



山東航空股份有限公司
SHANDONG AIRLINES CO., LTD

ANNUAL REPORT 2020

March 2021

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Section I. Important Notice and Interpretation

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 2020 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
Wang Mingyuan	Director	Job-related reason	Xu Chuanyu
Li Xiuqin	Director	Job-related reason	Wang Zhifu
Lv Hongbing	Independent Director	Job-related reason	Xu Xiangyi
Duan Yalin	Independent Director	Job-related reason	Hu Yuanmu

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.

This report has been prepared in Chinese and English version respectively. In the event of difference in interpretation between the two versions, Chinese report shall prevail.

The Company has no plans of cash dividend distributed, no bonus shares and

has no share converted from capital reserve either

Interpretation

Items	Refers to	Contents
The Company, Company	Refers to	Shandong Airlines Co., Ltd.
Shandong Aviation	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
ATK (Available Tonne-Kilometre)	Refers to	Sum of products of payload and route distance for each segment
ASK	Refers to	Sum of products of maximum numbers of seats and route distance for each segment
AFTK	Refers to	Sum of products of maximum cargo carrying tonnage and route distance for each segment
RTK	Refers to	Sum of products of tonnage of transport and route distance for each segment actually
RPK (Revenue Passenger Kilometers)	Refers to	Sum of products of passenger traffic volume and route distance for each segment actually
RFTK	Refers to	Sum of products of freight carrying tonnage and route distance for each segment actually
Integrated carrier rate	Refers to	RTK/ATK
PLF (Passenger Load Factor)	Refers to	RPK/ASK
Freight Rate	Refers to	RFTK/ AFTK

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		
Registration 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	www.sda.cn		
Email	zqb@sda.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.	0531-85698034	0531-85698034
Email	dongqt@sda.cn	fanp@sda.cn

III. Information disclosure and preparation place

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

IV. Registration changes of the Company

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

V. Other relevant information

CPA engaged by the Company

Name of CPA	RSM Certified Public Accountants (special general partnership)
Offices add. for CPA	901-22 to 901-26, Foreign Economic & Trade Building, Block 1, No. 22, Fuchengmenwai Street, Xichang District, Beijing
Signing Accountants	Yang Yunhui, Xu Hong

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

Yes No

	2020	2019	Changes over last year(+,-)	2018
Operating income (RMB)	10,534,403,350.87	18,990,415,024.88	-44.53%	18,765,953,326.74
Net profit attributable to shareholders of the listed company(RMB)	-2,382,015,455.81	361,005,776.31	-759.83%	347,379,314.89

Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses(RMB)	-2,491,142,998.52	203,107,863.26	-1,326.51%	132,549,289.96
Net cash flow arising from operating activities(RMB)	-1,699,728,760.80	2,629,812,252.38	-164.63%	2,450,017,519.48
Basic earnings per share (RMB/Share)	-5.960	0.900	-762.22%	0.87
Diluted earnings per share (RMB/Share)	-5.960	0.900	-762.22%	0.87
Weighted average ROE	-61.31%	7.22%	68.53 percentage points down	7.94%
	Year end of 2020	Year end of 2019	Changes over end of last year (+,-)	Year end of 2018
Total assets (RMB)	22,403,505,133.99	17,392,935,986.48	28.81%	16,563,979,100.41
Net assets attributable to shareholder of listed company (RMB)	2,570,260,924.21	5,173,519,005.57	-50.32%	4,471,325,978.28

The lower one of net profit before and after deducting the non-recurring gains/losses in the last three fiscal years is negative, and the audit report of last year shows that the ability to continue operating is uncertain

Yes No

The lower one of net profit before and after deducting the non-recurring gains/losses is negative

Yes No

Item	2020	2019	Note
Operating income (RMB)	10,534,403,350.87	18,990,415,024.88	The operating revenue is mainly from international and domestic air passenger, cargo transportation business and other business license related revenue
Deduction amount from operating income (RMB)	0.00	0.00	The operating revenue is mainly from international and domestic air passenger, cargo transportation business and other business license related revenue
Amount of operating income after deduction (RMB)	10,534,403,350.87	18,990,415,024.88	The operating revenue is mainly from international and domestic air passenger, cargo transportation business and other business license related revenue

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)

Applicable Not applicable

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)

Applicable Not applicable

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

	Q 1	Q 2	Q 3	Q 4
Operating income	2,272,051,496.91	1,918,598,299.18	3,175,728,671.98	3,168,024,882.80
Net profit attributable to shareholders of the listed company	-593,802,879.77	-702,207,694.13	-387,100,636.29	-698,904,245.62
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	-623,330,188.48	-713,188,779.87	-404,417,235.22	-750,206,794.95
Net cash flow arising from operating activities	-1,293,435,795.24	-604,312,983.19	574,301,527.34	-376,281,509.71

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 non-recurring profit (gains)/loss

Applicable Not applicable

In RMB

Item	2020	2019	2018	Note
Gains/losses from the disposal of non-current asset (including the write-off that accrued for impairment of assets)	59,471.65	-2,066,959.25	25,187,750.35	

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)	98,058,606.34	102,684,463.91	210,862,890.39	
Losses/gains from changes of fair values occurred in holding trading financial assets, derivative financial assets, trading financial liabilities and derivative financial liabilities, and investment income obtaining from the disposal of trading financial assets, derivative financial assets, trading financial liability, derivative financial liability and other debt investment, excluded effective hedging business relevant with normal operations of the Company	-1,565,885.31	-207,436.01	3,789,484.18	
Other non-operating income and expenditure except for the aforementioned items	46,338,437.81	105,248,418.17	35,762,795.56	
Other items of profits/losses that qualified the definition of non-recurring profit/loss	2,626,332.77	4,954,383.18	10,952,470.45	
Less: impact on income tax	36,389,420.55	52,714,956.95	71,725,366.00	
Total	109,127,542.71	157,897,913.05	214,830,024.93	--

Concerning the non-recurring profit (gain)/loss defined by *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Non-recurring Profit/loss*, and the items defined as recurring profit (gain)/loss according to the lists of non-recurring profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- non-recurring Profit/loss*, explain reasons

Applicable Not applicable

Concerning the non-recurring profit (gain)/loss defined by *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Non-recurring Profit/loss*, and the items defined as recurring profit (gain)/loss according to the lists of non-recurring profit (gain)/loss in *Q&A Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public --- Non-recurring Profit/loss*, the Company has no such items in the reporting period for the aforesaid

Section III Summary of Company Business

I. Main businesses of the company engaged in during the Period

1. Main business of the Company engaged in during the Period

(i) Main business and business model of the Company

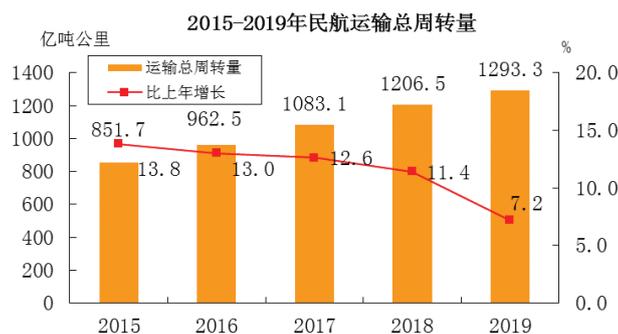
The Company is mainly engaged in international and domestic air passenger and cargo transportation business; hotel catering; aircraft maintenance; civil aviation personnel training; insurance agency; airline agency business; ground services related to main business; sales of aviation materials, general 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.

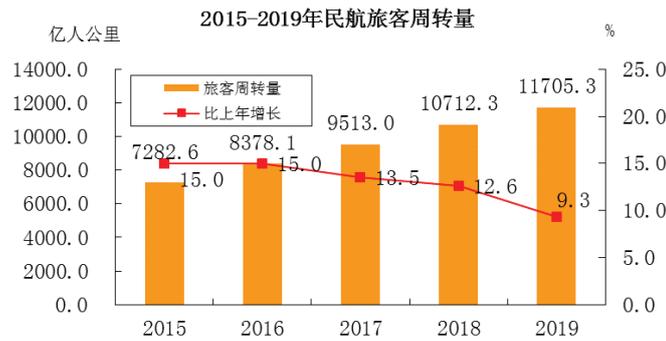
For more than 20 years, the Company has always been giving first priority to “ensure safety, pay close attention to efficiency, and strive to punctuality and quality service”. As of the end of 2020, the Company has 131 airplanes of Boeing B737 series, and striding into the ranks of large airlines. At present, the Company bases its headquarters in Jinan and has branch offices and flight bases in Qingdao, Yantai, Xiamen, Chongqing, Beijing, Urumqi and Guiyang. The Company operates more than 200 domestic, and opens routes to the surrounding countries as South Korea, Japan, Thailand, India and Cambodia as well as the region of Taiwan China and Hong Kong China.

(ii) Development status of the industry

In 2020, due to the impact of COVID-19 epidemic, the global civil aviation industry's passenger traffic dropped sharply, and China's civil aviation industry reduced 240 million passengers on a year-on-year basis. The international epidemic continued to spread, passenger travel demand was sluggish, and industry operations were facing severe challenges. In the face of the impact of the epidemic, our country's civil aviation industry continued to maintain a safe operation situation, the national transport aviation achieved a record of “120+4” months and 89.43 million hours of continuous safe flight, and ensured air defense safety for 18 consecutive years, and the flight regularity rate has exceeded 80% for three successive years, which reached 88.52% in 2020.

According to the “Main Production Index Statistics of CAAC in December 2020” published by the Civil Aviation Administration, the RTK of entire industry in 2020 reached 79.85 billion ton-km, a decrease of 38.3% on a year-on-year basis; passenger transport volume reached 418 million persons, a decrease of 36.7% on a year-on-year basis; cargo and mail transport volume reached 6,766,000 tons, a decrease of 10.2% from a year earlier.





Data sources: *Civil Aviation Industry Development Statistics Bulletin of 2019*

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 Spring Festival and during the time between 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
Other equity instrument investment	Amount at period-end has 38.06% declined over that of period-begin, mainly because the fair value of the non-tradable equity instruments held declined.

2. Main overseas assets

Applicable Not applicable

III. Core competence analysis

- Industry-leading safety management capabilities:** The Company has the industry-leading safety management model and safety management level. 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.
- Excellent resource allocation and organization & executive capacity:** The Company operated a total of 131 airplanes of Boeing 737 serials with an average age of 7.28 years. The single Boeing model can help to enhance the bargaining power of the Company in the purchase, the aviation materials and the experience and technology of the crew and maintenance team can also be shared, and various

resources can be adjusted and deployed flexibly to maximize the efficiency. The Company has outstanding organization and execution capability, and has man-machine ratio is 85:1, which is far below the industry average. Superior resource allocation and organizational execution capabilities maintain the Company's industry-leading level in cost control. Besides, 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; in 2020, successfully passed the confirmation review of National Quality Award, which proved the Company's management level and execution efficiency.

3. 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 leading level in the industry, and has been honored as the best airline enterprise with civil aviation services for six consecutive years.

The core competence of the Company has no change in the reporting period.

Section IV Discussion and Analysis of Operation

I. Introduction

(i) Operation data summary:

Item	2020	2019	Changes (+,-)
Transport capacity			
Available tonnage kilometer (ATK) (10 thousand TK)	363162.17	480063.30	-24.35%
Including: Domestic flight	352563.43	440168.39	-19.90%
International flight	10024.66	32325.42	-68.99%
Regional routes	574.08	7569.49	-92.42%
Available seat km(ASK) (10 thousand PK)	3379945.00	4481197.35	-24.57%
Including: Domestic flight	3332174.98	4097117.74	-18.67%
International flight	42369.88	313063.28	-86.47%
Regional routes	5400.14	71016.33	-92.40%
Available freight ton-kilometers (AFTK) (10 thousand TK)	58967.12	76755.54	-23.18%
Including: Domestic flight	52667.68	71427.80	-26.26%
International flight	6211.37	4149.73	49.68%
Regional routes	88.07	1178.02	-92.52%
Carrying capacity			
RTK (RTK) (10 thousand TK)	255192.97	362809.20	-29.66%
Including: Domestic flight	250338.61	335661.31	-25.42%
International flight	4636.04	22777.03	-79.65%
Regional routes	218.31	4370.85	-95.01%
Volume of passenger transportation (RPK) (10 thousand PK)	2562748.52	3765361.44	-31.94%
Including: Domestic flight	2532349.27	3469080.26	-27.00%
International flight	28066.01	249643.85	-88.76%
Regional routes	2333.25	46637.33	-95.00%
Turnover volume of freight transportation (RFTK) (10 thousand TK)	27966.64	30921.21	-9.56%

Including: Domestic flight	25743.48	29878.91	-13.84%
International flight	2207.02	769.61	186.77%
Regional routes	16.14	272.69	-94.08%
Volume of passenger traffic (10 thousand passengers)	1819.49	2583.76	-29.58%
Including: Domestic flight	1799.74	2390.88	-24.72%
International flight	18.42	165.61	-88.87%
Regional routes	1.33	27.27	-95.14%
Cargo & mail traffic volume (ton)	165922.33	182158.12	-8.91%
Including: Domestic flight	152682.28	175578.69	-13.04%
International flight	13142.78	4932.34	166.46%
Regional routes	97.27	1647.09	-94.09%
Load factor			
Integrated carrier rate (%)	70.27	75.58	-5.31 percentage points
Including: Domestic flight	71.01	76.26	-5.25 percentage points
International flight	46.25	70.46	-24.22 percentage points
Regional routes	38.03	57.74	-19.71 percentage points
PLF (%)	75.82	84.03	-8.2 percentage points
Including: Domestic flight	76.00	84.67	-8.67 percentage points
International flight	66.24	79.74	-13.5 percentage points
Regional routes	43.21	65.67	-22.46 percentage points
Freight Rate (%)	47.43	40.29	7.14 percentage points
Including: Domestic flight	48.88	41.83	7.05 percentage points
International flight	35.53	18.55	16.99 percentage points
Regional routes	18.33	23.15	-4.82 percentage points
Utilization of aircraft on a daily basis (Daily cycle times per aircraft)	7.50	10.08	-2.58 hours

(ii) Fleet structure

In the Period, totally seven B737-8 airplanes are introduced by the Company. Up to 31 December 2020, the Company operates 131 airplanes in total and the fleet distribution below:

Model	Numbers	Average service age (Year)
-------	---------	----------------------------

737-700	3	7.28
737-800	121	
737-8	7	

(iii) Discussion and analysis of business

The Company coordinate efforts to prevent and control the epidemic and the work of production and operation in 2020 with a positive achievement resulted.

—The situation of epidemic prevention & control is stable, and the responsibility of an enterprise has been demonstrated. There was no epidemic spread caused by the company’s flights; and no confirmed or asymptomatic infection among employees of the company. It has performed 39 epidemic prevention and control transportation charter flights and used the main shift to transport 19 shifts of personnel and materials, transported a total of 3,714 medical personnel, and 159.62 tons of epidemic prevention and control materials.

—The security situation remains stable. The main business of transportation guarantees a total of 327,400 hours of a safe flight with 159,900 sorties, a declined of 24.6% and 22.4% on a y-o-y basis respectively without serious symptoms of transport aviation occurred. The safety quality evaluation index was 12.06, an increase of 0.45 from a year earlier.

—Maintain a high level of operating quality. The normal flight rate of main business of transport was 91.69%, a 6.41 percentage points up on a y-o-y basis, and ranked the first among the major airlines in civil aviation industry. Guaranteed 27 VVIP flights with a flight on-time rate of 100%.

—In terms of benefits. The company has an operating income of 10.506 billion yuan, a decrease of 44.7% from a year earlier; total profit has -3.151 billion yuan, a decrease of 3.632 billion yuan (profit from transport has a y-o-y decrease of 3.654 billion yuan) on a y-o-y basis; completed RTK of 2.55 billion ton kilometre, a passenger volume of 18.195 million person-time and 166000 tons in cargo & mail volume, a 29.7%, 29.6% and 8.9% declined respectively on a y-o-y basis; the PLF has a 75.8% with 8.2 percentage points down from a year earlier, the cargo & mail load rate was 47.4%, a 7.1 percentage point up on a y-o-y basis.

—The service quality is stable on the whole. The passenger satisfaction score is 93.7, which is the same as last year basically. The rate of passenger complaints remained low among the major airlines- forwarded by the Civil Aviation Administration. Won the CAPSE “Best Domestic Airline” for six consecutive years. Successfully passed the “National Quality Award” confirmation review, and honor the “Asia Service Awards”, awarded the “Five-Star Service Site” and “Four-Star Service Site” respectively from Lu-Yan boutique route and 95369 customer service center.

The following works have been carried out:

1. Strengthen responsibilities, coordinate & implement policies to combat the COVID-19

Firstly, coordinate and improve the working mechanism of epidemic prevention & control and production & operation. Resolutely implemented the spirit of General Secretary Xi Jinping’s important speech and instructions on coordinating epidemic prevention & control and economic growth, clarify the goals and task of fighting the three tough battles of “epidemic prevention & control, safe production and business efficiency”. Intensive scheduling in terms of material reserves, safety management, production organization, rush in the harvest & expenditure reduction, fund raising and public opinions responding, implementing the refine management and control. Secondly, make comprehensive arrangements and do our best to prevent and control the epidemic. We will strictly implement the requirements of the National Health Commission and Civil Aviation Administration, insist on the air-ground joint defense and person-material defense, strictly implement the prevention & control measures such as aircraft disinfection & ventilation, risk investigation for passengers & freight. Thirdly, acting according to the order, serving the overall situation and reflecting the responsibility. Resolutely implement the policies of free ticket refunds from the CAA and “Five Ones”; actively implement the task of ensuring transportation for epidemic prevention & control and the resumption of work & production.

2. Grasp the key works, and consolidate the quality foundation for safe operation

Firstly, improve the management system of safe operation continuously. Strengthen safety responsibility, promote the transformation of safety management to “data-driven”, improve the quality-control mechanism for operation assurance. Secondly, work hard to develop the “primary construction, basic work and basic skills training”. Implement the safe rectification of “grasping work style, strengthening the three basics and keeping the bottom line”. Comprehensively promote the optimization and reform of flight training system, improve the management mechanism of teachers and inspectors, standardize the AOC management system, completed the development of qualification and training management system for transport control professionals. Thirdly, strengthen the capacity building of emergency management system. Organize and carried out the mirroring exercises and review training. Comprehensively sort out the external emergency supporting resources of each branch and terminals to enhance the joint force of emergency supporting. Fourthly, staring closely at risks and hidden dangers, carrying out investigation and governance. To thoroughly identify the impact of epidemic on production and operation, caring out safety hazard investigation and quality improvement actions. Carefully study the changes in security risks during the epidemic, conduct in-depth risk assessment to ensure the air defense security during the important periods such as spring festival, the Two Sessions and National Day.

3. Adhere to alteration according to the changes, seek opportunities in the process of changing and do out best to rush in the harvest & expenditure reduction

Firstly, scientifically control the production organization rhythm. Promote the formulation of efficiency control plan and strengthen the synergy of production and marketing. Secondly, strengthen revenue control and product innovation. Strive to improve the efficiency of market response, grasp the market trends. Innovate the product forms, launch the products of resume work vouchers and campus flying people, explore new types of live broadcast sales. Thirdly, actively advance the “passenger-to-cargo” business. Launch the international scheduled cargo flights of “passenger-to-cargo”, vigorously organizes the cargo sources and develop customers, and laying a foundation for building a new pattern of passenger and cargo linkage. Fourth, tap the potential of cost savings in full. Review various budget reduction and cost reduction measures. Fifthly, actively prevent the capital risks. Focusing on cash flow risks and enhancing capital reserves through various financing measures. Sixthly, coordinate the needs of epidemic prevention & control, innovate the passenger services experience. Dynamically adjust transportation service guarantee standards and procedures, accelerate the improvement of online channel service function and realize the paperless customs clearance services at general aviation airports.

4. Push forward the capacity building in governance management, improve comprehensive management efficiency

Firstly, continue to optimize the organization and management information construction. Further improve the management efficiency, strengthen grassroots management & control responsibilities, improve the function of crew resource management system, and actively promote the construction of remote office carriers. Secondly, promote investment enterprises to take the initiative to respond to the emergencies and carried out business optimization. Thirdly, promote the key tasks steadily. Advance the formulation of “14th Five-Year Plan”, completed the construction demand estimation of the first phase of Shandong Airline base- a renovation and extension project of Jinan Airport, strictly control the costs of aircraft introduction and fully complete the work of transferring retirees to social management.

II. Main business analysis

1. Introduction

See “I. Introduction” in “Discussion and Analysis of Operation”.

2. Revenue and cost

(1) Constituted of operation revenue

In RMB

	2020		2019		Increase/decrease y-o-y (+,-)
	Amount	Ratio in operation revenue	Amount	Ratio in operation revenue	
Total operation revenue	10,534,403,350.87	100%	18,990,415,024.88	100%	-44.53%
According to industries					
Air transport service	9,829,874,543.16	93.31%	18,256,980,628.88	96.14%	-46.16%
Logistics freight service	27,974,801.19	0.27%	26,690,701.39	0.14%	4.81%
Hotel & catering service	26,515,773.38	0.25%	31,610,469.95	0.17%	-16.12%
Training service	4,497,391.59	0.04%	4,292,933.20	0.02%	4.76%
Other	645,540,841.55	6.13%	670,840,291.46	3.53%	-3.77%
According to region					
Domestic	10,199,538,957.01	96.82%	17,095,651,842.88	90.03%	-40.34%
International	318,879,147.92	3.03%	1,571,151,462.00	8.27%	-79.70%
Region	15,985,245.94	0.15%	323,611,720.00	1.70%	-95.06%

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

√ Applicable □ Not applicable

In RMB

	Operating revenue	Operating cost	Gross profit ratio	Increase/decrea se of operating revenue y-o-y	Increase/decrea se of operating cost y-o-y	Increase/decrea se of gross profit ratio y-o-y
According to industries						
Air transport service	9,829,874,543. 16	12,484,416,884 .36	-27.00%	-46.16%	-27.07%	-33.24%
According to region						
Domestic	10,199,538,957 .01	12,118,925,035 .52	-18.82%	-40.34%	-19.94%	-30.28%

Under circumstances of adjustment in reporting period for statistic scope of main business data, adjusted main business based on latest one year's scope of period-end

Applicable Not applicable

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

Yes No

(4) Performance of the major sales contract signed by the Company till end of the Period

Applicable Not applicable

(5) Constitute of operation cost

Product category

In RMB

Product category	Item	2020		2019		Y-o-y changes(+,-)
		Amount	Ratio in operation cost	Amount	Ratio in operation cost	
Air transport service	Aviation fuel consumption	2,480,650,679. 48	19.87%	5,195,698,126. 98	30.35%	-52.26%
	Take-off & landing fees	1,764,458,597. 80	14.13%	2,535,562,544. 63	14.81%	-30.41%
	Employee's salary	1,948,282,428. 99	15.61%	2,223,185,474. 51	12.99%	-12.37%
	Depreciation of aircraft and engine	735,757,435.25	5.89%	853,476,817.73	4.99%	-13.79%
	Other	5,555,267,742. 84	44.50%	6,309,481,237. 49	36.86%	-11.95%
	Total	12,484,416,884 .36	100.00%	17,117,404,201 .34	100.00%	-27.07%
Logistics freight service	Employee's salary	19,995,267.47	79.94%	22,799,253.36	68.72%	-12.30%
	Other	5,018,161.25	20.06%	10,376,450.44	31.28%	-51.64%
	Total	25,013,428.72	100.00%	33,175,703.80	100.00%	-24.60%
Hotel & catering service	Raw materials	17,836,443.41	71.71%	15,801,094.38	63.63%	12.88%
	Employee's salary	5,109,291.94	20.54%	5,973,882.71	24.06%	-14.47%

	Other	1,926,063.95	7.74%	3,056,748.68	12.31%	-36.99%
	Total	24,871,799.30	99.99%	24,831,725.77	100.00%	0.16%
Training service	Depreciation	4,105,088.76	25.59%	4,080,459.72	23.34%	0.60%
	Other	11,933,577.85	74.41%	13,401,825.79	76.66%	-10.96%
	Total	16,038,666.61	100.00%	17,482,285.51	100.00%	-8.26%

Note

(6) Whether has any changes in consolidation scope during the reporting period

Yes No

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

Applicable Not applicable

(8) Major sales and main suppliers

Major sales of the Company

Total top five clients in sales (RMB)	259,665,669.14
Proportion in total annual sales volume for top five clients	2.25%
Ratio of related parties in annual total sales among the top five clients	0.00%

Information of top five clients of the Company

Serial	Name	Sales (RMB)	Proportion in total annual sales
1	Unit 1	89,636,400.34	0.78%
2	Unit 2	56,275,043.50	0.49%
3	Unit 3	54,404,225.30	0.47%
4	Unit 4	33,930,000.00	0.29%
5	Unit 5	25,420,000.00	0.22%
Total	--	259,665,669.14	2.25%

Other explanation on main clients

Applicable Not applicable

Main suppliers of the Company

Total purchase amount from top five suppliers (RMB)	2,058,431,128.84
Proportion in total annual purchase amount for top five suppliers	30.35%

Ratio of related parties in annual total sales among the top five suppliers	0.00%
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Information of top five suppliers of the Company

Serial	Name	Purchases (RMB)	Proportion in total annual purchase
1	Unit 1	776,760,905.01	11.45%
2	Unit 2	562,911,756.94	8.30%
3	Unit 3	359,733,804.59	5.30%
4	Unit 4	192,036,368.21	2.83%
5	Unit 5	166,988,294.09	2.46%
Total	--	2,058,431,128.84	30.35%

Other explanation on main suppliers

Applicable Not applicable

3. Expense

In RMB

	2020	2019	Y-o-y changes (+,-)	Note
Sales expense	613,910,975.53	851,783,078.83	-27.93%	No major changes in the reporting period
Administration expense	493,640,757.37	482,684,059.23	2.27%	No major changes in the reporting period
Financial expense	137,423,909.87	148,007,589.73	-7.15%	No major changes in the reporting period
R& D expense	22,866,289.98	22,442,549.67	1.89%	No major changes in the reporting period

4. R&D investment

Applicable Not applicable

In 2020, the company independently researched and developed a mobile flight system focusing on flight safety, achieving real-time online, business mobility, and closed-loop management of the flight crew, and bringing the company's flight management business to a new level; the research and development of portable electronic flight bags based on operational quality has improved the efficiency of operation support, integrated the concept of green, low-carbon, and circular development into the development and operation of the enterprise, it had the honor to win a prize in the "Energy Saving and Consumption Reduction Support Project of Jinan High-Tech Zone" and the "First Prize of Shandong Internet Innovation and Entrepreneurship Competition in 2020"; focused on passenger services to make research and development on the comprehensive guarantee platform for refunds for irregular flights and ground service, and the LuYan trip system; integrated internal and external high-quality resources of the company, created comprehensive and personalized value-added service products, optimized passenger travel experience, established a good brand image, and made

data run more and users run less.

R&D investment of the Company

	2020	2019	Changes in ratio
Number of R&D personnel (Person)	157	150	4.67%
R&D personnel ratio	1.33%	1.29%	0.04 percentage points up
Amount invested for R&D (RMB)	22,866,289.98	22,442,549.67	1.89%
Ratio of the R&D investment in operation revenue	0.22%	0.12%	0.10 percentage points up
Capitalization of R&D (RMB)	0.00	0.00	0.00%
Ratio of the capitalized R&D investment in R&D investment	0.00%	0.00%	0.00%

The reason of great changes in the proportion of total R&D investment accounted for operation income than last year

Applicable Not applicable

Reason for the great change in R&D investment capitalization rate and rational description

Applicable Not applicable

5. Cash flow

In RMB

Item	2020	2019	Y-o-y changes (+,-)
Subtotal of cash in-flow from operation activity	11,339,817,878.63	21,010,686,546.04	-46.03%
Subtotal of cash out-flow from operation activity	13,039,546,639.43	18,380,874,293.66	-29.06%
Net cash flow from operation activity	-1,699,728,760.80	2,629,812,252.38	-164.63%
Subtotal of cash in-flow from investment activity	9,484,166.48	12,377,704.47	-23.38%
Subtotal of cash out-flow from investment activity	661,392,213.20	1,909,718,530.25	-65.37%
Net cash flow from investment activity	-651,908,046.72	-1,897,340,825.78	-65.64%
Subtotal of cash in-flow from	11,950,000,000.00	1,385,464,436.83	762.53%

financing activity			
Subtotal of cash out-flow from financing activity	4,889,620,785.12	2,365,798,150.93	106.68%
Net cash flow from financing activity	7,060,379,214.88	-980,333,714.10	-820.20%
Net increased amount of cash and cash equivalent	4,707,613,385.37	-241,999,038.40	-2,045.30%

Explain the main influencing factors of significant changes in relevant data on a y-o-y basis

√ Applicable □ Not applicable

Item	Jan.- Dec. of 2020	Jan.- Dec. of 2019	Changes +,-	Reason for changes
Cash received from sales of the goods and providing labor services	11,087,151,340.18	20,647,602,531.11	-46.30%	Affected by the epidemic in the Year, income is lower than last year
Refunds of taxes	59,006,545.25	136,223,181.63	-56.68%	Export rebates received in the Year less than last year
Cash payment for good purchased and labor service received	9,575,470,033.88	13,974,802,792.98	-31.48%	Affected by the epidemic, the variable cost is lower than last year
Taxes paid	201,842,884.10	830,166,097.48	-75.69%	The enterprise income tax and civil aviation development fund paid in the year are less than last year
Cash received from investment income	4,019,690.59	6,284,357.21	-36.04%	Bonus from investment on non-tradable equity instrument decreased in the Year
Other cash received concerning investment activities	-	9,316.91	-100.00%	Received the actual settlement proceeds for holding the interest rate swaps last year
Cash paid for purchasing fixed assets, intangible assets and other long-term assets	660,563,018.81	1,909,607,697.75	-65.41%	The progress payment for aircraft purchase decreased over last year
Net cash paid for obtained the subsidiaries and other business units	-	110,832.50	-100.00%	Purchase money for part of the food company are paid last year
Other cash paid concerning investment activities	829,194.39	-	-	The loss from actual settlement proceeds for holding the interest rate swaps was paid in the Year
Cash received from loans	9,950,000,000.00	890,000,000.00	1017.98%	Loans received from financing activities increased in the Year

Cash received from issuing bonds	2,000,000,000.00			Issued the medium-term notes in the Year
Other cash paid concerning financing activities		495,464,436.83	-100.00%	Received the price of the original purchase right for the two leased aircraft last year
Cash paid for debt payment	4,376,851,929.66	1,824,791,031.88	139.85%	The loans paid in the year increased over that of last year
Impact on cash and cash equivalent from changes of exchange rate	-1,129,021.99	5,863,249.10	119.26%	Exchange rate of RMB against foreign currency changed

Explain the reason for the material difference between net cash flow generated from operating activities in the period and current net profit

Applicable Not applicable

III. Analysis of the non-main business

Applicable Not applicable

IV. Analysis of assets and liabilities

1. Major changes of assets composition

Adjust relevant items of financial statements at the year of first implementation of the new revenue standards or new leasing standards since 2020

Applicable

In RMB

	Year end of 2020		Year begin of 2020		Ratio changes(+,-)	Notes of major changes
	Amount	Ratio in total assets	Amount	Ratio in total assets		
Monetary fund	5,306,474,451.06	23.69%	598,961,065.69	3.44%	20.25 percentage points	The Company has reserved enough monetary funds to deal with the liquidity risks for the COVID-19 epidemic has not been controlled completely.
Account receivable	354,352,296.99	1.58%	456,758,290.60	2.63%	-1.05 percentage points	
Inventory	110,572,399.50	0.49%	109,435,256.69	0.63%	-0.14 percentage points	

Investment real estate		0.00%		0.00%		
Long-term equity investment		0.00%		0.00%		
Fixed assets	6,904,082,012.35	30.82%	7,362,687,431.80	42.33%	-11.51 percentage points	
Construction in progress	5,770,696,951.56	25.76%	5,479,071,703.01	31.50%	-5.74 percentage points	
Short-term loans	2,001,111,111.11	8.93%	300,329,083.33	1.73%	7.20 ↑ percentage points	In response to the epidemic, the Company increase their short-term loans to reducing the liquidity risks.
Long-term loans	6,117,434,899.32	27.31%	808,001,382.82	4.65%	-22.66 percentage points	In response to the epidemic, the Company increase their long-term loans to reducing the liquidity risks.
Other account receivable	159,397,943.13	0.71%	232,147,324.23	1.33%	-0.62 percentage points	Collected the customs deposit in the Year and use the discount from suppliers
Other current assets	282,572,739.73	1.26%	170,020,416.07	0.98%	0.28 percentage points	The VAT on sales declined in the Year due to the revenue drops
Other equity instrument investment	541,789,406.63	2.42%	874,728,633.32	5.03%	-2.61 percentage points	The fair value of non-tradable equity instrument investment declined
Deferred income tax assets	1,999,099,488.87	8.92%	1,105,378,651.73	6.36%	2.56 percentage points	The recognition of deferred income tax assets from uncovered loss increased in the Year
Trading financial liability	862,955.67	0.00%	126,264.75	0.00%	0.00%	Change of the fair value of holding the interest rate swaps in the Year
Contract liability	445,400,801.19	1.99%	839,385,426.95	4.83%	-2.84 percentage points	Affected by the epidemic, advance ticket from passengers declined in the Year
Wages payable	346,238,955.37	1.55%	549,061,919.97	3.16%	-1.61 percentage points	The year-end bonus declined due to the descend in achievement.
Taxes payable	102,206,477.49	0.46%	158,334,781.87	0.91%	-0.45 percentage points	The enterprise income tax and civil aviation development fund paid in the year are less than last year

Non-current liability due within one year	321,577,566.89	1.44%	885,299,947.83	5.09%	-3.65 percentage points	Pay back the long-term loans due within one year and long-term payable in the Year
Other current liability	31,100,597.66	0.14%	61,897,848.38	0.36%	-0.22 percentage points	Affected by the epidemic, advance ticket from passengers declined in the Year, than the corresponding other current liability declined
Bonds payable	1,000,000.00	4.46%		0.00%	4.46 percentage points	Issued the medium-term notes in the Year
Long-term wages payable	254,025,000.00	1.13%	152,746,225.21	0.88%	0.25 percentage points	Numbers of retirees and the scope of benefits increased in the Year
Deferred income tax liability	158,137,753.91	0.71%	232,789,494.25	1.34%	-0.63 percentage points	The fair value of non-tradable equity instrument investment declined
Other comprehensive income	322,552,319.90	1.44%	570,487,739.92	3.28%	-1.84 percentage points	The fair value of non-tradable equity instrument investment declined
Retained profit	1,233,524,795.64	5.51%	3,615,540,251.45	20.79%	-15.28 percentage points	Affected by the epidemic, the Company has a declined in performance for the Year

2. Assets and liability measure by fair value

√ Applicable □ Not applicable

In RMB

Item	Opening amount	Gains/losses of changes in fair value	Accumulative changes in fair value reckoned into equity	Impairment accrual in this period	Amount purchased in this period	Sale amount	Other change	Closing amount
Financial assets								
4. Other equity instrument investment	874,728,633.32	-332,939,226.69	453,437,306.63					541,789,406.63
Subtotal of financial	874,728,633.32	-332,939,226.69	453,437,306.63					541,789,406.63

assets								
The above	874,728,63	-332,939,22	453,437,30					541,789,4
total	3.32	6.69	6.63					06.63
Financial liability	126,264.75	736,690.92						862,955.6 7

Other changes

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

Yes No

3. Assets right restriction till end of reporting period

Nil

V. Investment

1. Overall situation

Applicable Not applicable

2. The major equity investment obtained in reporting Period

Applicable Not applicable

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

Applicable Not applicable

4. Financial assets investment

(1) Security investment

Applicable Not applicable

The Company does not have security investment in the period

(2) Derivative investment

Applicable Not applicable

The Company does not have derivative investment in the period

5. Application of raised proceeds

Applicable Not applicable

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

VI. Sales of major assets and equity

1. Sales of major assets

Applicable Not applicable

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

Applicable Not applicable

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 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	96,093,546.90	78,139,534.66	45,095,349.45	5,047,804.26	3,643,681.25
Qingdao Feisheng International Aviation Technology Development Training Co., Ltd.	Subsidiary	Pilot training	51,545,500.00	66,014,261.76	65,769,900.42	2,574,150.95	-1,902,138.22	-1,891,660.72
Shandong	Subsidiary	Air food	5,094,545.	52,064,015	35,298,277	43,849,928	-614,413.0	-566,451.2

Jinping Air Food Co., Ltd.		supplying, catering service	00	.35	.40	.53	4	7
Shandong Airline Qingdao Food Co., Ltd.	Subsidiary	Souvenir processing; production and processing of the air foods and delivery service	3,380,000.00	37,026,310.12	27,088,461.05	21,769,078.52	95,381.95	60,212.45
Shandong Rainbow Corporate Aircraft Co., Ltd.	Stock-jointly enterprise	Air transport	50,000,000.00	1,803,800.67	-165,962,012.66		-1,368.86	-20,692.86

Particular about subsidiaries obtained or disposed in report period

Applicable Not applicable

Explanation on main stock-jointly companies

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 of four major aviation groups including Air China, China Eastern Airlines, China Southern Airlines and Hainan Airline, 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 2019, by the end of 2019, China had a total of 62 transport airlines, an increase of two airlines over the previous year, there were 48 state-owned holding companies and 14 private and private holding companies by different types of ownership; there were 9 cargo airlines, 10 Sino-foreign joint venture airlines, and 8 listed companies among all transport airlines.

