



山東航空股份有限公司
SHANDONG AIRLINES CO.,LTD

ANNUAL REPORT 2017

March 2018

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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 charge of accounting works and Zhou Shoubin, person in charge of accounting organ (accounting principal) hereby confirm that the Financial Report of 2017 Annual Report is authentic, accurate and complete.

Except the followed directors, other directors are attending the meeting for annual report deliberation in person

Director not personally attended	Title of the director not personally attended	Reasons for absent	Mandatory
Jiang Chengda	Director	Work causes	Miao Liubin
Wang Mingyuan	Director	Work causes	Xu Chuanyu

Concerning the forward-looking statements with development strategy and business plans involved in the Report, they do not constitute a substantial commitment for the investors. 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 2.50 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 Financial 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: <i>China Securities Journal</i> , <i>Securities Times</i> overseas: <i>Hong Kong Commercial Daily</i>
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-crowned 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	Pan Xinhua, 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 or not

☐ Yes ☒ No

	2017	2016	Changes over last year	2015
Operating income (RMB)	16,484,713,152.23	13,742,365,545.56	19.96%	12,108,963,139.11
Net profit attributable to shareholders of the listed company(RMB)	490,353,408.15	532,834,567.17	-7.97%	532,260,993.04
Net profit attributable to shareholders of the listed company after deducting	388,452,214.55	409,577,360.28	-5.16%	387,733,814.57

non-recurring gains and losses(RMB)				
Net cash flow arising from operating activities(RMB)	1,854,418,122.23	2,427,055,988.42	-23.59%	2,424,457,843.01
Basic earnings per share (RMB/Share)	1.23	1.33	-7.52%	1.33
Diluted earnings per share (RMB/Share)	1.23	1.33	-7.52%	1.33
Weighted average ROE	12.19%	14.88%	2.69 percentage points down	17.22%
	End of 2017	End of 2016	Changes over end of last year	End of 2015
Total assets (RMB)	13,351,422,839.91	12,741,974,788.53	4.78%	12,748,902,597.96
Net assets attributable to shareholder of listed company (RMB)	4,253,141,013.93	3,836,172,828.06	10.87%	3,365,013,204.57

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	3,858,202,194.45	3,692,592,547.47	5,011,301,663.17	3,922,616,747.14
Net profit attributable to shareholders of the listed company	138,708,221.70	-48,615,130.87	662,161,220.43	-261,900,903.11
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	110,366,318.98	-79,158,792.98	629,139,503.98	-271,894,815.43
Net cash flow arising from operating activities	36,510,056.32	612,643,788.64	1,538,074,574.27	-332,810,297.00

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

In RMB

Item	2017	2016	2015	Note
Gains/losses from the disposal of non-current asset (including the write-off that accrued for impairment of assets)	-1,370,187.93	-3,391,225.20	44,170,859.84	
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)	103,523,912.62	149,937,201.77	113,608,585.59	
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	-3,475,226.10	937,568.04	-5,042,991.37	
Other non-operating income and expenditure except for the aforementioned items	37,451,876.61	17,172,191.25	25,300,508.74	
Less: impact on income tax	34,229,181.60	41,398,528.97	33,509,784.33	
Total	101,901,193.60	123,257,206.89	144,527,178.47	--

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

(I) Main business and business model of the company

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

For more than 20 years, the company has always been giving first priority to “ensure safety, pay close attention to efficiency, and strive to punctuality and quality service”. As of the end of 2017, the company has 113 airplanes of Boeing B737 series, and enters into the ranks of large airlines. At present, the company bases its headquarters in Jinan and has branch offices and flight bases in Qingdao, Yantai, Xiamen, Chongqing, Beijing, Urumqi and Guiyang. The company operates more than 200 domestic, international and regional air routes, every week more than 3,700 flights fly to more than 80 large and medium-sized cities across the country, as well as the regional routes to Hong Kong and Taiwan, and the international routes to South Korea, Japan, Thailand, Cambodia and India.

(II) Development status of the industry

In 2017, China's civil aviation industry continued to maintain a stable and safe development trend, there was no air transportation accident or air-defense accident in the industry, the total transport volume exceeded one hundred billion ton kilometer, and the transportation flight exceeded ten million hours.

According to the “Main Production Index Statistics of CAAC in December 2017” published by the Civil Aviation Administration, the total transport volume of the entire industry in 2017 reached 108.31 billion ton-km, an increase of 12.5% on a year-on-year basis; passenger transport volume reached 551,568,000 persons, an increase of 13.0% on a year-on-year basis; cargo and mail transport volume reached 7,058,000 tons, an increase of 5.7% on a year-on-year basis.



Data sources: Civil Aviation Industry Development Statistics Bulletin of 2016

The civil aviation industry is a cyclical industry closely related to the macroeconomic cycle, and also has obvious seasonal and regional characteristics. Affected by holidays and students' winter and summer vacations, the peak season of China's air passenger transport generally occurs in the Spring Festival and July and August.

II. Major changes in main assets

1. Major changes in main assets

Major assets	Note of major changes
Equity assets	No major changes in the period
Fixed assets	No major changes in the period
Intangible assets	No major changes in the period
Construction in progress	No major changes in the period
Monetary fund	Balance of the monetary fund only reflects the amount at some point of time, and the changes will related with cash in-flow, out-flow and times
Account receivable	The receivable amount of wet rent are not for settlement in the period and note receivables increased
Inventory	The air material expendable of 733 plane are disposed in the period
Other current assets	The retention of VAT for 4Q of the year has major increased from a year earlier

2. Main overseas assets

☐ Applicable ☒ Not applicable

III. Core competitive-ness analysis

1. Industry-leading safety management capabilities

The company has the industry-leading safety management model and safety management level, and the ten-year rolling value of the ten thousand hour rate of accident proneness has ranked first in the industry. Excellent safety management capabilities enable the company to provide passengers with a safer journey, effectively reduce the company's operational risk, and shape the company's safe brand image. At the same time, under the supervision of "safety first" in the civil aviation industry, the good safety records have also brought opportunities for the company to take the lead in applying new technologies in the industry and play a leading role in promoting the safety control level in the industry.

2. Young and uniform fleet and high aircraft utilization

At the end of the reporting period, the company operated a total of 113 airplanes of Boeing 737ng model, with an average age of 4.9 years, the daily utilization rate of aircraft ranked first among the medium-sized and above airlines in the industry. The single Boeing model provided price advantages for the company in terms of purchase price and air material consumption, various resources could be dynamically adjusted and deployed so as to maximize the efficiency. The young fleet could maintain a low failure rate and a high attendance rate and reduce the cost of operations, maintenance, and other aspects, so that the company's cost control ability could maintain the industry-leading level.

3. Excellent internal execution

The company has a young and efficient workforce. The number of “80s” employees accounts for more than 86%, and the strategy and measures are implemented effectively. The company has formed a company-specific management mode through continuous innovation and accumulation and by focusing on safety, efficiency, service and operation. In 2017, the company won the 17th National Quality Award and became the first and only award-winning aviation company in the civil aviation industry, which proved the company's management level and execution efficiency.

4. Incentive and competitive corporate culture brand

By many years of practice, the company has formed the corporate values of “harmony, safety, innovation, and kindness” and the brand culture of “Honest Shanhang”. Qilu’s Confucianism and Shandong people’s character of “promise keeping and honor credibility” have been integrated into the company and widely recognized by the company's employees, which has also formed a resonance with the social mainstream’s recognition to honesty and kindness. Through the promotion of “honest and kind” culture and brand, the company can better convey the service value to the passengers, gain the trust of customers, constantly enhance the passengers' sense of identity to the company, and create greater value for the passengers. According to the passenger complaint rate of airlines published by the Civil Aviation Administration of China, the company has maintained the lowest for three consecutive years, and the company has been honored as the airline with the best civil aviation services for three consecutive years.

Core competitive-ness of the Company has no changes in the period

Section IV Discussion and Analysis of Operation

1. Introduction

In 2017, the company maintained a healthy development trend with steady progress, overall completed the intended objectives of various tasks of production and management, achieved a total of 3 million hours of safe flight, and won the “Three Stars Award” for safe flight of civil aviation; completed the annual benefit target, successfully established the Beijing Branch Office, made a major breakthrough in entering the hub market; and won the “China Quality Award”.

- **The security situation remained stable.** The transportation business totally guaranteed about 401,600 hours of safe flight and 193,900 flights, an increase of 13.8% and 14.0% respectively on a year-on-year basis. No company-caused aviation accidents or the above unsafe incidents occurred. The safety quality evaluation index was 10.54. A total of 194,935 flights were guaranteed, the average flight punctuality rate was 70.16%, a decrease of 9.92% on a year-on-year basis; successfully guaranteed 45 flights for important missions and dedicated class III or above, and the flight punctuality rate was 87%.

- **Successfully completed the benefit goals.** Completed a total transport turnover of 3,230 million ton kilometers, passenger transport volume of 23,474,000 person-time, and cargo and mail transport volume of 165,000 tons (including wet lease), an increase of 21.1%, 22.2%, and 6.1% respectively on a year-on-year basis; achieved operating income of 16484.71 million Yuan, and total profit of 650.92 hundred million Yuan; passenger load factor was 83.2%, an increase of 5.3% over the same period of last year, and the cargo and mail load factor was 40.8%, a decrease of 0.2% on a year-on-year basis.

- **The quality of service had a steady rise.** The CSS (Customer Satisfaction Survey) overall achieved a score of 96.37, an increase of 0.04 over the same period of last year. The effective customer complaint rate was 0.13 pieces per ten thousand person-times, a decrease of 0.03 pieces per ten thousand person-times on a year-on-year basis; the annual effective complaint rate has maintained the lowest among the major airlines for the fourth consecutive year according to the publication of Civil Aviation Administration.

The civil aviation authority media service ranked No. 4, and won the “Best Airline for Civil Aviation Service” award. The company has been awarded as China Top 500 Most Valuable Brand for ten consecutive years with the brand value of 34.645 billion Yuan, an increase of 6.117 billion Yuan over the previous year, ranking No. 100.

The company mainly carried out the following work:

(i) Continue to carry out security improvement and rectification to consolidate the security foundation

The first is to implement the concept of safety development and pay close attention to the implementation of safety responsibilities. Conscientiously implement the spirit of General Secretary Xi Jinping on the important instructions for safety work; properly handle the relationship between safety and development, safety and efficiency, speed and scale, speed and quality. The second is to further improve the security system and continue to increase the management and control efforts to grass-roots security. The third is to further promote the construction of “three bases” and ensure the security assurance capabilities. The fourth is to maintain zero tolerance for potential safety risks and continuously improve the risk prevention and control capabilities. Strengthen the prevention management, normalize the safety inspections, and focus on the style development, process improvement and organization optimization for problems so as to cure the hidden dangers at the source. Successfully complete the air transportation for major events such as the 19th National Congress of the Party and the BRICS Summit. Maintain a stable production trend in public safety, fire safety, internal security, vehicle safety, etc.

(ii) Actively respond to changes in the operating environment, and the order of flight production is basically stable

The first is to focus on the source and process management, and strengthen the control of the normality of flights. Strengthen the control of important flights and focus on improving the regularity and accuracy of the first flight. The second is to make use of the advantages of information systems and new technologies to improve the performance of operational control. Continue to advance the HUD (Head Up Display) technology applications, achieve RVR (Runway Visual Range) 150 meters to take off for the first time in the industry. The third is to strengthen the construction of emergency response system and improve its disposal ability.

(iii) Strive to increase income in peak season and reduce losses in off season, and realize the overall benefit targets

The first is to accomplish the resource allocation and capacity distribution, and optimize the air route network structure. Actively fight for resources at all times and strengthen the main base; the successful establishment of Beijing Branch Office has created conditions for increasing investment in Beijing market; Optimize the fleet structure and complete the disposal of two CRJ-700 flights. The second is to improve the revenue control and promote the core competitiveness. Strengthen the application of revenue management informatization tools and achieve the closed-loop management of the entire sales process. Classify the management and control to air routes from multiple perspectives such as market sources, competitors, etc., and strengthen the overall optimization on the disadvantaged routes, loss-making routes, and inefficient routes; achieve the seat-kilometer income of 0.3852 Yuan, an increase of 0.0183 Yuan on a year-on-year basis through series of revenue-increasing measures, which reversed the decline of seat-kilometer income in successive years. The third is to improve the resource allocation level and achieve the efficient and orderly production organization. Under the premise of meeting the requirements of the bureau, scientifically reduce the air route and station-crossing time, strengthen the integrated management of crew resources and the refine the management of maintenance plans so as to improve the availability of aircraft, the execution rate of flights, and the attendance rate of crews. The fourth is to strengthen the cost management and control which has achieved good results. Scientifically formulate the cost control measures and establish the regular scheduling work mechanisms. Monitor the production costs for major projects, actively promote the energy-saving and emission reduction, and vigorously reduce the administrative costs. The fifth is to adhere to the open and shared development and achieve better collaborations and benefits. Take advantage of Air China's collaborative advantages and continuously deepen the collaborations in marketing, safe operation, aircraft maintenance, service management, IT support, strategic collaboration, resource sharing, and so on.

(iv) Continue to strengthen service management and control, and service brand building has achieved initial success

The first is to strengthen system design and focus on process management. Refine and precipitate the “Honest and Kind Shandong Airlines Service Quality Management Model”, and launch the “Service Evaluation Index”. The second is to carry out the special actions for service standardization and promotion, and continue to improve the key links. The third is to do a good job in brand building and dissemination, and enrich the connotation of “Honest and Kind Shandong Airlines”. Formulate and implement the air and ground kindness cultural reflection program, establish the “Air Confucius School”, and carry out a series of special service activities. Widely spread the brand building of honest and kind through media promotion conferences, industry service summits and other channels so as to constantly promote the brand influence of “Honest and Kind Shandong Airlines”.

Operation data summary:

Index	2017	2016	Changes
Total t-km load rate (10 thousand t-km)	322965.1	266710.4	21.1%
Volume of passenger traffic (10 thousand passengers)	2347.4	1920.5	22.2%
Cargo & mail traffic volume (10 thousand tons)	16.5	15.6	6.1%
Flying km (one million km)	241.1	212.6	13.4%
Flying hours(10 thousand hours)	40.2	35.3	13.8%
Number of flight (10 thousand times)	19.4	17.0	14.0%
PLF(passenger load factor)	83.2	77.9	5.3 percentae points up
Cargo & Mail OLF (overall load factor)	40.76	40.94	0.2 percentage points down

In the Period, totally fifteen B737-800 aircrafts are introduced by the Company and two B737-300 aircrafts are out of services. Up to 31 December 2017, the Company operates 113 aircrafts in total and the fleet distribution below:

Model	Numbers	Average service age (Year)
737-700	3	4.9- year
737-800	108	
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

	2017		2016		Increase/decrease y-o-y
	Amount	Ratio in operation revenue	Amount	Ratio in operation revenue	
Total of operation revenue	16,484,713,152.23	100%	13,742,365,545.56	100%	19.96%
According to industries					
Air transport service	15,987,913,698.16	97.00%	13,301,825,036.11	96.80%	20.19%
Logistics freight service	24,772,217.54	0.15%	33,858,517.79	0.25%	-26.84%
Hotel & catering service	31,830,886.10	0.19%	41,650,983.82	0.30%	-23.58%
Training service	13,786,734.97	0.08%	19,674,789.18	0.14%	-29.93%
Food processing service	2,134,598.96	0.01%			
Other	424,275,016.50	2.57%	345,356,218.66	2.51%	22.85%
According to region					
Domestic	15,029,614,864.79	91.17%	12,487,817,925.39	90.88%	20.35%
International	1,253,989,365.56	7.61%	1,067,006,400.00	7.76%	17.52%
Area	201,108,921.88	1.22%	187,541,220.17	1.36%	7.23%

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

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	15,987,913,698.16	14,693,702,562.53	8.09%	20.19%	24.40%	3.12 percentage points down
According to region						
Domestic	15,029,614,864.79	13,168,277,085.76	12.38%	20.35%	25.09%	3.32 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

In RMB

Industry classification	Item	2017		2016		Y-o-y changes
		Amount	Ratio in operation cost	Amount	Ratio in operation cost	
Air transport service	Aviation fuel consumption	3,975,968,790.25	27.06%	2,762,047,363.06	23.38%	43.95%
	Take-off & landing fees	2,209,904,860.68	15.04%	1,733,798,086.35	14.68%	27.46%
	Employee's salary	2,015,771,158.20	13.72%	1,688,090,330.49	14.29%	19.41%
	Depreciation of aircraft and engine	783,208,543.20	5.33%	739,645,989.16	6.26%	5.89%
	Other	5,708,849,210.20	38.85%	4,887,612,747.24	41.39%	16.80%
	Total	14,693,702,562.53	100.00%	11,811,194,516.30	100.00%	24.40%
Logistics freight service	Employee's salary	18,594,324.87	95.87%	15,621,276.22	76.30%	19.03%
	Other	800,788.09	4.13%	4,853,089.61	23.70%	-83.50%
	Total	19,395,112.96	100.00%	20,474,365.83	100.00%	-5.27%
Hotel & catering service	Raw materials	17,287,940.59	67.40%	26,422,465.79	73.68%	-34.57%
	Employee's	5,386,645.55	21.00%	723,305.79	2.02%	644.73%

	salary					
	Other	2,975,416.55	11.60%	8,711,903.05	24.30%	-65.85%
	Total	25,650,002.69	100.00%	35,857,674.63	100.00%	-28.47%
Training service	Depreciation	4,849,480.27	21.41%	4,849,479.99	22.36%	0.00%
	Other	17,804,974.27	78.59%	16,837,587.39	77.64%	5.75%
	Total	22,654,454.54	100.00%	21,687,067.38	100.00%	4.46%
Food processing service	Air food supply	4,954,308.54	36.49%			
	Employee's salary	1,730,200.73	12.74%			
	Other	6,893,404.16	50.77%			
	Total	13,577,913.43	100.00%			

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

①Shandong Jinping Air Foods Co., Ltd., is the wholly-owned subsidiary of the Company, mainly operates air food supply and catering service. The enterprise included in consolidate scope of the Company since 9th October 2017

②Shandong Airlines Qingdao Food Co., Ltd., is the wholly-owned subsidiary of the Company, mainly operates production and processing of the air food and delivery service. The enterprise included in consolidate scope of the Company since 9th October 2017

(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)	272,623,041.04
Proportion in total annual sales volume for top five clients	1.37%
Ratio of related parties in annual total sales among the top five clients	0.76%

Information of top five clients of the Company

Serial	Name	Sales (RMB)	Proportion in total annual sales
1	Unit 1	151,623,883.00	0.76%
2	Unit 2	37,120,000.00	0.19%
3	Unit 3	36,114,158.04	0.18%
4	Unit 4	28,290,000.00	0.14%
5	Unit 5	19,475,000.00	0.10%
Total	--	272,623,041.04	1.37%

Main suppliers of the Company

Total purchase amount from top five suppliers (RMB)	2,799,696,333.05
Proportion in total annual purchase amount for top five suppliers	28.63%
Ratio of related parties in annual total sales among the top five suppliers	0.00%

Information of top five suppliers of the Company

Serial	Name	Purchases (RMB)	Proportion in total annual purchase
1	Unit 1	1,292,778,054.68	13.23%
2	Unit 2	607,478,190.03	6.22%
3	Unit 3	389,635,334.50	3.99%
4	Unit 4	265,182,993.78	2.71%
5	Unit 5	244,621,760.06	2.48%
Total	--	2,799,696,333.05	28.63%

3. Expense

In RMB

	2017	2016	Y-o-y changes	Note
Sales expense	781,723,562.39	674,961,176.53	15.82%	
Management expense	395,391,062.69	333,943,862.70	18.40%	
Financial expense	-1,229,260.20	261,876,586.15	-100.47%	Mainly for the exchange earnings arising from appreciation of the RMB against US Dollars in the Period, and at same period of last year, it was exchange loss

4. R&D investment

☐ Applicable ☒ Not applicable

5. Cash flow

In RMB

Item	2017	2016	Y-o-y changes
Subtotal of cash in-flow from operation activity	18,057,430,646.97	15,542,904,192.31	16.18%
Subtotal of cash out-flow from operation activity	16,203,012,524.74	13,115,848,203.89	23.54%

Net cash flow from operation activity	1,854,418,122.23	2,427,055,988.42	-23.59%
Subtotal of cash in-flow from investment activity	26,154,140.13	24,837,956.42	5.30%
Subtotal of cash out-flow from investment activity	2,287,592,904.56	2,171,501,481.76	5.35%
Net cash flow from investment activity	-2,261,438,764.43	-2,146,663,525.34	-5.35%
Subtotal of cash in-flow from financing activity	1,857,203,989.51	1,517,674,080.70	22.37%
Subtotal of cash out-flow from financing activity	1,669,973,071.08	2,463,873,917.37	-32.22%
Net cash flow from financing activity	187,230,918.43	-946,199,836.67	-119.79%
Net increased amount of cash and cash equivalent	-247,670,766.35	-624,143,943.95	-60.32%

