

Shandong Airlines Co., Ltd.
Independent Auditors' Report

Ruihua Shen Zi [2019] 48440003Hao
(English Version for Reference only)

Content

A.	Independent Auditors' Report.....	1
B.	Audited Financial Statements	
1.	Consolidated Statement of Financial Position.....	8
2.	Consolidated Statement of Comprehensive Income.....	11
3.	Consolidated Statement of Cash Flows.....	14
4.	Consolidated Statement of Changes in Equity.....	17
5.	Statement of Financial Position.....	22
6.	Statement of Comprehensive Income.....	24
7.	Statement of Cash Flows.....	26
8.	Statement of Changes in Equity.....	28
9.	Notes to the Financial Statements.....	33
10.	Supplementary information on notes to the financial statements.....	131

Independent Auditor's Report

Ruihua Shen Zi [2019] 48440003Hao

To the Board of Directors of Shandong Airlines Co., Ltd.,

I. Audit Opinion

We have audited the accompanying financial statements of Shandong Airlines Co., Ltd. (hereafter, Shandong Airlines or the Company), which comprise the consolidated and separate statements of financial position as at December 31 2018, the consolidated and separate Consolidated statements of comprehensive income, the consolidated and separate statements of cash flows and the consolidated and separate statements of changes in equity for the year then ended and the notes to the financial statements.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Enterprises Accounting Standards of China and presented fairly, in all material respects, the consolidated and separate financial positions of Shandong Airlines as at December 31 2018, and the Company's consolidated and separate results of operations and consolidated and separate cash flows for the year then ended.

II. Basis of Forming the Audit Opinion

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

III. Key Audit Items

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

1. Recognition of Passenger Service Revenue

1.1 Description

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

Please refer to Note 4.21 Revenue under Note 4 Important Accounting Principles and Accounting Estimates. Please refer to Note 6.19 Advance from customers and Note 6.33 Operating revenues and costs under Note 6 Notes to significant elements of the consolidated financial statements. Please refer to Note 16. 4 Operating revenues and costs under Note 16 Notes to elements of the separate financial statements for details.

1.2 Audit Response

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

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

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

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

2. Major Repair Fee for Operating Lease Aircrafts and related Engines

2.1 Description

On December 31 2018, the payable balance of operating lease aircrafts and major repair fee of the engines (including that due within one year) amounted to 3.38 billion. According to the terms of the lease agreement, the company shall return the aircraft in accordance with the agreed conditions demanded at the end of the lease period. In order to ensure the agreed conditions for the return of the aircraft, the company will make a provision for major repair to the fuselage and engine of operating lease during the estimated overhaul period, and the overhaul expenses will be included in the current profit and loss. Management estimates the expected overhaul cycle and overhaul cost based on the actual maintenance cost experience of the same or similar fuselage and engine in the past, current economic and aviation related development, and taking into account the predicted flight hours, flight cycles, overhaul intervals and other variables. Due to the inherent uncertainty of the prediction of the overhaul period and the future overhaul cost for different types of fuselages and engines, there is a risk of inaccurate estimated cost. Therefore, we identify major repair fee for operating leased aircrafts and related engines as a key audit matter.

Please refer to Note 4.25 Regular repair and substantial repair, Note 4.28.9 Aircraft operating lease and engine overhaul expenses under Note 4 Important Accounting Principles and Accounting Estimates. Please refer to Note 6.18 Notes payable and Accounts payable and Note 6.25 Long-term payables for the details under Note 6 Notes to significant elements of the consolidated financial statements.

2.2 Audit Response

2.2.1 We assessed the effectiveness of the design and operation of the key internal

controls related to the overhaul preparation for the aircraft of operating lease.

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

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

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

IV. Other Information

The management of the Company is responsible for other information, which includes the information contained in the Company's 2018 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 preparing and presenting the financial statements in accordance with Enterprise Accounting Standards of China and for the purpose of fair presentation and designing, implementing and maintaining internal control necessary to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

VI. Auditors' Responsibility for the Financial Statements

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

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

A. Identify and assess the risks of material misstatement of the financial statements due to fraud and error, design and implement audit procedures to address these risks, and obtain sufficient and appropriate audit evidence as a basis for forming the audit opinion. As fraud may involve collusion, forgery, willful omission, misrepresentation or override of internal control, the risk of not discovering a material misstatement due to fraud is higher than the risk of failing to detect a material misstatement resulting from a mistake.

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

procedures.

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

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

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

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

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

We also provide a statement to those charged with governance regarding the fact that we comply with the requirements of professional ethics relating to independence, and also communicate with them about all relationships and other

matters that may be reasonably deemed to affect our independence, as well as, where applicable, the relevant precautions (if applicable).

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

Ruihua Certified Public Accountants
(Special General Partnership)

Chinese CPA
(Engagement Partner): _____
Ou Changxian

Beijing, China

Chinese CPA: _____
Guo Yuefeng

21 March 2019

II. Audited Financial Statements

Statement in Financial Notes are carried in RMB/CNY

1. Consolidated Balance Sheet

Prepared by Shandong Airlines Co., Ltd

31 December 2018

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	840,960,104.09	543,584,920.30
Settlement provisions		
Capital lent		
Financial assets measured by fair value and with variation reckoned into current gains/losses	90,488.17	
Derivative financial liability		
Notes receivable & account receivables	413,726,456.71	551,020,199.28
Including: Notes receivable		115,000.00
Accounts receivable	413,726,456.71	550,905,199.28
Accounts paid in advance	265,931,342.94	222,688,283.66
Insurance receivable		
Reinsurance receivables		
Contract reserve of reinsurance receivable		
Other receivables	225,281,412.22	349,352,881.41
Including: Interest receivable		
Dividends receivable		
Buying back the sale of financial assets		
Inventories	105,625,519.42	83,924,185.64
Assets held for sale		
Non-current asset due within one year		
Other current assets	236,596,457.60	185,809,122.83
Total current assets	2,088,211,781.15	1,936,379,593.12
Non-current assets:		

Loans and payments on behalf		
Finance asset available for sales	310,842,965.35	337,378,099.40
Held-to-maturity investment		
Long-term account receivable		
Long-term equity investment		
Investment property		
Fixed assets	7,770,750,794.37	6,904,643,268.14
Construction in progress	4,790,300,972.13	2,737,166,681.62
Productive biological assets		
Oil and gas asset		
Intangible assets	115,541,881.39	116,334,615.84
Expense on Research and Development		
Goodwill	454,020.13	454,020.13
Long-term expenses to be apportioned	573,645,342.64	535,865,271.69
Deferred income tax asset	914,231,343.25	783,201,289.97
Other non-current asset		
Total non-current asset	14,475,767,319.26	11,415,043,246.79
Total assets	16,563,979,100.41	13,351,422,839.91
Current liabilities:		
Short-term loans	580,000,000.00	
Loan from central bank		
Absorbing deposit and interbank deposit		
Capital borrowed		
Financial liability measured by fair value and with variation reckoned into current gains/losses		3,607,390.15
Derivative financial liability		
Notes payable & account payable	2,273,836,607.26	1,931,374,087.78
Accounts received in advance	787,371,671.33	614,319,419.67
Selling financial asset of repurchase		
Commission charge and commission payable		
Wage payable	543,294,439.81	567,105,882.00
Taxes payable	252,717,258.87	164,566,790.91
Other accounts payable	635,499,470.13	413,608,826.81

Including: Interest payable	10,428,894.80	1,324,391.18
Dividend payable	602,306.96	602,306.96
Reinsurance payables		
Insurance contract reserve		
Security trading of agency		
Security sales of agency		
Liability held for sale		
Non-current liabilities due within 1 year	455,840,675.34	622,127,224.77
Other current liabilities		
Total current liabilities	5,528,560,122.74	4,316,709,622.09
Non-current liabilities:		
Long-term loans	1,885,556,557.83	1,217,610,831.16
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	4,368,213,445.33	3,277,812,491.65
Long-term wages payable	135,224,119.11	110,950,000.00
Projected liabilities		
Deferred income	118,279,868.16	111,638,302.81
Deferred income tax liabilities	56,819,008.96	63,560,578.27
Other non-current liabilities		
Total non-current liabilities	6,564,092,999.39	4,781,572,203.89
Total liabilities	12,092,653,122.13	9,098,281,825.98
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	149,300,488.94	178,494,839.48
Reasonable reserve		
Surplus public reserve	503,999,977.58	471,457,259.99
Provision of general risk		

Retained profit	3,342,615,148.06	3,127,778,550.76
Total owner's equity attributable to parent company	4,471,325,978.28	4,253,141,013.93
Minority interests		
Total owner's equity	4,471,325,978.28	4,253,141,013.93
Total liabilities and owner's equity	16,563,979,100.41	13,351,422,839.91

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

2. Consolidated Profit Statement

In RMB

Item	Current Period	Last Period
I. Total operating income	18,765,953,326.74	16,484,713,152.23
Including: Operating income	18,765,953,326.74	16,484,713,152.23
Interest income		
Insurance gained		
Commission charge and commission income		
II. Total operating cost	18,608,932,400.52	15,992,662,817.00
Including: Operating cost	17,168,678,072.03	14,783,469,085.76
Interest expense		
Commission charge and commission expense		
Cash surrender value		
Net amount of expense of compensation		
Net amount of withdrawal of insurance contract reserve		
Bonus expense of guarantee slip		
Reinsurance expense		
Operating tax and extras	14,883,492.61	32,856,813.17
Sales expenses	848,039,181.63	781,723,562.39
Administration expenses	428,763,602.19	378,434,960.67
R&D expenses	20,646,996.66	16,956,102.02
Financial expenses	122,848,912.84	-1,229,260.20

Including: interest expenses	117,650,618.41	113,961,789.03
Interest income	15,278,180.93	10,272,441.70
Losses of devaluation of asset	5,072,142.56	451,553.19
Add: other income	221,815,360.84	106,768,467.31
Investment income (Loss is listed with “-”)	18,025,825.93	21,716,884.19
Including: Investment income on affiliated company and joint venture		
Changing income of fair value(Loss is listed with “-”)	3,697,878.32	-2,451,574.35
Exchange income (Loss is listed with “-”)		
Income from assets disposal (Loss is listed with “-”)	26,528,980.99	90,439.51
III. Operating profit (Loss is listed with “-”)	427,088,972.30	618,174,551.89
Add: Non-operating income	38,380,646.96	35,329,596.21
Less: Non-operating expense	3,959,082.04	2,582,901.73
IV. Total Profit (Loss is listed with “-”)	461,510,537.22	650,921,246.37
Less: Income tax expense	114,131,222.33	160,567,838.22
V. Net profit (Net loss is listed with “-”)	347,379,314.89	490,353,408.15
(i) Net profit of continuous operating (Net loss is listed with “-”)	347,379,314.89	490,353,408.15
(ii) Net profit of business termination (Net loss is listed with “-”)		
Net profit attributable to owners of parent company	347,379,314.89	490,353,408.15
Minority shareholders’ gains and losses		
VI. Net after-tax of other comprehensive income	-29,194,350.54	46,614,777.72
Net after-tax of other comprehensive income attributable to owners of parent company	-29,194,350.54	46,614,777.72
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-9,293,000.00	-2,514,660.07

1. Changes as a result of re-measurement of net defined benefit plan liability or asset	-9,293,000.00	-2,514,660.07
2. Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified subsequently to profit and loss		
(II) Other comprehensive income items which will be reclassified subsequently to profit or loss	-19,901,350.54	49,129,437.79
1. Other comprehensive income turn-able to gain/loss under the equity method		
2. Gains or losses arising from changes in fair value of available-for-sale financial assets	-19,901,350.54	49,129,437.79
3. Gains or losses arising from reclassification of held-to-maturity investment as available-for-sale financial assets		
4. The effect hedging portion of gains or losses arising from cash flow hedging instruments		
5. Translation differences arising on translation of foreign currency financial statements		
6. Other		
Net after-tax of other comprehensive income attributable to minority shareholders		
VII. Total comprehensive income	318,184,964.35	536,968,185.87
Total comprehensive income attributable to owners of parent Company	318,184,964.35	536,968,185.87
Total comprehensive income attributable to minority shareholders		
VIII. Earnings per share:		
(i) Basic earnings per share	0.87	1.23
(ii) Diluted earnings per share	0.87	1.23

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

3. Consolidated Cash Flow Statement

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	20,807,163,753.99	17,832,002,542.55
Net increase of customer deposit and interbank deposit		
Net increase of loan from central bank		
Net increase of capital borrowed from other financial institution		
Cash received from original insurance contract fee		
Net cash received from reinsurance business		
Net increase of insured savings and investment		
Net increase of amount from disposal financial assets that measured by fair value and with variation reckoned into current gains/losses		
Cash received from interest, commission charge and commission		
Net increase of capital borrowed		
Net increase of returned business capital		
Write-back of tax received	160,585,071.09	20,098,154.49
Other cash received concerning operating activities	451,507,473.74	220,959,949.93
Subtotal of cash inflow arising from operating activities	21,419,256,298.82	18,073,060,646.97
Cash paid for purchasing commodities and receiving labor	14,782,948,436.20	12,127,927,122.14

service		
Net increase of customer loans and advances		
Net increase of deposits in central bank and interbank		
Cash paid for original insurance contract compensation		
Cash paid for interest, commission charge and commission		
Cash paid for bonus of guarantee slip		
Cash paid to/for staff and workers	3,127,969,349.97	2,781,005,931.70
Taxes paid	721,075,563.94	952,528,022.85
Other cash paid concerning operating activities	337,245,429.23	341,551,448.05
Subtotal of cash outflow arising from operating activities	18,969,238,779.34	16,203,012,524.74
Net cash flows arising from operating activities	2,450,017,519.48	1,870,048,122.23
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	17,934,220.07	22,740,535.94
Net cash received from disposal of fixed, intangible and other long-term assets	59,270,834.82	3,413,604.19
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities	91,605.86	
Subtotal of cash inflow from investing activities	77,296,660.75	26,154,140.13
Cash paid for purchasing fixed, intangible and other long-term assets	4,196,183,599.83	2,261,448,480.03
Cash paid for investment		
Net increase of mortgaged loans		

Net cash received from subsidiaries and other units obtained	490,295.22	25,120,772.78
Other cash paid concerning investing activities		1,023,651.75
Subtotal of cash outflow from investing activities	4,196,673,895.05	2,287,592,904.56
Net cash flows arising from investing activities	-4,119,377,234.30	-2,261,438,764.43
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Including: Cash received from absorbing minority shareholders' investment by subsidiaries		
Cash received from loans	1,784,385,239.67	400,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities	1,543,271,788.39	1,441,573,989.51
Subtotal of cash inflow from financing activities	3,327,657,028.06	1,841,573,989.51
Cash paid for settling debts	965,762,682.37	1,279,307,411.71
Cash paid for dividend and profit distributing or interest paying	171,267,798.35	188,645,086.06
Including: Dividend and profit of minority shareholder paid by subsidiaries		
Other cash paid concerning financing activities	273,646,123.68	202,020,573.31
Subtotal of cash outflow from financing activities	1,410,676,604.40	1,669,973,071.08
Net cash flows arising from financing activities	1,916,980,423.66	171,600,918.43
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	49,654,474.95	-27,881,042.58
V. Net increase of cash and cash equivalents	297,275,183.79	-247,670,766.35

Add: Balance of cash and cash equivalents at the period -begin	543,584,920.30	791,255,686.65
VI. Balance of cash and cash equivalents at the period -end	840,860,104.09	543,584,920.30

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

Current Period

In RMB

Item	Current Period												
	Owners' equity attributable to parent company											Minority interests	Total owners' equity
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Provision of general risk	Retained profit		
		Preferred stock	Perpetual capital securities	Other									
I. Balance at the end of the last year	400,000,000.00				75,410,363.70		178,494,839.48		471,457,259.99		3,127,778,550.76		4,253,141,013.93
Add: Changes of accounting policy													
Error correction of the last period													
Enterprise combine under the same control													
Other													
II. Balance at the beginning of this year	400,000,000.00				75,410,363.70		178,494,839.48		471,457,259.99		3,127,778,550.76		4,253,141,013.93
III. Increase/							-29,194,		32,542,		214,836		218,184

Decrease in this year (Decrease is listed with “-”)							350.54		717.59		,597.30		,964.35
(i) Total comprehensive income							-29,194,350.54				347,379,314.89		318,184,964.35
(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									32,542,717.59		-132,542,717.59		-100,000,000.00
1. Withdrawal of surplus reserves									32,542,717.59		-32,542,717.59		
2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)											-100,000,000.00		-100,000,000.00
4. Other													
(IV) Carrying forward internal owners’ equity													
1. Capital reserves conversed to capital (share capital)													

