates net profit, the Company's unrecognised share of loss is reduced by the Company's share of net profit and when the Company's unrecognised share or loss is eliminated in full, the Company's share of net profit, if any, is recognised as investment income.

For long-term equity investments in associates and joint ventures which had been held by the Company before its first time adoption of Accounting Standards for Business Enterprises as of Jan 1 2007, where the initial investment cost of a long-term equity investment exceeds the Company’s interest in the investee’s net assets at the time of acquisition, the excess is amortized and is recognized in profit or loss on a straight line basis over the original remaining life.

3) Acquisition of minority interest

The difference between newly increased equity investment due to acquisition of minority interests and portion of net asset cumulatively calculated from the acquisition date is adjusted as capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against returned earnings.

4) Disposal of long-term equity investment

Where the parent company disposes long-term investment in a subsidiary without a change in control, the difference in the net asset between the amount of disposed long-term investment and the amount of the consideration paid or received is adjusted to the owner’s equity. If the disposal of long-term investment in a subsidiary involves loss of control over the subsidiary, the related accounting policies in Note 4.5.2 applies. For disposal of long-term equity investments in any situation other than the fore-mentioned situation, the difference between the book value of the investment disposed and the consideration received is recognised in profit or loss.

Where a long-term equity investment is measured by the equity method both before and after part disposal of the investment, cumulative other comprehensive income relevant to the investment recognised prior to the acquistion is treated in the same manner that the investee disposes the relevant assets or liabilities proportionate to the disposal. The investee's equity movement other than net profit, other comprehensive income and profit distribution is reocgnised in profit or loss proportionate to the disposal.

Where a long-term equity investment is measured at cost both before and after part disposal of the investment, cumulative other comprehensive income relevant to the investment recognised, as a result of accounting by equity method or recognition and measurement principles applicable to financial instruments, prior to the Company's acquisition of control over the investee is treated in the same manner that the investee disposes the relevant assets or liabilities and recognised in profit or loss proportionate to the disposal. The investee's equity movement other than net profit, other comprehensive income and profit distribution, as a result of accounting by equity method, is reocgnised in profit or loss proportionate to the disposal.

Where the Company's control over an investee is lost due to partial disposal of investment in the investee and the Company continues to have significant influence over the investee after the partial disposal, the investment in measured by the equity method in the Company's separate financial statements; where the Company's control over an investee is lost due to partial disposal of investment in the investee and the Company ceases to have significant influence over the investee after the partial disposal, the investment in measured in accordance with the recognition and measurement principles applicable to financial instruments in the Company's separate financial statements and the difference between the fair value and the book value of the remaining investment at the date of loss of control is recognised in profit or loss. Cumulative other comprehensive income relevant to the investment recognised, as a result of accounting by equity method or recognition and measurement principles applicable to financial instruments, prior to the Company's acquisition of control over the investee is treated in the same manner that the investee disposes the relevant assets or liabilities on the date of loss of control. The investee's equity movement other than net profit, other comprehensive income and profit distribution, as a result of accounting by equity method, is reocgnised in profit or loss when control is lost. Where the remaining investment is measured by equity method, the fore-mentioned other comprehensive income and other equity movement are recognised in profit or loss proportionate to the disposal; Where the remaining investment is measured in accordance with the recognition and measurement principles applicable to financial instruments, the fore-mentioned other comprehensive income and other equity movement are recognised in profit or loss in full.

Where the Company's joint control or significant influence over an investee is lost due to partial disposal of investment in the investee, the remaining investment in the investee is measured in accordance with the recognition and measurement principles applicable to financial instruments, the difference between the fair value and the book value of the remaining investment at the date of loss of joint control or significant influence is recognised in profit or loss.Cumulative other comprehensive income relevant to the investment recognised, as a result of accounting by equity method, prior to the partial disposal is treated in the same manner that the investee disposes the relevant assets or liabilities on the date of loss of joint control or significant influence. The investee's equity movement other than net profit, other comprehensive income and profit distribution is reocgnised in profit or loss when joint control or significant influence is lost.

Where the Company's control over an investee is lost through multiple disposals and the multiple disposals shall be viewed as one single transaction, the multiple disposals is accounted for one single transaction which result in the Company's loss of control over the investee. Each difference between the consideration received and the book value of the investment disposed is recognised in other comprehensive income and reclassified in full to profit or loss at the time when control over the investee is lost.

4.14 Fixed assets

4.14.1 The conditions of recognition

Fixed assets refers to the tangible assets that are held for the sake of producing commodities, rendering labor service, renting or business management and their useful life is in excess of one fiscal year.

4.14.2 The method for depreciation

Fixed assets are stated at cost and consider the impact of expected costs of abandoning the initial measurement. From the following month of state of intended use, depreciation method of the straight-line method is used for different categories of fixed assets to take depreciation. The recognition of the classification, useful life and estimated residual rate are as follows:

Category	Expected useful life	Estimated residual value(%)	Depreciation(%)
Houses and building	27-33	5.00	2.88-3.52
Key components and power supports of aircraft engine	15-20	5.00	4.75-6.33
Replacement parts of engine	3-5	0.00	20-33.33
Equipments, electronic devices and furniture	4-10	5.00	9.5-23.75
High value rotables	15-18	0.00	5.56-6.67
Transportation vehicles	5-10	5.00	9.5-19.00

Expected net residual value of fixed assets is the balance of the Company currently obtained from the disposal of the asset less the estimated costs of disposal amount, assuming the asset is out of useful life and state the expected service life in the end.

4.14.3 Measurement and recognition of fixed assets

Impairment and provisions of fixed assets are disclosed on Note 4.16.

4.14.4 Fixed Assets under finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

Fixed assets that are held under finance leases shall be depreciated by applying the same policy as that for the fixed assets owned by the Company. If it can be reasonably determined that the ownership of the leased assets can be obtained at the end of the lease period, the leased assets are depreciated over their useful lives; otherwise, the leased assets are depreciated over the shorter of the lease terms and the useful lives of the leased assets.

4.14.5 Others

A fixed asset is recognized only when the economic benefits associated with the asset will probably flow to the

Company and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meet the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss in the period in which they are incurred.

The revenue from selling or transferring, or disposing a fixed asset is booked into profit and loss after deduction of carrying value and related tax.

The Company conducts a review of useful life, expected net realizable value and depreciation methods of the fixed asset at least on an annual base. Any change is regarded as change in accounting estimates.

4.15 Construction in progress

Construction in progress is measured at its actual cost. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is transferred to a fixed asset when it is ready for intended use.

Testing method for provision impairment of construction in progress and accrued method for provision impairment please refer to Note 4.19.

4.16 Borrowing costs

Borrowing costs include interest, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. The amounts of other borrowing costs incurred are recognized as an expense in the period in which they are incurred. Qualifying assets are asset (fixed assets, investment property and inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Where funds are borrowed for a specific-purpose, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds.

Where funds are borrowed for a general-purpose, the amount of interest to be capitalized on such borrowings is determined by applying a weighted average interest rate to the weighted average of the excess amounts of accumulated expenditure on the asset over and above the amounts of specific-purpose borrowings

During the capitalization period, exchange differences related to a specific-purpose borrowing denominating in foreign currency are all capitalized. Exchange differences in connection with general-purpose borrowings are recognized in profit or loss in the period in which they are incurred.

Assets qualified for capitalization are the fixed assets, investment properties or inventories which need a long time of construction or production activities before ready for intended used or sale.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted by activities other than those necessary to prepare the asset for its intended use or sale, when the interruption is for a continuous period of more than 3 months. Borrowing costs incurred during these periods recognized as an expense for the current period until the acquisition, construction or production is resumed.

4.17 Intangible assets

4.17.1 Intangible asset

The term “intangible asset” refers to the identifiable non-monetary assets without physical shape, possessed or controlled by enterprises.

The intangible assets are initially measured by its cost. Expenses related to intangible assets, if the economic benefits related to intangible assets are likely to flow into the enterprise and the cost of intangible assets can be measured reliably, shall be recorded as cost of intangible assets. The expenses other than this shall be booked in the profit or loss when they occur.

Land use rights that are purchased by the Company are accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Company, and relevant land use rights and buildings, are accounted for as intangible assets and fixed assets, respectively. Payments for the land and buildings purchased are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as fixed assets.

When an intangible asset with a definite useful life is available for use, its original cost less net residual value and any accumulate impairment losses is amortized over its estimated useful life using the straight-line method . An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a definite useful life, the Company reviews the useful life and amortization method at the end of the period, and makes adjustment when necessary.. An additional review is also carried out for useful life of the intangible assets with indefinite useful life. If there is evidence showing the foreseeable limit period of economic benefits generated to the enterprise by the intangible assets, then estimate its useful life and amortize according to the policy of intangible assets with definite useful life.

4.17.2 the expenditure of research and development

The expenditures for its internal research and development projects of the Company shall be classified into research expenditures and developmentexpenditures.

The research expenditures shall be recorded into the profits and losses of the current period when they are incurred.

Development expenditures in internal research and development projects shall be recognized as intangible assets where they satisfy all of the following conditions:

①Technical feasibility of completing the intangible asset so that it will be available for use or sale;

②Intention to complete the intangible asset and use or sell it;

③How the intangible asset will generate economic benefits, including the ability to demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

④Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;

⑤Ability to measure reliably the expenditure that is attributable to the intangible asset during its development.

The expenses which can not be distinguished between research and development stage, shall be recorded into the profit or loss for the current period.

4.17.3 Impairment testing methods and recognition of impairment provision of intangible assets

Impairment and provisions of intangible assets are disclosed on Note 4.19.

4.18 Deferred charges

Deferred charges represent expenses incurred that should be borne and amortized over the current and subsequent period (together of more than one year). Deferred charges are amortized by using straight line method. Such as expenses for pilots' initial trainings, those expenses are amortized at 10 years according to their benefit period respectively.

4.19 Impairment of long-term assets

Non-financial assets with non-current nature include fixed assets, construction in progress, intangible assets with definite useful lives, investment properties measured by cost methods and long-term equity investment on subsidiaries, jointly operations. The Company assesses whether there are any indicators of impairment for all non-financial assets at the balance sheet date, and impairment test is carried out and recoverable value is estimated if such an indicator exits. Goodwill and intangible assets with indefinite useful lives, as well as intangible assets not ready for use, are tested for impairment annually regardless of indicators of impairment. Impairment of loss is calculated and provisions taken by the difference if the recoverable value of the assets is lower than the book value. The recoverable value is the higher of estimated present value of the future expected cash flows from the asset and net fair value of the asset less disposed cost. The fair value of asset is determined by the sales agreement price within an arm's length transaction. In case there is no sales agreement, but there is active market of assets, the fair value can be determined by the selling price. If there is neither sales agreement nor active market, the fair value of the asset can be estimated based on the best information obtained.

Disposal expenses include expenses related to the legislation, taxes, transportations and the direct expense for the asset to be ready for sale. When calculating the present value of expected future cash flows from an asset or asset Group, the management shall estimate the expected future cash flows from the asset or asset Group and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for asset impairment is calculated and determined on the individual basis. If the recoverable of individual asset is hard to estimate, the recoverable amount can be determined by the asset Group where subject asset belongs. Asset Group is the smallest set of assets that can have cash flow in independently.

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the present value of the future expected cash flows from the asset Groups or sets of asset Groups to which the goodwill is allocated. Estimating the present value requires the Company to make an estimate of the expected future cash flows from the asset Groups or sets of asset Groups and also choose a suitable discount rate in order to calculate the present value of those cash flows. Once the loss from above asset impairment is recognized, the recoverable part cannot be reserved in the subsequent periods.

4.20 Employee Benefits

The employee benefits of the company include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits:

Short-term employee benefits includes wages, bonuses, allowances and subsidies, welfare, health insurance , maternity insurance, work injury insurance, housing funds, labor union funds, employee education funds, non-monetary benefits and etc. Short-term employee benefits are recognised as liabilities and profit or loss account or the costs associated with the asset during the accounting period when employees actually provide services,. The non -monetary benefits are measured at fair value.

Post-employment benefits include defined contribution plans and defined benefit plans. Defined contribution plan which includes the basic pension, unemployment insurance and annuities shall be recognised as cost of related assets or profit or loss. Projected unit credit cost method (“PUC”) was used by independent actuaries engaged by the Company to determine the present value of the defined benefit obligations with unbiased and consistent actuarial assumptions regarding population variables and financial variables. Defined benefit obligation was presented with the present value and the related current service cost was accounted into current profit or loss.