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

Item	2017	2016	+, -	Reason for changes
Tax return received	20,098,154.49		100.00%	The VAT rebate received in the period
Net cash received from disposal of fixed, intangible and other long-term assets	3,413,604.19	1,819,289.52	87.63%	The revenue from disposal of non-current assets increased over that of last year
Cash received from loans	400,000,000.00	296,000,000.00	35.14%	Loans obtained from financing increased in the period
Cash paid for debts	1,279,307,411.71	2,074,680,400.72	-38.34%	The principal repaid for loans in the period decreased
Impact on cash and cash equivalent from changes of exchange rate	-27,881,042.58	41,663,429.64	-166.92%	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 2017		End of 2016		Ratio changes	Notes of major changes
	Amount	Ratio in total assets	Amount	Ratio in total assets		
Monetary fund	543,584,920.30	4.07%	791,255,686.65	6.21%	2.14 percentage points down	Balance of the monetary fund only reflects the amount at some point of time, and the changes will related with cash in-flow, out-flow and times
Account receivable	550,905,199.28	4.13%	322,774,169.85	2.53%	1.59 percentage points up	The receivable amount of wet rent are not for settlement in the period and note receivables increased
Inventory	83,924,185.64	0.63%	120,965,243.56	0.95%	0.32 percentage points down	The air material expendable of 733 plane are disposed in the period
Fixed assets	6,904,643,268.14	51.71%	7,093,233,151.79	55.67%	3.96 percentage points down	
Construction in progress	2,737,166,681.62	20.50%	2,250,500,462.35	17.66%	2.84 percentage points up	
Long-term loans	1,217,610,831.16	9.12%	1,799,601,767.54	14.12%	5.00 percentage points down	Part of the principal are repaid in the period
Other current assets Other	185,809,122.83	1.39%	59,685,735.09	0.47%	0.92 percentage points up	The retention of VAT for 4Q of the year has major increased from a year earlier
Financial liability measured by fair value and with variation reckoned into current gains/losses	3,607,390.15	0.03%	1,155,815.80	0.01%	0.02 percentage points up	Fair value of the interest rate swap changed in the period
Interest payable	1,324,391.18	0.01%	2,430,456.90	0.02%	0.01 percentage points	Part of the principal are repaid in the period, thus the interest declined correspondingly

					down	
Dividend receivable	602,306.96	0.00%	11,940.00	0.00%	0.004 percentage points up	The dividend which has not been paid at period-end for purchasing subsidiary in the period
Non-current liabilities due within one year	622,127,224.77	4.66%	987,644,012.02	7.75%	3.09 percentage points down	The long-term loans due within one year decreased
Deferred income	111,638,302.81	0.84%	58,439,521.16	0.46%	0.38 percentage points up	The operation lease from plane sale-leaseback in the period has not achieved a gains/losses, balance at period-end increased
Deferred income tax liability	63,560,578.27	0.48%	45,880,020.58	0.36%	0.12 percentage points up	The fair value of financial assets available for sale increased at end of the Period
Other comprehensive income	178,494,839.48	1.34%	131,880,061.76	1.04%	0.30 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

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	190,210,082.34	65,505,917.06	249,025,999.40				255,715,999.40
Subtotal of financial assets	190,210,082.34	65,505,917.06	249,025,999.40				255,715,999.40
The above total	190,210,082.34	65,505,917.06	249,025,999.40				255,715,999.40
Financial liability	1,155,815.80	2,451,574.35					3,607,390.15

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

Investment in the Period (RMB)	Investment at same period of last year (RMB)	Changes (+,-)
38,100,600.00	0.00	0.00%

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

(1) Security investment

The Company does not have security investment in the period

(2) Derivative investment

The Company does not have derivative investment in the 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

Main subsidiary of the Company and stock-jointly enterprise with over 10% impact on net profit

In RMB

Company name	Type	Main business	Register capital	Total assets	Net Assets	Operating revenue	Operating profit	Net profit
Shandong Jinping Air Food Co., Ltd.	Subsidiary	Air food supplying, catering service	5,094,545.00	35,895,965.12	22,065,792.08	12,920,690.75	3,774,193.24	2,820,876.05
Shandong Airline Qingdao Food Co., Ltd.	Subsidiary	Souvenir processing; production and processing of the air foods and delivery service	3,380,000.00	23,280,211.09	17,348,793.29	10,051,641.68	1,700,690.23	1,257,170.58
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	128,932,317.50	62,373,176.41	47,504,962.08	9,766,210.26	7,315,460.53
Qingdao Feisheng International Aviation Technology Development Training Co., Ltd.	Subsidiary	Pilot training	51,545,500.00	70,688,441.39	68,257,531.25	4,328,614.20	-2,444,314.09	-2,272,206.28
Shandong Rainbow Corporate Aircraft Co., Ltd.	Stock-jointly enterprise	Air transport	50,000,000.00	1,843,824.50	-165,921,988.83	0.00	-2,813.17	-2,813.17

Particular about subsidiaries obtained or disposed in report period

Company name	Way of subsidiary obtained or disposed in the period	Impact on operation as a whole and performance
Shandong Jinping Air Food Co., Ltd.	Obtained by enterprise combined not under	Achieved 2.8209 million Yuan from

	the same control	October to December in 2017
Shandong Airline Qingdao Food Co., Ltd.	Obtained by enterprise combined not under the same control	Achieved 1.2572million Yuan from October to December in 2017

VIII. Structured vehicle controlled by the Company

☐ Applicable ☒ Not applicable

IX. Prospect for future development of the Company

(I) Industry structure and trend

At present, China's air transport industry has formed a competitive landscape in which Air China, China Eastern Airlines, China Southern Airlines and Hainan Airlines which are subordinate to the four major aviation groups, and local airlines, private airlines, and foreign airlines coexist. The four major aviation groups have occupied a relatively large share of the domestic air passenger and cargo transportation market, while other regional airlines and characteristic airlines have strong market competitiveness in their focused market segments.

According to the Civil Aviation Industry Development Statistics Bulletin of 2016, by the end of 2016, China had a total of 59 transport airlines, an increase of 4 over the previous year, there were 44 state-owned holding companies and 15 private and private holding companies by different types of ownership; there were 8 cargo airlines, 11 Sino-foreign joint venture airlines, and 7 listed companies among all transport airlines.

According to CAA's development forecast, during the "13th Five-Year Plan", China's total air traffic volume, passenger traffic volume, fleet size and other indicators will maintain a growth rate of around 10%, reaching 142 billion ton kilometers, 720 million person-times and 4,600 transport aircrafts respectively.

The development trend of the civil aviation industry increasingly shows eight obvious characteristics: the first is fierce competition: the newly-established airlines have increased, the existing company's capacity has increased, and the airspace reform has been slow, which have intensified the industry competition. The second is the networking of high-speed rail has increased the impact on civil aviation. The third is the domesticization of international competition, foreign airlines have entered the domestic market, domestic companies have international development, and the market has overlapping competition. The fourth is the popularity of passengers, the proportion of official and business travelers has decreased, and the passengers for traveling and visiting have increased greatly. The fifth is the decreasing price of air tickets: the supply and demand situation and changes in passenger structure lead to lower prices, and the industry has entered a meager profit era. The sixth is the cost rigidity: the cost of major items such as aircraft and labor has increased rigidly. The seventh is the electronization of sales: the rapid popularization of mobile internet technology applications has made fundamental changes in sales patterns. The eighth is the channel obfuscation: under the e-commerce model, the source of passengers has been obscured and higher requirements have been made to the precision marketing.

(II) The company's development strategy

1. Vision, Mission, Values

Vision of the company – "customer preference, value leading, harmony and peace"

Mission of the company – "set up air bridges, enhance customer value, and serve social development"

Values of the company – "harmony, peace, innovation, kindness"

2. The 13th Five-Year Plan strategy

Adhere to "five unswervingly": unswervingly adhere to the stable operation, grasp the relationship between scale and efficiency, speed and quality, and master the relationship between main business and auxiliary business; unswervingly adhere to the structural optimization, continue to optimize the fleet structure, route structure, manpower structure, asset structure and capital structure,

promote the scientific allocation of resources and the efficient use of resources; unswervingly adhere to the ability enhancement, based on the scale operation needs, improve the operation guarantee capabilities, sustained profitability, risk prevention capabilities and control capacity of various levels, and promote the continuous improvement of operation and management; unswervingly adhere to the innovation and development, vigorously implement the concept innovation, institutional innovation, technological innovation, and product innovation, further stimulate the vitality of organizations by innovation-driven factors, improve the labor productivity, and promote enterprises' connotative and intensive development; unswervingly adhere to the normative management, resolutely implement the new ideas and concepts of the Party Central Committee to manage and govern the country, take the initiative to adapt to the new normal of economic development, adhere to the scientific development, and persist in administering the enterprise according to the law.

Enter the mainstream market, set up branch offices and operating bases at the first-line airline hubs, and enter Beijing New Airport. Innovate the business model, further improve the layout of industry chain, significantly optimize the income structure of main business, and increase the proportion of direct sales and the proportion of e-commerce sales. Take e-commerce as the core to promote the transformation of marketing model; develop the air Internet and E projects; optimize the business structure and income structure.

Take security control as the base, innovative mechanisms as the core, e-commerce operations, service improvement and cost control as the guide, and passionate organizational culture as the guarantee to build the competitiveness for Shandong Airlines' future development.

(III) Business plan

The company's thinking of work for 2018 is to be guided by the ideology of socialism with Chinese characteristics in the new era of Xi Jinping, thoroughly implement the spirit of the Party's 19th National Congress and the Central Economic Working Conference, adhere to the working principle of stability and progress, take the structural reform at the supply side as the main line, fully implement the new development concepts, focus on the quality and problems comprehensively improve safety, operations, benefits, and service levels, actively promote the management reform and institutional innovation, strive to create relative competitive advantages, and create a new situation of high-quality development.

We must complete the following work: 1. Lay a solid foundation, improve the capabilities, and fully optimize the safety management mechanism; 2. Improve the system, make scientific decisions, and strive to improve the quality of production and operations; 3. Strive for resources, improve efficiency, and endeavor to improve the overall benefit level; 4. Design systematically, pay attention to details, and strive to build a good service brand; 5. Strengthen the guidance, enhance the collaboration, and effectively improve the comprehensive management capabilities and enhance the overall management efficiency.

(IV) Possible risks

1. The risk of macroeconomic fluctuations

The prosperity of civil aviation industry is closely related to the domestic and international macroeconomic development. The macroeconomic prosperity directly affects the development of economic activities, the disposable income of residents and the increase or decrease of import and export trade volume, and thus affects the demand for air passenger transport and air cargo transport.

2. Competition risk

With the gradual opening of the domestic civil aviation market, the competition among the four major aviation groups, foreign airlines, and small and medium-sized airlines in terms of scale, flight schedules, prices, and services has become increasingly fierce, the contradiction between the expansion of the industry's fleet and the lack of market resources needs to be digested, which poses greater challenges to the company's business model and management level.

3. The risk of aviation oil price fluctuations

The aviation oil cost is the company's most important cost expenditure. The fluctuations in the international crude oil price and the adjustment to the domestic aviation oil price of the National Development and Reform Commission will have a greater impact on the company's profitability.

4. The risk of exchange rate fluctuations

The debt structure of the company is mainly in U.S. dollars, and the aircraft rents, aircraft maintenance, and other major costs are mainly paid in U.S. dollars, the RMB devaluation shall increase the company's costs and exchange losses.

5. Other force majeure risks

The external environment has a great influence on the civil aviation transportation, the natural disasters, sudden public health incidents, terrorist attacks and political turmoil will affect the normal operations of airlines and then will adversely affect the company's production and operations.

X. Reception of research, communication and interview

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

Time	Way	Type	Basic situation index of investigation
2017-06-15	Field research	Other	Reception of news media, legal person's shareholders and individual investor, operation of the Company and annual report required
2017-06-16	Field research	Institution	Reception of institution investor, well-known operation of the Company without materials required
Reception (times)			2
Number of hospitality			1
Number of individual reception			1
Number of other reception			0
Disclosed, released or let out major undisclosed information		No	

Section V. Important 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

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 2016 was approved in 2016 Annual General Meeting dated 15 June 2017, that 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. Total dividend of 120 million Yuan, and completed on 8 November 2017.

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)

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 2016;

2017: 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 2017;

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	Ratio in net profit attributable to common stock shareholders of listed company	Amount for cash bonus by other ways	Proportion for cash bonus by other ways
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		consolidation statement for bonus year	contained in consolidation statement		
2017	100,000,000.00	490,353,408.15	20.39%	0.00	0.00%
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%

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

Bonus shares for every 10-share (Share)	0
Dividends for every 10-share (RMB) (Tax included)	2.50
Shares transferred from every 10 shares (Share)	0
Equity base of distribution plan (Share)	400,000,000
Total cash dividend(RMB) (Tax included)	100,000,000
Distributable profits (RMB)	3,139,696,418.26
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

Commitments	Acceptor	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 an equity transfer agreement with SDA, that is promise "to avoiding horizontal competition with the Company through reasonable business arrangement"; in December, being approved, the equity assignee was replaced by Air China, and all rights and	2004-12-06	Long-term effective	Strictly implement timely

			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 assets 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

On August 29, 2017, the company convened the 3rd temporary meeting of the sixth board of directors, which reviewed and passed the Proposal on Changes in Accounting Policies. According to the requirements of the “Accounting Standards for Business Enterprises No. 16 - Government Subsidies (Revision 2017) revised by the Ministry of Finance, the company revised the presentation of the financial statements, adjusted the government subsidies relate to daily activities and revenue occurred after January 1, 2017 from the “non-operating income” item in the income statement to the “other income” item in the income statement, the change has no significant impact on the company's financial situation, operating results and cash flow.

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

1. Shandong Jinping Air Foods Co., Ltd., is the wholly-owned subsidiary of the Company, mainly operates air food supply and catering service. The enterprise included in consolidate scope of the Company since 9th October 2017
2. Shandong Airlines Qingdao Food Co., Ltd., is the wholly-owned subsidiary of the Company, mainly operates production and processing of the air food and delivery service. The enterprise included in consolidate scope of the Company since 9th October 2017

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

Name of domestic accounting firm	Ruihua CPAs (LLP)
Remuneration for domestic accounting firm (in 10 thousand Yuan)	105
Continuous life of auditing service for domestic accounting firm	5
Name of domestic CPA	Pan Xinhua, 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

Take consistency into consideration, the Company also engaged Ruihua CPAs (LLP) as the audit institution for internal control for year of 2017, and auditing efficiency of internal control and issued the audit report of internal control of 2017 for the Company. The auditing charge for internal control was RMB 0.45 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

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
Air China	2nd largest shareholder	Offering labor service	Revenue of land service	Market price	4,647,871.64	464.79		398.9	Y	Cash settlement	4,647,871.64	2017-03-29	2017-05
Air China	2nd largest shareholder	Offering labor service	Simulator maintenance/revenue from house leasing	Market price	4,402,183.15	440.22		514.57	N	Cash settlement	4,402,183.15	2017-03-29	2017-05
Air China	2nd largest shareholder	Offering labor service	Revenue from aerial material rented/sales	Market price	615,823.14	61.58		77	N	Cash settlement	615,823.14	2017-03-29	2017-05
Air China	2nd largest shareholder	Offering labor service	Non-routine maintenance/revenue from air	Market price	179,792.93	17.98		21.7	N	Cash settlement	179,792.93	2017-03-29	2017-05

			service										
Air China	2nd largest shareholder	Offering labor service	Revenue from agency commission	Market price	5,507,881.05	550.79		890	N	Cash settlement	5,507,881.05	2017-03-29	2017-05
Air China	2nd largest shareholder	Labor service received	Land service costs	Market price	35,276,005.07	3,527.6		4,020	N	Cash settlement	35,276,005.07	2017-03-29	2017-05
Air China	2nd largest shareholder	Labor service received	Maintenance cost	Market price	6,229,755.39	622.98		800	N	Cash settlement	6,229,755.39	2017-03-29	2017-05
Air China	2nd largest shareholder	Labor service received	Cost for purchasing/lease the aerial material	Market price	77,366.20	7.74		21	N	Cash settlement	77,366.20	2017-03-29	2017-05
Air China	2nd largest shareholder	Labor service received	Cost of agency commission	Market price	22,489,782.15	2,248.98		1,600	Y	Cash settlement	22,489,782.15	2017-03-29	2017-05
Air China	2nd largest shareholder	Labor service received	Cost of irregular flight and cost for jointing the team	Market price	17,266,287.30	1,726.63		2,000	N	Cash settlement	17,266,287.30	2017-03-29	2017-05
Air China	2nd largest shareholder	Labor service received	Catering	Market price	1,322,605.55	132.26		120	Y	Cash settlement	1,322,605.55	2017-03-29	2017-05
Air China	2nd largest shareholder	Other related transaction	Wet lease	Agreement price	136,598,092.82	13,659.81		20,000	N	Cash settlement	136,598,092.82	2017-03-29	2017-05
Air China	2nd largest shareholder	Other related	Air route	Agreement	39,808.59	3.98		5	N	Cash settlement	39,808.59	2017-03-29	2017-05

	shareholder	transaction	joint operation	price						nt			
Air China	2nd largest shareholder	Other related transaction	Frequent passenger cooperation	Agreement price	54,000,000.00	5,400		7,000	N	Cash settlement	54,000,000.00	2017-03-29	2017-05
Air China	2nd largest shareholder	Other related transaction	Freight joint operation	Agreement price	6,567,764.12	656.78		600	Y	Cash settlement	6,567,764.12	2017-03-29	2017-05
Total				--	--	29,522.12	--	38,068.17	--	--	--	--	--
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)				N/A									
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 major related transactions

In order to improve the service quality of airline catering, expand the business scope, and extend the industrial chain, the company acquired the stake of Shandong Jinping Aviation Food Co., Ltd. and Shandong Airlines Qingdao Food Co., Ltd. with cash of 38,099,700 Yuan. The related transaction was reviewed and passed at the fourth extraordinary meeting of the sixth board of directors in 2017 held on September 7, 2017. After the transaction was completed, Jinping Food and Qingdao Food became the wholly-owned subsidiaries of the company and were included in the scope of the company's consolidated statements.

Related inquiries of major related transactions interim report disclosure website

Name of temporary notice	Disclosure date	Website for disclosure
Acquisition of the Shandong Jinping Air Food	2017-09-08	Juchao Website:(www.cninfo.com.cn)

Co., Ltd. and Shandong Airline Qingdao Food Co., Ltd .		
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XVII. Major contract and implantation

1. Trusteeship, contract and leasing

(1) Trusteeship

The Company does not have trusteeship in the period

(2) Contract

The Company do not have contract in the period

(3)Leasing

The Company does not have leasing business in the period

2. Major guarantee

No guarantee for the Company in reporting period

3. Entrust others to cash asset management

(1) Entrust financing

No entrust financing in the period

(2) Entrust loans

No entrust loans in the period

4. Other material contracts

No other material contracts for the Company in reporting period

XVIII. Social responsibility

1. Execution of social responsibility

The Company pay high attention to the construction of social responsibility, and serving the development of social as a mission, 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.

In terms of safety production, the company further deepened the construction of safety production system, constantly pursued the safety and reliability of various elements such as people, machines, and objects in the production process, actively prevented in advance, strengthened the process control, and brought various insecurity factors under control. Based on the state's laws, regulations, and standards concerning safe production and combining with the own business scope, degree of danger, nature of work, and actual conditions, the company established and improved the safety production rules and regulations system by taking the safety production responsibility system as the core. The company further strengthened the construction of the safety production supervision and management system by the application of the SMS safety information management platform.

In terms of service quality management, the company focused on comprehensively promoting and implementing the service strategy management point of "customer-oriented, continue to promote five-star work", took the continuous development of five-star service as the goal, fully implemented the customer-oriented and problem-oriented work concepts and requirements, refined management, paid close attention to details, created brand, and continuously innovated products, and attached importance to customer complaints and feedback to meet customer needs. A number of service indicators improved significantly, and customer satisfaction and loyalty continued to increase.

In terms of energy saving and emission reduction, the company deeply implemented the deployment and instruction spirit of the Civil Aviation Administration and local governments at all levels on energy saving and emission reduction work, continued to tap into the energy saving potential from the production and operation links, increased the efforts in energy conservation and emission reduction, promoted various measures for energy conservation, and reduced the carbon emissions of aircrafts. The company formulated assessment and incentive measures for energy saving and emission reduction work, continuously revised the energy conservation and emission reduction manuals, strengthened process control, and carried out a number of energy conservation and emission reduction work such as air route optimization, ground power and bridge-mounted equipment use, aircraft slimming, and selecting energy saving aircrafts which achieved good results. The company monthly submitted the energy consumption data to the municipal government and civil aviation administration and regularly monitored the completion of energy consumption indicators. In 2017, the company saved a total of 48,021 tons of fuel and saved costs of about 297 million Yuan, which not only reduced the burden on company development, but also improved the quality of the company's development. The company cooperated with the local government in energy conservation work, actively applied for the local government's energy conservation awards, and obtained the honorary title of "2016 Energy Conservation Advanced Enterprise of Shandong Province", actively participated in the 2017 energy conservation publicity week activity of Jinan City, demonstrated the company's achievements in energy conservation and emission reduction to the outside world, and transmitted the green travel and low carbon environmental protection concept to the public.

As a listed company, protecting the interests of shareholders, especially the small and medium shareholders, is the company's most basic social responsibility. According to the Company Law, Securities Law, and Corporate Governance Guidelines for Listed Companies, the company continuously improved its corporate governance structure, established a sound internal control system, and effectively protected the legitimate rights and interests of all shareholders, especially the small and medium shareholders.

The company attached importance to the reasonable investment returns to investors and also gave consideration to the sustainable development of enterprise. From 2014 to 2016, the accumulated cash dividends amounted to 300 million Yuan in three years.

In 2018, the company will continue to uphold the people-oriented business philosophy, and strive to create the core values of harmony, peace, innovation, and kindness. The company will also attach importance to the fulfillment of social responsibilities, while creating value for shareholders, actively undertake social responsibilities in the process of production and operation and business development, establish a green and low-carbon concept, strengthen the awareness of energy conservation and emission reduction, and realize the health and harmonious development between company and employees, company and society, and company and environment.

2. Execution of social responsibility of targeted poverty alleviation

The Company did not has targeted poverty alleviation occurred in the period and no further plans either temporary

3. Environmental protection

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

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	Capitaliza tion 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	15,396	Total common stock shareholders at end of last month before annual report disclosed	15,481	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		
NORGES BANK	Foreign legal person	0.87%	3,498,479	0	0	3,498,479		
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.74%	2,960,917	0	0	2,960,917		
WANXIANG	Foreign	0.64%	2,549,500	59500	0	2,549,500		

INTERNATIONAL INVESTMENT CORPORATION	legal person							
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.43%	1,735,020	0	0	1,735,020		
Hou Chunhu	Domestic nature person	0.42%	1,693,945	0	0	1,693,945		
Chen Jingjian	Domestic nature person	0.39%	1,554,400	0	0	1,554,400		
ISHARES CORE MSCI EMERGING MARKETS ETF	Foreign legal person	0.37%	1,463,824	-57868	0	1,463,824		
Wang Jingqing	Domestic nature person	0.31%	1,249,953	1249953	0	1,249,953		
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	
NORGES BANK			3,498,479			Domestically listed foreign shares	3,498,479	
VANGUARD EMERGING MARKETS STOCK INDEX FUND			2,960,917			Domestically listed foreign shares	2,960,917	
WANXIANG INTERNATIONAL			2,549,500			Domestically	2,549,500	

INVESTMENT CORPORATION		listed foreign shares	
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,735,020	Domestically listed foreign shares	1,735,020
Hou Chunhu	1,693,945	Domestically listed foreign shares	1,693,945
Chen Jingjian	1,554,400	Domestically listed foreign shares	1,554,400
ISHARES CORE MSCI EMERGING MARKETS ETF	1,463,824	Domestically listed foreign shares	1,463,824
Wang Jingqing	1,249,953	Domestically listed foreign shares	1,249,953
Yao Ming	1,165,481	Domestically listed foreign shares	1,165,481
Haitong International Securities Company Limited-Account Client	784,059	Domestically listed foreign shares	784,059
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 10 un-restrict shareholders of circulation share, and is unknown whether other circulation shareholders belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.		