The development trend of the civil aviation industry has shown increasingly obvious characteristics in eight aspects: firstly, competition is fierce, newly established airlines increase, existing companies have increased capacity, and the marketization degree of transportation prices has gradually improved, and industry competition has become increasingly fierce. Secondly, the high-speed rail network has increased its impact on civil aviation. The third is the normalization of epidemic prevention and control, and the uncertainty of the end of the global COVID-19 epidemic has severely restricted the recovery and development of the civil aviation industry. The fourth is the popularization of passengers, consumers' requirements for service quality have increased, and the

proportion of business travelers has decreased. The fifth is the low price of air tickets, the pressure of freight competition, and the accumulation of capacity in the domestic market under the influence of the epidemic, the freight rate is at a low level, and the industry has entered an era of meager profit. Sixth, costs are reinforced, and the costs of major items such as aircraft and labor have increased rigidly. Seventh, sales are electronized, the application of mobile internet technology is rapidly popularized, and the sales model has undergone a fundamental change. The eighth is that channels are blurred. Under the e-commerce model, the source of tourists is blurred, which puts higher demands on the company's precise 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. General working idea of the 14th Five-Year Plan

With the theme of promoting high-quality development, we will grasp the relationship between scale and efficiency, speed and quality. Taking the deepening of the supply-side structural reform as the main line, fully implement the “One Two Three Three Four” overall civil aviation working ideas during the “14th Five-Year Plan” period. Firmly seize the opportunities of civil aviation development phase transition period, development quality improvement period and development pattern expansion period, and the national civil aviation network, world-class airport clusters and modern logistics supply chain system construction, coordinate epidemic prevention and control and transportation guarantee, rely on the needs of business development, optimize fleet structure, route structure, and manpower structure, and prepare high-quality “14th Five-Year” strategic planning. Adhere to the three bottom lines, i.e. flight safety, integrity and safety, and sincere service, improve risk prevention and control capabilities, attach importance to the improvement of service levels, and promote the scientific allocation of resources and the efficient use of resources. Vigorously implement concept innovation, system innovation, technological innovation, and product innovation, improve the corporate governance system and governance capabilities, and increase labor productivity.

Take security control as the base, innovative mechanisms as the core, e-commerce operations, service improvement, brand establishment 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 has determined that the work ideas for 2021 are adhering to the guidance of socialism with Chinese characteristics in Xi Jinping's new era, thoroughly implementing the spirit of the party's 19th National Congress, the spirit of the 2nd, 3rd, 4th and 5th Plenary Sessions of the 19th Central Committee and the spirit of important instructions of General Secretary Xi Jinping to civil aviation. We will continue to fully implement the guiding principles of General Secretary Xi Jinping's series of important speeches, directives and instructions on the overall promotion of epidemic prevention and control and economic and social development. Under the premise of normalization of epidemic prevention and control, adhere to the general keynote of the work of seeking progress while maintaining stability, and adhere to the new development concept. Taking the deepening of supply-side structural reform as the main line and the theme of high-quality development, we will focus on consolidating the foundation for development, preventing major risks, resolutely fighting the battle against profitability, and striving to open up a new situation for sustainable and healthy development during the 14th Five-Year Plan.

The following specific tasks should be done well: 1. Strengthen responsibility and bottom-line thinking, pay close attention to

epidemic prevention and control and ensure safe production; 2. Continue to improve the quality of operation management and control, consolidate and improve the normality of flights; 3. Strengthen joint efforts, tap the potential, and make every effort to fight the battle for efficiency; 4. Continue to improve service presentation, and focus on stimulating service value; 5. Strengthen strategic guidance and improve the level of comprehensive governance and management.

(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

√ Applicable □ Not applicable

Time	Location	Way	Reception object	Type	Main contents of the discussion and the information provided	Basic situation index of investigation
2020-03-18	SDA Building, No.5746,	Field research	Other	Corporate shareholder	operation condition of	Received the new media, corporate

	Erhuan East Rd., Jinan, Shandong				the Company	shareholders and individual investors, knowing operation condition of the Company and provided the Annual Report
2020-06-18	SDA Building, No.5746, Erhuan East Rd., Jinan, Shandong	Field research	Other	News media, corporate shareholder and individual investors,	operation condition of the Company, Annual Report of the Company	Received the new media, corporate shareholders and individual investors, knowing operation condition of the Company and provided the Annual Report
Reception (times)						2
Number of hospitality						0
Number of individual reception						0
Number of other reception						2
Disclosed, released or let out major undisclosed information		N				

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

Applicable Not applicable

The company's 2019 annual general meeting of shareholders held on June 18, 2020 reviewed and approved the company's 2019 equity distribution plan. Comprehensively considering the company's production and operation conditions in the future under the influence of the COVID-19 epidemic, as well as the company's medium and long-term development plans and short-term business development practices, combined with the macroeconomic situation, especially the capital situation, in order to ensure the stability of the company's cash flow and the long-term development, enhance the ability to resist risks, achieve the company's sustainable, stable and healthy development, and better safeguard the long-term interests of all shareholders, the company would not distribute cash dividends in 2019, or give bonus shares, or use reserve funds to increase share capital.

Specific statement of cash bonus policy	
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:	Not applicable

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

2018: distributed 2.0 Yuan (tax included) bonus for every 10 shares in cash based on total stock issued 400,000,000 shares ended as 31 December 2018;

2019: The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either

2020: The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either

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

In RMB

Year for bonus shares	Amount for cash bonus	Net profit attributable	Ratio of the cash bonus in	Proportion for cash	Ratio of the cash bonus	Total cash bonus	Ratio of the total cash

	(tax included)	to common stock shareholders of listed company in consolidation statement for bonus year	net profit attributable to common stock shareholders of listed company contained in consolidation statement	bonus by other ways(i.e. share buy-backs)	by other ways in net profit attributable to common stock shareholders of listed company contained in consolidation statement	(including other ways)	bonus (other ways included) in net profit attributable to common stock shareholders of listed company contained in consolidation statement
2020	0.00	-2,382,015,455.81	0.00%	0.00	0.00%	0.00	0.00%
2019	0.00	361,005,776.31	0.00%	0.00	0.00%	0.00	0.00%
2018	80,000,000.00	347,379,314.89	23.03%	0.00	0.00%	80,000,000.00	23.03%

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

Applicable Not applicable

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

Applicable Not applicable

The Company has no plans of cash dividend distributed, no bonus shares and has no share converted from capital reserve either

III. Implementation of commitment

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

Applicable Not applicable

Commitments	Commitment party	Type	Contents	Commitment time	Commitment period	Implementation
Share reform commitment						
Commitments in report of acquisition or equity	Air China	Commitment of horizontal competition,	In February 2004, China National Aviation Holding Company (CNAHC)	2004-12-06	Long-term effective	Strictly implement timely

change		related transaction and capital occupying	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 obligations under the agreement was transfer to Air China as the party who implemented the commitments			
Commitments in assets reorganization						
Commitments make in initial public offering or re-financing	Shandong Aviation	Commitment of horizontal competition, related transaction and capital occupying	Controlling shareholder—Shandong Aviation Group 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
Equity incentive commitment						
Other commitment for minority shareholders of the Company						
Completed commitments 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

Applicable Not applicable

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

Applicable Not applicable

The third meeting of the company's seventh board of directors held on March 26, 2020 reviewed and approved the Proposal on Changes in Accounting Policies. According to the requirements of "Accounting Standards for Business Enterprises No. 14 - Revenue" (CK [2017] No. 22) revised by the Ministry of Finance on July 5, 2017, the company has implemented the new revenue standards since January 1, 2020, adjusted the amount of retained earnings at the beginning of the period and other related items in the financial statements according to the cumulative impact of the first implementation of the standards, and did not adjust the information for comparable periods. The implementation of the new revenue standards would not cause a major change in the company's revenue recognition method, and did not have a significant impact on the company's financial status, operating results and cash flow.

The fourth (temporary) meeting of the seventh board of directors of the company held on April 28, 2020 reviewed and approved the Proposal on Changes in Accounting Estimates. According to the "Accounting Standards for Business Enterprises No. 4 - Fixed Assets", the company reviewed the useful life, estimated net residual value and depreciation method of fixed assets, and adjusted the depreciation method of engine replacement parts from the straight-line depreciation method to the workload method; the depreciation period of high-priced turnover parts was adjusted from 15-18 years to 3-15 years, which would be implemented from January 1, 2020. The revised accounting estimates can more objectively and truly reflect the company's financial status and operating results. Changes in accounting estimates adopt future applicable methods for accounting treatment, and there is no need to retrospectively adjust the disclosed financial reports, and will not affect the company's financial status and operating results in previous years.

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

Applicable Not applicable

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

Applicable Not applicable

No changes in consolidation statement scope in the reporting period

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

The accounting firms currently engaged

Name of domestic accounting firm	RSM Certified Public Accountants (special general partnership)
Remuneration for domestic accounting firm (in 10 thousand Yuan)	110
Continuous life of auditing service for domestic accounting firm	2
Name of domestic CPA	Yang Yunhui, Xu Hong
Continuous life of auditing service for domestic CPA	1

Whether re-appointed accounting firms in this period or not

Yes No

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

Applicable Not applicable

Take consistency into consideration, the Company also engaged RSM Certified Public Accountants (special general partnership) as the audit institution for internal control for year of 2020, and auditing efficiency of internal control and issued the audit report of internal control of 2020 for the Company. The auditing charge for internal control was RMB 0.45 million.

X. Facing delisting after disclosure of the annual report

Applicable Not applicable

XI. Bankruptcy reorganization

Applicable Not applicable

No bankruptcy reorganization for the Company in reporting period

XII. Major litigation and arbitration of the Company

Applicable Not applicable

No major litigation and arbitration occurred in the reporting period

XIII. Penalty and rectification

Applicable Not applicable

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

Applicable Not applicable

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 party transactions

1. Related party transaction with daily operation concerned

Applicable Not applicable

Related transaction parties	Relationship	Type	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
STAECO	Subsidiary of the first largest shareholder	Sales of goods /offering labor service	Income from sales of aviation materials	Market price	1,873,816.36	187.38	11.60%	118	Y	Settlement in cash	1873816.36	2020-03-28	2020-12
Shandong Xiangyu Aeronautical Technology Service Co., Ltd.	Subsidiary of the first largest shareholder	Sales of goods /offering labor service	Income from sales of aviation materials	Market price	1,820,932.96	182.09	13.54%	100	Y	Settlement in cash	1820932.96	2020-03-28	2020-12
Shandong	Subsidiary	Sales of	Warehousing	Market	421,340.17	42.13	9.82%	42.75	N	Settlement	421340.17	2020-03-28	2020-12

Airlines Rainbow Automobile Service Co., Ltd	of the first largest shareholder	goods /offering labor service	fee income/Property fee income	price						in cash			
Shandong Airlines Xinzhihang Media Co., Ltd.	Subsidiary of the first largest shareholder	Sales of goods /offering labor service	Media resource usage fee	Market price	16,065,789.77	1,606.58	100.00%	1,200	Y	Settlement in cash	16065789.77	2020-03-28	2020-12
Air China	Second largest shareholder	Sales of goods /offering labor service	Agency commission revenue	Market price	513,060.75	51.31	51.40%	88.5	N	Settlement in cash	513060.75	2020-03-28	2020-12
Air China	Second largest shareholder	Sales of goods /offering labor service	Ground services revenue	Market price	6,212,264.01	621.23	91.19%	1,001	N	Settlement in cash	6212264.01	2020-03-28	2020-12
Air China	Second largest shareholder	Sales of goods /offering labor service	Non-routine maintenance / revenue from aircraft	Market price	88,866.85	8.89	3.13%	43	N	Settlement in cash	88866.85	2020-03-28	2020-12

			service										
Air China	Second largest shareholder	Sales of goods /offering labor service	Sales/lease of air material revenue	Market price	896,789.23	89.68	6.66%	32	Y	Settlement in cash	896789.23	2020-03-28	2020-12
Air China	Second largest shareholder	Sales of goods /offering labor service	Simulator maintenance/leasing revenue	Market price	4,111,642.86	411.16	100.00%	224.27	Y	Settlement in cash	4111642.86	2020-03-28	2020-12
Ameco	Subsidiary of the second largest shareholder	Sales of goods /offering labor service	Sales/lease of air material revenue	Market price	410,650.36	41.07	3.05%	180	N	Settlement in cash	410650.36	2021-03-28	2020-12
Shandong Aviation	The first largest shareholder	Purchase goods /Accept service	Office rent and accommodation fee	Market price	37,260,027.24	3,726	30.24%	4,000	N	Settlement in cash	37260027.24	2020-03-28	2020-12
Shandong Aviation	The first largest shareholder	Purchase goods /Accept service	Residence fee	Market price	8,690,206.19	869.02	5.98%	1,206	N	Settlement in cash	8690206.19	2020-03-28	2020-12

STAECO	Subsidiary of the first largest shareholder	Purchase goods /Accept service	Aircraft maintenance costs	Market price	97,481,530.56	9,748,151	7.98%	19,030	N	Settlement in cash	97481530.56	2020-03-28	2020-12
Shandong Xiangyu Aeronautical Technology Service Co., Ltd.	Subsidiary of the first largest shareholder	Purchase goods /Accept service	Maintenance cost	Market price	78,012,005.16	7,801,202	6.36%	12,020	N	Settlement in cash	78012005.16	2020-03-28	2020-12
Shandong Airlines Rainbow Automobile Service Co., Ltd	Subsidiary of the first largest shareholder	Purchase goods /Accept service	Vehicle rental fee and maintenance fee	Market price	67,139,779.12	6,713,988	93.77%	8,496	N	Settlement in cash	67139779.12	2020-03-28	2020-12
Shandong Airlines Rainbow Automobile Service Co., Ltd	Subsidiary of the first largest shareholder	Purchase goods /Accept service	Residence fee	Market price	2,533,255.98	253,333	2.84%	500	N	Settlement in cash	2533255.98	2020-03-28	2020-12
Shandong Airlines Rainbow	Subsidiary of the first largest shareholder	Purchase goods /Accept	Abnormal flights	Market price	362,440.37	36.24	0.62%	55	N	Settlement in cash	362440.37	2020-03-28	2020-12

w Automobile Service Co., Ltd	largest shareholder	pt service											
Shandong Airlines Xinzhihang Media Co., Ltd.	Subsidiary of the first largest shareholder	Purchase goods /Accept service	Aircraft supplies and advertising fees	Market price	7,452,691.29	745.27	0.40%	950	N	Settlement in cash	7452691.29	2020-03-28	2020-12
Air China	Second largest shareholder	Purchase goods /Accept service	Agency commission expenditure	Market price	759,535.17	75.95	56.02%	136.6	N	Settlement in cash	759535.17	2020-03-28	2020-12
Air China	Second largest shareholder	Purchase goods /Accept service	Ground service expenditure	Market price	15,426,754.31	1,542.68	0.74%	1,956.63	N	Settlement in cash	15426754.31	2020-03-28	2020-12
Air China	Second largest shareholder	Purchase goods /Accept service	Abnormal flight and resident group expenses	Market price	22,307,588.66	2,230.76	15.14%	2,357	N	Settlement in cash	22307588.66	2020-03-28	2020-12
Air China	Second largest shareholder	Purchase goods /Accept	Maintenance cost	Market price	6,183,500.06	618.35	0.51%	750	N	Settlement in cash	6183500.063	2020-03-28	2020-12

	holder	service											
Air China	Second largest shareholder	Purchase goods /Accept service	Purchasing/leasing aviation material expenditure	Market price	245,017.06	24.5	9.04%	55	N	Settlement in cash	245,017.06	2020-03-28	2020-12
Air China	Second largest shareholder	Purchase goods /Accept service	Catering	Market price	758,702.77	75.87	0.39%	160	N	Settlement in cash	758,702.77	2020-03-28	2020-12
Ameco	Subsidiary of the second largest shareholder	Purchase goods /Accept service	Ground service expenses	Market price	25,036,782.78	2,503.68	1.35%	3,600	N	Settlement in cash	25,036,782.78	2020-03-28	2020-12
Ameco	Subsidiary of the second largest shareholder	Purchase goods /Accept service	Maintenance cost	Market price	59,917,514.33	5,991.75	4.90%	8,200	N	Settlement in cash	59,917,514.33	2020-03-28	2020-12
Ameco	Subsidiary of the second largest shareholder	Purchase goods /Accept service	Purchasing/leasing aviation material	Market price	283,789.14	28.38	10.47%	20	Y	Settlement in cash	283,789.14	2020-03-28	2020-12

	share holder		expenditure										
Sichuan Service Aero-Engine Maintenance Co., Ltd.	Joint venture of the second largest shareholder	Purchase goods/Accept service	Maintenance cost	Market price	82,956,535.74	8,295,656	6.78%	14,000	N	Settlement in cash	82956535.74	2020-03-28	2020-12
Air China	Second largest shareholder	Other related party transaction	Frequent passenger cooperation	Agreement price	60,000,000	6,000	100.00%	10,000	N	Settlement in cash	60000	2020-03-28	2020-12
Total						60,522.28		90,521.75					
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 party transactions of assets/equity acquisition and sold

Applicable Not applicable

No related party transactions of assets/equity acquisition and sold for the Company in the reporting period.

3. Main related party transactions of mutual investment outside

Applicable Not applicable

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

4. Contact of related credit and debt

Applicable Not applicable

There are no related credits or liabilities occurred in the reporting period.

5. Other related party transactions

Applicable Not applicable

The Company has no other major related party transaction in the reporting period.

XVII. Major contract and implantation

1. Trusteeship, contract and leasing

(1) Trusteeship

Applicable Not applicable

The Company does not have trusteeship in the period

(2) Contract

Applicable Not applicable

The Company do not have contract in the period

(3)Leasing

Applicable Not applicable

The Company do not have contract in the period

2. Major guarantee

Applicable Not applicable

No guarantee for the Company in reporting period

3. Entrust others to cash asset management

(1) Entrust financing

Applicable Not applicable

No entrust financing in the period

(2) Entrust loans

Applicable Not applicable

No entrust loans in the period

4. Material contract with daily operation concerned

Applicable Not applicable

5. Other material contracts

Applicable Not applicable

No other material contracts for the Company in reporting period

XVIII. Social responsibility

1. Execution of social responsibility

The Company pays high attention to the construction of social responsibility, and 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; create value and return to the society; create service and give back to the traveler and create opportunities and reward the employees. Meanwhile, we will vigorously protect the environment, carrying out energy conservation and emission reduction as well as guarantee the transport security for COVID-19. Since the outbreak of the COVID-19 epidemic, Shandong Airlines has taken the initiative and consciously fulfilled the social responsibilities of state-owned enterprises, went all out to provide emergency transportation support for Shandong Province to assist Hubei in fighting the epidemic. It has performed 39 epidemic prevention and control transportation charter flights and used the main shift to transport 19 shifts of personnel and materials, transported a total of 3,714 medical personnel, and 159.62 tons of epidemic prevention and control materials, realizing a high degree of unification of company operations and social responsibilities.

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, improve the aviation safety responsibility list, strengthen emergency management capabilities 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.

In terms of service quality management, in order to truly implement the Three Sincerity service concept and enhance the travel experience of passengers, we have practiced and summarized the honest and sincere Shandong Airlines service quality management model of empathy, insight and affinity, active & inclusive & altruistic services, and exceeding customer expectations. Based on the unique regional culture and brand genes of Shandong Airlines, continued to promote the construction of aerial Confucius Classrooms, actively promoted traditional culture, and strive to create a new situation of high-quality development of service work, increase the R&D and investment of new technology and advance service hardware facilities and equipment, promote simplified business

applications, improve the service efficiency, enhance the passenger's sense of gain and created greater value for passengers.

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 2017 to 2019, the accumulated cash dividends amounted to 180 million Yuan in three years.

In 2021, 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

The listed company and its subsidiaries whether belong to the key pollutant discharge units announced by the environmental protection department

Yes No

No

The company has strictly implemented the requirements of the Party Central Committee to fight a tough battle against pollution and the requirements of the Civil Aviation Administration to win the blue sky defense war, continuously tapped the endogenous power, and further promoted environmental protection, pollution prevention and energy saving and emission reduction work, and carried out ecological environmental protection and energy saving inspections, proposed and established a list of pollution risk points, and strengthened internal management and control. The company also continued to do a good job in the use and management of on-site equipment and vehicles, and carried out the transforming and upgrading of on-site vehicle exhaust gas standards, actively promoted new energy vehicles, promoted the utilization rate of APU alternative facilities, and organized new technology research and development; further standardized the company's ecological, environmental protection and energy-saving work methods and standardized management standards for hazardous waste, and defined the management of the entire chain from information maintenance, flight monitoring to data accounting and verification reports.

XIX. Explanation on other significant events

Applicable Not applicable

No other significant events needs explanation during the period

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

Reasons for share changed

Applicable Not applicable

Approval of share changed

Applicable Not applicable

Ownership transfer of share changed

Applicable Not applicable

Implementation progress of the share repurchases

Applicable Not applicable

Implementation progress of the reduction of repurchases shares by centralized bidding

Applicable Not applicable

Influence on the basic EPS and diluted EPS as well as other financial indexes of net assets per share attributable to common shareholders of Company in latest year and period

Applicable Not applicable

Other information necessary to disclose for the Company or need to disclosed under requirement from security regulators

Applicable Not applicable

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	13,793	Total common stock shareholders at end of last month before annual report disclosed	13,541	Total preference shareholders with voting rights recovered at end of reporting period (if applicable) (found in note 8)	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed (if applicable) (found in note 8)	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	Change s 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 TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.75%	3,000,895	732244	0	3,000,895		
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	Foreign legal person	0.66%	2,658,100	0	0	2,658,100		
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.52%	2,075,717	-885200	0	2,075,717		
ISHARES CORE MSCI EMERGING MARKETS ETF	Foreign legal person	0.48%	1,920,380	-143538	0	1,920,380		
Hou Chunhu	Domestic nature person	0.45%	1,796,145	45800	0	1,796,145		
Chen Jingjian	Domestic nature person	0.40%	1,595,200	0	0	1,595,200		
Wang Jingqing	Domestic	0.33%	1,319,653	100	0	1,319,653		

	nature person							
Explanation on related relationship or concerted action among the above mentioned shareholders		<p>1. Shandong Aviation Group is the first largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares;</p> <p>2. Air China Limited is the second largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares;</p> <p>3. Among the above top ten shareholders, Air China Limited is the first largest shareholder of the Shandong Aviation Group, and there exists no associated relationship between Shandong Aviation Group, Air China and the other shareholders, and they don't belong to the persons acting in concert regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders.</p>						
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	Domestic ally listed foreign shares	3,498,4 79					
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	3,000,895	Domestic ally listed foreign shares	3,000,8 95					
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	2,658,100	Domestic ally listed foreign shares	2,658,1 00					
VANGUARD EMERGING MARKETS STOCK INDEX FUND	2,075,717	Domestic ally listed foreign shares	2,075,7 17					
ISHARES CORE MSCI EMERGING MARKETS ETF	1,920,380	Domestic ally listed foreign shares	1,920,3 80					
Hou Chunhu	1,796,145	Domestic ally listed foreign shares	1,796,1 45					
Chen Jingjian	1,595,200	Domestic ally listed foreign	1,595,2 00					

		shares	
Wang Jingqing	1,319,653	Domestic ally listed foreign shares	1,319,6 53
Wang Hui	802,800	Domestic ally listed foreign shares	802,800
Ou Yanping	777,699	Domestic ally listed foreign shares	777,699
Expiation on associated relationship or consistent actors within the top 10 un-restrict shareholders and between top 10 un-restrict shareholders and top 10 shareholders	The Company is not aware of their associated relationship among the top ten shareholders of circulation share, and is unknown whether other circulation shareholders belong to the person acting in concert regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.		

Whether top ten common stock shareholders or top ten common stock shareholders with un-restrict shares held have a buy-back agreement dealing in reporting period

Yes No

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	February 9, 1995	91370000614071647 W	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 domestic/oversea listed company control by controlling shareholder as well as stock-joint in report period	N/A			

Change of controlling shareholder in reporting period

Applicable Not applicable

No changes of controlling shareholder for the Company in reporting period

3. Actual controller and persons acting in concert

Nature of actual controller: local state-owned assets management

Type of actual controller: legal person

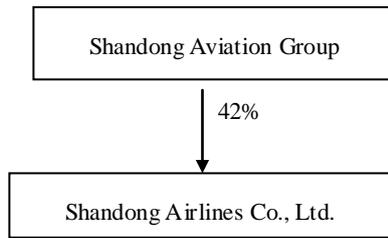
Actual controller	Legal person/person in charge of the unit	Date of foundation	Organization code	Main operation business
Shandong Aviation Group	Xu Chuanyu	February 9, 1995	91370000614071647W	Accommodation, catering services, and retail of tobacco product; (the above is limited to branch offices); investment 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			

Change of actual controller in the period

Applicable Not applicable

Actual controller of the Company has no changes in the reporting period

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



Actual controller controlling the Company by entrust or other assets management

Applicable Not applicable

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

Applicable Not applicable

Legal person shareholder	Legal person/person in charge of the unit	Date of foundation	Register capital	Main operation business or management activities
Air China Limited	Song Zhiyong	September 30, 2004	14.525 billion yuan	Domestic and overseas transportation business such as periodic and un-periodic aviation passenger, cargo, letter and baggage; domestic and overseas official flight business; airplane management business; repairing of aerostat; business agent among air companies; ground service and air courier services related with the main operations (excluding letter and articles with the nature of letters); tax-free commodities in airplane; retail business of the aircraft goods; selling agent of aviation accident insurance

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

Applicable Not applicable

Section VII. Preferred Stock

Applicable Not applicable

The Company had no preferred stock in the reporting.

Section VIII. Convertible Bonds

Applicable Not applicable

The Company had no convertible bonds in the Period.

Section IX. 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 Xiujian	President	Currently in office	M	58	January 18, 2016	November 27, 2022	0	0	0	0	0
Xu Chuanyu	Deputy President	Currently in office	M	56	December 20, 2016	November 27, 2022	0	0	0	0	0
Miao Liubin	Director, GM	Currently in office	M	49	March 24, 2016	November 27, 2022	0	0	0	0	0
Xu Guojian	Director, deputy GM & Chief accountant	Currently in office	M	56	April 22, 2010	November 27, 2022	0	0	0	0	0
Wang MingYuan	Director	Currently in office	M	55	March 15, 2006	November 27, 2022	0	0	0	0	0
Li Xiuqin	Director	Currently in office	F	57	June 28, 2012	November 27, 2022	0	0	0	0	0
Wang Zhifu	Director	Currently in office	M	48	November 28, 2019	November 27, 2022	0	0	0	0	0
Lv	Independent	Current	M	54	March	November	0	0	0	0	0

Hongbing	Independent director	Currently in office			24, 2016	November 27, 2022						
Duan Yalin	Independent director	Currently in office	M	48	March 24, 2016	November 27, 2022	0	0	0	0	0	0
Xu Xiangyi	Independent director	Currently in office	M	64	June 15, 2017	November 27, 2022	0	0	0	0	0	0
Hu Yuanmu	Independent director	Currently in office	M	66	June 15, 2017	November 27, 2022	0	0	0	0	0	0
Wang Wuping	Chairman of Supervisory Committee	Currently in office	M	55	October 28, 2013	November 27, 2022	0	0	0	0	0	0
Tang Chaoxu	Supervisor	Currently in office	M	49	June 28, 2018	November 27, 2022	0	0	0	0	0	0
Jin Xin	Staff supervisor	Currently in office	M	54	August 7, 2017	November 27, 2022	0	0	0	0	0	0
Zhou Qiaoyan	Staff supervisor	Currently in office	F	45	March 15, 2006	November 27, 2022	0	0	0	0	0	0
Dong Qiantang	Secretary of the Board	Currently in office	M	58	June 26, 2009	November 27, 2022	0	0	0	0	0	0
Yu Bo	Deputy GM	Currently in office	M	48	February 4, 2016	November 27, 2022	0	0	0	0	0	0
Dong Jianmin	Deputy GM	Currently in office	M	51	September 30, 2016	November 27, 2022	0	0	0	0	0	0
Zhou Ning	Security director	Currently in office	M	58	September 30, 2016	November 27, 2022	0	0	0	0	0	0
Ma Xiaoli	Deputy GM	Currently in office	F	45	September 30,	November 27,	0	0	0	0	0	0

		office			2016	2022					
Liu Chaolei	Chief engineer	Currently in office	M	50	March 28, 2017	November 27, 2022	0	0	0	0	0
Liu Jun	Chief pilot	Currently in office	M	58	October 10, 2020	November 27, 2022	0	0	0	0	0
Jiang Chengda	Director	Leave office	M	61	March 24, 2016	March 2, 2020	0	0	0	0	0
Xue Ruitao	Supervisor	Leave office	M	59	June 26, 2009	March 12, 2020	0	0	0	0	0
Zhang Qingshe	Deputy GM, Chief pilot	Leave office	M	62	October 28, 2013	August 27, 2020	0	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0	0

II. Changes of directors, supervisors and senior executives

√Applicable □ Not applicable

Name	Title	Type	Date	Reasons
Jiang Chengda	Director	Leave office	March 2, 2020	For reasons of age
Xue Ruitao	Supervisor	Leave office	March 12, 2020	For reasons of age
Zhang Qingshe	Deputy GM, Chief pilot	Dismiss	August 27, 2020	For reasons of age

III. Post-holding

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

1. Director

Mr. Sun Xiujiang, born in February 1962, bachelor of economics of Shandong Economic University. He worked in the general office of the provincial government from July 1984 to March 1993; worked in the provincial foreign trade corporation from March 1993 to December 1996 and from December 1996 to December 1998, worked in the provincial foreign trade group co., ltd. Mr. Sun served as deputy general manager of Shandong Hualu Group Co., Ltd. in April 1988, and served as deputy general manager of Shandong Hualu Group Co., Ltd. and deputy general manager of Hualu Group (Hong Kong) in July 1988, and served as director and deputy general manager of Hualu Holding Co., Ltd. in December 2004, and served as the deputy secretary of the party committee and the secretary of committee for discipline inspection of Shandong Aviation Group in August 2013. He currently serves as the

secretary of the party committee and vice president of Shandong Aviation Group and the chairman of Shandong Airlines Co., Ltd.

Mr. Xu Chuanyu, born in May 1964, he graduated from China Civil Aviation Flight Institute, major in aircraft pilot, a Master of Business Administration from Tsinghua University. He worked in Air China in July 1985, served as the deputy flight director of the third battalion in Air China in March 1992, the flight safety supervisor of the flight safety supervision service of Air China in April 1994, and the captain of the third battalion of the flight command in Air China in March 1997. Mr. Xu served as the deputy captain of the flying corps Air China in December 2001, served as the general manager of the Air China Tianjin Branch in March 2006, served as the chief pilot and deputy chief operating officer of Air China in January 2009, served as the vice president and chief operating officer of Air China, served as vice chairman, the security director and chief operating officer of Air China in March 2012. He currently serves as the chief pilot of China National Aviation Holding Company, the security director of Air China, the president, chairman and deputy secretary of the party committee of Shandong Aviation Group, and the vice chairman of Shandong Airlines Co., Ltd.

Mr. Miao Liubin, born in February 1971, master of engineering of the China Civil Aviation University. He worked in August 1993 and joined the Company in August 1994, he worked as the deputy squadron leader of flight No. 2 squadron on the flight department in SDA and as the squadron leader of flight No. 6 squadron in SDA. Mr Miao served as the deputy captain of the flying team I in October 2010, the captain of the flying team I in April 2004 of SDA. He served as the general manager of flight department of Shandong Airlines Co., Ltd. in August 2007, served as the general manager of Shandong Airlines Co., Ltd. in March 2011. He currently serves as the party committee member of Shandong Aviation Group, and director, the general manager and deputy party secretary of Shandong Airlines Co., Ltd.

Mr. Xu Guojian, born in November 1964, a master of Engineering of Northeastern University of Technology and doctor of engineering of Beijing University of Aeronautics and Astronautics. Mr Xu worked since September 1980 and from May 1993 to July 2001, he worked in the Beijing Aircraft Maintenance Engineering Co., Ltd; he served as the director of operations of Founder Digital Co., Ltd. in July 2001, served as the director of administration and finance of Macau Airport Management Co., Ltd. in September 2002, and served as the general manager of finance department of Engineering Technology Branch of Air China Limited in October 2007. He currently serves as a director, party committee member, deputy general manager, and chief accountant of Shandong Airlines Co., Ltd.

Mr. Wang MingYuan, born in September 1965, graduated from the School of Economics of Xiamen University, majoring in statistics. He served as an assistant at planning department, an assistant at marketing department, manager of the production planning in market sales department, vice manager of the market sales department, vice manager and manager of the market department; and worked as vice manager of the market sales department in Air China Limited in November 2002; member of the commerce committee and general manager of the network revenue department in Air China in June 2005, the director of commerce committee of Air China in July 2008. 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.

Ms. Li Xiuqin, born in May 1963, holds a postgraduate degree and is a senior economist. She served as secretary of youth league committee of the Bureau of Finance of Tai'an City, Shandong Province in September 1994, served as chief of personnel education section of the Bureau of Finance of Tai'an City in March 1997, served as deputy director of the housing provident fund management center of Tai'an City in December 1998, the vice director of HR dept. of Shandong Economic Development and Investment Company in June 2002, the deputy director of audit dept. of Shandong Economic Development and Investment Company in Feb. 2003; served as the director of asset management department of Shandong Economic Development Investment Co., Ltd. in March 2010, served as an independent of Shandong Airlines Co., Ltd. from May 2003 to March 2006. She is currently the deputy general

manager of Shandong Finance Investment Group Co., Ltd. and a director of Shandong Aviation Group, and a director of Shandong Airlines Co., Ltd.

Mr. Wang Zhifu, born in March 1972, a master of public management, senior accountant, the high-end accountant of Shandong province and “Qilu Financial Star”. In September 2012, served as the vice investigator of the enterprise dept. of Shandong Province Finance Bureau, vice director of the Shandong financial bill management center in July 2014, the director of Shandong Economic Development and Investment Company in July 2015, the GM of the financial management dept. of Shandong Financial Investment Group Co., Ltd in August 2016. Now Mr. Wang serves as the CFO of Shandong Financial Investment Group Co., Ltd, chairman of supervisory committee of Shandong Aviation Group and Director of Shandong Airlines.

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. He graduated with a doctorate in management from the University of Science and Technology of China in June 2019 and holds a Chinese lawyer's qualification certificate. He is currently the Chief Executive Partner of Grandall Law Firm. He is also a member of the Party Committee of the National Lawyer Industry, the vice chairman of the All China Lawyers Association and the director of the Rights Protection Committee. He is a member of the 13th National Committee of CPPCC and a member of the Social and Legal Affairs Committee of CPPCC. He is also an advisory member of the list companies M & A and Restructuring Committee of China Securities Regulatory Commission, a member of the Listing Committee of Shanghai Stock Exchange, a member and arbitrator of Shanghai International Economic and Trade Arbitration Commission, and a member and arbitrator of Shanghai Arbitration Commission. He is concurrently the part-time or visiting professor at Fudan University, Renmin University of China, East China University of Political Science and Law, Shanghai International Studies University, Shanghai University of International Business and Economics, and Shanghai University of Finance. He once served as director of Shanghai Wanguo Law Firm, chairman of Shanghai Bar Association, and member of the sixth session of the Issuance Examination Committee of China Securities Regulatory Commission.

Mr. Duan Yalin was born in April 1972, Doctor of Management, the first batch of postdoctoral fellows at Shenzhen Stock Exchange. He currently serves as chairman of Shanghai Chunfu Investment Management Center, and independent director of Western Securities Co., Ltd., Lianxun Securities Co., Ltd., Shanghai Jinjiang International Industrial Investment Co., Ltd., and Dare Power Dekor Home Co., Ltd. He once served as the deputy director of the company management department of Shenzhen Stock Exchange, the vice president of Donghai Securities Co., Ltd., and the chairman of Donghai Innovative Product Investment Co., Ltd. He has also served as a member of the first session of the M & A and Reorganization Committee of China Securities Regulatory Commission, a member of the first session of the Fixed Income Professional Committee of Securities Association of China, the executive director of the National Debt Association of China, and the executive director of the Chinese Institute of Business Administration.