2. Surplus reserves converted to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Change amount of defined benefit plans that carry forward retained earnings													
5. Other													
(V) Reasonable reserve													
1. Withdrawal in the report period													
2. Usage in the report period													
(VI)Others													
IV. Balance at the end of the report period	400,000,000.				75,410,363.70		149,300,488.94		503,999,977.58		3,342,615,148.06		4,471,325,978.28

Last Period

In RMB

Item	Last Period												Minority interests	Total owners' equity
	Owners' equity attributable to 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			
		Preferred stock	Perpetual capital securities	Other										
I. Balance at the end of the last year	400,000,000.00				75,410,363.70		131,880,061.76		423,424,327.64		2,805,458,074.96		3,836,172,828.06	
Add:														

Changes of accounting policy													
Error correction of the last period													
Enterprise combine under the same control													
Other													
II. Balance at the beginning of this year	400,000,000				75,410,363.70		131,880,061.76		423,424,327.64		2,805,458,074.96		3,836,172,828.06
III. Increase/Decrease in this year (Decrease is listed with “-”)							46,614,777.72		48,032,932.35		322,320,475.80		416,968,185.87
(i) Total comprehensive income							46,614,777.72				490,353,408.15		536,968,185.87
(ii) Owners’ devoted and decreased capital													
1.Common shares invested by shareholders													
2. Capital invested by holders of other equity instruments													
3. Amount reckoned into owners’ equity with share-based payment													
4. Other													
(III) Profit distribution									48,032,932.35		-168,032,932.35		-120,000,000.00
1. Withdrawal of surplus reserves									48,032,932.35		-48,032,932.35		

2. Withdrawal of general risk provisions													
3. Distribution for owners (or shareholders)											-120,000,000.00		-120,000,000.00
4. Other													
(IV) Carrying forward internal owners' equity													
1. Capital reserves converted to capital (share capital)													
2. Surplus reserves converted to capital (share capital)													
3. Remedying loss with surplus reserve													
4. Change amount of defined benefit plans that carry forward retained earnings													
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	400,000,000.00				75,410,363.70		178,494,839.48		471,457,259.99		3,127,778,550.76		4,253,141,013.93

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

5. Balance Sheet of Parent Company

In RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	804,583,812.57	516,216,370.03
Financial assets measured by fair value and with variation reckoned into current gains/losses	90,488.17	
Derivative financial assets		
Notes receivable & account receivables	412,570,738.01	547,677,560.06
Including: Notes receivable		
Accounts receivable	412,570,738.01	547,677,560.06
Account paid in advance	263,658,892.86	222,501,155.94
Other receivables	239,078,612.04	399,100,432.09
Including: Interest receivable		
Dividends receivable		
Inventories	104,444,823.98	82,225,339.01
Assets held for sale		
Non-current assets maturing within one year		
Other current assets	236,057,827.36	185,778,982.56
Total current assets	2,060,485,194.99	1,953,499,839.69
Non-current assets:		
Available-for-sale financial assets	310,842,965.35	337,378,099.40
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	144,101,285.43	144,101,285.43
Investment property		
Fixed assets	7,667,474,888.84	6,802,699,864.94
Construction in progress	4,790,300,972.13	2,737,166,681.62
Productive biological assets		
Oil and natural gas assets		
Intangible assets	102,375,769.20	102,780,313.61
Research and development costs		

Goodwill		
Long-term deferred expenses	572,919,885.06	534,617,772.35
Deferred income tax assets	913,510,618.39	782,457,009.29
Other non-current assets		
Total non-current assets	14,501,526,384.40	11,441,201,026.64
Total assets	16,562,011,579.39	13,394,700,866.33
Current liabilities:		
Short-term borrowings	580,000,000.00	
Financial liability measured by fair value and with variation reckoned into current gains/losses		3,607,390.15
Derivative financial liability		
Notes payable & accounts payable	2,292,392,127.26	1,979,178,746.67
Accounts received in advance	785,082,130.23	611,805,531.91
Wage payable	532,617,252.72	558,628,059.49
Taxes payable	248,981,430.52	160,844,683.77
Other accounts payable	680,079,759.56	450,375,054.54
Including: Interest payable	10,428,894.80	1,324,391.18
Dividend payable	11,940.00	11,940.00
Liability held for sale		
Non-current liabilities due within 1 year	455,840,675.34	622,127,224.77
Other current liabilities		
Total current liabilities	5,574,993,375.63	4,386,566,691.30
Non-current liabilities:		
Long-term loans	1,885,556,557.83	1,217,610,831.16
Bonds payable		
Including: preferred stock		
Perpetual capital securities		
Long-term account payable	4,368,213,445.33	3,277,812,491.65
Long-term wages payable	135,224,119.11	110,950,000.00
Projected liabilities		
Deferred income	118,279,868.16	111,638,302.81
Deferred income tax liabilities	55,645,338.38	62,256,499.85
Other non-current liabilities		

Total non-current liabilities	6,562,919,328.81	4,780,268,125.47
Total liabilities	12,137,912,704.44	9,166,834,816.77
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	149,300,488.94	178,494,839.48
Reasonable reserve		
Surplus reserve	503,339,273.05	470,796,555.46
Retained profit	3,284,547,944.25	3,091,663,485.91
Total owner's equity	4,424,098,874.95	4,227,866,049.56
Total liabilities and owner's equity	16,562,011,579.39	13,394,700,866.33

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

6. Profit Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Operating income	18,735,517,367.52	16,458,875,009.30
Less: Operating cost	17,189,929,884.10	14,787,294,207.29
Operating tax and extras	12,175,296.39	30,747,837.94
Sales expenses	844,010,110.57	780,907,566.52
Administration expenses	411,885,097.58	365,144,939.36
R&D expenses	20,646,996.66	16,956,102.02
Financial expenses	122,918,574.63	-1,152,997.41
Including: interest expenses	117,650,618.41	113,961,789.03
Interest income	15,170,575.64	10,174,058.19
Losses of devaluation of asset	5,166,365.82	593,979.76
Add: other income	221,139,549.48	103,523,912.62
Investment income (Loss is listed with "-")	18,025,825.93	21,716,884.19

Including: Investment income on affiliated company and joint venture		
Changing income of fair value(Loss is listed with “-”)	3,697,878.32	-2,451,574.35
Income on disposal of assets (Loss is listed with “-”)	26,528,980.99	90,439.51
II. Operating profit (Loss is listed with “-”)	398,177,276.49	601,263,035.79
Add: Non-operating income	38,140,601.14	38,482,264.33
Less: Non-operating expense	3,959,082.04	2,489,883.38
III. Total Profit (Loss is listed with “-”)	432,358,795.59	637,255,416.74
Less: Income tax expense	106,931,619.66	156,926,093.20
IV. Net profit (Net loss is listed with “-”)	325,427,175.93	480,329,323.54
(i) Net profit of continuous operating (Net loss is listed with “-”)		480,329,323.54
(ii) Net profit of business termination (Net loss is listed with “-”)		
V. Net after-tax of other comprehensive income	-29,194,350.54	46,614,777.72
(I) Other comprehensive income items which will not be reclassified subsequently to profit of loss	-9,293,000.00	-2,514,660.07
1. Changes as a result of re-measurement of defined benefit plan	-9,293,000.00	-2,514,660.07
2. Other comprehensive income unable turn to gain/loss under the equity method		
(II) Other comprehensive income items which will be reclassified subsequently to gain or loss	-19,901,350.54	49,129,437.79
1. Other comprehensive income turn-able to gain/loss under the equity method		
2. Gains or losses arising from changes in fair value of available-for-sale financial assets	-19,901,350.54	49,129,437.79
3. Gains or losses arising		

from reclassification of held-to-maturity investment as available-for-sale financial assets		
4. The effect hedging portion of gains or losses arising from cash flow hedging instruments		
5. Translation differences arising on translation of foreign currency financial statements		
6. Other		
VI. Total comprehensive income	296,232,825.39	526,944,101.26
VII. Earnings per share:		
(i) Basic earnings per share		
(ii) Diluted earnings per share		

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

7. Cash Flow Statement of Parent Company

In RMB

Item	Current Period	Last Period
I. Cash flows arising from operating activities:		
Cash received from selling commodities and providing labor services	20,757,159,181.82	17,779,799,230.47
Write-back of tax received	160,585,071.09	19,910,796.38
Other cash received concerning operating activities	465,154,723.66	224,117,752.85
Subtotal of cash inflow arising from operating activities	21,382,898,976.57	18,023,827,779.70
Cash paid for purchasing commodities and receiving labor service	14,869,671,425.31	12,112,203,516.41
Cash paid to/for staff and workers	3,081,272,484.34	2,752,738,939.89
Taxes paid	701,248,455.48	942,671,808.62
Other cash paid concerning operating activities	306,064,682.62	333,575,369.33

Subtotal of cash outflow arising from operating activities	18,958,257,047.75	16,141,189,634.25
Net cash flows arising from operating activities	2,424,641,928.82	1,882,638,145.45
II. Cash flows arising from investing activities:		
Cash received from recovering investment		
Cash received from investment income	17,934,220.07	22,740,535.94
Net cash received from disposal of fixed, intangible and other long-term assets	59,270,834.82	3,412,604.19
Net cash received from disposal of subsidiaries and other units		
Other cash received concerning investing activities	91,605.86	
Subtotal of cash inflow from investing activities	77,296,660.75	26,153,140.13
Cash paid for purchasing fixed, intangible and other long-term assets	4,179,715,750.42	2,260,152,791.22
Cash paid for investment		
Net cash received from subsidiaries and other units	490,295.22	36,763,414.09
Other cash paid concerning investing activities		1,023,651.75
Subtotal of cash outflow from investing activities	4,180,206,045.64	2,297,939,857.06
Net cash flows arising from investing activities	-4,102,909,384.89	-2,271,786,716.93
III. Cash flows arising from financing activities		
Cash received from absorbing investment		
Cash received from loans	1,784,385,239.67	400,000,000.00
Cash received from issuing bonds		
Other cash received concerning financing activities	1,543,271,788.39	1,441,573,989.51

Subtotal of cash inflow from financing activities	3,327,657,028.06	1,841,573,989.51
Cash paid for settling debts	965,762,682.37	1,279,307,411.71
Cash paid for dividend and profit distributing or interest paying	171,267,798.35	188,645,086.06
Other cash paid concerning financing activities	273,646,123.68	202,020,573.31
Subtotal of cash outflow from financing activities	1,410,676,604.40	1,669,973,071.08
Net cash flows arising from financing activities	1,916,980,423.66	171,600,918.43
IV. Influence on cash and cash equivalents due to fluctuation in exchange rate	49,654,474.95	-27,881,042.58
V. Net increase of cash and cash equivalents	288,367,442.54	-245,428,695.63
Add: Balance of cash and cash equivalents at the period -begin	516,216,370.03	761,645,065.66
VI. Balance of cash and cash equivalents at the period -end	804,583,812.57	516,216,370.03

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

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

Current Period

In RMB

Item	Current Period										
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred stock	Perpetual capital securities	Other							
I. Balance at the end of the last year	400,000,000.00				86,911,168.71		178,494,839.48		470,796,555.46	3,091,663,485.91	4,227,866,049.56
Add: Changes of accounting											

policy											
Error correction of the last period											
Other											
II. Balance at the beginning of this year	400,000,000.00			86,911,168.71		178,494,839.48		470,796,555.46	3,091,663,485.91	4,227,866,049.56	
III. Increase/Decrease in this year (Decrease is listed with “-”)						-29,194,350.54		32,542,717.59	192,884,458.34	196,232,825.39	
(i) Total comprehensive income						-29,194,350.54			325,427,175.93	296,232,825.39	
(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								32,542,717.59	-132,542,717.59	-100,000,000.00	
1. Withdrawal of surplus reserves								32,542,717.59	-32,542,717.59		
2. Distribution to owners (or shareholders)									-100,000,000.00	-100,000,000.00	
3. Other											
(IV) Carrying											

forward internal owners' equity											
1. Capital reserves converted to capital (share capital)											
2. Surplus reserves converted to capital (share capital)											
3. Remedying loss with surplus reserve											
4. Change amount of defined benefit plans that carry forward retained earnings											
5. Other											
(V) Reasonable reserve											
1. Withdrawal in the report period											
2. Usage in the report period											
(VI)Others											
IV. Balance at the end of the report period	400,000,000.00				86,911,168.71		149,300,488.94		503,339,273.05	3,284,547,944.25	4,424,098,874.95

Last period

In RMB

Item	Last period										
	Share capital	Other equity instrument			Capital reserve	Less: Inventory shares	Other comprehensive income	Reasonable reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred stock	Perpetual capital securities	Other							
I. Balance at the	400,000,				86,911,16		131,880,0		422,763,6	2,779,367,094.	3,820,921

end of the last year	000.00				8.71		61.76		23.11	72	,948.30
Add: Changes of accounting policy											
Error correction of the last period											
Other											
II. Balance at the beginning of this year	400,000,000.00				86,911,168.71		131,880,061.76		422,763,623.11	2,779,367,094.72	3,820,921,948.30
III. Increase/Decrease in this year (Decrease is listed with "-")							46,614,777.72		48,032,932.35	312,296,391.19	406,944,101.26
(i) Total comprehensive income							46,614,777.72			480,329,323.54	526,944,101.26
(ii) Owners' devoted and decreased capital											
1.Common shares invested by shareholders											
2. Capital invested by holders of other equity instruments											
3. Amount reckoned into owners' equity with share-based payment											
4. Other											
(III) Profit distribution									48,032,932.35	-168,032,932.35	-120,000,000.00
1. Withdrawal of surplus reserves									48,032,932.35	-48,032,932.35	
2. Distribution to owners (or										-120,000,000.00	-120,000,000.00

shareholders)											0
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. Change amount of defined benefit plans that carry forward retained earnings											
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	400,000,000.00				86,911,168.71		178,494,839.48		470,796,555.46	3,091,663,485.91	4,227,866,049.56

Legal Representative: Sun Xiujiang

Person in charge of Accounting Works: Xu Guojian

Person in charge of Accounting Institution: Zhou Shoubin

Shandong Airlines Co., Ltd.

Notes to the Financial Statements

for the Year Ended 31 December 2018

(All amounts are expressed in CNY unless otherwise stated)

Note 1 Corporation profile

Shandong Airlines Co., Ltd. (hereafter, the Company) is a foreign-invested limited liability company incorporated in the People's Republic of China. The Company was incorporated through the restructuring project jointly initiated by Shandong Airlines Group Co., Ltd. (hereafter, SDA Group), Inspur Co., Ltd. (previously known as Inspur Electronic Information Industry Group Company (浪潮电子信息产业集团公司), Shandong Hualu Group Co., Ltd, Shandong Group Corp. of Fisheries Enterprises and Luyin Investment Group (鲁银投资集团股份有限公司) following the approval (LuTiGaiQiZi(1999)No.88 (鲁体改企字(1999)第 88 号)) granted by the Economic Reform Commission of Shandong Province (山东省经济体制改革委员会) on July 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 authorised the transfer of 91,200,000 shares of the Company, equal to 22.8% shareholding, from SDA Group to China Aviation Group. Immediately after the share transfer, SDA Group's shareholding in the Company was 42.00%. In November 2004, the Board of Directors of the Company, in accordance with the approval (GuoZiChanQuan[2004]No.956 (国资产权[2004]956 号:《关于中国航空集团公司将受让山东航空股份有限公司国有股的合同实施转让有关问题的批复》)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, authorised China Aviation Group to transfer the state-owned corporate shares received from SDA Group to Air China Co., Ltd. (hereafter, Air China). As so provided in

GuoZiChanQuan[2004]No.956, the rights and obligation attributable to China Aviation Group as specified in the Agreement of Share Transfer shall be afforded by Air China. The change of share ownership was registered at the China Securities Depository and Clearing Corporation Limited Shenzhen Office by SDA Group and Air China on December 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 Company is permitted to undertake international and domestic passenger and cargo transportation, hotel and beverage related operation (limited to operation through branch); provision of aircraft maintenance, training of civil aviation pilots and air crew, insurance brokerage; inter-airline agenting, and principal operation related ground services; sales of airborne material and equipments, grocery, food, health food, art work, souvenir, etc.; retailing of tobacco products (limited to Qingdao Red-Crowned Crane Hotel); lease of airborne material and equipments; venue rental, private house rental, business services, hotel accommodation agents and ticket agents; conference services; transportation agency; air cargo storage; and aviation pilot provision (for other domestic airlines). (The operating activities listed herein does not involve operation related to commodity that are subject to State Administered Trading (国营贸易管理),but involve operation related to commodity that are subject to quotas , licence requirements, which are restricted to obtain permission before the operation)(the project that subjects to the approval in accordance with the law, can carry out business activities only after the approval of the relevant departments to carry out business activities).