When the Company terminates the labor relationship with employees prior to the employment contracts, or encourages employees to accept voluntary redundancy compensation proposals in this company, a provision shall be recognised for the compensation arising from the termination of employment relationship with employees at the time when the Company can not unilaterally withdraw layoff proposal termination benefits provided due to termination of employment, or the company ensures the costs related to the payment for termination benefits related to the restructuring, which one is early to confirm employee benefits liabilities, and recorded as profit or loss. However, if termination benefits can not be fully paid aftert welve months of the reporting date,, the liability shall be processed in accordance with other long-term employee benefits.

Retirement plan adopts the same principles as the termination benefits . The salaries and insurance to be paid from the date when employees stop providing services to the date of normal retirementshall be recognised in profit or loss (termination benefits) when satisfying the requirements of a provision..

Other long-term employee benefits provided by the company to employees that is in line with defined contribution plans shall adopt the accounting treatment in accordance with defined contribution plans, otherwise the accounting treatment of defined benefit plans..

4.21 Revenue

4.21.1 Revenue from rendering of service

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 The Company company recognise air cargo revenue from rendering of air service for carriage of cargo when the service is rendered

③ Revenue arising from other air service rendering is recognised when the service rendering is completed.

4.21.2 Royalty Revenue

According to the contract or agreement, the revenue is recognized on an accrual basis.

4.21.3 Interest Income

The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate.

4.22 Government Grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Company at no consideration, excluding the capital invested by the government as equity owner. Government grant can be classified as grant related to the assets and grants related to the income. Government grants obtained by the Company which are relevant to construction or acquisition of long-term assets are classified as asset-related government grants; all other government grants are classified as revenue-related government grants. For government grants without speficied beneficiary, the Company performs classification in accordance with the following criteria.

4.22.1 Where a grant is obtained for a specified project, the grant is spitted into asset-related and revenue related portions proportionate to the project's investment to expense ratio; the classification is reviewed on each balance sheet date and revised if necessary.

4.22.2 Where a grant is obtained for general purpose, the grant as a whole is classified as a revenue-related government grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent period, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

For repayment of a government grant already recognized, if there is a related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized immediately in profit or loss for the period.

4.23 Deferred tax assets and deferred tax liabilities

4.23.1 Income tax for the current period

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects at the balance sheet date, to recover the assets or settle the liabilities.

At the balance sheet date, current income tax liabilities or assets for the current and prior periods, are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. The calculation for income tax expenses in the current period is based on the taxable income according to the related tax laws after adjustment to the accounting profit of the reporting period.

4.23.2 Deferred income tax assets and liabilities

For temporary differences between the carrying amount of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

For temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, no deferred income tax liability related is recognized except where the Company is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

All deferred income tax liabilities arising from taxable temporary differences except the ones mentioned above are recognized.

For temporary deductible differences associated with the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset is recognized.

For taxable temporary deductible differences associated with investments in subsidiaries and associates, and interests in joint ventures, no deferred income tax asset related is recognized if it is impossible to reversal the temporary difference in the foreseeable future, or it is not probable to obtain taxable income which can be used for the deduction of the temporary difference in the future.

Except mentioned above, the Company recognizes other deferred income tax assets that can deduct temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

For the deductible losses and tax credit that can be carried forward, deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

At the balance sheet date, the Company reviews the carrying amount of deferred tax assets. If it is no longer probable that sufficient taxable profit will be available in future periods to allow the benefits of the deferred tax assets to be used, the Company reduces the carrying amount of deferred tax assets. The amount of such reduction is reversed when it becomes probable that sufficient taxable profit will be available

4.23.3 Income tax expenses

Income tax expenses consist of current income tax and deferred income tax.

The expenses from income tax and deferred income tax, as well as the revenue, shall be recorded into profit or loss in current accounting period, except expense for income tax of the current period and deferred income tax that booked into other income or equity and adjusted carrying value of deferred income tax goodwill arose from business combination.

4.23.4 Income tax offset

When we have the legal right, and have intended to, to make settlement with net amount, or through the asset acquisition and liability fulfillment simultaneously, the Company shall present the net value from the offset between current income tax asset and current income tax liability in the financial statement.

When the Company has the legal right to make a settlement with the current income tax asset and current income tax liability, and the deferred income tax asset and deferred income tax liability are related to the same taxable subject under the same tax payer, or related to different taxable subject, but the intension of net value settlement in regard of the current income tax asset and current income tax liability, the Company shall present net value after the offset of deferred income tax asset and deferred income tax liability.

4.24 Leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

4.24.1 The Company as Lessee under operating Lease

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss for the current period. The contingent rents shall be recorded in the profit or loss of the period in which they actually arise.

4.24.2 The Company as Leasor under operating Lease

Lease income from operating leases shall be recognized by the leasor in profit or loss on a straight-line basis over the lease term. Initial direct cost of significance in amount shall be capitalized when incurred. If another basis is more systematic and rational, that basis may be used. Contingent rents are credited to profit or loss in the period in which they actually arise.

4.24.3 The Company as Lessee under financing Lease

For an asset that is held under a finance lease, at the lease commencement, the leased asset is recorded at the lower of its fair value at the lease commencement and the present value of the minimum lease payments, and the minimum lease payment is recorded as the carrying amount of the long-term payables; the difference between the recorded amount of the leased asset and the recorded amount of the payable is accounted for as unrecognized finance charge, Initial direct costs incurred by the lessee during the process of negotiating and securing the lease agreement shall be added to the amount recognized for the leased asset.

The net amount of minimum lease payment deducted by the unrecognized finance shall be separated into long-term liabilities and long-term liability within one year for presentation.

Unrecognized finance charge shall be computed by the effective interest method during the lease term. Contingent rent shall be booked into profit or loss when actually incurred.

4.24.4 In the case of the leasor of a financing lease

For an asset that is leased out under a finance lease, the aggregate of the minimum lease receipts at the inception of the lease and the initial direct costs is recorded as a finance lease receivable, and unguaranteed residual value is recorded at the same time; the difference between the aggregate of the minimum lease receipt, initial direct costs, and unguaranteed residual value, and the aggregate of their present values, is recognized as unearned finance income, which is amortized using the effective interest rate method over each period during the lease term.

Finance lease receivable less unearned finance income shall be separated into long-term liabilities and long-term liability within one year for presentation.

Unearned finance income shall be computed by the effective interest method during the lease term. Contingent rent shall be credited into profit or loss in which actually incurred.

4.25 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 on the basis of air hours over the lease period.

4.26 Changes in major accounting policies and accounting estimates

4.26.1 change of accounting policies

There is no significant change of accounting policies for the company during the reporting period.

4.26.2 change of accounting estimates

There is no significant change of accountingestimates for the company during the reporting period.

4.27 Correction of prior period errors

There is no significant change of previous accounting errors for the Company during the reporting period.

4.28 Significant account judgment and estimates

The Company is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainties of operation activities. These judgments, estimates and assumptions are based on historical experiences of the Company's management as well as other factors that are considered to be relevant. These judgments, estimates and assumptions may affect value of the financial statements in revenue, expenses, assets and liabilities and the disclosure of contingency at the balance sheet date. However, the result derived from those uncertainties in estimates may lead significant adjustments to the carrying amounts of the assets or liabilities affected in the future.

The Company has reviewed the judgments, estimates and assumptions regularly on the basis of going concern. Where the changes in accounting estimates only affect the period when changes occurred, and they are recognized within the same period. Where the changes in accounting estimates affect both current period and future period, the changes are recognized within the period of change and future period.

At balance sheet date, the followings are the significant areas where the Company needs to make judgment, estimates and assumptions over the value of items in the financial statements:

4.28.1 Classification of lease

The Company classifies leases as operating lease and financing lease according to the rule stipulated in the Accounting Standard for Business Enterprises No. 21--Leasing-. The management shall make analysis and judgment on whether the risks and rewards related to the title of leased assets has been transferred to the leaser, or whether the Company has substantially held the risks and rewards related to the ownership of leased assets.

4.28.2 Allowance for bad debt

According to the relevant accounting policies of the Company in receivables, allowance method is used for bad debt's calculation. The impairment of receivables is calculated based on the assessment of recoverable of receivables. Assurance of receivable impairment needs judgments and estimations from the management. The difference between actual results and original estimates shall have impact on the carrying amount of receivables and receivable bad debt provisions or the reverse during the change of estimation.

4.28.3 Impairment of inventories

The Company measures inventories by the lower of cost and realizable net value according to the accounting policies in regard of inventories and provisions for decline in value of inventories is made if the cost is higher than their net realizable value, and obsolete and slow-movement inventories. Inventories decline in value to net realizable value is the estimated selling price in the ordinary course of business. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events. The difference between the actual result and the original estimates shall have impact on reverse of the carrying amount of the inventories and their decline in value or provisions during the period of change.

4.28.4 The fair value of financial instruments

For a financial instrument which has no active market, the Company establishes fair value by using various valuation methods, including of discounted cash flow analysis model. The Company needs to estimate future cash flow, credit risk, volatility and relationship during the valuation and choose appropriate discount rate. Such assumptions have uncertainties and their changes shall have impact on the fair value of financial instruments.

4.28.5 Impairment of non-financial, non-current assets

The Company assesses whether there are any indicators of impairment for all non-current assets other than financial assets at the balance sheet date. For an intangible asset that has indefinite useful life, impairment test is made in addition to the annual impairment test if there is any indication of impairment. For non-current assets other than financial assets, impairment test is made when there is any indication that its account balance cannot be recovered.

Impairment exists when the recoverable amount of an asset is the higher of its fair value less cost of disposal and present value of the future cash flows expected to be derived from the asset.

Net value between the difference of fair value and disposal cost is determined by reference of the price of similar product in a sale agreement in an arm's length transaction or an observable market price less the additional cost directly attributable to the disposal of the asset.

When estimating the present value of future cash flow, significant judgments are made over the asset's production, selling price and relevant operating expenses, and discount rate used to calculate present value. All available materials that are considered to be relevant shall be used in the estimation of recoverable value. These materials include estimations of production, selling price and operating expenses based on reasonable and supportable assumptions.

The Company makes an impairment test for goodwill at least at each year end. This requires an estimation of present value of future cash flow of the assets or assets group where goodwill has been allocated. The Company shall makes estimation on the future cash flow derived from assets or assets group and determine an appropriate discount rate for the present value of future cash flow when the estimation of present value of future cash flow is made.

4.28.6 Depreciation and amortization

Investment property, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account residual value. The useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factor used to determine the depreciation or amortization, the rate of depreciation or amortization is revised.

4.28.7 Deferred tax assets

The Company shall recognize all unused tax losses as deferred tax assets to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. This requires the management of the Company make a lot of judgments over the estimation of time period, value and tax planning strategies when future taxable profit incurs so that the value of deferred tax assets can be determined.

4.28.8 Income tax

There are some transactions where ultimate tax treatments and calculations have uncertainties in the Company's everyday operation. Whether it is possible for some items to make expenditure before tax needs approval from competent tax authorities. If there is any difference between finalized determination value and their initial estimations value, the difference shall have the impact on the income tax and deferred income tax of the current period during the final determination.

4.28.9 Aircraft operating lease and engine overhaul expenses

Aircraft operating lease and engine overhaul expenses are accrued and charged to profit or loss in accordance with the expected maintenance cycle, based on flight hours, flight cycles overhaul period and the amount of the cost of repairs which may occur. These estimates are largely based on past historical data about the same or similar types of aircraft and engines repairance. The withholding amount and overhaul costs may be affected by different judgments and estimates and affect current profit or loss.

4.28.10 Defined benefit plan

The defined benefit plan implemented and maintained by the Company includes post-employment benefits plan. The provided welfare costs under the above defined benefit plan was calculated by expected cumulative unit credit method according to various actuarial assumptions, and were recognized during the employee service providing period. Actuarial Assumptions include but not limited to discount rate, mortality rate, and etc.. The discount rate is on the basis of management's review of national debt, and mortality rate depends on the mortality rate adopted by the China life insurance industry. Supplemental information of defined benefit plan see Note 6.28.