Mr. Xu Xiangyi, born in January 1956, holds a doctorate degree. He is currently a second-level professor and distinguished professor at Shandong University and a doctoral supervisor of the School of Management. He is a state-level teaching master, a leading talent of the National Ten-Thousand Person Plan (Teaching Masters), an expert who enjoys special allowances from the State Council, a young and middle-aged expert in Shandong Province who have made outstanding contributions, an expert in high-end think tanks in Shandong, a master of Shandong Social Sciences at the 40th anniversary of the reform and opening-up policy. He is concurrently executive vice-chairman of the Chinese Institute of Business Administration and chief expert of Corporate Governance Research Center of Shandong University in the 13th Five-Year Plan for the Humanities and Social Sciences Research Platform of Colleges and Universities in Shandong Province. From July 1982 to April 1998, he was a lecturer, associate professor, associate dean, and professor at the Department of Economics and School of Management of Shandong University; from April 1998 to January 2004, he was the director of the Office of Academic Affairs and a professor of management at Shandong University; from January 2004 to December 2012, he was the dean of School of Management and a professor of management at Shandong University. He serves the

current post since December 2012.

Mr. Hu Yuanmu, born in November 1954, is a doctor of management. He is currently the director of teaching steering committee, a professor and a doctoral tutor of accounting at Shandong University of Finance and Economics. He graduated from the School of Accounting of Shandong Economics College in July 1983 and stayed for teaching until now. He used to be the 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. Social duty: Member of Chinese Education Accounting Association and President of Shandong Education Accounting Association.

2. Supervisor

Mr. Wang Wuping, born in March 1965, is a senior accountant. He working in July 1987 and joined the company in December 1992, He successively served as the deputy director of finance office of the finance and accounting division of Shandong Airlines in July 1994, served as the director of finance office of the finance and accounting division of Shandong Airlines in August 1996, served as deputy director of finance department of Shandong Aviation Group in June 1999, served as director of finance department of Shandong Aviation Group in January 2003, served as the general manager of finance department of Shandong Airlines Co., Ltd. in February 2009. He is currently a party committee member and the chief accountant of Shandong Aviation Group, chairman of the Shandong Airlines Xinzhihang Media Co., Ltd and the chairman of the board of supervisors of Shandong Airlines Co., Ltd.

Mr. Tang Chaoxu, born in October 1971, graduated from college of Mechanical Engineering of Beijing Union University, major in mechanical design & manufacturing. He worked in Air China since July 1996, and served as the related transaction manager in enterprise management dept. Of Air China in June 2006; the protocol management specialist of related transactions in assets management dept. of Air China in March 2008, the senior deputy GM of related transaction management in assets management dept. of Air China in June 2016, served as senior deputy GM of the assets management department especially in investment enterprise management in CNAirHolding (CNAH) in October 2017. Currently, he serves as senior deputy GM of the assets management department especially in investment enterprise management in China National Aviation Holding Company (Air China Limited), and the supervisor of Shandong Airlines.

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. Mr. Jin engaged in flight training respectively in First and Second Air Force Flying School from June 1985 to August 1990; 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 the deputy general manager of the flight department and the chief of flight team I in October 2014; served as the general manager of the flight technology management department in March 2016, served as the general manager of flight department in February 2017. He currently serves as the staff supervisor and general manager of the Operation Control Center and the deputy party secretary of Shandong Airlines Co., Ltd.

Ms. Zhou Qiaoyan, born in January 1975, earned a bachelor degree. She joined the company in October 1994, served as the deputy squadron leader of Qingdao crew cabin of cabin department of Shandong Airlines in August 1997, served as the squadron leader of Qingdao cabin crew of passenger cabin department in February 2002, served as the deputy director of passenger cabin service department in March 2003. She is currently serves as staff supervisor of Shandong Airlines as well as the party committee secretary, and deputy general manager of the passenger cabin service department, secretary of the Party Branch and staff supervisor.

3. Senior executives

Mr. Dong Qiantang, born in January 1962, graduated from the 3rd Ground Artillery School of PLA, major in communication engineering, a MBA from Shandong University. Mr Dong working in the army from November 1980 to August 1992, he joined the company in August 1992, served as the deputy director of office secretariat of Shandong Airlines in July 1994, served as the director of accessory office of passenger cabin department of Shandong Airlines in May 1996, served as the deputy director of office in January 1997, served as deputy director of planning department of Shandong Airlines Group Co., Ltd in August 1998, the deputy director of planning & finance department of Shandong Airlines in October 2001, served as director of planning department of Shandong Airlines Group Co., Ltd in January 2003, served as the general manager of enterprise management department of Shandong Airlines Co., Ltd. in February 2009, the secretary of the Board and GM of the enterprise management department of Shandong Airlines in June 2009. He currently serves as the party committee member, secretary of the board, and secretary of the Party Committee of Shandong Airlines.

Mr. Yu Bo, born in March 1972, Master of Engineering of the Nanjing University of Aeronautics and Astronautics. He joined the company in April 1998, served as the deputy chief of Qingdao airplane maintenance department of maintenance engineering department in January 2000, served as the deputy director of maintenance engineering department and concurrently the squadron leader of maintenance team I in January 2001, served as the deputy director of operation center in January 2003, served as the deputy director of maintenance engineering department in April 2004, served as the deputy general manager of Engineering Technology Company and concurrently the manager of quality department in June 2008, served as the general manager of Engineering Technology Company in January 2010, served as the deputy chief engineer Shandong Airlines Co., Ltd. in September 2013, served as the chief engineer of Shandong Airlines Co., Ltd. in October 2014. He currently serves as the party committee member and deputy general manager of Shandong Airlines Co., Ltd.

Mr. Dong Jianmin, born in April 1969, graduated from the 12th Air Force Flight School of the People's Liberation Army, major in aircraft pilot. 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 and the deputy general manager of Qingdao Branch in August 2007, served as the general manager of flight department in May 2012; He currently serves as the party committee member and deputy general manager of Shandong Airlines Co., Ltd.

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. From January 1981 to September 1988, he was engaged in flight training at the Second Aviation School of the Air Force, Mr. Zhou worked in Shandong United Airlines from September 1988 to June 1994, 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, served as the director of operation standard management department and the general manager of the aviation safety management department in March 2013. 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.

Ms. Ma Xiaoli, born in March 1975, Bachelor of Engineering of Nanjing University of Aeronautics and Astronautics, MBA of the Xi'an Jiaotong University. She 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, served as deputy director at the ground

service department in January 2006, and served as the deputy general manager of marketing committee in June 2008, served as the general manager of marketing committee in January 2010. She currently serves as the deputy general manager in Shandong Airlines Co., Ltd.

Mr. Liu Chaolei, born in October 1970, Bachelor of Engineering of the Beijing University of Aeronautics and Astronautics, MBA of the Wright State University. He worked for 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, and served as deputy general manager in STAECO in May 2004, and served as the general manager at planning and investment management department of Shandong Aviation Group in Feb. 2009, he temporarily transfer to Qingdao Airline from September 2013 to July 2015, and served as the general manager at the engineering technology company in July 2015, and served as deputy chief engineer and general manager at the engineering technology company in January 2016. He currently serves as the chief engineer and member of the party committee in Shandong Airlines Co., Ltd., and the general manager and deputy party secretary at the engineering technology company.

Mr. Liu Jun, born in September 1962, graduated from the No.10 Aviation School of the Chinese People's Liberation Army Air Force with a major in airplane piloting. In April 1995, he transferred from the army to Shandong Airlines, from December 1996, he served as the deputy squadron leader of the second squadron of the flight department of Shandong Airlines, from August 1997, he served as the deputy squadron leader of the SAAB first squadron of Shandong Airlines, from June 1998, he served as the squadron leader of the second squadron of the flight department of Shandong Airlines. He was appointed as the squadron leader of the fifth squadron of the flight department of Shandong Airlines in January 2001, and he was appointed as the deputy director of the safety technology department of Shandong Airlines in January 2003, he was appointed as the deputy director of the flight technology management department of Shandong Airlines in April 2004, he was appointed as the deputy director of the aviation safety operation supervision department of Shandong Airlines in May 2005, he was appointed as the director of the aviation safety operation supervision department of Shandong Airlines in August 2007, he was appointed as the general manager of the aviation safety management department of Shandong Airlines in February 2009, and he was appointed as the general manager of Chongqing Branch of Shandong Airlines in March 2013. He is currently a member of the Party Committee and Chief Pilot of Shandong Airlines Co., Ltd., and concurrently serves as the general manager of the flight department and deputy secretary of the Party Committee.

Post-holding in shareholder's unit

√Applicable □ Not applicable

Name	Name of shareholder's units	Position	Start dated of office term	End date of office term	Whether receiving remuneration from shareholder's units or not
Sun Xiujiang	Shandong Aviation Group	Party Secretary, Deputy President	May , 2015		Yes
Xu Chuanyu	Shandong Aviation Group	Chairman, President	November , 2016		No

		and Deputy Party Secretary			
Xu Chuanyu	Air China	Security director	December , 2012		Yes
Miao Liubin	Shandong Aviation Group	Member of the Party Committee,	August , 2013		No
Wang Ming Yuan	Air China	Member of the Party Committee, Deputy President	December , 2011		Yes
Li Xiuqin	Shandong Aviation Group	Director	April , 2009		No
Wang Zhifu	Shandong Aviation Group	Chairman of Supervisory Committee	August , 2019		No
Wang Wuping	Shandong Aviation Group	Member of the Party Committee, Chief Accountant	September , 2013		Yes
Tang Chaoxu	Air China	Senior GM of the assets management dept.	July , 2018		Yes

Post-holding in other unit

Applicable Not applicable

Name	Name of other units	Position	Start dated of office term	End date of office term	Whether receiving remuneration from other units or not
Xu Chuanyu	China National Aviation Holding Company (CNAH)	Chief pilot			No
Xu Guojian	Sichuan Airlines Co., Ltd.	Chairman of the Supervisory			No

		Board			
Wang Ming Yuan	Air Macau	Director			No
Wang Ming Yuan	Air China Hong Kong Development Co., Ltd.	Chairman			No
Li Xiuqin	Shandong Finance Investment Group	Deputy GM			Yes
Wang Zhifu	Shandong Finance Investment Group	CFO			Yes

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, and Chairman of Supervisory Committee Mr. Wang Wuping 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. Tang Chaoxu received remuneration from Air China instead of the Company; Director Ms. Li Xiuqin and Mr. Wang Zhifu 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	49	Currently in office	92.77	No
Xu Guojian	Director, Deputy GM, Chief accountant	M	56	Currently in office	77.86	No
Lv Hongbing	Independent director	M	54	Currently in office	7.16	No

Duan Yalin	Independent director	M	48	Currently in office	7.16	No
Xu Xiangyi	Independent director	M	64	Currently in office	7.16	No
Hu Yuanmu	Independent director	M	66	Currently in office	7.16	No
Jin Xin	Staff supervisor	M	54	Currently in office	55.61	No
Zhou Qiaoyan	Staff supervisor	F	45	Currently in office	45.26	No
Dong Qiantang	Secretary of the Board	M	58	Currently in office	74.01	No
Yu Bo	Deputy GM	M	48	Currently in office	72.94	No
Dong Jianmin	Deputy GM	M	51	Currently in office	77.03	No
Zhou Ning	Security director	M	58	Currently in office	77.92	No
Ma Xiaoli	Deputy GM	F	45	Currently in office	70.55	No
Liu Chaolei	Chief engineer	M	50	Currently in office	72.4	No
Liu Jun	Chief Pilot	M	58	Currently in office	65.05	No
Jiang Chengda	Director	M	61	Leave office	8.18	No
Zhang Qingshe	Deputy GM, Chief Pilot	M	62	Leave office	60.3	No
Total	--	--	--	--	878.52	--

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

Employee in-post of the parent Company (person)	11,784
Total serving staff (person)	11,784
Total staff received remuneration in the period (person)	12,001
Retired staff with charges paid by the parent company and	267

main subsidiaries (person)	
Professional constitution	
Type	Number (person)
Flight personnel	2,040
Steward	2,717
Security guard	763
Maintenance personnel	1,575
Transport control personnel	359
Sales personnel	905
Freight personnel	346
Ground attendant	964
Financial personnel	146
Others personnel	1,969
Total	11,784
Education background	
Type	Number (person)
Graduate (Master, doctor) and above	542
Bachelor degree	7,688
Junior college and below	3,554
Total	11,784

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 2020, there were 159 company-level training plans (including 1 special training). During the epidemic, the number of training plans was adjusted to 83 through the change of training methods, postponement or cancellation, etc., and 83 plans have been actually completed. The annual staff education budget was 6.5 million yuan (after the adjustment), the actual expenditure was 3.795 million

yuan. By the end of 2020, the Company totally engaged 659 lecturers (including 61 full-time lecturers and 598 part-time lecturers). a total of 8,269 class-hour were taught throughout the year, 394,300 yuan of expenses such as class fees.

In 2020, facing the special test of the epidemic risk, the company adjusted and optimized training plans, refined training cost control, deeply explored training resources, actively sought subsidy support, innovated employee training paths, improved and optimized training system, and achieved positive results. The main tasks were as follows: the first was to strive for subsidies and refine training cost control. Made in-depth analysis of national policies, strived for subsidy support, and applied for a training subsidy of 2 million yuan for replacing training with work. Reasonably coordinated the annual training plan, reduced the budget by 12.334 million yuan through online learning, postponement, and cancellation, and strictly controlled budget expenditures. The second was to tap the potential of resources and deepen the talent training model. During the epidemic, actively sought and tapped free and high-quality online learning resources to provide diversified learning content. Completed the development of 7 internal standardized courses in the department, and continued to tap the potential of lecturers' course development capabilities. Continued to innovate the talent training model, expanded the scope of school-enterprise cooperation, won the title of the first batch of "integrated enterprises of production and education" in Shandong Province, formulated the company's three-year plan for industry-education integration and school-enterprise cooperation, and jointly built a professional talent training base with civil aviation colleges to jointly develop civil aviation business technology research and development projects so as to support the company's strategic development. The third was to optimize the system and improve the training management system. Updated 7 training management regulations, including training management responsibilities, internally hired lecturers, training courses, class fee standards and incentive constraints, external training resources, training procedures, and employee education funds, clarified management and control responsibilities, standardized management procedures, improved supervision and assessment, and improved the company training management system. Sorted out internal course resources, optimized course content, and formed a course resource library. Matched the courses with the lecturers, realized one teacher with multiple lessons and one lesson with multiple teachers, which laid a good foundation for the company's internal training. The fourth was to reserve talents and promote the company's high-quality development. Improved the new employee training model, scientifically designed the curriculum system, created the "Honest Shandong Airlines" brand curriculum, implemented online and offline integration, and effectively linked company-level and department-level training to ensure learning effects, guided new employees to quickly integrate into the company, and enhanced the sense of belonging and identity so as to realize the role change. The fifth was to innovate and energize to build soft power of human resources. Took the human resources department as a pilot, built a learning map with career planning and development paths as the main axis, and established a scientific and systematic learning path by sorting out the knowledge, abilities, and qualities required by each job level to help employees grow and meet job competency requirements. In addition, the two-month "Shandong Airlines Learn it" online learning project was launched to formulate learning regulations, select high-quality courses, and form an atmosphere of "comparing learning, surpassing, and sharing", which improved employee skills and stimulated work potential.

In 2021, the company will continue to improve the training management system, and actively reserve talents so as to support the company's high-quality development. The first is to build an employee career development training system. Taking the human resources department as a pilot, formulate and implement an annual learning plan according to the requirements of the employee learning and development manual, record the learning ledger, and apply it in the promotion of middle and senior positions. At the same time, select a business department to build an employee training system, differentiate learning priorities for different job levels, and form a learning map. The second is to continue to optimize the lecturer and curriculum system. Improve the company's curriculum and lecturer resource database; carry out lecturer grade evaluation and continue to optimize the lecturer team. The third is to apply for training subsidies. Interpret national, provincial and municipal policies, and actively seek training subsidies for the company. The fourth is grassroots leadership training. Use GE's free training resources to complete manager-level cadre promotion training; find online learning resources for personnel in the green and blue areas of the company's talent pool to help them improve their management knowledge and capabilities; improve the cadre training mechanism, focus on enhancing "eight skills, seven abilities", optimize the course content and form of initial training, re-training, and promotion training for managers, and form the

third round of manager-level cadre training programs. The fifth is HR system construction. Form the training management module requirements manual, after the entrance of developers, assist the developers to complete the needs research and adjustment, process combing and development, system online testing, etc., and improve the information management level of the entire training process.

4. Labor outsourcing

Applicable Not applicable

Section X. 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*”, “*Rules Governing the Listing of Stocks in 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.

1. Shareholders and shareholders' meeting

During the reporting period, the Company convened the 2019 Annual General Meeting and The first extraordinary general meeting of shareholders in 2020, 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.

2. Directors and the board of directors (BOD)

During the report period, BOD conscientiously implemented the resolutions of the shareholders' meeting by taking the principles of being responsible for all stockholders, deliberating major events of the Company in accordance with statutory procedures and Article of Association, routine works of the Company are being implemented in an order way, foundation of corporate governance is further strengthened. The Company have 8 Board Meetings in the year of 2020, deliberated 21 proposals including periodic report, register to issue medium-term notes, profit distribution, and changes in accounting policies. Convening of the meetings and voting procedures are legally effective, and the resolution notices 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.

3. Supervisors and board of supervisors

During the report period, the board of supervisors of the Company convoked 5 meetings and attended all the general meetings of stockholders and board meetings the Company convoked in 2020. 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.

4. 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, 33 interim announcements and more than 30 working reports and opinions in 2020. The Company is the first train units for information disclosure of Shenzhen Stock Exchange, continued to maintain the good information disclosure quality without illegal disclosures occurred. For the period of 2019-2020, we awarded the “Excellent” for six years in a row in aspect of information disclosure evaluation of the Shenzhen Stock Exchange.

5. 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.

6. Related transactions management

The company 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 2020, 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.

Is there any difference between the actual condition of corporate governance and relevant regulations about corporate governance for listed Company from CSRC?

Yes No

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

II. Independence 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.

1. 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.
2. 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.
3. 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.

4. 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.

5. 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
The first extraordinary general meeting of shareholders in 2020	Extraordinary general meeting of shareholders	68.54%	March 18, 2020	March 19, 2020	2020-08
Annual General Meeting 2019	AGM	68.65%	June 18, 2020	June 19, 2020	2020-24

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	8	1	7	0	0	No	1
Duan Yalin	8	1	7	0	0	No	1

Xu Xiangyi	8	1	7	0	0	No	1
Hu Yuanmu	8	1	7	0	0	No	1

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

2. Objection for relevant events from independent directors

Independent directors come up with objection about Company's relevant matters

Yes No

No independent directors come up with objection about Company's relevant matters in the Period

3. Other explanation about responsibility performance of independent directors

The opinions from independent directors have been adopted

Yes No

Explanation on advice that accepted/not accepted from independent directors

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 2020, all specialized committees held four meetings, therein to, two meetings of the Audit Committee and one meeting of the Remuneration and Appraisal Committee and one meeting of strategy and nomination committee. The specialized committees of the Board 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.

1. 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 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 2020 annual financial report.

2. 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 2020 annual report about the remuneration disclosure of the directors and the senior management, and thought the remuneration amount of relevant personnel disclosed in the 2020 annual report was true and accurate.

3. Duty performing of the strategy and nomination committee of the board

During the reporting period, the strategy & nomination committee take serious research and analysis on development plans and operation targets of the Company, they actively participate in discussion and propose reasonable suggestions. And expressed opinions

on the changes of senior management members of the company, and reviewed the qualifications of relevant personnel, and found no situations in which senior executives of listed companies did not meet the requirements of laws, regulations and the *Articles of Association*.

VII. Works from Supervisory Committee

The Company has risks in reporting period that found in supervisory activity from supervisory committee

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. Self assessment report of the Internal Control (IC)

Disclosure date of the assessment report of IC (full-text)	March 27, 2021	
Disclosure index of the assessment report of IC (full-text)	Published on Juchao Website (http://www.cninfo.com.cn) dated 27 March 2021	
The ratio of the total assets of units included in the scope of assessment accounting for the total assets on the company's consolidated financial statements	100.55%	
The ratio of the operating income of units included in the scope of assessment accounting for the operating income on the company's consolidated financial statements	100.39%	
Defects Identification 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	Material defect: (1) In case of serious violation of laws and regulations and causing major

	<p>found or rectified in a timely manner. Occurrence of the followings will be deemed as material defect:</p> <p>(1) inefficiency of environment control;</p> <p>(2) Directors, supervisors and senior management engaged in fraud and cause major losses or impacts to the Company;</p> <p>(3) The external auditor finds material wrong reporting in current financial statement, while the Company has not found such reporting during its operation;</p> <p>(4) The material defect identified and reported to the management fails to be rectified in a reasonable time period;</p> <p>(5) The audit committee and audit department of the Company exercise invalid supervision upon internal control;</p> <p>(6) Other defects which may affect financial statement users to make correct judgment.</p> <p>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.</p> <p>General defect: other internal control related defects that do not constitute material defects or major defect</p>	<p>losses or impacts on the company, such as major safety or environmental pollution accidents;</p> <p>(2) The decision-making procedures are unscientific and have a significant impact on the company's operations;</p> <p>(3) Major defects or important defects of internal control have not been rectified;</p> <p>(4) Important business is lack of institutional control or systemic failure of institution;</p> <p>(5) Other situations have a significant impact on the company.</p> <p>Important defects: In addition to major defects, other circumstances are respectively determined as important defects or general defects according to the degree of influence.</p> <p>General defects: In addition to major defects, other circumstances are respectively determined as important defects or general defects according to the degree of influence.</p>
Quantitative criteria	<p>(1) potential wrong reporting in operating income:</p> <p>Material defect: 0.5% of the total operating income \leq wrong reporting;</p> <p>Major defect: 0.2% of the total operating income \leq wrong reporting $<$ 0.5% of the total operating income;</p> <p>General defect: wrong reporting $<$ 0.2% of the total operating income.</p> <p>(2) potential wrong reporting in total profit:</p> <p>Material defect: 5% of the total profit \leq wrong reporting;</p>	<p>(1) direct property loss:</p> <p>Material defect: over RMB 10 million;</p> <p>Major defect: RMB 1 million - RMB 10 million (inclusive);</p> <p>General defect: RMB 1 million or below</p> <p>(2) negative influences:</p> <p>Material defect: materially and adversely affect the Company, and disclosed to the public via announcement;</p> <p>Major defect: receive punishment from national authorities, while has no</p>

	<p>Major defect: 2% of the total profit \leq wrong reporting $<$ 5% of the total profit; General defect: wrong reporting $<$ 2% of the total profit.</p> <p>(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.</p> <p>(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.</p>	<p>material negative influence over the Company; General defect: receive punishment from provincial or below authorities, while has no negative influence over the Company.</p>
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 (IC)

Applicable Not applicable

Deliberation section of auditing report of IC
<p>To the Shareholders of Shandong Airlines Co., Ltd.:</p> <p>We have audited the effectiveness of internal control of financial report under the name of Shandong Airlines Co., Ltd. ("the Company") dated 31 December 2020 in accordance with relevant requirements of "Internal Control Audit Guideline for Enterprises" and China Standards on Auditing and Quality Control</p> <p>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</p>

Enterprises”.	
<p>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.</p>	
<p>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.</p>	
<p>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 2020 based on relevant regulations and “Basic Standard of Internal Control for Enterprises”.</p>	
RSM Certified Public Accountants (special general partnership)	Certified Public Accountant of China: Yang Yunhui Certified Public Accountant of China: Xu Hong
Beijing China	25 March 2021
Disclosure details of audit report of IC	Disclosed
Disclosure date of audit report of internal control (full-text)	March 27, 2021
Index of audit report of internal control (full-text)	Published on Juchao Website (http://www.cninfo.com.cn) dated 27 March 2021
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 XI. Corporate bonds

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

No

Section XII. Financial Report

I. Audit report

Type of audit opinion	Standard unqualified
Date for audited report signed	25 March 2020
Name of audit institution	RSM Certified Public Accountants (special general partnership)
Document No. of the Auditing Report	RSM Shen Zi [2021] No.518Z0168
Name of CPA	Yang Yunhui, Xu Hong

Auditor's Report

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

I. Audit Opinion

We have audited the accompanying financial statements of Shandong Airlines Co., Ltd. (hereafter, Shandong Airlines or the Company), which comprise the consolidated and the parent company's statements of financial position as at December 31, 2020, the consolidated and the parent company's statements of comprehensive income, the consolidated and the parent company's statements of cash flows and the consolidated and the parent company's statements of changes in equity for the year then ended and the notes to the financial statements.

In our opinion, the accompanying financial statements of Shandong Airlines 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 the parent company's financial positions as at December 31, 2020, and the consolidated and the parent company's financial performance and the consolidated and the parent company's 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 have 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.

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 system, through the system the

company automatically processes 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. Since the recognition of passenger service revenue involves using complex information technology system, it will lead to the inherent risk of inaccurate recognition of passenger service revenue or inappropriateness recognition of the accounting period. Therefore, we identify revenue recognition of passenger service as a key audit item.

Please refer to accounting policies described in Note 3.23 Revenue recognition principles and measurement methods under Note 3 Important Accounting Principles and Accounting Estimates. Please refer to Note 5.20 Contract liabilities and Note 5.36 Operating revenues and costs under Note 5 Notes to significant elements of the consolidated financial statements. Please refer to Note 14.4 Operating revenues and costs under Note 14 Notes to elements of the parent company's financial statements for details.

1.2 Audit Response

The relevant procedures we implemented for the recognition of passenger service revenue mainly include:

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

1.2.2 We assessed the key manual controls related to the track and treatment of the identified difference between the information output from the information technology system and the company's financial and operational data.

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 examined the relevant supporting documents of the journal entries with significant amounts or other specific risk.

2. Overhaul Repair Fee of Aircrafts and related Engines under Operating Lease

2.1 Description

As at December 31, 2020, the payables of overhaul repair fee of aircrafts and the related engines under operating lease (including that due within one year) amounted to CNY 4.75 billion. According to the terms of the operating lease agreement, the Company shall return the aircrafts in accordance with the agreed conditions at the end of the lease period.

In order to ensure the agreed conditions of the aircraft upon returning, accrual for the overhaul of the fuselage and engine under operating lease is recognized during the estimated overhaul period, and the overhaul repair expenses are included in the current profit and loss. Management estimates the expected overhaul cycle and overhaul cost based on the previous maintenance cost experience of the same or similar fuselage and engine, current economic and aviation related development, and taking into account the predicted flight hours, flight cycles, and other variables. Due to the inherent uncertainty of the forecast of the overhaul period and the future overhaul cost for different types of fuselages and engines, there is a risk of inaccurate accrual of cost. Therefore, we identify the recognition of overhaul fee for aircrafts and related engines under operating lease as a key audit matter.

Please refer to accounting policies described in Note 3.27 Regular repair and overhaul repair under Note 3 Major

Accounting Principles and Accounting Estimates. Please refer to Note 5.18 Accounts payable and Note 5.28 Long-term payables under Note 5 Notes to significant elements of the consolidated financial statements for the details.

2.2 Audit Response

The relevant procedures we implemented for overhaul repair fee of aircrafts and related engines under operating lease mainly include:

2.2.1 We assessed the effectiveness of the design and operation of the key internal controls related to the overhaul repair fee accruals for the aircraft under 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 repair cycle, overhaul repair cost estimated by engineering department, and the actual maintenance cost, compared the information to that used by financial executives when calculating the accruals for the overhaul repair fee.

2.2.3 Based on the terms of operation lease agreement and the historical maintenance experience of the Company, 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.

2.2.4 We compared the actual overhaul repair cost of the returned aircraft in the current year to the corresponding overhaul accruals in the previous year, 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 2020 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 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 the preparation and fair presentation of the financial statements in accordance with Enterprise Accounting Standards of China, and for the design, implementation and maintenance of such internal control to ensure the financial statements 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 (if applicable), and applying the going-concern assumption, 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. Auditor' Responsibility for the Audit of 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 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 audit opinion on the financial statements. We are responsible for the guidance, supervision and execution of the group audit, and 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 disclose such items in the audit report.

RSM China LLP	Chinese CPA (Engagement Partner):	Yang Yunhui
Beijing, China	Chinese CPA:	Xu Hong
25 March 2021		

II. Financial Statement

Statement in Financial Notes are carried in RMB/CNY

1. Consolidated Balance Sheet

Prepared by Shandong Airlines Co., Ltd.

December 31, 2020

In RMB

Item	December 31, 2020	December 31, 2019
Current assets:		
Monetary funds	5,306,474,451.06	598,961,065.69
Settlement provisions		
Capital lent		
Trading financial assets		
Derivative financial assets		
Note receivable		
Account receivable	354,352,296.99	456,758,290.60
Receivable financing		
Accounts paid in advance	213,530,865.28	232,061,479.78
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance		

receivable		
Other account receivable	159,397,943.13	232,147,324.23
Including: Interest receivable		
Dividend receivable		
Buying back the sale of financial assets		
Inventories	110,572,399.50	109,435,256.69
Contractual assets		
Assets held for sale		
Non-current asset due within one year		
Other current assets	282,572,739.73	170,020,416.07
Total current assets	6,426,900,695.69	1,799,383,833.06
Non-current assets:		
Loans and payments on behalf		
Debt investment		
Other debt investment		
Long-term account receivable		
Long-term equity investment		
Investment in other equity instrument	541,789,406.63	874,728,633.32
Other non-current financial assets		
Investment real estate		
Fixed assets	6,904,082,012.35	7,362,687,431.80
Construction in progress	5,770,696,951.56	5,479,071,703.01
Productive biological asset		
Oil and gas asset		
Right-of-use assets		
Intangible assets	118,699,980.33	113,459,129.62
Expense on Research and Development		
Goodwill	454,020.13	454,020.13
Long-term expenses to be apportioned	641,782,578.43	657,772,583.81
Deferred income tax asset	1,999,099,488.87	1,105,378,651.73
Other non-current asset		
Total non-current asset	15,976,604,438.30	15,593,552,153.42
Total assets	22,403,505,133.99	17,392,935,986.48
Current liabilities:		
Short-term loans	2,001,111,111.11	300,329,083.33
Loan from central bank		
Capital borrowed		
Trading financial liability	862,955.67	126,264.75
Derivative financial liability		
Note payable	472,095,003.24	402,996,891.30
Account payable	2,543,319,300.31	2,482,248,514.51
Accounts received in advance		936,873,667.96
Contractual liability	445,400,801.19	

Selling financial asset of repurchase		
Absorbing deposit and interbank deposit		
Security trading of agency		
Security sales of agency		
Wage payable	346,238,955.37	549,061,919.97
Taxes payable	102,206,477.49	149,437,183.71
Other account payable	635,865,961.62	586,143,459.66
Including: Interest payable		
Dividend payable	602,306.96	602,306.96
Commission charge and commission payable		
Reinsurance payable		
Liability held for sale		
Non-current liabilities due within one year	321,577,566.89	885,299,947.83
Other current liabilities	31,100,597.66	
Total current liabilities	6,899,778,730.55	6,292,516,933.02
Non-current liabilities:		
Insurance contract reserve		
Long-term loans	6,117,434,899.32	808,001,382.82
Bonds payable	1,000,000,000.00	
Including: Preferred stock		
Perpetual capital securities		
Lease liability		
Long-term account payable	5,303,354,015.63	4,623,939,875.40
Long-term wages payable	254,025,000.00	152,746,225.21
Accrual liability		
Deferred income	100,513,810.37	109,423,070.21
Deferred income tax liabilities	158,137,753.91	232,789,494.25
Other non-current liabilities		
Total non-current liabilities	12,933,465,479.23	5,926,900,047.89
Total liabilities	19,833,244,209.78	12,219,416,980.91
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	322,552,319.90	570,487,739.92
Reasonable reserve		
Surplus public reserve	538,773,444.97	538,773,444.97
Provision of general risk		
Retained profit	1,233,524,795.64	3,588,847,456.98

Total owner's equity attributable to parent company	2,570,260,924.21	5,173,519,005.57
Minority interests		
Total owner's equity	2,570,260,924.21	5,173,519,005.57
Total liabilities and owner's equity	22,403,505,133.99	17,392,935,986.48

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	December 31, 2020	December 31, 2019
Current assets:		
Monetary funds	5,302,302,306.13	563,534,831.81
Trading financial assets		
Derivative financial assets		
Note receivable		
Account receivable	350,673,304.20	456,602,459.51
Receivable financing		
Accounts paid in advance	213,297,372.67	231,804,126.69
Other account receivable	165,544,964.64	237,966,773.59
Including: Interest receivable		
Dividend receivable		
Inventories	108,682,699.25	108,006,448.04
Contractual assets		
Assets held for sale		
Non-current assets maturing within one year		
Other current assets	282,309,117.39	169,612,615.24
Total current assets	6,422,809,764.28	1,767,527,254.88
Non-current assets:		
Debt investment		
Other debt investment		
Long-term receivables		
Long-term equity investments	144,101,285.43	144,101,285.43
Investment in other equity instrument	541,789,406.63	874,728,633.32
Other non-current financial assets		
Investment real estate		
Fixed assets	6,812,145,764.90	7,265,719,146.41
Construction in progress	5,770,696,951.56	5,479,071,703.01
Productive biological assets		
Oil and natural gas assets		

Right-of-use assets		
Intangible assets	106,310,248.22	100,681,207.47
Research and development costs		
Goodwill		
Long-term deferred expenses	641,779,766.13	657,569,167.99
Deferred income tax assets	1,998,341,086.43	1,104,641,386.20
Other non-current assets		
Total non-current assets	16,015,164,509.30	15,626,512,529.83
Total assets	22,437,974,273.58	17,394,039,784.71
Current liabilities		
Short-term borrowings	2,001,111,111.11	300,329,083.33
Trading financial liability	862,955.67	126,264.75
Derivative financial liability		
Notes payable	472,095,003.24	402,996,891.30
Account payable	2,560,482,401.82	2,494,426,631.18
Accounts received in advance		935,722,229.11
Contractual liability	443,746,099.43	
Wage payable	341,473,984.67	539,824,147.52
Taxes payable	99,360,041.47	147,060,509.11
Other accounts payable	726,704,906.20	649,376,495.57
Including: Interest payable		
Dividend payable	11,940.00	11,940.00
Liability held for sale		
Non-current liabilities due within one year	321,577,566.89	885,299,947.83
Other current liabilities	31,100,597.66	
Total current liabilities	6,998,514,668.16	6,355,162,199.70
Non-current liabilities:		
Long-term loans	6,117,434,899.32	808,001,382.82
Bonds payable	1,000,000,000.00	
Including: preferred stock		
Perpetual capital securities		
Lease liability		
Long-term account payable	5,303,354,015.63	4,623,939,875.40
Long term employee compensation payable	254,025,000.00	152,746,225.21
Accrued liabilities		
Deferred income	100,513,810.37	109,423,070.21
Deferred income tax liabilities	157,224,899.02	231,746,231.52
Other non-current liabilities		
Total non-current liabilities	12,932,552,624.34	5,925,856,785.16
Total liabilities	19,931,067,292.50	12,281,018,984.86
Owners' equity:		
Share capital	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	322,552,319.90	570,487,739.92
Special reserve		
Surplus reserve	538,112,740.44	538,112,740.44
Retained profit	1,159,330,752.03	3,517,509,150.78
Total owner's equity	2,506,906,981.08	5,113,020,799.85
Total liabilities and owner's equity	22,437,974,273.58	17,394,039,784.71

3. Consolidated Profit Statement

Item	In RMB	
	2020	2019
I. Total operating income	10,534,403,350.87	18,990,415,024.88
Including: Operating income	10,534,403,350.87	18,990,415,024.88
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	13,833,221,113.61	18,719,010,870.08
Including: Operating cost	12,554,900,116.09	17,198,527,408.30
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		
Tax and extras	10,479,064.77	15,566,184.32
Sales expense	613,910,975.53	851,783,078.83
Administrative expense	493,640,757.37	482,684,059.23
R&D expense	22,866,289.98	22,442,549.67
Financial expense	137,423,909.87	148,007,589.73
Including: Interest expenses	230,831,883.77	124,509,494.05
Interest income	45,680,277.19	10,691,861.94
Add: other income	100,684,939.11	107,638,847.09
Investment income (Loss is listed with "-")	3,190,496.20	6,293,674.12
Including: Investment income on affiliated company and joint venture		
The termination of income recognition for financial assets measured by amortized cost(Loss is listed with "-")		