The financial statements of the Company has been approved by the board of directors on March 21 2019. Four subsidiaries of the Company are included in the consolidated financial statements in 2018, see Note 8 "The equity in other main entities". Scope of consolidation from last year has not been changed.

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

Note 2 Basis for preparation of the financial statements

2.1 Basis for preparation

The financial statements of company have been prepared on basis of going concern in conformity with Chinese Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises issued by the Ministry of Finance of People's Republic of China (Ministry of Finance issued order No.33, the Ministry of Finance revised order No.76) on February 15 2006, and revised Accounting Standards (order 42 of the Ministry of Finance) and Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reports (2014 Revision) issued by the China Securities Regulatory Commission (CSRC).

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

impairment are made in accordance with relevant requirements.

Note 3 Statement of Compliance with Enterprise Accounting Standards

The financial statements of the company are recognized and measured in accordance with the regulations in the Chinese Accounting Standards for Business Enterprises and they give a true and fair view of the financial position, business result and cash flow of the Company as of December 31 2018. In addition, the financial statements of the company comply, in all material respects, with the revised disclosing requirements for financial statements and the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.15—General Provisions on Financial Reports (2014 Revision) issued by China Securities Regulatory Commission (CSRC) in 2014.

Note 4 Important Accounting Principles and Accounting Estimates

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

4.1 Accounting period

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

4.2 Operating cycle

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

4.3 Monetary Unit

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

4.4 Business combination

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

4.4.1 Business combination involving entities under common control

A business combination involving enterprises under common control is a business combination in which all of the

combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

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

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

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

4.4.2 Business combination involving entities not under common control

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

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

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

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

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

Combination cost of the acquirer's interest and identifiable net assets of the acquirer acquired through the business combination shall be measured by the fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill.

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

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

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

For a business combination not involving enterprise under common control, which achieved in stages that involves multiple exchange transactions, according to "The notice of the Ministry of Finance on the issuance of Accounting Standards Interpretation No. 5" (CaiKuai [2012] No. 19) and Article 51 of "Accounting Standards for Business Enterprises No.33 - Consolidated Financial Statements" on the "package deal" criterion (see Note 4.5.2), to judge the multiple transactions whether they are the "package deal". If it belongs to the "package deal" in reference to the preceding paragraphs of this section and the Notes described in 4.13 "Long-term equity investments" accounting treatment, if it does not belong to the "package deal" to distinguish the individual financial statements and the consolidated financial statements related to the accounting treatment:

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

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

assets due to a corresponding share of the rest of the acquisition date into current investment income).

4.5 Preparation of the consolidated financial statements

4.5.1 The scope of consolidation

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

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

4.5.2 Preparation of the consolidated financial statements

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

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

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

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

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

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

the net profit line item.

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

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

The company through multiple transactions step deal with disposal of the subsidiary's equity investment until the loss of control, need to distinguish between equity until the disposal of a subsidiary's loss of control over whether the transaction is package deal. Terms of the transaction disposition of equity investment in a subsidiary, subject to the following conditions and the economic impact of one or more of cases, usually indicates that several transactions should be accounted for as a package deal:① these transactions are considered simultaneously, or in the case of mutual influence made, ② these transactions as a whole in order to achieve a complete business results; ③ the occurrence of a transaction depends on occurs at least one other transaction; ④ a transaction look alone is not economical, but when considered together with other transaction is economical. If they does not belong to the package deal, each of them separately, as the case of a transaction in accordance with "without losing control over the disposal of a subsidiary part of a long-term equity investments"(see Note 4.13.2.4)) and "due to the disposal of certain equity investments or other reasons lost control of a subsidiary of the original" (see previous paragraph) principles applicable accounting treatment. Until the disposal of the equity investment loss of control of a subsidiary of the transactions belonging to the package deal, the transaction will be used as a disposal of a subsidiary and the loss of control of the transaction. However, before losing control of the price of each disposal entitled to share in the net assets of the subsidiary 's investment corresponding to the difference between the disposal, recognized in the consolidated financial statements as other comprehensive income, loss of control over the transferred together with the loss of control or loss in the period.

4.6 Joint arrangement

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement is either a joint

operation or a joint venture, depending of the rights and obligation of the Company in the joint arrangement. A joint operation is a joint arrangement whereby the Company has rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the Company has rights to the net assets of the arrangement.

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

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

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

4.7 Cash equivalent

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

4.8 Foreign exchange

4.8.1 Translation in foreign exchange transactions

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

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

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

foreign currency monetary items, ③available-for-trade is recorded into profit or loss except for amortized cost.

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

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

4.8.3 The translation of financial statement in foreign currency

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

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

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

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

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

foreign currency translation differences, all transferred to the disposal of the income statement.

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

4.9 Financial instruments

4.9.1 Determination of financial assets and liabilities' fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For a financial instrument which has an active market, the Company uses quoted price in the active market to establish its fair value. The quoted price in the active market refers to the price that can be regularly obtained from exchange market, agencies, industry associations, pricing authorities; it represents the fair market trading price in the actual transaction.

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

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

4.9.2 Classification, recognition and measurement of financial assets

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

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

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

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

- A. the financial asset is acquired for the purpose of selling it in a short term;
- B. the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits;
- C. the financial asset is a derivative, except for a derivative that is designated and effective hedging instrument, or a

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

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

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

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

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

2) Investment held-to-maturity

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

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

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

3) Loans and receivables

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

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

4) Financial assets available-for-trade

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

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

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

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

4.9.3 Impairment of financial assets

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

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

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

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

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

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

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

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

4.9.4 Recognition and measurement of financial assets transfer

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

- 1) the rights to receive cash flows from the asset have expired;
- 2) the enterprise has transferred its rights to receive cash flows from the asset to a third party under a pass-through arrangement; or
- 3) the enterprise has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

4.9.5 Classification and measurement of financial liabilities

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

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

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

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

- 2) Other financial liabilities

Derivative financial liabilities that linked with equity instruments, which do not have a quoted price in an active market and

their fair value cannot be measured reliably, is subsequently measured by cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition or amortization is recognized in profit or loss for the current period.

3) Financial guarantee contracts

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

4.9.6 Derecognition of financial liabilities

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

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

4.9.7 Derivatives and embedded derivatives

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

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

4.9.8 Offsetting financial assets and financial liabilities

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

4.9.9 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of

its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity. All types of distribution (excluding stock dividends) made by the Company to holders of equity instruments are deducted from shareholders' equity. The Group does not recognize any changes in the fair value of equity instruments.

4.10 Receivables

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

4.10.1 Criteria for recognition of bad debts:

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

- 1) A serious financial difficulty occurs to the issuer or debtor;
- 2) The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.;
- 3) The debtor will probably become bankrupt or carry out other financial reorganizations;
- 4) Other objective evidences showing the impairment of the receivables.

4.10.2 Method for bad debts provision

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

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

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

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

A. Evidence of credit risk characteristics

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

Evidence of portfolios:

Item	Basis
Categories by nature of receivables	Receivables not individually assessed for impairment are categorised on the basis of credit risk. Provision for bad debts for each category of receivables is recognized at

	the actual rate of loss for the previous year of the same or similar category bearing similar credit risk characteristics after adjustment for the current year circumstances.
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B. Provision by credit risk characteristics

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

Provisions for different portfolios:

Item	Provision
Categories by nature of receivables	Percentage of carrying amount

a. Portfolio 1 by Aging analysis

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

3) Provisions of bad debts that is individually insignificant

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

4.10.3 The reversal of bad debts provision

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

4.11 Inventories

4.11.1 Classification of inventory

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

4.11.2 Valuation method of inventories upon delivery

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

first out (FIFO) method.

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

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

At the balance sheet date, inventories are measured at the lower of the cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. The provision for inventories 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.

4.11.4 The perpetual inventory system is maintained for stock system.

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

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

4.12 Assets and disposal groups held for sale

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

Non-current assets held for sale and disposal group, which the company's initial measurement or remeasurement on the date of the balance sheet divided into, if the book value is higher than the fair value deducting the sale cost, it's book value will be written down to the fair value deducting the sale cost, in addition the reduced amount is recognized as impairment loss included in the current profits and losses, while accruing the provision for impairment of assets held for sale. For the disposal group, confirmed asset impairment losses, will reduce the book value of the goodwill of a disposal group first,

then reduce the book value of the non-current assets proportionally applying to CAS 42 - Non-Current Assets Held For Sale, the Disposal group and Discontinued Operations (hereinafter referred to as the "held for sale rule"). With the fair value deducting the sale cost of the disposal assets held for sale increasing on the date of the balance sheet, the deducted amount should be recovered accordingly Within the relevant scope. The recovering amount is included in the profits and losses of the current period, and the book value is increased proportionally according to the proportion of the book value of the non-current assets stipulated in the rules for sale in addition to the goodwill in the disposal group. The deductible book value of goodwill and the asset impairment losses that are applied to the standards of assets for sale shall not be recovered before they are classified as holding assets for sale.

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

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

4.13 Long-term equity investments

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

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

4.13.1 Determination of investment cost

The cost of a long-term equity investment acquired through business combination under common control is measured at the acquirer's share of the combination date book value of the acquiree's net equity in the ultimate controller's consolidated financial statements. The difference between the cost and book value of cash paid, non-monetary assets transferred, and liabilities assumed is adjusted to capital reserves, and to retained earnings if capital reserves is insufficient. If the consideration is transferred by way of issuing equity instruments, the face value of the equity instruments issued is recognized in share capital and the difference between the cost of the face value of the equity instruments issued is adjusted to capital reserves, and to retained earnings if capital reserves is insufficient. Where a business combination under common control is achieved by multiple acquisition of the acquiree's shareholding, the multiple acquisitions shall be assessed to determine whether the multiple acquisitions shall be viewed as "a package deal". If the multiple acquisitions shall be viewed as "a package deal", the multiple acquisitions shall be accounted for as one

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

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

Through multiple transactions to obtain the shares of the merged party step by step, and ultimately the enterprise merger under the different control is formed, which should be dealt with differently whether it belongs to "a package deal". If it belongs to "a package deal", all transactions should be dealt as a transaction of acquiring the control. If not, the initial investment cost of the long-term equity investment which is changeably measured by the cost method is calculated according to the sum of the book value of the original investor's equity plus the new investment cost. The original ownership is measured by equity method, and the other comprehensive income is not carried on an accountancy processing. The difference between the fair value and the book value of the original holding equity investment which is financial assets held for the sale, as well as the accumulated change of the fair value which is entered into the other comprehensive income before, will be transferred into the current profit and loss.

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

Long-term equity investments acquired not through business combination are measured at cost on initial recognition. Depending on the way of acquisition, the cost of acquisition can be the total cash paid, the fair value of equity instrument issued, the contract price, the fair value or book value of the assets given away in the case of non-monetary asset exchange, or the fair value of the relevant long-term equity investments. The cost of acquisition of a long-term equity investment acquired not through business combination also includes all directly associated expenses, applicable taxes and fees, and other necessary expenses. For the implementation of major influence or common control but failing to reach control through additional investment over the invested entity, the cost of the long-term equity investment is the sum of fair value of the original equity investment in accordance with "the accounting standards for Enterprises No. 22 - recognition and measurement of financial instruments" and the new investment cost.

4.13.2 Subsequent measurement

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

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

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

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

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

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

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

3) Acquisition of minority interest

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

4) Disposal of long-term equity investment

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

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

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

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

remaining investment is measured by equity method, the fore-mentioned other comprehensive income and other equity movement are recognized in profit or loss proportionate to the disposal; Where the remaining investment is measured in accordance with the recognition and measurement principles applicable to financial instruments, the fore-mentioned other comprehensive income and other equity movement are recognized in profit or loss in full.

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

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

4.14 Fixed assets

4.14.1 The conditions of recognition

Fixed assets refer to the tangible assets that are held for the sake of producing commodities, rendering labour service, renting or business management and their useful life is in excess of one fiscal year. Fixed assets are only confirmed when the related economic benefits are likely to flow into the company and its cost can be reliably measured. The initial measurement is carried out on the basis of the cost of fixed assets and the effect of the expected discarded cost.

4.14.2 The method for depreciation

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

Category	Expected useful life	Estimated residual value (%)	Depreciation (%)
Houses and building	20-33	5.00	2.88-4.75
Key components and power supports of aircraft engine	15-20	5.00	4.75-6.33
Replacement parts of engine	3-7	0.00	14.29-33.33

Category	Expected useful life	Estimated residual value (%)	Depreciation (%)
Equipments, electronic devices and furniture	4-10	5.00	9.5-23.75
High value rotables	15-18	0.00	5.56-6.67

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

4.14.3 Measurement and recognition of fixed assets

Impairment and provisions of fixed assets are disclosed on Note 4.19 “Impairment of long-term assets”.

4.14.4 Fixed Assets under finance leases

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

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

4.14.5 Others

A fixed asset is recognized only when the economic benefits associated with the asset will probably flow to the Company and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meet the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss in the period in which they are incurred.

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

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

4.15 Construction in progress

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

Testing method for provision impairment of construction in progress and accrued method for provision impairment please refer to Note 4.19 “Impairment of long-term assets”.

4.16 Borrowing costs

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

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

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

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

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

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

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

4.17 Intangible assets

4.17.1 Intangible asset

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

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

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

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

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

4.17.2 the expenditure of research and development

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

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

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

- ① Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② Intention to complete the intangible asset and use or sell it;
- ③ How the intangible asset will generate economic benefits, including the ability to demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ④ Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- ⑤ Ability to measure reliably the expenditure that is attributable to the intangible asset during its development.

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

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

Impairment and provisions of intangible assets are disclosed on Note 4.19 "Impairment of long-term assets".

4.18 Deferred charges

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

4.19 Impairment of long-term assets

Non-financial assets with non-current nature include fixed assets, construction in progress, intangible assets with definite

useful lives, investment properties measured by cost method and long-term equity investment on subsidiaries, joint operations. The Company assesses whether there are any indicators of impairment for all non-financial assets at the balance sheet date, and impairment test is carried out and recoverable value is estimated if such an indicator exists. Goodwill and intangible assets with indefinite useful lives, as well as intangible assets not ready for use, are tested for impairment annually regardless of indicators of impairment.

Impairment of loss is calculated, and provisions taken by the difference if the recoverable value of the assets is lower than the book value. The recoverable value is the higher of estimated present value of the future expected cash flows from the asset and net fair value of the asset less disposed cost. The fair value of asset is determined by the sales agreement price within an arm's length transaction. In case there is no sales agreement, but there is active market of assets, the fair value can be determined by the selling price. If there is neither sales agreement nor active market, the fair value of the asset can be estimated based on the best information obtained.

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

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

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

4.20 Employee benefits

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

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

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

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

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

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

4.21 Revenue

4.21.1 Revenue from rendering of service

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

②The Company recognize air cargo revenue from rendering of air service for carriage of cargo when the service is rendered

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

4.21.2 Royalty Revenue

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

4.21.3 Interest Income

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

4.22 Government grants

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

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

4.22.2 Where a grant is obtained for general purpose, the grant as a whole is classified as a revenue-related government grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

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

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

If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

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

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

For repayment of a government grant already recognized, if there is a related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there are other situations, the repayment is recognized immediately in profit or loss for the period.

4.23 Deferred tax assets and deferred tax liabilities

4.23.1 Income tax for the current period

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

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

4.23.2 Deferred income tax assets and liabilities

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

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

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

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

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

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

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

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

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

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

4.23.3 Income tax expenses

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

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

4.23.4 Income tax offset

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

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

4.24 Leases

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

4.24.1 The Company as Lessee under operating Lease

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

4.24.2 The Company as lessor under operating Lease

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

4.24.3 The Company as Lessee under financing Lease

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

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

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

4.24.4 In the case of the lessor of a financing lease

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

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

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

4.25 Regular repair and substantial repair

Regular repair expenditure of own aircrafts and aircrafts acquired under a financial lease is accounted for through profit or loss for the period in which it is incurred. Substantial repair expenditure eligible for 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.