Note 5 Taxation

5.1 Major taxes and tax rate

Tax	Tax rate (%)
Enterprise income tax	Business tax is calculated according to the taxable income(note1)
Value added tax	The VAT is calculated as the difference between output tax (11% of the taxable revenue) and deductible input tax for the period, and the tax rates are 6%, 11% or 17%(note 2). The output tax is calculated using the sales of goods and taxable services income (including transportation and ground services revenue).
Business tax	Business tax is calculated at 3%-5% of taxable turnover(note 3).
Property tax	Property tax is calculated by the nature of house property and is collected by ad valorem or specific duties according to the tax rules .
Urban maintenance and construction tax	Urban maintenance and construction tax is calculated at 7% of business tax and VAT.
Education surcharge	Education surcharge is calculated at 3% of business tax and VAT.
Local education Surcharge	Local education Surcharge is calculated at 2% of business tax and VAT.
Civil aviation development Fund	Civil aviation development fund shall be calculated using the collection standard of the relevant category of flight routes, maximum departure weight and flight distance adopted by the civil aviation industry. According to “Interim measures for the administration of the administration of civil aviation development fund” 《民航发展基金征收使用管理暂行办法》.

Note 1: According to the provision of National Development and Reform Commission ([2014]15), the branch membership of our company in Western China can get a reduced rate of 15% to pay corporate income tax, when

its international and domestic air passenger and cargo transport projects are in line with the " Catalogue of Encouraged Industries in Western Region"(《西部地区鼓励类产业目录》). All companies in mainland China are subject to a corporate income tax rate of 25%.

Note 2: Prior to 1 August 2013, revenue arising from air transportation was taxable for business tax at the rate of 3%. As from 1 August 2013, revenue arising from air transportation become VAT taxable per the Notice of Pilot Conversion of Sales-tax-to-VAT for the Transportation Sector and Certain Contemporary Service Sectors by the Ministry of Finance and State Administration of Taxation (Caishui[2013]37).（《财政部、国家税务总局关于在全国开展交通运输业和部分现代服务业营业税改征增值税试点税收政策的通知》（财税[2013]37 号））.

Note 3: From January to April 2016, the taxable income tax of business tax which is calculated according to the tax law shall be taxed at 3%-5%. According to relevant provisions of "the notice on the full implementation of pilot for replacing the business tax by VAT " (caishui[2016]36)(《关于全面推开营业税改征增值税试点的通知》（财税[2016]36 号）), issued by the Ministry of Finance and the State Administration of Taxation, vat is levied replacing the business tax since May 1, 2016.

5.2 Tax incentives

5.2.1. Zero VAT rate applies to entities and individuals within the Chinese territory that provide international transportation services, research and development services and designing services provided to foreign entities, roundtrip transportation services between Hongkong, Marcau,and Taiwan, as well as transportion services provided in Hongkong, Marcau, and Taiwan per the Notice of Pilot Conversion of Sales-tax-to-VAT for the Transportation Sector and Certain Contemporary Service Sectors by the Ministry of Finance and State Administration of Taxation (Caishui[2013]No.37)(财税[2013]37号《财政部、国家税务总局关于在全国开展交通运输业和部分现代服务业营业税改征增值税试点税收政策的通知》)..

5.2.2. Per the Notice of Continuous Implementation of Transitional Business Tax Exemption Policy for Cross-boarder Lease Contracts of Equipment and Machinery(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 Adnimistration of Taxation on June 30, 2011 and approved by the State Council, the transitional operating tax exemption applicable to revenue received by overseas leasor(s) to lease contracts (applicable to both financing lease and operating lease) of machinery and equipment import leasing involving domestic leasee(s) and overseas leasor(s) entered into prior to and remaining in force as at December 31, 2008 continues to apply from January 1, 2010 to the expiry date of the relevant contract. The Ministry of Finance and the State Adnimistration of Taxation, "the notice on the full implementation of pilot for replacing the business tax by VAT " (caishui[2016]36)（《关于全面推开营业税改征增值税试点的通知》（财税[2016]36 号））. “(Appendix

3)The provision of Transitional Policy of pilot for replacing the business tax by VAT”.（附件3《营业税改征增值税试点过渡政策的规定》). 6. The VAT preferential policies will be implemented during the pilot, expect the projects which have established deadlines and the fifth provision. If the pilot taxpayers have enjoyed the tax preferential policy of business tax before the day replacing business tax with VAT, during the remaining preferential tax policy term, they should enjoy the relevant vat preferential according to this provision.

Note 6 Notes to significant elements of the consolidated financial statements

Unless otherwise stated, the meaning of "B/f", "C/f", "Current year", "Prior year" in the following notes (incl. Notes to elements of the separate financial statements) is "1st January 2016", "31st December 2016", "the year ended 31st December 2016", and "the year ended 31st December 2015" respectively.

6.1 Monetary funds

Item	C/f	B/f
Cash at hand:	182,606.18	178,959.16
Bank deposit:	791,073,080.47	1,415,220,671.44
Other monetary funds:		
Total	791,255,686.65	1,415,399,630.60
Including: the total amount of deposit abroad	1,604,517.22	2,232,804.96

6.2 Accounts receivables

6.2.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	228,116,251.34	67.45			228,116,251.34
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	92,078,562.91	27.23	4,603,928.14	5.00	87,474,634.77
Accounts receivable of individual insignificance but subject to individual impairment assessment	18,006,401.64	5.32	10,823,117.90	60.11	7,183,283.74
Total	338,201,215.89	100.00	15,427,046.04	4.70	322,774,169.85

(Continued)

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and	156,501,058.00	59.44			156,501,058.00

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
subject to individual impairment assessment					
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	94,755,329.85	35.99	4,737,766.49	5.00	90,017,563.36
Accounts receivable of individual insignificance but subject to individual impairment assessment	12,030,208.57	4.57	2,765,908.05	22.99	9,264,300.52
Total	263,286,596.42	100.00	7,503,674.54	2.85	255,782,921.88

① Accounts receivable of individual significance and subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Air China	111,220,493.07			No indication of impairment upon individual assessment
BSP-CHINA	59,213,818.83			No indication of impairment upon individual assessment
Accounting Center of China Aviation	57,681,939.44			No indication of impairment upon individual assessment
Total	228,116,251.34			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	92,078,562.91	4,603,928.14	5.00
Total	92,078,562.91	4,603,928.14	5.00

③ Accounts receivable of individual insignificance but subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	8,057,209.85	8,057,209.85	100.00	impairment upon individual assessment
BSP-TAIWAN	2,937,548.86			No indication of

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
				impairment upon individual assessment
UATP	2,275,133.99			No indication of impairment upon individual assessment
Kun Peng Airlines Co., Ltd.	1,849,400.00	1,849,400.00	100.00	impairment upon individual assessment
BSP-JAPAN	1,517,337.02			Non recoverable upon individual assessment
CR Airways	916,508.05	916,508.05	100.00	impairment upon individual assessment
BSP-CAMBODIA	172,325.12			No indication of impairment upon individual assessment
ARC	158,157.05			No indication of impairment upon individual assessment
BSP-THAILAND	92,031.53			No indication of impairment upon individual assessment
BSP-GERMANY	30,750.17			No indication of impairment upon individual assessment
Total	18,006,401.64	10,823,117.90	60.11	

6.2.2 Recognisation, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognised during the year is CNY7,923,371.50.

6.2.3 Top five accounts receivables by debtors

The total amount of top five accounts receivables summarised by debtors as at the end of current year is CNY 270,497,027.26, accounting for 79.98% of the total accounts receivable as at the end of current year, the total corresponding allowance for bad debts is CNY2,119,038.79.

6.3 Prepayments

6.3.1 Disclosure by age

Age	C/f		B/f	
	Amount	%	Amount	%
Within 1 year	248,363,327.89	99.69	154,068,748.52	99.46
1 to 2 years	50,862.40	0.02	337,815.97	0.22
2 to 3 years	231,761.96	0.09		
Over 3 years	490,292.70	0.20	491,212.70	0.32
Total	249,136,244.95	100.00	154,897,777.19	100.00

6.3.2 Details of top five prepayments

The total amount of top five prepayments as at the end of current year is CNY 100,773,613.19, accounting for 40.45% of the total advance to suppliers.

6.4 Dividends receivable

6.4.1 Disclosure by item

Item	C/f	B/f
Sichuan Airlines		4,381,900.00
Total		4,381,900.00

6.5 Other receivables

6.5.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	353,220,633.95	76.34	108,431,670.15	30.70	244,788,963.80
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	65,822,034.03	14.22	3,291,101.71	5.00	62,530,932.32
Other receivables of individual insignificance but subject to individual impairment assessment	43,680,428.66	9.44			43,680,428.66
Total	462,723,096.64	100.00	111,722,771.86	24.14	351,000,324.78

(Continued)

Category	B/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	267,542,239.69	68.46	106,461,110.62	39.79	161,081,129.07
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	77,465,334.20	19.82	3,873,266.72	5.00	73,592,067.48
Other receivables of individual insignificance but subject to individual impairment assessment	45,815,835.47	11.72			45,815,835.47
Total	390,823,409.36	100.00	110,334,377.34	28.23	280,489,032.02

① Other receivables of individual significance and subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	114,069,866.40			No indication of impairment upon individual assessment
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	impairment upon individual assessment
Debtor #2	79,570,006.50	3,978,500.33	5.00	impairment assessment by portfolio
Debtor #3	58,029,043.40	2,901,452.17	5.00	impairment assessment by portfolio
Total	353,220,633.95	108,431,670.15	30.70	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	65,822,034.03	3,291,101.71	5.00
Total	65,822,034.03	3,291,101.71	5.00

③ Other receivables of individual insignificance but subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	19,423,600.00			No indication of impairment upon individual assessment
Air China	6,250,133.00			No indication of impairment upon individual assessment
Debtor #2	4,758,782.00			No indication of impairment upon individual assessment
Debtor #3	3,900,000.00			No indication of impairment upon individual assessment
Debtor #4	1,553,182.17			No indication of impairment upon individual assessment
Debtor #5	1,414,505.19			No indication of impairment upon individual assessment
Debtor #6	1,387,400.00			No indication of impairment upon individual assessment
Debtor #7	1,354,680.00			No indication of impairment upon

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
				individual assessment
Shandong Air New Media Co., Ltd.	1,027,044.28			No indication of impairment upon individual assessment
Debtor #8	554,707.92			No indication of impairment upon individual assessment
Debtor #9	553,166.41			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	468,173.37			No indication of impairment upon individual assessment
Debtor #10	416,030.94			No indication of impairment upon individual assessment
Debtor #11	405,052.90			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	198,526.00			No indication of impairment upon individual assessment
Shandong XiangYu Air Technology Co., Ltd.	15,444.48			No indication of impairment upon individual assessment
Total	43,680,428.66			

6.5.2 Recognisation, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recovered or reversed during the current year is CNY 1,388,394.52.

6.5.3 Disclosure by nature

Category	C/f	B/f
Deposits	151,888,719.29	107,918,479.76
Others	310,834,377.35	282,904,929.60

Total	462,723,096.64	390,823,409.36

6.5.4 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #1	Deposits	114,069,866.40	Within 1 year	24.65	
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 4 years	21.95	101,551,717.65
Debtor #2	Others	79,570,006.50	Within 2 years	17.20	3,978,500.33
Debtor #3	Others	58,029,043.40	Within 3 years	12.54	2,901,452.17
Debtor #4	Deposits	19,423,600.00	Within 5 years	4.19	
Total		372,644,233.95		80.53	108,431,670.15

6.6 Inventories

Type	C/f		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air quipements	115,711,019.94		115,711,019.94
Low-value consumables	3,930,799.75		3,930,799.75
Materials	1,323,423.87		1,323,423.87
Total	120,965,243.56		120,965,243.56

(Continued)

Type	B/f		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air quipements	108,152,915.54		108,152,915.54
Low-value consumables	3,141,642.16		3,141,642.16
Materials	1,012,883.29		1,012,883.29
Total	112,307,440.99		112,307,440.99

6.7 Other current assets

Type	C/f	B/f
VAT deductible	59,685,735.09	39,291,476.46
Income tax overpaid		7,134,030.07
Total	59,685,735.09	46,425,506.53

6.8 Financial assets available for sale

6.8.1 General information

Category	C/f			B/f		
	Carrying amount	Impairment	Net carrying amount	Carrying amount	Impairment	Net carrying amount
Available for sale equity instruments						
Including: measured by fair value	190,210,082.34		190,210,082.34	139,460,673.92		139,460,673.92
measured by cost	81,662,100.00		81,662,100.00	81,662,100.00		81,662,100.00
Total	271,872,182.34		271,872,182.34	221,122,773.92		221,122,773.92