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	Accommodation, catering services, and retail of tobacco product; (the above is limited to



				branch offices); investment and management of air transport and aviation maintenance; conference and exhibition services; office services; sales of daily necessities, handicrafts, and souvenirs, and rental of houses.
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No changes of controlling shareholder for the Company in reporting period.

3. Actual controller

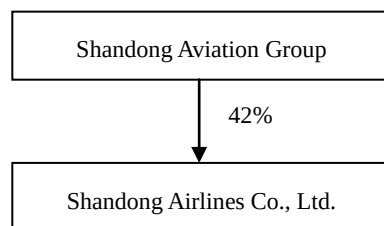
Nature of actual controller: local state-owned assets management

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	Accommodation, catering services, and retail of tobacco product; (the above is limited to branch offices); investment and management of air transport and aviation maintenance; conference and exhibition services; office services; sales of daily necessities, handicrafts, and souvenirs, and rental of houses.
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

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	2004-09-30	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
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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	2016-03-24	2019-03-23	0	0	0	0	0
Xu Chuanyun	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	2016-03-24	2019-03-23	0	0	0	0	0
Wang MingYuan	Director	Currently in office	M	52	2016-03-24	2019-03-23	0	0	0	0	0
Wang Jieming	Director	Currently in office	F	59	2016-03-24	2019-03-23	0	0	0	0	0
Li Xiuqin	Director	Currently in office	F	54	2016-03-24	2019-03-23	0	0	0	0	0
Lv	Independent	Currently in office	M	51	2016-03-24	2019-03-23	0	0	0	0	0

Hongbing	Independent director	Currently in office										
Duan Yalin	Independent director	Currently in office	M	45	2016-03-24	2019-03-23	0	0	0	0	0	0
Xu Xiangyi	Independent director	Currently in office	M	61	2017-06-15	2019-03-23	0	0	0	0	0	0
Hu Yuanmu	Independent director	Currently in office	M	63	2017-06-15	2019-03-23	0	0	0	0	0	0
Wang Wuping	Chairman of Supervisory Committee	Currently in office	M	52	2016-03-24	2019-03-23	0	0	0	0	0	0
Xue Ruitao	Supervisor	Currently in office	M	56	2016-03-24	2019-03-23	0	0	0	0	0	0
Dong Hong	Supervisor	Currently in office	M	45	2016-03-24	2019-03-23	0	0	0	0	0	0
Jin Xin	Staff supervisor	Currently in office	M	51	2017-08-07	2019-03-23	0	0	0	0	0	0
Zhou Qiaoyan	Staff supervisor	Currently in office	F	43	2016-03-24	2019-03-23	0	0	0	0	0	0
Zhang Qingshe	Deputy GM, chief pilot	Currently in office	M	59	2016-03-24	2019-03-23	0	0	0	0	0	0
Wang Xianlin	Deputy GM	Currently in office	M	52	2016-03-24	2019-03-23	0	0	0	0	0	0
Zhou Lixin	Deputy GM	Currently in office	M	54	2016-03-24	2019-03-23	0	0	0	0	0	0
Dong Qiantan	Secretary of the	Currently in	M	56	2016-03-24	2019-03-23	0	0	0	0	0	0

g	Board	office									
Yu Bo	Deputy GM	Currentl y in office	M	45	2016-03-24	2019-03-23	0	0	0	0	0
Dong Jianmin	Deputy GM	Currentl y in office	M	48	2016-09-30	2019-03-23	0	0	0	0	0
Zhou Ning	Security director	Currentl y in office	M	55	2016-09-30	2019-03-23	0	0	0	0	0
Ma Xiaoli	Deputy GM	Currentl y in office	F	42	2016-09-30	2019-03-23	0	0	0	0	0
Liu Chaolei	Chief engineer	Currentl y in office	M	47	2017-03-28	2019-03-23	0	0	0	0	0
Wu Chaopeng	Indepen dent director	Office leaving	M	38	2016-03-24	2017-06-15	0	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0	0

II. Changes of directors, supervisors and senior executives

Name	Title	Type	Date	Reasons
Wu Chaopeng	Independent director	Office leaving	2017-06-15	Personal works

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

Mr. Sun Xiujiang, born in February 1962, graduated from the School of Statistics and Mathematics of Shandong Economic University, a senior economist. He currently serves as the secretary of the party committee and vice president of Shandong Airlines Group Co., Ltd. and the chairman of Shandong Airlines Co., Ltd.

He served successively as a staff member of comprehensive office and the secretary of comprehensive office II at deputy-director-general level of the General Office of Shandong Provincial Government, the director and the general manager of business department VII of Provincial Foreign Economic and Trade Corporation of Jinan Office, chief representative of Hualu Group (Hong Kong) in Jinan, the director, deputy general manager and member of the party committee of Hualu Group Co., Ltd. and Hong Kong Hualu Group Co., Ltd., the director, deputy general manager and member of the party committee of Hualu Holdings Co., Ltd., the president of Shandong Hualu Lihua Real Estate Co., Ltd. (concurrently), the director of Shandong Hualu Hengsheng Chemical Co., Ltd., and the deputy secretary of the party committee and the secretary of committee for discipline inspection of Shandong Airlines Co., Ltd.

Mr. Xu Chuanyu was born in May 1964, a Master of Business Administration from Tsinghua University, a first-grade pilot, and a member of the Communist Party of China. He currently serves as the chief pilot of China National Aviation Corporation Group Limited, the security director of Air China, the president, chairman and deputy secretary of the party committee of Shandong Airlines Group Co., Ltd., and the vice chairman of Shandong Airlines Co., Ltd.

He joined in work in July 1985, once served as the deputy captain of the flying corps Air China, the general manager of the Air China Tianjin Branch, the chief pilot and deputy chief operating officer of Air China, and the vice president and chief operating officer of Air China.

Mr. Miao Liubin, born in February 1971, majored in flight of the Seventh Flight College of the People's Liberation Army Air Force. He currently serves as the party committee member of Shandong Airlines Group Co., Ltd., and the general manager and deputy party secretary of Shandong Airlines Co., Ltd.

He successively served as the deputy captain and the captain of the flying team I, the general manager and the deputy secretary of general party branch of flight department, the member of the party committee, the deputy general manager, and safety director of Shandong Airlines Co., Ltd.

Mr. Jiang Chengda, born in November 1959, majored in flight dispatch of the Sixteenth Aviation Academy of the People's Liberation Army Air Force. He currently serves as the party committee member and vice president of Shandong Airlines Group Co., Ltd., and the deputy party secretary, the secretary of committee for discipline inspection, and the chairman of the labor union of Shandong Airlines Co., Ltd.

He successively served as the staff officer of the air traffic control department of Jinan Air Command, the deputy chief of the dispatch division of aviation department, the deputy director of the dispatch office of aviation department, the vice director of aviation department and the director of the dispatch office and the director of traffic combat readiness office, and the deputy director of operational center of Shandong Airlines Co., Ltd., and the manager of Lugui Aviation Services Co., Ltd. and the general manager and secretary of party branch and the director of operational center and office director of Dongying Airport, and the secretary of comprehensive branch I and the operation director and the general manager of duty manager office of Shandong Airlines Group Co., Ltd., and the member of the party committee, the vice-general manager, operation director and general manager of airplane operating control center of Shandong Airlines Co., Ltd.

Mr. Xu Guojian, born in November 1964, graduated from Beijing University of Aeronautics and Astronautics, a doctoral candidate and certified public accountant. He currently serves as a director, party committee member, deputy general manager, and chief accountant of Shandong Airlines Co., Ltd.

He successively served as the director of auditing and planning division and director of financial accounting division at Beijing Aircraft Maintenance Engineering Corporation, the director of operations of Founder Digital Co., Ltd., the director of administration and finance of Macau Airport Management Co., Ltd., and the general manager of finance department of Engineering Technology Branch of Air China Limited.

Mr. Wang MingYuan, born in September 1965, graduated from the School of Economics of Xiamen University, majoring in statistics. He currently serves as the vice president and a member of the standing committee of Air China Limited and a director of Shandong Airlines Co., Ltd.

He successively served as an assistant at planning department, an assistant at marketing department, the manager at production planning department, deputy manager at sales department, deputy manager and manager at marketing department of Southwest Airlines, he also held the posts of deputy manager of marketing department, general manager of network income department and director of commerce commission at Air China Limited.

Ms. Li Xiuqin, born in May 1963, holds a postgraduate degree and is a senior economist. She is currently the deputy general manager of Shandong Finance Investment Group Co., Ltd. and a director of Shandong Airlines Co., Ltd.

She successively held the posts of deputy section chief of personnel supervision division, secretary of youth league committee, chief of personnel education section at the Bureau of Finance of Tai'an City, Shandong Province, also served as the deputy director of the housing provident fund management center, vice chairman of Shandong Jinyang Enterprise Management Co., Ltd., and the director of asset management department of Shandong Economic Development Investment Co., Ltd. She served as an independent of

Shandong Airlines Co., Ltd. from May 2003 to March 2006.

Ms. Wang Jieming, born in June 1958, holds a master's degree and is a senior accountant. She is currently the CFO of Shandong Finance Investment Group Co., Ltd. and a director of Shandong Airlines Co., Ltd.

She successively served as the director of planning and finance department of the Shandong Economic Development Investment Co., Ltd.

Mr. Lv Hongbing, born in December 1966, graduated from East China University of Political Science and Law in 1988 and 1991 respectively with a bachelor's degree in law and a master's degree in law. Since September 2009, he has been studying in the University of Science and Technology of China to obtain a doctoral degree in management engineering, and he has the Chinese lawyer qualification certificate. He is currently the chief executive partner of Grandall Law Firm. He is also a member of the 13th National Committee of the Chinese People's Political Consultative Conference, a member of the party group and vice president of the All China Lawyers Association, an arbitrator of Shanghai International Economic and Trade Arbitration Commission, Shanghai International Arbitration Center, Shanghai Arbitration Commission, and Shanghai Financial Arbitration Court, an advisory committee member of China Securities Regulatory Commission, a member of the listing committee of Shanghai Stock Exchange, specially invited and part-time professor of Fudan University, Renmin University of China, East China University of Political Science and Law, Shanghai University of Foreign Trade, and Shanghai Finance University. He is currently an independent director of ZTE Corporation and Shentong Metro and an independent non-executive director of Shimao Property (listed on the Hong Kong Stock Exchange).

He used to be the director of Shanghai Wanguo Law Firm, the president of Shanghai Lawyers Association, and a member of the sixth session of issuance examination committee of China Securities Regulatory Commission.

Mr. Duan Yalin, born in April 1972, is a doctor of management, and the first batch of postdoctoral in the Shenzhen Stock Exchange. He is currently the chairman of Shanghai Chunfu Investment Management Center and an independent director of Shanghai Jinjiang International Industrial Investment Co., Ltd.

He once served as the deputy director of the management department of Shenzhen Stock Exchange, vice president of Donghai Securities Co., Ltd., and chairman of Donghai Innovative Product Investment Co., Ltd. He also served as a member of the first session of acquisition and reorganization committee of China Securities Regulatory Commission, a member of the first session of fixed income specialized committee of China Securities Regulatory Commission, the standing director of National Debt Association of China, and the standing director of the Chinese Institute of Business Administration.

Mr. Xu Xiangyi, born in January 1956, earned a doctorate. He is currently a professor and a doctoral supervisor in business administration major at the School of Management of Shandong University. He is a national level outstanding teacher, a selectee of high-level talents for national special support program (10,000 person plan), an expert enjoying special allowances from the State Council, the young and middle-aged expert with outstanding contributions of Shandong Province, a member of the professional teaching steering committee for business administration major of institution of higher learning of the Ministry of Education, the standing vice chairman of the Chinese Institute of Business Administration, and a chief expert of Corporate Governance Research Center of Shandong University and Shandong Humanities and Social Sciences Research Base. He has successively served as an independent director of several listed companies such as Hisense Electric Appliance, Shandong Hi-speed, Baolingbao, Shandong Longji, and Hisense Kelon. He once presided over the development strategy design and management innovation consulting for more than 20 large companies and enterprise groups such as Hisense Group, Shandong Hi-speed Group, General Group, and Shandong Tobacco Company.

Work Experience: served as a teaching assistant, lecturer, and associate professor of management science of School of Economics at Shandong University in July 1982, deputy dean of College of Business Administration and School of Management and professor of School of Management at Shandong University in April 1994, and director of the academic affairs division and professor of School of Management at Shandong University in April 1998, and served as the dean and professor of management science at Shandong University in January 2004, and he serves the current post since December 2012.

Mr. Hu Yuanmu, born in November 1954, is a doctor of management. He is currently a professor and a doctoral tutor of accounting at Shandong University of Finance and Economics.

Work Experience: graduated from the School of Accounting of Shandong Economics College in July 1983 and stayed for teaching until now. He used to be the deputy director and director of the School of Accounting of Shandong Economics College, the director of the academic affairs division of Shandong Economics College, assistant to the dean of Shandong Economics College, and deputy dean of Yanshan School of Shandong Economics College.

Mr. Wang Wuping, born in March 1965, is a senior accountant. He is currently a party committee member and the chief accountant of Shandong Airlines Group Co., Ltd. and the chairman of the board of supervisors of Shandong Airlines Co., Ltd.

He successively served as the deputy director and director of finance office of the finance and accounting division of Shandong Airlines, deputy director and director of finance department of Shandong Airlines Group Co., Ltd., and the general manager of finance department of Shandong Airlines Co., Ltd.

Mr. Xue Ruitao, born in March 1961, is a master degree candidate and a senior accountant. He currently serves as the secretary of the board, the general manager and secretary of planning and investment management department of Shandong Airlines Group Co., Ltd., and a supervisor of Shandong Airlines Co., Ltd.

He successively served as the director of goods and materials department and deputy director of finance department of Shandong Airlines, the deputy director of finance and accounting division of Shandong Airlines Co., Ltd., and the general manager of finance department of Shandong Airlines Group Co., Ltd.

Mr. Dong Hong, born in November 1972, graduated from Beijing Institute of Technology with a degree in business management. Currently he is the deputy general manager of Shantou Industrial Development Company of Air China.

He successively served as the project manager of economic responsibility system and the deputy general manager of investment enterprise of the enterprise management department, the senior manager of investment enterprise management and the senior manager of related transaction management of the asset management department of Air China.

Mr. Jin Xin, born in March 1966, graduated from the First Flight School of the Chinese People's Liberation Army Air Force, majoring in airplane piloting, is a pilot of Class III. He currently serves as the general manager of the Operation Control Center and the deputy party secretary of Shandong Airlines Co., Ltd.

Main Resume: from August 1990 to September 1998, he was engaged in flight training at the aircraftman transportation regiment of Jinan Air Force; entered the company in September 1998; served as the deputy squadron leader of squadron B737 in the flight team I in April 2004; and was appointed as the squadron leader of squadron B737 II of flight team I in November 2004; served as the deputy chief of flight team I in August 2007; served as a member of the party committee of the flight department and the chief of flight team I in May 2012; served as a member of the party committee and the deputy general manager of the flight department and the chief of flight team I in October 2014; in March 2016, he was appointed as the general manager of the flight technology management department and a member of the party committee of the shareholding authority; in February 2017, he served as the general manager and the deputy secretary of the party committee of flight department; he serves as the current post since December 2017.

Ms. Zhou Qiaoyan, born in January 1975, earned a bachelor degree. She is currently the party committee secretary and deputy general manager of the passenger cabin service department of Shandong Airlines Co., Ltd.

She served successively as the deputy squadron leader of Qingdao crew cabin of cabin department of Shandong Airlines, the squadron leader of Qingdao cabin crew of passenger cabin department, the deputy director of passenger cabin service department and the director of Qingdao Branch, the deputy general manager of passenger cabin service department, the party branch secretary and deputy general manager of passenger cabin service department, and the secretary of general party branch and deputy general manager of passenger cabin service department Shandong Airlines Co., Ltd.

Mr. Zhang Qingshe, born in October 1958, graduated from Civil Aviation Flight University of China, majoring in airplane piloting. He currently serves as the party committee member, deputy general manager, and chief pilot of Shandong Airlines Co., Ltd., and the general manager and deputy secretary of Qingdao Branch.

He served successively as the flight squadron leader, the deputy manager of safety and technology department, and the director of safety office of China Southern Airlines, and served as the deputy chief pilot, the deputy general manager of Qingdao Branch, the deputy director of training department, the director of safety and technology department, the chief pilot and deputy general manager of Qingdao Branch, and the chief pilot and director of flight management department of Shandong Airlines Co., Ltd.

Mr. Wang Xianlin, born in November 1965, earned a bachelor degree. He currently serves as the party committee member and deputy general manager of Shandong Airlines Co., Ltd.

He served successively as the squadron leader of the fifty-five regiment of the nineteenth division of Air Force, and served as the deputy squadron leader of flight team II, 737 squadron leader of flight team II, deputy chief of flight team II and chief of flight team II of the flight department, the deputy general manager and deputy chief pilot of Qingdao Branch and the director of operation standards management department and the safety director of Shandong Airlines.

Mr. Zhou Lixin, born in January 1964, graduated from the engineering department of Shenyang Institute of Aeronautical Engineering, majoring in air vehicle manufacturing, an engineer. He currently serves as the party committee member and deputy general manager of Shandong Airlines Co., Ltd.

He served successively as the chief of airframe planning unit at AMECO equipment department, the director of aviation material department at Shenzhen Airlines, the deputy manager and manager of AIE import department, a party committee member and deputy general manager of Air China Import & Export Co., Ltd., and a party committee member and deputy general manager of centralized purchasing department of Air China Co., Ltd.

Mr. Dong Qiantang, born in January 1962, earned a MBA from Shandong University. He currently serves as the party committee member, secretary of the board, and director of the comprehensive office (board office, party-masses office, and labor union office) of Shandong Airlines Co., Ltd.

He served successively as the deputy director of office secretariat and the director of accessory office of passenger cabin department of Shandong Airlines; served as the deputy director of office, deputy director and director of planning department of Shandong Airlines Group Co., Ltd., and served as the general manager of enterprise management department of Shandong Airlines Co., Ltd.

Mr. Yu Bo, born in March 1972, earned a master's degree. He currently serves as the party committee member and deputy general manager of Shandong Airlines Co., Ltd.

He successively served as the deputy chief of Qingdao airplane maintenance department of maintenance engineering department, and the deputy director of maintenance engineering department and concurrently the squadron leader of maintenance team I, the deputy director of operation center, the deputy director of maintenance engineering department, the deputy general manager of Engineering Technology Company and concurrently the manager of quality department, the general manager of Engineering Technology Company, the deputy chief engineer, and the chief engineer of Shandong Airlines Co., Ltd.

Mr. Dong Jianmin, born in April 1969, graduated from the Sixth Flight School of the PLA Air Force, majoring in airplane piloting. He currently serves as the party committee member and deputy general manager of Shandong Airlines Co., Ltd.

Main Resume: from July 1992 to March 2003, he was engaged in flight training at the Civil Aviation Flight School; in March 2003, he was appointed as an assistant researcher at the safety supervision division of the security office of the Civil Aviation Administration of China; in March 2007, he joined the company as the deputy general manager of Qingdao Branch; served as the deputy general manager of flight department and the chief of flight team II; served as the general manager of flight department in May 2012; and he serves as the current post since September 2016.

Mr. Zhou Ning, born in June 1962, graduated from the Second Aviation School of the People's Liberation Army Air Force, majoring in bomber piloting. He currently serves as the security director and member of the party committee of Shandong Airlines Co., Ltd., the general manager and party branch secretary of the aviation safety management department, and a member of the party committee of the share office.

Main Resume: from November 1982 to September 1988, he was engaged in flight training at the Second Aviation School of the Air Force; he joined the company in June 1994; in August 1997, he served as the director at the flight standards division of the flight department; in December 1999; in April 2004, he was appointed as the deputy team leader of flight team I; he served as the deputy director of operation standard management department in August 2007 and the general manager of operation standard management department in March 2009; he serves the current post since September 2016.

Ms. Ma Xiaoli, born in March 1975, is a member of the Jiusan Society, graduated from Nanjing University of Aeronautics and Astronautics, majoring in civil aviation transportation, and earned a Master of Business Administration from Xi'an Jiaotong

University and Wright State University. She currently serves as the deputy general manager at Shandong Airlines Co., Ltd.,

Main Resume: entered the company in July 1997, served as the deputy manager at Qingdao sales department of marketing department in June 1999, served as the manager at Xi'an sales department of marketing department in December 1999, and served as the manager at Qingdao sales department of marketing department in July 2002 and the manager (department deputy general manager level) at Qingdao sales department of marketing department in January 2003, held the post of deputy director at the ground service department in January 2006, and served as the deputy general manager of marketing committee and the sales manager, served as the general manager of marketing committee in January 2010, and she serves the current post since September 2016.

Mr. Liu Chaolei, born in October 1970, graduated from Beijing University of Aeronautics and Astronautics with a degree in mechanical manufacturing engineering, and earned a Master of Business Administration from Wright State University. He currently serves as the chief engineer and member of the party committee at Shandong Airlines Co., Ltd., and the general manager and deputy party secretary at the engineering technology company.

Work Experience: entered the company in July 1994, served as the assistant director at maintenance engineering department in February 1996, and served as deputy director at maintenance engineering department in August 1996, and served as the head of technology division at maintenance engineering department in September 1999, and served as the deputy director at maintenance engineering department in January 2001; held the post of deputy general manager at Taikoo (Shandong) Aircraft Engineering Company Limited in May 2004; served as the general manager at planning and investment management department of Shandong Airlines Group Co., Ltd. in Feb. 2009; served as the general manager at the engineering technology company in July 2015; held the posts of deputy chief engineer and general manager at the engineering technology company in January 2016; and has served the current post since March 2017.