4.26 Changes in major accounting policies and accounting estimates

4.26.1 Changes of accounting policies

4.26.1.1 Changes of accounting policy resulting from changes in enterprise accounting standards and other laws and regulations

A. Implementation of the Notice of the Ministry of Finance on revising the form of the 2018 general corporate financial statements

On June 15 2018, the Ministry of Finance issued the Notice of the Ministry of Finance on revising the form of the 2018 annual general corporate financial statements (Accounting [2018] No. 15), and adjusted the financial statement format of the enterprise accordingly. The line items of “notes receivable” and “accounts receivable” are merged into “notes receivable and accounts receivable”. The line items of “interest receivable”, “dividend receivable” and “other receivables” are merged into “other receivables”. The line items of “fixed assets” and “disposal of fixed assets” are merged into “fixed assets”. The line items of “construction materials” and “construction-in-progress” are merged into “construction-in-progress”. The line items of “notes payable” and “accounts payable” are merged into “notes payable and accounts payable”. The line items of “interest payable”, “dividend payable” and “other payables” are merged into “other payables”. The line items of “long-term payables” and “specific payable” are merged into “long-term payables”. The line item “general and administrative expenses” in the income statement are split into detailed items of “general and administrative expenses” and “research and development expenses”. Detailed items of “interest expense ”and“ interest income” are added under financial costs in income statement. The item of “changes in defined benefit plan transferred to retained earnings” is added in statement of changes in shareholders’ equity. The company adopts the retrospective adjustment method for the change of the accounting policy, and the items in 2017 financial statements are retrospectively adjusted as follows:

Currency: CNY

As of 12.31.2017 / 2017	Pre-adjustment	Post-adjustment	Movement
Items in consolidated financial statements:			
Notes receivable and accounts receivable		551,020,199.28	551,020,199.28
Notes receivable	115,000.00		-115,000.00
Accounts receivable	550,905,199.28		-550,905,199.28
Notes payable and accounts payable		1,931,374,087.78	1,931,374,087.78
Accounts payable	1,931,374,087.78		-1,931,374,087.78
Other payables	411,682,128.67	413,608,826.81	1,926,698.14
Interest payable	1,324,391.18		-1,324,391.18
Dividend payable	602,306.96		-602,306.96

General and administrative expenses	395,391,062.69	378,434,960.67	-16,956,102.02
Research and development expenses		16,956,102.02	16,956,102.02
Items in parent company's financial statement:			
Notes receivable and accounts receivable		547,677,560.06	547,677,560.06
Accounts receivable	547,677,560.06		-547,677,560.06
Notes payable and accounts payable		1,979,178,746.67	1,979,178,746.67
Accounts payable	1,979,178,746.67		-1,979,178,746.67
Other payables	449,038,723.36	450,375,054.54	1,336,331.18
Interest payable	1,324,391.18		-1,324,391.18
Dividend payable	11,940.00		-11,940.00
General and administrative expenses	382,101,041.38	365,144,939.36	-16,956,102.02
Research and development expenses		16,956,102.02	16,956,102.02

B. Execution of the interpretation of issues concerning the form of the 2018 general corporate financial statements

The Ministry of Finance issued the interpretation of issues concerning the form of the 2018 general corporate financial statements (hereinafter, the Interpretation). The Interpretation requires that: as a withholding agent for personal income tax, the withholding tax refund should be recognized as "other projects related to daily activities" under "other income and gain" in income statement according to the Individual Income Tax Law of the People's Republic of China. The government subsidies received by the Company, whether related to assets or income, are presented as cash flows from operating activities when preparing the cash flow statement.

In accordance with the "Accounting Standards for Business Enterprises No. 30 - presentation of financial statements" and other relevant regulations, the Company adopted the retrospective adjustment method for the changes of accounting policy. And the 2018/2017 comparative financial statements have been restated. The other income and gain in 2017 consolidated financial statements is increased by CNY 3,244,554.69 and non-operating income is decreased by CNY 3,244,554.69. The other income and gain in parent company's 2017 financial statement is increased by CNY 3,244,554.69 and the non-operating income is decreased by CNY 3,244,554.69. The other cash receipts relating to operating activities in 2017 consolidated cash flow statement is increased by CNY 15,630,000.00, and the other cash receipts relating to financing activities is reduced by CNY 15,630,000.00. The other cash receipts relating to operating activities in the parent company's 2017 financial statements is increased by CNY 15,630,000.00, and the other cash receipts relating to financing activities is reduced by CNY 15,630,000.00.

4.26.1.2 Changes in other accounting policies

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

4.26.2 Changes of accounting estimates

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

4.27 Correction of prior period errors

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

4.28 Significant account 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:

4.28.1 Classification of lease

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

4.28.2 Allowance for bad debt

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

4.28.3 Impairment of inventories

The Company measures inventories by the lower of cost and realizable net value according to the accounting policies in regard of inventories and provisions for decline in value of inventories is made if the cost is higher than their net realizable value, and obsolete and slow-movement inventories. Inventories decline in value to net realizable value is the estimated

selling price in the ordinary course of business. Net realizable value is determined on the basis of clear evidence obtained and takes into consideration the purposes of holding inventories and effect of post balance sheet events. The difference between the actual result and the original estimates shall have impact on reverse of the carrying amount of the inventories and their decline in value or provisions during the period of change.

4.28.4 The fair value of financial instruments

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

4.28.5 Impairment of non-financial, non-current assets

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

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

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

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

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

4.28.6 Depreciation and amortization

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

4.28.7 Deferred tax assets

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

4.28.8 Income tax

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

4.28.9 Aircraft operating lease and engine overhaul expenses

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

4.28.10 Defined benefit plan

The defined benefit plan implemented and maintained by the Company includes post-employment benefits plan. The provided welfare costs under the above defined benefit plan was calculated by expected cumulative unit credit method according to various actuarial assumptions and were recognized during the employee service providing period. Actuarial Assumptions include but not limited to discount rate, mortality rate, and etc. The discount rate is on the basis of management's review of national debt, and mortality rate depends on the mortality rate adopted by the China life insurance industry. Supplemental information of defined benefit plan refer to Note 6.26.

Note 5 Taxation

5.1 Major taxes and tax rate

Tax	Tax rate (%)
Enterprise income tax	Business tax is calculated according to the taxable income(note1)
Value added tax	The VAT is calculated as the difference between output tax (11% of the taxable revenue) and deductible input tax for the period, and the tax rates are 6%, 10%, 11%, 16% or 17%

Tax	Tax rate (%)
	(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: The original applicable tax rate is 17% and 11% for the company output tax and import tax respectively. According to the "Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Value-Added Tax Rate" (Caishui [2018] No. 32), the applicable tax rate will be adjusted to 16% and 10% from May 1 2018.

5.2 Tax incentives

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

政策的通知》)。

5.2.2. According to the Announcement of the State Administration of Taxation on the enterprise income tax on the in-depth implementation of the development strategy of the western region of China"(《国家税务总局关于深入实施西部大开发战略有关企业所得税问题的公告》)(State Administration of Taxation [2012]12), 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 2018 .

Note 6 Notes to significant elements of the consolidated financial statements

Unless otherwise stated, the meaning of "B/f", "C/f", "Current year", "Prior year" in the following notes (incl. Notes to elements of the separate financial statements) is "January 1 2018", "December 31 2018", "the year ended December 31 2018", and "the year ended December 31 2017" respectively.

6.1 Monetary funds

Item	C/f	B/f
Cash at hand:	291,347.27	372,046.44
Bank deposit:	840,568,756.82	543,212,873.86
Other monetary funds	100,000.00	
Total	840,960,104.09	543,584,920.30
Including: the total amount of deposit abroad	2,047,660.50	2,495,063.57

Note: As at the year end, the Company used restricted monetary funds of CNY 100,000.00 (prior year: CNY 0.00), which was issued by the Company with a bank deposit of CNY 100,000.00 as a guarantee.

6.2 Financial assets at fair value through profit or loss

Item	C/f	B/f
Interest rate swaps	90,488.17	
Total	90,488.17	

Note: As of December 31 2018, the outstanding principal of the company's interest rate swaps was USD 21,547,185.60, and the bank confirmed that the market value of the interest rate swap contract was CNY 90,488.17.

6.3 Notes receivable and accounts receivable

Item	C/f	B/f
Notes receivable		115,000.00

Item	C/f	B/f
Accounts receivable	413,726,456.71	550,905,199.28
Total	413,726,456.71	551,020,199.28

6.3.1 Notes receivable

Item	C/f	B/f
Banker's acceptance bill		115,000.00
Total		115,000.00

6.3.2 Accounts receivable

6.3.2.1 Disclosure by category

Category	C/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	105,366,572.73	24.08			105,366,572.73
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	258,395,976.09	59.07	12,919,798.81	5.00	245,476,177.28
Accounts receivable of individual insignificance but subject to individual impairment assessment	73,706,824.60	16.85	10,823,117.90	14.68	62,883,706.70
Total	437,469,373.42	100.00	23,742,916.71	5.43	413,726,456.71

(Continued)

Category	B/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	354,888,680.81	62.18			354,888,680.81
Accounts receivable subject to impairment assessment	180,164,301.95	31.57	9,008,215.10	5.00	171,156,086.85

Category	B/f				
	Carrying amount		Allowance for bad debt		Book value
	Amount	%	Amount	%	
by credit risk characteristics of a portfolio					
Accounts receivable of individual insignificance but subject to individual impairment assessment	35,683,549.52	6.25	10,823,117.90	30.33	24,860,431.62
Total	570,736,532.28	100.00	19,831,333.00	3.47	550,905,199.28

A: Accounts receivable of individual significance and subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
BSP-CHINA	56,778,788.70			No indication of impairment upon individual assessment
Accounting Center of China Aviation	48,587,784.03			No indication of impairment upon individual assessment
Total	105,366,572.73			

B. Accounts receivable subject to impairment assessment by portfolio

Debtor	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	258,395,976.09	12,919,798.81	5.00
Total	258,395,976.09	12,919,798.81	5.00

C. Accounts receivable of individual insignificance but subject to individual impairment assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
BSP-Other areas(notes)	47,835,858.63			No indication of impairment upon individual assessment
Air China	8,564,966.57			No indication of impairment upon individual assessment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
UATP	5,479,498.61			No indication of impairment upon individual assessment
Kun Peng Airlines Co., Ltd	1,849,400.00	1,849,400.00	100.00	Impairment upon individual assessment
CR Airways	916,508.05	916,508.05	100.00	Impairment upon individual assessment
Air China Cargo	907,509.39			No indication of impairment upon individual assessment
Dalian Airlines	87,473.50			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	8,400.00			No indication of impairment upon individual assessment
Total	73,706,824.60	10,823,117.90	14.68	

①Notes: BSP-Other areas (notes) includes Tai Wan, Korea, Japan, Hong Kong, Australia, Russia, Canada, Thailand, Germany, Cambodia, Vietnam, Singapore, Indonesia, Philippines, France etc.

6.3.2.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debt recognized during the year is CNY 3,911,583.71. No recovery or return to bad debts during the year.

6.3.2.3 Top five accounts receivables by debtors

The total amount of top five accounts receivables summarized by debtors as at the end of current year is CNY 199,325,791.04, accounting for 45.56% of the total accounts receivable as at the end of current year, the total corresponding allowance for bad debt is CNY 4,697,960.92.

6.4 Prepayments

6.4.1 Disclosure by age

Age	C/f		B/f	
	Amount	%	Amount	%
Within 1 year	265,432,349.34	99.81	221,571,912.67	99.50

Age	C/f		B/f	
	Amount	%	Amount	%
1 to 2 years			343,453.93	0.15
2 to 3 years			50,862.40	0.02
Over 3 years	498,993.60	0.19	722,054.66	0.33
Total	265,931,342.94	100.00	222,688,283.66	100.00

6.4.2 Details of top five prepayments

The total amount of top five prepayments as at the end of current year is CNY 107,447,796.54, accounting for 40.40% of prepayments.

6.5 Other receivables

Item	C/f	B/f
Interest receivable		
Dividend receivable		
Other receivables	225,281,412.22	349,352,881.41
Total	225,281,412.22	349,352,881.41

6.5.1 Other receivables

6.5.1.1 Disclosure by category

Category	C/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	249,586,501.51	74.67	106,200,587.24	42.55	143,385,914.27
Other receivables subject to impairment assessment by credit risk characteristics of a portfolio	55,615,843.32	16.64	2,780,792.16	5.00	52,835,051.16
Other receivables of individual insignificance but subject to individual impairment assessment	29,060,446.79	8.69			29,060,446.79
Total	334,262,791.62	100.00	108,981,379.40	32.60	225,281,412.22

(Continued)

Category	B/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	397,069,459.88	86.85	106,076,302.93	26.71	290,993,156.95
Other receivables subject to impairment assessment by credit risk characteristics of a portfolio	34,890,352.33	7.63	1,744,517.62	5.00	33,145,834.71
Other receivables of individual insignificance but subject to individual impairment assessment	25,213,889.75	5.52			25,213,889.75
Total	457,173,701.96	100.00	107,820,820.55	23.58	349,352,881.41

A. Other receivables of individual significance and subject to individual impairment assessment

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	Impairment upon individual assessment
Debtor #1	55,057,392.23			No indication of impairment upon individual assessment
Debtor #2	33,202,261.73	1,660,113.09	5.00	Impairment assessment by portfolio
Debtor #3	59,775,129.90	2,988,756.50	5.00	Impairment assessment by portfolio
Total	249,586,501.51	106,200,587.24	42.55	

B. Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Portfolio by nature	55,615,843.32	2,780,792.16	5.00

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance(%)
Total	55,615,843.32	2,780,792.16	5.00

C. Other receivables of individual insignificance but subject to individual impairment assessment

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Shandong Air New Media Co., Ltd.	11,745,680.45			No indication of impairment upon individual assessment
Air China	6,033,885.98			No indication of impairment upon individual assessment
Debtor #1	4,238,588.20			No indication of impairment upon individual assessment
Debtor #2	2,202,992.16			No indication of impairment upon individual assessment
Debtor #3	2,062,200.00			No indication of impairment upon individual assessment
Debtor #4	784,775.64			No indication of impairment upon individual assessment
Debtor #5	553,166.41			No indication of impairment upon individual assessment
Debtor #6	275,493.25			No indication of impairment upon individual assessment
Dalian Airlines	241,412.00			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	235,380.70			No indication of impairment upon individual assessment
Kunming Airlines Ltd	202,090.00			No indication of impairment upon individual assessment
Debtor #7	200,000.00			No indication of impairment upon individual assessment

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	169,241.85			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd	50,787.34			No indication of impairment upon individual assessment
Shandong XiangYu Air Technology Co., Ltd.	50,712.31			No indication of impairment upon individual assessment
Shandong Airlines Rainbow Auto Service Co., Ltd.	14,040.50			No indication of impairment upon individual assessment
Total	29,060,446.79			

6.5.1.2 Recognition, recovery or reversal of other receivables allowance for bad debt

The amount of allowance for bad debts increased during the year is CNY 1,160,558.85. No recovery or provision to bad debts during the year.

6.5.1.3 Other receivables written off

There are no written off to other receivables during the year.