6.8.2 Financial assets available for sale measured by fair value at the end of current year

Category	Available for sale equity instruments	Total
Cost of equity instruments	6,690,000.00	6,690,000.00
Fair value	190,210,082.34	190,210,082.34
Accumulated changes in the fair value recognised into other comprehensive income	183,520,082.34	183,520,082.34
Impairment amount		

6.8.3 Financial assets available for sale measured by cost at the end of current year

Investee	Carrying amounts as at 31/12/2015				Impairment				Shareholding in investee(%)	Cash Dividend for current year
	B/f	Increase in current year	Decrease in current year	C/f	B/f	Increase in current year	Decrease in current year	C/f		
Sichuan Airlines	35,000,000.00			35,000,000.00					10.00	15,736,285.82
Jinan International Airport	46,662,100.00			46,662,100.00					2.53	734,928.08
Total	81,662,100.00			81,662,100.00						16,471,213.90

6.9 Long-term equity investments

Category	B/f	Allowance b/f	Currency year movement (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognised under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	22,500,000.00					
Total	22,500,000.00	22,500,000.00					

(Continued)

Category	Currency year movement (+, -)			C/f	Allowance c/f
	Declared cash dividends or profits	Allowance recognised	Others		
Investment in associates					
Shandong Rainbow Commercial Jet Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

6.10 Fixed assets

6.10.1 General information

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1. Cost:						
1.1 Balance as at 31/12/2015	358,411,470.20	10,041,861,037.02	667,498,748.25	68,916,652.12	176,777,010.04	11,313,464,917.63
1.2 Increased in current year	3,534,450.00	644,459,535.83	57,969,008.25	2,214,684.25	18,967,723.04	727,145,401.37
(1) Purchase	3,534,450.00	339,573,652.18	57,969,008.25	2,214,684.25	18,967,723.04	422,259,517.72
(2) Transferred from construction in-progress		304,885,883.65				304,885,883.65
(3) Transferred from merger and acquisitions						
(4) Others						

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1.3 Decreased in current year	2,675,743.34	195,929,218.41	7,141,379.72	2,198,919.76	4,773,039.95	212,718,301.18
(1) Disposal or scrap	2,675,743.34	195,929,218.41	7,141,379.72	2,198,919.76	4,773,039.95	212,718,301.18
(2) Others						
1.4 Balance as at 31/12/2016	359,270,176.86	10,490,391,354.44	718,326,376.78	68,932,416.61	190,971,693.13	11,827,892,017.82
2. Accumulated Depreciation						
2.1 Balance as at 31/12/2015	71,319,328.50	3,698,527,093.34	249,163,286.61	35,214,239.86	89,410,704.17	4,143,634,652.48
2.2 Increased in current year	11,665,366.90	714,111,509.49	37,700,090.76	5,075,199.53	16,407,738.11	784,959,904.79
(1) Accrual	11,665,366.90	714,111,509.49	37,700,090.76	5,075,199.53	16,407,738.11	784,959,904.79
2.3 Decreased in current year	1,088,989.54	195,929,218.41	3,988,355.74	1,940,287.64	3,813,713.43	206,760,564.76
(1) Disposal or scrap	1,088,989.54	195,929,218.41	3,988,355.74	1,940,287.64	3,813,713.43	206,760,564.76
(2) Others						
2.4. Balance as at 31/12/2016	81,895,705.86	4,216,709,384.42	282,875,021.63	38,349,151.75	102,004,728.85	4,721,833,992.51
3. Impairment allowance						
3.1 Balance as at 31/12/2015			13,572,095.22			13,572,095.22
3.2 Increased in current year						
(1) Accrual						
3.3 Decreased in current year			747,221.70			747,221.70
(1) Disposal or scrap			747,221.70			747,221.70
(2) Others						
3.4 Balance as at 31/12/2016			12,824,873.52			12,824,873.52
4. Carrying amount						
4.1 Carrying amount as at 31/12/2016	277,374,471.00	6,273,681,970.02	422,626,481.63	30,583,264.86	88,966,964.28	7,093,233,151.79
4.2 Carrying amount as at 31/12/2015	287,092,141.70	6,343,333,943.68	404,763,366.42	33,702,412.26	87,366,305.87	7,156,258,169.93

6.10.2 Fixed assets acquired under financial leases

Category	Cost	Accumulated Depreciation	Impairment allowance	Carrying amount
Aircrafts and engines	2,192,909,859.90	1,047,651,447.97		1,145,258,411.93
Total	2,192,909,859.90	1,047,651,447.97		1,145,258,411.93

6.10.3 Fixed assets pending ownership registration

Item	Carrying amount	Reason for pending
Operational support building of Yantai Penglai International Airport	59,925,312.42	Ownership registration in process
Jinan cargo arrival and departure warehouses	12,854,531.53	Land rented from Jinan Air Control, not eligible for ownership registration

Impairment allowance of fixed assets is CNY 12,824,873.52 as at 31/12/2016, with no additional amount of allowance for fixed assets impairment recognised during the year.

6.11 Construction in progress

6.11.1 General information

Items	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Factory building project	137,792,677.66		137,792,677.66	126,277,951.14		126,277,951.14
Prepayment for aircrafts	2,110,159,957.73		2,110,159,957.73	1,933,285,252.31		1,933,285,252.31
Construction of information system	2,547,826.96		2,547,826.96	2,747,369.44		2,747,369.44
Total	2,250,500,462.35		2,250,500,462.35	2,062,310,572.89		2,062,310,572.89

6.11.2 Significant projects

Project	Budget	B/f	Current year increase	Transferred to fixed assets in current year	Other decrease	C/f
Administrative office of Xiamen branch	195,000,000.00	121,804,542.80	14,802,453.69			136,606,996.49
Aircraft asset introduction project	15,004,922,602.00	1,933,285,252.31	1,641,362,621.46	304,885,883.65	1,159,602,032.39	2,110,159,957.73
Total	15,199,922,602.00	2,055,089,795.11	1,656,165,075.15	304,885,883.65	1,159,602,032.39	2,246,766,954.22

(Continued)

Items	Weight of cost to date in budgeted cost	Stage of completion	Cumulative interests capitalised	Including:Transferred into leaseback assets during the current year	Including:Transferred into fixed assets during the current year	Including: interests capitalized during the current year	Capitalisation rate applicable to the current year	Source of finance
Administrative office of Xiamen branch	70.05%	Not completed						current assets
Aircraft asset introduction project	14.06%	Not applicable	77,345,661.29	50,732,661.23	7,960,619.85	54,466,022.01	2.895%-3.8246%	Loans from Finance Institutions and current assets
Total			77,345,661.29	50,732,661.23	7,960,619.85	54,466,022.01		

Note: The cumulative amount of interests capitalized as at 31/12/2015 is 81,572,920.36, the amount of current year is 54,466,022.01, including 7,960,619.85 transferred into fixed assets and 50,732,661.23 transferred into leaseback assets during the current year, the cumulative amount of interests capitalized as at 31/12/2016 is 77,345,661.29.

6.11.3 Recognization of impairment allowance for construction in progress

No sign of construction in progress impairment occurred as at 31/12/2016, no impairment provision shall be recognised.

6.12 Intangible assets

6.12.1 General information

Items	Land rights	Software	Total
1. Cost:			
1.1 Balance as at 31/12/2015	108,347,341.13	24,196,624.41	132,543,965.54
1.2 Increased in current year		4,661,372.11	4,661,372.11
(1) Purchase			

Items	Land rights	Software	Total
(2) Diversion of construction		4,661,372.11	4,661,372.11
(3) Increased from business combination			
1.3 Decreased in current year			
(1) Disposal			
1.4 Balance as at 31/12/2016	108,347,341.13	28,857,996.52	137,205,337.65
2. Accumulated amortization			
2.1 Balance as at 31/12/2015	11,181,225.30	5,957,130.68	17,138,355.98
2.2 Increased in current year	2,403,584.27	3,459,644.20	5,863,228.47
(1) Accrual	2,403,584.27	3,459,644.20	5,863,228.47
2.3 Decreased in current year			
(1) Disposal			
2.4 Balance as at 31/12/2016	13,584,809.57	9,416,774.88	23,001,584.45
3. Impairment allowance			
3.1 Balance as at 31/12/2015			
3.2 Increased in current year			
(1) Accrual			
3.3 Decreased in current year			
(1) Disposal			
3.4 Balance as at 31/12/2016			
4. Carrying amount			
4.1 Carrying amount as at 31/12/2016	94,762,531.56	19,441,221.64	114,203,753.20
4.2 Carrying amount as at 31/12/2015	97,166,115.83	18,239,493.73	115,405,609.56

6.12.2 Land rights with pending ownership registration

No case of land rights with pending ownership registration was identified as of 31/12/2016.

6.13 Goodwill

6.13.1 General information

Investee	B/f	Current year increase		Current year decrease		C/f
		From business combination		Disposal		
Qingdao Feisheng	10,220,816.22					10,220,816.22

Total	10,220,816.22					10,220,816.22

6.13.2 Impairment allowance

Investee	B/f	Current year increase		Current year decrease		C/f
		Accrual		Disposal		
Qingdao Feisheng	10,220,816.22					10,220,816.22
Total	10,220,816.22					10,220,816.22

6.14 Deferred charges

Item	B/f	Current year increase	Current year amortization	Other decrease	C/f
Pilot training	423,768,628.75	111,110,220.91	75,488,264.78		459,390,584.88
Decoration expenditure	18,887,498.03	139,263.05	6,299,555.54		12,727,205.54
Modification costs for aircraft leasing	3,852,021.58		407,151.92		3,444,869.66
Total	446,508,148.36	111,249,483.96	82,194,972.24		475,562,660.08

6.15 Deferred tax assets and deferred tax liabilities

6.15.1 Deferred tax assets

Item	C/f		B/f	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Allowance for bad debt	127,149,817.90	31,787,454.48	117,838,051.88	29,459,512.97
Impairment allowance for fixed assets	12,824,873.52	3,206,218.38	13,572,095.22	3,393,023.81
Fair value movement of financial liabilities held for trading	1,155,815.80	288,953.95	3,370,447.62	842,611.91
Provisions	2,398,351,341.80	599,587,835.45	1,644,962,585.43	411,240,646.36
Employment benefits payable	13,339,322.51	3,334,830.63	19,736,492.42	4,934,123.11
Deferred income	14,319,523.98	3,579,881.00	15,795,524.10	3,948,881.03
Total	2,567,140,695.51	641,785,173.89	1,815,275,196.67	453,818,799.19

6.15.2 Deferred tax liabilities

Item	C/f		B/f	
	Deductible temporary difference	Deferred tax liabilities	Deductible temporary difference	Deferred tax liabilities
Changes in fair value of financial assets available for sale	183,520,082.34	45,880,020.58	132,770,673.92	33,192,668.48
Total	183,520,082.34	45,880,020.58	132,770,673.92	33,192,668.48

6.16 Other non-current assets

Item	C/f	B/f
Unrealized gains and losses of operating lease from aircraft leaseback		23,794,314.90
Total		23,794,314.90

6.17 Financial liabilities measured by fair value with changes in fair value recognised in profit or loss

Item	Fair value c/f	Fair value b/f
Interest rate swaps	1,155,815.80	3,370,447.62
Total	1,155,815.80	3,370,447.62

The immature interest rate swaps held by the Company had a principal amount of USD 59,735,862.80 as at 31/12/2016; bankers confirmed that the reporting date fair value of these interest rate swaps is CNY-1,155,815.80.