Post-holding in shareholder's unit

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	May 2015		Y
Xu Chuanyu	SDA	Chairman, President and Deputy Party Secretary	November 2016		N
	Air China	Security director	December 2012		Y
Jiang Chengda	SDA	Member of the Party Committee, Deputy President	September 2013		N
Wang MingYuan	Air China	Member of the Party Committee, Deputy President	December 2011		Y
Wang Wuping	SDA	Member of the Party Committee, Chief Accountant	September 2013		Y
Xue Ruitao	SDA	GM of Planning & Investment Management Dept.	September 2013		Y

Post-holding in other unit

Name	Name of other units	Position	Start dated of office term	End date of office term	Whether receiving remuneration

					from other units or not
Wang MingYuan	Shenzhen Airlines	Director	April 2010		N
	Air Macau	Director	March 2007		N
	Air China Hong Kong Development Co., Ltd.	Chairman	April 2011		N
Li Xiuqin	Shandong Finance Investment Group	Deputy GM	May 2016		Y
Wang Jieming	Shandong Finance Investment Group	CFO	May 2016		Y
Dong Hong	Air China Shantou Industrial Development Co., Ltd.	Deputy GM	February 2017		Y
	Zhejiang Aviation Services Co., Ltd.	Director	April 2007		N
	Shanghai Air China Aviation Services Co., Ltd.	Director	June 2015		N
	China National Aviation Finance Co., Ltd.	Supervisor	December 2015		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. Sun Xiujiang, 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 Xiuqin and Ms. Wang Jieming drew their remunerations from Shandong Finance Investment Group 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	129.62	N
Jiang Chengda	Director	M	58	Currently in office	117.65	N
Xu Guojian	Director, Deputy GM, Chief accountant	M	53	Currently in office	100.31	N
Lv Hongbing	Independent director	M	51	Currently in office	7.1	N
Duan Yalin	Independent director	M	45	Currently in office	7.1	N
Xu Xiangyi	Independent director	M	61	Currently in office	4.11	N
Hu Yuanmu	Independent director	M	63	Currently in office	4.11	N
Jin Xin	Staff supervisor	M	51	Currently in office	65.87	N
Zhou Qiaoyan	Staff supervisor	F	43	Currently in office	57.3	N
Zhang Qingshe	Deputy GM, Chief Pilot	M	59	Currently in office	124.64	N
Wang Xianlin	Deputy GM	M	52	Currently in office	110.69	N
Zhou Lixin	Deputy GM	M	54	Currently in office	96.8	N
Dong Qiantang	Secretary of the Board	M	56	Currently in office	98.3	N
Yu Bo	Deputy GM	M	45	Currently in office	95.5	
Dong Jianmin	Deputy GM	M	48	Currently in office	93.66	N
Zhou Ning	Security director	M	55	Currently in office	88.33	N
Ma Xiaoli	Deputy GM	F	42	Currently in	74.92	N

				office		
Liu Chaolei	Chief engineer	M	47	Currently in office	75.46	N
Wu Chaopeng	Independent director	M	38	Office leaving	3.4	N
Total	--	--	--	--	1,354.87	--

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)	10,378
Total staff received remuneration in the period (person)	10,459
Retired staff with charges paid by the parent company and main subsidiaries (person)	186
Professional constitution	
Type	Number
Flight personnel	1,459
Steward	2,472
Security guard	576
Maintenance personnel	1,351
Transport control personnel	300
Salesman	966
Freight personnel	199
Ground attendant	660
Financial personnel	163
Others	2,232
Total	10,378
Education background	
Type	Number
Graduate (Master, doctor) and above	395
Bachelor degree	6,596
Junior college and below	3,387
Total	10,378

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 2017, the company's Class I training program implemented 236 projects with the completion rate of 100%; the staff education expenditure was 9,942,100 Yuan, accounting for 47.91% of the total annual budget. By the end of 2017, the company totally engaged 518 lecturers (including 52 full-time lecturers and 466 part-time lecturers), including 71 lecturers newly hired in 2017. The part-time lecturers taught 17,789 periods throughout the year, 38.17 periods per capita, and class period expenditure was 691,000 Yuan.

Supporting the company's strategic development, innovating the talent training model, enhancing the leadership level, increasing the resource integration efforts, and reducing costs and increasing efficiency run throughout the training work in 2017 and actively played the role of enabling engine for talent growth. The first was to focus on the company strategy and business development, innovate the talent training mode, and reserve key talents. We have improved the leadership learning map and established the three-level training mechanism for initial training, re-education training, and promotion training, organized the re-education training class phase III and promotion training class phase I, focused on major projects to discuss, pooled the wisdom and efforts of everyone for output results, promoted the cadre capability, and promote the development of the company. The second was to optimize the lecturer control model and continuously improve the research and development and teaching level. Accelerate the gathering and inheritance of the company's experience and wisdom by organizing airlines training experience exchange meetings, holding the teaching methodology promotion training courses, integrating and sharing the lecturer resources, developing the company courses, and promoting cadres to go to the podium, and lead the company's development. The third was to change the traditional management methods and improve the efficiency of resource sharing. According to the business development, revise the company's training management manual, optimize the management and control procedures, integrate the training resources, reduce the training costs, and improve the management level. The fourth was to optimize the source talent training model and build a solid foundation for personnel development. Organize training for the company's new employees, combine the training camp concentrated learning and activities, social practice, departmental centralized training, E-Learning self-study, and mentor training to complete company-level, department-level, and post-level training tasks. Complete the preach, acceptance and summer internship of joint training students, optimize and promote the school-enterprise cooperation and control model, ensure the source input quality, speed up the transformation from college students to professional people and Shanhang people. The fifth was to organize English learning and selection activities, reserve international talents, and support the international strategy development of the company.

In 2018, the company will continue to optimize the training management system, refine the demand analysis, increase the resource integration, improve the external resource evaluation mechanism, optimize the management platform, reduce costs, and accelerate the transformation of training effects. The company will also continue to carry out the initial training, re-education training, and promotion training for outstanding leadership, combine the theoretical study and work practice, and enhance the leadership of cadres through multiple channels. Establish an internationalized talent cultivation mechanism and train international talents from the aspects such as

professional quality, foreign language ability, cultural integration, and foreign exchange. Continuously improve the new employee training system, innovate the management and control methods, and ensure the quality of source input. Further improve the lecturer management system, stimulate the instructor's vitality, improve the research and development and teaching ability, and develop a series of quality courses. Pilot and promote new media and new methods such as micro course and mobile learning platform, continuously enrich the learning contents, improve the employee and organizational performance, and support the company's strategic development.

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 shareholders' meeting

During the reporting period, the company convened the 2016 Annual General Meeting, and all deliberations and proposals were passed. The convening, proposal deliberation and decision-making of shareholders' meetings were conducted strictly in accordance with the procedures stipulated in the Articles of Association and Rules of Procedure of the Shareholders' Meeting, ensuring that all shareholders, especially the small and medium-sized shareholders, have equal status and fully exercise their rights. The general meeting of shareholders hired the lawyer to witness on the spot and issue a legal opinion on its legality.

(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-known 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 2017. 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 duty performance of the Board and management team, financial status, related transaction and internal control 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 20 interim announcements in 2017. 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” for three years in a row in the Shenzhen Stock Exchange listing corporation information disclosure in 2016-2017.

(V) Registration management of inside information insider

The board of directors of the company has been fully aware of the seriousness and complexity of preventing the insider trading, taking various measures to implement various regulatory requirements, comprehensively strengthening the inside information management, perfecting the registration management system of inside information, and effectively guarding against various types of insider trading behaviors of relevant insider at the sources. During the reporting period, the company faithfully and completely recorded the list of inside information insiders, covered the entire chain of insiders involved in the process of inside information transfer, strengthened the

registration and records of information submitted by the business department to the outside, prevented the disclosure of inside information, and submitted the list of related inside information insiders to Shandong Securities Regulatory Bureau and Shenzhen Stock Exchange for filing. The company did not find any relevant personnel used inside information to engage in insider trading or suggested others to use inside information to conduct transactions; the situation that inside information disclosure caused serious impact or losses to the company and investors did not exist; the situation that supervisory authorities took supervision measures did not occur.

(VI) Related transactions management

During the reporting period, the company comprehensively sorted out the list of related parties, established a dynamic related party roster, discerned the related transactions as early as possible, and made timely decisions in accordance with the procedures; strictly prevented the non-operating funds from being used by controlling shareholders and related parties, and eliminated the risk of violations of the “red line”. In 2017, the decision-making procedures for the company's related transactions were legal and the price was fair, which had no adverse impact on the company or on the interests of small and medium shareholders, there was no external guarantee, and there was no occupation of non-operating funds by the controlling shareholders or other related parties.

There was no major difference between the actual status of corporate governance and the regulatory documents regarding the governance of listed companies issued by China Securities Regulatory Commission.

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 shareholders. 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 totally 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
Annual General Meeting 2016	AGM	67.18%	2017-06-15	2017-06-16	Notice No.: 2017-09

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 in Board meetings and shareholders' general meeting							
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	Times of attending the shareholders general meeting
Lv Hongbing	6	1	5	0	0	N	1
Duan Yalin	6	1	5	0	0	N	1
Xu Xiangyi	3	0	3	0	0	N	1
Hu Yuanmu	3	0	3	0	0	N	1
Wu Chaopeng	3	1	2	0	0	N	0

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

During the reporting period, independent directors of the Company conscientiously fulfilled relevant laws and relevant rules of Article of Association; they independently participate in the decision-making of major events objectively, fulfill their duties faithfully and diligently, and maintaining the interest of the Company and small & medium shareholders effectively, give full play to the role of independent directors.

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 2017, all specialized committees held 5 meetings, therein to, 3 meetings of the Audit Committee and 1 meeting of the Remuneration and Appraisal Committee and one meeting of strategy and nomination 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 2017 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 2017 annual report about the remuneration disclosure of the directors and the senior management, and thought the remuneration amount of relevant personnel disclosed in the 2017 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

Whether there are risks being found by the supervisory committee in supervision during the period

☐ Yes ☒ No

Supervisory committee has no objection about supervision events in reporting period

VIII. Appraisal and incentive mechanism for senior executives

In accordance with the "Performance Management Manual", 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	2018-03-24
Disclosure index of full internal control evaluation report	Published on Juchao Website (http://www.cninfo.com.cn) dated 24 March 2018
The ratio of the total assets of units	100.00%

included in the scope of evaluation accounting for the total assets on the company's consolidated financial statements		
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. 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	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.
	(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:	(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

	Material defect: 5% of the total profit $\leq$ wrong reporting; Major defect: 2% of the total profit $\leq$ 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 $\leq$ wrong reporting; Major defect: 0.2% of the total assets $\leq$ 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 $\leq$ wrong reporting; Major defect: 0.2% of the total owners' equity $\leq$ wrong reporting $<$ 0.5% of the total owners' equity; General defect: wrong reporting $<$ 0.2% of the total owners' equity.	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

Deliberation section of auditing report of IC
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 2017 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 2017 based on relevant regulations and "Basic Standard of Internal Control for Enterprises".

Ruihua CPAs (LLP)

Chinese CPA: Pan Xinhua

Beijing China

Chinese CPA: Guo Yuefeng

22 March 2018

Disclosure details of audit report of internal control	Disclosed
Disclosure date of audit report of internal control (full-text)	2018-03-24
Index of audit report of internal control (full-text)	Published on Juchao Website (http://www.cninfo.com.cn) dated 24 March 2018
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	2018-03-22
Name of audit institution	Ruihua Certified Public Accountants (LLP)
Document No. of the Auditing Report	Ruihua Shen Zi [2018] 48380002 Hao
CPA	Pan Xinhua, Guo Yuefeng

Auditor's Report

To The Board of Directors of Shandong Airlines Co., Ltd.:

I. Audit Opinion

We have audited the accompanying financial statements of Shandong Airlines Co., Ltd. (hereafter, Shandong Airlines), which comprise the consolidated and separate statements of financial position as at 31 December 2017, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of cash flows and the consolidated and separate statements of changes in shareholders' equity for the year then ended and the notes to the financial statements.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Enterprises Accounting Standards of China and presented fairly, in all material respects, the consolidated and separate financial position of Shandong Airlines as at 31 December 2017, and the Company's consolidated and separate results of operations and consolidated and separate cash flows for the year then ended.

II. Basis of Forming the Audit Opinion

We conducted our audit in accordance with the Chinese Certified Public Accountant Auditing Standards. The section "Auditors' Responsibility for the Financial Statements" in the audit report further describes our responsibilities in accordance with these standards. According to the Code of Ethics for Chinese Certified Public Accountants, we are independent of the Company and fulfilled other responsibilities of code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Key Audit Items

Key audit items are the items which we believe, based on our professional judgment, to be significant in the audit of financial statements for the current period. Audit response to these items has been designed and implemented in the context of auditing the financial statements as a whole for the purpose of expressing an audit opinion on the financial statements; and we do not express an opinion on each of these items individually. We believe that the following items are the key audit items which warrant disclosure in the audit report.

1. Recognition of Passenger Service Revenue

1.1 Description

The revenue of passenger service of the company is recognized when the service is provided. At the balance sheet date, the amount collected by the company for transportation service which has been sold but not yet provided is included in the balance sheet as ticket settlement. The company uses complex information technology systems, through the system of automatic processing of large amounts of data to keep track of ticket sales and transportation services provided, to confirm the timing and the exact amount of revenue of passenger service. Due to the recognition of passenger service revenue involves using complex information technology system, it will lead to inaccurate recognition of passenger service revenue or the inherent risk of the inappropriateness of the

accounting period.

Please refer to Note 4.21 Revenue, Note 6.18 Advance from customers, Note 6.34 Operating revenues and costs, Note 15.4 Operating revenues and costs for the details.

1.2 Audit Response

1.2.1 We assessed the design, operation and effectiveness of the internal control related to the company's revenue recognition, and assessed the effectiveness of the design and operation of information technology control related to the revenue system.

1.2.2 We assessed the difference between the information output from the information technology system and the company's financial and operational data, and identified the differences in the process to track the related key labor control.

1.2.3 We compared the opening and closing balance of ticket settlement during the period, and analyzed the reasonableness of amount changes;

1.2.4 We checked the relevant supporting documents of the account entries of significant amounts or other specific risk standards.

2. Operating Lease Aircrafts and Major Repair Fee of the Engines

2.1 Description

On 31 December, 2017, the payable balance of operating lease aircrafts and major repair fee of the engines (including that matured within a year) amounted to 2.717 billion. According to the terms of the lease agreement, the company shall return the aircraft in accordance with the agreed conditions demanded at the end of the lease period. In order to ensure the agreed conditions for the return of the aircraft, the company will make a provision for major repair to the fuselage and engine of operating lease during the estimated overhaul period, and the overhaul expenses will be included in the current profit and loss. The expected overhaul period and overhaul cost estimation are based on the actual maintenance cost experience of the same or similar fuselages and engines, the development of the current economic and aviation, the expected flight hours, the flight cycle and the time interval of overhaul. Due to the inherent uncertainty of the prediction of the overhaul period and the future overhaul cost for different types of fuselages and engines, there is a risk of inaccurate estimated cost.

Please refer to Note 4.25 Regular repair and substantial repair, Note 4.28.9 Aircraft operating lease and engine overhaul expenses, Note 6.17 Accounts payable, Note 6.25 Long-term payables for the details.

2.2 Audit Response

2.2.1 We assessed the effectiveness of the design and operation of the key internal controls related to the overhaul preparation for the aircraft of operating lease.

2.2.2 We discussed with the engineering department managers of the company responsible for aircraft maintenance, obtained the information of the overhaul cycle, overhaul cost and actual maintenance cost, compared the information to that used by financial executives to calculate the overhaul preparation.

2.2.3 We compared the assumptions adopted by the management in the previous year with the actual situation and the assumptions of this year, and evaluated the key assumptions adopted by the management in estimating the overhaul cycle and the future overhaul cost, based on the terms of operation lease agreement and the historical maintenance experience of the company.

2.2.4 We compared the actual cost of the returned aircraft which was in overhaul previously to the corresponding overhaul preparation, analyzed the difference to evaluate the rationality of management accounting estimates.

IV. Other Information

The management of the Company is responsible for other information, which includes the information contained in the Company's 2017 annual report except for the financial statements and our auditor report.

Our audit opinion on the financial statements does not cover other information, and we do not express assurance opinion in any form on the other information.

In parallel to our audit of the financial statements, our responsibilities include reading other information and to assess if the information included in other information is significantly inconsistent with the financial statements or information obtained during

the audit, and if there is possible material misstatement in other information.

Where we identify material misstatement in other information on the basis of our work, we shall report such fact. Based on our work, we have no such matter to be reported.

V. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Company (hereafter, the management) is responsible for preparing and presenting the financial statements in accordance with Enterprise Accounting Standards of China and for the purpose of fair presentation and designing, implementing and maintaining internal control necessary to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

During the preparation of the financial statements, the management is responsible for assessing the Company's going-concern capability; disclosing matters in relation to the going-concern status; and applying the going-concern assumption for preparation of the financial statements, unless the management plans to liquidate the Company, terminates operation of the Company or has no other practical alternative choice.

Those charged with governance are responsible for monitoring the Company's financial reporting process.

VI. Auditors' Responsibility for the Financial Statements

Our objective is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to frauds or errors, and issue an audit report with audit opinion. Reasonable assurance is a high level assurance, but there is no guarantee that a material misstatement will always be found in the audit performed in accordance with the auditing standards. Misstatements may be caused by fraud or error. Misstatements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users based on the financial statements.

During the performance of our audit in accordance with the auditing standards, we use professional judgment and maintain professional skepticism. We also perform the following procedures:

A. Identify and assess the risks of material misstatement of the financial statements due to fraud and error, design and implement audit procedures to address these risks, and obtain sufficient and appropriate audit evidence as a basis for forming the audit opinion.

As fraud may involve collusion, forgery, willful omission, misrepresentation or override of internal control, the risk of not discovering a material misstatement due to fraud is higher than the risk of failing to detect a material misstatement resulting from a mistake.

B. Understand the internal controls related to auditing in order to design appropriate audit procedures.

C. Evaluate the appropriateness of accounting policies adopted by the management and the reasonableness of accounting estimates and relevant disclosures made by management.

D. Conclude on the appropriateness of management's application of the going concern assumption. Meanwhile, based on the audit evidence obtained, conclude whether there is material uncertainty about the Company's ability to continue as a going-concern. If we conclude that there is material uncertainty, the auditing standards require us to draw attention of the users of the financial statements to the relevant disclosures in the financial statements. If the disclosure is inadequate, we shall express a qualified opinion. Our conclusion is based on information available as of the date of the audit report. However, future events or circumstances may cause the Company not being able to continue as a going-concern.

E. Evaluate the overall presentation, structure and content of financial statements (including disclosures), and evaluate whether the financial statements present fairly the relevant transactions and events.

F. Obtain sufficient and appropriate audit evidence regarding to the Company's financial information of the entities or business activities in order to express opinion on the financial statements. We are responsible for the guidance, supervision and execution of the group audit. We take full responsibility for the audit opinion.

We communicate with those charged with governance on the scope and time schedule of the audit, and significant audit findings, etc., including deficiency of internal control that we identified during the audit which warrants attention.

We also provide a statement to those charged with governance regarding the fact that we comply with the requirements of

professional ethics relating to independence, and also communicate with them about all relationships and other matters that may be reasonably deemed to affect our independence, as well as, where applicable, the relevant precautions(if applicable).

Through the matters we communicate with those charged with governance, we identify matters that are significant in the audit of the financial statements for the current period, which therefore become the key audit items. We disclose these items in the audit report, unless public disclosure of such items is prohibited by laws and regulations; in exceptional circumstances, where the benefit arising from public disclosure of certain matters is outweighed by the negative consequence brought by such disclosure in consideration of public interest, we do not disclosure such items in the audit report.