6.5.1.4 Disclosure of other receivables by nature

Category	C/f	B/f
Deposits	65,285,753.89	220,843,044.40
Others	268,977,037.73	236,330,657.56
Total	334,262,791.62	457,173,701.96

6.5.1.5 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 5 years	30.38	101,551,717.65
Debtor #1	Deposits	55,057,392.23	Within 1 year	16.47	
Debtor #2	Others	33,202,261.73	Within 3 years	9.93	1,660,113.09
Debtor #3	Others	59,775,129.90	Within 4 years	17.88	2,988,756.50

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Shandong Air New Media Co., Ltd.	Others	11,745,680.45	Within 2 years	3.51	
Total		261,332,181.96		78.17	106,200,587.24

6.6 Inventories

Type	C/f		
	Gross carrying amount	Impairment allowance	Net carrying amount
Consumable air equipment	99,169,118.33		99,169,118.33
Low-value consumables	3,870,289.81		3,870,289.81
Materials	2,586,111.28		2,586,111.28
Total	105,625,519.42		105,625,519.42

(Continued)

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

6.7 Other current assets

Type	C/f	B/f
VAT deductible	236,596,457.60	185,809,122.83
Total	236,596,457.60	185,809,122.83

6.8 Financial assets available for sale

6.8.1 General information

Category	C/f			B/f		
	Carrying amount	Impairment	Net carrying amount	Carrying amount	Impairment	Net carrying amount

Available for sale equity instruments	310,842,965.35	310,842,965.35	337,378,099.40	337,378,099.40
Including: measured by fair value	229,180,865.35	229,180,865.35	255,715,999.40	255,715,999.40
measured by cost	81,662,100.00	81,662,100.00	81,662,100.00	81,662,100.00
Total	310,842,965.35	310,842,965.35	337,378,099.40	337,378,099.40

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

Category	Available for sale equity instruments	Total
Cost of equity instruments	6,690,000.00	6,690,000.00
Fair value	229,180,865.35	229,180,865.35
Accumulated changes in the fair value recognized into other comprehensive income	222,490,865.35	222,490,865.35
Impairment amount		

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

Investee	Carrying amounts as at 31/12/2018			Impairment			Shareholding in investee (%)	Cash Dividend for current year
	B/f	Increase in current year	Decrease in current year	C/f	B/f in current year	Decrease in current year		
Sichuan Airlines	35,000,000.00			35,000,000.00			10.00	13,907,646.29
Jinan International Airport	46,662,100.00			46,662,100.00			1.94	726,062.28
Total	81,662,100.00			81,662,100.00				14,633,708.57

6.9 Long-term equity investments

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

(Continued)

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

6.10 Fixed assets

Item	C/f	B/f
Fixed assets	7,770,750,794.37	6,904,643,268.14
Disposal of fixed assets		
Total	7,770,750,794.37	6,904,643,268.14

6.10.1 General information

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
1. Cost:						
1.1 Balance as at 31/12/2017	377,594,811.74	10,922,824,621.03	691,140,145.86	75,980,815.47	207,236,294.61	12,274,776,688.71
1.2 Increased in current year	194,248,964.04	1,406,768,009.39	110,466,059.34	7,273,203.11	27,251,297.43	1,746,007,533.31
(1) Purchase	8,194,809.91	1,320,732,168.58	110,466,059.34	7,273,203.11	27,251,297.43	1,473,917,538.37
(2) Transferred from construction in-progress	186,054,154.13	86,035,840.81				272,089,994.94
(3) Transferred from merger and acquisitions						
(4) Others						
1.3 Decreased in current year		338,170,901.46	83,506,981.12	2,923,224.12	7,064,595.29	431,665,701.99
(1) Disposal or scrap		338,170,901.46	83,506,981.12	2,923,224.12	7,064,595.29	431,665,701.99

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
(2) Others						
1.4 Balance as at 31/12/2018	571,843,775.78	11,991,421,728.96	718,099,224.08	80,330,794.46	227,422,996.75	13,589,118,520.03
2. Accumulated Depreciation						
2.1 Balance as at 31/12/2017	100,929,753.95	4,842,737,027.50	260,938,213.01	45,330,057.88	117,972,021.16	5,367,907,073.50
2.2 Increased in current year	12,831,022.21	749,166,134.82	37,881,483.83	5,934,219.18	16,930,870.22	822,743,730.26
(1) Accrual	12,831,022.21	749,166,134.82	37,881,483.83	5,934,219.18	16,930,870.22	822,743,730.26
(2) Transferred from merger and acquisitions						
2.3 Decreased in current year		307,661,568.58	57,516,135.04	2,621,422.24	6,478,573.56	374,277,699.42
(1) Disposal or scrap		307,661,568.58	57,516,135.04	2,621,422.24	6,478,573.56	374,277,699.42
(2) Others						
2.4. Balance as at 31/12/2018	113,760,776.16	5,284,241,593.74	241,303,561.80	48,642,854.82	128,424,317.82	5,816,373,104.34
3. Impairment allowance						
3.1 Balance as at 31/12/2017			2,226,347.07			2,226,347.07
3.2 Increased in current year						
(1) Accrual						
(2) Transferred from merger and acquisitions						
3.3 Decreased in current year			231,725.75			231,725.75
(1) Disposal or scrap			231,725.75			231,725.75
(2) Others						
3.4 Balance as at 31/12/2018			1,994,621.32			1,994,621.32
4. Carrying amount						
4.1 Carrying amount as at 31/12/2018	458,082,999.62	6,707,180,135.22	474,801,040.96	31,687,939.64	98,998,678.93	7,770,750,794.37
4.2 Carrying amount as	276,665,057.79	6,080,087,593.53	427,975,585.78	30,650,757.59	89,264,273.45	6,904,643,268.14

Items	Houses and buildings	Aircrafts and engines	High-value rotables	Transportation vehicles	Others	Total
at 31/12/2017						

6.10.2 Fixed assets acquired under financial leases

Category	Cost	Accumulated Depreciation	Impairment allowance	Carrying amount
Aircrafts and engines	3,636,221,448.64	1,295,273,413.25		2,340,948,035.39
Total	3,636,221,448.64	1,295,273,413.25		2,340,948,035.39

6.10.3 Fixed assets pending ownership registration

Item	Carrying amount	Reason for pending
Jinan cargo arrival and departure warehouses	11,927,080.37	Land rented from Jinan Air Control, not eligible for ownership registration
Buildings of Jinping Food Co., Ltd.	12,841,588.18	Land use rights belonging to Shandong SDA Group, not eligible for ownership registration

Impairment allowance of fixed assets is CNY 1,994,621.32 as at December 31 2018, with no additional amount of allowance for fixed assets impairment recognized during the year.

6.11 Construction in progress

Items	C/f	B/f
Construction in progress	4,790,300,972.13	2,737,166,681.62
Construction material		
Total	4,790,300,972.13	2,737,166,681.62

6.11.1 General information

Items	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Factory building project	337,399,330.36		337,399,330.36	146,118,195.00		146,118,195.00
Prepayment for aircrafts	4,444,647,787.88		4,444,647,787.88	2,587,447,978.67		2,587,447,978.67
Construction of	1,874,609.59		1,874,609.59	3,600,507.95		3,600,507.95

Items	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
information system						
Simulator	6,379,244.30		6,379,244.30			
Total	4,790,300,972.13		4,790,300,972.13	2,737,166,681.62		2,737,166,681.62

6.11.2 Significant projects

Project	Budget	B/f	Current year increase	Transferred to fixed assets in current year	Other decrease	C/f
Administrative office of Xiamen branch	195,000,000.00	146,118,195.00	39,935,959.13	186,054,154.13		
Dining area of Jiaodong airport	84,478,748.00		32,219,746.74			32,219,746.74
Freight area of Jiaodong airport	144,614,600.00		40,525,078.89			40,525,078.89
Maintenance area of Jiaodong airport	361,793,762.00		126,091,135.85			126,091,135.85
Auxiliary production office area	333,439,610.00		138,563,368.88			138,563,368.88
Aircraft asset introduction project	10,432,388,610.26	2,587,447,978.67	3,486,139,380.29	86,035,840.81	1,542,903,730.27	4,444,647,787.88
Total	11,551,715,330.26	2,733,566,173.67	3,863,474,669.78	272,089,994.94	1,542,903,730.27	4,782,047,118.24

(Continued)

Items	Weight of cost to date in budgeted cost	Stage of completion	Cumulative interests capitalised	Including: Transferred into leaseback assets during the current year	Including: Transferred into fixed assets during the current year	Including: interests capitalized during the current year	Capitalisation rate applicable to the current year	Source of finance
Administrative office of Xiamen branch	100.00	Completed						Working capital
Dining area of Jiaodong airport	38.14	Not yet completed						Working capital
Freight area of Jiaodong airport	28.02	Not yet completed						Working capital
Maintenance area of Jiaodong airport	34.85	Not yet completed						Working capital
Auxiliary production office area	41.56	Not yet completed						Working capital
Aircraft asset introduction project	42.60	Not applicable	98,985,452.39	6,762,583.70	6,752,650.73	84,206,017.92	3.1172-4.2466	Loans from financial institution
Total			98,985,452.39	6,762,583.70	6,752,650.73	84,206,017.92		

Note: The cumulative amount of interests capitalized as at December 31 2017 is CNY 28,294,668.90, the amount of current year is CNY 84,206,017.92, including CNY 6,752,650.73 transferred into fixed assets and CNY 6,762,583.70 transferred into leaseback assets during the current year, the cumulative amount of interests capitalized as at December 31 2018 is CNY 98,985,452.39.

6.12 Intangible assets

6.12.1 General information

Items	Land rights	Software	Total
1. Cost:			
1.1 Balance as at 31/12/2017	108,347,341.13	38,034,419.63	146,381,760.76

Items	Land rights	Software	Total
1.2 Increased in current year		7,771,003.23	7,771,003.23
(1) Purchase		243,589.74	243,589.74
(2) Diversion of construction		7,527,413.49	7,527,413.49
(3) Increased from business combination			
1.3 Decreased in current year			
(1) Disposal			
1.4 Balance as at 31/12/2018	108,347,341.13	45,805,422.86	154,152,763.99
2. Accumulated amortization			
2.1 Balance as at 31/12/2017	15,988,392.43	14,058,752.49	30,047,144.92
2.2 Increased in current year	2,403,582.86	6,160,154.82	8,563,737.68
(1) Accrual	2,403,582.86	6,160,154.82	8,563,737.68
(2) Increased from business combination			
2.3 Decreased in current year			
(1) Disposal			
2.4 Balance as at 31/12/2018	18,391,975.29	20,218,907.31	38,610,882.60
3. Impairment allowance			
3.1 Balance as at 31/12/2017			
3.2 Increased in current year			
(1) Accrual			
(2) Increased from business combination			
3.3 Decreased in current year			
(1) Disposal			
3.4 Balance as at 31/12/2018			
4. Carrying amount			
4.1 Carrying amount as at 31/12/2018	89,955,365.84	25,586,515.55	115,541,881.39
4.2 Carrying amount as at 31/12/2017	92,358,948.70	23,975,667.14	116,334,615.84

6.12.2 Land rights with pending ownership registration

No case of land rights with pending ownership registration was identified as of December 31 2018.

6.13 Goodwill

6.13.1 General information

Investee	B/f	Current year increase		Current year decrease		C/f
		From business combination		Disposal		
Qingdao Feisheng	10,220,816.22					10,220,816.22
Shandong Jinping Food Co., Ltd.	454,020.13					454,020.13
Total	10,674,836.35					10,674,836.35

6.13.2 Impairment allowance

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

6.14 Deferred charges

Item	B/f	Current year increase	Current year amortization	Other decrease	C/f
Pilot training	523,766,897.35	124,395,649.49	87,336,955.65		560,825,591.19
Decoration expenditure	9,060,656.59		3,061,736.96		5,998,919.63
Modification costs for aircraft leasing	3,037,717.75	4,261,287.46	478,173.39		6,820,831.82
Total	535,865,271.69	128,656,936.95	90,876,866.00		573,645,342.64

6.15 Deferred tax assets and deferred tax liabilities

6.15.1 Deferred tax assets

Item	C/f		B/f	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Allowance for bad debt	132,724,296.11	33,181,074.03	127,652,153.55	31,913,038.39
Impairment allowance for fixed assets	1,994,621.32	498,655.33	2,226,347.07	556,586.77
Fair value movement of			3,607,390.15	901,847.54

Item	C/f		B/f	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
financial liabilities held for trading				
Provisions	3,480,184,220.23	870,046,055.05	2,951,741,214.11	737,935,303.53
Employment benefits payable	17,131,763.99	4,282,941.00	19,525,941.56	4,881,485.39
Deferred income	24,890,471.35	6,222,617.84	28,052,113.39	7,013,028.35
Total	3,656,925,373.00	914,231,343.25	3,132,805,159.83	783,201,289.97

6.15.2 Deferred tax liabilities

Item	C/f		B/f	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Asset evaluation increment from Enterprise merger under the different control	4,694,682.30	1,173,670.58	5,216,313.67	1,304,078.42
Changes in fair value of financial assets held for trading	90,488.17	22,622.04		
Changes in fair value of financial assets available for sale	222,490,865.36	55,622,716.34	249,025,999.40	62,256,499.85
Total	227,276,035.83	56,819,008.96	254,242,313.07	63,560,578.27

6.16 Short-term borrowing

Item	C/f	B/f
Credit loan	580,000,000.00	
Total	580,000,000.00	

6.17 Financial liabilities at fair value through profit or loss

Item	Fair value c/f	Fair value b/f
Interest rate swaps		3,607,390.15

Total		3,607,390.15
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6.18 Notes payable and accounts payable

Items	C/f	B/f
Notes payable		
Accounts payable	2,273,836,607.26	1,931,374,087.78
Total	2,273,836,607.26	1,931,374,087.78

6.18.1 General information

Item	C/f	B/f
Aircraft maintenance costs	560,449,992.31	337,904,448.20
Fuel cost	327,714,163.12	261,755,113.61
Landing fee	446,878,244.86	465,414,727.22
Aircraft service cost	570,352,031.53	441,075,851.00
Flight catering	109,165,990.89	102,114,633.18
Computer booking fee	135,371,372.00	43,775,358.00
Lease rental	5,602,184.13	5,192,061.57
Others	118,302,628.42	274,141,895.00
Total	2,273,836,607.26	1,931,374,087.78

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

6.19 Advance from customers

Item	C/f	B/f
Ticket clearing	761,881,379.16	596,872,012.37
Advanced payment for tickets	4,286,573.58	4,622,618.61
Others	21,203,718.59	12,824,788.69
Total	787,371,671.33	614,319,419.67

6.20 Employee benefits payable

6.20.1 Disclosure by classification

Item	B/f	Current year increase	Current year decrease	C/f
1. Short-term employee benefits	567,105,882.00	2,834,332,570.82	2,858,144,013.01	543,294,439.81
2. Post-employment benefits		254,072,917.87	254,072,917.87	
3. Termination benefits		327,186.63	327,186.63	
4. Other long-term employee benefits within one year				
Total	567,105,882.00	3,088,732,675.32	3,112,544,117.51	543,294,439.81

6.20.2 Disclosure by classification of short-term employee benefits

Item	B/f	Current year increase	Current year decrease	C/f
1. Wages, salaries and subsidies	516,052,100.09	2,502,119,950.71	2,524,245,374.33	493,926,676.47
2. Employee welfare		19,978,096.69	19,978,096.69	
3. Social insurance:		105,226,783.72	105,226,783.72	
Including: Medical insurance		91,069,230.10	91,069,230.10	
Employment injury insurance		5,214,650.26	5,214,650.26	
Maternity insurance		8,942,903.36	8,942,903.36	
4. Housing provident fund	12,748.00	100,320,969.41	100,331,173.41	2,544.00
5. Labour union fee and employee education fee	19,583,856.91	74,523,561.50	76,905,407.86	17,202,010.55
6. Short-term paid absences	31,457,177.00	32,163,208.79	31,457,177.00	32,163,208.79
7. Short-term profit-sharing plan				
Total	567,105,882.00	2,834,332,570.82	2,858,144,013.01	543,294,439.81

6.20.3 Disclosure by defined contribution plan

Item	B/f	Current year increase	Current year decrease	C/f
1. Basic pension		161,851,669.23	161,851,669.23	
2. Unemployment insurance		6,184,421.32	6,184,421.32	
3. Annuity payment		86,036,827.32	86,036,827.32	

Item	B/f	Current year increase	Current year decrease	C/f
Total		254,072,917.87	254,072,917.87	

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

6.21 Taxes and fees payable

Tax (Fee)	C/f	B/f
VAT	1,550,891.34	1,400,888.26
Urban construction and maintenance tax	203,034.68	223,615.34
Education surcharge	144,777.29	159,477.76
Enterprise income tax	108,855,883.31	15,769,670.61
Property tax	207,271.63	181,408.07
Land tax	284,502.66	205,460.75
Personal income tax	8,016,428.72	14,673,780.29
Stamp duty	1,754,447.96	799,542.22
Civil aviation development fund	131,301,180.63	130,966,878.62
Others	398,840.65	186,068.99
Total	252,717,258.87	164,566,790.91

6.22 Other payables

Item	C/f	B/f
Interest payable	10,428,894.80	1,324,391.18
Dividend payable	602,306.96	602,306.96
Other payables	624,468,268.37	411,682,128.67
Total	635,499,470.13	413,608,826.81

6.22.1 Interest payable

Item	C/f	B/f
Interest on long-term borrowings with repayment by installments	6,875,927.06	1,324,391.18

Accrued interest on short-term borrowings	3,552,967.74	
Total	10,428,894.80	1,324,391.18

6.22.2 Dividend payable

Item	C/f	B/f
Dividend on common shares	602,306.96	602,306.96
Total	602,306.96	602,306.96

6.22.3 Other payables

6.22.3.1 Disclosure by nature

Item	C/f	B/f
Payable for construction projects	241,249,024.10	18,457,305.62
Payable for down payments	133,300,822.32	127,273,552.52
Payables associated with aircraft purchase	3,949,505.02	3,973,086.10
Taxes deducted at source	102,180,386.82	83,689,966.95
Others	143,788,530.11	178,288,217.48
Total	624,468,268.37	411,682,128.67

6.22.3.2 No significant other payables due for more than 1 year as at the reporting date.

6.23 Non-current liabilities due within one year

Category	C/f	B/f
Long-term borrowings due within one year (Note 6.24)	116,076,320.00	433,674,928.00
Long-term payables due within one year (Note 6.25)	330,554,355.34	180,371,296.77
Long-term employee benefits payable due within one year (Note 6.26)	9,210,000.00	8,081,000.00
Total	455,840,675.34	622,127,224.77

6.24 Long-term borrowings

Category	C/f	B/f
Secured loans	982,509,309.37	1,553,926,179.16
Credit loans	1,019,123,568.46	97,359,580.00

Category	C/f	B/f
Less: Long-term borrowings due within one year (Note 6.23)	116,076,320.00	433,674,928.00
Total	1,885,556,557.83	1,217,610,831.16

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

② Interest rates as at December 31 2018 of the above-mentioned long-term borrowings range from 3.30125%-4.3007%.