6.18 Notes payable

Type	C/f	B/f
Commercial acceptance		25,299,479.50
Total		25,299,479.50

6.19 Accounts payable

6.19.1 General information

Item	C/f	B/f
Aircraft maintenance costs	463,956,451.17	169,842,647.39
Fuel cost	197,231,462.72	157,915,325.68
Landing fee	333,773,372.93	312,636,408.52
Aircraft service cost	345,104,581.50	185,358,946.55
Flight catering	82,266,721.74	74,222,899.49
Computer booking fee	35,600,521.61	87,277,689.83

Item	C/f	B/f
Lease rental	7,978,905.87	6,906,064.64
Others	222,182,843.55	134,469,713.45
Total	1,688,094,861.09	1,128,629,695.55

6.19.2 No significant account payable due for more than 1 year as at the reporting date.

6.20 Advance from customers

Item	C/f	B/f
Ticket clearing	671,930,813.96	418,599,325.09
Advanced payment for tickets	4,811,444.78	5,221,967.36
Others	22,577,294.31	8,395,116.92
Total	699,319,553.05	432,216,409.37

6.21 Employee benefits payable

6.21.1 Disclosure by classification

Item	B/f	Current year increase	Current year decrease	C/f
1. Short-term employee benefits	455,788,600.48	2,158,626,862.64	2,160,040,433.93	454,375,029.19
2. Post-employment benefits		182,644,165.36	182,644,165.36	
3. Termination benefits		133,447.36	133,447.36	
4. Other long-term employee benefits within one year				
Total	455,788,600.48	2,341,404,475.36	2,342,818,046.65	454,375,029.19

6.21.2 Disclosure by classification of short-term employee benefits

Item	B/f	Current year increase	Current year decrease	C/f
1. Wages, salaries and subsidies	411,749,614.06	1,917,868,017.65	1,916,389,359.03	413,228,272.68
2. Employee welfare		36,512,500.09	36,512,500.09	
3. Social insurance:		70,358,802.56	70,358,802.56	
Including: Medical insurance		55,762,590.55	55,762,590.55	
Employment injury insurance		4,425,771.41	4,425,771.41	
Maternity insurance		6,149,689.13	6,149,689.13	
Disabled security payments		4,020,751.47	4,020,751.47	

Item	B/f	Current year increase	Current year decrease	C/f
4.Housing provident fund	22,494.00	62,962,328.56	62,837,388.56	147,434.00
5.Labour union fee and employee education fee	19,736,492.42	43,265,213.78	49,662,383.69	13,339,322.51
6. Short-term paid absences	24,280,000.00	27,660,000.00	24,280,000.00	27,660,000.00
7. Short-term profit-sharing plan				
Total	455,788,600.48	2,158,626,862.64	2,160,040,433.93	454,375,029.19

6.21.3 Disclosure by defined contribution plan

Item	B/f	Current year increase	Current year decrease	C/f
1. Basic pension		115,425,415.85	115,425,415.85	
2.Unemployment insurance		6,444,183.43	6,444,183.43	
3. Annuity payment		60,774,566.08	60,774,566.08	
Total		182,644,165.36	182,644,165.36	

The company participated in basic pension and unemployment insurance in accordance with the regulations. Based on the insurance program, a percentage of total wages of employees were paid to the account separately. Except for the fee paid, enterprise annuity was deposited to annuity management institution by a percentage of monthly payment base, which was determined by seniority pay and post salary.

6.22 Taxes and fees payable

Tax (Fee)	C/f	B/f
VAT	775,322.54	184,449.99
Business tax		1,315,631.25
Urban construction and maintenance tax	171,124.16	661,316.27
Education surcharge	123,863.13	473,042.24
Enterprise income tax	4,877,426.27	545,653.46
Property tax	170,078.07	170,078.07
Land tax	221,139.00	224,139.00
Personal income tax	22,838,989.34	8,767,613.18
stamp duty	2,553,371.69	1,805,107.26
Civil aviation development fund	106,835,140.08	90,906,945.13
Others	95,350.88	93,895.34
Total	138,661,805.16	105,147,871.19

6.23 Interests payable

Item	C/f	B/f
Interest on long-term borrowings with repayment by installments	2,430,456.90	3,638,536.32
Total	2,430,456.90	3,638,536.32

6.24 Other payables

6.24.1 Disclosure by nature

Item	C/f	B/f
Payable for construction projects	30,515,708.94	36,254,846.11
Payable for down payments	91,264,426.66	77,019,458.72
Payables associated with aircraft purchase	3,949,505.02	9,475,078.50
Taxes deducted at source	80,231,680.37	50,487,172.46
Others	195,893,115.22	182,393,206.98
Total	401,854,436.21	355,629,762.77

6.24.2 Significant other payables due for more than 1 year

Creditor	Amount	Reason for pending settlement
Air China	20,000,000.00	Margin deposit to be settled upon expiry of immature wet lease
Total	20,000,000.00	

6.25 Non-current liabilities due within one year

Category	C/f	B/f
Long-term borrowings due within one year (Note 6.26)	836,269,451.50	1,342,283,640.89
Bonds payable due within one year		
Long-term payables due within one year (Note 6.27)	144,580,142.52	138,796,767.49
Long-term employee benefits payable due within one year (Note 6.28)	6,794,418.00	5,930,912.28
Total	987,644,012.02	1,487,011,320.66

6.26 Long-term borrowings

Category	C/f	B/f
Mortgage loan		
Secured loans	2,027,940,287.04	2,589,468,383.99
Guaranteed loans		
Credit loans	607,930,932.00	1,640,517,129.60
Less: Long-term borrowings due within one year (Note 6.25)	836,269,451.50	1,342,283,640.89
Total	1,799,601,767.54	2,887,701,872.70

Note: ① Class and amount of mortgage assets see Note 6.49 assets with imposed restriction on ownership.

② Interest rates as at 31/12/2016 of the above-mentioned long-term borrowings range from 1.9741%-5.0200%.

6.27 Long-term payables

Category	C/f	B/f
Financial lease rental payables	921,300,803.04	1,024,970,371.19
Maintenance payables for aircrafts and engines held under operating lease	2,217,672,688.43	1,644,962,585.43
Less: Financial lease rental payables due within one year (Note 6.25)	144,580,142.52	138,796,767.49
Less: Maintenance payables for aircrafts and engines held under operating lease due within one year (Note 1)	460,191,258.69	164,895,012.20
Total	2,534,202,090.26	2,366,241,176.93

Note : Maintenance payables for aircrafts and engines held under operating lease due within one year had been included in accounts payable.

6.28 Long-term employee benefits payable

6.28.1 General information

Item	C/f	B/f
Post-employment benefits-net defined benefit liability	100,925,069.51	90,145,000.00
Less: long-term staff remuneration payable due within one year (Note 6.25)	6,794,418.00	5,930,912.28
Total	94,130,651.51	84,214,087.72

6.28.2 Movements

① Defined benefit obligation

Item	C/f	B/f
(1) Net Defined Benefit Asset/(Liability) at End of Prior Period	90,145,000.00	75,838,000.00
(2) Defined benefit costs recognised into current profit or loss	17,918,069.51	14,938,000.00
1. Current Service Cost		
2. Past Service Cost	15,302,069.51	12,194,000.00
3. Settlement (Gain)/Loss		
4. Net Interest/(Income) on Net Defined Benefit Liability/(Asset)	2,616,000.00	2,744,000.00
(3) Defined benefit costs recognised into other comprehensive income	263,000.00	-5,281,000.00
1. Actuarial gains/(losses)	263,000.00	-5,281,000.00

Item	C/f	B/f
(4) Other movements	6,875,000.00	5,912,000.00
1. Settlement payment		
2. Benefits Paid Directly by Employer	6,875,000.00	5,912,000.00
(5) Net defined benefit asset/(liability) at end of current year	100,925,069.51	90,145,000.00

② Actuarial Assumptions

Item	31st December, 2015	31st December, 2016
Discount Rate	3.00%	3.25%
Mortality Rate	China Life Insurance Mortality Rate 2000-2003 (Annuity)	
Cost of Living Adjustments for Retired Cadres and Retirees	0.00%	
Cost of Living Adjustments for Internal Retirees	0.00%	
Cost of Living Adjustments for Dependants	0.00%	

6.29 Deferred income

Item	B/f	Current year increase	Current year decrease	C/f
Unrealized gains and losses of operating lease from aircraft leaseback		45,946,398.21	1,826,401.03	44,119,997.18
Designated subsidy for snow disaster	1,989,958.34		499,500.00	1,490,458.34
Designated subsidy for civil aviation energy-saving program	13,805,565.76		976,500.12	12,829,065.64
Total	15,795,524.10	45,946,398.21	3,302,401.15	58,439,521.16

Details of government grants:

Item	B/f	Current year increase	the amount included in non-operating income for current year	Other changes	C/f
Designated subsidy for snow disaster	1,989,958.34		499,500.00		1,490,458.34
Designated subsidy for civil aviation energy-saving program	13,805,565.76		976,500.12		12,829,065.64
Total	15,795,524.10		1,476,000.12		14,319,523.98

Note : The increasing amount of unrealized gains and losses of operating lease from aircraft leaseback in this year includes the amount of other non-current assets as at 31/12/2015, which is CNY 23,794,314.90.

6.30 Share capital

Category	B/f		Currency year movement (+, -)					C/f	
	Amount	%	Share issue	Bonus issue	Coversion from reserves	Others	Subtotal	Amount	%
1. Shares with restriction on disposal									
1.1 State-held shares									
1.2 Shares held by state-owned entities	259,801,000.00	64.95						259,801,000.00	64.95
1.3 Shares held by other domestic investors	199,000.00	0.05						199,000.00	0.05
Including: Held by institutional investors	199,000.00	0.05						199,000.00	0.05
Held by non-institutional investors									
1.4 Shares held by foreign investors									
Including: Held by institutional investors									
Held by non-institutional investors									
Subtotal of shares with restriction on disposal	260,000,000.00	65.00						260,000,000.00	65.00
2. Floating shares									
2.1 Ordianry shares issued in CNY									
2.2 Shares issued in domestic stock market in foreign currency	140,000,000.00	35.00						140,000,000.00	35.00
2.3 Shares issued in foreign market in foreign currency									

Category	B/f		Currency year movement (+, -)					C/f	
	Amount	%	Share issue	Bonus issue	Coversion from reserves	Others	Subtotal	Amount	%
2.4 Others									
Subtotal of floating shares	140,000,000.00	35.00						140,000,000.00	35.00
Total	400,000,000.00	100.00						400,000,000.00	100.00

6.31 Capital reserves

Category	B/f	Current year increase	Current year decrease	C/f
Share premium	67,618,282.54			67,618,282.54
Other capital reserves	7,792,081.16			7,792,081.16
Total	75,410,363.70			75,410,363.70

6.32 Other comprehensive income

Item	B/f	Total amount in current year					C/f
		Amount for the year before tax	Less: previously recognised in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	After tax attributable to minority shareholders	
1.Other comprehensive income will be reclassified into income or loss in the future	-6,023,000.00	263,000.00			263,000.00		-5,760,000.00
Including: remeasurement of net assets or net liabilities of defined benefit plans	-6,023,000.00	263,000.00			263,000.00		-5,760,000.00

Item	B/f	Total amount in current year					C/f
		Amount for the year before tax	Less: previously recognised in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	After tax attributable to minority shareholders	
2.Other comprehensive income reclassifiable to profit or loss in subsequent periods	99,578,005.44	50,749,408.42		12,687,352.10	38,062,056.32		137,640,061.76
Gains and losses from changes in fair value of financial assets available for sale	99,578,005.44	50,749,408.42		12,687,352.10	38,062,056.32		137,640,061.76
Total of other comprehensive income	93,555,005.44	51,012,408.42		12,687,352.10	38,325,056.32		131,880,061.76

6.33 Surplus reserves

Category	B/f	Current year increase	Current year decrease	C/f
Statutory surplus reserve	370,981,095.40	52,443,232.24		423,424,327.64
Total	370,981,095.40	52,443,232.24		423,424,327.64

Notes: according to the Company Law and the Articles of Association, 10% of net profit was transferred to statutory surplus reserve.

The company may make allocations to the discretionary surplus reserve from the after-tax profits after making allocations to the statutory surplus reserve from the after-tax profits. Approved surplus reserves can be released to recover losses or for conversion into share capital.

6.34 Retained earnings

Items	Current year	Prior year
Pre-adjustment balance brought forward	2,425,066,740.03	2,025,535,984.99
Total adjustment to retained earnings b/f (+, -)		
Retained earnings b/f after adjustment	2,425,066,740.03	2,025,535,984.99
Add: Net profit attributable to shareholders of the parent	532,834,567.17	532,260,993.04
Other transfer		
Less: Appropriation to statutory surplus reserve	52,443,232.24	52,730,238.00
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared	100,000,000.00	80,000,000.00
Bonus issue		
Balance carrying forward	2,805,458,074.96	2,425,066,740.03

6.35 Operating revenues and costs

Category	Current year		Prior year	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	13,383,512,531.78	11,888,575,339.12	11,935,727,711.34	10,193,994,230.65
Other business	358,853,013.78	1,598,065.47	173,235,427.77	5,592,112.29
Total	13,742,365,545.56	11,890,173,404.59	12,108,963,139.11	10,199,586,342.94

6.36 Tax and surcharges

Item	Current year	Prior year
Business tax	4,633,662.56	9,216,831.59
Urban maintenance and construction tax	18,430,505.70	22,135,656.88
Education surcharge and others	22,953,032.48	18,869,986.75
Total	46,017,200.74	50,222,475.22

Notes: Applicable rates for business tax and surcharges see Note 5 Taxation.