Ruihua Certified Public Accountants

Certified Public Accountants: Pan Xinhua

(Project partner)

China. Beijing

Certified Public Accountants: Guo Yuefeng

22 March 2018

II. Financial Statement

Statement in Financial Notes are carried in RMB/CNY

1. Consolidated Balance Sheet

Prepared by Shandong Airlines Co., Ltd

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	543,584,920.30	791,255,686.65
Settlement provisions		
Capital lent		
Financial assets measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable	115,000.00	
Accounts receivable	550,905,199.28	322,774,169.85
Accounts paid in advance	222,688,283.66	249,136,244.95
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Interest receivable		
Dividend receivable		
Other receivables	349,352,881.41	351,000,324.78

Purchase restituted finance asset		
Inventories	83,924,185.64	120,965,243.56
Assets held for sale		
Non-current asset due within one year		
Other current assets	185,809,122.83	59,685,735.09
Total current assets	1,936,379,593.12	1,894,817,404.88
Non-current assets:		
Loans and payments on behalf		
Finance asset available for sales	337,378,099.40	271,872,182.34
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment property		
Fixed assets	6,904,643,268.14	7,093,233,151.79
Construction in progress	2,737,166,681.62	2,250,500,462.35
Engineering material		
Disposal of fixed asset		
Productive biological asset		
Oil and gas asset		
Intangible assets	116,334,615.84	114,203,753.20
Expense on Research and Development		
Goodwill	454,020.13	
Long-term expenses to be apportioned	535,865,271.69	475,562,660.08
Deferred income tax asset	783,201,289.97	641,785,173.89
Other non-current asset		
Total non-current asset	11,415,043,246.79	10,847,157,383.65
Total assets	13,351,422,839.91	12,741,974,788.53
Current liabilities:		
Short-term loans		
Loan from central bank		
Absorbing deposit and interbank deposit		
Capital borrowed		
Financial liability measured by fair	3,607,390.15	1,155,815.80

value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes payable		
Accounts payable	1,931,374,087.78	1,688,094,861.09
Accounts received in advance	614,319,419.67	699,319,553.05
Selling financial asset of repurchase		
Commission charge and commission payable		
Wage payable	567,105,882.00	454,375,029.19
Taxes payable	164,566,790.91	138,661,805.16
Interest payable	1,324,391.18	2,430,456.90
Dividend payable	602,306.96	11,940.00
Other accounts payable	411,682,128.67	401,854,436.21
Reinsurance payables		
Insurance contract reserve		
Security trading of agency		
Security sales of agency		
Liability held for sale		
Non-current liabilities due within 1 year	622,127,224.77	987,644,012.02
Other current liabilities		
Total current liabilities	4,316,709,622.09	4,373,547,909.42
Non-current liabilities:		
Long-term loans	1,217,610,831.16	1,799,601,767.54
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	3,277,812,491.65	2,534,202,090.26
Long-term wages payable	110,950,000.00	94,130,651.51
Special accounts payable		
Projected liabilities		
Deferred income	111,638,302.81	58,439,521.16
Deferred income tax liabilities	63,560,578.27	45,880,020.58
Other non-current liabilities		

Total non-current liabilities	4,781,572,203.89	4,532,254,051.05
Total liabilities	9,098,281,825.98	8,905,801,960.47
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	178,494,839.48	131,880,061.76
Reasonable reserve		
Surplus public reserve	471,457,259.99	423,424,327.64
Provision of general risk		
Retained profit	3,127,778,550.76	2,805,458,074.96
Total owner's equity attributable to parent company	4,253,141,013.93	3,836,172,828.06
Minority interests		
Total owner's equity	4,253,141,013.93	3,836,172,828.06
Total liabilities and owner's equity	13,351,422,839.91	12,741,974,788.53

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

2. Balance Sheet of Parent Company

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	516,216,370.03	761,645,065.66
Financial assets measured by fair value and with variation reckoned into current gains/losses		
Derivative financial liability		
Notes receivable		
Accounts receivable	547,677,560.06	322,884,254.40
Account paid in advance	222,501,155.94	248,747,945.46

Interest receivable		
Dividends receivable		
Other receivables	399,100,432.09	394,481,947.14
Inventories	82,225,339.01	120,965,243.56
Assets held for sale		
Non-current assets maturing within one year		
Other current assets	185,778,982.56	59,685,735.09
Total current assets	1,953,499,839.69	1,908,410,191.31
Non-current assets:		
Available-for-sale financial assets	337,378,099.40	271,872,182.34
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	144,101,285.43	106,000,685.43
Investment property		
Fixed assets	6,802,699,864.94	7,000,694,540.06
Construction in progress	2,737,166,681.62	2,250,424,462.35
Project materials		
Disposal of fixed assets		
Productive biological assets		
Oil and natural gas assets		
Intangible assets	102,780,313.61	100,261,260.93
Research and development costs		
Goodwill		
Long-term deferred expenses	534,617,772.35	475,562,660.08
Deferred income tax assets	782,457,009.29	641,017,982.18
Other non-current assets		
Total non-current assets	11,441,201,026.64	10,845,833,773.37
Total assets	13,394,700,866.33	12,754,243,964.68
Current liabilities:		
Short-term borrowings		
Financial liability measured by fair value and with variation reckoned into current gains/losses	3,607,390.15	1,155,815.80
Derivative financial liability		

Notes payable		
Accounts payable	1,979,178,746.67	1,702,743,063.11
Accounts received in advance	611,805,531.91	693,918,823.76
Wage payable	558,628,059.49	450,079,741.59
Taxes payable	160,844,683.77	137,221,799.65
Interest payable	1,324,391.18	2,430,456.90
Dividend payable	11,940.00	11,940.00
Other accounts payable	449,038,723.36	425,862,312.50
Liability held for sale		
Non-current liabilities due within 1 year	622,127,224.77	987,644,012.02
Other current liabilities		
Total current liabilities	4,386,566,691.30	4,401,067,965.33
Non-current liabilities:		
Long-term loans	1,217,610,831.16	1,799,601,767.54
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	3,277,812,491.65	2,534,202,090.26
Long-term wages payable	110,950,000.00	94,130,651.51
Special accounts payable		
Projected liabilities		
Deferred income	111,638,302.81	58,439,521.16
Deferred income tax liabilities	62,256,499.85	45,880,020.58
Other non-current liabilities		
Total non-current liabilities	4,780,268,125.47	4,532,254,051.05
Total liabilities	9,166,834,816.77	8,933,322,016.38
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	178,494,839.48	131,880,061.76
Reasonable reserve		
Surplus reserve	470,796,555.46	422,763,623.11
Retained profit	3,091,663,485.91	2,779,367,094.72
Total owner's equity	4,227,866,049.56	3,820,921,948.30
Total liabilities and owner's equity	13,394,700,866.33	12,754,243,964.68

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

3. Consolidated Profit Statement

In RMB

Item	Current Period	Last Period
I. Total operating income	16,484,713,152.23	13,742,365,545.56
Including: Operating income	16,484,713,152.23	13,742,365,545.56
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	15,992,662,817.00	13,216,283,996.73
Including: Operating cost	14,783,469,085.76	11,890,173,404.59
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	32,856,813.17	46,017,200.74
Sales expenses	781,723,562.39	674,961,176.53
Administration expenses	395,391,062.69	333,943,862.70

Financial expenses	-1,229,260.20	261,876,586.15
Losses of devaluation of asset	451,553.19	9,311,766.02
Add: Changing income of fair value(Loss is listed with “-”)	-2,451,574.35	2,214,631.82
Investment income (Loss is listed with “-”)	21,716,884.19	17,359,703.12
Including: Investment income on affiliated company and joint venture		
Exchange income (Loss is listed with “-”)		
Income from assets disposal (Loss is listed with “-”)	90,439.51	68,054.80
Other income	103,523,912.62	
III. Operating profit (Loss is listed with “-”)	614,929,997.20	545,723,938.57
Add: Non-operating income	38,574,150.90	168,648,572.09
Less: Non-operating expense	2,582,901.73	4,998,459.07
IV. Total Profit (Loss is listed with “-”)	650,921,246.37	709,374,051.59
Less: Income tax expense	160,567,838.22	176,539,484.42
V. Net profit (Net loss is listed with “-”)	490,353,408.15	532,834,567.17
(i) Net profit of continuous operating (Net loss is listed with “-”)	490,353,408.15	532,834,567.17
(ii) Net profit of business termination (Net loss is listed with “-”)		
Net profit attributable to owners of parent company	490,353,408.15	532,834,567.17
Minority shareholders’ gains and losses		
VI. Net after-tax of other comprehensive income	46,614,777.72	38,325,056.32
Net after-tax of other comprehensive income attributable to owners of parent company	46,614,777.72	38,325,056.32
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-2,514,660.07	263,000.00
1. Changes as a result of re-measurement of net defined benefit	-2,514,660.07	263,000.00

plan liability or asset		
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	49,129,437.79	38,062,056.32
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	49,129,437.79	38,062,056.32
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	536,968,185.87	571,159,623.49
Total comprehensive income attributable to owners of parent Company	536,968,185.87	571,159,623.49
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	1.23	1.33
(ii) Diluted earnings per share	1.23	1.33

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

4. Profit Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Operating income	16,458,875,009.30	13,715,153,317.42
Less: Operating cost	14,787,294,207.29	11,883,288,895.95
Operating tax and extras	30,747,837.94	44,130,493.73
Sales expenses	780,907,566.52	674,961,176.53
Administration expenses	382,101,041.38	326,189,363.91
Financial expenses	-1,152,997.41	261,933,134.34
Losses of devaluation of asset	593,979.76	9,476,555.32
Add: Changing income of fair value(Loss is listed with “-”)	-2,451,574.35	2,214,631.82
Investment income (Loss is listed with “-”)	21,716,884.19	17,359,703.12
Including: Investment income on affiliated company and joint venture		
Income from assets disposal (Loss is listed with “-”)	90,439.51	64,854.80
Other income	103,523,912.62	
II. Operating profit (Loss is listed with “-”)	601,263,035.79	534,812,887.38
Add: Non-operating income	38,482,264.33	168,645,784.21
Less: Non-operating expense	2,489,883.38	4,994,421.07
III. Total Profit (Loss is listed with “-”)	637,255,416.74	698,464,250.52
Less: Income tax expense	156,926,093.20	174,031,928.07
IV. Net profit (Net loss is listed with “-”)	480,329,323.54	524,432,322.45
(i) Net profit of continuous operating (Net loss is listed with “-”)	480,329,323.54	524,432,322.45
(ii) Net profit of business termination (Net loss is listed with “-”)		
V. Net after-tax of other comprehensive income	46,614,777.72	38,325,056.32

(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-2,514,660.07	263,000.00
1. Changes as a result of re-measurement of net defined benefit plan liability or asset	-2,514,660.07	263,000.00
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	49,129,437.79	38,062,056.32
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	49,129,437.79	38,062,056.32
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	526,944,101.26	562,757,378.77
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: Zhou Shoubin

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	17,832,002,542.55	15,292,555,234.22
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	20,098,154.49	
Other cash received concerning operating activities	205,329,949.93	250,348,958.09
Subtotal of cash inflow arising from operating activities	18,057,430,646.97	15,542,904,192.31
Cash paid for purchasing commodities and receiving labor service	12,576,516,821.83	9,817,458,407.43
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	2,781,005,931.70	2,335,621,670.49
Taxes paid	503,938,323.16	668,268,335.05
Other cash paid concerning operating activities	341,551,448.05	294,499,790.92
Subtotal of cash outflow arising from operating activities	16,203,012,524.74	13,115,848,203.89
Net cash flows arising from operating activities	1,854,418,122.23	2,427,055,988.42
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	22,740,535.94	23,018,666.90
Net cash received from disposal of fixed, intangible and other long-term assets	3,413,604.19	1,819,289.52
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	26,154,140.13	24,837,956.42
Cash paid for purchasing fixed, intangible and other long-term assets	2,261,448,480.03	2,170,224,417.98
Cash paid for investment		
Net increase of mortgaged loans		
Net cash received from subsidiaries and other units obtained	25,120,772.78	

Other cash paid concerning investing activities	1,023,651.75	1,277,063.78
Subtotal of cash outflow from investing activities	2,287,592,904.56	2,171,501,481.76
Net cash flows arising from investing activities	-2,261,438,764.43	-2,146,663,525.34
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	400,000,000.00	296,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities	1,457,203,989.51	1,221,674,080.70
Subtotal of cash inflow from financing activities	1,857,203,989.51	1,517,674,080.70
Cash paid for settling debts	1,279,307,411.71	2,074,680,400.72
Cash paid for dividend and profit distributing or interest paying	188,645,086.06	200,798,539.33
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities	202,020,573.31	188,394,977.32
Subtotal of cash outflow from financing activities	1,669,973,071.08	2,463,873,917.37
Net cash flows arising from financing activities	187,230,918.43	-946,199,836.67
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-27,881,042.58	41,663,429.64
V. Net increase of cash and cash equivalents	-247,670,766.35	-624,143,943.95
Add: Balance of cash and cash equivalents at the period -begin	791,255,686.65	1,415,399,630.60

VI. Balance of cash and cash equivalents at the period -end	543,584,920.30	791,255,686.65
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Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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	17,779,799,230.47	15,258,749,693.82
Write-back of tax received	19,910,796.38	
Other cash received concerning operating activities	208,487,752.85	249,661,725.51
Subtotal of cash inflow arising from operating activities	18,008,197,779.70	15,508,411,419.33
Cash paid for purchasing commodities and receiving labor service	12,560,793,216.10	9,826,140,303.09
Cash paid to/for staff and workers	2,752,738,939.89	2,315,580,568.87
Taxes paid	494,082,108.93	661,815,142.14
Other cash paid concerning operating activities	333,575,369.33	294,240,359.26
Subtotal of cash outflow arising from operating activities	16,141,189,634.25	13,097,776,373.36
Net cash flows arising from operating activities	1,867,008,145.45	2,410,635,045.97
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	22,740,535.94	23,018,666.90
Net cash received from disposal of fixed, intangible and other long-term	3,412,604.19	1,816,869.52

assets		
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		
Subtotal of cash inflow from investing activities	26,153,140.13	24,835,536.42
Cash paid for purchasing fixed, intangible and other long-term assets	2,260,152,791.22	2,169,865,832.31
Cash paid for investment		
Net cash received from subsidiaries and other units	36,763,414.09	
Other cash paid concerning investing activities	1,023,651.75	1,277,063.78
Subtotal of cash outflow from investing activities	2,297,939,857.06	2,171,142,896.09
Net cash flows arising from investing activities	-2,271,786,716.93	-2,146,307,359.67
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	400,000,000.00	296,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities	1,457,203,989.51	1,221,674,080.70
Subtotal of cash inflow from financing activities	1,857,203,989.51	1,517,674,080.70
Cash paid for settling debts	1,279,307,411.71	2,074,680,400.72
Cash paid for dividend and profit distributing or interest paying	188,645,086.06	200,798,539.33
Other cash paid concerning financing activities	202,020,573.31	188,394,977.32
Subtotal of cash outflow from financing activities	1,669,973,071.08	2,463,873,917.37
Net cash flows arising from financing activities	187,230,918.43	-946,199,836.67
IV. Influence on cash and cash	-27,881,042.58	41,663,429.64

equivalents due to fluctuation in exchange rate		
V. Net increase of cash and cash equivalents	-245,428,695.63	-640,208,720.73
Add: Balance of cash and cash equivalents at the period -begin	761,645,065.66	1,401,853,786.39
VI. Balance of cash and cash equivalents at the period -end	516,216,370.03	761,645,065.66

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

Current Period

In RMB

Item	Current Period												
	Owners' equity attributable to parent company											Minorit y interests	Total owners' equity
	Share capital	Other equity instrument			Capital reserve	Less: Invento ry shares	Other compre hensive income	Reason able reserve	Surplus reserve	Provisio n of general risk	Retaine d profit		
		Prefer red stock	Perpet ual capita l securi ties	Other									
I. Balance at the end of the last year	400,00 0,000. 00				75,410, 363.70		131,880 ,061.76		423,424 ,327.64		2,805,4 58,074. 96		3,836,1 72,828. 06
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		131,880,061.76		423,424,327.64		2,805,458,074.96		3,836,172,828.06
III. Increase/Decrease in this year (Decrease is listed with “-”)							46,614,777.72		48,032,932.35		322,320,475.80		416,968,185.87
(i) Total comprehensive income							46,614,777.72				490,353,408.15		536,968,185.87
(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									48,032,932.35		-168,032,932.35		-120,000,000.00
1. Withdrawal of surplus reserves									48,032,932.35		-48,032,932.35		
2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)											-120,000,000.00		-120,000,000.00
4. Other													
(IV) Carrying forward internal owners’ equity													

1. Capital reserves converted to capital (share capital)													
2. Surplus reserves converted 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		178,494,839.48		471,457,259.99		3,127,778,550.76		4,253,141,013.93

Last Period

In RMB

Item	Last Period												
	Owners' equity attributable to parent company										Minority interest s	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 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		-152,443,232.24		-100,000,000.00
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 converted to capital (share capital)													
2. Surplus reserves converted 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

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

Current Period

In RMB

Item	Current Period
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	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		131,880,061.76		422,763,623.11	2,779,367,094.72	3,820,921,948.30
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		131,880,061.76		422,763,623.11	2,779,367,094.72	3,820,921,948.30
III. Increase/Decrease in this year (Decrease is listed with "-")							46,614,777.72		48,032,932.35	312,296,391.19	406,944,101.26
(i) Total comprehensive income							46,614,777.72			480,329,323.54	526,944,101.26
(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								48,032,932.35	-168,032,932.35	-120,000,000.00	
1. Withdrawal of surplus reserves								48,032,932.35	-48,032,932.35		
2. Distribution to owners (or shareholders)								-120,000,000.00	-120,000,000.00		
3. Other											
(IV) Carrying forward internal owners' equity											
1. Capital reserves converted to capital (share capital)											
2. Surplus reserves converted 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		178,494,839.48	470,796,555.46	3,091,663,485.91	4,227,866,049.56	

Last period

In RMB

Item	Last period									
	Share	Other equity instrument	Capital	Less:	Other	Reasonab	Surplus	Retaine	Total	

	capital	Preferred stock	Perpetual capital securities	Other	reserve	Inventory shares	comprehensive income	le reserve	reserve	d profit	owners' equity
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 to owners (or shareholders)										-100,000,000.00	-100,000,000.00
3. Other											
(IV) Carrying forward internal owners' equity											
1. Capital reserves converted to capital (share capital)											
2. Surplus reserves converted 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

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

Shandong Airlines Co., Ltd.

Notes to the Financial Statements

for the Year Ended 31 December 2017

(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 22 Mar 2018. 4 subsidiaries of the Company are included in the consolidated financial statements in 2017, see Note 8 "The equity in other main entities". Scope of consolidation from last year has changed with 2 subsidiaries increasing,

see Note 7 "Change of scope of consolidation".

The Company and the subsidiaries mainly operate in the industry of air transportation.

Note 2 Basis for preparation of the financial statements

1. Basis for preparation

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) on 15 February 2006, and revised Accounting Standards (order 42 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 2017. 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 formulate a number of specific accounting policies and accounting estimates for the revenue recognition and other transactions in accordance with the actual features of production and management, and the relevant provisions of the Accounting Standards. 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 Article 55 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 transactions 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 value of the acquiree'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 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: ① these transactions are considered simultaneously, or in the case of mutual influence made, ② these transactions as a whole in order to achieve a complete business results; ③ the occurrence of a transaction depends on occurs at least one other transaction; ④ a 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 parties have 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, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the Company has rights to the net assets of the arrangement.

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 joint operation: (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 the joint operation; (d) its share of the revenue from the sale of the output by the joint operation; 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 a joint 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 only to the extent of the other parties' interests in the joint operation. When there is evidence of a reduction in the net realizable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets which is in line with provision stipulated by CAS 8, those losses are recognized fully by the Company. When there is evidence of a reduction in the net realizable value 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 ① those 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, ② hedging accounting, the exchange difference related to hedging instruments for the purpose of net overseas 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, ③ available-for-trade is recorded into profit or loss except for amortized cost.

In the preparation of consolidated financial statements involving overseas operations, if there is a monetary item in foreign currency which essentially constitutes a net investment in overseas operation, the exchange difference arising from exchange rate fluctuation will be included in other comprehensive income. When disposal of overseas operations, it will be transferred to the current profit or loss.

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 recognized 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 through 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 personnel. 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 measured by amortization pricing method, which is that the beginning recognized amount minus the already paid principal, plus or minus the accumulated amortization which is the amortization amount from the difference between the beginning recognized amount and maturity amount using the actual interest rate method, and deduct the impairment losses. It's ending cost of the period is its initial acquisition cost.

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 nor retained 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 and 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 through profit or loss, and is 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
Categories 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 recognized 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	
Categories 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
Categories 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 Assets and disposal groups held for sale

The company classify an asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Specific standards are as follows, which should be satisfied at the same time: the asset is immediately sellable at its current condition according to the practice; the company has completed official decision to dispose the asset and has acquired firm purchasing commitments; and the sales will be completed within one year. The disposal group refers to a group of assets that are sold as a whole or disposed of in a transaction as a whole, and the liabilities directly related to those assets transferred in the transaction at the same time. If the assets group or asset group combination of the disposal group share the goodwill obtained in the business combination according to CAS 8 - Asset Impairment, and the disposal group shall include the goodwill allocated to the disposal group.

Non-current assets held for sale and disposal group, which the company's initial measurement or remeasurement on the date of the balance sheet divided into, if the book value is higher than the fair value deducting the sale cost, its book value will be written down to the fair value deducting the sale cost, in addition the reduced amount is recognized as impairment loss included in the current profits and losses, while accruing the provision for impairment of assets held for sale. For the disposal group, confirmed asset impairment losses, will reduce the book value of the goodwill of a disposal group first, then reduce the book value of the non-current assets proportionally applying to CAS 42 - Non-Current Assets Held For Sale, the Disposal group and Discontinued Operations (hereinafter referred to as the "held for sale rule"). With the fair value deducting the sale cost of the disposal assets held for sale increasing on the date of the balance sheet, the deducted amount should be recovered accordingly Within the relevant scope. The recovering amount is included in the profits and losses of the current period, and the book value is increased proportionally according to the proportion of the book value of the non-current assets stipulated in the rules for sale in addition to the goodwill in the disposal group. The deductible book value of goodwill and the asset impairment losses that are applied to the standards of assets for sale shall not be recovered before they are classified as holding assets for sale.

Depreciation or amortization of non-current assets held for sale or disposal group are not raised. The interest of liabilities and other expenses in

the disposal group held for sale will continue to be confirmed.

When the non-current assets or disposal groups no longer meet the conditions of assets held for sale categories, the company will no longer divide that into assets held for sale categories or will remove that from the disposal of non-current assets held for sale, and measured by the lower amount: (1) the book value before being classified as held for sale category, and adjusted of the depreciation, amortization or impairment according to the assumption not being classified as held for sale. (2) recoverable amount.

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 recognized 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. Where a business combination under common control is achieved by multiple acquisition of the acquiree's shareholding, the multiple acquisitions shall be assessed to determine whether the multiple acquisitions shall be viewed as "a package deal". If the multiple acquisitions shall be viewed as "a package deal", the multiple acquisitions shall be accounted for as one single transaction accordingly. If the multiple acquisitions shall not be viewed as "a package deal", the difference between the cost of combination and the sum of the book value of the investment in the acquiree immediately before the combination and the book value of the consideration transferred to acquire additional shareholding is adjusted to capital reserves, and retained earnings if capital reserves is insufficient. Cumulative other comprehensive income associated with the investment recognized as a result of the treatment of equity method or available-for-sale financial assets prior to the combination is not affected by the combination.

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.

Through multiple transactions to obtain the shares of the merged party step by step, and ultimately the enterprise merger under the different control is formed, which should be dealt with differently whether it belongs to "a package deal". If it belongs to "a package deal", all transactions should be dealt as a transaction of acquiring the control. If not, the initial investment cost of the long-term equity investment which is changeably measured by the cost method is calculated according to the sum of the book value of the original investor's equity plus the new investment cost. The original

ownership is measured by equity method, and the other comprehensive income is not carried on an accountancy processing. The difference between the fair value and the book value of the original holding equity investment which is financial assets held for the sale, as well as the accumulated change of the fair value which is entered into the other comprehensive income before, will be transferred into the current profit and loss.