6.25 Long-term payables

Item	C/f	B/f
Long-term payables	4,368,213,445.33	3,277,812,491.65
Specific payable		
Total	4,368,213,445.33	3,277,812,491.65

6.25.1 Long-term payables by category

Category	C/f	B/f
Financial lease rental payables	1,872,324,694.55	1,065,062,917.10
Maintenance payables for aircrafts and engines held under operating lease	3,380,184,220.23	2,717,062,560.74
Less: Financial lease rental payables due within one year (Note 6.23)	330,554,355.34	180,371,296.77
Less: Maintenance payables for aircrafts and engines held under operating lease due within one year (Note 1)	553,741,114.11	323,941,689.42
Total	4,368,213,445.33	3,277,812,491.65

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

6.26 Long-term employee benefits payable

6.26.1 General information

Item	C/f	B/f
Post-employment benefits-net defined benefit liability	144,434,119.11	119,031,000.00
Less: long-term staff remuneration payable due within one year (Note 6.23)	9,210,000.00	8,081,000.00
Total	135,224,119.11	110,950,000.00

6.26.2 Movements

① Defined benefit obligation

Item	C/f	B/f
(1) Net Defined Benefit Asset/(Liability) at End of Prior Period	119,031,000.00	100,925,069.51
(2) Defined benefit costs recognized into current profit or loss	24,878,000.00	23,179,000.00
1. Current Service Cost		
2. Past Service Cost	20,278,000.00	20,010,000.00
3. Settlement (Gain)/Loss		
4. Net Interest/(Income) on Net Defined Benefit Liability/(Asset)	4,600,000.00	3,169,000.00
(3) Defined benefit costs recognized into other comprehensive income	-9,293,000.00	-2,514,660.07
1. Actuarial gains/(losses)	-9,293,000.00	-2,514,660.07
(4) Other movements	8,767,880.89	7,587,729.58
1. Settlement payment		
2. Benefits Paid Directly by Employer	8,767,880.89	7,587,729.58
(5) Net defined benefit asset/(liability) at end of current year	144,434,119.11	119,031,000.00

② Actuarial Assumptions

Item	December 31 2018	December 31 2017
Discount Rate	3.25%	4.00%
Mortality Rate	China Life Insurance Mortality Rate 2010-2013 (Annuity)	
Cost of Living Adjustments for Retired Cadres and Retirees	0.00%	
Cost of Living Adjustments for Internal Retirees	0.00%	
Cost of Living Adjustments for Dependants	0.00%	

6.27 Deferred income

Item	B/f	Current year increase	Current year decrease	C/f	Causes
Unrealized gains and	83,586,189.42	15,583,198.45	5,779,991.06	93,389,396.81	The aircraft

Item	B/f	Current year increase	Current year decrease	C/f	Causes
losses of operating lease from aircraft leaseback					sale-leaseback disposal profits and losses
Designated subsidy for snow disaster	990,958.34		499,500.00	491,458.34	Asset related subsidies
Designated subsidy for civil aviation energy-saving program	11,852,565.52		976,500.12	10,876,065.40	Asset related subsidies
Designated subsidy for HUD and repackage project	15,208,589.53		1,685,641.92	13,522,947.61	Asset related subsidies
Total	111,638,302.81	15,583,198.45	8,941,633.10	118,279,868.16	

Details of government grants:

Item	B/f	Current year increase	Current year decrease (Other benefits)	C/f	Asset /Income Related
Designated subsidy for snow disaster	990,958.34		499,500.00	491,458.34	Asset related subsidies
Designated subsidy for civil aviation energy-saving program	11,852,565.52		976,500.12	10,876,065.40	Asset related subsidies
Designated subsidy for HUD and repackage project	15,208,589.53		1,685,641.92	13,522,947.61	Asset related subsidies
Total	28,052,113.39		3,161,642.04	24,890,471.35	

6.28 Share capital

Category	B/f		Currency year movement (+, -)					C/f	
	Amount	%	Share issue	Bonus issue	Conversion from reserves	Others	Subtotal	Amount	%
1. Shares with restriction on disposal									

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

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

6.29 Capital reserves

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

6.30 Other comprehensive income

Item	B/f	Total amount in current year					C/f
		Amount for the year before tax	Less: previously recognized in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	After tax attributable to minority shareholders	
1. Other comprehensive income will be reclassified into income or loss in the future	-8,274,660.07	-9,293,000.00			-9,293,000.00		-17,567,660.07
Including: remeasurement of net assets or net liabilities of	-8,274,660.07	-9,293,000.00			-9,293,000.00		-17,567,660.07

Item	B/f	Total amount in current year				C/f
		Amount for the year before tax	Less: previously recognized in other comprehensive income transferred into profit or loss	Less: Income tax expense	After tax attributable to the parent company	
defined benefit plans						
2. Other comprehensive income reclassifiable to profit or loss in subsequent periods	186,769,499.55	-26,535,134.05		-6,633,783.51	-19,901,350.54	166,868,149.01
Gains and losses from changes in fair value of financial assets available for sale	186,769,499.55	-26,535,134.05		-6,633,783.51	-19,901,350.54	166,868,149.01
Total of other comprehensive income	178,494,839.48	-35,828,134.05		-6,633,783.51	-29,194,350.54	149,300,488.94

6.31 Surplus reserves

Category	B/f	Current year increase	Current year decrease	C/f
Statutory surplus reserve	471,457,259.99	32,542,717.59		503,999,977.58
Total	471,457,259.99	32,542,717.59		503,999,977.58

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

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

6.32 Retained earnings

Items	Current year	Prior year
Pre-adjustment balance brought forward	3,127,778,550.76	2,805,458,074.96
Total adjustment to retained earnings b/f (+, -)		
Retained earnings b/f after adjustment	3,127,778,550.76	2,805,458,074.96
Add: Net profit attributable to shareholders of the parent	347,379,314.89	490,353,408.15
Less: Appropriation to statutory surplus reserve	32,542,717.59	48,032,932.35
Appropriation to discretionary surplus reserve		
General reserve		
Ordinary dividends declared	100,000,000.00	120,000,000.00
Bonus issue		
Balance carrying forward	3,342,615,148.06	3,127,778,550.76

6.33 Operating revenues and costs

Category	Current year		Prior year	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	18,119,305,689.58	17,164,835,774.69	16,046,687,453.67	14,774,120,250.51
Other business	646,647,637.16	3,842,297.34	438,025,698.56	9,348,835.25
Total	18,765,953,326.74	17,168,678,072.03	16,484,713,152.23	14,783,469,085.76

6.34 Tax and surcharges

Item	Current year	Prior year
Urban maintenance and construction tax	3,496,473.78	22,129,543.73
Education surcharge and others	11,387,018.83	10,727,269.44
Total	14,883,492.61	32,856,813.17

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

6.35 Sales expenses

Category	Current year	Prior year
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Category	Current year	Prior year
Agency fees	256,489,732.72	258,971,906.80
Employment benefits	236,615,107.85	236,720,432.47
Computer booking	185,743,434.41	139,678,642.23
Online payment	40,777,011.46	34,049,310.56
System and network	21,858,013.97	28,021,600.45
Lease rental	19,057,258.96	16,910,605.64
Advertisement fees	21,112,359.55	16,316,066.02
Travel expenses	5,361,277.56	5,561,740.83
BSP data processing	12,137,953.63	5,438,596.42
Administrative office expenses	5,575,312.93	4,942,211.35
Depreciation	1,439,254.79	1,475,012.61
Sales expense of annual tickets	1,076,208.16	1,343,079.63
Others	40,796,255.64	32,294,357.38
Total	848,039,181.63	781,723,562.39

6.36 General and administrative expenses

Category	Current year	Prior year
Employment benefits	244,557,871.24	227,245,134.62
Outsourcing fee	23,448,474.46	20,816,097.75
Lease rental	21,858,369.20	22,996,800.15
Depreciation	16,769,280.33	15,030,163.81
Water, electricity charges	12,593,866.47	11,442,234.06
Administrative office expenses	9,603,957.33	5,408,399.05
Amortization of intangibles	8,563,737.68	7,045,560.47
Technology development costs	5,478,799.02	5,134,384.86
Business entertainment costs	5,197,316.39	6,037,192.32
Others	80,691,930.07	57,278,993.58
Total	428,763,602.19	378,434,960.67

6.37 Research and development costs

Category	Current year	Prior year
Employment benefits	20,336,654.67	16,919,293.66
Others	310,341.99	36,808.36
Total	20,646,996.66	16,956,102.02

6.38 Financial costs

Category	Current year	Prior year
Interest expenses	117,650,618.41	113,961,789.03
Less: Interest income	15,278,180.93	10,272,441.70
Exchange difference	18,701,008.00	-106,586,357.82
Bank charges and others	1,775,467.36	1,667,750.29
Total	122,848,912.84	-1,229,260.20

6.39 Loss on asset impairment

Category	Current year	Prior year
Allowance for bad debt	5,072,142.56	451,553.19
Total	5,072,142.56	451,553.19

6.40 Other income and gain

Item	Current year	Prior year	Included in current year non-recurring profit and loss
Government subsidies	210,862,890.39	103,523,912.62	210,862,890.39
Including:			
Route subsidy	185,720,387.90	92,199,043.70	185,720,387.90
Designated subsidy for HUD and repackage project	1,685,641.92	421,410.47	1,685,641.92
Designated subsidy for civil aviation energy-saving program	976,500.12	976,500.12	976,500.12
Designated subsidy for snow disaster	499,500.00	499,500.00	499,500.00
Other government subsidy	21,980,860.45	9,427,458.33	21,980,860.45
Other projects related to daily activities	10,952,470.45	3,244,554.69	10,952,470.45

Item	Current year	Prior year	Included in current year non-recurring profit and loss
Including: Withholding fee refund	10,952,470.45	3,244,554.69	10,952,470.45
Total	221,815,360.84	106,768,467.31	221,815,360.84

6.41 Investment income

Category	Current year	Prior year
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss	91,605.86	-1,023,651.75
Income from holding of financial assets available for sale	17,934,220.07	22,740,535.94
Total	18,025,825.93	21,716,884.19

6.42 Gain from changes in fair value

Source	Current year	Prior year
Interest rate swaps	3,697,878.32	-2,451,574.35
Total	3,697,878.32	-2,451,574.35

6.43 Gain on disposal of non-current assets

Item	Current year	Prior year	Included in current year non-recurring profit and loss
Disposal of fixed assets	26,528,980.99	90,439.51	26,528,980.99
Total	26,528,980.99	90,439.51	26,528,980.99

6.44 Non-operating income

Category	Current year	Prior year	Included in current year non-recurring profit and loss
Transferred income from pilot	17,924,528.30	18,490,566.03	17,924,528.30
Others	20,456,118.66	16,839,030.18	20,456,118.66
Total	38,380,646.96	35,329,596.21	38,380,646.96

6.45 Non-operating expenses

Category	Current year	Prior year	Included in current year non-recurring profit and loss
Loss on non-current asset disposals	1,341,230.64	1,460,627.44	1,341,230.64
Others	2,617,851.40	1,122,274.29	2,617,851.40
Total	3,959,082.04	2,582,901.73	3,959,082.04

6.46 Income tax expenses

6.46.1 Income tax expenses

Items	Current year	Prior year
Current income tax expense	245,269,061.41	302,003,860.64
Deferred tax expense	-131,137,839.08	-141,436,022.42
Total	114,131,222.33	160,567,838.22

6.46.2 Reconciliation of account profit and income tax expenses

Items	Current year
Profit before tax	461,510,537.22
Income tax computed in accordance with the applicable tax rate	115,377,634.31
Impact of income tax in the previous period	-3,645,902.58
Impact of non-taxable income	-4,483,555.02
Impact of non-deductible costs, expenses and losses	7,235,098.86
Impact of the deductible loss of deferred income tax assets not recognized in the previous period	-352,053.24
Income tax expenses	114,131,222.33

6.47 Other comprehensive income

Please see Note 6. 30 for detail.

6.48 Notes to the consolidated statement of cash flows

6.48.1 Other cash receipts relating to operating activities

Category	Current year	Prior year
Government grants	207,701,248.35	117,256,502.03
Refund of withholding tax payment	10,952,470.45	3,244,554.69
Interest income on bank deposit	15,278,180.93	10,272,441.70

Category	Current year	Prior year
Cash receipts from non-operating income	38,380,526.96	35,329,596.21
Cash receipts from operating balance	179,195,047.05	54,856,855.30
Total	451,507,473.74	220,959,949.93

6.48.2 Other cash payments relating to operating activities

Category	Current year	Prior year
Bank charges	42,552,478.82	35,717,060.85
Cash payments for non-operating expenses	2,617,851.40	1,122,274.29
Cash payments for operating balance	25,103,983.51	68,954,325.07
Cash payments for sales and general and administrative expenses	266,971,115.50	235,757,787.84
Total	337,245,429.23	341,551,448.05

6.48.3 Other cash receipts relating to investing activities

Category	Current year	Prior year
Cash receipts of settlement of interest rate swaps	91,605.86	
Total	91,605.86	

6.48.4 Other cash payments relating to investing activities

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

6.48.5 Other cash receipts relating to financing activities

Category	Current year	Prior year
Cash receipts for aircraft transfer of sale and leaseback deals	1,543,271,788.39	1,441,573,989.51
Total	1,543,271,788.39	1,441,573,989.51

6.48.6 Other cash payments relating to financing activities

Category	Current year	Prior year
Cash payments for aircraft financial lease rental	273,646,123.66	202,020,573.31
Total	273,646,123.66	202,020,573.31

6.49 Supplementary information to the consolidated statement of cash flows

6.49.1 Supplementary information to the statement of cash flows

Items	Current year	Prior year
① Reconciliation of cash flows from operating activities to net profit:		
Net profit	347,379,314.89	490,353,408.15
Add: Loss on asset impairment	5,072,142.56	451,553.19
Depreciation of fixed assets, oil and gas assets, biological assets held for production	822,743,730.26	829,052,576.20
Amortization of intangible assets	8,563,737.68	7,045,560.47
Amortization of Long-term deferred expenditure	90,876,866.00	84,544,766.31
Loss on non-current assets disposal (gain presented by "-" prefix)	-26,528,980.99	-90,439.51
Loss on scrap of fixed assets (gain presented by "-" prefix)	1,341,230.64	1,460,627.44
Loss on fair value changes (gain presented by "-" prefix)	-3,697,878.32	2,451,574.35
Financial costs (gain presented by "-" prefix)	142,480,807.24	14,256,436.16
Investment loss (gain presented by "-" prefix)	-18,025,825.93	-21,716,884.19
Decrease of deferred tax assets (increase presented by "-" prefix)	-131,030,053.28	-141,403,420.46
Increase of deferred tax liabilities (increase presented by "-" prefix)	-107,785.80	-32,601.96
Decrease of inventories (increase presented by "-" prefix)	-21,701,333.78	39,067,450.45
Decrease of operating receivables (increase presented by "-" prefix)	226,819,428.04	-221,353,078.89
Increase of operating payables (decrease presented by "-" prefix)	994,322,001.16	773,538,324.10
Others	11,510,119.11	12,422,270.42
Net cash flows generated from operating activities	2,450,017,519.48	1,870,048,122.23
② Significant investing and financing activities involve no cash:		
Debt-to-capital conversion		
Convertible loan due within one year		
Fixed assets acquired under financial lease		
③ Movement of cash and cash equivalents:		
Cash as at 31/12/2018	840,860,104.09	543,584,920.30

Items	Current year	Prior year
Less: Cash as at 31/12/2017	543,584,920.30	791,255,686.65
Add: Cash equivalents as at 31/12/2018		
Less: Cash equivalents as at 31/12/2017		
Net increase of cash and cash equivalents	297,275,183.79	-247,670,766.35

6.49.2 Net cash paid for acquisition of subsidiary this year

Item	Amount
Cash or cash equivalents resulted from business combination	
Including merger of jinping food	
Less: cash and cash equivalents held by the subsidiary on the day of purchase	
Add: cash or cash equivalents of business combination in the previous period to be paid in this year	490,295.22
Net cash payments made by subsidiaries	490,295.22