6.37 Sales expenses

Category	Current year	Prior year
Agency fees	267,742,409.14	372,905,765.90
Employment benefits	178,332,207.47	158,090,438.04
Computer booking	100,918,601.79	86,702,081.37
Online payment	40,788,727.39	23,986,458.37

Category	Current year	Prior year
Sales expense of annual tickets	1,047,985.94	1,345,688.25
Lease rental	16,362,885.25	14,628,692.68
Advertisement fees	20,250,896.90	10,693,634.28
Administrative office expenses	3,862,339.59	4,060,310.97
Travel expenses	5,202,704.24	4,220,849.07
System and network	9,597,413.64	8,393,041.43
BSP data processing	3,499,362.04	1,881,198.97
Depreiciation	1,599,442.92	1,614,214.81
Others	25,756,200.22	25,176,521.98
Total	674,961,176.53	713,698,896.12

6.38 General and administrative expenses

Category	Current year	Prior year
Employment benefits	183,786,142.00	146,652,861.99
Lease rental	19,625,100.23	16,859,132.71
Business entertainment costs	4,937,359.74	5,894,332.28
Depreiciation	14,628,022.94	13,145,398.37
Taxes and fees	2,020,031.01	7,605,886.97
Administrative office expenses	4,709,058.67	3,950,502.67
Technology development costs	11,007,809.25	10,522,258.65
Amortisation of intangibles	5,863,228.47	5,143,696.48
Water, electricity charges	12,220,258.07	11,226,671.68
Outsourcing fee	21,970,938.61	11,418,859.77
Others	53,175,913.71	48,277,714.95
Total	331,923,831.69	280,697,316.52

Note: In accordance with "Vat accounting treatment provisions" (Accounting [2016]22), the tax from May to December this year is disclosed in Tax and surcharges.

6.39 Financial costs

Category	Current year	Prior year
Interest expenses	126,981,176.69	162,478,745.82
Less: Interest income	17,637,929.77	18,783,142.89
Exchange difference	147,625,889.91	174,944,031.89
Bank charges and others	4,907,449.32	1,182,985.23
Total	261,876,586.15	319,822,620.05

6.40 Loss on asset impairment

Category	Current year	Prior year
Allowance for bad debt	9,311,766.02	5,580,449.74
Total	9,311,766.02	5,580,449.74

6.41 Gain from changes in fair value

Source	Current year	Prior year
Interest rate swaps	2,214,631.82	-1,810,736.85
Total	2,214,631.82	-1,810,736.85

6.42 Investment income

Category	Current year	Prior year
Income from holding of financial assets available for sale	18,636,766.90	11,345,875.41
Income from long-term equity investment income of equity method		-17,729,201.91
Income from disposal of long-term equity investment		45,119,181.79
Income from financial assets measured by fair value with changes in fair value recognised in profit or loss	-1,277,063.78	-3,232,254.52
Total	17,359,703.12	35,503,600.77

6.43 Non-operating income

Category	Current year	Prior year	Included in current year non-recurring profit and loss
Gain on non-current asset disposals	68,054.80	454,266.84	68,054.80
Including: Gain on fixed asset disposals	68,054.80	454,266.84	68,054.80
Government grants (See details of government grants below)	149,937,201.77	113,608,585.59	149,937,201.77
Others	18,711,370.32	25,696,951.85	18,711,370.32
Total	168,716,626.89	139,759,804.28	168,716,626.89

Details of government grants:

Government assitance	Current year	Prior year	related to the assets/ related to the income
Airline subsidies	118,668,610.66	75,278,575.00	related to the income
Energy-saving reward from ministry of finance	19,420,000.00	22,890,000.00	related to the income
Designated subsidy for snow disaster	499,500.00	499,500.00	related to the assets

Government assitance	Current year	Prior year	related to the assets/ related to the income
Designated subsidy for civil aviation energy-saving program	976,500.12	976,500.12	related to the assets
Others	10,372,590.99	13,964,010.47	related to the income
Total	149,937,201.77	113,608,585.59	

Note: Government grants are mainly referred to subsidy income received from government departments, which was used to support the development of aviation business.

6.44 Non-operating expenses

Category	Current year	Prior year	Included in current year non-recurring profit and loss
Loss on non-current asset disposals	3,459,280.00	1,402,588.79	3,459,280.00
Including: Loss on fixed asset disposals	3,459,280.00	1,402,588.79	3,459,280.00
Others	1,539,179.07	396,443.11	1,539,179.07
Total	4,998,459.07	1,799,031.90	4,998,459.07

6.45 Income tax expenses

6.45.1 Income tax expenses

Items	Current year	Prior year
Current income tax expense	364,505,859.12	162,461,842.97
Deferred tax	-187,966,374.70	16,285,838.81
Total	176,539,484.42	178,747,681.78

6.45.2 Reconciliation of account profit and income tax expenses

Items	Current year
Profit before tax	709,374,051.59
Income tax computed in accordance with the applicable tax rate	177,343,512.90
Income tax computed in accordance with the applicable tax rate	-1,714,919.19
Impact of non-taxable income	-4,659,191.73
Impact of non-deductible costs, expenses and losses	5,570,082.44
Income tax expenses	176,539,484.42

6.46 Other comprehensive income

Please see Note 6. 32 for detail.

6.47 Notes to the consolidated statement of cash flows

6.47.1 Other cash receipts relating to operating activities

Category	Current year	Prior year
Government grants	148,461,201.65	112,132,585.47
Interest income on bank deposit	17,637,929.77	18,783,142.89
Cash receiptes from non-operating income	18,711,370.32	24,220,951.73
Cash receiptes from operating balance	65,538,456.35	7,737,415.37
Total	250,348,958.09	162,874,095.46

6.47.2 Other cash payments relating to operating activities

Category	Current year	Prior year
Bank charges	45,696,176.71	25,169,443.60
Cash payments for non-operating expenses	1,539,179.07	396,443.11
Cash payments for operating balance	33,184,794.98	24,589,548.35
Cash payments for sales and general and administrative expenses	214,079,640.16	179,893,151.93
Total	294,499,790.92	230,048,586.99

6.47.3 Other cash payments relating to investing activities

Category	Current year	Prior year
Cash payments of settlement of interest rate swaps	1,277,063.78	2,693,748.52
Total	1,277,063.78	2,693,748.52

6.47.4 Other cash receipts relating to financing activities

Category	Current year	Prior year
Cash receipts for disposal of purchase rights on aircrafts (which became acquired under operating lease instead of purchase)	1,221,674,080.70	1,619,738,784.33
Total	1,221,674,080.70	1,619,738,784.33

6.47.5 Other cash payments relating to financing activities

Category	Current year	Prior year
Cash payments for aircraft financial lease rental	188,394,977.32	174,680,444.93
Total	188,394,977.32	174,680,444.93

6.48 Supplementary information to the consolidated statement of cash flows

6.48.1 Supplementary information to the statement of cash flows

Items	Current year	Prior year
① **Reconciliation of cash flows from operating activities to net profit:**		

Items	Current year	Prior year
Net profit	532,834,567.17	532,260,993.04
Add: Loss on asset impairment	9,311,766.02	5,580,449.74
Depreciation of fixed assets, oil and gas assets, biological assets held for production	784,959,904.79	681,095,870.34
Amortisation of intangible assets	5,863,228.47	5,143,696.48
Amortisation of Long-term deferred expenditure	82,194,972.24	72,256,495.12
Loss on non-current assets disposal (gain presented by "-" prefix)	3,391,225.20	948,321.95
Loss on scrap of fixed assets (gain presented by "-" prefix)		
Loss on fair value changes (gain presented by "-" prefix)	-2,214,631.82	1,810,736.85
Financial costs (gain presented by "-" prefix)	273,896,782.70	338,327,086.22
Investment loss (gain presented by "-" prefix)	-17,359,703.12	-35,503,600.77
Decrease of deferred tax assets (increase presented by "-" prefix)	-187,966,374.70	16,285,838.81
Increase of deferred tax liabilities (increase presented by "-" prefix)		
Decrease of inventories (increase presented by "-" prefix)	-8,657,802.57	-155,668.54
Decrease of operating receivables (increase presented by "-" prefix)	-200,802,727.26	-56,231,115.12
Increase of operating payables (decrease presented by "-" prefix)	1,143,177,781.30	855,829,502.76
Others	8,427,000.00	6,809,236.13
Net cash flows generated from operating activities	2,427,055,988.42	2,424,457,843.01
②**Significant investing and financing activities involve no cash:**		
Debt-to-capital conversion		
Convertible loan due within one year		
Fixed assets acquired under financial lease		
③ **Movement of cash and cash equivalents:**		
Cash as at 31/12/2016	791,255,686.65	1,415,399,630.60
Less: Cash as at 31/12/2015	1,415,399,630.60	460,741,336.35
Add: Cash equivalents as at 31/12/2016		
Less: Cash equivalents as at 31/12/2015		
Net increase of cash and cash equivalents	-624,143,943.95	954,658,294.25

6.48.2 Composition of cash and cash equivalents

Items	Current year	Prior year
①**Cash**	791,255,686.65	1,415,399,630.60
Including: Cash at hand	182,606.18	178,959.16

Items	Current year	Prior year
Demand bank deposit	791,073,080.47	1,415,220,671.44
Demand other monetary funds		
Demand deposit in the Central Bank		
Deposit in peer firms		
Loan to peer firms		
②**Cash equivalents**		
Including: Debt instrument matured within three months		
……		
④ **Cash and cash equivalents as at 31/12/2016**	791,255,686.65	1,415,399,630.60
Including: restricted cash and cash equivalents in parent company or subsidiary		

Note: Cash and cash equivalents excluding restricted cash and cash equivalents in parent company or subsidiary.

6.49 Assets with imposed restriction on ownership

Category	C/f	Reason of restriction
Assets pledged as security	4,111,592,599.72	
Aircrafts and engines	4,111,592,599.72	Pledge as security for borrowings
Other form of restriction:	1,145,258,411.93	
Aircrafts and engines	1,145,258,411.93	Assets acquired under financial lease
Total	5,256,851,011.65	

6.50 Foreign currency monetary items

Item	Original amount as at 31/12/2016	Foreign exchange rate	Translated amount as at 31/12/2016
Monetary funds			
Including: -USD	17,123,723.15	6.9370	118,787,267.49
-EUR			
-GBP			
-CAD	10.00	5.1406	51.41
-Hwan	31,288,733.00	0.0058	181,474.65
-TWD	6,545,734.00	0.2174	1,423,042.57
Prepayments			
Including: -USD	35,231,815.35	6.9370	244,403,103.08
Other receivables			

Item	Original amount as at 31/12/2016	Foreign exchange rate	Translated amount as at 31/12/2016
Including: -USD	21,813,197.98	6.9370	151,318,154.39
Accounts payable			
Including: -USD	1,936,402.58	6.9370	13,432,824.70
-EUR	16,014.36	7.3068	117,013.73
-JPY	4,620,819.00	0.0596	275,359.23
Other payables			
Including: -USD	11,365,157.04	6.9370	78,840,094.41
Non-current liabilities due within one year			
Including: -USD	123,872,414.52	6.9370	859,302,939.53
Long-term borrowings			
Including: -USD	220,268,382.23	6.9370	1,528,001,767.54
Long-term payables			
Including: -USD	65,250,782.93	6.9370	452,644,681.17

Note 7: Change of scope of consolidation

No change of scope of consolidation from last year.