Exchange income (Loss is listed with “-”)		
Net exposure hedging income (Loss is listed with “-”)		
Income from change of fair value (Loss is listed with “-”)	-736,690.92	-216,752.92
Loss of credit impairment (Loss is listed with “-”)	3,388,382.43	-2,937,990.94
Losses of devaluation of asset (Loss is listed with “-”)		-4,469,223.84
Income from assets disposal (Loss is listed with “-”)	603,734.58	116,645.48
III. Operating profit (Loss is listed with “-”)	-3,191,686,901.34	377,829,353.79
Add: Non-operating income	46,593,143.85	106,408,051.60
Less: Non-operating expense	798,968.97	3,343,238.16
IV. Total profit (Loss is listed with “-”)	-3,145,892,726.46	480,894,167.23
Less: Income tax expense	-763,877,270.65	119,888,390.92
V. Net profit (Net loss is listed with “-”)	-2,382,015,455.81	361,005,776.31
(i) Classify by business continuity		
1.continuous operating net profit (net loss listed with “-”)	-2,382,015,455.81	361,005,776.31
2.termination of net profit (net loss listed with “-”)		
(ii) Classify by ownership		
1.Net profit attributable to owner’s of parent company	-2,382,015,455.81	361,005,776.31
2.Minority shareholders’ gains and losses		
VI. Net after-tax of other comprehensive income	-247,935,420.02	61,700,929.17
Net after-tax of other comprehensive income attributable to owners of parent company	-247,935,420.02	61,700,929.17
(I) Other comprehensive income items which will not be reclassified subsequently to profit or loss	-247,935,420.02	61,700,929.17
1.Changes of the defined benefit plans that re-measured	1,769,000.00	-1,727,000.00
2.Other comprehensive income under equity method that cannot be transfer to gain/loss		
3.Change of fair value of investment in other equity instrument	-249,704,420.02	63,427,929.17
4.Fair value change of enterprise’s credit risk		
5. Other		
(ii) Other comprehensive income items which will be reclassified subsequently to profit or loss		
1.Other comprehensive income under equity method that can transfer to gain/loss		
2.Change of fair value of		

other debt investment		
3.Amount of financial assets re-classify to other comprehensive income		
4.Credit impairment provision for other debt investment		
5.Cash flow hedging reserve		
6.Translation differences arising on translation of foreign currency financial statements		
7.Other		
Net after-tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	-2,629,950,875.83	422,706,705.48
Total comprehensive income attributable to owners of parent Company	-2,629,950,875.83	422,706,705.48
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	-5.960	0.900
(ii) Diluted earnings per share	-5.960	0.900

Enterprise combine under the same control in the Period, the combined party realized net profit of 0 Yuan before combination, and realized 0 Yuan at last period for combined party

Legal Representative: Sun Xiujia

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

4. Profit Statement of Parent Company

Item	In RMB	
	2020	2019
I. Operating income	10,510,004,302.71	18,962,765,329.89
Less: Operating cost	12,555,099,599.57	17,211,456,987.80
Taxes and surcharge	8,539,807.74	13,484,089.20
Sales expenses	611,539,386.64	848,969,881.93
Administration expenses	477,280,905.62	464,015,327.87
R&D expenses	22,866,289.98	22,442,549.67
Financial expenses	137,421,750.46	148,076,246.70
Including: interest expenses	230,831,883.77	124,509,494.05
Interest income	45,641,728.82	10,579,287.12
Add: other income	100,419,883.27	107,576,270.88
Investment income (Loss is listed with "-")	3,190,496.20	6,293,674.12
Including: Investment income on affiliated Company and		

joint venture		
The termination of income recognition for financial assets measured by amortized cost (Loss is listed with “-”)		
Net exposure hedging income (Loss is listed with “-”)		
Changing income of fair value (Loss is listed with “-”)	-736,690.92	-216,752.92
Loss of credit impairment (Loss is listed with “-”)	3,472,930.02	-2,871,828.27
Losses of devaluation of asset (Loss is listed with “-”)		-4,469,223.84
Income on disposal of assets (Loss is listed with “-”)	603,734.58	116,645.48
II. Operating profit (Loss is listed with “-”)	-3,195,793,084.15	360,749,032.17
Add: Non-operating income	46,368,092.53	106,239,635.93
Less: Non-operating expense	800,154.63	3,300,015.44
III. Total Profit (Loss is listed with “-”)	-3,150,225,146.25	463,688,652.66
Less: Income tax	-765,353,953.03	115,953,978.74
IV. Net profit (Net loss is listed with “-”)	-2,384,871,193.22	347,734,673.92
(i) continuous operating net profit (net loss listed with “-”)	-2,384,871,193.22	347,734,673.92
(ii) termination of net profit (net loss listed with “-”)		
V. Net after-tax of other comprehensive income	-247,935,420.02	61,700,929.17
(I) Other comprehensive income items which will not be reclassified subsequently to profit or loss	-247,935,420.02	61,700,929.17
1. Changes of the defined benefit plans that re-measured	1,769,000.00	-1,727,000.00
2. Other comprehensive income under equity method that cannot be transfer to gain/loss		
3. Change of fair value of investment in other equity instrument	-249,704,420.02	63,427,929.17
4. Fair value change of enterprise's credit risk		
5. Other		
(II) Other comprehensive income items which will be reclassified subsequently to profit or loss		
1. Other comprehensive income under equity method that can transfer to gain/loss		
2. Change of fair value of other debt investment		
3. Amount of financial assets re-classify to other comprehensive income		
4. Credit impairment provision for other debt investment		

5.Cash flow hedging reserve		
6.Translation differences arising on translation of foreign currency financial statements		
7.Other		
VI. Total comprehensive income	-2,632,806,613.24	409,435,603.09
VII. Earnings per share:		
(i) Basic earnings per share		
(ii) Diluted earnings per share		

5. Consolidated Cash Flow Statement

In RMB

Item	2020	2019
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	11,042,083,759.34	20,647,602,531.11
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		
Cash received from interest, commission charge and commission		
Net increase of capital borrowed		
Net increase of returned business capital		
Net cash received by agents in sale and purchase of securities		
Write-back of tax received	59,006,545.25	136,223,181.63
Other cash received concerning operating activities	238,727,574.04	226,860,833.30
Subtotal of cash inflow arising from operating activities	11,339,817,878.63	21,010,686,546.04
Cash paid for purchasing commodities and receiving labor service	9,575,117,855.40	13,974,802,792.98
Net increase of customer loans and advances		
Net increase of deposits in central bank and interbank		
Cash paid for original insurance contract compensation		

Net increase of capital lent		
Cash paid for interest, commission charge and commission		
Cash paid for bonus of guarantee slip		
Cash paid to/for staff and workers	2,965,393,711.37	3,214,582,261.75
Taxes paid	201,842,884.10	830,166,097.48
Other cash paid concerning operating activities	297,192,188.56	361,323,141.45
Subtotal of cash outflow arising from operating activities	13,039,546,639.43	18,380,874,293.66
Net cash flows arising from operating activities	-1,699,728,760.80	2,629,812,252.38
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	4,019,690.59	6,284,357.21
Net cash received from disposal of fixed, intangible and other long-term assets	5,464,475.89	6,084,030.35
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		9,316.91
Subtotal of cash inflow from investing activities	9,484,166.48	12,377,704.47
Cash paid for purchasing fixed, intangible and other long-term assets	660,563,018.81	1,909,607,697.75
Cash paid for investment		
Net increase of mortgaged loans		
Net cash received from subsidiaries and other units obtained		110,832.50
Other cash paid concerning investing activities	829,194.39	
Subtotal of cash outflow from investing activities	661,392,213.20	1,909,718,530.25
Net cash flows arising from investing activities	-651,908,046.72	-1,897,340,825.78
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	9,950,000,000.00	890,000,000.00
Cash received from bond issuance	2,000,000,000.00	
Other cash received concerning financing activities		495,464,436.83
Subtotal of cash inflow from	11,950,000,000.00	1,385,464,436.83

financing activities		
Cash paid for settling debts	4,376,851,929.66	1,824,791,031.88
Cash paid for dividend and profit distributing or interest paying	152,212,442.26	173,707,282.61
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities	360,556,413.20	367,299,836.44
Subtotal of cash outflow from financing activities	4,889,620,785.12	2,365,798,150.93
Net cash flows arising from financing activities	7,060,379,214.88	-980,333,714.10
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-1,129,021.99	5,863,249.10
V. Net increase of cash and cash equivalents	4,707,613,385.37	-241,999,038.40
Add: Balance of cash and cash equivalents at the period -begin	598,861,065.69	840,860,104.09
VI. Balance of cash and cash equivalents at the period -end	5,306,474,451.06	598,861,065.69

6. Cash Flow Statement of Parent Company

Item	In RMB	
	2020	2019
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	11,009,882,324.49	20,604,455,339.52
Write-back of tax received	59,006,545.25	136,223,181.63
Other cash received concerning operating activities	248,160,175.85	220,791,697.95
Subtotal of cash inflow arising from operating activities	11,317,049,045.59	20,961,470,219.10
Cash paid for purchasing commodities and receiving labor service	9,605,312,325.28	14,033,321,787.89
Cash paid to/for staff and workers	2,920,147,365.43	3,160,139,543.10
Taxes paid	194,509,236.96	814,335,271.26
Other cash paid concerning operating activities	269,257,710.91	324,257,252.74
Subtotal of cash outflow arising from operating activities	12,989,226,638.58	18,332,053,854.99
Net cash flows arising from operating activities	-1,672,177,592.99	2,629,416,364.11
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	4,019,690.59	6,284,357.21

Net cash received from disposal of fixed, intangible and other long-term assets	5,453,274.22	6,084,030.35
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities		18,633.82
Subtotal of cash inflow from investing activities	9,472,964.81	12,387,021.38
Cash paid for purchasing fixed, intangible and other long-term assets	656,948,896.00	1,908,271,068.75
Cash paid for investment		
Net cash received from subsidiaries and other units obtained		110,832.50
Other cash paid concerning investing activities	829,194.39	
Subtotal of cash outflow from investing activities	657,778,090.39	1,908,381,901.25
Net cash flows arising from investing activities	-648,305,125.58	-1,895,994,879.87
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	9,950,000,000.00	890,000,000.00
Other cash received concerning financing activities	2,000,000,000.00	495,464,436.83
Subtotal of cash inflow from financing activities	11,950,000,000.00	1,385,464,436.83
Cash paid for settling debts	4,376,851,929.66	1,824,791,031.88
Cash paid for dividend and profit distributing or interest paying	152,212,442.26	173,707,282.61
Other cash paid concerning financing activities	360,556,413.20	367,299,836.44
Subtotal of cash outflow from financing activities	4,889,620,785.12	2,365,798,150.93
Net cash flows arising from financing activities	7,060,379,214.88	-980,333,714.10
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	-1,129,021.99	5,863,249.10
V. Net increase of cash and cash equivalents	4,738,767,474.32	-241,048,980.76
Add: Balance of cash and cash equivalents at the period -begin	563,534,831.81	804,583,812.57
VI. Balance of cash and cash equivalents at the period -end	5,302,302,306.13	563,534,831.81

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

This Period

In RMB

Item	2020		
	Owners' equity attributable to the parent Company	Min	Tota

	Share capital	Other equity instrument			Capital reserve	Less : Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit	Other	Subtotal	Priority interests	Owners' equity
		Preferred stock	Perpetual capital securities	Other											
I. Balance at the end of the last year	400,000,000.00				75,410,363.70		570,487,739.92		538,773,444.97		3,588,847,456.98		5,173,519,005.57		5,173,519,005.57
Add: Changes of accounting policy											26,692,794.47		26,692,794.47		26,692,794.47
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		570,487,739.92		538,773,444.97		3,615,540,251.45		5,200,211,800.04		5,200,211,800.04
III. Increase/Decrease in this year (Decrease is listed with "-")							-247,935,420.02				-2,382,015,455.81		-2,629,950,875.83		-2,629,950,875.83
(i) Total comprehensive income							-247,935,420.02				-2,382,015,455.81		-2,629,950,875.83		-2,629,950,875.83
(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																				
1. Withdrawal of surplus reserves																				
2. Withdrawal of general risk provisions																				
3. Distribution for owners (or shareholders)																				
4. Other																				
(IV) Carrying forward internal owners' equity																				
1. Capital reserves conversed to capital (share capital)																				
2. Surplus reserves conversed to capital (share capital)																				
3. Remedying loss with surplus reserve																				
4. Carry-over retained earnings from the defined benefit plans																				
5. Carry-over retained earnings from other																				

comprehensive income														
6. 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	400,000.00				75,410,363.70		322,552,319.90		538,773,444.97		1,233,524,795.64		2,570,260,924.21	2,570,260,924.21

Last Period

In RMB

Item	2019													Minority interests	Total owners' equity
	Owners' equity attributable to the parent Company														
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit	Other	Subtotal		
		Preferred stock	Perpetual capital securities	Other											
I. Balance at the end of the last year	400,000.00				75,410,363.70		149,300,488.94		503,999,977.58		3,342,615,148.06		4,471,325,978.28	4,471,325,978.28	
Add: Changes of accounting policy							359,486,321.81						359,486,321.81	359,486,321.81	
Error correction of the last period															
Enterprise combine under the same															

control														
Other														
II. Balance at the beginning of this year	400,000.00			75,410,363.70		508,786,810.75		503,999,977.58		3,342,615,148.06		4,830,812,300.09		4,830,812,300.09
III. Increase/Decrease in this year (Decrease is listed with “-”)						61,700,929.17		34,773,467.39		246,232,308.92		342,706,705.48		342,706,705.48
(i) Total comprehensive income						61,700,929.17				361,005,776.31		422,706,705.48		422,706,705.48
(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								34,773,467.39		-114,773,467.39		-80,000,000.00		-80,000,000.00
1. Withdrawal of surplus reserves								34,773,467.39		-34,773,467.39				
2. Withdrawal of general risk provisions										-80,000,000.00		-80,000,000.00		-80,000,000.00
3. Distribution for owners (or														

shareholders)																				
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. Carry-over retained earnings from the defined benefit plans																				
5. Carry-over retained earnings from other comprehensive income																				
6. 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	400,000.00				75,410,363.70		570,487,739.92		538,773,444.97		3,588,847,456.98		5,173,351,900.57							5,173,519,005.57

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

This Period

In RMB

Item	2020											
	Share capital	Other equity instrument			Capital public reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surpluses reserve	Retained profit	Other	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		570,487,739.92		538,112,740.44	3,517,509,150.78		5,113,020,799.85
Add: Changes of accounting policy										26,692,794.47		26,692,794.47
Error correction of the last period												
Other												
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		570,487,739.92		538,112,740.44	3,544,201,945.25		5,139,713,594.32
III. Increase/Decrease in this year (Decrease is listed with "-")							-247,935,420.02			-2,384,871,193.22		-2,632,806,613.24
(i) Total comprehensive income							-247,935,420.02			-2,384,871,193.22		-2,632,806,613.24
(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													
1. Withdrawal of surplus reserves													
2. Distribution for owners (or shareholders)													
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. Carry-over retained earnings from the defined benefit plans													
5. Carry-over retained earnings from other comprehensive income													
6. 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	400,000.00				86,911,168.71		322,552,319.90		538,112,740.44	1,159,330,752.03			2,506,906,981.08

Last period

In RMB

Item	2019											
	Share capital	Other equity instrument			Capital public reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Other	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		149,300,488.94		503,339,273.05	3,284,547,944.25		4,424,098,874.95
Add: Changes of accounting policy							359,486,321.81					359,486,321.81
Error correction of the last period												
Other												
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		508,786,810.75		503,339,273.05	3,284,547,944.25		4,783,585,196.76
III. Increase/Decrease in this year (Decrease is listed with "-")							61,700,929.17		34,773,467.39	232,961,206.53		329,435,603.09
(i) Total comprehensive income							61,700,929.17			347,734,673.92		409,435,603.09
(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								34,773,467.39	-114,773,467.39			-80,000,000.00
1. Withdrawal of surplus reserves								34,773,467.39	-34,773,467.39			
2. Distribution for owners (or shareholders)									-80,000,000.00			-80,000,000.00
3. Other												
(IV) Carrying forward internal owners' equity												
1. Capital reserves converted to capital (share capital)												
2. Surplus reserves converted to capital (share capital)												
3. Remedying loss with surplus reserve												
4. Carry-over retained earnings from the defined benefit plans												
5. Carry-over retained earnings from other comprehensive income												
6. 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	400,000.00				86,911.1687		570,487.7392		538,112.7404	3,517,509.15078		5,113,020,799.85

Shandong Airlines Co., Ltd.

Notes to the Financial Statements

for the Year Ended 31 December 2020

(All amounts are expressed in CNY unless otherwise stated)

Note 1 BASIC INFORMATION ABOUT THE COMPANY

1.1 Corporation Information

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 29, 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 25, 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 26, 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 26, 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 28 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 22 2000; and the Company was listed on the Shenzhen Stock Exchange on September 12, 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 28, 2004 authorized 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, authorized 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 3, 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 main operating activities of the Company include: 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 equipment, grocery, food, health food, art work, souvenir, etc.; retailing of tobacco products (limited to Qingdao Red-Crowned Crane Hotel); lease of airborne material and equipment; 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 , license 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 Company and the subsidiaries mainly operate in the industry of air transportation.

Financial Statement Approval Reporting Date: The financial statements were approved for publication by the board of directors of the Company on March 25, 2021.

1.2 Scope and Changes of Consolidation

The scope of consolidation includes 4 subsidiaries in total. There is no change in the scope of consolidation compared to last financial year. For details of the subsidiaries, please refer to Note 7 INTEREST IN OTHER ENTITIES.

Note 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Basis for Preparation

Based on going concern, according to actually occurred transactions and events, the Company prepares its financial statements in accordance with the Accounting Standards for Business Enterprises – Basic standards and concrete accounting standards, Accounting Standards for Business Enterprises – Application Guidelines, Accounting Standards for Business Enterprises – Interpretations and other relevant provisions (collectively known as “Accounting Standards for Business Enterprises, issued by Ministry of Finance of PRC”). Besides, the Company has disclosed related financial information in conformity with the 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).

2.2 Going Concern

The Company has assessed its ability to continually operate for the next twelve months from the end of the reporting period, and no any matters that may result in doubt on its ability as a going concern were noted. Therefore, it is reasonable for the Company to prepare financial statements on the going concern basis.

Note 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The following significant accounting policies and accounting estimates of the Company are formulated in accordance with the Accounting Standards for Business Enterprises. Businesses not mentioned are complied with relevant accounting policies of the Accounting Standards for Business Enterprises.

3.1 Statement of Compliance with The Accounting Standards for Business Enterprises

The Company prepares its financial statements in accordance with the requirements of the Accounting Standards for Business Enterprises, truly and completely reflecting the Company's financial position as at 31 December 2020, and its operating results, changes in shareholders' equity, cash flows and other related information for the year then ended.

3.2 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.

3.3 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.

3.4 Functional Currency

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.

3.5 Accounting Treatment of Business Combinations Under and Not Under Common Control

3.5.1 Business Combinations Under Common Control

The assets and liabilities that the Company obtains in a business combination under common control shall be measured at their carrying amount of the acquired entity at the combination date. If the accounting policy adopted by the acquired entity is different from that adopted by the acquiring entity, the acquiring entity shall, according to accounting policy it adopts, adjust the relevant items in the financial statements of the acquired party based on the principal of materiality. As for the difference between the carrying amount of the net assets obtained by the acquiring entity and the carrying amount of the consideration paid by it, the capital reserve (capital premium or share premium) shall be adjusted. If the capital reserve (capital premium or share premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

For the accounting treatment of business combination under common control by step acquisitions, please refer to Note 3.6 (6).

3.5.2 Business combinations not under common control

The assets and liabilities that the Company obtains in a business combination not under

common control shall be measured at their fair value at the acquisition date. If the accounting policy adopted by the acquired entity is different from that adopted by the acquiring entity, the acquiring entity shall, according to accounting policy it adopts, adjust the relevant items in the financial statements of the acquired entity based on the principal of materiality. The acquiring entity shall recognise the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquired entity as goodwill. The acquiring entity shall, pursuant to the following provisions, treat the negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquired entity:

- (i) It shall review the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquired entity as well as the combination costs;
- (ii) If, after the review, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquired entity, the balance shall be recognised in profit or loss of the reporting period. For the accounting treatment of business combination under common control by step acquisitions, please refer to Note 3.6 (6).

3.5.3 Treatment of Business Combination Related Costs

The intermediary costs such as audit, legal services and valuation consulting and other related management costs that are directly attributable to the business combination shall be charged in profit or loss in the period in which they are incurred. The costs to issue equity or debt securities for the consideration of business combination shall be recorded as a part of the value of the respect equity or debt securities upon initial recognition.

3.6 Method of Preparing the Consolidated Financial Statements

3.6.1 Scope of Consolidation

The scope of consolidated financial statements shall be determined on the basis of control. It not only includes subsidiaries determined based on voting power (or similar) or other arrangement, but also structured entities under one or several contract arrangements.

Control exists when the Company has all the following: power over the investee; exposure, or rights to variable returns from the Company's involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are the entities that controlled by the Company (including enterprise, a divisible part of the investee, and structured entity controlled by the enterprise). A structured entity (sometimes called a Special Purpose Entity) is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

3.6.2 Special provisions on the parent company being an investment subject

If the parent company is an investment entity, it should measure its investments in particular subsidiaries as financial assets at fair value through profit or loss instead of consolidating those subsidiaries in its consolidated and separate financial statements. However, as an exception to this requirement, if a subsidiary provides investment-related services or activities to the investment entity, it should be consolidated.

The parent company is defined as investment entity when meets following conditions:

- ①Obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- ②Commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- ③Measures and evaluates the performance of substantially all of its investments on a fair value basis.

If the parent company becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status, except for any subsidiary which provides investment-related services or activities to the investment entity shall be continued to be consolidated. The deconsolidation of subsidiaries is accounted for as though the investment entity partially disposed subsidiaries without loss of control.

When the parent company previously classified as an investment entity ceases to be an investment entity, subsidiary that was previously measured at fair value through profit or loss shall be included in the scope of consolidated financial statements at the date of the change in status. The fair value of the subsidiary at the date of change represents the transferred deemed consideration in accordance with the accounting for business combination not under common control.

3.6.3 Method of Preparing the Consolidated Financial Statements

The consolidated financial statements shall be prepared by the Company based on the financial statements of the Company and its subsidiaries, and using other related information.

When preparing consolidated financial statements, the Company shall consider the entire group as an accounting entity, adopt uniform accounting policies and apply the requirements of Accounting Standard for Business Enterprises related to recognition, measurement and presentation. The consolidated financial statements shall reflect the overall financial position, operating results and cash flows of the group.

- ①Like items of assets, liabilities, equity, income, expenses and cash flows of the parent are

combined with those of the subsidiaries.

②The carrying amount of the parent's investment in each subsidiary is eliminated (off-set) against the parent's portion of equity of each subsidiary.

③Eliminate the impact of intragroup transactions between the Company and the subsidiaries or between subsidiaries, and when intragroup transactions indicate an impairment of related assets, the losses shall be recognised in full.

④Make adjustments to special transactions from the perspective of the group.

3.6.4 Method of preparation of the consolidated financial statements when subsidiaries are acquired or disposed in the reporting period

①Acquisition of subsidiaries or business

A. Subsidiaries or business acquired through business combination under common control

(a) When preparing consolidated statements of financial position, the opening balance of the consolidated balance sheet shall be adjusted. Related items of comparative financial statements shall be adjusted as well, deeming that the combined entity has always existed ever since the ultimate controlling party began to control.

(b) Incomes, expenses and profits of the subsidiary incurred from the beginning of the reporting period to the end of the reporting period shall be included into the consolidated statement of profit or loss. Related items of comparative financial statements shall be adjusted as well, deeming that the combined entity has always existed ever since the ultimate controlling party began to control.

(c) Cash flows from the beginning of the reporting period to the end of the reporting period shall be included into the consolidated statement of cash flows. Related items of comparative financial statements shall be adjusted as well, deeming that the combined entity has always existed ever since the ultimate controlling party began to control.

B. Subsidiaries or business acquired through business combination not under common control

(a) When preparing the consolidated statements of financial position, the opening balance of the consolidated statements of financial position shall not be adjusted.

(b) Incomes, expenses and profits of the subsidiary incurred from the acquisition date to the end of the reporting period shall be included into the consolidated statement of profit or loss.

(c) Cash flows from the acquisition date to the end of the reporting period shall be included into the consolidated statement of cash flows.

② Disposal of subsidiaries or business

A. When preparing the consolidated statements of financial position, the opening balance of the consolidated statements of financial position shall not be adjusted.

B. Incomes, expenses and profits incurred from the beginning of the subsidiary to the disposal date shall be included into the consolidated statement of profit or loss.

C. Cash flows from the beginning of the subsidiary to the disposal date shall be included into the consolidated statement of cash flows.

3.6.5 Special consideration in consolidation elimination

① Long-term equity investment held by the subsidiaries to the Company shall be recognised as treasury stock of the Company, which is offset with the owner's equity, represented as "treasury stock" under "owner's equity" in the consolidated statement of financial position.

Long-term equity investment held by subsidiaries between each other is accounted for taking long-term equity investment held by the Company to its subsidiaries as reference. That is, the long-term equity investment is eliminated (off-set) against the portion of the corresponding subsidiary's equity.

② Due to not belonging to paid-in capital (or share capital) and capital reserve, and being different from retained earnings and undistributed profit, "Specific reserves" and "General risk provision" shall be recovered based on the proportion attributable to owners of the parent company after long-term equity investment to the subsidiaries is eliminated with the subsidiaries' equity.

③ If temporary timing difference between the book value of the assets and liabilities in the consolidated statement of financial position and their tax basis is generated as a result of elimination of unrealized inter-company transaction profit or loss, deferred tax assets of deferred tax liabilities shall be recognised, and income tax expense in the consolidated statement of profit or loss shall be adjusted simultaneously, excluding deferred taxes related to transactions or events directly recognised in owner's equity or business combination.

④ Unrealised inter-company transactions profit or loss generated from the Company selling assets to its subsidiaries shall be eliminated against "net profit attributed to the owners of the parent company" in full. Unrealized inter-company transactions profit or loss generated from the subsidiaries selling assets to the Company shall be eliminated between "net profit attributed to the owners of the parent company" and "non-controlling interests" pursuant to the proportion of the Company in the related subsidiaries. Unrealized inter-company

transactions profit or loss generated from the assets sales between the subsidiaries shall be eliminated between “net profit attributed to the owners of the parent company” and “non-controlling interests” pursuant to the proportion of the Company in the selling subsidiaries.

⑤If loss attributed to the minority shareholders of a subsidiary in current period is more than the proportion of non-controlling interest in this subsidiary at the beginning of the period, non-controlling interest is still to be written down.

3.6.6 Accounting for Special Transactions

①Purchasing of non-controlling interests

Where, the Company purchases non-controlling interests of its subsidiary, in the separate financial statements of the Company, the cost of the long-term equity investment obtained in purchasing non-controlling interests is measured at the fair value of the consideration paid. In the consolidated financial statements, difference between the cost of the long-term equity investment newly obtained in purchasing non-controlling interests and share of the subsidiary’s net assets from the acquisition date or combination date continuingly calculated pursuant to the newly acquired shareholding proportion shall be adjusted into capital reserve (capital premium or share premium). If capital reserve is not enough to be offset, surplus reserve and undistributed profit shall be offset in turn.

②Gaining control over the subsidiary in stages through multiple transactions

A. Business combination under common control in stages through multiple transactions

On the combination date, in the separate financial statement, initial cost of the long-term equity investment is determined according to the share of carrying amount of the acquiree’s net assets in the ultimate controlling entity’s consolidated financial statements after combination. The difference between the initial cost of the long-term equity investment and the carrying amount of the long-term investment held prior of control plus book value of additional consideration paid at acquisition date is adjusted into capital reserve (capital premium or share premium). If the capital reserve is not enough to absorb the difference, any excess shall be adjusted against surplus reserve and undistributed profit in turn.

In the consolidated financial statements, the assets and liabilities acquired during the combination should be recognized at their carrying amount in the ultimate controlling entity’s consolidated financial statements on the combination date unless any adjustment is resulted from the difference in accounting policies. The difference between the carrying amount of the investment held prior of control plus book value of additional consideration

paid on the acquisition date and the net assets acquired through the combination is adjusted into capital reserve (capital premium or share premium). If the capital reserve is not enough to absorb the difference, any excess shall be adjusted against retained earnings.

If the acquiring entity holds equity investment in the acquired entity prior to the combination date and the equity investment is accounted for under the equity method, related profit or loss, other comprehensive income and other changes in equity which have been recognised during the period from the later of the date of the Company obtaining original equity interest and the date of both the acquirer and the acquiree under common control of the same ultimate controlling party to the combination date should be offset against the opening balance of retained earnings at the comparative financial statements period respectively.

B. Realize the combination of enterprises under different control step by step through multiple transactions

On the consolidation date, in the separate financial statements, the initial cost of long-term equity investment is determined according to the carrying amount of the original long-term investment plus the cost of new investment.

In the consolidated financial statements, the equity interest of the acquired entity held prior to the acquisition date shall be re-measured at its fair value on the acquisition date. Difference between the fair value of the equity interest and its book value is recognised as investment income. The other comprehensive income related to the equity interest held prior to the acquisition date calculated through equity method, should be transferred to current investment income of the acquisition period, excluding other comprehensive income resulted from the remeasurement of the net assets or net liabilities under defined benefit plan. The Company shall disclose acquisition-date fair value of the equity interest held prior to the acquisition date, and the related gains or losses due to the remeasurement based on fair value.

③ Disposal of investment in subsidiaries without a loss of control

For partial disposal of the long-term equity investment in the subsidiaries without a loss of control, when the Company prepares consolidated financial statements, difference between consideration received from the disposal and the corresponding share of subsidiary's net assets cumulatively calculated from the acquisition date or combination date shall be adjusted into capital reserve (capital premium or share premium). If the capital reserve is not enough to absorb the difference, any excess shall be offset against retained earnings.

④ Disposal of investment in subsidiaries with a loss of control

A. Disposal through one transaction

If the Company loses control in an investee through partial disposal of the equity investment, when the consolidated financial statements are prepared, the retained equity interest should be re-measured at fair value at the date of loss of control. The difference between i) the fair value of consideration received from the disposal plus non-controlling interest retained; ii) share of the former subsidiary's net assets cumulatively calculated from the acquisition date or combination date according to the original proportion of equity interest, shall be recognised in current investment income when control is lost.

Moreover, other comprehensive income and other changes in equity related to the equity investment in the former subsidiary shall be transferred into current investment income when control is lost, excluding other comprehensive income resulted from the remeasurement of the movement of net assets or net liabilities under defined benefit plan.

B. Disposal in stages

In the consolidated financial statements, whether the transactions should be accounted for as “a single transaction” needs to be decided firstly.

If the disposal in stages should not be classified as “a single transaction”, in the separate financial statements, for transactions prior of the date of loss of control, carrying amount of each disposal of long-term equity investment need to be recognized, and the difference between consideration received and the carrying amount of long-term equity investment corresponding to the equity interest disposed should be recognized in current investment income; in the consolidated financial statements, the disposal transaction should be accounted for according to related policy in “Disposal of long-term equity investment in subsidiaries without a loss of control”.

If the disposal in stages should be classified as “a single transaction”, these transactions should be accounted for as a single transaction of disposal of subsidiary resulting in loss of control. In the separate financial statements, for each transaction prior of the date of loss of control, difference between consideration received and the carrying amount of long-term equity investment corresponding to the equity interest disposed should be recognised as other comprehensive income firstly, and transferred to profit or loss as a whole when control is lost; in the consolidated financial statements, for each transaction prior of the date of loss

of control, difference between consideration received and proportion of the subsidiary's net assets corresponding to the equity interest disposed should be recognised in profit or loss as a whole when control is lost.

In considering of the terms and conditions of the transactions as well as their economic impact, the presence of one or more of the following indicators may lead to account for multiple transactions as a single transaction:

- (a) The transactions are entered into simultaneously or in contemplation of one another.
 - (b) The transactions form a single transaction designed to achieve an overall commercial effect.
 - (c) The occurrence of one transaction depends on the occurrence of at least one other transaction.
 - (d) One transaction, when considered on its own merits, does not make economic sense, but when considered together with the other transaction or transactions would be considered economically justifiable.
- ⑤ Diluting equity share of parent company in its subsidiaries due to additional capital injection by the subsidiaries' minority shareholders.

Other shareholders (minority shareholders) of the subsidiaries inject additional capital in the subsidiaries, which resulted in the dilution of equity interest of parent company in these subsidiaries. In the consolidated financial statements, difference between share of the corresponding subsidiaries' net assets calculated based on the parent's equity interest before and after the capital injection shall be adjusted into capital reserve (capital premium or share premium). If the capital reserve is not enough to absorb the difference, any excess shall be adjusted against retained earnings.

3.7 Classification of Joint Arrangements and Accounting for Joint Operation

A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangement of the Company is classified as either a joint operation or a joint venture.

(1) Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Company shall recognise the following items in relation to shared interest in a joint

operation, and account for them in accordance with relevant accounting standards of the Accounting Standards for Business Enterprises:

- ① its assets, including its share of any assets held jointly;
- ② its liabilities, including its share of any liabilities incurred jointly;
- ③ its revenue from the sale of its share of the output arising from the joint operation;
- ④ its share of the revenue from the sale of the output by the joint operation; and
- ⑤ its expenses, including its share of any expenses incurred jointly.

(2) Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company accounts for its investment in the joint venture by applying the equity method of long-term equity investment.

3.8 Cash and Cash Equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents include short-term (generally within three months of maturity at acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.9 Foreign Currency Transactions and Translation of Foreign Currency Financial Statements

(2) Determination of the exchange rate for foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency shall be translated into the amount in the functional currency at the spot exchange rate of the transaction date, or at an exchange rate which is determined through a systematic and reasonable method and is approximate to the spot exchange rate of the transaction date (hereinafter referred to as the approximate exchange rate).

(1) Translation of monetary items denominated in foreign currency on the balance sheet date

The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date; for the foreign currency non-monetary items restated to a fair value measurement, shall be translated into

the at the spot exchange rate at the date when the fair value was determined, the difference between the restated functional currency amount and the original functional currency amount shall be recorded into the profits and losses at the current period.

(3) Translation of foreign currency financial statements

Before translating the financial statements of foreign operations, the accounting period and accounting policy shall be adjusted so as to conform to the Company. The adjusted foreign operation financial statements denominated in foreign currency (other than functional currency) shall be translated in accordance with the following method:

①The asset and liability items in the statement of financial position shall be translated at the spot exchange rates at the date of that statement of financial position.. The owners' equity items except undistributed profit shall be translated at the spot exchange rates when they are incurred.

②The income and expense items in the statement of profit and other comprehensive income shall be translated at the spot exchange rates or approximate exchange rate at the date of transaction.

③Foreign currency cash flows and cash flows of foreign subsidiaries shall be translated at the spot exchange rate or approximate exchange rate when the cash flows are incurred. The effect of exchange rate changes on cash is presented separately in the statement of cash flows as an adjustment item.

④The differences arising from the translation of foreign currency financial statements shall be presented separately as "other comprehensive income" under the owners' equity items of the consolidated statement of financial position.

When disposing a foreign operation involving loss of control, the cumulative amount of the exchange differences relating to that foreign operation recognised under other comprehensive income in the statement of financial position, shall be reclassified into current profit or loss according to the proportion disposed.

3.10 Financial Instruments

Financial instrument is any contract which gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

(1) Recognition and derecognition of financial instrument

A financial asset or a financial liability should be recognised in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument.

A financial asset can only be derecognised when meets one of the following conditions:

- ①The rights to the contractual cash flows from a financial asset expire; and
- ②The financial asset has been transferred and meets one of the following derecognition conditions.

Financial liabilities (or part thereof) are derecognised only when the liability is extinguished—i.e., when the obligation specified in the contract is discharged or cancelled or expires. An exchange of the Company (borrower) and lender of debt instruments that carry significantly different terms or a substantial modification of the terms of an existing liability are both accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Purchase or sale of financial assets in a regular-way shall be recognised and derecognised using trade date accounting. A regular-way purchase or sale of financial assets is a transaction under a contract whose terms require delivery of the asset within the time frame established generally by regulations or convention in the market place concerned. Trade date is the date at which the entity commits itself to purchase or sell an asset.

(2) Classification and measurement of financial assets

At initial recognition, the Company classified its financial asset based on both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset: financial asset at amortised cost, financial asset at fair value through profit or loss (FVTPL) and financial asset at fair value through other comprehensive income (FVTOCI). Reclassification of financial assets is permitted if, and only if, the objective of the entity's business model for managing those financial assets changes. In this circumstance, all affected financial assets shall be reclassified on the first day of the first reporting period after the changes in business model; otherwise the financial assets cannot be reclassified after initial recognition.

Financial assets shall be measured at initial recognition at fair value. For financial assets measured at FVTPL, transaction costs are recognised in current profit or loss. For financial assets not measured at FVTPL, transaction costs should be included in the initial measurement. Notes receivable or accounts receivable that arise from sales of goods or rendering of services are initially measured at the transaction price defined in the accounting standard of revenue where the transaction does not include a significant financing component.

Subsequent measurement of financial assets will be based on their categories:

- ①Financial asset at amortised cost

The financial asset at amortised cost category of classification applies when both the following conditions are met: the financial asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual term of the financial asset gives rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding. These financial assets are subsequently measured at amortised cost by adopting the effective interest rate method. Any gain or loss arising from derecognition according to the amortization under effective interest rate method or impairment are recognised in current profit or loss.

② Financial asset at fair value through other comprehensive income (FVTOCI)

The financial asset at FVTOCI category of classification applies when both the following conditions are met: the financial asset is held within the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual term of the financial asset gives rise on specified dates to cash flows that are solely payment of principle and interest on the principal amount outstanding. All changes in fair value are recognised in other comprehensive income except for gain or loss arising from impairment or exchange differences, which should be recognised in current profit or loss. At derecognition, cumulative gain or loss previously recognised under OCI is reclassified to current profit or loss. However, interest income calculated based on the effective interest rate is included in current profit or loss.