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 recognized 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. For the implementation of major influence or common control but failing to reach control through additional investment over the invested entity, the cost of the long-term equity investment is the sum of fair value of the original equity investment in accordance with "the accounting standards for Enterprises No. 22 - recognition and measurement of financial instruments" and the new investment cost.

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 recognized 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 acquisition. 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 unrealized profit or loss arising from related party

transactions between the Company and an associate or joint venture is deducted from investment income. Unrealized 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 recognized 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 is recognized 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 recognised 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 recognized as accrued liabilities and investment loss. Where the Company has unrecognized share of loss of the investee when the investee generates net profit, the Company's unrecognized share of loss is reduced by the Company's share of net profit and when the Company's unrecognized share or loss is eliminated in full, the Company's share of net profit, if any, is recognized as investment income.

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 recognized 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 recognized prior to the acquisition 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 recognised 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 recognized, 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 recognized 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 recognised 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 is 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 is 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 recognized in profit or loss. Cumulative other comprehensive income relevant to the investment recognized, 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 recognised 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 recognized 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 recognized 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 recognized in profit or loss. Cumulative other comprehensive income relevant to the investment recognized, 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 recognised 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 recognized 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. Fixed assets are only confirmed when the related economic benefits are likely to flow into the company and its cost can be reliably measured. The initial measurement is carried out on the basis of the cost of fixed assets and the effect of the expected discarded cost.

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	20-33	5.00	2.88-4.75
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

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..19 "Impairment of long-term assets".

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 "Impairment of long-term assets".

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 development expenditures.

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:

- ① Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② Intention to complete the intangible asset and use or sell it;
- ③ How 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;
- ④ Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- ⑤ Ability 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 "Impairment of long-term assets".

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 exists. 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 recognized 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 recognized 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 recognized 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 after

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 retirement shall be recognized 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 recognized 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 recognized 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 recognized 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 specified 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.

The company's government subsidies are usually confirmed and measured by the actual amount when they are received. However for the end of

the period, if there are conclusive evidence that the relevant conditions can be meet of the financial support policy and financial support funds are expected to receive, it should be measured according to the amount receivable. The following conditions should be meet at the same time if the subsidies are measured by the amount receivable: (1) the amount of subsidy receivable has been confirmed by the document issued by the government departments, or could be reasonably estimated in accordance with the relevant provisions of its own official release of financial resources management approach, and the expected amount of a material uncertainty which does not exist; (2) it is based on the financial support project and financial management measures which is released officially by the local finance department with active publicity according to the provisions of the "Regulations on open government information". And the management measures should be inclusive (any enterprises complying with the conditions may apply for that), rather than specifically for specific enterprises; (3) The relevant subsidy has a clear commitment to the allocation period, and guaranteed by corresponding financial budget, which can be received within the prescribed time limit with reasonable guarantee; (4) other relevant conditions (if any) should be met in accordance with the specific circumstances of the company and the grant.

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 according to a systematic and reasonable method. 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.

Government subsidies including both assets-related parts and income-related parts should be treated separately. If it is difficult to separate, the government subsidies as a whole will be classified as income-related government grants.

The government subsidies related to daily activities of the company are included in other income and gain and expenses in accordance with the essence of economic business; if it is not related to daily activities, it will be included in non-operating income and expense.

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 are other situations, 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 and gain 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 Lessor under operating Lease

Lease income from operating leases shall be recognized by the lessor 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 lessor 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 recognized 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

4.26.1.1 Changes of accounting policy resulting from the implementation of the new enterprise accounting standards

In 28 April, 2017, the Ministry of Finance issued the accounting standard for Enterprises No. 42 - non current assets held for sale, disposal group and termination of operating, based on Accounting [2017] No.13, which was implemented since 28 May, 2017. In 10 May, 2017, the Ministry of Finance issued the accounting standards for Enterprises No.16 - government subsidy (2017 Revision), based on accounting [2017] No.15, which was implemented since 12 June, 2017. The company began to implement the aforementioned two accounting standards, which were passed by the third meeting of the sixth board of directors of the company in 29, August 2017.

"Accounting standards for Enterprises No. 42 – non-current assets held for sale, disposal group and termination of operating" regulates the classification, measurement and presentation of non current assets held for sale or disposal group. The presentation and disclosure of the comparable annual financial statements has been adjusted according to the guidelines for the existing termination of operation on the implementation date (28 May, 2017).

Before the implementation of " the accounting standards for Enterprises No. 16 - government subsidy (2017 Revision)", government subsidies the company obtained were included in non-operating income; the government grants related to assets recognized as deferred income, which were amortized averagely in the operational life of assets. After the implementation of " the accounting standards for Enterprises No. 16 - government subsidy (2017 Revision)", the government subsidies related to daily activities took place after January 1, 2017 were included in other income and gain, and the government subsidies which were not related to daily activities were included in non-operating income. This change in the accounting policy led to an increase of CNY 103,523,912.62 in other income and gain in 2017, and a decrease of CNY 103,523,912.62 in non-operating income.

In 25 December, 2017, the Ministry of finance issued the notice of the ministry of finance on revising the form of general corporate financial statements, based on accounting [2017] No.30 revised and issued, non-financial enterprise implementing the accounting standards should be in accordance with the accounting standards for enterprises and the requirements of this notice for the financial statements of the year 2017 and following years. In accordance with implementation of the notice of the ministry of finance on revising the form of general corporate financial statements, the original presentation in the "non-operating income" and "non-operating expenses" of the disposal gains and losses of non-current assets and the exchange gains and losses of non-monetary assets, is changed into "Asset disposal income ". The change of accounting policy resulted in an increase of CNY 90,439.51 in 2017 and an increase of CNY 68,054.80 in 2016 in assets disposal income, and a decrease of CNY 90,439.51 in 2017 and a decrease of CNY 68,054.80 in 2016 in non-operating income.

4.26.1.2 Changes in other accounting policies

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

4.26.2 change of accounting estimates

There is no significant change of accounting estimates 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 actual result derived from those uncertainties in estimates may be different from the Management estimates, which 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 6.26.

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%. The output tax is calculated using the sales of goods and taxable services income (including transportation and ground services revenue).
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 turnover tax.
Education surcharge	Education surcharge is calculated at 3% of turnover tax.
Local education Surcharge	Local education Surcharge is calculated at 2% of turnover tax.
Civil aviation development Fund	Civil aviation development fund shall be calculated using the collection standard of the relevant

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%. The output tax is calculated using the sales of goods and taxable services income (including transportation and ground services revenue).
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 turnover tax.
	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) and Announcement of the State Administration of Taxation on the enterprise income tax on the in-depth implementation of the development strategy of the western region of China"(《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》)(State Administration of Taxation [2012]12), the Chongqing branch of the company 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%.

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 transporion 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. According to the Announcement of the State Administration of Taxation on the enterprise income tax on the in-depth implementation of the development strategy of the western region of China"(《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》)(State Administration of Taxation [2012]12), the Chongqing branch of the company Conforming to the conditions for the development and relief of the western development, can get a reduced rate of 15% to pay corporate income tax in 2017.

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 2017", "31st December 2017", "the year ended 31st December 2017", and "the year ended 31st December 2016" respectively.

6.1 Monetary funds

Item	C/f	B/f
Cash at hand:	372,046.44	182,606.18
Bank deposit:	543,212,873.86	791,073,080.47
Total	543,584,920.30	791,255,686.65
Including: the total amount of deposit abroad	2,495,063.57	1,604,517.22

6.2 Notes receivables

Item	C/f	B/f
Bank acceptance	115,000.00	
Total	115,000.00	

6.3 Accounts receivables

6.3.1 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	354,888,680.81	62.18			354,888,680.81
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	180,164,301.95	31.57	9,008,215.10	5.00	171,156,086.85
Accounts receivable of individual insignificance but subject to individual impairment assessment	35,683,549.52	6.25	10,823,117.90	30.33	24,860,431.62
Total	570,736,532.28	100.00	19,831,333.00	3.47	550,905,199.28

(Continued)

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

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	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	4.56	322,774,169.85

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

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Air China	226,488,421.70			No indication of impairment upon individual assessment
Accounting Center of China Aviation	64,282,945.89			No indication of impairment upon individual assessment
BSP-CHINA	64,117,313.22			No indication of impairment upon individual assessment
Total	354,888,680.81			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	180,164,301.95	9,008,215.10	5.00
Total	180,164,301.95	9,008,215.10	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
BSP-Other areas(notes)	20,911,132.89			No indication of impairment upon individual assessment
Debtor #1	8,057,209.85	8,057,209.85	100.00	impairment upon individual assessment
UATP	2,706,589.78			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
ARC	1,224,308.95			Non recoverable upon individual assessment
CR Airways	916,508.05	916,508.05	100.00	impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	18,400.00			No indication of impairment upon individual assessment
Total	35,683,549.52	10,823,117.90	30.33	

Notes: BSP-Other areas(notes) includes Tai Wan、Korea、Japan、Hong Kong、Australia、Russia、Canada、Thailand、Germany、Cambodia、Vietnam、Singapore、Indonesia、Philippines etc.

6.3.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts increased during the year due to the business combination is CNY39,840.46. And the amount of allowance for bad debts recognized during the year is CNY4,364,446.50. No recovery or return to bad debts during the year.

6.3.3 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 398,622,813.01, accounting for 69.84% of the total accounts receivable as at the end of current year, the total corresponding allowance for bad debts is CNY2,186,706.61.

6.4 Prepayments

6.4.1 Disclosure by age

Age	C/f	B/f
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	Amount	%	Amount	%
Within 1 year	221,571,912.67	99.50	248,363,327.89	99.69
1 to 2 years	343,453.93	0.15	50,862.40	0.02
2 to 3 years	50,862.40	0.02	231,761.96	0.09
Over 3 years	722,054.66	0.33	490,292.70	0.20
Total	222,688,283.66	100.00	249,136,244.95	100.00

6.4.2 Details of top five prepayments

The total amount of top five prepayments as at the end of current year is CNY 74,623,756.62, accounting for 33.51% of the total advance to suppliers.

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	397,069,459.88	86.85	106,076,302.93	26.71	290,993,156.95
Other receivables subject to subject to impairment assessment by credit risk characteristics of a portfolio	34,890,352.33	7.63	1,744,517.62	5.00	33,145,834.71
Other receivables of individual insignificance but subject to individual impairment assessment	25,213,889.75	5.52			25,213,889.75
Total	457,173,701.96	100.00	107,820,820.55	23.58	349,352,881.41

(Continued)

Category	B/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
Other receivables of individual	353,220,633.95	76.34	108,431,670.15	30.70	244,788,963.80

Category	B/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
significance and subject to individual impairment assessment					
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

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	205,026,036.71			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	47,450,699.99	2,372,535.00	5.00	impairment assessment by portfolio
Debtor #3	43,041,005.53	2,152,050.28	5.00	impairment assessment by portfolio
Total	397,069,459.88	106,076,302.93	26.71	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	34,890,352.33	1,744,517.62	5.00
Total	34,890,352.33	1,744,517.62	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
Air China	5,799,073.26			No indication of impairment upon individual assessment
Debtor #1	4,482,461.20			No indication of impairment upon individual assessment
Debtor #2	4,028,610.00			No indication of impairment upon individual assessment
Shandong Air New Media Co., Ltd.	2,952,004.83			No indication of impairment upon individual assessment
Debtor #3	2,024,430.00			No indication of impairment upon individual assessment
Debtor #4	1,463,660.80			No indication of impairment upon individual assessment
Debtor #5	1,332,976.80			No indication of impairment upon individual assessment
Debtor #6	1,136,562.31			No indication of impairment upon individual assessment
Debtor #7	784,104.00			No indication of impairment upon individual assessment
Debtor #8	553,166.41			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	188,945.11			No indication of impairment upon individual assessment
Shandong Airlines Rainbow Auto Service Co., Ltd.	158,590.09			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	100,100.00			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Dalian airlines limited liability company	97,611.00			No indication of impairment upon individual assessment
Kunming Airlines Ltd	92,410.00			No indication of impairment upon individual assessment
Debtor #9	11,036.17			No indication of impairment upon individual assessment
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	7,745.32			No indication of impairment upon individual assessment
Shandong XiangYu Air Technology Co., Ltd.	402.45			No indication of impairment upon individual assessment
Total	25,213,889.75			

6.5.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts increased during the year due to business combination is CNY 10,942.00. The amount of allowance for bad debts reversed during the current year is CNY 3,912,893.31. No recovery or provision to bad debts during the year.

6.5.3 Disclosure by nature

Category	C/f	B/f
Deposits	220,843,044.40	151,888,719.29
Others	236,330,657.56	310,834,377.35
Total	457,173,701.96	462,723,096.64

6.5.4 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #1	Deposits	205,026,036.71	Within 1 year	44.85	
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 5 years	22.21	101,551,717.65
Debtor #2	Others	47,450,699.99	Within 3 years	10.38	2,372,535.00
Debtor #3	Others	43,041,005.53	Within 2 years	9.41	2,152,050.28

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #4	Others	8,502,368.93	Over 5 years	1.86	425,118.45
Total		405,571,828.81		88.71	106,501,421.38

6.6 Inventories

Type	C/f		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air equipments	78,296,670.06		78,296,670.06
Low-value consumables	2,644,918.01		2,644,918.01
Materials	2,982,597.57		2,982,597.57
Total	83,924,185.64		83,924,185.64

(Continued)

Type	B/f		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air equipments	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

6.7 Other current assets

Type	C/f	B/f
VAT deductible	185,809,122.83	59,685,735.09
Total	185,809,122.83	59,685,735.09

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	337,378,099.40		337,378,099.40	271,872,182.34		271,872,182.34
Including: measured by fair value	255,715,999.40		255,715,999.40	190,210,082.34		190,210,082.34

measured by cost	81,662,100.00		81,662,100.00	81,662,100.00		81,662,100.00
Total	337,378,099.40		337,378,099.40	271,872,182.34		271,872,182.34

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	255,715,999.40	255,715,999.40
Accumulated changes in the fair value recognized into other comprehensive income	249,025,999.40	249,025,999.40
Impairment amount		

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

Investee	Carrying amounts as at 31/12/2017				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	19,278,423.67
Jinan International Airport	46,662,100.00			46,662,100.00					1.94	566,011.27
Total	81,662,100.00			81,662,100.00						19,844,434.94

6.9 Long-term equity investments

Category	B/f	Allowance b/f	Currency year movement (+, -)
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			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)

Category	Currency year movement (+, -)			C/f	Allowance c/f
	Declared cash dividends or profits	Allowance recognized	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 31/12/2016	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
1.2 Increased in current year	21,702,140.55	562,901,103.11	67,554,642.39	16,558,578.34	19,911,048.75	688,627,513.14
(1) Purchase		536,321,560.61	67,554,642.39	9,492,156.78	11,154,131.98	624,522,491.76
(2) Transferred from construction in-progress	76,000.00	26,579,542.50				26,655,542.50

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(3) Transferred from merger and acquisitions	21,626,140.55			7,066,421.56	8,756,916.77	37,449,478.88
(4) Others						
1.3 Decreased in current year	3,377,505.67	130,467,836.52	94,740,873.31	9,510,179.48	3,646,447.27	241,742,842.25
(1) Disposal or scrap		130,467,836.52	94,740,873.31	9,510,179.48	3,646,447.27	238,365,336.58
(2) Others	3,377,505.67					3,377,505.67
1.4 Balance as at 31/12/2017	377,594,811.74	10,922,824,621.03	691,140,145.86	75,980,815.47	207,236,294.61	12,274,776,688.71
2. Accumulated Depreciation						
2.1 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
2.2 Increased in current year	19,034,048.09	756,495,479.60	38,924,839.43	10,049,809.44	24,563,824.46	849,068,001.02
(1) Accrual	11,849,610.23	756,495,479.60	38,924,839.43	5,046,840.33	16,735,806.61	829,052,576.20
(2) Transferred from merger and acquisitions	7,184,437.86			5,002,969.11	7,828,017.85	20,015,424.82
2.3 Decreased in current year		130,467,836.52	60,861,648.05	3,068,903.31	8,596,532.15	202,994,920.03
(1) Disposal or scrap		130,467,836.52	60,861,648.05	3,068,903.31	8,596,532.15	202,994,920.03
(2) Others						
2.4. Balance as at 31/12/2017	100,929,753.95	4,842,737,027.50	260,938,213.01	45,330,057.86	117,972,021.16	5,367,907,073.50
3. Impairment allowance						
3.1 Balance as at 31/12/2016			12,824,873.52			12,824,873.52
3.2 Increased in current year						
(1) Accrual						
(2) Transferred from merger and acquisitions						
3.3 Decreased in current year			10,598,526.45			10,598,526.45
(1) Disposal or scrap			10,598,526.45			10,598,526.45

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(2) Others						
3.4 Balance as at 31/12/2017			2,226,347.07			2,226,347.07
4. Carrying amount						
4.1 Carrying amount as at 31/12/2017	276,665,057.79	6,080,087,593.53	427,975,585.78	30,650,757.59	89,264,273.45	6,904,643,268.14
4.2 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

6.10.2 Fixed assets acquired under financial leases

Category	Cost	Accumulated Depreciation	Impairment allowance	Carrying amount
Aircrafts and engines	2,498,912,039.05	1,125,756,825.03		1,373,155,214.02
Total	2,498,912,039.05	1,125,756,825.03		1,373,155,214.02

6.10.3 Fixed assets pending ownership registration

Item	Carrying amount	Reason for pending
Operational support building of Yantai Penglai International Airport	58,150,699.13	Ownership registration in process
Jinan cargo arrival and departure warehouses	12,390,805.95	Land rented from Jinan Air Control, not eligible for ownership registration
Buildings of Jinping Food Co., Ltd.	14,121,679.79	Land use rights belonging to Shandong SDA Group, not eligible for ownership registration

Impairment allowance of fixed assets is CNY 2,226,347.07 as at 31/12/2017, with no additional amount of allowance for fixed assets impairment recognized 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	146,118,195.00		146,118,195.00	137,792,677.66		137,792,677.66
Prepayment	2,587,447,978.67		2,587,447,978.67	2,110,159,957.73		2,110,159,957.73

Items	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
for aircrafts						
Construction of information system	3,600,507.95		3,600,507.95	2,547,826.96		2,547,826.96
Total	2,737,166,681.62		2,737,166,681.62	2,250,500,462.35		2,250,500,462.35

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	136,606,996.49	9,511,198.51			146,118,195.00
Aircraft asset introduction project	15,004,922,602.00	2,110,159,957.73	1,925,085,790.81	26,579,542.50	1,421,218,227.37	2,587,447,978.67
Total	15,199,922,602.00	2,246,766,954.22	1,934,596,989.32	26,579,542.50	1,421,218,227.37	2,733,566,173.67

(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	74.93	Not yet completed						Circulating funds
Aircraft asset introduction project	17.24	Not Applicable	28,294,668.90	42,437,633.77	4,777,192.60	-1,836,166.02	3.4177-3.5332	Loans from financial institution

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
Total			28,294,668.90	42,437,633.77	4,777,192.60	-1,836,166.02		

Note: The cumulative amount of interests capitalized as at 31/12/2016 is CNY77,345,661.29, the amount of current year is CNY -1,836,166.02, including CNY 4,777,192.60 transferred into fixed assets and CNY 42,437,633.77 transferred into leaseback assets during the current year, the cumulative amount of interests capitalized as at 31/12/2017 is CNY 28,294,668.90.

6.12 Intangible assets

6.12.1 General information

Items	Land rights	Software	Total
1. Cost:			
1.1 Balance as at 31/12/2016	108,347,341.13	28,857,996.52	137,205,337.65
1.2 Increased in current year		9,176,423.11	9,176,423.11
(1) Purchase			
(2) Diversion of construction		9,176,423.11	9,176,423.11
(3) Increased from business combination			
1.3 Decreased in current year			
(1) Disposal			
1.4 Balance as at 31/12/2017	108,347,341.13	38,034,419.63	146,381,760.76
2. Accumulated amortization			
2.1 Balance as at 31/12/2016	13,584,809.57	9,416,774.88	23,001,584.45
2.2 Increased in current year	2,403,582.86	4,641,977.61	7,045,560.47
(1) Accrual	2,403,582.86	4,641,977.61	7,045,560.47
(2) Increased from business combination			
2.3 Decreased in current year			
(1) Disposal			
2.4 Balance as at 31/12/2017	15,988,392.43	14,058,752.49	30,047,144.92

Items	Land rights	Software	Total
3. Impairment allowance			
3.1 Balance as at 31/12/2016			
3.2 Increased in current year			
(1) Accrual			
(2) Increased from business combination			
3.3 Decreased in current year			
(1) Disposal			
3.4 Balance as at 31/12/2017			
4. Carrying amount			
4.1 Carrying amount as at 31/12/2017	92,358,948.70	23,975,667.14	116,334,615.84
4.2 Carrying amount as at 31/12/2016	94,762,531.56	19,441,221.64	114,203,753.20

6.12.2 Land rights with pending ownership registration

No case of land rights with pending ownership registration was identified as of 31/12/2017.

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
Shandong Jinping Food Co., Ltd.		454,020.13				454,020.13
Total	10,220,816.22	454,020.13				10,674,836.35

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
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6.14 Deferred charges

Item	B/f	Current year increase	Current year amortization	Other decrease	C/f
Pilot training	459,390,584.88	143,439,179.46	79,062,866.99		523,766,897.35
Decoration expenditure	12,727,205.54	1,408,198.46	5,074,747.41		9,060,656.59
Modification costs for aircraft leasing	3,444,869.66		407,151.91		3,037,717.75
Total	475,562,660.08	144,847,377.92	84,544,766.31		535,865,271.69

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	127,652,153.55	31,913,038.39	127,149,817.90	31,787,454.48
Impairment allowance for fixed assets	2,226,347.07	556,586.77	12,824,873.52	3,206,218.38
Fair value movement of financial liabilities held for trading	3,607,390.15	901,847.54	1,155,815.80	288,953.95
Provisions	2,951,741,214.11	737,935,303.53	2,398,351,341.80	599,587,835.45
Employment benefits payable	19,525,941.56	4,881,485.39	13,339,322.51	3,334,830.63
Deferred income	28,052,113.39	7,013,028.35	14,319,523.98	3,579,881.00
Total	3,132,805,159.83	783,201,289.97	2,567,140,695.51	641,785,173.89

6.15.2 Deferred tax liabilities

Item	C/f		B/f	
	Taxable temporary differences	Deferred tax	Taxable temporary differences	Deferred tax liabilities

		liabilities		
asset evaluation increment from Enterprise merger under the different control	5,216,313.67	1,304,078.42		
Changes in fair value of financial assets available for sale	249,025,999.40	62,256,499.85	183,520,082.34	45,880,020.58
Total	254,242,313.07	63,560,578.27	183,520,082.34	45,880,020.58

6.16 Financial liabilities measured by fair value with changes in fair value recognized in profit or loss

Item	Fair value c/f	Fair value b/f
Interest rate swaps	3,607,390.15	1,155,815.80
Total	3,607,390.15	1,155,815.80

The immature interest rate swaps held by the Company had a principal amount of USD 40,641,525.20 as at 31/12/2017; Bankers confirmed that the reporting date fair value of these interest rate swaps is CNY-552,078.32.