Note 8: The equity in other main entities

8.1 The equity in subsidiaries

8.1.1 The construction of the group

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion %		Acquired method
				Directly	Indirectly	
Shandong aviation Logistics Ltd (hereafter, Qingdao Logistics)	Qingdao, Shandong	Qingdao, Shandong	Logistics and storage	100.00		acquired through investment

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion %		Acquired method
				Directly	Indirectly	
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd (hereafter, Qingdao Feisheng)	Qingdao, Shandong	Qingdao, Shandong	Pilot training	100.00		Acquired through business combination not under common control

8.2 The equity in associates

8.2.1 Significant associates

Associates	Place of operation	Place of registration	Nature of business	Holding proportion %		The accounting treatment of investments in associates
				Directly	Indirectly	
Shandong Rainbow Commercial Jet Co., Ltd.	Jinan, Shandong	Jinan, Shandong	Aero transportation	45.00		Equity method

8.2.2 Key financial information of significant associate- Shandong Rainbow Commercial Jet Co., Ltd.

Item	Dec 31th, 2016/Year 2016	Dec 31th, 2015/Year 2015
Current assets	1,820,781.43	1,832,244.32
Non-current assets	25,856.24	27,224.00
Total assets	1,846,637.67	1,859,468.32
Current liabilities	167,765,813.33	167,765,813.33
Non-current liabilities		
Total liabilities	167,765,813.33	167,765,813.33
Minority interests		
Equity attributable to shareholders of the parent	-165,919,175.66	-165,906,345.01
Pro rata share of the net assets calculated		
Adjusting events		
- Goodwill		
-Unrealized profits from internal transaction		

Item	Dec 31th, 2016/Year 2016	Dec 31th, 2015/Year 2015
-Others		
Book value of equity investments in associates		
Fair value of publicly quoted equity investments in associates		
Operating income		
Net profit	-12,830.65	-44,335.70
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income		
Dividends received from associates during the year		

8.2.3 Excess loss occurred by associates

Associates	Cumulative unrecognized losses of prior year	Unrecognized losses of current year (Share of net profit of current year)	Cumulative unrecognized losses of current year
Shandong Rainbow Commercial Jet Co., Ltd.	-74,657,835.01	-5,773.79	-74,663,608.80

Note 9 The risk associated with financial instruments

The main financial instruments of the Company including equity investments, loans, accounts receivable, accounts payable etc., please see Note 6 for detail of related items. The risk associated with financial instruments, and risk management policies which the company use to reduce these risks are described below. The management of the Company manages and supervises the risks to ensure that the risks can be controlled within a limited range.

Sensitivity analysis techniques are adopted by the Company to analyse the impact of reaonsable and possible changes of risk variables on the profit and loss or shareholders' equity for the current period. While risk variables seldomly change in isolation, and the correlation among variables will have a significant effect on the ultimate impact of the change of one risk variable. Therefore, the following content is based on the assumption that changes in each variable is independent.

9.1 The targets and policies of risks management

The target of risks management is to obtain the proper balance between the risks and benefits, to reduce the negative impact that caused by the risk of the Company to the lowest level, and to maximize the benefits of shareholders and other equity investors. Based on the targets of risk management, the basic strategy of the Company's risk management is to identify and analyse the risks which are faced by the Company, establish suitable risk tolerance baseline and proceed the risk management, and supervise a variety of risks timely and reliably, and control the risk within a limited range.

9.1.1 Market Risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate fluctuations generally. The company bears the foreign exchange risk primarily concerned with USD, and uses USD for pricing or settlement in the field of main financing business, operating leases, financing leasing. On 31 December 2016, except the following assets or liabilities in Note 6.50 are recorded in foreign currency, the others are recorded in CNY. Foreign exchange risk of the assets and liabilities in foreign currencies may have an impact on the Company's performance of operation.

(2) Interest rate risk - the risk of changes in cash flow

The risk of changes in cash flows of a financial instrument due to interest rate is mainly concerned with the floating rate of bank borrowings (see Note 6.26,6.27). The company's policy is to maintain a floating interest rate on the borrowings.

(3) Other price risk

Financial assets available for sale and financial assets held-for-trade held by the company should be measured at fair value on the balance sheet date. For the reason that, the company bears the risk of changes in the stock market.

9.1.2. Credit Risk

As at the statement date, the maximum risk that could cause the Company's financial losses mainly comes from default of the other party of the contract, which includes:

The carrying amount of financial assets recognised in the Consolidated statement of financial position; for financial instruments measured by fair value, the book value reflects its risk exposure but not the maximum risk exposure, which will vary with changes in the fair value in the future.

In order to reduce credit risk, the Company set up a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that the necessary measures be taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure fully provision for bad debts recognised for the money that cannot be recovered. Therefore the Company's management believes the Company's credit risk has been greatly reduced.

The Company's circulating funds were deposited in banks with high credit ratings, so that the credit risk of circulating funds was low.

9.1.3 Liquidity risk

When managing liquidity risk,the Company's management believes maintaining adequate cash and cash equivalents, and monitoring that at same time, in order to meet the needs of operation of the Company, and to reduce the impact of fluctuations in cash flows.The management of the Company monitors the use of bank borrowings and ensure to abide by loan agreements.

Note 10 Disclosure of the fair value

10.1 The fair value at the end of current year of assets and liabilities which are measured by fair value

Item	The fair value at the end of current year			
	The first level measured by fair value	The second level measured by fair value	The third level measured by fair value	Total
1. Continuous measurement by fair value				
1.1 financial assets available for sale	190,210,082.34			190,210,082.34
(1) Equity instruments investment	190,210,082.34			190,210,082.34
Total amount of assets continuous measurement by fair value	190,210,082.34			190,210,082.34
2. Financial liabilities measured at fair value with changes in fair value recognised in profit or loss		1,155,815.80		1,155,815.80
Interest rate swaps		1,155,815.80		1,155,815.80
Total amount of liabilities continuous measurement by fair value		1,155,815.80		1,155,815.80

10.2 Determined on the basis of continuous and noncontinuous first level for fair value measurement of the market of project

Financial assets available for sale of continuous measurement by fair value is the investment in TravelSky Technology Limited, whose fair value was determined based on the closing price for the stock market in Hong Kong Stock Exchange on balance sheet date.

10.3 Determined on the basis of continuous and noncontinuous second level for fair value measurement of the market of project

Fair value measurement basis of interest rate swaps which was continuously measured by fair value is quotes from counterparty banks on the fair value of interest rate swaps.

Note 11 Related parties and related party transaction

11.1 Major investors

Investor	Place of registration	Nature of operation	Registered capital	Shareholding in the Company (%)	Voting right in the Company (%)
SDA Group	Jinan	Investment and management of aero transportation	580,000,000.00	42.00	42.00
Air China	Beijing	Aero transportation	13,084,751,004.00	22.80	22.80

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.

11.2 Subsidiaries

See Note 8.1 for subsidiaries.

11.3 Associates

See Note 8.2 for associates.

11.4 Other related parties

Other related party	Relationship to the Company
Taikoo (Shandong) Aircraft Engineering Company Limited	Controlled by major investors
Shandong XiangYu Air Technology Co., Ltd.	Controlled by major investors
Shandong Rainbow Commercial Jet Co., Ltd.	Controlled by major investors
Shandong Air New Media Co., Ltd.	Controlled by major investors
Air China Import & Export Co., Ltd.	Controlled by major investors
Zhejiang Aviation Service Co., Ltd.	Controlled by major investors
Air China Shanghai Aviation Service Co., Ltd.	Controlled by major investors
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Controlled by major investors
CATIC Industrial Co., Ltd.	Controlled by major investors
Air Macau	Controlled by major investors
Air China Offshore Holding Company	Controlled by major investors

Other related party	Relationship to the Company
Air China Hongkong Development Limited	Controlled by major investors
Beijing Airlines Co., Ltd.	Controlled by major investors
China International Aviation Shantou Industrial Development Corporation	Controlled by major investors
Chengdu Fukai Aircraft Engineering Services Limited	Controlled by major investors
Beijing Aircraft Maintenance and Engineering Corporation	Controlled by major investors
Air China Cargo Co., Ltd.	Controlled by major investors
China Aviation Group Finance Co., Ltd.	Controlled by major investors
Shenzhen Airlines Co., Ltd.	Controlled by major investors
Dalian Airlines Co., Ltd.	Controlled by major investors
China International Airlines Inner Mongolia Co., Ltd.	Controlled by major investors
Kunming Airlines Ltd	Controlled by major investors
Sichuan international aero engine maintenance Co., Ltd.	jointly operated by major investors
SkyWorks Capital Asia Ltd.	jointly operated by major investors
ACT Cargo (USA), Inc.	jointly operated by major investors
Shanghai Pudong International Airport West Public Cargo Terminal Co., Ltd.	jointly operated by major investors
Ji'an Beijing Aviation Asset Management Co., Ltd.	jointly operated by major investors
Shanghai International Airport Ground Service Co., Ltd.	jointly operated by major investors

11.5 Related party transactions

11.5.1 Purchase of goods and services

Related party	Transaction	Current year	Prior year
SDA Group	Office lease rental and catering	29,933,839.56	30,527,418.15
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	53,489,045.18	69,735,539.72
Shandong XiangYu Air Technology Co., Ltd.	Repairment	62,803,828.70	59,312,132.56
Air China	Ground service	27,902,903.35	23,438,134.17
Air China	Repairment	516,583.34	21,280,619.93
Air China	Purchase / lease of aircraft materials	65,317.62	

Related party	Transaction	Current year	Prior year
Air China	Agency service	12,634,460.02	12,560,221.97
Air China	Irregular flight expenditure	14,336,654.51	11,324,626.20
Air China	Training service		1,143,000.00
Shenzhen Airlines Co., Ltd.	Training service		411,698.12
Shenzhen Airlines Co., Ltd.	Agency service	1,778,151.48	173,125.51
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	23,980.28	
Air China Cargo Co., Ltd.	Ground service	3,051,710.01	2,902,157.36
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	46,912,099.74	19,609,357.04
Beijing Aircraft Maintenance and Engineering Corporation	Purchase / lease of aircraft materials	82,930.04	
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	28,354,445.95	17,385,910.85
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	266,883,899.60	139,922,734.58
Chengfu FuKai Aircraft Engineering Co., Ltd.	Repairment	6,765,978.17	7,439,482.42
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	14,165,444.80	
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	1,802,736.00	
Shenzhen Airlines Co., Ltd.	Catering	930,225.00	
Air China Import & Export Co., Ltd.	Taxes of aircraft materials	9,700.60	
Total		572,443,933.95	417,166,158.58

11.5.2 Sales of goods and vendering of services

Related party	Transaction	Current year	Prior year
Air China	Ground service	2,967,241.10	367,140.31
Air China	Simulator maintenance / House rental income	10,283,400.00	
Air China	Sale /rent of aircraft materials	19,373.16	

Related party	Transaction	Current year	Prior year
Air China	Irregular flight expenditure	5,410.00	
Air China	Agency service	6,406,068.26	1,747,484.66
Air China Cargo Co., Ltd.	Warehouse rent income	2,800.00	
Beijing Aircraft Maintenance and Engineering Corporation	Sale /rent of aircraft materials	222,101.94	
Shenzhen Airlines Co., Ltd.	Agency service	636,161.44	396,672.50
Shenzhen Airlines Co., Ltd.	Ground service	302,000.00	159,160.00
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	392,823.37	
Shenzhen Airlines Co., Ltd.	Irregular flight expenditure	5,750.00	
Dalian Airlines Co., Ltd.	Ground service	56,969.93	
Dalian Airlines Co., Ltd.	Irregular flight expenditure	165,015.00	
Qingdao Airlines Co., Ltd.	Flight support services revenue		1,191,758.45
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	279,891.59	286,966.38
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	105,257.45	6,830,489.31
Shandong Air New Media Co., Ltd.	Media resource fee	17,193,467.69	
Total		39,043,730.93	10,979,671.61

11.5.3 Lease between related parties

The Company as leasee

Leasor	Leased asset	Current year	Prior year
Qingdao Airlines Co.	Aircrafts		9,200,000.00
Total			9,200,000.00

11.5.4 Related Party borrowing funds demolition

Related Party	Borrowing money	Beginning date	Due date	Description
borrowing：				
China National Aviation Finance Co., Ltd.	296,000,000.00	2016-6-20	2026-6-20	Balance as at 31/12/2016 CNY 281,200,000.00

11.5.5 Remuneration to key management personel

Item	Current year	Prior year
Remuneration to key management personel	CNY 11.1861 million	CNY 7.8380 million

11.5.6 Other related party transactions

Related party	Transaction	Current year	Prior year
Air China	Wet lease	282,331,884.00	453,634,566.00
Air China	Code sharing	-111,859.52	3,275,195.22
Air China	Frequent flyer cooperation	130,718,573.22	61,675,975.36
Air China Cargo Co., Ltd.	Code sharing for cargo	712,369.96	863,741.04
Total		413,650,967.66	519,449,477.62