The Company make an irrevocable decision to designate part of non-trading equity instrument investments as measured through FVTOCI. All changes in fair value are recognised in other comprehensive income except for dividend income recognised in current profit or loss. At derecognition, cumulative gain or loss are reclassified to retained earnings.

③ Financial asset at fair value through profit or loss (FVTPL)

Financial asset except for above mentioned financial asset at amortised cost or financial asset at fair value through other comprehensive income (FVTOCI), should be classified as financial asset at fair value through profit or loss (FVTPL). These financial assets should be subsequently measured at fair value. All the changes in fair value are included in current profit or loss.

(3) Classification and measurement of financial liabilities

The Company classified the financial liabilities as financial liabilities at fair value through profit or loss (FVTPL), loan commitments at a below-market interest rate and financial guarantee contracts and financial asset at amortised cost.

Subsequent measurement of financial assets will be based on the classification:

① Financial liabilities at fair value through profit or loss (FVTPL)

Held-for-trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated at FVTPL are classified as financial liabilities at FVTP. After initial recognition, any gain or loss (including interest expense) are recognised in current profit or loss except for those hedge accounting is applied. For financial liability that is designated as at FVTPL, changes in the fair value of the financial liability that is attributable to changes in the own credit risk of the issuer shall be presented in other comprehensive income. At derecognition, cumulative gain or loss previously recognised under OCI is reclassified to retained earnings.

② Loan commitments and financial guarantee contracts

Loan commitment is a commitment by the Company to provide a loan to customer under specified contract terms. The provision of impairment losses of loan commitments shall be recognised based on expected credit losses model.

Financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts liability shall be subsequently measured at the higher of: The amount of the loss allowance recognised according to the impairment principles of financial instruments; and the amount initially recognised less the cumulative amount of income recognised in accordance with the revenue principles.

③ Financial liabilities at amortised cost

After initial recognition, the Company measured other financial liabilities at amortised cost using the effective interest method.

Except for special situation, financial liabilities and equity instrument should be classified in accordance with the following principles:

① If the Company has no unconditional right to avoid delivering cash or another financial instrument to fulfill a contractual obligation, this contractual obligation meet the definition of financial liabilities. Some financial instruments do not comprise terms and conditions related to obligations of delivering cash or another financial instrument explicitly, they may include contractual obligation indirectly through other terms and conditions.

② If a financial instrument must or may be settled in the Company's own equity instruments, it should be considered that the Company's own equity instruments are alternatives of cash

or another financial instrument, or to entitle the holder of the equity instruments to sharing the remaining rights over the net assets of the issuer. If the former is the case, the instrument is a liability of the issuer; otherwise, it is an equity instrument of the issuer. Under some circumstances, it is regulated in the contract that the financial instrument must or may be settled in the Company's own equity instruments, where, amount of contractual rights and obligations are calculated by multiplying the number of the equity instruments to be available or delivered by its fair value upon settlement. Such contracts shall be classified as financial liabilities, regardless that the amount of contractual rights and liabilities is fixed, or fluctuate totally or partially with variables other than market price of the entity's own equity instruments (such as interest rate, price of some kind of goods or some kind of financial instrument).

(4) Derivatives and embedded derivatives

At initial recognition, derivatives shall be measured at fair value at the date of derivative contracts are signed and subsequently measured at fair value. The derivative with a positive fair value shall be recognized as an asset, and with a negative fair value shall be recognised as a liability.

Gains or losses arising from the changes in fair value of derivatives shall be recognised directly into current profit or loss except for the effective portion of cash flow hedges which shall be recognised in other comprehensive income and reclassified into current profit or loss when the hedged items affect profit or loss.

An embedded derivative is a component of a hybrid contract with a financial asset as a host, the Company shall apply the requirements of financial asset classification to the entire hybrid contract. If a host that is not a financial asset and the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, the embedded derivative shall be separated from the hybrid instrument and accounted for as a separate derivative instrument. If the Company is unable to measure the fair value of the embedded derivative at the acquisition date or subsequently at the balance sheet date, the entire hybrid contract is designated as financial assets or financial liabilities at fair value through profit or loss.

(5) Impairment of financial instrument

The Company shall recognise a loss allowance based on expected credit losses on a

financial asset that is measured at amortised cost, a debt investment at fair value through other comprehensive income, a contract asset, a lease receivable, a loan commitment and a financial guarantee contract.

① Measurement of expected credit losses

Expected credit losses are the weighted average of credit losses of the financial instruments with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (ie all cash shortfalls), discounted at the original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or the expected lifetime, if the expected life of a financial instrument is less than 12 months).

At each reporting date, the Company classifies financial instruments into three stages and makes provisions for expected credit losses accordingly. A financial instrument of which the credit risk has not significantly increased since initial recognition is at stage 1. The Company shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired is at stage 2. The Company shall measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses. A financial instrument is considered to be credit-impaired as at the end of the reporting period is at stage 3. The Company shall measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses.

The Company may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date and measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

For financial instrument at stage 1, stage 2 and those have low credit risk, the interest revenue shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset (ie, impairment loss not been deducted). For financial instrument

at stage 3, interest revenue shall be calculated by applying the effective interest rate to the amortised cost after deducting of impairment loss.

For notes receivable, accounts receivable and accounts receivable financing, no matter it contains a significant financing component or not, the Company shall measure the loss allowance at an amount equal to the lifetime expected credit losses.

A.Receivables

For the notes receivable, accounts receivable, other receivables, accounts receivable financing and long-term receivables which are demonstrated to be impaired by any objective evidence, or applicable for individual assessment, the Company shall individually assess for impairment and recognise the loss allowance for expected credit losses. If the Company determines that no objective evidence of impairment exists for notes receivable, accounts receivable, other receivables, accounts receivable financing and long-term receivables, or the expected credit loss of a single financial asset cannot be assessed at reasonable cost, such notes receivable, accounts receivable, other receivables, accounts receivable financing and long-term receivables shall be divided into several groups with similar credit risk characteristics and collectively calculated the expected credit loss. The determination basis of groups is as following:

a. Determination basis of notes receivable is as following:

The Company shall measure the credit loss for notes receivable at an amount equal to the lifetime expected credit losses. Based on the credit risk characteristics of notes receivable, it is divided into different groups:

Item	Characteristics of the group
Banker's acceptable bill	Acceptor who is a bank with less credit risk

b.Determination basis of accounts receivable is as following:

For accounts receivable and contract assets without the existence of a significant financing component, the Company shall measure the loss allowance at the amount equal to the lifetime expected credit losses.

For accounts receivable, contract assets and lease receivable with the existence of a significant financing component, the Company chooses to always measure its losses allowance at the amount equal to the lifetime expected credit losses.

Except for accounts receivable and contract assets which are individually assessed for credit risk, accounts receivable and contract assets shall be divided into different groups based on its credit risk characteristics:

Item	Characteristics of the group
Amounts due from the clearing center	The receivables are due from the clearing center.
Amounts due from the aviation association	The receivables are due from the aviation association.
Amounts due from related parties	The receivables are business operating receivables due from related parties.
Other receivables	The receivables are business operating receivables which are not included in the above categories.

c. Determination basis of other receivables is as following:

For each group, the Company calculates expected credit losses through default exposure and the 12-months or lifetime expected credit losses rate, taking reference to historical experience for credit losses and considering current condition and expectation for the future economic situation.

Item	Determine basis of the combination
Deposits receivable	The receivables are deposits receivables daily activities.
Amounts due from related parties	The receivables are receivables due from related parties in daily activities.
Other receivables	The receivables are other receivables in daily activities.

d. Determination basis of long-term receivables financing is as following (except for receivables with a material financing component and lease receivables):

The Company calculates expected credit losses through default exposure and the lifetime expected credit losses rate, taking reference to historical experience for credit losses and considering current condition and expectation for the future economic situation.

B. Debt investment and other debt investment

For debt investment and other debt investment, the Company shall calculate the expected credit loss through the default exposure and the 12-month or lifetime expected credit loss rate based on the nature of the investment, counterparty and the type of risk exposure.

② Low credit risk

If the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

③ Significant increase in credit risk

The Company shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition, using the change in the risk of a default occurring over

the expected life of the financial instrument, through the comparison of the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition.

To make that assessment, the Company shall consider reasonable and supportable information, that is available without undue cost or effort, and that is indicative of significant increases in credit risk since initial recognition, including forward-looking information. The information considered by the Company are as following:

A. Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception; and

B. Existing or forecast adverse change in the business, financial or economic conditions of the borrower that results in a significant change in the borrower's ability to meet its debt obligations; and

C. An actual or expected significant change in the operating results of the borrower; An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower; and

D. Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring; and

F. Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument; and

G. Significant changes in the expected performance and behaviour of the borrower; and

H. Contractual payments are more than 30 days past due.

Depending on the nature of the financial instruments, the Company shall assess whether the credit risk has increased significantly since initial recognition on an individual financial instrument or a group of financial instruments. When assessed based on a group of financial instruments, the Company can group financial instruments on the basis of shared credit risk characteristics, for example, past due information and credit risk rating.

Generally, the Company shall determine the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Company can only rebut this presumption if the Company has reasonable and

supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

④ Credit-impaired financial asset

The Company shall assess at each reporting date whether the credit impairment has occurred for financial asset at amortised cost and debt investment at fair value through other comprehensive income. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidences that a financial asset is credit-impaired include observable data about the following events:

Significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

⑤ Presentation of impairment of expected credit loss

In order to reflect the changes of credit risk of financial instrument since initial recognition, the Company shall at each reporting date remeasure the expected credit loss and recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses addition(or reversal). For financial asset at amortised cost, the loss allowance shall reduce the carrying amount of the financial asset in the statement of financial position; for debt investment at fair value through other comprehensive income, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

⑥ Write-off

The Company shall directly reduce the gross carrying amount of a financial asset when the Company has no reasonable expectations of recovering the contractual cash flow of a financial asset in its entirety or a portion thereof. Such write-off constitutes a derecognition of the financial asset. This circumstance usually occurs when the Company determines that the debtor has no assets or sources of income that could generate sufficient cash flow to repay the write-off amount.

Recovery of financial asset written off shall be recognised in profit or loss as reversal of impairment loss.

(6) Transfer of financial assets

Transfer of financial assets refers to following two situations:

A. Transfers the contractual rights to receive the cash flows of the financial asset; and

B. Transfers the entire or a part of a financial asset and retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

① Derecognition of transferred assets

If the Company transfers substantially all the risks and rewards of ownership of the financial asset, or neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset, the financial asset shall be derecognised.

Whether the Company has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Company has not retained control.

The Company judges whether the transfer of financial asset qualifies for derecognition based on the substance of the transfer.

If the transfer of financial asset qualifies for derecognition in its entirety, the difference between the following shall be recognised in profit or loss:

A. The carrying amount of transferred financial asset;

B. The sum of consideration received and the part derecognised of the cumulative changes in fair value previously recognised in other comprehensive income (The financial assets involved in the transfer are classified as financial assets at fair value through other comprehensive income in accordance with Article 18 of the Accounting Standards for Business Enterprises - Recognition and Measurement of Financial Instruments).

If the transferred asset is a part of a larger financial asset and the part transferred qualifies for derecognition, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised (For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised) and the part that is derecognised, based on the relative fair values of those parts on the date of the transfer. The

difference between following two amounts shall be recognised in profit or loss:

A.The carrying amount (measured at the date of derecognition) allocated to the part derecognised;

B.The sum of the consideration received for the part derecognised and part derecognised of the cumulative changes in fair value previously recognised in other comprehensive income (The financial assets involved in the transfer are classified as financial assets at fair value through other comprehensive income in accordance with Article 18 of the Accounting Standards for Business Enterprises - Recognition and Measurement of Financial Instruments).

②Continuing involvement in transferred assets

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the Company shall continue to recognise the transferred asset to the extent of its continuing involvement and also recognise an associated liability.

The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

③Continue to recognise the transferred assets

If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company shall continue to recognise the transferred asset in its entirety and the consideration received shall be recognised as a financial liability.

The financial asset and the associated financial liability shall not be offset. In subsequent accounting period, the Company shall continuously recognise any income (gain) arising from the transferred asset and any expense (loss) incurred on the associated liability.

(7) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities shall be presented separately in the statement of financial position and shall not be offset. When meets the following conditions, financial assets and financial liabilities shall be offset and the net amount presented in the statement of financial position:

The Company currently has a legally enforceable right to set off the recognised amounts;
The Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Company shall not offset the transferred asset and the associated liability.

(8) Determination of fair value of financial instruments

Determination of financial assets and financial liabilities please refer to Note 3.11

3.11 Fair Value Measurement

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company determines fair value of the related assets and liabilities based on market value in the principal market, or in the absence of a principal market, in the most advantageous market price for the related asset or liability. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The principal market is the market in which transactions for an asset or liability take place with the greatest volume and frequency. The most advantageous market is the market which maximizes the value that could be received from selling the asset and minimizes the value which is needed to be paid in order to transfer a liability, considering the effect of transport costs and transaction costs both.

If the active market of the financial asset or financial liability exists, the Company shall measure the fair value using the quoted price in the active market. If the active market of the financial instrument is not available, the Company shall measure the fair value using valuation techniques.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

① Valuation techniques

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, including the market approach, the income approach and the cost approach. The Company shall use valuation techniques consistent with one or more of those approaches to measure fair value. If multiple valuation techniques are used to measure fair value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

When using the valuation technique, the Company shall give the priority to relevant observable inputs. The unobservable inputs can only be used when relevant observable inputs is not available or practically would not be obtained. Observable inputs refer to the

information which is available from market and reflects the assumptions that market participants would use when pricing the asset or liability. Unobservable Inputs refer to the information which is not available from market and it has to be developed using the best information available in the circumstances from the assumptions that market participants would use when pricing the asset or liability.

② Fair value hierarchy

To Company establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to Level 1 inputs and second to the Level 2 inputs and the lowest priority to Level 3 inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

3.12 Inventory

3.12.1 Classification of Inventory

The Company's inventories mainly includes air materials and low-value consumables.

3.12.2 Measurement Method of Cost of Inventories Sold or Used

Inventories are initially carried at the actual cost. The actual cost of inventories transferred out is assigned by using weighted average method.

3.12.3 Inventory System

The perpetual inventory system is adopted. The inventories should be counted at least once a year, and surplus or losses of inventory stocktaking shall be included in current profit and loss.

3.12.4 Provision for Impairment of Inventory

Inventories are stated at the lower of cost and net realizable value. The excess of cost over net realizable value of the inventories is recognized as provision for impairment of inventory, and recognized in current profit or loss.

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 declines 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.

3.12.5 Amortization Method for Low-Value Consumables

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

3.13 Contract assets and contract liabilities

Adopted from 1 January 2020

Contract assets and contract liabilities are recognised on the basis of fulfilment of performance obligations and payment received from clients. A right to receive a promised consideration from a client resulting from goods transferred to or services provided to the client (where the right to consideration is dependent on factors other than the passage of time) is recognised a contract asset. A payment received from a client for which goods shall be transferred to or services shall be provided to the client is recognised as a contract liability.

See Note 3.10 for impairment of contract assets.

Contract assets and contract liabilities are presented as line items on the statement of financial position. A contract asset and contract liability arising from one contract are presented in net; while the net amount is a debit balance, it is presented in contract assets or other non-current assets depending on liquidity; while the net amount is a credit balance, it is presented in contract liabilities or other non-current liabilities depending on liquidity. Contract assets and contract liabilities arising from different contracts are not be offset.

3.14 Contract costs

Adopted from 1 January 2020

Costs for a contract include costs to fulfill the contract and costs to obtain the contract.

An asset is recognised for the costs incurred to fulfill a contract on if those costs meet all of the following criteria:

I. the costs are directly associated with a contract or an anticipated contract, explicitly chargeable to the client under the contract, incurred only for the contract;

- II. the costs generate or enhance resources of the Company that will be used in satisfying performance obligations in the future; and
- III. the costs are expected to be recovered.

An asset is recognised for the costs incurred to obtain a contract with a client if those costs are expected to be recovered.

An asset recognised for the costs of a contract are amortised on a systematic basis that is consistent with recognition of revenue arising from the contract. Where the costs incurred to obtain a contract would be amortised for a period less than one year should they be recognised as an asset, the costs are recognised in the current profit or loss as incurred.

An impairment is recognised for an asset recognised for the costs of a contract to the extent that the carrying amount of the asset exceeds:

- I. the remaining amount of consideration that is expected to be received in exchange for the goods or services to which the asset relates; less
- II. the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

Upon recognition of the impairment, further consideration is given for provision for an onerous contract, in necessary.

A reversal of some or all of an impairment loss previously recognised for an asset for the costs of a contract when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset is capped by the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

An asset recognised for the costs to fulfill a contract is presented in inventories if its amortisation is not longer than 1 year or an operating cycle upon initial recognition; otherwise, it is presented in other non-current assets.

An asset recognised for the costs to obtain a contract is presented in other current assets if its amortisation is not longer than 1 year or an operating cycle upon initial recognition; otherwise, it is presented in other non-current assets.

3.15 Long-term Equity Investments

Long-term equity investments refer to equity investments where an investor has control of, or significant influence over, an investee, as well as equity investments in joint ventures. Associates of the Company are those entities over which the Company has significant influence.

(1) Determination basis of joint control or significant influence over the investee

Joint control is the relevant agreed sharing of control over an arrangement, and the arranged

relevant activity must be decided under unanimous consent of the parties sharing control. In assessing whether the Company has joint control of an arrangement, the Company shall assess first whether all the parties, or a group of the parties, control the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities of the arrangement, the parties control the arrangement collectively. Then the Company shall assess whether decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. If two or more groups of the parties could control the arrangement collectively, it shall not be assessed as have joint control of the arrangement. When assessing the joint control, the protective rights are not considered.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. In determination of significant influence over an investee, the Company should consider not only the existing voting rights directly or indirectly held but also the effect of potential voting rights held by the Company and other entities that could be currently exercised or converted, including the effect of share warrants, share options and convertible corporate bonds that issued by the investee and could be converted in current period.

If the Company holds, directly or indirectly 20% or more but less than 50% of the voting power of the investee, it is presumed that the Company has significant influence of the investee, unless it can be clearly demonstrated that in such circumstance, the Company cannot participate in the decision-making in the production and operating of the investee.

(2) Determination of initial investment cost

① Long-term equity investments generated in business combinations

A. For a business combination involving enterprises under common control, if the Company makes payment in cash, transfers non-cash assets or bears liabilities as the consideration for the business combination, the share of carrying amount of the owners' equity of the acquiree in the consolidated financial statements of the ultimate controlling party is recognised as the initial cost of the long-term equity investment on the combination date. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted against the capital reserve; if capital reserve is not enough to be offset, undistributed profit shall be offset in turn; and

B. For a business combination involving enterprises under common control, if the Company issues equity securities as the consideration for the business combination, the

share of carrying amount of the owners' equity of the acquiree in the consolidated financial statements of the ultimate controlling party is recognised as the initial cost of the long-term equity investment on the combination date. The total par value of the shares issued is recognised as the share capital. The difference between the initial investment cost and the carrying amount of the total par value of the shares issued shall be adjusted against the capital reserve; if capital reserve is not enough to be offset, undistributed profit shall be offset in turn; and

C. For business combination not under common control, the assets paid, liabilities incurred or assumed and the fair value of equity securities issued to obtain the control of the acquiree at the acquisition date shall be determined as the cost of the business combination and recognised as the initial cost of the long-term equity investment. The audit, legal, valuation and advisory fees, other intermediary fees, and other relevant general administrative costs incurred for the business combination, shall be recognised in profit or loss as incurred.

② Long-term equity investments acquired not through the business combination, the investment cost shall be determined based on the following requirements:

A. For long-term equity investments acquired by payments in cash, the initial cost is the actually paid purchase cost, including the expenses, taxes and other necessary expenditures directly related to the acquisition of long-term equity investments; and

B. For long-term equity investments acquired through issuance of equity securities, the initial cost is the fair value of the issued equity securities; and

C. For the long-term equity investments obtained through exchange of non-monetary assets, if the exchange has commercial substance, and the fair values of assets traded out and traded in can be measured reliably, the initial cost of long-term equity investment traded in with non-monetary assets are determined based on the fair values of the assets traded out together with relevant taxes. Difference between fair value and book value of the assets traded out is recorded in current profit or loss. If the exchange of non-monetary assets does not meet the above criterion, the book value of the assets traded out and relevant taxes are recognised as the initial investment cost; and

D. For long-term equity investment acquired through debt restructuring, the book value is determined based on the fair value of waived debts and the taxes and other costs directly attributable to the assets. Difference between fair value and carrying amount of waived debts shall be recorded in current profit or loss.

(3) Subsequent measurement and recognition of profit or loss

Long-term equity investment to an entity over which the Company has ability of control shall be accounted for at cost method. Long-term equity investment to a joint venture or an associate shall be accounted for at equity method.

① Cost method

For Long-term equity investment at cost method, cost of the long-term equity investment shall be adjusted when additional amount is invested or a part of it is withdrawn. The Company recognises its share of cash dividends or profits which have been declared to distribute by the investee as current investment income.

② Equity method

For long-term equity investment at equity method, the general accounting treatment is as follows:

If the initial cost of the investment is in excess of the share of the fair value of the net identifiable assets in the investee at the date of investment, the difference shall not be adjusted to the initial cost of long-term equity investment; if the initial cost of the investment is in short of the share of the fair value of the net identifiable assets in the investee at the date investment, the difference shall be included in the current profit or loss and the initial cost of the long-term equity investment shall be adjusted accordingly.

The Company recognises the share of the investee's net profits or losses, as well as its share of the investee's other comprehensive income, as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment shall be reduced by the share of any profit or cash dividends declared to distribute by the investee. The investor's share of the investee's owners' equity changes, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution, shall be recognised in the investor's equity, and the carrying amount of the long-term equity investment shall be adjusted accordingly. The Company recognises its share of the investee's net profits or losses after making appropriate adjustments of investee's net profit based on the fair values of the investee's identifiable net assets at the investment date. If the accounting policy and accounting period adopted by the investee is not in consistency with the Company, the financial statements of the investee shall be adjusted according to the Company's accounting policies and accounting period, based on which, investment income or loss and other comprehensive income, etc., shall be adjusted. The unrealized profits or losses resulting from inter-company transactions between the company and its associate or joint

venture are eliminated in proportion to the company's equity interest in the investee, based on which investment income or losses shall be recognised. Any losses resulting from inter-company transactions between the investor and the investee, which belong to asset impairment, shall be recognised in full.

Where the Company obtains the power of joint control or significant influence, but not control, over the investee, due to additional investment or other reason, the relevant long-term equity investment shall be accounted for by using the equity method, initial cost of which shall be the fair value of the original investment plus the additional investment. Where the original investment is classified as available-for sale investment, difference between its fair value and the carrying value, in addition to the cumulative changes in fair value previously recorded in other comprehensive income, shall be recognised into current profit or loss using equity method.

If the Company loses the joint control or significant influence of the investee for some reasons such as disposal of equity investment, the retained interest shall be measured at fair value and the difference between the carrying amount and the fair value at the date of loss the joint control or significant influence shall be recognised in profit or loss. When the Company discontinues the use of the equity method, the Company shall account for all amounts previously recognised in other comprehensive income under equity method in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

(4) Equity investment classified as held for sale

For an equity investment, or a portion of an equity investment, in an associate or a joint venture is classified as held for sale, the relevant accounting treatment please refer to Note 3.20.

3.16 Fixed Assets

Fixed assets refer to the tangible assets with higher unit price held for the purpose of producing commodities, rendering services, renting or business management with useful lives exceeding one year.

(1) Recognition criteria of fixed assets

Fixed assets will only be recognised at the actual cost paid when obtaining as all the following criteria are satisfied:

① It is probable that the economic benefits relating to the fixed assets will flow into the Company;

②The costs of the fixed assets can be measured reliably.

Subsequent expenditure for fixed assets shall be recorded in cost of fixed assets, if recognition criteria of fixed assets are satisfied, otherwise the expenditure shall be recorded in current profit or loss when incurred.

(2) Depreciation methods of fixed assets

Fixed assets are initially measured at cost and taking into account the impact of expected disposal costs. The Company begins to depreciate the fixed asset from the next month after it is available for intended use by the straight-line-method, except for the replacement parts of the engine, which is depreciated by units of production method based on flight hours. The useful life, estimated net residual value and annual depreciation rate of various types of fixed assets are as follows:

Category	Estimated useful life(Year)/ Estimated flight hours (KHrs)	Residual rates (%)	Annual depreciation rates/KHrs (%)
Buildings and constructions	20-33	5.00	2.88-4.75
Aircraft engine core parts and engine auxiliary power unit	15-20	0.00-5.00	4.75-6.67
Engine replacement parts (KHrs)	17-23	0.00	4.35-5.88
High-priced revolving parts	3-15	0.00	6.67-33.33
Transportation equipment and others	4-20	5.00	4.75-23.75

For the fixed assets with impairment provided, the impairment provision should be excluded from the cost when calculating depreciation.

At the end of reporting period, the Company shall review the useful life, estimated net residual value and depreciation method of the fixed assets. Estimated useful life of the fixed assets shall be adjusted if it is changed compared to the original estimation.

(3) Recognition criteria, valuation and depreciation methods of fixed assets obtained through a finance lease

If the entire risk and rewards related to the leased assets have been substantially transferred, the Company shall recognise the lease as a finance lease. The cost of the fixed assets obtained through a finance lease is determined at the lower of the fair value of the leased assets and the present value of the minimum lease payment on the date of the lease. The fixed assets obtained by a finance lease are depreciated in the method which is consistent with the self-owned fixed assets of the Company. For fixed assets obtained through a finance lease, if it is reasonably certain that the ownership of the leased assets will be

transferred to the lessee by the end of the lease term, they shall be depreciated over their remaining useful lives; otherwise, the leased assets shall be depreciated over the shorter of the lease terms or their remaining useful lives.

3.17 Construction in Progress

The initial book values of the fixed assets are stated at total expenditures incurred before they are ready for their intended use, including construction costs, original price of machinery equipment, other necessary expenses incurred to bring the construction in progress to get ready for its intended use and borrowing costs of the specific loan for the construction or the proportion of the general loan used for the constructions incurred before they are ready for their intended use. The construction in progress shall be transferred to fixed asset when the installation or construction is ready for the intended use. For construction in progress that has been ready for their intended use but relevant budgets for the completion of projects have not been completed, the estimated values of project budgets, prices, or actual costs should be included in the costs of relevant fixed assets, and depreciation should be provided according to relevant policies of the Company when the fixed assets are ready for intended use. After the completion of budgets needed for the completion of projects, the estimated values should be substituted by actual costs, but depreciation already provided is not adjusted.

3.18 Borrowing Costs

(1) Recognition criteria and period for capitalization of borrowing costs

The Company shall capitalize the borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets when meet the following conditions:

- ① Expenditures for the asset are being incurred;
- ② Borrowing costs are being incurred; and
- ③ Acquisition, construction or production activities that are necessary to prepare the assets for their intended use or sale are in progress.

Other borrowing cost, discounts or premiums on borrowings and exchange differences on foreign currency borrowings shall be recognized into current profit or loss when incurred.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and the interruption is for a continuous period of more than 3 months.

Capitalization of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. The expenditure incurred subsequently shall be recognised as expenses when incurred.

(2) Capitalization rate and measurement of capitalized amounts of borrowing costs

When funds are borrowed specifically for purchase, construction or manufacturing of assets eligible for capitalization, the Company shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any interest income on bank deposit or investment income on the temporary investment of those borrowings.

Where funds allocated for purchase, construction or manufacturing of assets eligible for capitalization are part of a general borrowing, the eligible amounts are determined by the weighted-average of the cumulative capital expenditures in excess of the specific borrowing multiplied by the general borrowing capitalization rate. The capitalization rate will be the weighted average of the borrowing costs applicable to the general borrowing.

During the capitalization period, all the exchange differences of special foreign currency loans shall be capitalized. The exchange difference of foreign currency general borrowings is carried to the current profit and loss.

3.19 Intangible Assets

(1) Measurement method of intangible assets

Intangible assets are recognised at actual cost at acquisition.

(2) The useful life and amortisation of intangible assets

① The estimated useful lives of the intangible assets with finite useful lives are as follows:

Category	Estimated useful life
Land use right	Legal life
Software	The service life is determined by reference to the period that can bring economic benefits to the Company

For intangible assets with finite useful life, the estimated useful life and amortisation method are reviewed annually at the end of each reporting period and adjusted when necessary. No change incur in current year in the estimated useful life and amortisation method upon review.

② Assets of which the period to bring economic benefits to the Company are unforeseeable are regarded as intangible assets with indefinite useful lives. The Company reassesses the

useful lives of those assets at every year end. If the useful lives of those assets are still indefinite, impairment test should be performed on those assets at the balance sheet date.

③ Amortisation of the intangible assets

For intangible assets with finite useful lives, their useful lives should be determined upon their acquisition and systematically amortised on a straight-line basis [units of production method] over the useful life. The amortisation amount shall be recognized into current profit or loss according to the beneficial items. The amount to be amortised is cost deducting residual value. For intangible assets which has impaired, the cumulative impairment provision shall be deducted as well. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless: there is a commitment by a third party to purchase the asset at the end of its useful life; or there is an active market for the asset and residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Intangible assets with indefinite useful lives shall not be amortised. The Company reassesses the useful lives of those assets at every year end. If there is evidence to indicate that the useful lives of those assets become finite, the useful lives shall be estimated and the intangible assets shall be amortised systematically and reasonably within the estimated useful lives.

(3) Criteria of classifying expenditures on internal research and development projects into research phase and development phase

① Preparation activities related to materials and other relevant aspects undertaken by the Company for the purpose of further development shall be treated as research phase.

② Development activities after the research phase of the Company shall be treated as development phase.

(4) Criteria for capitalization of qualifying expenditures during the development phase

Expenditures arising from development phase on internal research and development projects shall be recognised as intangible assets only if all of the following conditions have been met:

A. Technical feasibility of completing the intangible assets so that they will be available for use or sale; and

B. Its intention to complete the intangible asset and use or sell it; and

C. The method that the intangible assets generate economic benefits, including the Company can demonstrate the existence of a market for the output of the intangible assets or the

intangible assets themselves or, if it is to be used internally, the usefulness of the intangible assets; and

D. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

E. Its ability to measure reliably the expenditure attributable to the intangible asset.

3.20 Impairment of Long-Term Assets

Impairment loss of long-term equity investment in subsidiaries, associates and joint ventures, investment properties, fixed assets and constructions in progress subsequently measured at cost, productive biological assets, intangible assets, goodwill, the rights and interests of proved mining areas of petroleum and natural gas and wells and other relevant facilities measured at cost (excluding inventories, investment properties measured at fair value, deferred tax assets, financial assets), shall be determined according to following method:

The Company shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company shall estimate the recoverable amount of the asset and test for impairment. Irrespective of whether there is any indication of impairment, the Company shall test for impairment of goodwill acquired in a business combination, intangible assets with an indefinite useful life or intangible assets not yet available for use annually.

The recoverable amounts of the long-term assets are the higher of their fair values less costs to dispose and the present values of the estimated future cash flows of the long-term assets. The Company estimate the recoverable amounts on an individual basis. If it is difficult to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the groups of assets that the individual asset belongs to. Identification of a group of asset is based on whether the cash inflows from it are largely independent of the cash inflows from other assets or groups of assets.

If, and only if, the recoverable amount of an asset or a group of assets is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount and the provision for impairment loss shall be recognised accordingly.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to relevant group of assets based on reasonable method; if it is difficult to allocate to relevant group of assets, good will shall be allocated to relevant combination of asset groups. The relevant group of assets or combination of asset groups is a group of assets or combination of asset groups that is benefit from the synergies of the business combination and is not larger than the reporting segment determined by the

Company.

When test for impairment, if there is an indication that relevant group of assets or combination of asset groups may be impaired, impairment testing for group of assets or combination of asset groups excluding goodwill shall be conducted first, and calculate the recoverable amount and recognize the impairment loss. Then the group of assets or combination of asset groups including goodwill shall be tested for impairment, by comparing the carrying amount with its recoverable amount. If the recoverable amount is less than the carrying amount, the Company shall recognise the impairment loss.

The mentioned impairment loss will not be reversed in subsequent accounting period once it had been recognised.

3.21 Long-term Deferred Expenses

Long-term deferred expenses are various expenses already incurred, which shall be amortised over current and subsequent periods with the amortisation period exceeding one year. Long-term prepaid expenses are amortized on a straight-line basis over the period of expected benefit. In the case of pilot training expenses, they shall be amortized on an average basis of 10 years according to the period of benefit of the expense items.

3.22 Employee Benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Benefits provided to an employee's spouse, children, dependents, family members of deceased employees, or other beneficiaries are also employee benefits.

According to liquidity, employee benefits are presented in the statement of financial position as “Employee benefits payable” and “Long-term employee benefits payable”.

(1) Short-term employee benefits

① Employee basic salary (salary, bonus, allowance, subsidy)

The Company recognises, in the accounting period in which an employee provides service, actually occurred short-term employee benefits as a liability, with a corresponding charge to current profit except for those recognised as capital expenditure based on the requirement of accounting standards.

② Employee welfare

The Company shall recognise the employee welfare based on actual amount when incurred

into current profit or loss or related capital expenditure. Employee welfare shall be measured at fair value as it is a non-monetary benefits.

③ Social insurance such as medical insurance, work injury insurance and maternity insurance, housing funds, labor union fund and employee education fund.

Payments made by the Company of social insurance for employees, such as medical insurance, work injury insurance and maternity insurance, payments of housing funds, and labor union fund and employee education fund accrued in accordance with relevant requirements, in the accounting period in which employees provide services, is calculated according to required accrual bases and accrual ratio in determining the amount of employee benefits and the related liabilities, which shall be recognised in current profit or loss or the cost of relevant asset.

④ Short-term paid absences

The company shall recognise the related employee benefits arising from accumulating paid absences when the employees render service that increases their entitlement to future paid absences. The additional payable amounts shall be measured at the expected additional payments as a result of the unused entitlement that has accumulated. The Company shall recognise relevant employee benefit of non-accumulating paid absences when the absences actually occurred.

⑤ Short-term profit-sharing plan

The Company shall recognise the related employee benefits payable under a profit-sharing plan when all of the following conditions are satisfied:

A. The Company has a present legal or constructive obligation to make such payments as a result of past events; and

B. A reliable estimate of the amounts of employee benefits obligation arising from the profit-sharing plan can be made.

(b) Post-employment benefits

① Defined contribution plans

The Company shall recognise, in the accounting period in which an employee provides service, the contribution payable to a defined contribution plan as a liability, with a corresponding charge to the current profit or loss or the cost of a relevant asset.

When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using relevant discount rate (market

yields at the end of the reporting period on high quality corporate bonds in active market or government bonds with the currency and term which shall be consistent with the currency and estimated term of the defined contribution obligations) to measure employee benefits payable.

② Defined benefit plan

A. The present value of defined benefit obligation and current service costs

Based on the expected accumulative welfare unit method, the Company shall make estimates about demographic variables and financial variables in adopting the unbiased and consistent actuarial assumptions and measure defined benefit obligation, and determine the obligation period. The Company shall discount the obligation arising from defined benefit plan using relevant discount rate (market yields at the end of the reporting period on high quality corporate bonds in active market or government bonds with the currency and term which shall be consistent with the currency and estimated term of the defined benefit obligations) in order to determine the present value of the defined benefit obligation and the current service cost.

B. The net defined benefit liability or asset

The net defined benefit liability (asset) is the deficit or surplus recognised as the present value of the defined benefit obligation less the fair value of plan assets (if any).

When the Company has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of the surplus in the defined benefit plan and the asset ceiling.

C. The amount recognised in the cost of asset or current profit or loss

Service cost comprises current service cost, past service cost and any gain or loss on settlement. Other service cost shall be recognised in profit or loss unless accounting standards require or allow the inclusion of current service cost within the cost of assets.

Net interest on the net defined benefit liability (asset) comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling, shall be included in profit or loss.

D. The amount recognised in other comprehensive income

Changes in the net liability or asset of the defined benefit plan resulting from the remeasurements including:

- (a) Actuarial gains and losses, the changes in the present value of the defined benefit obligation resulting from experience adjustments or the effects of changes in actuarial assumptions; and
- (b) Return on plan assets, excluding amounts included in net interest on the net defined

benefit liability or asset; and

(c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the Company may transfer those amounts recognised in other comprehensive income within equity.

(3) Termination benefits

The Company providing termination benefits to employees shall recognise an employee benefits liability for termination benefits, with a corresponding charge to the profit or loss of the reporting period, at the earlier of the following dates:

- ① When the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal.
- ② When the Company recognises costs or expenses related to a restructuring that involves the payment of termination benefits.

If the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the Company shall discount the termination benefits using relevant discount rate (market yields at the end of the reporting period on high quality corporate bonds in active market or government bonds with the currency and term which shall be consistent with the currency and estimated term of the defined benefit obligations) to measure the employee benefits.

(4) Other long-term employee benefits

- ① Meet the conditions of the defined contribution plan

When other long-term employee benefits provided by the Company to the employees satisfies the conditions for classifying as a defined contribution plan, all those benefits payable shall be accounted for as employee benefits payable at their discounted value.