6.17 Accounts payable

6.17.1 General information

Item	C/f	B/f
Aircraft maintenance costs	337,904,448.20	463,956,451.17
Fuel cost	261,755,113.61	197,231,462.72
Landing fee	465,414,727.22	333,773,372.93
Aircraft service cost	441,075,851.00	345,104,581.50
Flight catering	102,114,633.18	82,266,721.74
Computer booking fee	43,775,358.00	35,600,521.61
Lease rental	5,192,061.57	7,978,905.87
Others	274,141,895.00	222,182,843.55
Total	1,931,374,087.78	1,688,094,861.09

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

6.18 Advance from customers

Item	C/f	B/f
Ticket clearing	596,872,012.37	671,930,813.96

Advanced payment for tickets	4,622,618.61	4,811,444.78
Others	12,824,788.69	22,577,294.31
Total	614,319,419.67	699,319,553.05

6.19 Employee benefits payable

6.19.1 Disclosure by classification

Item	B/f	Current year increase	Current year decrease	C/f
1. Short-term employee benefits	454,375,029.19	2,647,624,660.90	2,534,893,808.09	567,105,882.00
2. Post-employment benefits		229,808,117.45	229,808,117.45	
3. Termination benefits		550,296.28	550,296.28	
4. Other long-term employee benefits within one year				
Total	454,375,029.19	2,877,983,074.63	2,765,252,221.82	567,105,882.00

6.19.2 Disclosure by classification of short-term employee benefits

Item	B/f	Current year increase	Current year decrease	C/f
1. Wages, salaries and subsidies	413,228,272.68	2,369,621,368.07	2,266,797,540.66	516,052,100.09
2. Employee welfare		16,999,847.93	16,999,847.93	
3. Social insurance:		78,628,667.26	78,628,667.26	
Including: Medical insurance		65,554,014.95	65,554,014.95	
Employment injury insurance		5,505,337.94	5,505,337.94	
Maternity insurance		7,569,314.36	7,569,314.36	
Disabled security payments				
4. Housing provident fund	147,434.00	81,237,275.22	81,371,961.22	12,748.00
5. Labour union fee and employee education fee	13,339,322.51	69,680,325.42	63,435,791.02	19,583,856.91
6. Short-term paid absences	27,660,000.00	31,457,177.00	27,660,000.00	31,457,177.00
7. Short-term profit-sharing plan				
Total	454,375,029.19	2,647,624,660.90	2,534,893,808.09	567,105,882.00

6.19.3 Disclosure by defined contribution plan

Item	B/f	Current year increase	Current year decrease	C/f
1. Basic pension		144,359,830.39	144,359,830.39	
2. Unemployment insurance		5,800,075.82	5,800,075.82	
3. Annuity payment		79,648,211.24	79,648,211.24	
Total		229,808,117.45	229,808,117.45	

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.

6.20 Taxes and fees payable

Tax (Fee)	C/f	B/f
VAT	1,400,888.26	775,322.54
Urban construction and maintenance tax	223,615.34	171,124.16
Education surcharge	159,477.76	123,863.13
Enterprise income tax	15,769,670.61	4,877,426.27
Property tax	181,408.07	170,078.07
Land tax	205,460.75	221,139.00
Personal income tax	14,673,780.29	22,838,989.34
stamp duty	799,542.22	2,553,371.69
Civil aviation development fund	130,966,878.62	106,835,140.08
Others	186,068.99	95,350.88
Total	164,566,790.91	138,661,805.16

6.21 Interests payable

Item	C/f	B/f
Interest on long-term borrowings with repayment by installments	1,324,391.18	2,430,456.90
Total	1,324,391.18	2,430,456.90

6.22 Other payables

6.22.1 Disclosure by nature

Item	C/f	B/f
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Item	C/f	B/f
Payable for construction projects	18,457,305.62	30,515,708.94
Payable for down payments	127,273,552.52	91,264,426.66
Payables associated with aircraft purchase	3,973,086.10	3,949,505.02
Taxes deducted at source	83,689,966.95	80,231,680.37
Others	178,288,217.48	195,893,115.22
Total	411,682,128.67	401,854,436.21

6.22.2 Significant other payables due for more than 1 year

Creditor	Amount	Reason for pending settlement
Air China	20,000,000.00	Security deposit has not been settled yet.
Total	20,000,000.00	

6.23 Non-current liabilities due within one year

Category	C/f	B/f
Long-term borrowings due within one year (Note 6.24)	433,674,928.00	836,269,451.50
Long-term payables due within one year (Note 6.25)	180,371,296.77	144,580,142.52
Long-term employee benefits payable due within one year (Note 6.26)	8,081,000.00	6,794,418.00
Total	622,127,224.77	987,644,012.02

6.24 Long-term borrowings

Category	C/f	B/f
Secured loans	1,553,926,179.16	2,027,940,287.04
Credit loans	97,359,580.00	607,930,932.00
Less: Long-term borrowings due within one year (Note 6.23)	433,674,928.00	836,269,451.50
Total	1,217,610,831.16	1,799,601,767.54

Note: ① Class and amount of mortgage assets see Note 6.50 assets with imposed restriction on ownership.

② Interest rates as at 31/12/2017 of the above-mentioned long-term borrowings range from 1.7136%-5.4883%.

6.25 Long-term payables

Category	C/f	B/f
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Category	C/f	B/f
Financial lease rental payables	1,065,062,917.10	921,300,803.04
Maintenance payables for aircrafts and engines held under operating lease	2,717,062,560.74	2,217,672,688.43
Less: Financial lease rental payables due within one year (Note 6.23)	180,371,296.77	144,580,142.52
Less: Maintenance payables for aircrafts and engines held under operating lease due within one year (Note 1)	323,941,689.42	460,191,258.69
Total	3,277,812,491.65	2,534,202,090.26

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

6.26 Long-term employee benefits payable

6.26.1 General information

Item	C/f	B/f
Post-employment benefits-net defined benefit liability	119,031,000.00	100,925,069.51
Less: long-term staff remuneration payable due within one year (Note 6.23)	8,081,000.00	6,794,418.00
Total	110,950,000.00	94,130,651.51

6.26.2 Movements

① Defined benefit obligation

Item	C/f	B/f
(1) Net Defined Benefit Asset/(Liability) at End of Prior Period	100,925,069.51	90,145,000.00
(2) Defined benefit costs recognized into current profit or loss	23,179,000.00	17,918,069.51
1. Current Service Cost		
2. Past Service Cost	20,010,000.00	15,302,069.51
3. Settlement (Gain)/Loss		
4. Net Interest/(Income) on Net Defined Benefit Liability/(Asset)	3,169,000.00	2,616,000.00
(3) Defined benefit costs recognized into other comprehensive income	-2,514,660.07	263,000.00
1. Actuarial gains/(losses)	-2,514,660.07	263,000.00

Item	C/f	B/f
(4) Other movements	7,587,729.58	6,875,000.00
1. Settlement payment		
2. Benefits Paid Directly by Employer	7,587,729.58	6,875,000.00
(5) Net defined benefit asset/(liability) at end of current year	119,031,000.00	100,925,069.51

② Actuarial Assumptions

Item	31st December, 2017	31st December, 2016
Discount Rate	4.00%	3.25%
Mortality Rate	China Life Insurance Mortality Rate 2010-2013 (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%	

6.27 Government subsidiess

6.27.1The basic situation of the initial recognition of the government subsidies in 2017

Item	Amount	Assets Related		Income Related				Whether or not actually received
		Deferred income	Reducing the book value of assets	Deferred income	Other income and gain	Non-operating income	Reducing cost and expense	
Designated subsidy for HUD and repackaging project	15,630,000.00	15,630,000.00						Yes
Airline subsidy	92,199,043.70				92,199,043.70			Yes
Other items	9,427,458.33				9,427,458.33			Yes
Total	117,256,502.03	15,630,000.00			101,626,502.03			

6.27.2 the government subsidies Included in current year profit and loss

Item	Assets/Income Related	Other income and gain	Non-operating income	Reducing cost and expense
Airline subsidy	Income related	92,199,043.70		
Designated subsidy for HUD and repackaging project	Assets related	421,410.47		
Designated subsidy for civil aviation energy-saving program	Assets related	976,500.12		
Designated subsidy for snow disaster	Assets related	499,500.00		
Other items	Income related	9,427,458.33		
Total		103,523,912.62		

6.28 Deferred income

Item	B/f	Current year increase	Current year decrease	C/f	Causes
Unrealized gains and losses of operating lease from aircraft leaseback	44,119,997.18	43,884,202.02	4,418,009.78	83,586,189.42	The aircraft sale-leaseback disposal profits and losses
Designated subsidy for snow disaster	1,490,458.34		499,500.00	990,958.34	Asset related subsidies
Designated subsidy for civil aviation energy-saving program	12,829,065.64		976,500.12	11,852,565.52	Asset related subsidies
Designated subsidy for HUD and repackaging project		15,630,000.00	421,410.47	15,208,589.53	Asset related subsidies
Total	58,439,521.16	59,514,202.02	6,315,420.37	111,638,302.81	

Details of government grants:

Item	B/f	Current year increase	Current year decrease (Other benefits)	C/f	Asset /Income Related
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Designated subsidy for snow disaster	1,490,458.34		499,500.00	990,958.34	Asset related subsidies
Designated subsidy for civil aviation energy-saving program	12,829,065.64		976,500.12	11,852,565.52	Asset related subsidies
Designated subsidy for HUD and repackaging project		15,630,000.00	421,410.47	15,208,589.53	Asset related subsidies
Total	14,319,523.98	15,630,000.00	1,897,410.59	28,052,113.39	

6.29 Share capital

Category	B/f		Currency year movement (+, -)					C/f	
	Amount	%	Share issue	Bonus issue	Conversion 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									

Category	B/f		Currency year movement (+, -)					C/f	
	Amount	%	Share issue	Bonus issue	Conversion from reserves	Others	Subtotal	Amount	%
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 Ordinary 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									
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

6.30 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

6.31 Other comprehensive income

Item	B/f	Total amount in current year	C/f
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		Amount for the year before tax	Less: previously recognized 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	-5,760,000.00	-2,514,660.07			-2,514,660.07		-8,274,660.07
Including: remeasurement of net assets or net liabilities of defined benefit plans	-5,760,000.00	-2,514,660.07			-2,514,660.07		-8,274,660.07
2.Other comprehensive income reclassifiable to profit or loss in subsequent periods	137,640,061.76	65,505,917.06		16,376,479.27	49,129,437.79		186,769,499.55
Gains and losses from changes in fair value of financial assets available for sale	137,640,061.76	65,505,917.06		16,376,479.27	49,129,437.79		186,769,499.55
Total of other comprehensive income	131,880,061.76	62,991,256.99		16,376,479.27	46,614,777.72		178,494,839.48

6.32 Surplus reserves

Category	B/f	Current year increase	Current year decrease	C/f
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Category	B/f	Current year increase	Current year decrease	C/f
Statutory surplus reserve	423,424,327.64	48,032,932.35		471,457,259.99
Total	423,424,327.64	48,032,932.35		471,457,259.99

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.

6.33 Retained earnings

Items	Current year	Prior year
Pre-adjustment balance brought forward	2,805,458,074.96	2,425,066,740.03
Total adjustment to retained earnings b/f (+, -)		
Retained earnings b/f after adjustment	2,805,458,074.96	2,425,066,740.03
Add: Net profit attributable to shareholders of the parent	490,353,408.15	532,834,567.17
Less: Appropriation to statutory surplus reserve	48,032,932.35	52,443,232.24
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared	120,000,000.00	100,000,000.00
Bonus issue		
Balance carrying forward	3,127,778,550.76	2,805,458,074.96

6.34 Operating revenues and costs

Category	Current year		Prior year	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	16,046,687,453.67	14,774,120,250.51	13,383,512,531.78	11,888,575,339.12
Other business	438,025,698.56	9,348,835.25	358,853,013.78	1,598,065.47
Total	16,484,713,152.23	14,783,469,085.76	13,742,365,545.56	11,890,173,404.59

6.35 Tax and surcharges

Item	Current year	Prior year
Business tax		4,633,662.56

Urban maintenance and construction tax	22,129,543.73	18,430,505.70
Education surcharge and others	10,727,269.44	22,953,032.48
Total	32,856,813.17	46,017,200.74

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

6.36 Sales expenses

Category	Current year	Prior year
Agency fees	258,971,906.80	267,742,409.14
Employment benefits	236,720,432.47	178,332,207.47
Computer booking	139,678,642.23	100,918,601.79
Online payment	34,049,310.56	40,788,727.39
System and network	28,021,600.45	9,597,413.64
Lease rental	16,910,605.64	16,362,885.25
Advertisement fees	16,316,066.02	20,250,896.90
Travel expenses	5,561,740.83	5,202,704.24
BSP data processing	5,438,596.42	3,499,362.04
Administrative office expenses	4,942,211.35	3,862,339.59
Depreciation	1,475,012.61	1,599,442.92
Sales expense of annual tickets	1,343,079.63	1,047,985.94
Others	32,294,357.38	25,756,200.22
Total	781,723,562.39	674,961,176.53

6.37 General and administrative expenses

Category	Current year	Prior year
Employment benefits	244,164,428.28	183,786,142.00
Lease rental	22,996,800.15	19,625,100.23
Outsourcing fee	20,816,097.75	21,970,938.61
Depreciation	15,060,505.17	14,628,022.94
Water, electricity charges	11,442,234.06	12,220,258.07
Amortisation of intangibles	7,045,560.47	5,863,228.47

Category	Current year	Prior year
Business entertainment costs	6,037,192.32	4,937,359.74
Administrative office expenses	5,408,399.05	4,709,058.67
Technology development costs	5,134,384.86	11,007,809.25
Taxes and fees		2,020,031.01
Others	57,285,460.58	53,175,913.71
Total	395,391,062.69	333,943,862.70

Note: In accordance with "Vat accounting treatment provisions" (Accounting [2016]22), the tax is disclosed in Tax and surcharges since may 2016.

6.38 Financial costs

Category	Current year	Prior year
Interest expenses	113,961,789.03	126,981,176.69
Less: Interest income	10,272,441.70	17,637,929.77
Exchange difference	-106,586,357.82	147,625,889.91
Bank charges and others	1,667,750.29	4,907,449.32
Total	-1,229,260.20	261,876,586.15

6.39 Loss on asset impairment

Category	Current year	Prior year
Allowance for bad debt	451,553.19	9,311,766.02
Total	451,553.19	9,311,766.02

6.40 Gain from changes in fair value

Source	Current year	Prior year
Interest rate swaps	-2,451,574.35	2,214,631.82
Total	-2,451,574.35	2,214,631.82

6.41 Investment income

Category	Current year	Prior year
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss	-1,023,651.75	-1,277,063.78
Income from holding of financial assets available for sale	22,740,535.94	18,636,766.90

Category	Current year	Prior year
Total	21,716,884.19	17,359,703.12

6.42 Gain on disposal of non-current assets

Item	Current year	Prior year	Included in current year non-recurring profit and loss
Disposal of fixed assets	90,439.51	68,054.80	90,439.51
Total	90,439.51	68,054.80	90,439.51

6.43 Other income and gain

Item	Current year	Prior year	Included in current year non-recurring profit and loss
Airline subsidy	92,199,043.70		92,199,043.70
Designated subsidy for HUD and repackaging project	421,410.47		421,410.47
Designated subsidy for civil aviation energy-saving program	976,500.12		976,500.12
Designated subsidy for snow disaster	499,500.00		499,500.00
Other items	9,427,458.33		9,427,458.33
Total	103,523,912.62		103,523,912.62

6.44 Non-operating income

Category	Current year	Prior year	Included in current year non-recurring profit and loss
Gain on non-current asset disposals			
Government grants (notes)		149,937,201.77	
Others	38,574,150.90	18,711,370.32	38,574,150.90
Total	38,574,150.90	168,648,572.09	38,574,150.90

Note: Government grants are mainly referred to subsidy income received from government departments, which was used to support the development of aviation business. As a result of the implementation of the new guidelines, the relevant government subsidies are reported in other income and gain, as detailed in Note 6. 43.

6.45 Non-operating expenses

Category	Current year	Prior year	Included in current year non-recurring profit and loss
Loss on non-current asset disposals	1,460,627.44	3,459,280.00	1,460,627.44
Others	1,122,274.29	1,539,179.07	1,122,274.29
Total	2,582,901.73	4,998,459.07	2,582,901.73

6.46 Income tax expenses

6.46.1 Income tax expenses

Items	Current year	Prior year
Current income tax expense	302,003,860.64	364,505,859.12
Deferred tax	-141,436,022.42	-187,966,374.70
Total	160,567,838.22	176,539,484.42

6.46.2 Reconciliation of account profit and income tax expenses

Items	Current year
Profit before tax	650,921,246.37
Income tax computed in accordance with the applicable tax rate	162,730,311.59
Income tax computed in accordance with the applicable tax rate	-3,648,015.88
Impact of non-taxable income	-5,685,133.99
Impact of non-deductible costs, expenses and losses	7,170,676.50
Income tax expenses	160,567,838.22

6.47 Other comprehensive income

Please see Note 6. 31 for detail.

6.48 Notes to the consolidated statement of cash flows

6.48.1 Other cash receipts relating to operating activities

Category	Current year	Prior year
Government grants	101,626,502.03	148,461,201.65
Interest income on bank deposit	10,272,441.70	17,637,929.77
Cash receipts from non-operating income	38,574,150.90	18,711,370.32

Category	Current year	Prior year
Cash receipts from operating balance	54,856,855.30	65,538,456.35
Total	205,329,949.93	250,348,958.09

6.48.2 Other cash payments relating to operating activities

Category	Current year	Prior year
Bank charges	35,717,060.85	45,696,176.71
Cash payments for non-operating expenses	1,122,274.29	1,539,179.07
Cash payments for operating balance	68,954,325.07	33,184,794.98
Cash payments for sales and general and administrative expenses	235,757,787.84	214,079,640.16
Total	341,551,448.05	294,499,790.92

6.48.3 Other cash payments relating to investing activities

Category	Current year	Prior year
Cash payments of settlement of interest rate swaps	1,023,651.75	1,277,063.78
Total	1,023,651.75	1,277,063.78

6.48.4 Other cash receipts relating to financing activities

Category	Current year	Prior year
Cash receipts for aircraft transfer of sale and leaseback deals (which became acquired under the sale and leaseback instead of purchase)	1,441,573,989.51	1,221,674,080.70
Cash receipts for asset related government subsidy	15,630,000.00	
Total	1,457,203,989.51	1,221,674,080.70

6.48.5 Other cash payments relating to financing activities

Category	Current year	Prior year
Cash payments for aircraft financial lease rental	202,020,573.31	188,394,977.32
Total	202,020,573.31	188,394,977.32

6.49 Supplementary information to the consolidated statement of cash flows

6.49.1 Supplementary information to the statement of cash flows

Items	Current year	Prior year
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Items	Current year	Prior year
① Reconciliation of cash flows from operating activities to net profit:		
Net profit	490,353,408.15	532,834,567.17
Add: Loss on asset impairment	451,553.19	9,311,766.02
Depreciation of fixed assets, oil and gas assets, biological assets held for production	829,052,576.20	784,959,904.79
Amortisation of intangible assets	7,045,560.47	5,863,228.47
Amortisation of Long-term deferred expenditure	84,544,766.31	82,194,972.24
Loss on non-current assets disposal (gain presented by "-" prefix)	-90,439.51	-68,054.80
Loss on scrap of fixed assets (gain presented by "-" prefix)	1,460,627.44	3,459,280.00
Loss on fair value changes (gain presented by "-" prefix)	2,451,574.35	-2,214,631.82
Financial costs (gain presented by "-" prefix)	14,256,436.16	273,896,782.70
Investment loss (gain presented by "-" prefix)	-21,716,884.19	-17,359,703.12
Decrease of deferred tax assets (increase presented by "-" prefix)	-141,403,420.46	-187,966,374.70
Increase of deferred tax liabilities (increase presented by "-" prefix)	-32,601.96	
Decrease of inventories (increase presented by "-" prefix)	39,067,450.45	-8,657,802.57
Decrease of operating receivables (increase presented by "-" prefix)	-221,353,078.89	-200,802,727.26
Increase of operating payables (decrease presented by "-" prefix)	757,908,324.10	1,143,177,781.30
Others	12,422,270.42	8,427,000.00
Net cash flows generated from operating activities	1,854,418,122.23	2,427,055,988.42
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 31/12/2017	543,584,920.30	791,255,686.65
Less: Cash as at 31/12/2016	791,255,686.65	1,415,399,630.60
Add: Cash equivalents as at 31/12/2017		
Less: Cash equivalents as at 31/12/2016		

Items	Current year	Prior year
Net increase of cash and cash equivalents	-247,670,766.35	-624,143,943.95

6.49.2 Net cash paid for acquisition of subsidiary this year

Item	Amount
Cash or cash equivalents resulted from business combination	36,763,414.09
Including merger of jinping food	36,763,414.09
Less: cash and cash equivalents held by the subsidiary on the day of purchase	11,642,641.31
Add: cash or cash equivalents of business combination in the previous period to be paid in this year	
Net cash payments made by subsidiaries	25,120,772.78

6.49.3 Composition of cash and cash equivalents

Items	C/f	B/f
①Cash	543,584,920.30	791,255,686.65
Including: Cash at hand	372,046.44	182,606.18
Demand bank deposit	543,212,873.86	791,073,080.47
Demand other monetary funds		
Demand deposit in the Central Bank		
Deposit in peer firms		
Loan to peer firms		
②Cash equivalents		
Including: Debt instrument matured within three months		
④ Cash and cash equivalents as at 31/12/2017	543,584,920.30	791,255,686.65
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.