11.6 Related party balances

11.6.1 Receivables

Related party	C/f		B/f	
	Carrying amount	Allowance for bad debt	Carrying amount	Allowance for bad debt
Accounts receivable				
Air China	111,220,493.07		64,912,116.42	
Air China Cargo Co., Ltd.			2,994,845.77	
Taikoo (Shandong) Aircraft Engineering Company Limited			186,120.00	
Total	111,220,493.07		68,093,082.19	
Other receivables				
Air China	6,250,133.00		5,067,826.76	
Shenzhen Airlines Co., Ltd.	468,173.37		740.00	
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	101,551,717.65	101,551,717.65
Shandong XiangYu Air Technology Co., Ltd.	15,444.48		19,858.85	
Taikoo (Shandong) Aircraft Engineering Company Limited	198,526.00		854,742.74	
Shandong Air New Media Co., Ltd.	1,027,044.28			
Total	109,511,038.78	101,551,717.65	107,494,886.00	101,551,717.65

11.6.2 Payables

Related party	C/f	B/f
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	2,451,618.94	
Taikoo (Shandong) Aircraft Engineering Company Limited	1,279,779.59	6,848,765.73
Air China	190,287,022.82	99,480,295.38
Air China Cargo Co., Ltd.	260,935.50	259,754.60
Beijing Golden Phoenix Human Resources Service Co., Ltd.	161,838.00	
Shenzhen Airlines Co., Ltd.	208,826.20	
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	10,860,743.99	7,760,074.07
Sichuan International Aero Engine Maintenance Co., Ltd.	64,482,126.00	31,226,775.59
Chengfu FuKai Aircraft Engineering Co., Ltd.		1,414,020.82
Total	269,992,891.04	146,989,686.19
Other payables		
SDA Group	6,041,798.09	3,565,944.65
Air China	20,000,000.00	20,000,000.00
Shenzhen Airlines Co., Ltd.		1,850,144.00
Taikoo (Shandong) Aircraft Engineering Company Limited	245,400.00	245,400.00
Total	26,287,198.09	25,661,488.65

Note 12 Commitments

12.1 Signifcant commitments

12.1.1 Capital commitment

Item	C/f	B/f
Firm contracts not recognized in the financial statements		
- Commitment to acquire non-current assets	18,276,050,022.59	18,228,453,171.55
- large outsourcing contract		
- External investment commitments		
Total	18,276,050,022.59	18,228,453,171.55

12.1.2 Operating lease

Information of irrevocable operating lease contracts as at the reporting date:

Item	C/f	B/f
Minimum lease rental for irrevocable operating lease contracts		
Within one year from the reporting date	2,290,232,032.00	1,868,704,859.20
Within two years from the reporting date	2,155,144,647.15	1,790,568,747.56
Within three years from the reporting date	2,125,539,777.15	1,667,161,566.37
Subsequent years	11,553,366,310.20	9,900,119,169.07
Total	18,124,282,766.50	15,226,554,342.19

Note: As of 31/12/2016, the balance of unexpired bond issued by this company is CNY 43,354,600.00, USD 89,738,600.00.

12.1.3 Other commitment

No other significant commitments of the Company need to be disclosed as at 31/12/2016.

Note 13 Post balance sheet date events

13.1 Post balance sheet date profit appropriation

The Proposal for Profit Appropriation for the Year ended 31 December 2016 of distributing cash dividend of CNY 3.00 (gross) per 10 shares for the 400 million shares outstanding as at the reporting date, which in total amounts to CNY 120,000,000.00, was approved by the 2th Meeting of the 6th Term of Board of Directors of the Company held on 28 March 2017; the Proposal was pending the approval of the General Meeting of stockholders of the Company.

Note 14 Other significant events

14.1 Pension Plan

No significant change of the annuity program occurred for current year, see note 6.21, 6.28.

Note 15 Notes to elements of the separate financial statements

15.1 Accounts receivable

15.1.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	228,079,021.34	68.01			228,079,021.34

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	88,170,349.23	26.29	4,408,517.46	5.00	83,761,831.77
Accounts receivable of individual insignificance but subject to individual impairment assessment	19,100,611.14	5.70	8,057,209.85	42.18	11,043,401.29
Total	335,349,981.71	100.00	12,465,727.31	3.83	322,884,254.40

(Continued)

Category	B/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	155,464,398.00	60.75			155,464,398.00
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	86,102,003.17	33.65	4,305,100.16	5.00	81,796,903.01
Accounts receivable of individual insignificance but subject to individual impairment assessment	14,327,817.42	5.60			14,327,817.42
Total	255,894,218.59	100.00	4,305,100.16	1.68	251,589,118.43

① Accounts receivable of individual significance and subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
BSP-CHINA	111,183,263.07			No indication of impairment upon individual assessment
Air China	59,213,818.83			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Accounting Center of China Aviation	57,681,939.44			No indication of impairment upon individual assessment
Total	228,079,021.34			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	88,170,349.23	4,408,517.46	5.00
Total	88,170,349.23	4,408,517.46	5.00

③ Accounts receivable of individual insignificance but subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
Shandong aviation Logistics Ltd	3,860,117.55			No indication of impairment upon individual assessment
BSP-TAIWAN	2,937,548.86			No indication of impairment upon individual assessment
UATP	2,275,133.99			No indication of impairment upon individual assessment
BSP-JAPAN	1,517,337.02			No indication of impairment upon individual assessment
BSP-CAMBODIA	172,325.12			No indication of impairment upon individual assessment
ARC	158,157.05			No indication of impairment upon individual assessment
BSP-THAILAND	92,031.53			No indication of impairment upon individual assessment
BSP-THAILAND	30,750.17			No indication of impairment upon individual assessment
Total	19,100,611.14	8,057,209.85	42.18	

15.1.2 Recognisation, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognised during the year is CNY8,160,627.15.

15.1.3 Top five accounts receivables by debtors

The total amount of top five accounts receivables summarized by debtors as at the end of current year is CNY 270,459,797.26, accounting for 80.65% of the total accounts receivable as at the end of current year, the total corresponding allowance for bad debts is CNY2,119,038.79.

15.2 Other receivables

15.2.1 Disclosure by category

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	398,743,770.11	78.79	108,431,670.15	27.19	290,312,099.96
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	63,673,072.13	12.58	3,183,653.61	5.00	60,489,418.52
Other receivables of individual insignificance but subject to individual impairment assessment	43,680,428.66	8.63			43,680,428.66
Total	506,097,270.90	100.00	111,615,323.76	22.05	394,481,947.14

(Continued)

Category	B/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	311,471,122.15	71.76	106,461,110.62	34.18	205,010,011.53
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	76,765,699.27	17.69	3,838,284.97	5.00	72,927,414.30
Other receivables of individual insignificance but subject to individual impairment assessment	45,815,835.47	10.55			45,815,835.47
Total	434,052,656.89	100.00	110,299,395.59	25.41	323,753,261.30

① Other receivables of individual significance and subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	114,069,866.40			No indication of impairment upon individual assessment
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	impairment upon individual assessment
Debtor #2	79,570,006.50	3,978,500.33	5.00	impairment assessment by portfolio
Debtor #3	58,029,043.40	2,901,452.17	5.00	impairment assessment by portfolio
Shandong Air Logistics Co., Ltd.	45,523,136.16			No indication of impairment upon individual assessment
Total	398,743,770.11	108,431,670.15	27.19	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	63,673,072.13	3,183,653.61	5.00
Total	63,673,072.13	3,183,653.61	5.00

③ Other receivables of individual insignificance but subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	19,423,600.00			No indication of impairment upon individual assessment
Air China	6,250,133.00			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #2	4,758,782.00			No indication of impairment upon individual assessment
Debtor #3	3,900,000.00			No indication of impairment upon individual assessment
Debtor #4	1,553,182.17			No indication of impairment upon individual assessment
Debtor #5	1,414,505.19			No indication of impairment upon individual assessment
Debtor #6	1,387,400.00			No indication of impairment upon individual assessment
Debtor #7	1,354,680.00			No indication of impairment upon individual assessment
Shandong Air New Media Co., Ltd.	1,027,044.28			No indication of impairment upon individual assessment
Debtor #8	554,707.92			No indication of impairment upon individual assessment
Debtor #9	553,166.41			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	468,173.37			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #10	416,030.94			No indication of impairment upon individual assessment
Debtor #11	405,052.90			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	198,526.00			No indication of impairment upon individual assessment
Shandong XiangYu Air Technology Co., Ltd.	15,444.48			No indication of impairment upon individual assessment
Total	43,680,428.66			

15.2.2 Recognisation, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recovered or reversed during the current year is CNY 1,315,928.17.

15.2.3 Disclosure by nature

Category	C/f	B/f
Deposits	149,790,973.93	107,675,329.76
Others	356,306,296.97	326,377,327.13
Total	506,097,270.90	434,052,656.89

15.2.4 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #1	Deposits	114,069,866.40	Within 1 year	22.54	
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 4 years	20.07	101,551,717.65
Debtor #2	Others	79,570,006.50	Within 2 years	15.72	3,978,500.33
Debtor #3	Others	58,029,043.40	Within 3 years	11.47	2,901,452.17
Shandong aviation Logistics Ltd	Others	45,523,136.16	Over 5 years	8.99	
Total		398,743,770.11		78.79	108,431,670.15

15.3 Long-term equity investments

15.3.1 Disclosure by category

Item	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Investments in subsidiaries	106,000,685.43		106,000,685.43	106,000,685.43		106,000,685.43
Investments in associates	22,500,000.00	22,500,000.00		22,500,000.00	22,500,000.00	
Total	128,500,685.43	22,500,000.00	106,000,685.43	128,500,685.43	22,500,000.00	106,000,685.43

15.3.2 Investments in subsidiaries

Investee	B/f	Current year increase	Current year decrease	C/f	Allowance recognized	Year-end allowance
Shandong aviation Logistics Ltd	48,323,205.97			48,323,205.97		
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd	57,677,479.46			57,677,479.46		
Total	106,000,685.43			106,000,685.43		

15.3.3 Investments in associates

Investee	B/f	Impairment allowance	Currency year movement (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	22,500,000.00					
Total	22,500,000.00	22,500,000.00					

(Continued)

Investee	Currency year movement (+, -)			C/f	Year-end allowance
	Declared cash dividends or profits	Allowance recognized	Others		
Associates					
Shandong Rainbow Commercial Jet Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

15.4 Operating revenues and costs

Category	Current year		Prior year	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	13,356,300,303.64	11,881,690,830.48	11,915,288,160.41	10,190,195,747.06
Other business	358,853,013.78	1,598,065.47	173,235,427.77	5,592,112.29
Total	13,715,153,317.42	11,883,288,895.95	12,088,523,588.18	10,195,787,859.35

15.5 Investment income

Category	Current year	Prior year
Income from long-term equity investments measured at cost	18,636,766.90	11,345,875.41
Income from long-term equity investment income of equity method		-17,729,201.91
Income from disposal of long-term equity investment		45,119,181.79
Income from long-term equity investment income of equity method	-1,277,063.78	-3,232,254.52
Total	17,359,703.12	35,503,600.77

Note 16 Supplementary information

16.1 Non-recurring profit and loss

Category	Current year	Description
Gains from disposals of non-current assets after expending impairment provisions	-3,391,225.20	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief		
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	149,937,201.77	

Category	Current year	Description
accordance with relevant regulations		
Financial resource usage fees charged on non-financial institution recognised through profit or loss for the current reporting period		
Gains arising from bargain purchase in business combination and investments in associates and joint ventures		
Non-monetary asset exchange		
Consigned investment and asset management		
Impairment provision resulting from force majeure, eg. natural desasters		
Reorganisation		
Reorganisation expenditure		
Unfair transactions		
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		
Gains or losses arising from contingent events unconnected with the Company's daily operating activities		
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	937,568.04	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment		
Gains or losses arising from consigned borrowings		
Fair value changes of property investments subsequently measured at fair value		
One-off adjustment of profit or loss for the current reporting period in accordance with tax and accounting laws and regulations		
Consignment income arising from consigned operations		
Income and expenses other than items listed above	17,172,191.25	
Other gains or losses satisfying the definition of extraordinary gains or losses		
Subtotal	164,655,735.86	
Less: Impact of income tax	41,398,528.97	
Less: Impact on non-controlling interest		
Total	123,257,206.89	

Note: Positive amounts and negative amounts in non-recurring categories mean income and expense or loss respectively.

The Company recognised non-recurring categories of activities in accodance with the Explanatory Announcement regarding Information Disclosure by Publicly Listed Company No. 1 - Non-recurring Profit and Loss (Zhengjianhui Gonggao [2008] No.43).

16.2 Rate of return on net assets and earnings per share

Profit catetory	Weighted average rate of RONA	Earnings per share (CNY/share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	14.88%	1.33	1.33
Recurring profit or loss attributable to ordinary shareholders	11.44%	1.02	1.02

Section XII. 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 2016;

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.