6.49.3 Composition of cash and cash equivalents

Items	C/f	B/f
①Cash	840,860,104.09	543,584,920.30
Including: Cash at hand	291,347.27	372,046.44
Demand bank deposit	840,568,756.82	543,212,873.86
Demand other monetary funds		
Demand deposit in the Central Bank		
Deposit in peer firms		
Loan to peer firms		
②Cash equivalents		
Including: Debt instrument matured within three months		
④ Cash and cash equivalents as at 31/12/2018	840,860,104.09	543,584,920.30
Including: restricted cash and cash equivalents in parent company or subsidiary		

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

6.50 Assets with imposed restriction on ownership

Item	C/f	Reason of restriction
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Item	C/f	Reason of restriction
Assets pledged as security	1,656,111,177.77	
Aircrafts and engines	1,656,011,177.77	Pledge as security for borrowings
Bank deposit	100,000.00	Guarantee deposit
Other form of restriction:	2,340,948,035.39	
Aircrafts and engines	2,340,948,035.39	Assets acquired under financial lease
Total	3,997,059,213.16	

6.51 Foreign currency monetary items

Item	Original amount as at 31/12/2018	Foreign exchange rate	Translated amount as at 31/12/2018
Monetary funds			
Including: -USD	78,402,754.38	6.8632	538,093,783.87
-CAD	10.00	5.0380	50.38
-Hwan	170,234,530.00	0.0061	1,038,430.63
-TWD	1,494,370.00	0.2234	333,842.27
-JPY	6,177,291.00	0.0619	382,294.01
-THB	1,449,314.96	0.2110	305,805.46
-EUR	5,042.00	7.8473	39,566.09
Other receivables			
Including: -USD	16,810,968.53	6.8632	115,377,039.22
Accounts payable			
Including: -USD	7,133,254.20	6.8632	48,956,950.23
-EUR	19,073.20	7.8473	149,673.12
-GBP	6,164.00	8.6762	53,480.10
-JPY	10,103,677.01	0.0619	625,417.61

Item	Original amount as at 31/12/2018	Foreign exchange rate	Translated amount as at 31/12/2018
Other payables			
Including: -USD	11,138.56	6.8632	76,446.16
Non-current liabilities due within one year			
Including: -USD	23,401,135.37	6.8632	160,606,672.30
Long-term borrowings			
Including: -USD	243,786,653.14	6.8632	1,673,156,557.83
Long-term payables			
Including: -USD	46,780,527.21	6.8632	321,064,114.31

6.52 Government grants

6.52.1 Basic information on government grants initially recognized this year

Grant projects	Amounts	Related to assets		Related to revenue			Whether actually received	
		Deferred income	Deduction to book value of assets	Deferred income	Other income	Non-operating income		Deduction to costs and expenses
Airline grants	185,720,387.90				185,720,387.90			Yes
Other government grants	21,980,860.45				21,980,860.45			Yes
Total	207,701,248.35				207,701,248.35			

6.52.2 The company did not returned government subsidies this year.

Note 7: Change of scope of consolidation

The consolidation scope of the financial statements for the current year is consistent with the previous year.

Note 8: The equity in other main entities

8.1 The equity in subsidiaries

8.1.1 The construction of the group

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion %		Acquired method
				Directly	Indirectly	
Shandong aviation Logistics Ltd (hereafter, Qingdao Logistics)	Qingdao, Shandong	Qingdao, Shandong	Logistics and storage	100.00		Acquired through investment
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd (hereafter, Qingdao Feisheng)	Qingdao, Shandong	Qingdao, Shandong	Pilot training	100.00		Acquired through business combination not under common control
Shandong Jinping Air Catering Co., Ltd. (hereinafter referred to as "Jinping food")	Jinnan, Shandong	Jinnan, 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

8.2 The equity in joint ventures and associates

8.2.1 Significant joint ventures and associates

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

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

Item	Dec 31, 2018/Year 2018	Dec 31, 2017/Year 2017
Current assets	1,803,040.67	1,819,652.14

Item	Dec 31, 2018/Year 2018	Dec 31, 2017/Year 2017
Non-current assets	23,120.72	24,172.36
Total assets	1,826,161.39	1,843,824.5
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	-165,939,651.94	-165,921,988.83
Pro rata share of the net assets calculated		
Adjusting events		
- Goodwill		
-Unrealized profits from internal transaction		
-Others		
Book value of equity investments in associates		
Fair value of publicly quoted equity investments in associates		
Operating income		
Net profit	-17,619.24	-2,813.17
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income		
Dividends received from associates during the year		

8.2.3 Excess loss occurred by joint ventures and associates

joint ventures and associates	Cumulative unrecognized losses of prior year	Unrecognized losses of current year (Share of net profit of current year)	Cumulative unrecognized losses of current year
Shandong Rainbow Commercial Jet Co., Ltd.	-74,664,874.73	-7,928.66	-74,672,803.39

Note 9 The risk associated with financial instruments

The main financial instruments of the Company include equity investments, loans, accounts receivable, and accounts payable etc. Please see Note 6 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.

9.1 The targets and policies of risks management

The target of risks management is to obtain the proper balance between the risks and benefits, to reduce the negative impact that caused by the risk of the Company to the lowest level, and to maximize the benefits of shareholders and other equity investors. Based on the targets of risk management, the basic strategy of the Company's risk management is to identify and analyze the risks which are faced by the Company, 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.

9.1.1 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 December 31 2018, except the following assets or liabilities in Note 6.51 are recorded in foreign currency, the others are recorded in CNY. Foreign exchange risk of the assets and liabilities in foreign currencies may have an impact on the Company's performance of operation.

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

The risk of changes in cash flows of a financial instrument due to interest rate is mainly concerned with the floating rate of bank borrowings (see Note 6.16, 6.23, 6.24, 6.25). The company's policy is to maintain a floating interest rate on the borrowings.

(3) Other price risk

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

9.1.2. Credit Risk

As of December 31 2018, 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.

9.1.3 Liquidity risk

When managing liquidity risk, the Company's management believes maintaining adequate cash and cash equivalents, and monitoring that at same time, 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 10 Disclosure of the fair value

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

Item	The fair value at the end of current year			
	The 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 financial assets available for sale	229,180,865.35			229,180,865.35
1.1.1 Equity instruments investment	229,180,865.35			229,180,865.35
1.2. Financial assets measured at fair value with changes in fair value recognized in profit or loss		90,488.17		90,488.17
1.2.1. Interest rate swaps		90,488.17		90,488.17
Total amount of assets continuous measurement by fair value	229,180,865.35	90,488.17		229,271,353.52

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

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

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

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

Note 11 Related parties and related party transaction

11.1 Major parent companies

Parent companies	Place of registration	Nature of operation	Registered capital	Shareholding in the Company (%)	Voting right in the Company (%)
SDA Group	Jinan	Investment and management of aero 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 shareholder of the Company respectively. Air China is the largest shareholder of SDA Group; Air China's shareholding and voting right in SDA Group is 49.406% and 49.406% respectively.

11.2 Subsidiaries

See Note 8.1 for subsidiaries.

11.3 Joint ventures and associates

See Note 8.2 for joint ventures and associates.

11.4 Other related parties

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

Other related parties	Relationship to the Company
Air Macau Corporation	Controlled by major investors
Air China Offshore Holding Company	Controlled by major investors
Air China Hongkong Development Limited	Controlled by major investors
Beijing Airlines Co., Ltd.	Controlled by major investors
China International Aviation Shantou Industrial Development Corporation	Controlled by major investors
Chengdu Fukai Aircraft Engineering Services Limited	Controlled by major investors
Beijing Aircraft Maintenance and Engineering Corporation	Controlled by major investors
Air China Cargo Co., Ltd.	Controlled by major investors
China Aviation Group Finance Co., Ltd.	Controlled by major investors
Shenzhen Airlines Co., Ltd.	Controlled by major investors
Dalian Airlines Co., Ltd.	Controlled by major investors
China International Airlines Inner Mongolia Co., Ltd.	Controlled by major investors
Kunming Airlines Ltd	Controlled by major investors
Sichuan international aero engine maintenance Co., Ltd.	jointly operated by major investors
SkyWorks Capital Asia Ltd.	jointly operated by major investors
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
Shenzhen Airport Catering Company Limited	Controlled by major investors

11.5 Related party transactions

11.5.1 Purchase of goods and services

Related party	Transaction	Current year	Prior year
Beijing Aircraft Maintenance and Engineering Corporation	Repairment	55,204,506.94	49,112,850.71
Beijing Aircraft Maintenance and	Purchase / lease of aircraft	167,487.51	

Related party	Transaction	Current year	Prior year
Engineering Corporation	materials		
Beijing Aircraft Maintenance and Engineering Corporation	Rentals	688,109.49	
Beijing Aircraft Maintenance and Engineering Corporation	Ground service	20,260,962.92	26,770,323.67
Beijing Golden Phoenix Human Resources Service Co., Ltd.	Ground service	1,860,814.69	1,874,683.07
Chengdu Fukai Aircraft Engineering Services Limited	Repairment	10,577,784.85	6,043,043.40
Shandong Air New Media Co., Ltd.	Aircraft offerings and advertising fees	12,537,535.57	10,069,312.24
Shandong Air New Media Co., Ltd.	Ground service	937,382.08	
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft maintenance	114,539,387.51	111,390,230.75
Taikoo (Shandong) Aircraft Engineering Company Limited	Measurement fee for measuring instruments		334,050.38
Taikoo (Shandong) Aircraft Engineering Company Limited	Seat cover and carpet fee		4,087,695.43
Taikoo (Shandong) Aircraft Engineering Company Limited	Aircraft meal offerings	138,965.52	
Shandong XiangYu Air Technology Co., Ltd.	Repairment	86,068,411.87	70,853,836.21
Shandong XiangYu Air Technology Co., Ltd.	Purchase / lease of aircraft materials	29,110.10	
SDA Group	Office lease rental and catering	36,048,450.45	31,061,380.69
SDA Group	Airport take-off and landing fees		140,440.00
SDA Group	Group fee	12,471,675.35	5,548,659.72
Shandong Airlines Rainbow Auto Service Co., Ltd.	Vehicle rental fee and maintenance fee	68,974,066.66	
Shandong Airlines Rainbow Auto	Group fee	3,303,430.00	

Related party	Transaction	Current year	Prior year
Service Co., Ltd.			
Shandong Airlines Rainbow Auto Service Co., Ltd.	Irregular flight	573,383.02	
Shenzhen Airlines Co., Ltd.	Agency service	2,766,348.96	2,506,826.67
Shenzhen Airlines Co., Ltd.	Purchase / lease of aircraft materials	173,256.79	77,366.20
Shenzhen Airlines Co., Ltd.	Catering	1,546,308.54	1,322,605.55
Shenzhen Airlines Co., Ltd.	Irregular flight	192,965.46	63,169.82
Sichuan International Aero Engine Maintenance Co., Ltd.	Repairment	77,076,397.08	46,660,824.96
Air China	Ground service	15,613,836.08	15,476,556.88
Air China	Repairment		186,711.99
Air China	Purchase / lease of aircraft materials	2,564,417.48	
Air China	Agency service	15,679,347.66	19,982,955.48
Air China	Irregular flight expenditure	27,481,100.22	28,038,113.58
Air China Cargo Co., Ltd.	Ground service	4,180,905.82	7,089,769.02
Kunming Airlines Co., Ltd	Agency service	18,900.68	33,323.92
Dalian Airlines Co., Ltd.	Irregular flight	276,000.00	
Shanghai International Airport Ground Service Co., Ltd.	Ground service	207,224.24	
Air Macau Corporation	Agency service	23,342.07	
Total		572,181,815.61	438,724,730.34

11.5.2 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	229,271.21	532,205.65
Dalian Airlines Co., Ltd.	Ground service	1,332,910.83	277,453.85
Dalian Airlines Co., Ltd.	Non-routine	111,066.10	141,998.06

Related party	Transaction	Current year	Prior year
	maintenance/machinery service		
Kunming Airlines Co., Ltd	Ground service	82,830.19	90,283.02
Kunming Airlines Co., Ltd	Locomotive service income	141,050.10	64,320.76
Kunming Airlines Co., Ltd	Agency service	24,722.49	32,336.79
Shandong Air New Media Co., Ltd.	Media resource fee	9,713,675.22	11,991,452.99
Taikoo (Shandong) Aircraft Engineering Company Limited	Sale of aircraft materials	535,703.95	397,672.42
Taikoo (Shandong) Aircraft Engineering Company Limited	Training fee	81,415.09	11,031.49
Shandong XiangYu Air Technology Co., Ltd.	Sale of aircraft materials	179,334.35	334,132.98
Shenzhen Airlines Co., Ltd.	Agency service	1,219,936.77	1,220,924.95
Shenzhen Airlines Co., Ltd.	Ground service	201,698.12	250,754.71
Shenzhen Airlines Co., Ltd.	Sale /rent of aircraft materials	102,468.20	72,586.00
Shenzhen Airlines Co., Ltd.	Irregular flight expenditure	11,586.21	5,982.90
Air China	Ground service	7,019,502.31	4,029,380.06
Air China	Simulator maintenance / House rental income	3,956,673.95	4,402,183.15
Air China	Sale /rent of aircraft materials	106,019.52	12,906.84
Air China	Irregular flight expenditure		31,811.97
Air China	Agency service	1,652,870.13	4,286,956.10
Air China	Catering		34,241.26
Air China Cargo Co., Ltd.	Warehouse rent income	2,641.51	
SDA Group	Catering		5,488.00
Shandong Airlines Rainbow Auto Service Co., Ltd.	Storage income	435,690.56	
Shandong Airlines Rainbow Auto Service Co., Ltd.	Property fee income	27,509.43	
Total		27,168,576.24	28,226,103.95

11.5.3 Related Party borrowing funds demolition

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	Balance as at 31/12/2018 CNY 222,000,000.00
SDA Group	180,000,000.00	2018-6-28	2019-6-25	The balance at the end of the year is CNY 180,000,000.00, and the loan is entrusted by the Industrial and Commercial Bank of China Co., Ltd. Jinan Minghu Branch.

11.5.4 Remuneration to key management personnel

Item	Current year	Prior year
Key management personnel compensation	CNY 14.6679 million	CNY 13.5487 million

11.5.5 Other related party transactions

Related party	Transaction	Current year	Prior year
Air China	Wet lease		136,598,092.82
Air China	Code sharing		39,808.59
Air China	Frequent flyer cooperation	100,000,000.00	54,000,000.00
Air China Cargo Co., Ltd.	Code sharing for cargo	7,167,959.00	6,567,764.12
Total		107,167,959.00	197,205,665.53

11.6 Related party balances

11.6.1 Receivables

Related party	C/f		B/f	
	Carrying amount	Allowance for bad debt	Carrying amount	Allowance for bad debt
Accounts receivable				
Air China	8,564,966.57		226,488,421.70	
China International Cargo Airlines Co., Ltd.	907,509.39			
Dalian Airlines Co., Ltd.	87,473.50			
Taikoo (Shandong) Aircraft Engineering	8,400.00		18,400.00	

Related party	C/f		B/f	
	Carrying amount	Allowance for bad debt	Carrying amount	Allowance for bad debt
Company Limited				
Total	9,568,349.46		226,506,821.70	
Other receivables				
Air China	6,033,885.98		5,799,073.26	
Shenzhen Airlines Co., Ltd.	50,787.34		100,100.00	
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	101,551,717.65	101,551,717.65
Shandong XiangYu Air Technology Co., Ltd.	50,712.31		402.45	
Taikoo (Shandong) Aircraft Engineering Company Limited	235,380.70		188,945.11	
Shandong Air New Media Co., Ltd.	11,745,680.45		2,952,004.83	
Beijing Aircraft Maintenance and Engineering Corporation	169,241.85		7,745.32	
Dalian Airlines Co., Ltd.	241,412.00		97,611.00	
Kunming Airlines Co., Ltd	202,090.00		92,410.00	
Shandong Airlines Rainbow Auto Service Co., Ltd.	14,040.50		157,830.09	
Total	120,294,948.78	101,551,717.65	110,947,839.71	101,551,717.65

11.6.2 Payables

Related party	C/f	B/f
Accounts payable		
Shandong XiangYu Air Technology Co., Ltd.	8,707,204.12	3,448,051.17
Taikoo (Shandong) Aircraft Engineering Company Limited	45,732,196.37	27,753,155.69
Air China	138,532,747.16	259,659,603.16
Air China Cargo Co., Ltd.	507,357.91	1,306,550.93
Beijing Golden Phoenix Human Resources Service Co., Ltd.	350,189.85	346,206.28
Shenzhen Airlines Co., Ltd.	686,733.52	659,964.90
Aircraft Maintenance and Engineering Corporation (Ameco Beijing)	25,913,065.74	15,130,561.55
Sichuan International Aero Engine Maintenance Co., Ltd.	7,343,500.43	7,091,848.70

Related party	C/f	B/f
Shandong Air New Media Co., Ltd.	5,567,055.00	1,339,801.63
Shandong Airlines Rainbow Auto Service Co., Ltd.	4,602,800.00	4,538,560.00
Dalian Airlines Co., Ltd.	31,200.00	
Chengdu Fukai Aircraft Engineering Service Co., Ltd.	3,130,432.94	
Shanghai International Airport Ground Service Co., Ltd.	34,557.70	
Total	241,139,040.74	321,274,304.01
Other payables		
Air China		20,000,000.00
SDA Group	1,648,781.43	5,888,565.00
Taikoo (Shandong) Aircraft Engineering Company Limited	484,291.74	484,291.74
Shandong Air New Media Co., Ltd.	7,094,412.89	
Total	9,227,486.06	26,372,856.74

Note 12 Commitments

12.1 Significant commitments

12.1.1 Capital commitment

Item	C/f	B/f
Signed but not yet confirmed in the financial statements		
- Commitment to acquire non-current assets	8,514,239,377.41	17,159,340,532.55
- large outsourcing contracts		
- External investment commitments		
Total	8,514,239,377.41	17,159,340,532.55

12.1.2 Operating lease

As of the balance sheet date, the irrevocable operating lease contracts signed by the Company are as follows:

Item	C/f	B/f
Minimum lease rental for irrevocable operating lease contracts		
Within one year from the reporting date	2,940,809,183.76	2,566,886,865.79

Within two years from the reporting date	2,868,211,237.17	2,539,998,632.79
Within three years from the reporting date	2,616,077,071.91	2,464,366,482.24
Subsequent years	11,464,973,122.44	11,109,059,067.92
Total	19,890,070,615.28	18,680,311,048.74

12.1.3 Other commitment

No other significant commitments of the Company need to be disclosed as of 31/12/2018.