6.50 Assets with imposed restriction on ownership

Item	C/f	Reason of restriction
Assets pledged as security	3,359,123,224.93	
Aircrafts and engines	3,359,123,224.93	Pledge as security for borrowings

Item	C/f	Reason of restriction
Other form of restriction:	1,373,155,214.02	
Aircrafts and engines	1,373,155,214.02	Assets acquired under financial lease
Total	4,732,278,438.95	

6.51 Foreign currency monetary items

Item	Original amount as at 31/12/2017	Foreign exchange rate	Translated amount as at 31/12/2017
Monetary funds			
Including: -USD	35,924,036.88	6.5342	234,734,841.78
-CAD	10.00	5.2010	52.01
-Hwan	118,463,845.00	0.0061	722,629.45
-TWD	4,727,472.00	0.2199	1,039,571.09
-HKD	8,000.00	0.8359	6,687.20
-JPY	5,068,093.00	0.0579	293,442.58
-THB	2,260,556.94	0.1998	451,659.28
Prepayments			
Including: -USD	29,747,294.83	6.5342	194,374,773.88
Other receivables			
Including: -USD	14,567,316.66	6.5342	95,185,760.52
Accounts payable			
Including: -USD	10,617,980.25	6.5342	69,380,006.55
-EUR	18,037.64	7.8023	140,735.08
-GBP	3,082.00	8.7792	27,057.49
-JPY	5,780,407.00	0.0579	334,685.57

Item	Original amount as at 31/12/2017	Foreign exchange rate	Translated amount as at 31/12/2017
Other payables			
Including: -USD	1,312,178.77	6.5342	8,574,038.52
-EUR	121,086.48	7.8023	944,753.04
Non-current liabilities due within one year			
Including: -USD	61,840,000.00	6.5342	404,074,928.00
Long-term borrowings			
Including: -USD	149,308,382.23	6.5342	975,610,831.17
Long-term payables			
Including: -USD	57,045,117.59	6.5342	372,744,207.36

Note 7: Change of scope of consolidation

7.1 The business combination under different control

7.1.1 The business combination under different control this year

Combined party	Equity acquisition time	Equity acquisition cost	Equity acquisition ratio (%)	Acquisition method	The purchase date	The basis for determining purchase date	The income of the purchaser from the date of purchase to the end of the year	The net profit of the purchaser from the date of purchase to the end of the year
Shandong Jinping aviation food Co., Ltd. (hereinafter referred to as "Jinping food")	October 2017	30,310,200.00	100.00	Purchase	October 9, 2017	The time of acquiring actual control of the combined party	12,920,690.75	2,723,070.17
Shandong Airlines Qingdao Food	October 2017	7,790,400.00	100.00	Purchase	October 9, 2017	The time of acquiring actual	10,051,641.68	1,257,170.58

Co., Ltd. (hereinafter referred to as "Qingdao food")						control of the combined party		
Total		38,100,600.00					22,972,332.43	3,980,240.75

7.1.2 Combined costs and goodwill

Item	Jinping food merger
Combined costs	
-cash	38,100,600.00
-the fair value of Non cash assets	
-the fair value of the debt issued or undertaken	
-the fair value of the equity securities issued	
-the fair value of the contingent consideration	
-the fair value of the stock held before the purchase day on the day of purchase	
—others	
Total combined costs	38,100,600.00
Less: the fair value share of the recognizable net assets	37,646,579.87
The amount of goodwill / combined cost less than the fair value share of the recognizable net assets	454,020.13

Note: the company completed the M & A of Jinping food and Qingdao food in 9 October, 2017, and Jinping held 50.30% shares of Qingdao food on the M&A day. The company acquired 49.70% of the minority equity of Qingdao food on the day of M & A. The merger and acquisition of Jinping food and Qingdao food is a package deal. Please refer to the following notes about the fair value of the recognizable net assets of the combined party on the purchase date, note 7.1.3 Recognizable assets and liabilities of the combined party on the purchase date

7.1.3 Recognizable assets and liabilities of the combined party on the purchase date

Item	Jinping food merger	
	The fair value on the purchase day	The book value on the purchase day
Assets:		
Monetary funds	11,642,641.31	11,642,641.31

Item	Jinping food merger	
	The fair value on the purchase day	The book value on the purchase day
Account receivable	26,280,550.80	26,280,550.80
Inventory	2,026,392.53	2,026,392.53
Total current assets	39,949,584.64	39,949,584.64
Fixed assets	17,434,054.06	12,087,332.55
Long-term deferred expense	1,378,009.78	1,378,009.78
Deferred tax assets	12,695.62	12,695.62
Total non-current assets	18,824,759.46	13,478,037.95
Total Assets	58,774,344.10	53,427,622.59
Liabilities:		
Accounts Payables	14,322,862.51	14,322,862.51
Payroll Payable	2,783,565.18	2,783,565.18
Dividends payable	784,733.67	784,733.67
Taxes payable	1,899,922.49	1,899,922.49
Total Current Liabilities	19,791,083.85	19,791,083.85
Deferred Tax Liability	1,336,680.38	
Total Non-current Liabilities	1,336,680.38	
Total Liabilities	21,127,764.23	19,791,083.85
Net assets	37,646,579.87	33,636,538.74

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
Jinping food	Jinnan, Shandong	Jinnan, Shandong	Aeronautical food processing	100.00		Acquired through business combination not under common control
Qingdao food	Qingdao, Shandong	Qingdao, Shandong	Aeronautical food processing	49.70	50.30	Acquired through business combination not under common control

8.2 The equity in joint ventures and associates

8.2.1 Significant joint ventures and associates

joint ventures and associates	Place of operation	Place of registration	Nature of business	Holding proportion %		The accounting treatment of investments in joint ventures and 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, 2017/Year 2017	Dec 31th, 2016/Year 2016
Current assets	1,819,652.14	1,820,781.43
Non-current assets	24,172.36	25,856.24
Total assets	1,843,824.5	1,846,637.67
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		

Item	Dec 31th, 2017/Year 2017	Dec 31th, 2016/Year 2016
Equity attributable to shareholders of the parent	-165,921,988.83	-165,919,175.66
Pro rata share of the net assets calculated		
Adjusting events		
- Goodwill		
-Unrealized profits from internal transaction		
-Others		
Book value of equity investments in associates		
Fair value of publicly quoted equity investments in associates		
Operating income		
Net profit	-2,813.17	-12,830.65
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 joint ventures and associates

joint ventures and 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.	-74,663,608.80	-1,265.93	-74,664,874.73

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 analyze the impact of reasonable 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 analyze 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 2017, except the following assets or liabilities in Note 6.51 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 6.24,6.25). 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 recognized 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 recognized 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	255,715,999.40			255,715,999.40
(1) Equity instruments investment	255,715,999.40			255,715,999.40
Total amount of assets continuous measurement by fair value	255,715,999.40			255,715,999.40
2. Financial liabilities measured at fair value with changes in fair value recognized in profit or loss		3,607,390.15		3,607,390.15
Interest rate swaps		3,607,390.15		3,607,390.15
Total amount of liabilities continuous measurement by fair value		3,607,390.15		3,607,390.15

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 Continuous and noncontinuous second level for fair value measurement of the market of project, the qualitative and quantitative information of the valuation techniques and important parameters

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 parent companies

parent companies	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	580,000,000.00	42.00	42.00

parent companies	Place of registration	Nature of operation	Registered capital	Shareholding in the Company (%)	Voting right in the Company (%)
		transportation			
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 joint ventures and associates

See Note 8.2 for joint ventures and 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
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

Other related party	Relationship to the Company
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
Shandong Airlines Rainbow Auto Service Co., Ltd.	jointly operated by major investors
Shandong Airlines Rainbow Auto Service Co., Ltd.	jointly operated by major investors
Shenzhen Airport Catering Company Limited	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
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	49,112,850.71	46,912,099.74
Beijing Aircraft Maintenance and Engineering Corporation	Purchase / lease of aircraft materials		82,930.04
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	26,770,323.67	28,354,445.95
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	1,874,683.07	1,802,736.00
Chengdu Fukai Aircraft Engineering	Repairment	6,043,043.40	6,765,978.17

Related party	Transaction	Current year	Prior year
Services Limited			
Air China Import & Export Co., Ltd.	Taxes of aircraft materials		9,700.60
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	10,069,312.24	14,165,444.80
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	111,390,230.75	53,489,045.18
Taikoo (Shandong) Aircraft Engineering Company Limited	Measurement fee for measuring instruments	334,050.38	
Taikoo (Shandong) Aircraft Engineering Company Limited	Seat cover and carpet fee	4,087,695.43	
Shandong XiangYu Air Technology Co., Ltd.	Repairment	70,853,836.21	62,803,828.70
SDA Group	Office lease rental and catering	31,061,380.69	29,933,839.56
SDA Group	Airport take-off and landing fees	140,440.00	
SDA Group	Group fee	5,548,659.72	
Shenzhen Airlines Co., Ltd.	Agency service	2,506,826.67	1,778,151.48
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	77,366.20	23,980.28
Shenzhen Airlines Co., Ltd.	Catering	1,322,605.55	930,225.00
Shenzhen Airlines Co., Ltd.	Irregular flight	63,169.82	
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	46,660,824.96	266,883,899.60
Air China	Ground service	15,476,556.88	27,902,903.35
Air China	Repairment	186,711.99	516,583.34
Air China	Purchase / lease of aircraft materials		65,317.62
Air China	Agency service	19,982,955.48	12,634,460.02
Air China	Irregular flight expenditure	28,038,113.58	14,336,654.51
Air China Cargo Co., Ltd.	Ground service	7,089,769.02	3,051,710.01
Kunming Airlines Co., Ltd	Agency service	33,323.92	
Total		438,724,730.34	572,443,933.95

11.5.2 Sales of goods and vendering of services

Related party	Transaction	Current year	Prior year
Beijing Aircraft Maintenance and Engineering Corporation	Sale /rent of aircraft materials	532,205.65	222,101.94
Dalian Airlines Co., Ltd.	Ground service	277,453.85	56,969.93
Dalian Airlines Co., Ltd.	Irregular flight expenditure	141,998.06	165,015.00
Kunming Airlines Co., Ltd	Ground service	90,283.02	
Kunming Airlines Co., Ltd	Locomotive service income	64,320.76	
Kunming Airlines Co., Ltd	Agency service	32,336.79	
Shandong Air New Media Co., Ltd.	Media resource fee	11,991,452.99	17,193,467.69
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	397,672.42	279,891.59
Taikoo (Shandong) Aircraft Engineering Company Limited	Training fee	11,031.49	
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	334,132.98	105,257.45
Shenzhen Airlines Co., Ltd.	Agency service	1,220,924.95	636,161.44
Shenzhen Airlines Co., Ltd.	Ground service	250,754.71	302,000.00
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	72,586.00	392,823.37
Shenzhen Airlines Co., Ltd.	Irregular flight expenditure	5,982.90	5,750.00
Air China	Ground service	4,029,380.06	2,967,241.10
Air China	Simulator maintenance / House rental income	4,402,183.15	10,283,400.00
Air China	Sale /rent of aircraft materials	12,906.84	19,373.16
Air China	Irregular flight expenditure	31,811.97	5,410.00
Air China	Agency service	4,286,956.10	6,406,068.26
Air China	Catering	34,241.26	
Air China Cargo Co., Ltd.	Warehouse rent income		2,800.00
SDA Group	Catering	5,488.00	
Total		28,226,103.95	39,043,730.93

11.5.3 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 31/12/2017 CNY 251,600,000.00

11.5.4 Remuneration to key management personnel

Item	Current year	Prior year
Remuneration to key management personnel	CNY 13.5487 million	CNY 11.1861 million

11.5.5 Other related party transactions

Related party	Transaction	Current year	Prior year
Air China	Wet lease	136,598,092.82	282,331,884.00
Air China	Code sharing	39,808.59	-111,859.52
Air China	Frequent flyer cooperation	54,000,000.00	130,718,573.22
Air China Cargo Co., Ltd.	Code sharing for cargo	6,567,764.12	712,369.96
Total		197,205,665.53	413,650,967.66

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	226,488,421.70		111,220,493.07	
Taikoo (Shandong) Aircraft Engineering Company Limited	18,400.00			
Total	226,506,821.70		111,220,493.07	
Other receivables				
Air China	5,799,073.26		6,250,133.00	

Related party	C/f		B/f	
	Carrying amount	Allowance for bad debt	Carrying amount	Allowance for bad debt
Shenzhen Airlines Co., Ltd.	100,100.00		468,173.37	
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.	402.45		15,444.48	
Taikoo (Shandong) Aircraft Engineering Company Limited	188,945.11		198,526.00	
Shandong Air New Media Co., Ltd.	2,952,004.83		1,027,044.28	
Beijing Aircraft Maintenance and Engineering Corporation	7,745.32			
Dalian Airlines Co., Ltd.	97,611.00			
Kunming Airlines Co., Ltd.	92,410.00			
Shandong Airlines Rainbow Auto Service Co., Ltd.	157,830.09			
Total	110,947,839.71	101,551,717.65	109,511,038.78	101,551,717.65

11.6.2 Payables

Related party	C/f	B/f
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	3,448,051.17	2,451,618.94
Taikoo (Shandong) Aircraft Engineering Company Limited	27,753,155.69	1,279,779.59
Air China	259,659,603.16	190,287,022.82
Air China Cargo Co., Ltd.	1,306,550.93	260,935.50
Beijing Golden Phoenix Human Resources Service Co., Ltd.	346,206.28	161,838.00
Shenzhen Airlines Co., Ltd.	659,964.90	208,826.20
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	15,130,561.55	10,860,743.99
Sichuan International Aero Engine Maintenance Co., Ltd.	7,091,848.70	64,482,126.00
Shandong Air New Media Co., Ltd.	1,339,801.63	
Shandong Airlines Rainbow Auto Service Co., Ltd.	4,538,560.00	

Related party	C/f	B/f
Total	321,274,304.01	269,992,891.04
Other payables		
Air China	20,000,000.00	20,000,000.00
SDA Group	5,888,565.00	6,041,798.09
Taikoo (Shandong) Aircraft Engineering Company Limited	484,291.74	245,400.00
Total	26,372,856.74	26,287,198.09

Note 12 Commitments

12.1 Significant 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	17,159,340,532.55	18,276,050,022.59
- large outsourcing contract		
- External investment commitments		
Total	17,159,340,532.55	18,276,050,022.59

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	2,566,886,865.79	2,290,232,032.00
Within two years from the reporting date	2,539,998,632.79	2,155,144,647.15
Within three years from the reporting date	2,464,366,482.24	2,125,539,777.15
Subsequent years	11,109,059,067.92	11,553,366,310.20
Total	18,680,311,048.74	18,124,282,766.50

Note: As of 31/12/2017, the balance of unexpired bond issued by this company is CNY 61.693.700.00, USD 97,491,000.00.

12.1.3 Other commitment

No other significant commitments of the Company need to be disclosed as at 31/12/2017.

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 2017 of distributing cash dividend of CNY 2.50 (gross) per 10 shares for the 400 million shares outstanding as at the reporting date, which in total amounts to CNY 100,000,000.00, was approved by the 3th Meeting of the 6th Term of Board of Directors of the Company held on 22 March 2018; 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 6.19, 6.26.

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	354,831,772.34	62.85			354,831,772.34
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	176,321,122.59	31.23	8,816,056.13	5.00	167,505,066.46
Accounts receivable of individual insignificance but subject to individual impairment assessment	33,397,931.11	5.92	8,057,209.85	24.12	25,340,721.26
Total	564,550,826.04	100.00	16,873,265.98	2.99	547,677,560.06

(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	228,079,021.34	68.01			228,079,021.34
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

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	226,431,513.23			No indication of impairment upon individual assessment
Accounting Center of China Aviation	64,282,945.89			No indication of impairment upon individual assessment
BSP-CHINA	64,117,313.22			No indication of impairment upon individual assessment
Total	354,831,772.34			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	176,321,122.59	8,816,056.13	5.00
Total	176,321,122.59	8,816,056.13	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
BSP-other areas	20,911,132.89			No indication of impairment upon individual assessment
Debtor #1	8,057,209.85	8,057,209.85	100.00	impairment upon
UATP	2,706,589.78			No indication of impairment upon individual assessment
Kunpeng Airlines Co.,Ltd	1,849,400.00	1,849,400.00	100.00	impairment upon
ARC	1,224,308.95			No indication of impairment upon individual assessment
CR Airways	916,508.05	916,508.05	100.00	impairment upon
Taikoo (Shandong) Aircraft Engineering Company Limited	18,400.00			No indication of impairment upon individual assessment
Total	33,397,931.11	8,057,209.85	24.12	

15.1.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts recognized during the year is CNY4,407,538.67. No recovery or return to bad debts during the year.

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 398,565,904.54, accounting for 70.60% of the total accounts receivable as at the end of current year, the total corresponding allowance for bad debts is CNY2,186,706.61.

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	447,153,532.78	88.21	106,076,302.93	23.72	341,077,229.85
Other receivables subject to subject to	34,509,238.33	6.81	1,725,461.92	5.00	32,783,776.41

Category	C/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
impairment assessment by credit risk characteristics of a portfolio					
Other receivables of individual insignificance but subject to individual impairment assessment	25,239,425.83	4.98			25,239,425.83
Total	506,902,196.94	100.00	107,801,764.85	21.27	399,100,432.09

(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	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

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	205,026,036.71			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	impairment upon individual assessment
Debtor #2	47,450,699.99	2,372,535.00	5.00	impairment assessment by portfolio
Debtor #3	43,041,005.53	2,152,050.28	5.00	impairment assessment by portfolio
Shandong Air Logistics Co., Ltd.	50,084,072.90			No indication of impairment upon individual assessment
Total	447,153,532.78	106,076,302.93	23.72	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	34,509,238.33	1,725,461.92	5.00
Total	34,509,238.33	1,725,461.92	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
Air China	5,799,073.26			No indication of impairment upon individual assessment
Debtor #1	4,482,461.20			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #2	4,028,610.00			No indication of impairment upon individual assessment
Shandong Air New Media Co., Ltd.	2,952,004.83			No indication of impairment upon individual assessment
Debtor #3	2,024,430.00			No indication of impairment upon individual assessment
Debtor #4	1,463,660.80			No indication of impairment upon individual assessment
Debtor #5	1,332,976.80			No indication of impairment upon individual assessment
Debtor #6	1,136,562.31			No indication of impairment upon individual assessment
Debtor #7	784,104.00			No indication of impairment upon individual assessment
Debtor #8	553,166.41			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	188,945.11			No indication of impairment upon individual assessment
Shandong Airlines Rainbow Auto Service Co., Ltd.	158,590.09			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	100,100.00			No indication of impairment upon individual assessment
Dalian airlines limited liability company	97,611.00			No indication of impairment upon individual assessment
Kunming Airlines Ltd	92,410.00			No indication of impairment upon individual assessment
Shandong Jinping aviation food Co., Ltd.	25,536.08			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #9	11,036.17			No indication of impairment upon individual assessment
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	7,745.32			No indication of impairment upon individual assessment
Shandong XiangYu Air Technology Co., Ltd.	402.45			No indication of impairment upon individual assessment
Total	25,239,425.83			

15.2.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debts reversed during the current year is CNY 3,813,558.91. No recovery or provision to bad debts during the year.

15.2.3 Disclosure by nature

Category	C/f	B/f
Deposits	220,843,044.40	149,790,973.93
Others	286,059,152.54	356,306,296.97
Total	506,902,196.94	506,097,270.90

15.2.4 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Debtor #1	Deposits	205,026,036.71	Within 1 year	40.45	
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 5 years	20.03	101,551,717.65
Debtor #2	Others	47,450,699.99	Within 3 years	9.36	2,372,535.00
Debtor #3	Others	43,041,005.53	Within 2 years	8.49	2,152,050.28
Shandong aviation Logistics Ltd	Others	50,084,072.90	Over 5 years	9.88	
Total		447,153,532.78		88.21	106,076,302.93

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	144,101,285.43		144,101,285.43	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	166,601,285.43	22,500,000.00	144,101,285.43	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		
Shandong Jinping aviation food Co., Ltd.		30,310,200.00		30,310,200.00		
Shandong Airlines Qingdao Food Co., Ltd.		7,790,400.00		7,790,400.00		
Total	106,000,685.43	38,100,600.00		144,101,285.43		

15.3.3 Investments in joint ventures and 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							

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
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	16,022,208,389.76	14,777,997,386.71	13,356,300,303.64	11,881,690,830.48
Other business	436,666,619.54	9,296,820.58	358,853,013.78	1,598,065.47
Total	16,458,875,009.30	14,787,294,207.29	13,715,153,317.42	11,883,288,895.95

15.5 Investment income

Category	Current year	Prior year
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss	-1,023,651.75	-1,277,063.78
Income from holding of financial assets available for sale	22,740,535.94	18,636,766.90

Category	Current year	Prior year
Total	21,716,884.19	17,359,703.12

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	-1,370,187.93	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief		
Government grants recognized through profit or loss for the current reporting period, excluding grants which are closely related to the Company's operating activities and of which the quota or approval is eligible for automatic renewal in accordance with relevant regulations	103,523,912.62	
Financial resource usage fees charged on non-financial institution recognized 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 disasters		
Reorganization		
Reorganization 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	-3,475,226.10	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment		
Gains or losses arising from consigned borrowings		

Category	Current year	Description
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	37,451,876.61	
Other gains or losses satisfying the definition of extraordinary gains or losses		
Subtotal	136,130,375.20	
Less: Impact of income tax	34,229,181.60	
Less: Impact on non-controlling interest		
Total	101,901,193.60	

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

The Company recognized non-recurring categories of activities in accordance 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 category	Weighted average rate of RONA	Earnings per share (CNY/share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	12.19	1.23	1.23
Recurring profit or loss attributable to ordinary shareholders	9.66	0.97	0.97

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 2017;
4. The Company will offer above documents for reference timely provided that CSRC or Stock Exchange demands or shareholders requires according to the regulations and Articles of Association.

Board of Director of Shandong Airlines Co., Ltd.

24 March 2018