- ② Meet the conditions of the defined benefit plan

At the end of the reporting period, the Company recognised the cost of employee benefit from other long-term employee benefits as the following components:

A. Service costs; and

B. Net interest cost for net liability or asset of other long-term employee benefits; and

C. Changes resulting from the remeasurements of the net liability or asset of other long-term employee benefits.

In order to simplify the accounting treatment, the net amount of above items shall be recognised in profit or loss or relevant cost of assets.

3.23 Revenue

Adopted from 1 January 2020

3.23.1 General principle

Revenue is the gross inflow of economic benefits arising from the ordinary operating activities of the Company that will result in an increase in Stockholders' equity and is unrelated to the capital invested by Stockholders.

The company recognises revenue when the performance obligation of the contract with the customer is fulfilled, that is, when the customer obtains control of the relevant commodity. Control of the relevant commodity refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from the commodity.

If the contract contains two or more performance obligations, the Company shall, on the commencement date of the contract, allocate the contract price in proportion to the stand-alone selling prices of the distinct good or service underlying each performance obligation in the contract and recognize revenue according to the transaction price apportioned to each individual performance obligation.

The transaction price is the amount of consideration the Company is expected to be entitled to receive for the transfer of goods or services to a Customer, excluding payments received on behalf of third parties. When determining the transaction price of the contract, if there is a variable consideration, the Company shall determine the best estimate of the variable consideration according to the expected value or the most likely amount, and shall include in the transaction price some or all of an amount of variable consideration estimated to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. In the circumstances where the contract contains a significant financing component, the Company shall recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when the customer obtains the control of the commodity. The difference between the transaction price and the contract consideration is amortised in the contract period using effective rate method. The Company does not consider the financing component if the period between when the entity transfers a promised

good or service to a customer and when the customer pays for that good or service is one year or less.

If one of the following conditions is met, the performance obligation is satisfied over time.

Otherwise, the performance obligation is satisfied at a certain point:

- I. the client simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- II. the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- III. the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

For the performance obligations over time, the Company shall recognize revenue in accordance with the performance progress during that period, except where the performance progress cannot be reasonably determined. The progress of completion can be measured using either the input method or output method. Where the progress of completion cannot be reliably measured but the entity expects to recover the costs incurred, revenue is measured to the extent of the costs incurred until such time that the progress of completion can be reliably measured.

For performance obligations performed at a certain point, the Company recognizes revenue at the point when the Customer obtains control of the relevant commodity. In determining whether a customer has acquired control of goods or services, the Company will consider the following indications:

- I. the entity has a present right to payment for the asset, ie. the client is presently obliged to pay for an asset;
- II. the legal title to the asset has been transferred to the client, ie. the client has the legal title to the asset;
- III. the entity has transferred physical possession of the asset to the client, ie. the client has physical possession of the asset;
- IV. the entity has transferred substantially significant risks and rewards of ownership of the asset, ie. the client has the significant risks and rewards of ownership of the asset;
- V. the client has accepted the asset;

When the Company receives payment for goods or services from the customer in advance, such payment shall first be recognized as a liability and shall be transferred to revenue when the relevant performance obligations are fulfilled. Where the Company does not need to refund the advance payment and the Client may waive all or part of its contractual rights,

the Company expects to be entitled to an amount related to the waiver of the Contract rights by the Client, such amount shall be recognized as revenue pro rata in accordance with the mode in which the Client exercises the contractual rights; Otherwise, the company will only convert the relevant balance of the aforesaid liability into revenue when the possibility of the client's request to fulfill the remaining performance obligations is extremely low.

3.23.2 Specific methods

The specific methods of revenue recognition of the Company are as follows:

① Revenue from providing services

A. The Company recognises passenger revenue based on the provision of transport services and not on ticket sales. The airline tickets sold by the Company shall be included in current liabilities when they have not been carried out, and recognized as contract liabilities. In addition, the Company has entered into code-sharing agreements with other airlines, under which the flight number of one carrier can use the code specified by the other carrier's airline. Code sharing revenue is apportioned among code sharing standard partners in accordance with the contractual agreements entered into and the proportional apportionment standards of the aviation industry, and is also recognized as passenger revenue when transportation services are provided.

An overdue ticket is an unexercised contractual right. When the company sells air tickets without refund and the customer may waive all or part of its contractual rights, the company expects to be entitled to the amount related to the contractual rights waived by the customer, the aforesaid amount shall be recognized as revenue on a pro rata basis; otherwise, the company will only convert the relevant balance of the aforesaid liability into revenue when the possibility of the client's request to fulfill the remaining performance obligations is extremely low.

B. The Company recognised freight transportation revenue based on the provision of transportation services.

C. Other revenues from providing labor services and selling goods. Other revenue mainly includes revenues from ground services and aircraft maintenance, and revenues from selling goods on board, which shall be recognized when the customer obtains control over relevant goods or services.

3.24 Government Grants

(1) Recognition of government grants

A government grant shall not be recognised until there is reasonable assurance that:

① The Company will comply with the conditions attaching to them; and

②The grants will be received.

(2) Measurement of government grants

Monetary grants from the government shall be measured at amount received or receivable, and non-monetary grants from the government shall be measured at their fair value or at a nominal value of RMB 1.00 when reliable fair value is not available.

(3) Accounting for government grants

①Government grants related to assets

Government grants pertinent to assets mean the government grants that are obtained by the Company used for purchase or construction, or forming the long-term assets by other ways. Government grants pertinent to assets shall be recognised as deferred income, and should be recognised in profit or loss on a systematic basis over the useful lives of the relevant assets. Grants measured at their nominal value shall be directly recognised in profit or loss of the period when the grants are received. When the relevant assets are sold, transferred, written off or damaged before the assets are terminated, the remaining deferred income shall be transferred into profit or loss of the period of disposing relevant assets.

②Government grants related to income

Government grants other than related to assets are classified as government grants related to income. Government grants related to income are accounted for in accordance with the following principles:

If the government grants related to income are used to compensate the enterprise's relevant expenses or losses in future periods, such government grants shall be recognised as deferred income and included into profit or loss in the same period as the relevant expenses or losses are recognised;

If the government grants related to income are used to compensate the enterprise's relevant expenses or losses incurred, such government grants are directly recognised into current profit or loss.

For government grants comprised of part related to assets as well as part related to income, each part is accounted for separately; if it is difficult to identify different part, the government grants are accounted for as government grants related to income as a whole.

Government grants related to daily operation activities are recognised in other income in accordance with the nature of the activities, and government grants irrelevant to daily operation activities are recognised in non-operating income.

③Loan interest subsidy

When loan interest subsidy is directly allocated to the Company, the subsidy shall be recognised as offsetting the relevant borrowing cost.

④ Repayment of the government grants

Repayment of the government grants shall be recorded by increasing the carrying amount of the asset if the book value of the asset has been written down, or reducing the balance of relevant deferred income if deferred income balance exists, any excess will be recognised into current profit or loss; or directly recognised into current profit or loss for other circumstances.

3.25 Deferred Tax Assets and Deferred Tax Liabilities

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base at the balance sheet date. The Company recognise and measure the effect of taxable temporary differences and deductible temporary differences on income tax as deferred tax liabilities or deferred tax assets using liability method. Deferred tax assets and deferred tax liabilities shall not be discounted.

(1) Recognition of deferred tax asset

Deferred tax assets should be recognised for deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits can be utilised at the tax rates that are expected to apply to the period when the asset is realised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

A. Is not a business combination; and

B. At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Company shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, only to the extent that, it is probable that:

A. The temporary difference will reverse in the foreseeable future; and

B. Taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of each reporting period, if there is sufficient evidence that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, the Company recognises a previously unrecognised deferred tax asset.

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. The Company shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(2) Recognition of deferred tax liabilities

A deferred tax liability shall be recognised for all taxable temporary differences at the tax rate that are expected to apply to the period when the liability is settled.

① No deferred tax liability shall be recognised for taxable temporary differences arising from:

A. The initial recognition of goodwill; or

B. The initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

② An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that both of the following conditions are satisfied:

A. The Company is able to control the timing of the reversal of the temporary difference; and

B. It is probable that the temporary difference will not reverse in the foreseeable future.

(3) Recognition of deferred tax liabilities or assets involved in special transactions or events

① Deferred tax liabilities or assets related to business combination

For the taxable temporary difference or deductible temporary difference arising from a business combination not under common control, a deferred tax liability or a deferred tax asset shall be recognised, and simultaneously, goodwill recognised in the business combination shall be adjusted based on relevant deferred tax expense (income).

② Items directly recognised in equity

Current tax and deferred tax related to items that are recognised directly in equity shall be recognised in equity. Such items include: other comprehensive income generated from fair value fluctuation of available for sale investments; an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied

retrospectively or the correction of a prior period (significant) error; amounts arising on initial recognition of the equity component of a compound financial instrument that contains both liability and equity component.

③ Unused tax losses and unused tax credits

A. Unused tax losses and unused tax credits generated from daily operation of the Company itself

Deductible loss refers to the loss calculated and permitted according to the requirement of tax law that can be offset against taxable income in future periods. The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. The Company recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the Company. Income taxes in current profit or loss shall be deducted as well.

B. Unused tax losses and unused tax credits arising from a business combination

Under a business combination, the acquiree's deductible temporary differences which do not satisfy the criteria at the acquisition date for recognition of deferred tax asset shall not be recognised. Within 12 months after the acquisition date, if new information regarding the facts and circumstances exists at the acquisition date and the economic benefit of the acquiree's deductible temporary differences at the acquisition is expected to be realised, the Company shall recognise acquired deferred tax benefits and reduce the carrying amount of any goodwill related to this acquisition. If goodwill is reduced to zero, any remaining deferred tax benefits shall be recognised in profit or loss. All other acquired deferred tax benefits realised shall be recognised in profit or loss.

④ Temporary difference generated in consolidation elimination

When preparing consolidated financial statements, if temporary difference between carrying value of the assets and liabilities in the consolidated financial statements and their taxable bases is generated from elimination of inter-company unrealized profit or loss, deferred tax assets or deferred tax liabilities shall be recognised in the consolidated financial statements, and income taxes expense in current profit or loss shall be adjusted as well except for deferred tax related to transactions or events recognised directly in equity and business combination.

⑤ Share-based payment settled by equity

If tax authority permits tax deduction that relates to share-based payment, during the period in which the expenses are recognised according to the accounting standards, the Company estimates the tax base in accordance with available information at the end of the accounting period and the temporary difference arising from it. Deferred tax shall be recognised when criteria of recognition are satisfied. If the amount of estimated future tax deduction exceeds the amount of the cumulative expenses related to share-based payment recognised according to the accounting standards, the tax effect of the excess amount shall be recognised directly in equity.

3.26 Operating Leases and Finance Leases

The Company classifies the lease that substantially transfers all the risks and rewards incidental to ownership of an underlying asset as a finance lease. Other lease shall be classified as an operating lease.

(1) Accounting for operating leases

① When the Company as a lessee, the lease payments should be recognised into profit or loss of the reporting period over the lease terms on a straight-line basis or the amount of usage. If the lessor provides the rent-free period, the Company shall allocate total lease payment over the entire lease terms including the rent-free period using straight-line basis or other reasonable method. Lease expense and the corresponding liabilities shall be recognised during the rent-free period. If expenses relating to lease which should be borne by the Company are paid by the lessor of the assets, they shall be deducted from the total lease expenses and the balances shall be amortised over the lease terms by the Company.

Initial direct costs relating to lease transactions incurred by the Company shall be recognised into current profit or loss. Contingent rental, if included in the lease contract, shall be recognised into profit or loss upon occurrence.

② When the Company as a lessor, lease income should be recognised over the lease terms on a straight-line basis. If the lessor provides the rent-free period, the Company shall allocate total lease income over the entire lease terms including the rent-free period using straight-line basis or other reasonable method. Lease income shall be recognised during the rent-free period. If expenses relating to leases which should be borne by the lessee of the assets are paid by the Company, they shall be deducted from the total lease income and the balances shall be amortised over the lease terms by the Company.

Initial direct costs relating to lease transactions incurred by the Company shall be

recognised into current profit or loss ; if the amounts are material, they shall be capitalised and amortised over the lease terms on the same basis as the recognition of lease income. Contingent rental, if included in the lease contract, shall be recognised into profit or loss upon occurrence.

(2) Accounting for finance leases

(i) When the Company as a lessee, at commencement of the lease, assets obtained through finance leases should be recorded at the lower of their fair values and the present values of the minimum lease payments. The Company shall recognise long-term payables at amounts equal to the minimum lease payments, and the differences shall be recognised as unrecognised finance charges, which shall be amortised over the lease terms as finance expenses by using effective interest rate method and recognised into finance cost.

Initial direct costs are recorded in the value of the leased assets.

The Company adopts the same depreciation policy for the leased assets as its self-owned fixed assets. Depreciation period is determined according to the lease contract. If it is reasonably certain that the Company will obtain the ownership of the assets at the expiration of the lease, the depreciation period will be the useful lives of the leased assets. If it is not certain that the Company will obtain the ownership of the asset at the expiration of the lease, the depreciation period is the shorter of the lease period and their useful lives.

② When the Company as a lessor, at commencement of the lease, lease receivables shall be measured at minimum lease receivables plus initial direct costs relating to lease transactions and recognised as long-term receivable in the statement of financial position. Unguaranteed residual values are recorded simultaneously. The differences between the total of minimum lease receivable, initial direct cost and unguaranteed residual values and their present value shall be recognised as unearned finance income, and shall amortised over the lease terms as lease income at the effective interest rate method.

3.27 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 capitalization is capitalized 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 amortized on the basis of air hours over the lease period.

3.28 Changes in Significant Accounting Policies and Accounting Estimates

(1) Changes in accounting polices

The Ministry of Finance issued the revised Accounting Standards for Business Enterprises No. 14 -- Revenue (Caikuai [2017] No. 22) on July 5, 2017 (hereinafter referred to as the "new revenue standards"), requiring domestic listed enterprises to implement the new revenue standards from January 1, 2020.

According to the resolution of the Third Meeting of the Seventh Board of Directors on March 26, 2020, the Company will implement the aforementioned new revenue standards from January 1, 2020.

Under the new revenue criteria, the original revenue and construction contract criteria are included into the unified revenue recognition model, the transfer of risk reward is replaced by the transfer of control as the judgment standard of revenue recognition point, and more clear guidances are provided on the accounting treatment of contracts involving multiple transaction arrangements and for revenue recognition for some specific transactions.

The Company applies the new revenue standards retroactively, but the Company chooses not to restate if the data of the comparative financial statements in the previous period are inconsistent with the new revenue standards in the classification and measurement. Therefore, for the cumulative impact of the first implementation of the standard, the Company adjusted the retained earnings at the beginning of 2020 and the amount of items related to the financial statements, and the financial statements for the year 2019 are not restated. The Company only adjusts the cumulative impact number of outstanding contracts on the first execution date.

The main changes and impacts of the implementation of the new revenue standards to the company are as follows:

A. Under the new revenue standards, contract liabilities are the obligations of the Company to transfer goods or services to a customer for consideration received or receivable by the Company. Therefore, on January 1, 2020, the Company will transfer the balance of the invoice settlement amount received in advance to contract liabilities.

B. Under the original revenue standard, the Company will only transfer the unused expired tickets into revenue. According to the new revenue standards, an overdue ticket is an unexercised contractual right. When the payment of the ticket sold by the company does not need to be refunded and the customer may waive all or part of its contractual rights, the company expects to be entitled to obtain the contract rights related to the contractual rights waived by the customer. In case of the amount, the above amount shall be recognized as income in proportion to the customer's exercise of contract rights. Otherwise, the relevant balance of the above liability will be converted to income only when the possibility of the

customer's request to fulfill the remaining performance obligations is extremely low.

(2) Significant changes in accounting estimates

In order to estimate the depreciation of fixed assets more reasonably, and reflect the Company's financial position and operating results fairly, in accordance with the accounting standards, comparing other public companies in the same industry and combining the actual situation, on April 28, 2020, the Company's seventh session of the board of directors for the fourth time (temporary) meeting examined and approved the Proposal on Accounting Estimate Changes of the Company, decided to implement new accounting estimates since January 1, 2020, adjusted the depreciation method of engine from the straight-line method to unit of production method, adjusted the depreciable year of high-priced revolving parts from 15-18 years to 3-15 years. This accounting estimate change increases the current consolidated net profit by CNY 69,134,850.88 and the net profit of the parent company of the current period by CNY 69,134,850.88.

(3) Adjustments of the Financial Statements at the Beginning of the Reporting Period for the First-Year Adoption of New Revenue Standards

Consolidated Statement of Financial Position

Unit: Yuan, Currency: CNY

Items	31 December 2019	1 January 2020	Adjustment
Current assets:			
Monetary funds	598,961,065.69	598,961,065.69	
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable			
Accounts receivable	456,758,290.60	456,758,290.60	
Accounts receivable financing			
Prepayments	232,061,479.78	232,061,479.78	
Other receivables	232,147,324.23	232,147,324.23	
Including: Interests receivable			
Dividend receivables			
Inventories	109,435,256.69	109,435,256.69	
Contract assets	Not applicable		
Held-for-sale assets			
Non-current assets maturing within one year			

Items	31 December 2019	1 January 2020	Adjustment
Other current assets	170,020,416.07	170,020,416.07	
Total current assets	1,799,383,833.06	1,799,383,833.06	
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments			
Other equity instrument investment	874,728,633.32	874,728,633.32	
Other non-current financial assets			
Investment property			
Fixed assets	7,362,687,431.80	7,362,687,431.80	
Construction in progress	5,479,071,703.01	5,479,071,703.01	
Biological assets held for production			
Oil and gas assets			
Intangible assets	113,459,129.62	113,459,129.62	
Development expenditure			
Goodwill	454,020.13	454,020.13	
Deferred charges	657,772,583.81	657,772,583.81	
Deferred tax assets	1,105,378,651.73	1,105,378,651.73	
Other non-current assets			
Total non-current assets	15,593,552,153.42	15,593,552,153.42	
Total assets	17,392,935,986.48	17,392,935,986.48	
Current liabilities			
Short-term borrowings	300,329,083.33	300,329,083.33	
Held-for-trading financial liabilities	126,264.75	126,264.75	
Derivative financial liabilities			
Notes payable	402,996,891.30	402,996,891.30	
Accounts payable	2,482,248,514.51	2,482,248,514.51	
Advance from customers	936,873,667.96		-936,873,667.96
Employee benefits payable	549,061,919.97	549,061,919.97	
Taxes and fees payable	149,437,183.71	158,334,781.87	8,897,598.16
Other payables	586,143,459.66	586,143,459.66	
Including: Interests payables			
Dividend payables	602,306.96	602,306.96	

Items	31 December 2019	1 January 2020	Adjustment
Contract liabilities	Not applicable	839,385,426.95	839,385,426.95
Held-for-sale liabilities			
Non-current liabilities due within one year	885,299,947.83	885,299,947.83	
Other current liabilities		61,897,848.38	61,897,848.38
Total current liabilities	6,292,516,933.02	6,265,824,138.55	-26,692,794.47
Non-current liabilities:			
Long-term borrowings	808,001,382.82	808,001,382.82	
Bonds payable			
Including: Preference share			
Perpetual capital securities			
Long-term payables	4,623,939,875.40	4,623,939,875.40	
Long-term employee benefits payable	152,746,225.21	152,746,225.21	
Accrued liabilities			
Deferred income	109,423,070.21	109,423,070.21	
Deferred tax liabilities	232,789,494.25	232,789,494.25	
Other non-current liabilities			
Total non-current liabilities	5,926,900,047.89	5,926,900,047.89	
Total liabilities	12,219,416,980.91	12,192,724,186.44	-26,692,794.47
Shareholders' equity	400,000,000.00	400,000,000.00	
Share capital			
Other equity instruments			
Including: Preference shares			
Perpetual capital securities			
Capital reserves	75,410,363.70	75,410,363.70	
Less: Treasury stock			
Other comprehensive income	570,487,739.92	570,487,739.92	
Specific reserves			
Surplus reserves	538,773,444.97	538,773,444.97	
General risk reserves			
Retained earnings	3,588,847,456.98	3,615,540,251.45	26,692,794.47
Equity attributable to shareholders of the parent	5,173,519,005.57	5,200,211,800.04	26,692,794.47

Items	31 December 2019	1 January 2020	Adjustment
Minority interests			
Total owners' equity	5,173,519,005.57	5,200,211,800.04	26,692,794.47
Total liabilities and owners' equity	17,392,935,986.48	17,392,935,986.48	

Statement of Financial Position of the Parent Company

Unit: Yuan Currency: CNY

Items	31 December 2019	1 January 2020	Adjustment
Current assets:			
Monetary funds	563,534,831.81	563,534,831.81	
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable			
Accounts receivable	456,602,459.51	456,602,459.51	
Accounts receivable financing			
Prepayments	231,804,126.69	231,804,126.69	
Other receivables	237,966,773.59	237,966,773.59	
Including: Interests receivable			
Dividend receivables			
Inventories	108,006,448.04	108,006,448.04	
Contract assets	Not applicable		
Held-for-sale assets			
Non-current assets maturing within one year			
Other current assets	169,612,615.24	169,612,615.24	
Total current assets	1,767,527,254.88	1,767,527,254.88	
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	144,101,285.43	144,101,285.43	
Other equity instrument investment	874,728,633.32	874,728,633.32	
Other non-current financial assets			
Investment property			

Items	31 December 2019	1 January 2020	Adjustment
Fixed assets	7,265,719,146.41	7,265,719,146.41	
Construction in progress	5,479,071,703.01	5,479,071,703.01	
Biological assets held for production			
Oil and gas assets			
Intangible assets	100,681,207.47	100,681,207.47	
Development expenditure			
Goodwill			
Deferred charges	657,569,167.99	657,569,167.99	
Deferred tax assets	1,104,641,386.20	1,104,641,386.20	
Other non-current assets			
Total non-current assets	15,626,512,529.83	15,626,512,529.83	
Total assets	17,394,039,784.71	17,394,039,784.71	
Current liabilities			
Short-term borrowings	300,329,083.33	300,329,083.33	
Held-for-trading financial liabilities	126,264.75	126,264.75	
Derivative financial liabilities			
Notes payable	402,996,891.30	402,996,891.30	
Accounts payable	2,494,426,631.18	2,494,426,631.18	
Advance from customers	935,722,229.11		-935,722,229.11
Employee benefits payable	539,824,147.52	539,824,147.52	
Taxes and fees payable	147,060,509.11	155,958,107.27	8,897,598.16
Other payables	649,376,495.57	649,376,495.57	
Including: Interests payables			
Dividend payables	11,940.00	11,940.00	
Contract liabilities	Not applicable	838,233,988.10	838,233,988.10
Held-for-sale liabilities			
Non-current liabilities due within one year	885,299,947.83	885,299,947.83	
Other current liabilities		61,897,848.38	61,897,848.38
Total current liabilities	6,355,162,199.70	6,328,469,405.23	-26,692,794.47
Non-current liabilities:			
Long-term borrowings	808,001,382.82	808,001,382.82	
Bonds payable			

Items	31 December 2019	1 January 2020	Adjustment
Including: Preference share			
Perpetual capital securities			
Long-term payables	4,623,939,875.40	4,623,939,875.40	
Long-term employee benefits payable	152,746,225.21	152,746,225.21	
Accrued liabilities			
Deferred income	109,423,070.21	109,423,070.21	
Deferred tax liabilities	231,746,231.52	231,746,231.52	
Other non-current liabilities			
Total non-current liabilities	5,925,856,785.16	5,925,856,785.16	
Total liabilities	12,281,018,984.86	12,254,326,190.39	-26,692,794.47
Shareholders' equity			
Share capital	400,000,000.00	400,000,000.00	
Other equity instruments			
Including: Preference shares			
Perpetual capital securities			
Capital reserves	86,911,168.71	86,911,168.71	
Less: Treasury stock			
Other comprehensive income	570,487,739.92	570,487,739.92	
Specific reserves			
Surplus reserves	538,112,740.44	538,112,740.44	
Retained earnings	3,517,509,150.78	3,544,201,945.25	26,692,794.47
Total owners' equity	5,113,020,799.85	5,139,713,594.32	26,692,794.47
Total liabilities and owners' equity	17,394,039,784.71	17,394,039,784.71	

(4) Retrospective Restatement of Previous Comparative Data for the First Adoption of New Financial Instruments Standards

A. Consolidated Financial Statements

Items	December 31 2019	Re-classificati on	Re-measureme nt	1 January 2020
Prepayments	936,873,667.96	-936,873,667.96		
Contract liabilities		874,975,819.58	-35,590,392.63	839,385,426.95
Taxes and fees	149,437,183.71		8,897,598.16	158,334,781.87

payable				
Other current liabilities		61,897,848.38		61,897,848.38
Retained earnings	3,588,847,456.98		26,692,794.47	3,615,540,251.45

B. Financial Statements of Parent Company

Items	December 31 2019	Re-classificati on	Re-measureme nt	1 January 2020
Prepayments	935,722,229.11	-935,722,229.11		
Contract liabilities		873,824,380.73	-35,590,392.63	838,233,988.10
Taxes and fees payable	147,060,509.11		8,897,598.16	155,958,107.27
Other current liabilities		61,897,848.38		61,897,848.38
Retained earnings	3,517,509,150.78		26,692,794.47	3,544,201,945.25

3.29 Correction of Prior Period Errors

There is no significant correction of prior period errors for the Company during the reporting period.

3.30 Significant Account Judgement 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 judgements, 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 the balance sheet date, the followings are the significant areas where the Company needs to make judgement, estimates and assumptions over the value of items in the financial statements:

(1) Classification of Lease

The Company classifies leases as operating lease and finance 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.

(2) Impairment of Financial Assets

The Company uses the expected credit loss model to assess the impairment of financial instruments. The application of the expected credit loss model requires significant judgment and estimation, and all reasonable and evidenced information, including forward-looking information, needs to be considered. In making such judgments and estimates, the Company infers the expected changes in the debtor's credit risk based on historical data combined with economic policies, macroeconomic indicators, industry risks, external market environment, technological environment, and changes in customer circumstances.

(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) 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. If an equity instrument investment or contract has a public offer, the Company does not use cost as the best estimate of its fair value.

(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.

(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.

(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.

(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.

(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.

(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 refers to Note 5.29.

Note 4 TAXATION

4.1 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 and deductible input tax for the period, and the tax rates are 6%, 9%, 13% (Note 2). 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 are 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 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%.

Note 2: As a taxpayer in production and living service industry, from 1 April 2019 to 31 December 2021, the Company can deduct the taxable amount according to the current deductible input tax plus 10% of the current deductible input tax.

4.2 Tax Incentives

4.2.1. 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, Macao, and Taiwan, as well as transportation services provided in Hongkong, Macao, 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》)。

4.2.2. 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), Chongqing Branch of the Company meets the conditions for reduction and exemption in the development of the western region, could enjoy the preferential policy of reducing enterprise income tax by 15% in 2020.

4.2.3. According to the Notice of Civil Aviation Administration of China on Supporting Policies for Actively Coping with COVID-19 (《民航局关于积极应对新冠肺炎疫情有关支持政策的通知》) (CAAC Letter [2020] No. 145), the civil aviation development fund paid by civil aviation enterprises will be temporarily exempted from January 1, 2020.

Note 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the following annotated items (including the annotated major items in the Company's financial statements), unless otherwise indicated, "beginning of the period" refers to 31 December 2019 and "end of the period" refers to 31 December 2020;"Current period" refers to the year 2020 and "Previous period" refers to the year 2019.

5.1 Monetary funds

Item	31 December 2020	31 December 2019
Cash at hand:	225,522.11	285,508.32
Bank deposit:	5,306,248,928.95	598,575,557.37
Other monetary funds		100,000.00
Total	5,306,474,451.06	598,961,065.69
Including: the total amount of deposit abroad	5,411,252.96	8,525,480.55

The monetary funds at the end of the period increased by 785.95% compared with the beginning of the period, mainly because the COVID-19 epidemic has not been completely controlled, and the Company reserved enough monetary funds to deal with liquidity risks.

5.2 Accounts receivable

5.2.1 Disclosure by Age

Age	31 December 2020	31 December 2019
Within 1 year	283,442,317.86	437,769,605.78
1 to 2 years	52,253,563.71	35,123,064.16
2 to 3 years	34,123,063.16	
3 to 4 years		
4 to 5 years		
Over 5 years	3,186,437.70	11,243,647.55
Subtotal	373,005,382.43	484,136,317.49
Less: provision for bad debt	18,653,085.44	27,378,026.89
Total	354,352,296.99	456,758,290.60

5.2.2 Disclosure by Category

① 31 December 2020 (Provision using simple model)

Category	31 December 2020				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Proportion (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment	2,765,908.05	0.74	2,765,908.05	100.00	
Accounts receivable subject to group impairment assessment	370,239,474.38	99.26	15,887,177.39	4.29	354,352,296.99
Total	373,005,382.43	100.00	18,653,085.44	5.00	354,352,296.99

(Continued)

Category	31 December 2019				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Proportion (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment	10,823,117.90	2.24	10,823,117.90	100.00	
Accounts receivable subject to group impairment	473,313,199.59	97.76	16,554,908.99	3.50	456,758,290.60

Category	31 December 2019				Carrying amount
	Book balance		Provision for bad debt		
	Amount	Proportion (%)	Amount	Provision ratio (%)	
assessment					
Total	484,136,317.49	100.00	27,378,026.89	5.66	456,758,290.60

Detailed explanation of provision for bad debt:

② Accounts receivable subject to individual impairment assessment as of 31 December 2020

Category	31 December 2020			Reason
	Book balance	Provision for bad debt	Provision ratio (%)	
Kun Peng Airlines Co., Ltd	1,849,400.00	1,849,400.00	100.00	Impairment upon individual assessment
CRAirways	916,508.05	916,508.05	100.00	Impairment upon individual assessment
Total	2,765,908.05	2,765,908.05	100.00	

③ Accounts receivable subject to group impairment assessment as of 31 December 2020

Category	31 December 2020		
	Book balance	Provision for bad debt	Provision ratio (%)
Amounts due from the clearing center	10,455,297.15		
Amounts due from the aviation association	31,724,360.89		
Amounts due from related parties	10,316,268.77		
Other receivables	317,743,547.57	15,887,177.39	5.00
Total	370,239,474.38	15,887,177.39	4.29

The Company calculate provision of bad debt according to the combination of credit risk characteristics and the expected loss amount.

④ Accounts receivable with individually significant balance and provision for bad debt recognized individually as of 31 December 2019,

Entity name	31 December 2019			
	Book balance	Provision for bad debt	Provision ratio (%)	Reason
Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
Kun Peng Airlines Co., Ltd	1,849,400.00	1,849,400.00	100.00	Impairment upon individual assessment
CRAirways	916,508.05	916,508.05	100.00	Impairment upon individual assessment
Total	10,823,117.90	10,823,117.90	100.00	

⑤Accounts receivable with individually insignificant balance but provision for bad debt recognized individually as of 31 December 2019

Entity name	31 December 2019		
	Book balance	Provision for bad debt	Book balance
Amounts due from the clearing center	42,716,664.57		
Amounts due from the aviation association	93,939,923.14		
Amounts due from related parties	5,558,432.20		
Other receivables	331,098,179.68	16,554,908.99	5.00
Total	473,313,199.59	16,554,908.99	3.50

The Company calculate provision of bad debt according to the combination of credit risk characteristics and the expected loss amount.

5.2.3 Changes of Provision for Bad Debt During the Reporting Period

Category	31 December 2019	Changes of accounting policy	1 January 2020	Changes during the reporting period			31 December 2020
				Provision	Recovery or reversal	Write-off	
Accounts receivable subject to individual impairment assessment	10,823,117.90		10,823,117.90			8,057,209.85	2,765,908.05
Accounts receivable	16,554,908.99		16,554,908.99		667,731.60		15,887,177.39

Category	31 December 2019	Changes of accounting policy	1 January 2020	Changes during the reporting period			31 December 2020
				Provision	Recovery or reversal	Write-off	
subject to impairment assessment by group							
Total	27,378,026.89		27,378,026.89		667,731.60	8,057,209.85	18,653,085.44

5.2.4 Actual accounts receivable written off by the Company in the current period are as follows:

Entity name	Opening balance	Write-off	Closing balance	Reason
Debtor #1	8,057,209.85	8,057,209.85		The person subjected to execution has no property for execution
Total	8,057,209.85	8,057,209.85		

5.2.5 According to the ending balance collected by the debtor, the summary amount of the top five accounts receivable is CNY 143,951,274.02, accounting for 38.59% of the total ending balance of accounts receivable, and the corresponding summary amount of the ending balance of bad debt provision is CNY 7,197,563.70. The Company has no receivables terminated due to the transfer of financial assets.

5.2.6 The Company has no assets or liabilities arising from continuing involvement in transferred accounts receivable.

5.3 Prepayments

5.3.1 Disclosure by Age

Age	31 December 2020		31 December 2019	
	Amount	%	Amount	%
Within 1 year	213,189,480.25	99.84	231,299,824.20	99.67
1 to 2 years	151,385.03	0.07	269,211.97	0.12
2 to 3 years	120,000.00	0.06		
Over 3 years	70,000.00	0.03	492,443.61	0.21
Total	213,530,865.28	100.00	232,061,479.78	100.00

The Company has no prepayments with an age of over 1 year and significant amounts.

5.3.2 The total amount of the top five prepayments of the company is CNY 74,262,774.32,

accounting for 34.78% of the total ending balance of prepayments.

5.4 Other receivables

5.4.1 Other Receivables by Category

Items	31 December 2020	31 December 2019
Interest receivable		
Dividend receivable		
Other receivables	159,397,943.13	232,147,324.23
Total	159,397,943.13	232,147,324.23

5.4.2 Other Receivables

① Other receivables by age

Age	31 December 2020	31 December 2019
Within one year	129,289,406.75	205,811,193.91
1-2 years	5,366,941.18	13,480,887.91
2-3 years	12,340,149.83	5,048,559.92
3-4 years	4,004,091.99	870,414.71
4-5 years	803,055.01	4,254,714.36
Over 5 years	113,073,237.70	110,881,143.58
Subtotal	264,876,882.46	340,346,914.39
Less: provision for bad debt	105,478,939.33	108,199,590.16
Total	159,397,943.13	232,147,324.23

② Other receivables by nature

Nature	31 December 2020	31 December 2019
Deposits receivable	63,646,894.09	87,059,915.18
Amounts due from related parties	122,685,554.68	120,329,549.24
Other receivables	78,544,433.69	132,957,449.97
Subtotal	264,876,882.46	340,346,914.39
Less: provision for bad debt	105,478,939.33	108,199,590.16
Total	159,397,943.13	232,147,324.23

③ Other receivables by bad debt provision method

A. Provision for bad debts recognized based on three stages model as of 31 December 2020 is as follows:

Provision for bad debt in the first stage as of 31 December 2020:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually					
Provision for bad debt recognized collectively	163,325,164.81	2.40	3,927,221.68	159,397,943.13	
Including: Deposits receivable	63,646,894.09			63,646,894.09	No significant increase on credit risk
Amounts due from related parties	21,133,837.03			21,133,837.03	No significant increase on credit risk
Other receivables	78,544,433.69	5.00	3,927,221.68	74,617,212.01	No significant increase on credit risk
Total	163,325,164.81	2.40	3,927,221.68	159,397,943.13	

As of 31 December 2020, the Company have no interest receivable, dividends receivable and other receivables recognized in the second Stage.

Provision for bad debt in the third stage as of 31 December 2020:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually	101,551,717.65	100.00	101,551,717.65		
Shandong Rainbow Commercial Jet Co., Ltd	101,551,717.65	100.00	101,551,717.65		Credit impairment has occurred
Total	101,551,717.65	100.00	101,551,717.65		

B. Provision for bad debt using incurred loss model as of 31 December 2019:

Provision for bad debt in the first stage as of 31 December 2019:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt					

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
recognized individually					
Provision for bad debt recognized collectively	238,795,196.74	2.78	6,647,872.51	232,147,324.23	
Including: Deposits receivable	87,059,915.18			87,059,915.18	No significant increase on credit risk
Amounts due from related parties	18,777,831.59			18,777,831.59	No significant increase on credit risk
Other receivables	132,957,449.97	5.00	6,647,872.51	126,309,577.46	No significant increase on credit risk
Total	238,795,196.74	2.78	6,647,872.51	232,147,324.23	

As of 31 December 2019, the Company have no interest receivable, dividends receivable and other receivables recognized in the second Stage.

Provision for bad debt in the third stage as of 31 December 2019:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually	101,551,717.65	100.00	101,551,717.65		
Shandong Rainbow Commercial Jet Co., Ltd	101,551,717.65	100.00	101,551,717.65		Credit impairment has occurred
Total	101,551,717.65	100.00	101,551,717.65		

④ Changes of provision for bad debt during the reporting period

Category	31 December 2019	Changes during the reporting period			31 December 2019
		Provision	Recovery or reversal	Write-off	
Other receivables of individual significance and	101,551,717.65				101,551,717.65

Category	31 December 2019	Changes during the reporting period			31 December 2019
		Provision	Recovery or reversal	Write-off	
subject to individual impairment assessment					
Other receivables subject to impairment assessment by credit risk characteristics of a group	6,647,872.51		2,720,650.83		3,927,221.68
Total	108,199,590.16		2,720,650.83		105,478,939.33

⑤ There are no written off to other receivables during the reporting period.