Note 13 Post balance sheet date events

13.1 Post balance sheet date profit appropriation

The Proposal for Profit Appropriation for the Year ended 31 December 2018 of distributing cash dividend of CNY 2.00 (gross) per 10 shares for the 400 million shares outstanding as at the reporting date, which in total amounts to CNY 80,000,000.00, was approved by the 4th Meeting of the 6th Term of Board of Directors of the Company held on 21 March 2019; the Proposal was pending the approval of the General Meeting of stockholders of the Company.

13.2 Implementation of the new accounting standards from January 1, 2019

On March 31, 2017, the Ministry of Finance issued the "Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Revised in 2017)" (Accounting [2017] No. 7) and "Accounting Standards for Business Enterprises No. 23" Transfer of Financial Assets (Revised in 2017) (Accounting [2017] No. 8), "Accounting Standards for Business Enterprises No. 24 - Hedge Accounting (Revised in 2017)" (Accounting [2017] No. 9). On May 2 2017, the Ministry of Finance issued "Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation (Revised in 2017)" (Accounting [2017] No. 14) was issued (the above-mentioned guidelines are collectively referred to as the "New Financial Instruments Guidelines"), and domestic listed companies are required to implement it from January 1, 2019. After the resolution of the 4th meeting of the 6th Board of Directors of the Company on March 21, 2019, the company will implement the above new financial instrument guidelines from January 1, 2019, and will change in relevant accounting policies based on the above new financial instrument guidelines.

The following are the main contents of the accounting policy changes involved:

All recognized financial assets under the new financial instrument criteria are subsequently measured at amortised cost or fair value.

On the implementation date of the new financial instrument standard, the business model of managing financial assets is evaluated based on the facts and circumstances of the company on the implementation date. According to the contractual cash flow characteristics on the financial assets, which are evaluated based on the facts and circumstances at the initial recognition of the financial assets, financial assets are classified into three categories: measured at amortised cost, measured at fair value through other comprehensive income, and measured at fair value through profit or loss. In case of

an equity instrument investment measured at fair value through other comprehensive income, when the financial asset is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is transferred to retained earnings, rather than profit and loss.

Under the new financial instrument standard, the Company accrues impairment provision and recognizes credit impairment losses for financial assets measured at amortized cost, debt instrument investments measured at fair value through other comprehensive income, lease receivables, contract assets and the financial guarantee contract based on expected credit losses.

Note 14 Comparative data

A number of prior period comparison data have been reorganized to accommodate this year's presentation.

Note 15 Other significant events

15.1 Pension Plan

No significant change of the annuity program occurred for current year, see note 6.20, 6.26.

Note 16 Notes to elements of the separate financial statements

16.1 Notes receivable and accounts receivable

Item	C/f	B/f
Notes receivable		
Accounts receivable	412,570,738.01	547,677,560.06
Total	412,570,738.01	547,677,560.06

16.1.1 Accounts receivable

16.1.1.1 Disclosure by category

Category	C/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	105,366,572.73	24.31			105,366,572.73
Accounts receivable subject to	256,206,313.25	59.11	12,810,315.67	5.00	243,395,997.58

Category	C/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
impairment assessment by credit risk characteristics of a portfolio					
Accounts receivable of individual insignificance but subject to individual impairment assessment	71,865,377.55	16.58	8,057,209.85	11.21	63,808,167.70
Total	433,438,263.53	100.00	20,867,525.52	4.81	412,570,738.01

(Continued)

Category	B/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Accounts receivable of individual significance and subject to individual impairment assessment	354,831,772.34	62.85			354,831,772.34
Accounts receivable subject to impairment assessment by credit risk characteristics of a portfolio	176,321,122.59	31.23	8,816,056.13	5.00	167,505,066.46
Accounts receivable of individual insignificance but subject to individual impairment assessment	33,397,931.11	5.92	8,057,209.85	24.12	25,340,721.26
Total	564,550,826.04	100.00	16,873,265.98	2.99	547,677,560.06

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

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
BSP-CHINA	56,778,788.70			No indication of impairment upon individual assessment
Accounting Center of China Aviation	48,587,784.03			No indication of impairment upon

Debtor	C/f			Reason for allowance individual assessment
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Total	105,366,572.73			

② Accounts receivable subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	256,206,313.25	12,810,315.67	5.00
Total	256,206,313.25	12,810,315.67	5.00

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

Debtor	C/f			Reason for allowance individual assessment
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
BSP-other areas	47,835,858.63			No indication of impairment upon individual assessment
Debtor #1	8,057,209.85	8,057,209.85	100.00	Impairment upon individual assessment
UATP	5,479,498.61			No indication of impairment upon individual assessment
China International Airlines Corporation	7,813,395.57			No indication of impairment upon individual assessment
Shandong Airlines Logistics Co., Ltd.	1,763,505.50			No indication of impairment upon individual assessment
China International Airlines Corporation	907,509.39			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	8,400.00			No indication of impairment upon individual assessment
Total	71,865,377.55	8,057,209.85	11.21	

Note: BSP-other areas includes Tai Wan, Korea, Japan, Hong Kong, Australia, Russia, Canada, Thailand, Germany,

Cambodia、Vietnam、Singapore、Indonesia、Philippines、France etc.

16.1.2 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debt recognized during the year is CNY 3,994,259.54. No recovery or return to bad debt during the year.

16.1.3 Top five accounts receivable by debtors

The total amount of top five accounts receivable summarized by debtors as at the end of current year is CNY 199,325,791.04, accounting for 45.99% of the total accounts receivable as at the end of current year, the total corresponding allowance for bad debt is CNY 4,697,960.91.

16.2 Other receivables

Item	C/f	B/f
Interest receivable		
Dividend receivable		
Other receivables	239,078,612.04	399,100,432.09
Total	239,078,612.04	399,100,432.09

16.2.1 Disclosure by category

Category	C/f				Book value
	Carrying amount		Allowance for bad debt		
	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	249,586,501.51	71.71	106,200,587.24	42.55	143,385,914.27
Other receivables subject to impairment assessment by credit risk characteristics of a portfolio	55,465,677.85	15.94	2,773,283.89	5.00	52,692,393.96
Other receivables of individual insignificance but subject to individual impairment assessment	43,000,303.81	12.35			43,000,303.81
Total	348,052,483.17	100.00	108,973,871.13	31.31	239,078,612.04

(Continued)

Category	B/f		
	Carrying amount	Allowance for bad debt	Book value

	Amount	%	Amount	%	
Other receivables of individual significance and subject to individual impairment assessment	447,153,532.78	88.21	106,076,302.93	23.72	341,077,229.85
Other receivables subject to impairment assessment by credit risk characteristics of a portfolio	34,509,238.33	6.81	1,725,461.92	5.00	32,783,776.41
Other receivables of individual insignificance but subject to individual impairment assessment	25,239,425.83	4.98			25,239,425.83
Total	506,902,196.94	100.00	107,801,764.85	21.27	399,100,432.09

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

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Shandong Rainbow Commercial Jet Co., Ltd.	101,551,717.65	101,551,717.65	100.00	Impairment upon individual assessment
Debtor #1	55,057,392.23			No indication of impairment upon individual assessment
Debtor #2	33,202,261.73	1,660,113.09	5.00	Impairment assessment by portfolio
Debtor #3	59,775,129.90	2,988,756.50	5.00	Impairment assessment by portfolio
Total	249,586,501.51	106,200,587.24	42.55	

② Other receivables subject to impairment assessment by portfolio

Portfolio	C/f		
	Carrying amount	Allowance for bad debt	Rate of allowance (%)
Portfolio by nature	55,465,677.85	2,773,283.89	5.00
Total	55,465,677.85	2,773,283.89	5.00

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

Debtor	C/f			Reason for allowance
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	
Shandong Airlines Logistics Co., Ltd.	14,112,610.84			No indication of impairment upon individual assessment
Shandong Air New Media Co., Ltd.	11,745,680.45			No indication of impairment upon individual assessment
China International Airlines Corporation	6,033,885.98			No indication of impairment upon individual assessment
Debtor #1	4,238,588.20			No indication of impairment upon individual assessment
Debtor #2	2,202,992.16			No indication of impairment upon individual assessment
Debtor #3	2,062,200.00			No indication of impairment upon individual assessment
Debtor #4	784,775.64			No indication of impairment upon individual assessment
Debtor #5	553,166.41			No indication of impairment upon individual assessment
Debtor #6	275,493.25			No indication of impairment upon individual assessment
Dalian Airlines Co., Ltd.	241,412.00			No indication of impairment upon individual assessment
Taikoo (Shandong) Aircraft Engineering Company Limited	235,380.70			No indication of impairment upon individual assessment
Kunming Airlines Co., Ltd.	202,090.00			No indication of impairment upon individual assessment
Beijing Aircraft Maintenance Engineering Co., Ltd.	169,241.85			No indication of impairment upon individual assessment
Shenzhen Airlines Co., Ltd.	50,787.34			No indication of impairment

Debtor	C/f			
	Carrying amount	Allowance for bad debt	Rate of allowance (%)	Reason for allowance
				upon individual assessment
Shandong Xiangyu Aviation Technology Service Co., Ltd.	50,712.31			No indication of impairment upon individual assessment
Shandong Jinping aviation food Co., Ltd.	27,486.18			No indication of impairment upon individual assessment
Shandong Airlines Rainbow Auto Service Co., Ltd.	13,800.50			No indication of impairment upon individual assessment
Total	43,000,303.81			

16.2.2 Recognition, recovery or reversal of allowance for bad debt

16.2.2.1 Recognition, recovery or reversal of allowance for bad debt

The amount of allowance for bad debt reversed during the current year is CNY 1,172,106.28. No recovery or provision to bad debts during the year.

16.2.2.2 Disclosure by nature

Category	C/f	B/f
Deposits	65,174,607.89	220,843,044.40
Others	282,877,875.28	286,059,152.54
Total	348,052,483.17	506,902,196.94

16.2.2.3 Top five other receivables

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Shandong Rainbow Commercial Jet Co., Ltd.	Others	101,551,717.65	Over 5 years	29.18	101,551,717.65
Debtor #1	Deposits	55,057,392.23	Within 1 year	15.82	
Debtor #2	Others	33,202,261.73	Within 3 years	9.54	1,660,113.09
Debtor #3	Others	59,775,129.90	Within 4 years	17.17	2,988,756.50
Shandong Airlines Logistics Co., Ltd.	Others	14,112,610.84	Within 2 years	4.05	

Debtor	Nature	C/f	Aging	%	Allowance for bad debt
Total		263,699,112.35		75.76	106,200,587.24

16.3 Long-term equity investments

16.3.1 Disclosure by category

Item	C/f			B/f		
	Carrying amount	Impairment allowance	Net carrying amount	Carrying amount	Impairment allowance	Net carrying amount
Investments in subsidiaries	144,101,285.43		144,101,285.43	144,101,285.43		144,101,285.43
Investments in associates	22,500,000.00	22,500,000.00		22,500,000.00	22,500,000.00	
Total	166,601,285.43	22,500,000.00	144,101,285.43	166,601,285.43	22,500,000.00	144,101,285.43

15.3.2 Investments in subsidiaries

Investee	B/f	Current year increase	Current year decrease	C/f	Allowance recognized	Year-end allowance
Shandong aviation Logistics Ltd	48,323,205.97			48,323,205.97		
Qingdao Feisheng International Aviation Training Technology Development Co., Ltd	57,677,479.46			57,677,479.46		
Shandong Jinping aviation food Co., Ltd.	30,310,200.00			30,310,200.00		
Shandong Airlines Qingdao Food Co., Ltd.	7,790,400.00			7,790,400.00		
Total	144,101,285.43			144,101,285.43		

15.3.3 Investments in joint ventures and associates

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

(Continued)

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

16.4 Operating revenues and costs

Category	Current year		Prior year	
	Operating revenues	Operating costs	Operating revenues	Operating costs
Principal business	18,089,027,687.91	17,186,382,224.35	16,022,208,389.76	14,777,997,386.71
Other business	646,489,679.61	3,547,659.75	436,666,619.54	9,296,820.58
Total	18,735,517,367.52	17,189,929,884.10	16,458,875,009.30	14,787,294,207.29

16.5 Investment income

Category	Current year	Prior year
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss	91,605.86	-1,023,651.75
Income from holding of financial assets available for sale	17,934,220.07	22,740,535.94

Category	Current year	Prior year
Total	18,025,825.93	21,716,884.19

Note 17 Supplementary information

17.1 Non-recurring profit and loss

Category	Current year	Description
Gains from disposals of non-current assets after expending impairment provisions	25,187,750.35	
Exceeded-authority approved, non-official approved or accidental tax repayment and relief		
Government grants recognized through profit or loss for the current reporting period, excluding grants which are closely related to the Company's operating activities and of which the quota or approval is eligible for automatic renewal in accordance with relevant regulations	210,862,890.39	
Financial resource usage fees charged on non-financial institution recognized through profit or loss for the current reporting period		
Gains arising from bargain purchase in business combination and investments in associates and joint ventures		
Non-monetary asset exchange		
Consigned investment and asset management		
Impairment provision resulting from force majeure, eg. natural disasters		
Reorganization		
Reorganization expenditure		
Unfair transactions		
Net profits or losses achieved by an acquired under-common-control entity during the period from the start of the period to the acquisition date		
Gains or losses arising from contingent events unconnected with the Company's daily operating activities		
Fair value changes of tradable financial assets and tradable financial liabilities held and gains or losses arising from disposals of tradable financial assets, tradable financial liabilities and available-for-sale financial assets, excluding hedging contracts relevant to the Company's daily operating activities	3,789,484.18	
Reversal of impairment provision for accounts receivables eligible for individual impairment assessment		
Gains or losses arising from consigned borrowings		
Fair value changes of property investments subsequently measured at fair value		

Category	Current year	Description
One-off adjustment of profit or loss for the current reporting period in accordance with tax and accounting laws and regulations		
Consignment income arising from consigned operations		
Income and expenses other than items listed above	35,762,795.56	
Other gains or losses satisfying the definition of extraordinary gains or losses	10,952,470.45	
Subtotal	286,555,390.93	
Less: Impact of income tax	71,725,366.00	
Less: Impact on non-controlling interest		
Total	214,830,024.93	

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

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

17.2 Rate of return on net assets and earnings per share

Types of Profit	Weighted average rate of RONA	Earnings per share (CNY/share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	7.94	0.87	0.87
Recurring profit or loss attributable to ordinary shareholders	3.03	0.33	0.33