⑥ Top five closing balances by entity

Entity name	Nature	Balance at 31 December 2020	Age	Proportion of the balance to the total other receivables (%)	Provision for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Related party	101,551,717.65	Over 5 years	38.34	101,551,717.65
Debtor #1	Deposits	30,685,981.57	Within 2 year	11.58	
Debtor #2	Others	27,297,543.26	Within 1 year	10.31	1,364,877.16
Shandong Air New Media Co., Ltd.	Related party	13,212,795.39	Within 1 year	4.99	
Debtor #3	Others	11,284,362.57	Within 1 year	4.26	564,218.13
Total		184,032,400.44		69.48	103,480,812.94

⑦ The Company has no other receivables relating to government grants.

⑧ The Company has no other receivables relating to derecognition of other receivables for transfer of financial assets.

⑨ The Company has no assets or liabilities arising from continuing involvement in transferred other receivables.

5.4.3 Other receivables at the end of the period were 31.34% lower than those at the beginning of the period, mainly due to the collection of customs deposits and the use of supplier discounts.

5.5 Inventories

5.5.1 Inventories by Category

Items	31 December 2020			31 December 2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Consumable air equipment	109,543,973.05	4,227,205.99	105,316,767.06	107,636,197.57	4,227,205.99	103,408,991.58
Low-value consumables	2,325,185.14		2,325,185.14	3,144,185.37		3,144,185.37
Materials	2,930,447.30		2,930,447.30	2,882,079.74		2,882,079.74
Total	114,799,605.49	4,227,205.99	110,572,399.50	113,662,462.68	4,227,205.99	109,435,256.69

5.5.2 Provision for Impairment

Items	31 December 2019	Increase during the reporting period		Decrease during the reporting period		31 December 2020
		Provision	Others	Reversal or written-down	Others	
Consumable air equipment	4,227,205.99					4,227,205.99
Total	4,227,205.99					4,227,205.99

5.6 Other current assets

Items	31 December 2020	31 December 2019
VAT deductible	282,572,739.73	170,020,416.07
Total	282,572,739.73	170,020,416.07

Other current assets at the end of the period increased by 66.20% compared with the beginning of the period, mainly due to the decrease in output tax resulted from the decrease in current income.

5.7 Long-term equity investment

Investees	31 December	Provision b/f	Changes in the current period (+, -)
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	2019				Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Air New Media Co., Ltd.	22,500,000.00	22,500,000.00					
Total	22,500,000.00	22,500,000.00					

(Continued)

Investees	Changes in the current period (+, -)			31 December 2020	Provision as at 31 December 2020
	Declared cash dividends or profits	Provision recognized	Others		
Associates					
Shandong Air New Media Co., Ltd.				22,500,000.00	22,500,000.00
Total				22,500,000.00	22,500,000.00

5.8 Other equity instrument investment

5.8.1 General Information of Other Equity Instrument Investment

Items	31 December 2020	31 December 2019
Non-trading equity instrument investment	541,789,406.63	874,728,633.32
Total	541,789,406.63	874,728,633.32

5.8.2 General Information of Non-Trading Equity Instrument Investment

Item	Dividend income in current period	Cumulative gain	Cumulative loss	Other comprehensive income transferred into retained earnings	Reasons for being measured at fair value and its changes are included in other comprehensive income	Reasons for other comprehensive income transferred into retained earnings
TravelSky Technology Limited	3,770,149.50	198,628,793.39			Non-trading financial assets	

Item	Dividend income in current period	Cumulative gain	Cumulative loss	Other comprehensive income transferred into retained earnings	Reasons for being measured at fair value and its changes are included in other comprehensive income	Reasons for other comprehensive income transferred into retained earnings
Sichuan Airlines		246,461,970.61			Non-trading financial assets	
Jinan International Airport	249,541.09	8,346,542.63			Non-trading financial assets	
Total	4,019,690.59	453,437,306.63				

5.8.3 Investment in other equity instruments at the end of the period was 38.06% lower than that at the beginning of the period, mainly due to the decline in the fair value of non-tradable equity instruments

5.9 Fixed assets

5.9.1 Fixed Assets by Category

Items	31 December 2020	31 December 2019
Fixed assets	6,904,082,012.35	7,362,687,431.80
Disposal of fixed assets		
Total	6,904,082,012.35	7,362,687,431.80

5.9.2 Fixed Assets

① General information of fixed assets

Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1. Cost:						
1.1 Balance as at 31 December 2019	571,848,400.29	12,255,970,191.94	729,536,676.94	78,651,864.68	238,776,353.69	13,874,783,487.54
1.2 Increased in current period	452,276.59	293,066,263.32	41,654,953.50	5,661,466.70	4,887,216.49	345,722,176.60
(1) Purchase	452,276.59	269,753,057.18	41,654,953.50	5,661,466.70	4,887,216.49	322,408,970.46
(2) Transferred from construction-in-progress		23,313,206.14				23,313,206.14
(3) Transferred from merger and acquisitions						
(4) Others						
1.3 Decreased in current period	47,530.00	169,748,029.59	6,261,261.13	10,398,523.59	3,608,689.39	190,064,033.70
(1) Disposal or scrap	47,530.00	169,748,029.59	6,261,261.13	10,398,523.59	3,608,689.39	190,064,033.70
(2) Others						
1.4. Balance as at 31 December 2020	572,253,146.88	12,379,288,425.67	764,930,369.31	73,914,807.79	240,054,880.79	14,030,441,630.44
2. Accumulated depreciation						
2.1 Balance as at 31 December 2019	132,056,909.46	5,906,532,292.82	279,229,046.49	51,589,634.91	140,490,349.13	6,509,898,232.81
2.2 Increased in current period	18,067,476.26	608,722,576.68	143,568,613.35	5,758,334.98	20,821,225.20	796,938,226.47
(1) Accrual	18,067,476.26	608,722,576.68	143,568,613.35	5,758,334.98	20,821,225.20	796,938,226.47
(2) Transferred from merger and acquisitions						
2.3 Decreased in current period	47,530.00	169,748,029.34	575,709.50	8,974,879.15	3,328,516.13	182,674,664.12

Category	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(1) Disposal or scrap	47,530.00	169,748,029.34	575,709.50	8,974,879.15	3,328,516.13	182,674,664.12
(2) Others						
2.4 Balance as at 31 December 2020	150,076,855.72	6,345,506,840.16	422,221,950.34	48,373,090.74	157,983,058.20	7,124,161,795.16
3. Impairment provision						
3.1 Balance as at 31 December 2019			2,197,822.93			2,197,822.93
3.2 Increased in current period						
(1) Accrual						
(2) Transferred from merger and acquisitions						
3.3 Decreased in current period						
(1) Disposal or scrap						
(2) Others						
3.4 Balance as at 31 December 2019			2,197,822.93			2,197,822.93
4 Carrying amount of fixed assets						
4.1 Carrying amount as at 31 December 2020	422,176,291.16	6,033,781,585.51	340,510,596.04	25,541,717.05	82,071,822.59	6,904,082,012.35
4.2 Carrying amount as at 31 December 2019	439,791,490.83	6,349,437,899.12	448,109,807.52	27,062,229.77	98,286,004.56	7,362,687,431.80

② Fixed assets acquired under finance leases

Item	Initial cost	Accumulated depreciation	Provision for impairment	Carrying amount
Aircrafts and engines	3,688,854,696.25	1,653,632,661.54		2,035,222,034.71
Total	3,688,854,696.25	1,653,632,661.54		2,035,222,034.71

③ Fixed assets leased out under operating leases.

Item	Carrying value as at 31 December 2020
Yantai operation comprehensive building	18,550,057.33
Total	18,550,057.33

④ Fixed assets without certificate of title

Items	Carrying amount	Reason
Jinan cargo arrival and departure warehouses	10,999,629.21	Land rented from Jinan Air Control, not eligible for ownership registration
Buildings of Jinping Food Co., Ltd.	10,281,404.97	Land use rights belonging to Shandong SDA Group, not eligible for ownership registration

5.10 Construction in progress

5.10.1 Construction in Progress by Category

Items	31 December 2020	31 December 2019
Construction in progress	5,770,696,951.56	5,479,071,703.01
Construction material		
Total	5,770,696,951.56	5,479,071,703.01

5.10.2 Construction in Progress

① General Information of Construction in Progress

Items	31 December 2020			31 December 2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Factory building project	920,262,448.04		920,262,448.04	643,681,520.42		643,681,520.42
Prepayment for aircrafts introduction project	4,845,805,623.68		4,845,805,623.68	4,828,576,000.04		4,828,576,000.04
Construction of information system	706,911.96		706,911.96	2,892,214.67		2,892,214.67
Simulator	3,921,967.88		3,921,967.88	3,921,967.88		3,921,967.88
Total	5,770,696,951.56		5,770,696,951.56	5,479,071,703.01		5,479,071,703.01

② Changes in significant projects of construction in progress

Projects	Budget	31 December 2018	Increase during the reporting period	Transfer to fixed asset	Decrease during the reporting period	31 December 2020
Jiaodong airport project	970,526,720.00	640,090,970.85	267,727,218.55			907,818,189.40
Aircraft asset introduction project	9,937,456,340.04	4,828,576,000.04	17,229,623.64			4,845,805,623.68
Total	10,907,983,060.04	5,468,666,970.89	284,956,842.19			5,753,623,813.08

(Continued)

Items	Weight of cost to date in budgeted cost	Stage of completion	Cumulative cost of borrowing capitalized	Including: Transferred into leaseback assets during the current year	Including: Transferred into fixed assets during the current year	Including: cost of borrowing capitalized during the current year	Capitalisation rate applicable to the current year	Source of finance
Jiaodong airport project	93.54	Not yet completed						Working capital
Aircraft asset introduction project	48.76	Not applicable	134,270,401.12			-606,276.27	1.7745-4.2750	Loans from financial institution
Total			134,270,401.12			-606,276.27		

5.11 Intangible assets

5.11.1 General Information of Intangible Assets

Items	Land rights	Software	Total
1. Cost:			
1.1 Balance as at 31 December 2019	108,347,341.13	53,292,238.70	161,639,579.83
1.2 Increased in current year		16,885,716.04	16,885,716.04
(1) Purchase			
(2) Diversion of construction		16,885,716.04	16,885,716.04
(3) Increased from business combination			
1.3 Decreased in current year			
(1) Disposal			
1.4 Balance as at 31 December 2020	108,347,341.13	70,177,954.74	178,525,295.87
2. Accumulated amortization			
2.1 Balance as at 31 December 2019	20,795,558.15	27,384,892.06	48,180,450.21
2.2 Increased in current year	2,403,582.86	9,241,282.47	11,644,865.33
(1) Accrual	2,403,582.86	9,241,282.47	11,644,865.33
2.3 Decreased in current year			
(1) Disposal			
2.4 Balance as at 31 December 2020	23,199,141.01	36,626,174.53	59,825,315.54
3. Impairment provision			
3.1 Balance as at 31 December 2019			
3.2 Increased in current year			
(1) Accrual			
3.3 Decreased in current year			
(1) Disposal			
3.4 Balance as at 31 December 2020			
4. Carrying amount			
4.1 Carrying amount as at 31 December 2020	85,148,200.12	33,551,780.21	118,699,980.33
4.2 Carrying amount as at 31 December 2019	87,551,782.98	25,907,346.64	113,459,129.62

5.11.2 The Company has no intangible assets arising from internal research and development project as at the end of reporting period.

5.11.3 The Company has no land use rights without certificate of title as at the end of reporting period.

5.12 Goodwill

5.12.1 Initial Recognition of Goodwill

Investees or matters that goodwill arising from	31 December 2019	Increase during the reporting period		Decrease during the reporting period		31 December 2020
		Business combination	Others	Disposal	Others	
Qingdao Feisheng	10,220,816.22					10,220,816.22
Shandong Jinping Food Co., Ltd.	454,020.13					454,020.13
Total	10,674,836.35					10,674,836.35

5.12.2 Provision for Impairment

Investees or matters that goodwill arising from	31 December 2019	Increase during the reporting period		Decrease during the reporting period		31 December 2020
		Provision	Others	Disposal	Others	
Qingdao Feisheng	10,220,816.22					10,220,816.22
Total	10,220,816.22					10,220,816.22

5.13 Deferred charges

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period		31 December 2020
			Amortization	Other decrease	
Pilot training	628,796,231.56	97,992,861.03	106,387,739.80		620,401,352.79
Decoration expenditure	3,283,501.74		2,876,224.54		407,277.20
Modification costs for aircraft leasing	25,692,850.51		4,718,902.07		20,973,948.44
Total	657,772,583.81	97,992,861.03	113,982,866.41		641,782,578.43

5.14 Deferred tax assets and deferred tax liabilities

5.14.1 Deferred Tax Assets Before Offsetting

Items	31 December 2020		31 December 2019	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for bad debt	124,132,024.77	31,033,006.20	135,577,617.05	33,894,404.26
Impairment provision for inventories	4,227,205.99	1,056,801.50	4,227,205.99	1,056,801.50

Items	31 December 2020		31 December 2019	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Impairment provision for fixed assets	2,197,822.93	549,455.73	2,197,822.93	549,455.73
Fair value movement of financial liabilities held for trading	862,955.67	215,738.92	126,264.75	31,566.19
Provisions	5,022,551,127.92	1,255,637,781.98	4,234,796,893.54	1,058,699,223.39
Employment benefits payable	39,140,304.16	9,785,076.04	22,851,931.68	5,712,982.92
Deferred income	19,074,728.93	4,768,682.23	21,736,870.97	5,434,217.74
Deductible losses	2,784,211,785.04	696,052,946.27		
Total	7,996,397,955.41	1,999,099,488.87	4,421,514,606.91	1,105,378,651.73

5.14.2 Deferred Tax Liabilities Before Offsetting

Items	31 December 2020		31 December 2019	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Asset evaluation increment from Enterprise merger under the different control	3,651,419.57	912,854.89	4,173,050.93	1,043,262.73
Changes in fair value of other equity instruments investment	453,437,306.63	113,359,326.66	786,376,533.32	196,594,133.33
Others (Note)	175,462,289.43	43,865,572.36	140,608,392.76	35,152,098.19
Total	632,551,015.63	158,137,753.91	931,157,977.01	232,789,494.25

Note: According to Caishui [2018] No. 54, the equipment and equipment newly purchased by the Company from January 1 2018 to December 31 2020, with a unit value of less than 5 million yuan, are allowed to be included in the current profit and loss. The cost is deducted when calculating the taxable income.

5.14.3 Deferred income tax assets at the end of the period increased by 80.85% compared

with the beginning of the period, mainly due to the increase in deferred income tax assets on loss carryforward at the end of the period. Deferred income tax liabilities at the end of the period decreased by 32.07% compared with the beginning of the period, mainly due to the decline in the fair value of non-tradable equity instrument investment

5.15 Short-term borrowings

5.15.1 Disclosure of Short-Term Borrowings by Category

Items	31 December 2020	31 December 2019
Credit loan	2,001,111,111.11	300,329,083.33
Total	2,001,111,111.11	300,329,083.33

5.15.2 The Company has no overdue short-term borrowings.

5.15.3 Short-term borrowings at the end of the period increased by 566.31% compared with those at the beginning of the period, mainly due to the fact that the epidemic has not been completely controlled in the current period, the company increased short-term borrowings to reduce liquidity risks.

5.16 Held-for-trading financial liabilities

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
Financial liabilities designated at fair value through profit or loss	126,264.75	736,690.92		862,955.67
Including: Interest rate swaps	126,264.75	736,690.92		862,955.67
Total	126,264.75	736,690.92		862,955.67

5.17 Notes payable

Category	31 December 2020	31 December 2019
Bank acceptance bills	49,605,767.94	8,500,000.00
Commercial acceptance bills	422,489,235.30	394,496,891.30
Total	472,095,003.24	402,996,891.30

The Company has no notes payable matured but not yet paid as at the reporting date.

5.18 Accounts payable

5.18.1 Accounts Payable by Nature

Items	31 December 2020	31 December 2019
Aircraft maintenance costs	492,193,935.93	689,822,992.66

Items	31 December 2020	31 December 2019
Fuel cost	197,183,769.59	253,885,753.63
Landing fee	478,496,820.67	465,517,353.92
Aircraft service cost	549,082,156.02	504,230,134.03
Flight catering	125,530,208.70	91,996,252.04
Computer booking fee	325,614,566.13	261,849,848.30
Lease rental	96,262,308.48	7,552,869.30
Others	278,955,534.79	207,393,310.63
Total	2,543,319,300.31	2,482,248,514.51

5.18.2 Significant Accounts Payable with Age of Over One Year

Items	31 December 2020	Reason
Computer booking fee	231,013,865.07	No payment due
Total	231,013,865.07	

5.19 Advance from customers

5.19.1 Details of Advance from Customers

Items	31 December 2020	31 December 2019
Ticket clearing		918,437,701.34
Advanced payment for tickets		4,180,237.06
Others		14,255,729.56
Total		936,873,667.96

5.20 Contract liabilities

Items	31 December 2020	31 December 2019
Ticket clearing	314,216,701.60	—
Advanced payment for tickets	99,366,787.75	—
Others	31,817,311.84	—
Total	445,400,801.19	—

The Company has no significant contract liabilities with aging of over one year as at the reporting date.

5.21 Employee benefits payable

5.21.1 Details of Employee Benefits Payable

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
1. Short-term employee benefits	549,061,919.97	2,440,661,193.89	2,643,484,158.49	346,238,955.37

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
2. Post-employment benefits – defined contribution plans		307,817,213.97	307,817,213.97	
3. Termination benefits		624,614.85	624,614.85	
4. Other long-term employee benefits within one year				
Total	549,061,919.97	2,749,103,022.71	2,951,925,987.31	346,238,955.37

5.21.2 Short-Term Employee Benefits

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
1. Wages, salaries and subsidies	491,371,818.04	2,120,573,034.50	2,305,109,120.96	306,835,731.58
2. Employee welfare		24,131,895.37	24,131,895.37	
3. Social insurance:		117,503,178.19	117,503,178.19	
Including: Medical insurance		105,365,661.78	105,365,661.78	
Employment injury insurance		3,491,066.24	3,491,066.24	
Maternity insurance		8,646,450.17	8,646,450.17	
4. Housing provident fund		114,864,413.76	114,864,413.76	
5. Labour union fee and employee education fee	23,020,993.78	63,588,672.07	47,206,442.06	39,403,223.79
6. Short-term paid absences	34,669,108.15		34,669,108.15	
7. Short-term profit-sharing plan				
Total	549,061,919.97	2,440,661,193.89	2,643,484,158.49	346,238,955.37

5.21.3 Defined Contribution Plans

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
Post-employment benefits:				
1. Basic pension		149,252,278.72	149,252,278.72	
2. Unemployment insurance		6,375,777.13	6,375,777.13	
3. Annuity payment		152,189,158.12	152,189,158.12	
Total		307,817,213.97	307,817,213.97	

5.21.4 The employee compensation payable at the end of the period was reduced by 36.94%

compared with that at the beginning of the period, mainly due to the reduction of year-end bonus resulted from the decline in performance of the current period.

5.22 Taxes and fees payable

Items	31 December 2020	31 December 2019
VAT	1,476,083.36	1,457,921.43
Urban construction and maintenance tax	160,601.55	214,935.06
Education surcharge	118,517.68	151,647.82
Enterprise income tax	944,983.82	18,719,845.92
Property tax	172,992.36	169,094.44
Land tax	179,311.20	89,655.60
Personal income tax	9,353,560.27	11,458,059.11
Stamp duty	1,380,000.00	991,505.53
Civil aviation development fund	88,404,867.39	116,161,969.13
Others	15,559.86	22,549.67
Total	102,206,477.49	149,437,183.71

The tax payable at the end of the period was 31.61% lower than that at the beginning of the period, mainly due to the decrease in corporate income tax payable and Civil aviation development fund.

5.23 Other payables

5.23.1 Other Payables by Category

Items	31 December 2020	31 December 2019
Interests payable		
Dividends payable	602,306.96	602,306.96
Other payables	635,263,654.66	585,541,152.70
Total	635,865,961.62	586,143,459.66

5.23.2 Dividends Payable

Items	31 December 2020	31 December 2019
Dividend on common shares	602,306.96	602,306.96
Total	602,306.96	602,306.96

The Company has no significant dividends payable over one year as at the reporting date.

5.23.3 Other Payables

① Other Payables by Nature

Items	31 December 2020	31 December 2019
Payables for construction projects	225,955,475.65	172,005,523.84
Payables for construction projects	180,641,018.52	146,354,708.31
Taxes deducted at source	70,763,959.51	122,250,153.03
Others	157,903,200.98	144,930,767.52
Total	635,263,654.66	585,541,152.70

②The Company has no other payables with a significant amount and an age of more than one year as at the reporting date.

5.24 Non-current liabilities due within one year

Items	31 December 2020	31 December 2019
Long-term borrowings due within one year	103,186,354.59	567,350,817.16
Bond payables due within one year	20,514,722.25	
Long-term payables due within one year	181,264,490.05	307,786,130.67
Long-term employee benefits payable due within one year	16,612,000.00	10,163,000.00
Total	321,577,566.89	885,299,947.83

Non-current liabilities due within one year at the end of the period decreased by 63.68% from the beginning of the period, mainly due to the repayment of long-term borrowings due within one year and long-term payables.

5.25 Other current liabilities

Items	31 December 2020	31 December 2019
VAT to be recognised	31,100,597.66	
Total	31,100,597.66	

5.26 Long-term borrowings

5.26.1 Long-Term Borrowings by Category

Items	31 December 2020	31 December 2019	Range of interest rates
Secured loans	464,796,466.93	811,423,255.68	0.9585%-3.3463%
Credit loans	5,755,824,786.98	563,928,944.30	3.250%-4.275%
Subtotal	6,220,621,253.91	1,375,352,199.98	

Items	31 December 2020	31 December 2019	Range of interest rates
Less: Long-term borrowings due within one year (Note 5.24)	103,186,354.59	567,350,817.16	
Total	6,117,434,899.32	808,001,382.82	

Long-term borrowings at the end of the period increased by 657.11% compared with those at the beginning of the period, mainly due to the fact that the COVID-19 has not been completely controlled in the current period, and the Company increased long-term borrowings to reduce liquidity risks.

5.27 Bonds payable

5.27.1 Bonds Payable by Category

Items	31 December 2020	31 December 2019
Medium-term notes	1,020,514,722.25	
Subtotal	1,020,514,722.25	
Less: Bonds payable due within one year (Note 5.24)	20,514,722.25	
Total	1,000,000,000.00	

5.27.2 Changes in increase or decrease of bonds payable

Bond name	Face value	Issue date	Maturity of bond	Issue price	31 December 2019
20 Shandong Airlines MTN001	1,000,000,000.00	2020/4/22	3years	1,000,000,000.00	
Total	1,000,000,000.00			1,000,000,000.00	

(Continued)

Bond name	Issued this period	Interest accrued at face value	Amortization of excess discount	Payback this period	31 December 2020
20 Shandong Airlines MTN001	1,000,000,000.00	20,514,722.25			1,020,514,722.25
Total	1,000,000,000.00	20,514,722.25			1,020,514,722.25

5.28 Long-term payables

5.28.1 Long-Term Payables by Category

Items	31 December 2020	31 December 2019
Long-term payables	5,976,812,441.61	5,621,548,998.73
Specific payables		
Subtotal	5,976,812,441.61	5,621,548,998.73

Items	31 December 2020	31 December 2019
Less: Long-term payables due within one year (Note 5.24)	673,458,425.98	997,609,123.33
Total	5,303,354,015.63	4,623,939,875.40

5.28.2 Long-Term Payables by Nature

Items	31 December 2020	31 December 2019
Financial lease rental payables	1,229,499,938.87	1,558,752,105.19
Maintenance payables for aircrafts and engines held under operating lease	4,747,312,502.74	4,062,796,893.54
Subtotal	5,976,812,441.61	5,621,548,998.73
Less: Financial lease rental payables due within one year (Note 5.24)	181,264,490.05	307,786,130.67
Less: Maintenance payables for aircrafts and engines held under operating lease due within one year (Note 1)	492,193,935.93	689,822,992.66
Total	5,303,354,015.63	4,623,939,875.40

Note 1: Maintenance payables for aircrafts and engines held under operating lease due within one year had been included in accounts payable.

5.29 Long-term employee benefits payable

5.29.1 General Information of Long-Term Employee Benefits Payable

Items	31 December 2020	31 December 2019
1. Post-employment benefits-net defined benefit liability	270,637,000.00	162,909,225.21
Less: long-term staff remuneration payable due within one year (Note 5.24)	16,612,000.00	10,163,000.00
Total-	254,025,000.00	152,746,225.21

5.29.2 Changes in Defined Benefit Plans

Present value of the defined benefit obligation:

Items	31 December 2020	31 December 2019
1. Balance at the beginning of the reporting period	162,909,225.21	144,434,119.11
2. Cost recognized in current profit or loss:	120,860,000.00	26,706,000.00
2.1 Current service cost		
2.2 Past service cost	115,723,000.00	22,161,000.00
2.3 Gains /(losses) on settlement (loss presented with "-" prefix)		
2.4 Net interest	5,137,000.00	4,545,000.00
3. Cost recognized in other comprehensive income:	1,769,000.00	-1,727,000.00
3.1 Actuarial gains /(losses) (loss presented with "-" prefix)	1,769,000.00	-1,727,000.00

Items	31 December 2020	31 December 2019
4. Other changes:	11,363,225.21	9,957,893.90
4.1 Consideration paid in settlements		
4.2 Payment of benefits	11,363,225.21	9,957,893.90
5. Balance at the end of the reporting period	270,637,000.00	162,909,225.21

5.29.3 Significant Actuarial Assumptions of Defined Benefit Plans

Items	31 December 2020	31 December 2019
Discount Rate	3.25%	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 Dependents	0.00%	

Long-term employee compensation payable at the end of the period increased by 66.31% compared with that at the beginning of the period, mainly due to the increase in the number of retirees and the range of benefits during the period.

5.30 Deferred income

5.30.1 General Information of Deferred Income

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020	Reason
Unrealized gains and losses of operating lease from aircraft leaseback	87,686,199.24		6,247,117.80	81,439,081.44	The aircraft sale-leaseback disposal profits and losses
Designated subsidy for civil aviation energy-saving program	9,899,565.28		976,500.12	8,923,065.16	Asset related subsidies
Designated subsidy for HUD and repackage project	11,837,305.69		1,685,641.92	10,151,663.77	Asset related subsidies
Total	109,423,070.21		8,909,259.84	100,513,810.37	

5.30.2 Items Related to Government Grants

Items	31 December 2019	Increase during the reporting period	Recognized in non-operating income during the reporting period	Recognized in other income during the reporting period	Other changes	31 December 2020	Related to assets/Related to profit or loss
Designated subsidy for civil aviation energy-saving program	9,899,565.28			976,500.12		8,923,065.16	Asset related subsidies
Designated subsidy for HUD and repackaging project	11,837,305.69			1,685,641.92		10,151,663.77	Asset related subsidies
Total	21,736,870.97			2,662,142.04		19,074,728.93	

5.31 Share capital

Item	31 December 2019	Changes during the reporting period (+, -)					31 December 3030
		New issues	Bonus issues	Capitalisation of reserves	Others	Subtotal	
Number of total shares	400,000,000.00						400,000,000.00

5.32 Capital reserves

Items	31 December 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
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

5.33 Other comprehensive income

Items	31 December 2019	Changes of accounting policy	1 January 2020	Changes during the reporting period					31 December 2019
				Amount before tax	Less: Items previously recognized in other comprehensive income being reclassified to current profit or loss	Less: Income tax expenses	Attributable to owners of the Company	Attributable to minority interests	
1. Other comprehensive income that cannot be reclassified into profit or loss	570,487,739.92		570,487,739.92	-331,170,226.69		-83,234,806.67	-247,935,420.02		322,552,319.90
Including: remeasurement of net assets or net liabilities of defined benefit plans	-19,294,660.07		-19,294,660.07	1,769,000.00			1,769,000.00		-17,525,660.07
Fair value change of the equity instruments	589,782,399.99		589,782,399.99	-332,939,226.69		-83,234,806.67	-249,704,420.02		340,077,979.97
Total of other comprehensive income	570,487,739.92		570,487,739.92	-331,170,226.69		-83,234,806.67	-247,935,420.02		322,552,319.90

Other comprehensive income at the end of period was 43.46% lower than at the beginning of the period, mainly due to a decline in the fair value of investments held in non-tradable equity instruments.

5.34 Surplus reserves

Items	31 December 2019	Changes of accounting policy	1 January 2019	Increase during the reporting period	Decrease during the reporting period	31 December 2020
Statutory surplus reserve	538,773,444.97		538,773,444.97			538,773,444.97
Total	538,773,444.97		538,773,444.97			538,773,444.97

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.

5.35 Retained earnings

Items	2020	2019
Pre-adjustment balance brought forward	3,588,847,456.98	3,342,615,148.06
Total adjustment to retained earnings b/f (+, -)	26,692,794.47	
Retained earnings b/f after adjustment	3,615,540,251.45	3,342,615,148.06
Add: Net profit attributable to shareholders of the parent	-2,382,015,455.81	361,005,776.31
Less: Appropriation to statutory surplus reserve		34,773,467.39
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared		80,000,000.00
Bonus issue		
Closing balance as of 31 December 2020	1,233,524,795.64	3,588,847,456.98

The retained earnings at the end of the period decreased by 65.63% compared with the beginning of the period, mainly due to the impact of COVID-19, the Company suffered a substantial loss in the current period.

5.36 Operating revenues and operating costs

Items	2020		2019	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal activities	9,881,777,998.48	12,550,178,248.90	18,305,340,983.17	17,191,495,691.30
Other activities	652,625,352.39	4,721,867.19	685,074,041.71	7,031,717.00
Total	10,534,403,350.87	12,554,900,116.09	18,990,415,024.88	17,198,527,408.30

Operating revenue in the current period decreased by 44.53% compared with the previous period, and operating costs in the current period decreased by 27.00% compared with the

previous period, mainly due to the impact of COVID-19.

5.37 Tax and surcharges

Items	2020	2019
Urban maintenance and construction tax	1,646,287.30	3,732,107.23
Education surcharge and others	8,832,777.47	11,834,077.09
Total	10,479,064.77	15,566,184.32

The tax and surcharge of the current period decreased by 32.68% compared with the previous period, mainly due to the decrease of the actual payment of VAT in the current period, and the corresponding decrease of the surcharge.

5.38 Sales expenses

Items	2020	2019
Agency fees	138,402,370.07	230,584,259.38
Employment benefits	238,062,702.66	243,608,478.56
Computer booking fees	101,239,667.49	203,336,534.34
Online payment fees	22,746,819.32	39,163,326.74
Lease rental	20,950,099.16	21,060,731.55
Advertisement fees	12,139,670.83	23,977,435.60
Administrative office expenses	5,935,784.08	3,438,623.62
Travel expenses	3,768,427.11	6,781,596.05
System and network fees	39,289,807.51	31,644,027.06
BSP data processing fees	3,193,912.84	12,391,871.26
Depreciation	1,521,642.25	1,488,505.62
Others	26,660,072.21	34,307,689.05
Total	613,910,975.53	851,783,078.83

5.39 General and administrative expenses

Items	2020	2019
Employment benefits	325,886,133.31	278,063,116.02
Lease rental fees	27,737,933.24	26,558,484.48
Business entertainment costs	2,235,917.06	5,754,251.60
Depreciation	21,093,013.51	21,622,225.50
Administrative office expenses	11,545,974.78	11,811,000.12
Technology development costs		1,574,714.11
Amortization of intangibles	11,644,865.33	9,181,377.57
Water, electricity charges	10,576,962.96	11,740,503.56

Items	2020	2019
Outsourcing fees	34,055,410.64	30,210,462.91
Others	48,864,546.54	86,167,923.36
Total	493,640,757.37	482,684,059.23

5.40 Research and development expenses

Items	2020	2019
Employment benefits	22,514,111.50	22,084,483.33
Others	352,178.48	358,066.34
Total	22,866,289.98	22,442,549.67

5.41 Financial costs

Items	2020	2019
Interest expenses	230,831,883.77	124,509,494.05
Less: Interest income	45,680,277.19	10,691,861.94
Net interest expenses	185,151,606.58	113,817,632.11
Foreign exchange losses	52,422,557.01	182,018,862.19
Less: Foreign exchange gains	102,518,814.24	149,848,886.61
Net foreign exchange losses	-50,096,257.23	32,169,975.58
Bank charges	2,368,560.52	2,019,982.04
Total	137,423,909.87	148,007,589.73

5.42 Other income

Category	2020	2019	Included in current period non-recurring profit and loss
1. Government grant recognized in other income	98,058,606.34	102,684,463.91	98,058,606.34
Including: Government grant related to deferred income (related to assets)	2,662,142.04	3,153,600.38	2,662,142.04
Government grant related to deferred income (related to income)			
Government grant directly recognized in current profit or loss (related to income)	95,396,464.30	99,530,863.53	95,396,464.30
2. Others related to daily operation activities and recognized in other	2,626,332.77	4,954,383.18	2,626,332.77

Category	2020	2019	Included in current period non-recurring profit and loss
income			
Including: Charges of withholding individual income tax	2,598,570.59	4,844,126.48	2,598,570.59
Including: Input tax deduction	27,762.18	110,256.70	27,762.18
Total	100,684,939.11	107,638,847.09	100,684,939.11

5.43 Investment income

Items	2020	2019
Investment income from held-for-trading financial assets during holding period	-829,194.39	9,316.91
Dividend income from other equity instrument income during holding period	4,019,690.59	6,284,357.21
Total	3,190,496.20	6,293,674.12

The investment income in the current period decreased by 49.31% compared with the previous period, mainly due to the dividends paid from non-trading equity instruments investment in the current period.

5.44 Gains/(losses) from changes in fair values

Sources of gains on changes in fair value	2020	2019
Interest rate swaps	-736,690.92	-216,752.92
Total	-736,690.92	-216,752.92

5.45 Impairment loss of credit

Items	2020	2019
Provision for bad debt for accounts receivable	667,731.60	-3,719,780.18
Provision for bad debt for other receivables	2,720,650.83	781,789.24
Total	3,388,382.43	-2,937,990.94

5.46 Impairment loss of asset

Items	2020	2019
1. Impairment of inventories		-4,227,205.99
2. Impairment of fixed assets		-242,017.85
Total		-4,469,223.84

5.47 Gains/(losses) from disposal of assets

Category	2020	2019	Included in current period non-recurring profit and loss
Gains/(losses) from disposal of fixed assets, construction in progress, productive biological assets and intangible assets not classified as held for sale	603,734.58	116,645.48	603,734.58
Including: Fixed assets	603,734.58	116,645.48	603,734.58
Total	603,734.58	116,645.48	603,734.58

5.48 Non-operating income

5.48.1 Details of Non-operating income

Category	2020	2019	Included in current period non-recurring profit and loss
Transferred income from pilot	24,999,999.99	59,386,792.51	24,999,999.99
Others	21,593,143.86	47,021,259.09	21,593,143.86
Total	46,593,143.85	106,408,051.60	46,593,143.85

5.48.2 The Company has no government grants irrelevant to daily operation activities during the reporting period.

5.48.3 Non-operating income decreased by 56.21% during the period compared to the previous period, mainly due to decreased pilot turnover during the period.

5.49 Non-operating expenses

Category	2020	2019	Included in current period non-recurring profit and loss
Loss on non-current asset disposals	544,262.93	2,183,604.73	544,262.93
Others	254,706.04	1,159,633.43	254,706.04
Total	798,968.97	3,343,238.16	798,968.97

5.50 Income tax expenses

5.50.1 Details of Income Tax Expenses

Items	2020	2019
Current tax expenses	121,260,500.16	276,036,631.10
Deferred tax expenses	-885,137,770.81	-156,148,240.18

Items	2020	2019
Total	-763,877,270.65	119,888,390.92

5.50.2 Reconciliation of Accounting Profit and Income Tax Expenses

Items	2020	2019
Profit before tax	-3,145,892,726.46	480,894,167.23
Income tax expense at the statutory /applicable tax rate	-786,473,181.62	120,223,541.81
Adjustments of impact from prior period income tax	-6,811,830.61	-6,543,317.50
Effect of income that is exempt from taxation	-1,004,922.65	-1,571,089.30
Effect of non-deductible costs, expenses or losses	30,450,823.64	7,285,612.18
Effect of previously unrecognized deductible losses recognized as deferred tax assets	-38,159.41	
Effect of deductible temporary differences or tax losses which no deferred income tax asset was recognised		493,643.73
Income tax expenses	-763,877,270.65	119,888,390.92

The income tax expense in this period was CNY 883,765,661.57 less than that in the previous period. The company suffered a substantial loss in this period mainly due to the impact of COVID-19.

5.51 Other comprehensive income

For details of the other comprehensive income and related tax effect, transfer to profit or loss and adjustment of other comprehensive income, please refer to Note 5.33 *Other Comprehensive Income*.

5.52 Notes to the Statement of Cash Flow

5.52.1 Other cash received relating to operating activities

Items	2020	2019
Government grants	95,396,464.30	99,530,863.53
Cash received other than government grants which is recognized in other income	2,626,332.77	4,954,383.18
Interest income on bank deposit	45,680,277.19	10,691,861.94
Cash receipts from non-operating income	46,593,143.85	77,999,771.01
Cash receipts from current account	48,431,355.93	33,683,953.64
Total	238,727,574.04	226,860,833.30

5.52.2 Other cash payments relating to operating activities

Items	2020	2019
Bank charges	25,115,379.84	41,183,308.78
Cash payments for non-operating expenses	254,706.04	1,159,532.87
Cash payments for current account	23,517,158.20	32,387,504.48
Cash payments for sales and general and administrative expenses	248,304,944.48	286,592,795.32
Total	297,192,188.56	361,323,141.45

5.52.3 Other cash received relating to investing activities

Items	2020	2019
Cash receipts from settlement of interest rate swaps		9,316.91
Total		9,316.91

5.52.4 Other cash payment relating to financing activities

Items	2020	2019
Cash payment for settlement of interest rate swaps	829,194.39	
Total	829,194.39	

5.52.5 Other cash receipts relating to financing activities

Items	2020	2019
Cash receipts for aircraft transfer of sale and leaseback deals		495,464,436.83
Total		495,464,436.83

5.52.6 Other cash payments relating to financing activities

Items	2020	2019
Cash payment for the financing lease of the aircraft	360,556,413.20	367,299,836.44
Total	360,556,413.20	367,299,836.44

5.53 Supplementary information to the Statement of Cash Flows

5.53.1 Supplementary Information to the Statement of Cash Flows

Supplementary information	2020	2019
1. Adjustments of net profit to cash flows from operating activities:		
Net profit	-2,382,015,455.81	361,005,776.31
Add: Provisions for impairment of assets		4,469,223.84
Impairment loss of credit	-3,388,382.43	2,937,990.94
Depreciation of fixed assets, investment properties, oil and gas assets and biological assets held for production	796,938,226.47	909,782,226.00
Amortization of intangible assets	11,644,865.33	9,569,567.61

Supplementary information	2020	2019
Amortization of deferred charges	113,982,866.41	103,278,470.80
Loss on non-current assets disposal (gain presented by "-" prefix)	-603,734.58	-116,645.48
Loss on scrap of fixed assets (gain presented by "-" prefix)	544,262.93	2,183,604.73
Loss on fair value changes (gain presented by "-" prefix)	736,690.92	216,752.92
Financial costs (gain presented by "-" prefix)	183,792,301.57	138,281,693.30
Investment loss (gain presented by "-" prefix)	-3,190,496.20	-6,293,674.12
Decrease of deferred tax assets (increase presented by "-" prefix)	-893,720,837.14	-191,147,308.48
Increase of deferred tax liabilities (increase presented by "-" prefix)	8,583,066.33	34,999,068.30
Decrease of inventories (increase presented by "-" prefix)	-1,137,142.81	-8,036,943.26
Decrease of operating receivables (increase presented by "-" prefix)	158,681,830.15	-72,129,006.40
Increase of operating payables (decrease presented by "-" prefix)	199,926,403.27	1,328,608,349.26
Others	109,496,774.79	12,203,106.10
Net cash flows generated from operating activities	-1,699,728,760.80	2,629,812,252.38
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 at the end of the reporting period	5,306,474,451.06	598,861,065.69
Less: Cash at the beginning of the reporting period	598,861,065.69	840,860,104.09
Add: Cash equivalents at the end of the reporting period		
Less: Cash equivalents at the beginning of the reporting period		
Net increase in cash and cash equivalents	4,707,613,385.37	-241,999,038.40

5.53.2 Net Cash Received from Disposals of Subsidiaries

Item	31 December 2020	31 December 2019
①Cash	5,306,474,451.06	598,861,065.69
Including: Cash at hand	225,522.11	285,508.32
Demand bank deposit	5,306,248,928.95	598,575,557.37
Demand other monetary funds		
Demand deposit in the Central Bank		

Item	31 December 2020	31 December 2019
Deposit in peer firms		
Loan to peer firms		
②Cash equivalents		
Including: Debt instrument matured within three months	5,306,474,451.06	598,861,065.69
③Cash and cash equivalents at the end of the reporting period		

5.54 Assets with Imposed Restriction on Ownership

Category	Closing balance as of 31 December 2020	Reason of restriction
Assets pledged as security	1,014,355,958.74	
Aircrafts and engines	1,014,355,958.74	Pledge as security for borrowings
Other form of restriction:	2,035,222,034.71	
Aircrafts and engines	2,035,222,034.71	Assets acquired under financial lease
Total	3,049,577,993.45	

5.55 Foreign Currency Monetary Items

Items	Carrying amount at foreign currency	Exchange rate	Carrying amount at CNY
Monetary funds			
Including: -USD	703,422.92	6.5249	4,589,764.22
-EUR	5,042.00	8.025	40,462.05
-CAD	10.00	5.1161	51.16
-JPY	27,797,397.00	0.0632	1,756,795.49
-TWD	11,670,866.00	0.2289	2,671,461.23
-KRW	85,597,815.00	0.006	513,586.89
-THB	2,206,410.86	0.2179	480,776.93
Other receivables			
Including: -USD	20,954,878.50	6.5249	136,728,486.72
Accounts payable			
Including: -USD	5,674,018.59	6.5249	37,022,403.92
-JPY	2,618,255.00	0.0632	165,473.72

Items	Carrying amount at foreign currency	Exchange rate	Carrying amount at CNY
-GBP	1,747.53	8.8903	15,536.07
Other payables			
Including: -USD	11,138.56	6.5249	72,677.99
Non-current liabilities due within one year			
Including: -USD	18,440,794.43	6.5249	120,324,339.58
Long-term borrowings			
Including: -USD	60,603,978.50	6.5249	395,434,899.31
Long-term payables			
Including: -USD	32,322,917.14	6.5249	210,903,802.03

5.56 Government Grants

5.56.1 Government Grants Related to Assets

Items	Amount	Items presented in the Financial Statements	Recognized in current profit or loss or directly as deduct of related cost		Presented items that recognized in current profit or loss or directly as deduct of related cost
			2020	2019	
Designated subsidy for snow disaster		Deferred income		491,458.34	Other income
Designated subsidy for civil aviation energy-saving program	976,500.12	Deferred income	976,500.12	976,500.12	Other income
Designated subsidy for HUD and repackage project	1,685,641.92	Deferred income	1,685,641.92	1,685,641.92	Other income

Items	Amount	Items presented in the Financial Statements	Recognized in current profit or loss or directly as deduct of related cost		Presented items that recognized in current profit or loss or directly as deduct of related cost
			2020	2019	
Total	2,662,142.04		2,662,142.04	3,153,600.38	

5.56.2 Government grants related to income

Items	Amount	Items presented in the Financial Statements	Recognized in current profit or loss or directly as deduct of related cost		Presented items that recognized in current profit or loss or directly as deduct of related cost
			2020	2019	
Airline grants	59,753,929.58	Other income	59,753,929.58	86,647,196.97	Other income
Other government grants	35,642,534.72	Other income	35,642,534.72	12,883,666.56	Other income
Total	95,396,464.30		95,396,464.30	99,530,863.53	

5.56.3 The Company has no return of government grants during the reporting period.

Note 6 CHANGES IN THE SCOPE OF CONSOLIDATION

The consolidation scope of the financial statements for the current year is consistent with the previous year.

Note 7 INTERESTS IN OTHER ENTITIES

7.1 Interests in Subsidiaries

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
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd (hereafter, Qingdao	Qingdao, Shandong	Qingdao, Shandong	Pilot training	100.00		Acquired through business combination not under common control

Subsidiaries	Place of	Place	Nature	Holding proportion(%)		Acquired method
Feisheng)						
Shandong Jinping Air Catering Co., Ltd. (hereinafter referred to as "Jinping food")	Jinan, Shandong	Jinan, Shandong	Aeronautical food processing	100.00		Acquired through business combination not under common control
Shandong Airlines Qingdao Food Co., Ltd. (hereinafter referred to as "Qingdao Food")	Qingdao, Shandong	Qingdao, Shandong	Aeronautical food processing	49.70	50.30	Acquired through business combination not under common control

7.2 The Equity in Joint Ventures and Associates

7.2.1 Significant Joint Ventures and Associates

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion(%)		Holding proportion(%)
				Directly	Indirectly	
Shandong Rainbow Commercial Jet Co., Ltd.	Jinan, Shandong	Jinan, Shandong	Aero transportation	45.00		Equity method

7.2.2 Key Financial Information of Significant Associate - Shandong Rainbow Commercial Jet Co., Ltd.

Item	31 December 2020	31 December 2020
	/Year 2020	/Year 2020
Current assets	1,803,440.67	1,802,740.67
Non-current assets	360.00	21,752.86
Total assets	1,803,800.67	1,824,493.53
Current liabilities	167,765,813.33	167,765,813.33
Non-current liabilities		
Total liabilities	167,765,813.33	167,765,813.33
Minority interests		
Equity attributable to shareholders of the parent	-165,962,012.66	-165,941,319.80

Item	31 December 2020 /Year 2020	31 December 2020 /Year 2020
Pro rata shares 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	-20,692.86	-7,643.46
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income		
Dividends received from associates during the year		

7.2.8 Excess Loss Occurred by Joint Ventures and Associates

Name of joint ventures and associates	Cumulative unrecognized losses as of 31 December 2019	Unrecognized losses of current year (Share of net profit of current year)	Cumulative unrecognized losses as of 31 December 2020
Shandong Rainbow Commercial Jet Co., Ltd.	-74,676,385.20	-9,311.79	-74,685,696.99

Note 8 RISKS RELATED TO FINANCIAL INSTRUMENTS

The main financial instruments of the Company include equity investments, loans, accounts receivable, and accounts payable etc. Please see Note 5 for details of related items. The risks 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 individually, the correlation among variables has 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.

8.1 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, to establish suitable risk tolerance baseline and proceed the risk management, and to supervise a variety of risks timely and reliably, and control the risk within a limited range.

8.1.1 Market Risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate fluctuations. The Company bears the foreign exchange risk primarily concerned with USD, and uses USD settlement in main financing transactions, operating leases, and financing leasing. On 31 December 2020, except the following assets or liabilities in Note 5.55 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 5.15, 5.24, 5.26, 5.28). 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 are measured at fair value on the balance sheet date. Hence, the Company bears the risk of changes in the stock market.

8.1.2 Credit Risk

As of 31 December 2020, 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 sets 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 working capital was deposited in banks with high credit ratings, so that the credit risk of working capital was low.

8.1.3 Liquidity Risk

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

Note 9 FAIR VALUE DISCLOSURES

The inputs used in the fair value measurement in its entirety are to be classified in the level of the hierarchy in which the lowest level input that is significant to the measurement is classified.

Level 1: Inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Inputs for the assets or liabilities (other than those included in Level 1) that are either directly or indirectly observable.

Level 3: Inputs are unobservable inputs for the assets or liabilities

9.1 Assets and Liabilities Measured at Fair Value as at 31 December 2020

Item	The fair value at 30 December 2020			
	The 1 st level measured by fair value	The 2 nd level measured by fair value	The 3 rd level measured by fair value	Total
1. Continuous measurement by fair value				
1.1 Other equity instrument investments	205,318,793.39		336,470,613.24	541,789,406.63
Total amount of assets continuous measurement by fair value	205,318,793.39		336,470,613.24	541,789,406.63
1.2 Financial liabilities at fair value		862,955.67		862,955.67

Item	The fair value at 30 December 2020			
	The 1 st level measured by fair value	The 2 nd level measured by fair value	The 3 rd level measured by fair value	Total
through profit or loss				
Interest rate swaps		862,955.67		862,955.67
Total amount of liabilities continuous measurement by fair value		862,955.67		862,955.67

The fair value of financial instruments traded in an active market is based on quoted market prices at the reporting date. The fair value of financial instruments not traded in an active market is determined by using valuation techniques. Specific valuation techniques used to value the above financial instruments include discounted cash flow and market approach to comparable company model. Inputs in the valuation technique include risk-free interest rates, benchmark interest rates, exchange rates, credit spreads, liquidity premiums, discount for lack of liquidity.

9.2 Determined on the Basis of Continuous and Noncontinuous First Level for Fair Value Measurement of the Market of Project

Investment in other equity instruments for continued fair value measurement is an investment in TravelSky Technology Limited, of which fair value was determined based on the closing price for the stock market in Hong Kong Stock Exchange on balance sheet date.

9.3 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.

9.4 Continuous and Noncontinuous Third Level for Fair Value Measurement of the Market of Project, the Qualitative and Quantitative Information of the Valuation Techniques and Important Parameters

Other equity instrument investments that continue to be measured at fair value are investments in Sichuan Airlines and Jinan International Airport. Unlisted equity instrument investments which using comparable company multiplier models to estimate fair value, their assumptions adopted are not supported by observable market prices or interest rates. The Company needs to make an estimate of the liquidity discount. The Company believes that

the fair value and its changes estimated by valuation techniques are reasonable and are also the most appropriate value on the balance sheet date.

Note 10 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Recognition of related parties: The Company has control or joint control of, or exercise significant influence over another party; or the Company is controlled or jointly controlled, or significant influenced by another party.

10.1 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 transportation	580,000,000.00	42.00	42.00
Air China	Beijing	Aero transportation	14,524,815,185.00	22.80	22.80

Note: SDA Group and Air China is the first and second largest shareholders 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.

10.2 Subsidiaries

See Note 7 for subsidiaries.

10.3 Joint Ventures and Associates

See Note 7 for joint ventures and associates.

1. Other related parties

Other related parties	Relationship to the Company
Taikoo (Shandong) Aircraft Engineering Company Limited	Controlled by major investors
Shandong Xiang Yu 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 Corporation	Controlled by major investors
Air China Offshore Holding Company	Controlled by major investors

Other related parties	Relationship to the Company
Air China Hongkong Development Limited	Controlled by major investors
Beijing Airlines Co., Ltd.	Controlled by major investors
China International Aviation Shantou Industrial Development Corporation	Controlled by major investors
Chengdu Fukai Aircraft Engineering Services Limited	Controlled by major investors
Beijing Aircraft Maintenance and Engineering Corporation	Controlled by major investors
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
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.	Controlled by major investors
Chongqing Golden Phoenix Aviation Service Co., Ltd.	Controlled by major investors

Note: On December 28, 2018, the major investor of the Company has disposed of the subsidiary Air China Cargo Co., Ltd. and since January 1, 2020, Air China Cargo Co., Ltd. is no longer a related party of the company.

10.5 Related Party Transactions

10.5.1 Purchases or Sales of Goods, Rendering or Receiving of Services

Purchase of goods and services

Related party	Transaction	Current year	Prior year
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	59,917,514.33	116,116,748.68
Beijing Aircraft Maintenance and Engineering Corporation	Purchase / lease of aircraft materials	283,789.14	92,482.10
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	25,036,782.78	18,179,004.78
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	1,572,810.30	1,799,775.84
Chengdu Fukai Aircraft Engineering Services Limited	Repairment	6,183,500.06	7,008,038.49

Related party	Transaction	Current year	Prior year
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	7,105,576.24	9,560,365.94
Shandong Air New Media Co., Ltd.	Ground service	347,115.05	390,345.13
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	94,693,380.12	122,396,133.28
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft meal offerings		75,548.23
Taikoo (Shandong) Aircraft Engineering Company Limited	Purchase of aircraft materials	2,788,150.44	
Shandong Xiang Yu Air Technology Co., Ltd.	Repairment	77,999,772.25	103,903,114.32
Shandong Xiang Yu Air Technology Co., Ltd.	Purchase / lease of aircraft materials	12,232.91	114,999.43
SDA Group	Office lease rental and catering	37,260,027.24	39,875,357.20
SDA Group	Group fee	8,645,366.19	8,807,487.39
SDA Group	Irregular flight	44,840.00	50,560.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	Vehicle rental fee and maintenance fee	67,139,779.12	75,928,882.21
Shandong Airlines Rainbow Auto Service Co., Ltd.	Group fee	2,533,255.98	3,364,092.04
Shandong Airlines Rainbow Auto Service Co., Ltd.	Irregular flight	362,440.37	538,690.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	Ground service		14,630.00
Shenzhen Airlines Co., Ltd.	Ground service	964,552.14	9,904.49
Shenzhen Airlines Co., Ltd.	Agency service	205,627.68	1,378,901.00
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	147,389.16	58,422.10
Shenzhen Airlines Co., Ltd.	Catering	758,702.77	1,550,231.72
Shenzhen Airlines Co., Ltd.	Irregular flight	290,943.40	271,698.11
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	82,956,535.74	

Related party	Transaction	Current year	Prior year
Air China	Ground service	12,714,204.38	15,716,089.93
Air China	Purchase / lease of aircraft materials	97,627.90	161,556.60
Air China	Agency service	548,692.50	881,070.68
Air China	Irregular flight expenditure	21,782,305.64	18,223,211.35
Air China Cargo Co., Ltd.	Ground service		2,369,147.87
Kunming Airlines Co., Ltd	Agency service	5,214.99	8,465.66
Dalian Airlines Co., Ltd.	Irregular flight	234,339.62	251,094.34
Shanghai International Airport Ground Service Co., Ltd.	Ground service	175,187.49	204,195.79
Air Macau Corporation	Agency service		39.06
Total		512,807,655.93	549,300,283.76

Sales of goods and rendering of services

Related party	Transaction	Current year	Prior year
Beijing Aircraft Maintenance and Engineering Corporation	Sale /rent of aircraft materials	410,650.36	1,200,284.95
Dalian Airlines Co., Ltd.	Ground service	1,112,129.34	1,186,801.33
Dalian Airlines Co., Ltd.	Non-routine maintenance/machinery service	54,619.72	154,949.57
Kunming Airlines Co., Ltd	Ground service	6,947.13	53,396.23
Kunming Airlines Co., Ltd	Locomotive service income	4,132.08	146,742.19
Kunming Airlines Co., Ltd	Agency service	6,722.40	18,957.39
Shandong Air New Media Co., Ltd.	Media resource fee	16,065,789.77	9,416,790.90
Shandong Air New Media Co., Ltd.	Media freight		471,698.10
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	882,671.27	236,238.67
Taikoo (Shandong) Aircraft Engineering Company Limited	Training fee	51,556.60	76,839.62
Taikoo (Shandong) Aircraft Engineering Company Limited	Maintenance fee	939,588.49	84,391.51
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	1,820,932.96	779,378.54
Shenzhen Airlines Co., Ltd.	Agency service	201,448.80	1,302,625.14

Related party	Transaction	Current year	Prior year
Shenzhen Airlines Co., Ltd.	Ground service		29,150.94
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	214,448.00	271,360.52
Shenzhen Airlines Co., Ltd.	Irregular flight maintenance/locomotive service income	495.58	6,210.11
Air China	Ground service	4,961,303.96	7,811,955.83
Air China	Simulator maintenance / House rental income	4,111,642.86	4,485,428.61
Air China	Sale /rent of aircraft materials	682,341.23	
Air China	Irregular flight maintenance/locomotive service income	29,619.47	24,741.68
Air China	Agency service	304,889.55	251,630.49
Beijing Airlines Co., Ltd.	Ground service	3,698.11	51,647.17
China International Airlines Inner Mongolia Co., Ltd.	Ground service	128,185.47	6,713.20
Shandong Airlines Rainbow Auto Service Co., Ltd.	Storage income	392,919.42	359,082.82
Shandong Airlines Rainbow Auto Service Co., Ltd.	Property fee income	28,420.75	27,509.43
Shandong Airlines Rainbow Auto Service Co., Ltd.	Rentals		17,142.86
Total		32,415,153.32	28,471,667.80

10.5.2 Borrowing of funds from related parties

Related Party	Borrowing money	Beginning date	Due date	Description
Borrowing:				
China Aviation Group Finance Co., Ltd.	296,000,000.00	2016-6-20	2026-6-20	Paid off by year-end
SDA Group	150,000,000.00	2019-11-11	2020-10-19	Paid off by year-end

10.5.3 Remuneration to Key Management Personnel

Item	Current year	Prior year
Key management personnel compensation	CNY 878.52 million	CNY 1,270.84 million

10.5.4 Other Related Party Transactions

Related party	Transaction	Current year	Prior year
Air China	Frequent flyer cooperation	60,000,000.00	72,000,000.00
Air China Cargo Co., Ltd.	Code sharing for cargo		1,005,335.71
Total		60,000,000.00	73,005,335.71

10.6 Related Party Balances

10.6.1 Receivables

Related party	31 December 2020		31 December 2019	
	Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
Accounts receivable				
Air China	9,869,517.17		5,441,837.40	
Air China Inner Mongolia Co., Ltd.	69,220.80			
Dalian Airlines Co., Ltd.	2,530.80		16,894.80	
Taikoo (Shandong) Aircraft Engineering Company Limited			24,700.00	
Shandong Air New Media Co., Ltd.	375,000.00		75,000.00	
Total	10,316,268.77		5,558,432.20	
Other receivables				
Air China	6,284,099.27		5,134,920.42	
Shenzhen Airlines Co., Ltd.	9,991.75		75,988.90	
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.	158,519.78		1,835,674.33	
Taikoo (Shandong) Aircraft Engineering Company Limited	32,760.70		180,217.72	
Shandong Air New Media Co., Ltd.	13,212,795.39		10,095,530.78	
Beijing Aircraft Maintenance and	1,061,799.39		1,224,188.64	
Dalian Airlines Co., Ltd.	321,199.10		56,450.80	
Kunming Airlines Co., Ltd	48,640.00		174,620.00	
Shandong Airlines Rainbow Auto Service Co., Ltd.	4,031.65		240.00	
Total	122,685,554.68	101,551,717.65	120,329,549.24	101,551,717.65

10.6.2 Payables

Related party	31 December 2020	31 December 2019
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	62,612,200.70	24,885,130.73
Taikoo (Shandong) Aircraft Engineering Company Limited	71,170,122.15	60,317,020.35
Air China	288,157,344.35	216,889,212.07
Air China Cargo Co., Ltd.		483,782.83
Beijing Golden Phoenix Human Resources Service Co., Ltd.	468,107.35	316,512.86
Shenzhen Airlines Co., Ltd.	1,575,214.82	352,836.71
Aircraft Maintenance and Engineering Corporation (Ameco)	69,550,487.95	33,686,285.52
Sichuan International Aero Engine Maintenance Co., Ltd.	40,552,088.72	88,209.29
Shandong Air New Media Co., Ltd.	4,310,391.38	4,691,884.84
Shandong Airlines Rainbow Auto Service Co., Ltd.	45,500,000.00	6,375,000.00
Chengdu Fukai Aircraft Engineering Service Co., Ltd.	2,407,193.88	3,494,468.69
Shanghai International Airport Ground Service Co., Ltd.	53,210.80	54,398.40
Total	586,356,362.10	351,634,742.29
Other payables		
SDA Group	20,892,072.83	14,933,120.85
Taikoo (Shandong) Aircraft Engineering Company Limited	641,414.74	484,291.74
Shandong Air New Media Co., Ltd.	3,138,323.91	6,368,095.92
Shandong Rainbow Commercial Jet Co., Ltd.	1,257,646.00	7,798.95
Total	25,929,457.48	21,793,307.46

Note 11 COMMITMENTS AND CONTINGENCIES

11.1 Significant Commitments

The nature and amount of significant commitments existing at the balance sheet date:

11.1.1 Capital Commitment

Capital commitments signed but not yet recognized in the financial statements	31 December 2020	31 December 2019
Commitment for purchase long-term assets	6,327,478,302.14	7,036,492,465.21
Large contract		
Commitment for external investment		

11.1.2 Operating Lease Commitment

Minimum lease payments under non-cancellable operating leases	31 December 2020	31 December 2019

Minimum lease payments under non-cancellable operating leases	31 December 2020	31 December 2019
1 year after the balance sheet date	2,800,228,500.64	3,014,893,635.26
2 year after the balance sheet date	2,698,464,761.43	2,842,138,245.44
3 year after the balance sheet date	2,551,871,018.05	2,672,068,066.30
Over 3 year after the balance sheet date	7,551,765,750.49	9,875,497,392.11
Total	15,602,330,030.61	18,404,597,339.11

11.1.3 Other Commitment

The Company has no other significant commitment needed to be disclosed as of 31 December 2020.

11.2 Contingencies

The Company has no other significant contingencies needed to be disclosed as of 31 December 2020.

Note 12 EVENTS AFTER THE REPORTING PERIOD

As of this reporting date, the Company has no post-balance sheet events that should be disclosed.

Note 13 OTHER SIGNIFICANT MATTERS

13.1 Pension Plan

No significant change of the annuity program occurred for current year, see Note 5.21, 5.29.

Note 14 NOTES TO ELEMENTS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

14.1 Accounts receivable

14.1.1 Disclosure by Age

Age	31 December 2020	31 December 2019
Within 1 year	279,757,208.36	437,495,880.93
1 to 2 years	52,098,250.31	35,122,001.00
2 to 3 years	34,122,000.00	
3 to 4 years		
4 to 5 years		
Over 5 years	420,529.65	8,477,739.50

Subtotal	366,397,988.32	481,095,621.43
Less: provision for bad debt	15,724,684.12	24,493,161.92
Total	350,673,304.20	456,602,459.51

14.1.2 Disclosure by Category

Category	31 December 2020				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Proportion (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment					
Accounts receivable subject to group impairment assessment	366,397,988.32	100.00	15,724,684.12	4.29	350,673,304.20
Total	366,397,988.32	100.00	15,724,684.12	4.29	350,673,304.20

(Continued)

Category	31 December 2019				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Proportion (%)	Amount	Provision ratio (%)	
Accounts receivable subject to individual impairment assessment	8,057,209.85	1.67	8,057,209.85	100.00	
Accounts receivable subject to group impairment assessment	473,038,411.58	98.33	16,435,952.07	3.47	456,602,459.51
Total	481,095,621.43	100.00	24,493,161.92	5.09	456,602,459.51

14.1.3 As at December 31, 2020, there is no provision for bad debts subject to individual impairment assessment.

14.1.4 Accounts receivable subject to impairment assessment by credit risk characteristics of a group as of 31 December 2020

Project	31 December 2020		
	Book value	Provision for bad debt	Provision ratio (%)
Amounts due from the	10,455,297.15		

clearing center			
Amounts due from the aviation association	31,724,360.89		
Amounts due from related parties	9,724,648.00		
Other receivables	314,493,682.28	15,724,684.12	5.00
Total	366,397,988.32	15,724,684.12	4.29

14.1.5 Accounts receivable with individually significant balance and provision for bad debt recognized individually as of 31 December 2019

Entity name	31 December 2019			Reason
	Book value	Provision for bad debt	Provision ratio (%)	
Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
Total	8,057,209.85	8,057,209.85	100.00	

14.1.6 Accounts receivable subject to impairment assessment by credit risk characteristics of a group as of 31 December 2019

Entity name	31 December 2019		
	Book value	Provision for bad debt	Provision ratio (%)
Amounts due from the clearing center	42,716,664.57		
Amounts due from the aviation association	93,939,923.14		
Amounts due from related parties	7,662,782.50		
Other receivables	328,719,041.37	16,435,952.07	5.00
Total	473,038,411.58	16,435,952.07	3.47

The Company calculate provision of bad debt according to the combination of credit risk characteristics and the expected loss amount.

14.1.7 Changes of Provision for Bad Debt During the Reporting Period

Category	31 December 2019	Changes of accounting policy	1 January 2020	Changes during the reporting period			31 December 2020
				Provision	Recovery or reversal	Write-off	
Accounts receivable subject to individual	8,057,209.85		8,057,209.85			8,057,209.85	

Category	31 December 2019	Changes of accounting policy	1 January 2020	Changes during the reporting period			31 December 2020
				Provision	Recovery or reversal	Write-off	
impairment assessment							
Accounts receivable subject to impairment assessment by group	16,435,952.07		16,435,952.07		711,267.95		15,724,684.12
Total	24,493,161.92		24,493,161.92		711,267.95	8,057,209.85	15,724,684.12

14.1.8 Actual accounts receivable written off in this period are as follows

Entity name	Opening balance	Written off during this period	Closing balance	Reason
Debtor #1	8,057,209.85	8,057,209.85		The person subjected to execution has no property for execution
Total	8,057,209.85	8,057,209.85		

14.1.9 As of December 31, 2020, the top five accounts receivable amounted to CNY 143,951,274.02, accounting for 39.29% of the total ending balance of accounts receivable, and the corresponding summary amount of the ending balance of bad debt provision is CNY 7,197,563.70.

14.1.10 The Company has no derecognition of accounts receivable due to the transfer of financial assets.

14.1.11 The Company has no assets or liabilities arising from continuing involvement in transferred accounts receivable.

14.2 Other receivables

14.2.1 Other receivables by category

Items	31 December 2020	31 December 2019
Interests receivable		
Dividends receivable		
Other receivables	165,544,964.64	237,966,773.59
Total	165,544,964.64	237,966,773.59

14.2.2 Other Receivables

① Other receivables by age

Age	31 December 2020	31 December 2019
Within one year	136,305,404.11	206,592,316.53
1-2 years	4,690,877.26	18,721,168.79
2-3 years	12,288,561.13	4,917,213.36
3-4 years	3,882,745.43	830,749.97
4-5 years	773,009.94	4,163,874.36
Over 5 years	112,978,097.70	110,876,843.58
Subtotal	270,918,695.57	346,102,166.59
Less: provision for bad debt	105,373,730.93	108,135,393.00
Total	165,544,964.64	237,966,773.59

② Other receivables by nature

Nature	31 December 2020	31 December 2019
Deposits receivable	63,646,894.09	87,059,915.18
Amounts due from related parties	130,831,535.85	127,368,744.43
Other receivables	76,440,265.63	131,673,506.98
Subtotal	270,918,695.57	346,102,166.59
Less: provision for bad debt	105,373,730.93	108,135,393.00
Total	165,544,964.64	237,966,773.59

③ Other receivables by bad debt provision method

A. Provision for bad debts recognized based on three stages model as of 31 December 2020 is as follows:

Provision for bad debt in the first stage as of 31 December 2020:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually					
Provision for bad debt recognized collectively	169,366,977.92	2.26	3,822,013.28	165,544,964.64	
Including: Deposits receivable	63,646,894.09			63,646,894.09	No significant increase on

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
					credit risk
Amounts due from related parties	29,279,818.20			29,279,818.20	No significant increase on credit risk
Other receivables	76,440,265.63	5.00	3,822,013.28	72,618,252.35	No significant increase on credit risk
Total	169,366,977.92	2.26	3,822,013.28	165,544,964.64	

As of 31 December 2020, the Company has no interest receivable, dividends receivable or other receivables recognized in the second stage.

Provision for bad debt in the third stage as of 31 December 2020:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually	101,551,717.65	100.00	101,551,717.65		Credit impairment has occurred
Shandong Rainbow Commercial Jet Co., Ltd	101,551,717.65	100.00	101,551,717.65		Credit impairment has occurred
Total	101,551,717.65	100.00	101,551,717.65		

B. Provision for bad debts based on incurred loss model as of 31 December 2019 is as follows:

Provision for bad debt in the first stage as of 31 December 2019:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually					
Provision for bad debt recognized	244,550,448.94	2.69	6,583,675.35	237,966,773.59	

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
collectively					
Including: Deposits receivable	87,059,915.18			87,059,915.18	No significant increase on credit risk
Amounts due from related parties	25,817,026.78			25,817,026.78	No significant increase on credit risk
Other receivables	131,673,506.98	5.00	6,583,675.35	125,089,831.63	No significant increase on credit risk
Total	244,550,448.94	2.69	6,583,675.35	237,966,773.59	

As of 31 December 2019, the Company has no interest receivable, dividends receivable or other receivables recognized in the second stage.

Provision for bad debt in the third stage as of 31 December 2019:

Category	Book balance	Lifetime expected credit losses rate (%)	Provision for bad debt	Carrying amount	Reason
Provision for bad debt recognized individually	101,551,717.65	100.00	101,551,717.65		Credit impairment has occurred
Shandong Rainbow Commercial Jet Co., Ltd	101,551,717.65	100.00	101,551,717.65		Credit impairment has occurred
Total	101,551,717.65	100.00	101,551,717.65		

④ Changes of provision for bad debt during the reporting period

Category	31 December 2019	Changes during the reporting period			31 December 2020
		Provision	Recovery or reversal	Write-off	
Other receivables of individual significance and subject to individual impairment assessment	101,551,717.65				101,551,717.65
Other receivables subject to impairment assessment by	6,583,675.35		2,761,662.07		3,822,013.28

Category	31 December 2019	Changes during the reporting period			31 December 2020
		Provision	Recovery or reversal	Write-off	
credit risk characteristics of a group					
Total	108,135,393.00		2,761,662.07		105,373,730.93

⑤ There are no written off to other receivables during the reporting period.

⑥ Top five closing balances by entity

Entity name	Nature	Balance as at 31 December 2020	Age	Proportion of the balance to the total other receivables (%)	Provision for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Related party	101,551,717.65	Over 5 years	37.48	101,551,717.65
Debtor #1	Deposits	30,685,981.57	Within 2 year	11.33	
Debtor #2	Others	27,297,543.26	Within 1 year	10.08	1,364,877.16
Shandong Air New Media Co., Ltd.	Related party	13,212,795.39	Within 1 year	4.88	
Debtor #3	Others	11,284,362.57	Within 1 year	4.17	564,218.13
Total		184,032,400.44		67.94	103,480,812.94

⑦ The Company has no other receivables relating to government grants.

⑧ The Company has no other receivables relating to derecognition of other receivables for transfer of financial assets.

⑨ The Company has no assets or liabilities arising from continuing involvement in transferred other receivables.

14.3 Long-term equity investments

14.3.1 Investments in Subsidiaries

Investee	31 December 2019	Current year increase	Current year decrease	31 December 2020	Provision recognized	Year-end provision
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	144,101,285.43			144,101,285.43		

14.3.2 Investments in Joint Ventures and Associates

Investee	31 December 2019	Impairment provision	Changes in the current period (+, -)				
			Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity
Associates							
Shandong Rainbow Commercial Jet Co., Ltd.	22,500,000.00	22,500,000.00					
Total	22,500,000.00	22,500,000.00					

(Continued)

Investee	Changes in the current period (+, -)			31 December 2020	Year-end provision
	Declared cash dividends or profits	Provision 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

14.4 Operating revenues and operating costs

Items	2020		2019	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal activities	9,854,672,423.67	12,550,540,262.47	18,277,680,628.43	17,204,720,972.91
Other activities	655,331,879.04	4,559,337.10	685,084,701.46	6,736,014.89
Total	10,510,004,302.71	12,555,099,599.57	18,962,765,329.89	17,211,456,987.80

14.5 Investment Income

Items	2020	2019
Investment income from held-for-trading financial assets during holding period	-829,194.39	9,316.91
Dividend income from other equity instrument income during holding period	4,019,690.59	6,284,357.21
Total	3,190,496.20	6,293,674.12

Note 15 SUPPLEMENTARY INFORMATION

15.1 Current non-recurring statement of profit and loss

Items	2020	2019	Description
Gains /(losses) on disposal of non-current assets	59,471.65	-2,066,959.25	
Government grants recognized in current profit or loss (except government grants that is closely related to operations and determined based on a fixed scale according to the national unified standard)	98,058,606.34	102,684,463.91	
Gains /(losses) arising from changes in fair value of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities and derivative financial	-1,565,885.31	-207,436.01	

Items	2020	2019	Description
liabilities during the holding period and investment income arising from disposal of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities, derivative financial liabilities and other debt investment except effective hedging transactions related to the Company's principal activities			
Other non-operating income/expenses except for items mentioned above	46,338,437.81	105,248,418.17	
Other gains or losses satisfying the definition of extraordinary gains or losses	2,626,332.77	4,954,383.18	
Total extraordinary gains/(losses)	145,516,963.26	210,612,870.00	
Less: tax effect	36,389,420.55	52,714,956.95	
Net extraordinary gains/(losses)	109,127,542.71	157,897,913.05	
Less: net extraordinary gains/(losses) attributable to minority interests			
Net extraordinary gains/(losses) attributable to ordinary shareholders	109,127,542.71	157,897,913.05	

15.2 Return on Net Assets and Earnings Per Share ('EPS')

15.2.1 2020

Profit for the reporting period	Weighted average return on net assets (%)	EPS	
		Basic	Diluted
Net profit attributable to ordinary shareholders	-61.31	-5.96	-5.96
Net profit attributable to ordinary shareholders after extraordinary gains and losses	-64.12	-6.23	-6.23

15.2.2 2019

Profit for the reporting period	Weighted average return on net assets (%)	EPS	
		Basic	Diluted
Net profit attributable to ordinary shareholders	7.22	0.90	0.90
Net profit attributable to ordinary shareholders after extraordinary gains and losses	4.06	0.51	0.51



Section XIII. 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 2019;
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.

Shandong Airlines Co., Ltd.

Legal representative: Sun Xiujiang

27 March 2021